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DETERMINATION OF TAX AVOIDANCE ON THE MINING SECTOR COMPANIES IN INDONESIA

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ABSTRACT
The Indonesian largest source of income is from taxes. To make it easier for the public to pay taxes, the Indonesian government has implemented a tax collection system, namely the 'Self-Assessment System'. The consequence of this system is that the company can minimize the tax burden but is still within the limits of not violating tax rules. This is because the company can calculate the amount of tax itself. Tax avoidance can also be caused by corporate governance factors, both internally and externally. This study aims to determine the influence of foreign investors, political connectivity, executive characteristics, audit quality and joint audit on tax avoidance. The research was conducted on mining sector companies listed on the Indonesia Stock Exchange in 2017 – 2019. The analytical method used was descriptive statistical analysis. The sample ddetermination using a purposive sampling method. The samples that meet the criteria are 9 companies with an observation period of 3 years. The analysis tool uses multiple linear regressions. The results show that foreign investors and executive character have an effect on tax avoidance, while political connectivity, audit quality and joint audit have no effect on tax avoidance. Based on the research results, companies need to implement good corporate governance to prevent tax avoidance.

KEY WORDS
Tax burden, self-assessment system, corporate governance.

The largest source of Indonesian state revenue is taxes. From www.kemenkeu.go.id accessed on October 13, 2020, the largest 2019 State Revenue and Expenditure Budget in Indonesia, worth 1,957.2 trillion rupiahs, came from taxes. The Indonesian government has implemented tax cuts through a self-assessment system. As a consequence of implementing this system, companies can calculate the amount of their taxes themselves, so that they can minimize the tax burden within limits that do not violate tax rules. Many entrepreneurs deliberately reduce nominal profits in financial statements by optimizing the expenses incurred, or minimizing income, this is done so that the tax paid to the state treasury is reduced (Wicaksono, 2017). Based on a survey conducted by IMF investigator Ernesto Crivelli in 2016, which was re-hyphotized by the UN University employing the databases of the International Center for Policy and Research and the International Center for Taxation and Development on companies in 30 countries, Indonesia was ranked 11th out of 30 countries with a loss of around U$6, 48 billion due to companies that do tax avoidance (Yulyanah & Kusumastuti, 2019).

According to Nasarudin (2007), an investor is a party, either an individual or an institution originating from various countries that carry out an investment activity that is both long-term and short-term. Investors usually perform technical analysis as well as fundamental analysis to determine the most profitable investment opportunities, and they will generally choose to minimize risk and maximize profits. Based on the definitions above, it can be concluded that an Investor is a person or institution (such as a company) that provides capital in the hope of receiving a financial return. Investors rely on different financial volumes to earn income levels and achieve financial goals such as accumulating additional wealth over time.

According to Ng & Phie (2020) companies with political connections have several advantages when compared to companies that do not. Companies with political connections will find it easy to get aid or bailout funds from the government and can easily win government tenders. In addition, companies like this also have the power to cover up the deviant acts they do. The existence of a political connection owned by the company will make them more daring in their tax management, in this case, tax avoidance.

Research done by Dyreng et al., (2010) is purposed at testing if individual Top Executives influence corporate tax avoidance. Low (2009) states that in carrying out their duties as a company leader, the executive has two characteristics, namely as risk-taker and risk-averse. Executives who have a risk-taker character are more daring in making business decisions. Meanwhile, risk-averse executives are those who do not dare to take business decisions. This causes risk-taker managers to act more aggressively to make decisions because they generally have a desire to be able to bring in high cash flows from tax savings. Oktamawati (2017) prove that executive character has a good and decisive effect on tax avoidance. It can be said that the bigger the risk-taking, the bigger the tax avoidance.

Audit quality is seen by the quality of its auditors as measured by the type of Public Accounting Firm used by the company in examining company reports. A Public Accounting Firm audits a financial report based on audit quality control standards by the Board of Professional Standards for Public Accountants of The Indonesian Institute of Certified Public Accountants and the rules of public accounting established by IAPI so that in its implementation it is based on existing rules (Winata, 2014). Kanagaretnam, Lee, Lim, & Labo (2016) said that based on economic theory, the size of the Public Accounting Firm can be a proxy that show audit quality. A joint audit is a review of financial accounts by two or more auditors for the purpose of producing a single audit report, with the auditors sharing responsibility for the audit. According to Ajili & Khlif's (2020) research, there is a significant link between joint audit and tax avoidance.

One of the cases of tax avoidance in Indonesia is the mining company PT. Adaro Energy Tbk. This company is a large coal mining company in Indonesia that has received the title of golden taxpayer from the Directorate General of Taxes (DGT). Quoted from (www.merdeka.com, 2019), PT Adaro Energy Tbk through Global Witness entitled Taxing Times for Adaro. The company has shifted profits from coal produced in Indonesia to other countries with lower tax rates. This phenomenon occurs a lot to avoid taxes in Indonesia. The mining sector was chosen by researchers because large companies usually have a good law firm or team of lawyers so they are able to look for opportunities to carry out tax avoidance. Tax avoidance can lead to loss of reputation, corporate image, and a decline in stock prices (Kim & Im, 2016). Tax avoidance can be caused by a company's governance factors that come from internal or external. According to Oxelheim & Randoy (2001), several variables may affect the occurrence of tax avoidance including; foreign investors, political connectivity, executive character, tax allocation between periods, audit quality, and joint audits. This study needs to be carried out to provide input to the government in creating policies associated to taxation in the mining sector.

METHODS OF RESEARCH

The research method in this study is quantitative. The data used in this research is secondary data.The population in this study is mining industry enterprises registered on the Indonesia Stock Exchange for the 2017-2019 timeframe. The sample for this study was acquired using the purposive sampling method, which entails sampling based on the researcher's preferences. (Sugiyono, 2017). The criteria in determining the sample according to (Setiyanto & Hidayat, 2016) in the research are as follows:

1. Companies in the mining sector that have been listed on the Indonesia Stock Exchange between 2017 and 2019;
2. Companies in the mining sector that filed annual accounts during the 2017-2019 research duration;
3. Have all of the information needed for the research.

The data analysis used is multiple linear regression analysis. The independent variables in this study consisted of Foreign Investors, Political Connectivity, Executive

Character, Audit Quality and Join Audit. Additionally, the dependent variable is tax avoidance. The t-test was conducted to determine the effect between the independent variable and the dependent variable. If the significance value is <0.05, then there is an influence between the independent and dependent variables, and vice versa.

RESULTS OF STUDY

The sampling strategy employed in this study was the purposive sampling method, in which a sample was selected based on the appropriateness of the sample characteristics with the specified sample selection criteria, yielding a sample of 27 companies. The normality test yielded the following results:

Table 1 – Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		27
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,11988018
Most Extreme Differences	Absolute	,084
	Positive	,084
	Negative	-,077
Test Statistic		,084
Asymp. Sig. (2-tailed)		,200[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Based on the test results in table 1, it can be seen that the Kolmogorov-Smirnov value is 0.084 and the Asymp value. Sig. (2-tailed) of 0.200 where the value is greater than the significance value 0.05, the data can be concluded to be normally distributed.

Table 2 – Multicollinearity Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	,535	,066		8,163	,000		
	FI	-,003	,001	-,409	-2,293	,032	,858	1,165
	PC	-,037	,059	-,118	-,631	,535	,779	1,284
	EC	-1,235	,389	-,658	-3,175	,005	,637	1,571
	AQ	,086	,068	,262	1,260	,221	,634	1,576
	JA	-,056	-,056	-,178	-1,017	,321	,888	1,126

a. Dependent Variable: TA

Based on table 2, overall the variables studied did not show symptoms of multicollinearity.

Table 3 – Autocorrelation

I	iUnstandardized iResiduali
Test Value[a]	-,011417
Cases < Test Value	13
Cases >= Test Value	14
Total Cases	27
Number of Runs	18
Z	1,187
Asymp. Sig. (2-tailed)	,235

a. Median

Table 3 shows the Runs Test results in the Asymp value. Sig. (2-tailed) of 0.235. This value is greater than 0.05, which means that there is no autocorrelation symptom in this research.

The Heteroscedasticity Test yielded the following results:

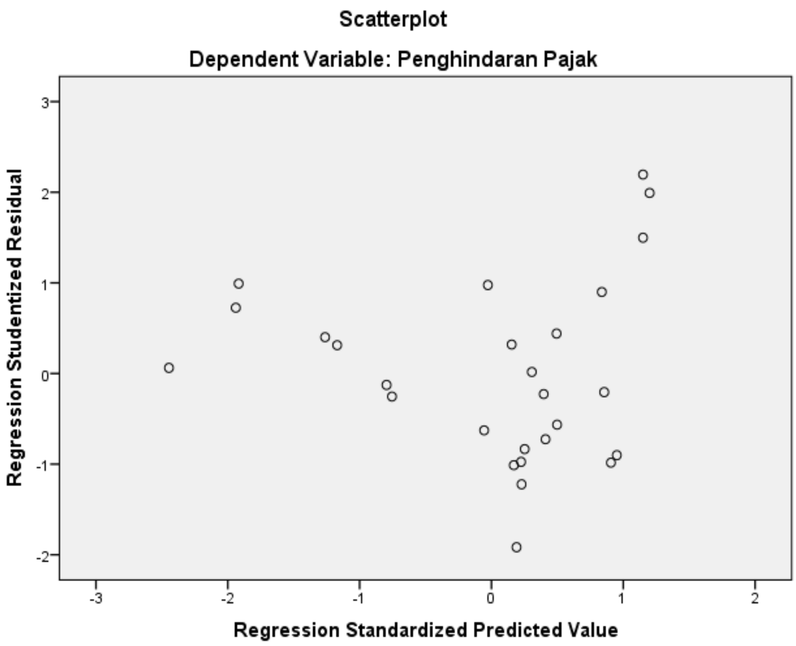

Figure 1 – Heteroscedasticity Test Results

Based on the test results in Figure 1, it has been shown that the graph does not show a clear pattern and the points in the test results above spread randomly both below and above the 0 value on the Y-axis. As a result, the regression model utilized does not have any heteroscedasticity.

Here are the results of the Multiple Linear Regression Test:

Table 4 – Multiple Linear Regression Test Results

Coefficients[a] Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,535	,066		8,163	,000
	FI	-,003	,001	-,409	-2,293	,032
	PC	-,037	,059	-,118	-,631	,535
	EC	-1,235	,389	-,658	-3,175	,005
	AQ	,086	,068	,262	1,260	,221
	JA	-,056	-,056	-,178	-1,017	,321

a. Dependent Variable: TA

The following is the equation from the results of multiple linear regression analysis:

$$TA = 0.535 – 0.003\ FI – 0.037\ PC – 1.235\ EC + 0.086AQ – 0.056JA$$

Based on table 4, the significance value for Foreign investors (FI) is 0.032 and less than 0.05. This means that the Foreign Investor variable has an effect on Tax Avoidance (TA). The significance value of the Political Connectivity (PC) variable is 0.532 which is greater than 0.05. This means that there is no influence of Political Connectivity and tax avoidance. The significance value for the Executive Characteristics (EC) variable is 0.005 which is smaller than 0.05. This means that the Executive Characteristics variable has an effect on tax avoidance. The significance value for the Audit Quality (AQ) variable is 0.221 which is greater than 0.05. This means that there is no influence between Audit Quality and tax avoidance. The significance value for the joint audit variable (JA) is 0.321 which is greater than 0.05. This means that there is no effect between joint audit and tax avoidance.

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DISCUSSION OF RESULTS

Foreign Investors have an effect on Tax Avoidance

The results of the t-test demonstrate that the foreign investor variable has a negative impact on tax avoidance. This means that the higher the foreign investors in a company, the lower the effect on tax avoidance. Investors want big profits from the results of invested capital but they are more concerned with reputation, this is because the reputation of the company is considered to have a greater effect than getting the benefits of reducing tax costs. Therefore, investors encourage company management agents to implement good corporate governance by not avoiding tax. Even though the shares are owned by foreigners, investors still want the long term value of the company so they will try to promote good corporate governance and reduce the occurrence of tax avoidance tactics that may be illegal.

The majority of foreign shareholdings or foreign investors can act as controllers who have the authority to supervise management, because the controlling shareholder has a higher position and has better access to information. This causes shareholders to be in the strongest position so that managerial parties cannot abuse their control rights for their welfare (Nurjanah & Lucyanda, 2013). This is reinforced by research from Nainggolan & Sari (2019) which states that the higher the level of foreign share ownership, the lower tax avoidance.

The bigger the percentage of a business's shares owned by foreigners, the greater the investors' ability to participate equitably in deciding company policies. Investors put their money into a company in the hopes of receiving a rate of return that meets their expectations.Every year, the number of international investors who invest in Indonesia grows.The government, on the other hand, expects foreign investors to not only invest their money but also pay taxes in accordance with the rules.This is because investors only invest in order to profit from the capital they have invested.

Political Connectivity has no effect on Tax Avoidance

According to the t-test results, there is no correlation between political connectivity and tax avoidance. According to the result of this research, firm executives with political affiliations do not encourage their companies to engage in tax avoidance. If the company has political connections, it will not necessarily increase the tax avoidance of a company. Companies want to maintain their reputation and corporate image, especially in front of stakeholders such as the government, investors, or the public. Judging from the stakeholders, especially the government, companies that do not take advantage of their political connections and are obedient in paying their taxes, the government will reward these companies. This will give the company a good image to the control holders of the company (Ayu, Lestari & Putri, 2017).

Companies with government ownership that act as principals, namely State-Owned Enterprises or Regional-Owned Enterprises, are considered as companies that comply with regulations in terms of taxation because the name they hold reflects an obedient attitude to the regulations that have been determined and will not abuse that power to do tax avoidance that will tarnish the name of government institutions. The attitude shown by the principal to comply with regulations is also passed down to agents in order to maintain the reputation of government institutions in the community and become an example and role model for many people.

The higher the political connection will not affect the tax avoidance activity in the company. This is because companies with government ownership are classified as low-risk taxpayers based on the Regulation of the Minister of Finance Number 71/PMK.03/2010. The political relationship that is owned by serving in a government institution or having held this position does not make the company do tax evasion (Ayu, Lestari & Putri, 2017).

Executive Characteristics Affect Tax Avoidance

Based on the t-test, the results show that the executive character variable has an effect on tax avoidance with a negative relationship. This means that if the executive character is high, it will affect the decrease in tax avoidance. Low (2009) state that, in carrying out their duties as head of a company, the executive has two characteristics, namely as a risk-taker and a risk-averse. Executives who have a risk-taker character are executives who are more daring when it comes to business decisions. They usually have a strong desire for more money, a better job, better benefits, and more power. Risk-averse executives will reject all chances that have the potential to cause risk, preferring instead to spend the majority of their assets in relatively safe investments in order to avoid debt, uncertainty about the amount of return, and other issues. When managers with a risk-averse character are given the opportunity to choose investments, this character will tend to choose investments far below the risk that the company can tolerate. These results are supported by research conducted by Dyreng et al., (2010) which shows that Top Executive individuals have an influence on corporate tax avoidance.

Audit Quality has no effect on Tax Avoidance

According to the t-test results, there was no correlation between audit quality and tax avoidance. This is because the companies studied have a good reputation in conducting company audits that are guided by quality control standards on the audit quality that have been set. So that in carrying out the audit, it is ensured that it complies with the rules that have been set. Audit quality has not had an effective effect on decision-making regarding tax avoidance. This result is supported by research from Yunawato (2021) which states that there is no effect between audit quality and tax avoidance. These results also support the research conducted by Kurniasih & Ratna Sari (2013).

Joint Audit has no effect on Tax Avoidance

According to the t-test results, it was found that the relationship between joint audits and tax avoidance had no effect. A joint audit does not affect tax avoidance because the joint audit only audits financial statements and does not participate in tax management decision-making. A company appoints two distinct audit firms to offer a joint view on its financial accounts, which is known as a joint audit. Having a joint audit in a company will streamline time to audit financial statements because a joint audit is carried out jointly by at least two auditors so that the financial statements to be audited can save time and effort. However, in Indonesia, it is still rare, or even no company uses a joint audit because in general companies in Indonesia use a single audit as an auditor for their financial statements. As in the sample companies in this study, these companies have not implemented a joint audit as a step to examine the financial statements of the company

Implications of Research Results

The results of this study have a positive impact in an effort to increase the long term value of the company. This condition can be implemented through efforts to prevent tax avoidance. Companies need to implement sustainable good corporate governance. Companies also need to pay attention to the presence of foreign investors. This is because on average foreign investors also act as controlling shareholders. Foreign investors prioritize long-term value rather than wanting short-term profits. Based on the results of research, Executive characteristics also need to get more attention because executive characteristics have the effect of reducing the level of tax avoidance.

CONCLUSION

The results show that foreign investors and executive characteristics have an effect on tax avoidance. Meanwhile, political connectivity, audit quality and joint audit have no effect on tax avoidance. Some suggestions for further research are to increase the amount of data and extend the research period. For further researchers, they can use other proxies to measure tax avoidance such as Book Tax Difference. Further research needs to be done by changing or adding independent variables such as compensation for fiscal losses, the proportion of independent commissioners and company risk.

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