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The Determinant Factor of Tax Aggressiveness: Evidence from Indonesia

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ABSTRACT, *This study investigates the impact of tax aggressiveness on profitability, leverage, an independent board of commissioners, company size, and institutional ownership. Manufacturing companies in the food and beverage industry sub-sector that are listed on the IDX for the 2018-2021 period comprise the research population. The samples represent 67 different businesses. Purposive sampling is used in research. Panel data structures are used by researchers for multiple linear regression analysis. Profitability, firm size, and institutional ownership were found to have a positive effect on tax aggressiveness. Meanwhile, leverage and an independent board of commissioners have a negative effect on tax aggressiveness. Research is important to regulators because it assists them in making decisions about corporate income tax policies.*
Keywords*: Tax Aggressiveness, Profitability, Leverage, Independent Board of Commissioners, Company Size, Institutional Ownership*.

ABSTRAK, Penelitian ini menguji pengaruh profitabilitas, leverage, dewan komisaris independent, ukuran perusahaan dan kepemilikan institusional terhadap agresivitas pajak. Populasi penelitian adalah perusahaan manufaktur sub sector industry makanan dan minuman yang terdaftar di BEI periode 2018-2021. Jumlah sampel 67 perusahaan. Penelitian menggunakan purposive sampling dalam pengambilan sampel. Peneliti menggunakan analisis regresi linear berganda pada struktur data panel. Hasil penelitian menunjukkan bahwa profitabilitas, ukuran perusahaan dan kepemilikan institusional berpengaruh positif terhadap agresivitas pajak. Sedangkan, untuk leverage dan dewan komisaris independent berpengaruh negative terhadap agresivitas pajak. Penelitian memberikan kontribusi penting bagi regulator karena membantu dalam mempertimbangkan kebijakan-kebijakan terkait dengan beban pajak penghasilan perusahaan.
Kata Kunci: *Agresivitas Pajak, Profitabilitas, Leverage, Dewan Komisaris Independen, Ukuran Perusahaan, Kepemilikan Institusional.*

1. INTRODUCTION

The current economy is getting more advanced, and the number of public companies is growing quickly. This means that there is more and more competition between companies, which is necessary for companies to grow and stay in business (Sutduean & Jermsittiparsert, 2019). Managers deal with this competition in a number of ways, and one of them is by maximizing the value of the company. High profits are a good way to figure out how much the company is worth. This profit lets the company pay high dividends to

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investors, pay its employees, and pay its taxes (Rosdiana, 2018). As a taxpayer, the company has to pay taxes, which are based on how much money it makes after expenses. The more tax the company pays, the more money the state gets.

Tax aggressiveness is the same as tax planning, tax mitigation, tax avoidance, tax shelters, and tax minimization, all of which are controlled by the tax authorities and can be done legally or illegally (Badertscher, Katz & Rego, 2011; Armstrong, Blouin & Larcker, 2012; Ogbeide & Iyafekhe, 2018). Tax aggressiveness is a mix of legal ways to avoid paying taxes and illegal ways to avoid paying taxes (illegal). Armstrong, Blouin, Jagolinzer, and Larcker (2015) say that tax avoidance is when a taxpayer tries to avoid or pay as little tax as possible by taking advantage of legal loopholes that don't break state laws and rules. Tax evasion, on the other hand, is breaking the rules about paying taxes. This is also called tax fraud, and people can get in trouble for it (Kim & Im, 2017). Tax aggressiveness can be reached by lowering a company's taxable profits in a systematic way, either legally or illegally. Ramadani and Azmi (2019) say that tax aggressiveness is one way to try to cut taxes. Tax aggression is a high-risk move because if it gets out, the company could be fined and lose its reputation in the public eye.

Indonesia is heavily reliant on taxes. According to the central government's (audited) financial statements for fiscal year 2019 available on the Ministry of Finance's website (www.kemenkeu.go.id), state tax revenues in 2019 reached IDR 801.16 trillion, or 50% of the target of IDR 1,577.56 trillion. Tax revenue in Indonesia fell from 2017 to 2019 as a result of inefficient tax collection optimization. Company tax evasion is a consideration. According to Onyali and Okafor (2018), tax aggressiveness is a company management strategy that consists of practices, a set of processes, resources, and choices that aim to maximize profit after all corporate liabilities, both legal and illegal, are owed to the state and other stakeholders. According to Ryandono et al. (2020), there is no direct consideration or benefit, and some individuals and businesses view paying taxes as a burden. It becomes one of the reasons why taxpayers, both individuals and businesses, fail to pay their taxes.

The previous study suggests many factors that affect tax aggressiveness. In our study will discussed five main factors that is taken from Indonesia. These factors are profitability, leverage, independent commissioner, firm size, and institutional ownership.

2. LITERATURE REVIEW

Profitability

Profitability shows the company's ability to generate profits or the company's value resulted from the firm operations during a certain period (Octaviana, 2014). High company profitability will reflect good firm value, so that investors are more interested to invest. In addition, by implementing tax aggressiveness, companies can increase profitability and cash flow. However, this is an ethical dilemma on the one hand that the company can increase profitability.

H1: there is positive relationship between profitability and tax aggressiveness

Leverage

Firm leverage is another factor in this study that influence the company tax aggressiveness. This is because leverage represents that how many firm assets is finance by debt amount. Higher value of the firm leverage shows an additional interest expense which minimize the profitability of the firm that can reduce the corporate income tax expense (Suyono, 2018).

H2: there is negative relationship between Leverage and tax aggressiveness

Independent Commissioner

The presence of independent commissioners may have an impact on the company's tax aggressiveness. According to Suyanto (2012), the greater the number of independent commissioners, the greater their influence to supervise management performance, and thus the less aggressive behavior of management toward corporate taxes. Independent commissioners constantly monitor the company's compliance with applicable laws and regulations. In contrast to the findings of Armstrong et al., Rosidy and Nugroho (2019) conclude that the proportion of independent commissioners has a positive effect on tax evasion. Because independent commissioners typically have little knowledge of the company, they are unfamiliar with the company's tax aggressiveness.

H3: There is negative relationship between independent commissioner and tax aggressiveness.

Company Size

Company Size is one aspect of financial statement analysis that can be used to determine whether a large company is able to generate large profits as well. The size of the company can show the ability and stability of a company to carry out its economic activities. The larger the size of the company, the more it will be monitored by the government and this will lead to two possibilities, namely the tendency to comply (compliance) or tax aggressiveness (Leksono *et al*., (2019). According to Leksono, Albertus and Vhalery (2019), the larger the size of the company, the more it will be monitored by the government and this will lead to two possibilities, namely the tendency to comply (compliance) or tax aggressiveness. According to Zemzem and Flouhi (2013); Pratama (2017); Ogbeide (2017); Uniamikogbo, Atu & Atu (2018); and Chytis et al (2019), company size has a strong positive relationship with tax aggressiveness, this illustrates that large companies have a large amount of profit before tax and have greater incentives and resources to do tax management.

H4: there is positive relationship between firm size and tax aggressiveness

Institutional Ownership

According to the Jensen and Meckling (1979) study, the relationship between institutional ownership and tax avoidance practices, which acts as a company supervisor, makes managers more open about sharing public information, which in turn reduces information fraud, especially tax avoidance practices (Rahmawati et al., 2016). The way tax avoidance is done depends on how many institutions own it (Khurana and Moser, 2009). In agency theory, it is said that the principle asks managers to improve the company's performance and value by promising them money. Institutional ownership means that managers are in charge of improving company performance by keeping an eye on how the business is run. The goal is to make sure that managers don't break the rules and that the financial statements say the right things.

H5: There is positive relationship between institutional ownership and tax aggressiveness.

Based on the literature review and the development of the hypotheses that have been described, this research model can be described as follows:

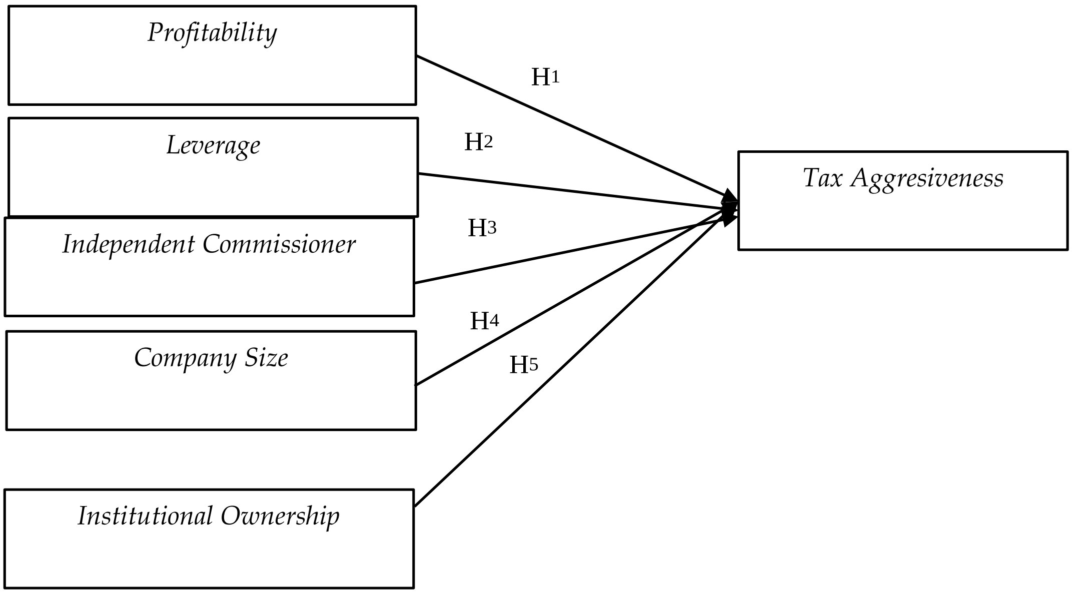

Figure 1. Research Model

Source: Research Data, 2022

3. RESEARCH METHOD

The unit of analysis in this study is the sub-sector of food and beverage companies listed on the IDX in the 2018-2021 period. Where the population in this study are manufacturing companies listed on the IDX in the 2018-2021 period. In this study, a positivism approach was used with hypothesis testing which aims to explain the effect of CSR and corporate governance on the financial performance of companies in Indonesia. Researchers used a purposive sampling technique in conducting research sampling. The sampling criteria used are: food and beverage sub-sector companies listed on the Indonesia

Stock Exchange and consecutive listings for the 2018-2021 period and have complete data related to research variables. So, in this study, using 67 company year data.

Table 1. The Operational Definition of Research Variables

No.	Variable	Operational Definition
Dependent Variable		
1.	ETR	Many researchers used ETR as a proxy of the tax aggressiveness. Effective Tax Rate (ETR) is a ratio of Total tax payable for the period divided by Pre-tax income for the period (Richardson et al, 2013; Bouassidi & Hamed, 2015).
Independent Variables		
1.	Profitability	Profitability is a way to figure out how well a company spends its capital. Profitability is a term for how well a company can make money from all of its assets. This study uses ROA as a way to estimate how profitable something is. Studies like Vieira (2013), Ribeiro et al. (2015), Irianto et al. (2017), and Onyali and Okafor (2018) all used this measure. It can be measured by the following formula: (earning before tax / total aset)
2.	LEV	Leverage indicates the proportion of a company's assets that originate from external funding. A company's leverage is determined by comparing its total liabilities to its total assets. The greater the leverage ratio, the greater the share of a company's assets financed by external sources (Herry, 2017).
3.	INDEP	Independent Commissioners are commissioners from outside the company who hold no shares and have no direct or indirect ties to the company's operations. The value of this variable is calculated by dividing the number of independent commissioners by the total number of commissioners (Hidayati & Fidiana, 2017).
4.	COMPANYSIZE	There are several proxies used to measure firm size, but most of researchers use the natural logarithm of total assets to measure firm size Such as, Vieira, 2013; Onyali and Okafor, 2018; Ogbeide and Obaretin, 2018). Firm size generally classifies into two categories: large and small companies, companies with large total assets consider that company has reached to maturity stage of positive cash flow and have positive prospects in a relatively long period of time (Tandean & Winnie, 2016). In this study we will also use logarithm of total assets.
5	INST	Institutional ownership consists of the ownership of shares by insurance companies, investment firms, and asset management or ownership institutions. The

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		structure of institutional ownership is determined by comparing the number of shares owned by management to the total number of outstanding shares (Kalil, 2019). Institutional ownership is the ratio of the number of shares owned by institutions to the total number of outstanding shares.

Source: Research Data, 2022

In testing the two hypotheses, the model applied is as follows:

$ETR = \alpha + \beta_1 ROA_{it} + \beta_2 LEV_{it} + \beta_3 INDEP_{it} + \beta_4 SIZE_{it} + \beta_5 INST_{it} + \varepsilon_{it}$……………………………………(1)

Keterangan:

ROA_{it} = profitability proxy

LEV_{it} = firm leverage

$INDEP_{it}$ = proportion of independent commissioners

$SIZE_{it}$ = firm size

$INST_{it}$ = institutional ownership

4. RESULTS AND DISCUSSION

Table 2. Descriptive Statistics

	N	*Mean*	*Maximum*	*Minimum*	*Std. Dev.*
ROA	67	11,904	73,010	-15,490	15,447
LEV	67	0,436	2,900	0,070	0,403
INDEP	67	0,401	0,500	0,330	0,080
SIZE	67	28,502	32,820	25,360	1,761
INST	67	0,743	4,060	0,000	0,720
ETR	67	0,158	0,510	-0,440	0,173

Source: Research Data, 2022

In this study, ETR acts as the dependent variable which is a proxy for tax aggressiveness. Table 2 shows that the average ETR value is 0.1581 with a standard deviation value of 0.17289. This is an indicator of the high aggressiveness of corporate tax in the study sample. The minimum ETR value is -0.44 and the maximum value is 0.51. ROA acts as an independent variable in this study, which is a proxy for company profitability. Table 2 shows that the average profitability of food and beverage sub-sector companies in Indonesia is 11.9036% with a minimum profitability of -15.49% and a maximum of 73.01%.

Firm leverage as an independent variable in research. Table 2 shows that the company's average leverage ratio is 0.436 with a minimum ratio of 0.07 and a maximum of 2.90. INDEP acts as an independent variable in research, which is a proxy for corporate governance, indicated by an independent board of commissioners. Table 2 shows the average value of independent commissioners in food and beverage sub-sector companies in Indonesia is 40.05% with independent commissioners at least 33% and at most 50%.

SIZE as an independent variable in research which is a proxy for company size. Table 2 shows that the average company size in the food and beverage sub-sector in Indonesia is 28.502, with the smallest company size being 25.36 and the largest being 32.82. INST as an independent variable in research which is a proxy for institutional ownership. Table 2 shows the average value of institutional ownership in food and beverage companies in Indonesia for the 2018-2021 period of 0.743% with ownership of at least 0.000% and a maximum of 4.06%.

Table 3. Multiple Linear Regression Results

Model	***β***	**t**	**Sig.**
ROA_t	0,004	4,528	0,000***
LEV_t	-0,177	-5,091	0,000***
$INDEP_t$	-0,433	-2,324	0,023**
$SIZE_t$	0,037	4,701	0,000***
INST	-0,074	-3,885	0,000***
Adj. R-square	0,612		

Dependent variable: ETR
Significance level ***1%, **5%, *10%

Source: Research Data, 2022

Furthermore, hypothesis testing for this study was carried out using multiple regression analysis with a significance level of 5%. The hypothesis is supported by the data if the Sig. $p < 0.05$ and has a beta coefficient direction that is in accordance with the hypothesis. Multiple regression test is presented in Table 3. The first hypothesis states that profitability has a positive effect on tax aggressiveness. The results of the H1 test show that profitability is statistically significant positive to tax aggressiveness ($\beta=0.004$; $p=0.000$). This finding is consistent with research by Octaviana (2014) which explains that high company profitability will reflect good company value, so that investors are more interested in investing. In addition, by implementing tax aggressiveness, companies can increase profitability and cash flow.

Hypothesis two states that leverage has a negative effect on tax aggressiveness. The statistical test results showed that H2 was supported by the data with a significant negative result ($\beta=-0.177$; $p=0.000$). This shows that with the company's leverage, it reduces the income tax burden. This research is consistent with previous studies which reported that a higher company leverage value indicates an additional interest expense that minimizes the company's profitability so that it can reduce the corporate income tax.

Tax aggressiveness is negatively affected by the board of commissioners, according to the third hypothesis. The results of the statistical test indicate that H3 is supported by statistically significant negative data (=-0.074; p=0.023). Suyanto (2012) found that the greater the number of independent commissioners, the greater their ability to oversee management performance, resulting in a decrease in management's aggressive behavior toward corporate taxes. The results of this study are consistent with Suyanto's (2012) findings. Always, independent commissioners oversee the company to ensure compliance with applicable laws and regulations.

The fourth hypothesis states that firm size has a positive effect on tax aggressiveness. The statistical test results show that H4 is supported by the data with significant positive results (β=0.037; p=0.000). This is in line with previous research which states that company size has a strong positive relationship with tax aggressiveness, this illustrates that large companies have large pre-tax profits and have greater incentives and resources to carry out tax management (Zemzem and Flouhi, 2013; Pratama, 2017; Ogbeide, 2017; Uniamikogbo, Atu & Atu, 2018; and Chytis et al., 2019).

Institutional ownership has a positive effect on tax aggressiveness, according to Hypothesis 5. The results of the statistical test indicate that H5 is supported by data with statistically significant positive results (=0.074; p=0.000). This study supports the findings of Rahmawati et al. (2016), who found that the relationship between institutional ownership and tax avoidance practices functions as company supervisors so that managers are more open in communicating public information when carrying out their duties, thereby reducing information fraud, particularly tax avoidance practices.

5. CONCLUSION AND RECOMMENDATION

This study examines the impact of profitability, leverage, an independent board of commissioners, company size, and institutional ownership on the tax aggressiveness of manufacturing companies listed on the Indonesia Stock Exchange in the food and beverage subsector during the period of 2018 to 2021. On the basis of statistical tests conducted, it has been determined that profitability, firm size, and institutional ownership have a positive effect on tax aggressiveness. Tax aggressiveness is negatively impacted by leverage variables and an impartial board of commissioners. This research is anticipated to provide a number of contributions to various parties, including academics and regulators. This study provides empirical evidence to regulators in order for them to evaluate tax-related policies. This research is expected to contribute to the academic community's understanding of the factors that influence the tax aggressiveness of corporations.

This research has limitations. The research sample used is only one sub-sector of a manufacturing company, so it is hoped that future researchers can add other sub-sectors as samples. Future research can add other variables as a determining factor for tax aggressiveness because this research only uses a few research variables.

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