Analysis of Effect of Financial Reporting Aggressiveness Tax

Ayu Desita Sari, SE¹; Dr. Alwan Sri K., M.Sc., Ak., CA²; Dr. Yosefa Sayekti., SE., M.Com³

Master of Accounting Studies Program Faculty University of Jember, Indonesia

Abstract: Companies tend to show higher profits for the motivation to maintain the reputation of the stakeholders. And therefore companies often perform earnings management activities. But on the other hand the company must pay tax on the income earned in the state. With the obligation that companies often do aggressiveness tax by lowering its taxable income with a good tax planning. This study examines and analyzes the relationship between the aggressiveness of the financial reporting and tax aggressiveness. The sample was 29 companies listed in Indonesia Stock Exchange for the years 2011-2015 with a total of 145 observations firm-years. To test this research data using a classical assumption test, multiple linear regression, F test and t test. The results showed that there is no influence between financial reporting aggressiveness against the aggressiveness of the tax but have a positive relationship between the aggressiveness of the financial reporting and tax aggressiveness. This means tax management measures usually also accompanied by measures of earnings management so that the company's financial position looks good. The results of this study are also supported by the results of the data analysis by the coefficient of 0.017. Addition of four control variables used only 1 control variables that affect the tax aggressivitas Return on Assets. This means tax management measures usually also accompanied by measures of earnings management so that the company's financial position looks good. The results of this study are also supported by the results of the data analysis by the coefficient of 0.017. Addition of four control variables used only 1 control variables that affect the tax aggressivitas Return on Assets. This means tax management measures usually also accompanied by measures of earnings management so that the company's financial position looks good. The results of this study are also supported by the results of the data analysis by the coefficient of 0.017. Addition of four control variables used only 1 control variables that affect the tax aggressivitas Return on Assets.

Keywords: Aggressiveness, Financial Reporting, Tax Aggressiveness

1. Preliminary

State revenues consist of tax revenues, non-tax revenues and grants. Of the three types of such acceptance, the tax revenue occupy a sizable proportion of around 68% - 79% of total revenues (source: Central Bureau of Statistics, www.bps.go.id). Under Law No. 36 of 2008 on income tax Article 1, the tax is a mandatory contribution to the state owed by private entities or on income received or earned. Tax revenues in Indonesia payoff is big enough for the construction work. Taxes paid to the state by the people in forced and did not get a direct reciprocity, will be used for financing the country (Soemitro and Mardiasmo, 2011). Chen et. al (2010) stated that the company and the owner prefers to act in aggressive tax the earnings management. Aggressive tax action is an action aimed at which is intended to reduce the taxable income through tax planning, both in a manner that classified or not classified as tax evasion (Frank et.al 2009).

However, by lowering the corporate profits, will cause other side effects primarily from the company's stakeholders ie investors, creditors, and shareholders will assess the company less good because it shows low profit. To maintain a good reputation to the company's stakeholders tended to show high profits as the motivation to obtain long-term debt from creditors or get an injection of funds from investors or shareholders. This trend is often referred to as the aggressiveness of financial reporting. According to Frank et.al (2009), the aggressiveness of financial reporting is an activity increase its profit earnings management through appropriate or not in accordance with generally accepted accounting principles.

Although not all acts that violate the rules, but the more loopholes used or the greater the savings made then the company is considered to be more aggressive against tax. The practice of aggressive tax measures actually happens quite a lot, whether it is legal tax avoidance (tax avoidance) and illegal (tax evasion). Practicercriminal cases of suspected tax fraud three mining companies of the Bakrie Group are not related to coal royalty case that also involves six mining companies, including two companies belonging to the same group, some time ago.

But there are also studies that show that some companies are willing to pay more taxes to reported income higher book. This is commonly referred to as book-tax-trade-off, Erickson et.al (2004). In the current study noted that there is always a trade-off between tax and financial reporting decisions. In fact many companies are reporting high profits to shareholders but pay low tax burden to the tax authorities. In addition to describe the debt policy decision taken by the management in order to determine the sources of funding.

Debt policy is done to meet the operational needs of the company. Besides, the company has an obligation to repay the loan and must pay periodic interest expense. The existence of this obligation makes the manager seeks to improve the return so that it can meet the obligations of the debt. The interest expenses can also simultaneously serves to lower the tax burden to be borne by the company. The continuously increasing book tax difference is capable indicated the existence of a discrepancy between accounting principles and tax regulations, thus becoming an opportunity for companies to increase profits and decrease the taxable income in the same period, Frank et.al (2009).
This research was conducted with reference to the research conducted by Frank et al. (2009) concerning the relationship between the aggressiveness of the financial reporting and tax aggressiveness in both directions. What distinguishes this study with previous research is that the study focused on the influence of the aggressiveness of the financial reporting and tax aggressiveness alone. Other modifications were carried out in this research is to add control variables that debt policy factors which can influence the aggressiveness of financial reporting on tax aggressiveness. The research will be conducted on a mining company listed on the Indonesia Stock Exchange 2011-2015.

2. Literature Review

Theoretical basis

Positive Accounting Theory seeks to explain a process that uses the ability, understanding, and knowledge of accounting and use of accounting policies most appropriate to deal with certain conditions in the future. Positive accounting theory in principle assume that the purpose of accounting theory is to explain and predict accounting practices (Sari & Martani, 2010). Positive accounting theory is a theory developed by Watts and Zimmerman (1978), which describes the accounting policies and practices within the enterprise and predict what policies will have a manager in certain conditions in the future. Determination of accounting policies and practices that right is essential for the company in terms of preparation of the financial statements. Thus, in terms of determining the accounting policies and their implementation can not be separated from the authorities and have an interest in the preparation of financial statements. Accounting theory to explain whether the policy has been made, when viewed objectively has benefits for the company, or whether the policy has affected by other factors that will only benefit some parties.

Tax aggressiveness

In accordance with Act No. 16 of 2009 article 1, paragraph 1 of the General Provisions and Tax Procedures, taxes are defined as mandatory contributions to the state owed by individuals or entities that are enforceable under the Act, by not getting the rewards directly and used for the purposes of the state for at -besarnya prosperity of the people. Meanwhile, according to Barata (2010), the tax is a contribution to the State under the Act can be imposed by not receive reciprocal services (contra) directly demonstrated and used to pay for general expenses. From these definitions it can be concluded that the tax is an obligation that is enforceable under the Act in the public interest.

To save tax legally can be done through tax management (Annisa, 2017), Minimize the tax liability can be done in various ways, whether they comply with the provisions of taxation and who violate tax laws. The term is often used is tax evasion and tax avoidance. Lumbantoruan (2005) describes two related definition of the term. Tax evasion (tax evasion) is tax evasion in violation of the provisions of tax laws. Tax avoidance (tax evasion) is tax evasion by obeying the rules.

There are five indicators to measure the Aggressive Tax namely: Effective Tax Rate (ETR) which is used to reflect the difference between the book profit and taxable income (Frank, Lynch, & Rego, 2009) Cash Effective Tax Rate (CETR) is used to identify aggressive tax planning, Book-Tax Difference Manzonplesko (BTDP_WP) and Book-Tax Difference Desai-Dharmapala (BTDD_DD) was used to obtain trigulasi, according (Vinet & Zhedanov, 2011) book-tax difference can arise because of the activities of tax planning and earnings management, then the residual value of the regression value of book-tax difference and the value of total accruals are expected purely a reflection of aktivitas tax planning. While Tax Planning (TAXPLAN) is used to describe the level of tax subsidies used (Yin and Cheng, 2004).

Aggressiveness Financial Reporting

Information about profit (earnings) has a very important role for stakeholders of a company. Internal and external parties often use profits as a basis for decision making such as compensation and distribution of bonuses to managers, measuring achievement or performance management, and the basis for determining the amount of the tax. Therefore, the quality of earnings to be the center of attention for investors, creditors, accounting policy makers, and the government.

Activity improving corporate profits through earnings management, whether appropriate or not in accordance with generally accepted accounting principles known as the aggressiveness of financial reporting (Frank et al., 2009). Aggressiveness financial reporting can be reflected through earnings management of the company. Ewert and Wagenhofer (2005) states that one way to do the company's earnings management is through the use of freedom or discretion to choose the method and accounting estimates to be used. Measurement of earnings management or financial reporting aggressive action is very diverse. However, it is frequently used proxy discretionary accruals on the company's financial statements. Discretionary accruals obtained as a residue from the regression amount of revenue accrual (Jones, 1991). Jones model is then developed in subsequent studies, including Dechow et al. (1995), Kasznik (1999), Dechow et al. (2002), Kothari (2005).

Hypothesis Development

Erickson et al. (2004) found that companies are willing to pay more taxes to the reported book income is higher, meaning that there is a negative relationship between the aggressiveness of tax and financial reporting aggressiveness. It also suggests that there are trade-offs between tax and financial reporting. Sometimes the manager also perform the manipulation of data in the financial statements and did not report the actual information for the sake of certain interests.

Companies do not always face a trade-off in financial and tax reporting, Frank et al. (2009). This is indicated by the larger book-tax difference or the difference between income in the financial statements with taxable incomes (Desai, 2002; Manszon and Plesko, 2002; Mills et al. (2002); Boynton 2005; Hanlon et al. (2005) . the amount of the tax book indicates any difference capable of aggressive tax and
financial reporting aggressive simultaneously, thus, the hypothesis can be developed:
H1: Aggressiveness financial reporting have an influence on the aggressiveness of tax

Framework

<table>
<thead>
<tr>
<th>Financial Statements</th>
<th>Tax aggressiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Return on Assets</td>
<td></td>
</tr>
<tr>
<td>2. Debt to Equity Ratio</td>
<td></td>
</tr>
<tr>
<td>3. Iverage</td>
<td></td>
</tr>
<tr>
<td>4. size</td>
<td></td>
</tr>
</tbody>
</table>

3. Research Methods

Population and Sample
In this study the authors used quantitative research. Qualitative research by Nur Indiantoro and Bambar Supomo (2002: 12) that emphasizes on testing theories through the measurement of research variables with numbers and perform statistical data analysis procedures. The data used is secondary data, Annual Report Mining Company listed on the Indonesia Stock Exchange (IDX) 2011-2015. For sampling using purposive sampling with the following criteria:
1) Companies listed in Indonesia Stock Exchange during the period 2011-2015
2) Companies listed in the mining sector in Indonesia Stock Exchange since 2011 or earlier
3) Presenting a complete financial statement data from the years 2011-2015
4) Mining companies that have associated data completeness of the variables used in the study from 2011 to 2015.

Analysis methods
The research model used in this study is an adaptation of Frank et research model. al (2009). In examining influence of aggressive tax measures and aggressive financial reporting, this model controlling for factors of corporate debt policy. Here is the research model that will be used in this study:
TaxAggit = a0 + a1DACCit + a2ROAit + a3DERit + a4LEVit + a5SIZEit + et
Where:
TaxAggit : Measurement Effective Tax Rate firm i in year t
DACCit : Measurement dekresi accrual firm i in year t
ROAit : The ratio of after-tax profit to total assets of firm i in year t
squeak : The ratio of total debt to total assets of firm i in year t
Levit : The ratio of total debt to total equity firm i in year t
SIZEit : The natural logarithm of the total assets of the company firm i in year t
eit : error

4. Results and Discussion

Research Object Description
Based on calculations purposive sampling, then obtained a sample of 29 companies that can be seen in Table 1 below:

Table 1: Sample Company

<table>
<thead>
<tr>
<th>Overview of the sampling</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>The number of mining companies listed on the Indonesia Stock Exchange</td>
<td>41</td>
</tr>
<tr>
<td>Not on the financial reporting period December 31, 2011</td>
<td>(5)</td>
</tr>
<tr>
<td>Data are not available in full</td>
<td>(7)</td>
</tr>
<tr>
<td>Total sample of companies</td>
<td>29</td>
</tr>
<tr>
<td>Years of research</td>
<td>5 years</td>
</tr>
<tr>
<td>total observations</td>
<td>145</td>
</tr>
</tbody>
</table>

Source: Secondary data are processed

Data analysis
Tests conducted descriptive statistics until determine the mean value, maximum, minimum, and standard deviation. Following the results of the test statistic that shows the results of each variable:

Table 2: Descriptive Analysis

<table>
<thead>
<tr>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ETR</td>
<td>145</td>
<td>0.50</td>
<td>1.05</td>
<td>0.2444</td>
</tr>
<tr>
<td>DA</td>
<td>145</td>
<td>0.15</td>
<td>2.41</td>
<td>0.0078</td>
</tr>
<tr>
<td>ROA</td>
<td>145</td>
<td>-0.78</td>
<td>0.58</td>
<td>0.0251</td>
</tr>
<tr>
<td>DER</td>
<td>145</td>
<td>-8.97</td>
<td>14.81</td>
<td>1.4477</td>
</tr>
<tr>
<td>LEV</td>
<td>145</td>
<td>0.002</td>
<td>1.00</td>
<td>0.20626</td>
</tr>
<tr>
<td>SIZE</td>
<td>145</td>
<td>15.55</td>
<td>23.58</td>
<td>20.5508</td>
</tr>
</tbody>
</table>

Source: Secondary data are processed

Classical Assumption Test Results
Testing the hypothesis in this study using multiple regression models. To use the multiple regression model must first meet the classical assumption test. For more details can be seen in Table 3 below:

Table 3: Classical Assumption Test and Regression Test

<table>
<thead>
<tr>
<th>Coef. Regresi</th>
<th>t</th>
<th>Sig.</th>
<th>VIF</th>
<th>Glacier</th>
</tr>
</thead>
<tbody>
<tr>
<td>constants</td>
<td>0.578</td>
<td>2.047</td>
<td>0.043</td>
<td>0.896</td>
</tr>
<tr>
<td>DA (x1)</td>
<td>0.017</td>
<td>0.403</td>
<td>0.687</td>
<td>1.033</td>
</tr>
<tr>
<td>ROA (x2)</td>
<td>0.461</td>
<td>2.901</td>
<td>0.004</td>
<td>1.072</td>
</tr>
<tr>
<td>DER (x3)</td>
<td>0.002</td>
<td>0.204</td>
<td>0.838</td>
<td>1.652</td>
</tr>
<tr>
<td>LEV (x4)</td>
<td>-0.113</td>
<td>-0.712</td>
<td>0.478</td>
<td>1.740</td>
</tr>
<tr>
<td>SIZE (x5)</td>
<td>-0.016</td>
<td>-1.161</td>
<td>0.248</td>
<td>1.043</td>
</tr>
</tbody>
</table>

Source: Secondary data are processed

Normality test: based on table 3 is known that a p-value of the one-sample Kolmogorov test was 0.135 (p > 0.05), which means that the distribution of the data in this study were normal.

Test Multicolinearity: based on table 3 multikolinieritas test results known that VIF show <10, which has the meaning that in the entire respective independent variables do not have a relationship. Thus this test shows that the assumption multicolinearity met.

Test Heteroskidastity: in Table 3 is known that there is only one variable that still contained the variable LEV
homokedastisitas because glaciers test value of less than 0.05.

**Autocorrelation test:** Based on table 3 it can be seen that the Durbin-Watson value is equal to 1.559. Furthermore, the value is compared with the value of the table with a significant level of 5%. Decision-making is based on the following calculation:

\[
Du = 1.8004 \\
4-Du = 4 \cdot 1.8004 = 2.1996 \\
Di = 1.6580
\]

Based on the calculation of the mean value \(DW (1.559 < 1.6580)\). This means there is a problem of regression model above autocorrelation.

5. Hypothesis Testing Results

**Effect of Financial Reporting to Aggressiveness Aggressiveness Tax**

The hypothesis Aggressiveness financial reporting have an impact on tax Aggressiveness is rejected and has a positive direction. It does not indicate that the tax management action was accompanied by measures of earnings management. From the results of this study can be seen in the absence of a high level of flexibility for companies to set income tax paid or that the company's financial statements look good. The results of this study are also consistent with research conducted by Sari & Martani (2010), Pitoyo, Ahmar, and Suyanto (2019), Malem et al., (2018), The results of the study with positive direction is also supported by a previous study conducted by Frank et al (2009) which shows a positive relationship between the aggressiveness of the financial reporting and tax aggressiveness conducted by the company. However, this study contradicts the statement Arief, Pratomo, & Dillak (2016), Irvan & Henryanto (2015).

In table 3 it can be seen that one of the four control variables used showed a significant effect on the aggressiveness of the tax. ROA shows a significant effect on the value of the tax aggressiveness. This study is in line with research conducted by Annisa & Kurniasih (2008), Chen et al., (2010) which shows that companies are high profitability levels tend to be higher to make tax management, in order for the interest of the principal.

Other control variables, namely Debt to Equity Ratio (DER) shows the results do not affect the tax aggressiveness. This is because the level of total debt to equity ratio which tend to lower a company to manage tax (Sari, 2010).

Leverage (LEV) shows the results no significant effect on the aggressiveness of the tax. This is due to the influence LEV can not show an increase in interest expense is capable of being a deduction in taxable income to lower the corporate tax burden (Ardyansah, 2014).

The variable size shows that size does not significantly influence the aggressiveness of the tax. These results differ from Handayani research and Rachadi (2009) and Watts and Zimmerman (1986), which shows that companies tend to make tax management is a big company. The reason underlying these allegations are large companies definitely got more attention from the government or other public parties compared with small companies.

6. Conclusion

This study analyzes the influence of the Aggressiveness Aggressiveness Financial Reporting Taxes with 4 control variable is ROA, DER, LEV, and SIZE. From the analysis results we can conclude that the aggressiveness of the financial reporting does not affect the tax aggressiveness. And only one control variables that have significant value <0.05 is ROA.

Limitations of this study are the independent variables used. Judging from the value of adjusted R square of 0.039, or 3.9% means that there are other variables that can be further investigated, namely variables thought to influence the aggressiveness of Taxation.

References


[13] www.bps.go.id
[14] www.idx.co.id