4thICITB

AGGRESSIVE TAX MEASURES ON BANKING : *EXPLORATION OF CORPORATE RISK* AND *CORPORATE GOVERNANCE*

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ABSTRACT

The aim of the study was to test empirically the aggressive tax meausers on banking: the exploration of corporate risk and corporate governance. The independent variables used in this research were the corporate risk, the number of board of directors, the independent directors and the audit committee, while the dependent variable in this study was the aggressive tax measure. The population in this study was all go public banking sector companies in the period of 2013-2015. The selection of the sample in this study used purposive sampling technique as many as 36 companies. The hypothesis was tested using multiple linear regression analysis with analysis tool SPSS version 20. The result of this study showed that the corporate risk and independent commissioners affected the aggressive tax measures. Meanwhile, the number of board of directors and the audit committee did not affect the aggressive tax measures.

Keywords: Aggressive Tax, Corporate Risk, Corporate Governance, Board of Commissioners, Independent Commissioners and Audit Committee.

INTRODUCTION

The increase of aggressive tax actions do not rule out the possibility of cases that harm the government, especially in the field of taxation. Tax is one of the biggest revenues in Indonesia. Therefore, the implementation of taxation is very much regulated by the government to maintain revenue. One of the government's efforts to optimize tax revenue is by revising the constitution on taxation. However, the government's efforts to optimize tax revenue have several obstacles. One of the obstacles faced by the government is the tax avoidance or aggressive tax.

Aggressive tax aimed to reduce taxable profits through tax planning, both in a legitimate way and in a way that violates the law. Sari and Martani (2010). This can occur because of the weakness in tax regulation that can be used by company leaders. Aggressive tax action can be classified as an act that has a high risk, because the consequences that can arise when the action is detected is that the company has the potential to get sanctions in the form of high fine, moreover it can damage the company's image in the public.

The research of aggressive tax has been widely studied before, among others Putri (2017) found that corporate governance and corporate risk negatively affect aggressive tax actions, earnings management and liquidity have a positive effect on aggressive tax actions, but laverage does not affect aggressive tax actions. While the research conducted by Agusti (2014) showed that profitability as measured by return on assets has a significant negative effect on tax avoidance, Laverage as measured by debt to equit does not have a significant positive effect on tax avoidance, and corporate governance as measured by the proportion of commissioners independent does not have a significant positive effect on tax avoidance. Dewi and Maria (2015) found that corporate risk affects tax avoidance negatively, executive incentives, institual ownership, independent commissioners, and audit committees do not have an effect on tax avoidance.

Based on the background of the problem that has been described, the formulation of the problem in this study is : Do corporate risk, board of commissioners, independent commissioners, and audit committee affect aggressive tax actions on banking companies listed on the IDX? This study aims to prove empirically the influence of corporate risk, board of commissioners, independent commission and audit committee on aggressive tax actions.

Theoretical Basis

Agency Theory

Jansen and Meckling (1976) stated that agency relationship is like a contract whereby one or more people (principals) use another person (agent) to work on behalf of the principal which includes delegating authority to the agent to make several decisions. This theory states that the principal will sacrifice resources in the form of compensation to agents so that they can improve their performance and cost efficiency including the efficiency in paying corporate taxes. On the other hand agents act more to suit their interests, such as taking low-risk actions. Likewise, not all shareholders or principals in a company want their investment to have risks that can endanger their own position. Agency theory explains how the parties involved in the company will act, because basically they have different interests. Differences in interests give rise to agency conflicts. This conflict occurs because of the separation between ownership and control of the company (Meilinda, 2013).

StakeHolder Theory

The concept of corporate social responsibility has been known since the early 1970s, which is generally known as stakeholder theory, meaning as a collection of policies and practices related to stakeholder, values, fulfillment of legal provision, community and environmental award, and the commitment of the business community to contribute to sustainable development. Stakeholder theory says that a company is not an entity that only operates for its own sake, but must provide benefits to stakeholder (shareholder, creditor, consumer, supplier, government, community, analyst and other parties). Thus, the existence of a company is strongly influenced by the support provided by stakeholder to the company stating that stakeholder theory is "The theory that all stakeholders have the right to obtain information about company activities that can influence their decision making. Stakeholder can also choose not to use this information and can not play a role directly in a company.

Aggressive tax action

Aggressive tax is an action to reduce profit through tax planning either classified as tax evasion or not (Frank, in Suardijaya, and friends, 2014). Aggressive Tax has an element of confidentiality, so that it can reduce corporate transparency. both by legal means (tax avoidance) and in a way that violates the law (tax evasion) (Sari and Martani, 2015). The act of tax aggressiveness is considered to provide great economic benefits. The decision to act on tax aggressiveness is carried out by management. This can occur due to the weakness in tax regulation that can be used by company leader, so that the act of aggressiveness is an action designed by the company to minimize the tax burden in order to gain profit.

Corporate Risk

Corporate risk is a mirror of the policy taken by the company leader. Zuesty (2016) Policy taken by leaders of large companies are more likely to use the resources they have than to use financing from debt. Putri (2017). The higher the corporate risk, the more the executive will have a risk taker character, so also the lower the corporate risk, the more executives will have the risk averse character. Suardijaya and friends (2015) found that corporate risk affects aggressive tax.

Board of Commissioner

The board of commissioner is a board whose duty is to supervise and provide advice to the director of a limited liability company. Indonesia Stock Exchange requires a board of commissioner in each company that will register its share on the Indonesia Stock Exchange. The position of the board of commissioner as the representative of the shareholders, the board of commissioners will prioritize the interests of shareholders, namely maximizing the wealth of the company whose value is influenced by tax (Sabli and Noor, 2012).

Independent Commissioner

An independent commissioner is a member of the board of commissioner who comes from outside the management of the company and is not an employee of the company but deals directly with organization within the company. The function carried out by the board of commissioner is a supervisory function whereby the board of commissioner oversees the policy to be taken. The company appoints an independent commissioner to oversee how the organization within the company is run and can mediate between the internal commissioner and the shareholder in the event of a conflict. Independent commissioner is believed to be mediators between the two parties because they are objective and have little risk in internal conflicts. Prayogo (2015) found that independent commissioners influence aggressive tax.

Audit Committee

The audit committee has the duty to do control in the process of preparing the company's financial statement to avoid fraudulent management. The audit committee is only limited to giving recommendation to the board of commissioner and does not have the authorization of execution, except for certain matters that have been authorized by the board of commissioner, such as evaluating and determining the composition of the external auditor, and leading a special investigation.

HYPOTHESES

H1: Corporate risk influences aggressive tax action.
H2: The number of commissioners influences aggressive tax action.
H3: Independent commissioner influences aggressive tax action.
H4: The audit committee influences aggressive tax action.

RESEARCH METHOD

Data Source

The data in this study used secondary data, namely data obtained by researchers from existing sources, in this case in the form of company publication financial statement.

Data Collecting Method

Data was secondary data in the form of financial statement of companies listed on the Indonesia Stock Exchange (IDX) for the 2013-2015 period. Financial statement obtained from the company's official website or IDX via the internet (www.idx.co.id).

Population and Sample

The population in this study banking sector companies listed on the Indonesia Stock Exchange (IDX) with an observation period starting from 2013-2015.

1. Sample of banking sector companies listed on the Indonesia Stock Exchange for the 2013-2015 period.
2. Banking companies that report consecutive financial statements as of December 31 for the 2013-2015 financial year and with complete data according to the variables to be examined during the 2013-2015 observation period.

Research Variable

Dependent Variable

Aggressive Tax Action

CETR is considered to be an indicator of tax aggressiveness if it has a CETR close to zero, the lower the CETR value of the company, the higher the level of tax aggressiveness, whereas the low CETR shows that the income tax burden is less than pre-tax income. Aggressive tax actions can be measured by (Budiman, et al, 2012). Lanis and Richardson, in Zuesty (2016) Lanis and Richardson, in Zuesty, 2016). The formula calculates CETR as follows:

CETR = $\frac{the\ amount\ of\ tax\ paid}{profit\ before\ tax}$

This CETR reflects the actual rates applicable to the income of taxpayers that are viewed based on the amount of tax paid. The higher the CETR indicates the lower level of corporate tax avoidance (Budiman, et al, 2012)

Independent Variable

Corporate Risk

Corporate risk is a deviation or standard deviation from earnings, whether the deviation is less than planned (downside risk) or maybe more than planned (upside potential), the greater the deviation of the company's earnings indicates the greater the risk of the existing company. Corporate risk is measured by using a standard deviation from income before tax (income before tax expense) divided by the total assets of the company that refers to research (Dyreng, et al, in Putri, 2017).

Corporate risk = $\frac{\text{EBIT}}{\text{total assets}}$

Board of Commissioner

In point 1-A of the Regulation of Securities Listing No. 1-A of the Indonesia Stock Exchange in Effendi (2009) concerning general provisions for recording of equity securities in the Exchange regulating the ratio of independent commissioners. It is stated that the number of independent commissioners must be proportionally proportional to the number of shares held by parties who are not controlling shareholders, provided that the number of independent commissioners is at least 30% (thirty percent) of the entire board of commissioners. Systematically can be formulated as follows:

Board K $=\sum$ $\mathit{The\ number\ of\ Commissioners}$

Independent Commissioner

The proportion of Independent Commissioners is the ratio between the number of commissioners from outside the company or not from affiliated parties to the total board of commissioners of the company (Prasojo, 2011). Systematically can be formulated as follows:

I C= $\frac{\mathit{the\ number\ of\ independent\ commissioners}}{\text{number of members of the board of commissioner}}$

Analytical Method

Data analysis in this study is a quantitative analysis. Analysis of the data obtained in this study will use the SPSS application program (Statistical Product and Service Solution). The data analysis method used in this study was the Linear Regression method. Linear regression equations] in this study is as follows:

CETR = - $\alpha+\beta_1 RISK$ - $\beta_2 JK$ -$\beta_3 KI$ + β_4KA +e

RESULT AND DISCUSSION

DISCUSSION OF RESEARCH RESULT

The Influence Of Corporate Risk On Aggressive Tax Action

The test result showed that corporate risk affects aggressive tax actions. A high level of corporate risk indicates that the executive character has more risk taker properties than risk averse. This indicates that the more executives are risk takers, the more aggressive corporate tax actions will be. This research was supported by Putri's research (2017) and Suardijaya (2014).

The Influence Of The Number Of Commissioner On Aggressive Tax

The test result showed that the number of commissioners does not affect the aggressive tax. This result was supported by Santoso's research (2014). The Commissioner is a representative of the shareholders who oversee the management of the company carried out by management and prevent too much control in the hands of management. The optimal number of commissioners varies depending on the characteristics of the company itself. Large companies that have complex structures will have maximum performance if the number of commissioners is increasing. The difference in the number of commissioners in each different company can not directly describe its role in the influence of aggressive tax action. This can be seen in descriptive statistics, namely the presence of company that still has a composition of the number of commissioners below the average of 48% of the total number of commissioners. Therefore the composition of the number of commissioners must be determined in such a way as to enable decision making to be carried out effectively, appropriately, and quickly, and can act independently (Effendi, 2009). The board of commissioners is the core of corporate governance that is tasked to ensure the implementation of corporate strategy, oversee management in managing the company, and require accountability.

The Influence Of Independent Commissioner on Aggressive Tax

The test result found that independent commissioner affected aggressive tax. The result of this analysis was supported by Ardyansyah's (2015) research. With the existence of an independent party and the executive branch of the company, it is expected to be able to overcome the agency's problem and fulfill the interests of the stakeholder. According to regulation issued by the IDX, the percentage of the number of independent commissioners is at least 30% of all commissioners. It can be said that independent commissioner represents the interests of minority shareholders, or public shareholders.

The Influence Of Audit Committee On Aggressive Tax

The test result found that the audit committee had no effect on aggressive tax. This indicated that the performance of the audit committee was not going well even though the number of audit committee in the company was in accordance with BEI standard, namely the audit committee of at least 3 people. The result of the data tabulation for audit committee variable tends to be homogeneous or not varied so that it is difficult to precisely measure the influence of the audit committee variable on aggressive tax. Although the audit committee of each company has met the IDX standard, at least three things can be seen from the descriptive statistic, which is the lowest three, but still many companies that are still below the average are seen from the descriptive statistics of 46% of companies that have a below-average audit committee, with the difference in the number of audit committees, the performance is not running well because the audit committee should be able to communicate effectively with the commissioner, director and internal and external audit so that monitoring in report reporting can run well and can minimize action such as aggressive tax.

CONCLUSION

The result of this study showed that the corporate risk and independent commissioners affected the aggressive tax measures. Meanwhile, the number of board of directors and the audit committee did not affect the aggressive tax measures. The result indicated that this study can provide broader implications regarding agency problems which are described through aggressive tax action. This result indicated that good corporate governance, namely the existence of a board of commissioners will certainly create good performance for the company. Public shareholders tend to comply with tax regulation, because they expect the company to participate in development for the community. The existence of an audit committee whose function is to improve the integrity and credibility of financial reporting so that it can run well.

REFERENCES