How to Detect Tax Avoidance Through Financial Statement

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Abstract—The tax is a levy from the government aimed at taxpayers according to the law, and the levy is coercive that aims to cover state expenditure and the cost of developing the country and the community does not get reciprocal services directly. Taxes are a source of income for the state, whereas for companies, taxes are a burden that will reduce the company net profit. Differences in the interests of the tax authorities who want large and continuous tax revenues are certainly contrary to the interests of companies that want minimum tax payments. In this paper, we discuss how to detect tax avoidance treatment through financial statements using the profitability, leverage, firm size proxy, and tax avoidance measured using Cash Effective Tax Rate (CETR). This paper also using data from mining companies listed on the Indonesia Stock Exchange in the period 2013 to 2018. The selection of this period was carried out to interpret the latest situation.

Keywords—*tax avoidance (CETR), profitablity, leverage, firm size proxy*

I. INTRODUCTION

The tax is a levy from the government aimed at taxpayers according to the law, and the levy is coercive which aims to cover state expenditure and state development costs and the public does not get reciprocal services directly [1]. Taxes are a source of income for the state, whereas for companies, taxes are a burden that will reduce the company's net profit. The difference in the interests of the tax authorities who want large and continuous tax revenues is certainly contrary to the interests of companies that want minimum tax payments [2].

Cases of tax avoidance are found in various business and economic sectors. One sector that is very potential and often takes tax avoidance is the mining sector. The mining sector is a business sector that focuses on extracting deposits from within the earth's crust. The mining and energy sector in Indonesia is one of the strategic sectors that is Indonesia's mainstay. Unfortunately, the management of this sector is not yet transparent enough so that the potential revenue for the country is not yet optimal enough. One form of not yet opening the management of the mining sector is who is actually controlling the mining company. So far, there is no accurate information regarding Beneficial Ownership (BO) in the mining sector. In general, BO can be interpreted as a person or group of people who control a company or industry, even though their name does not have to be listed in the company's legal documents. These controllers are usually the final recipients or connoisseurs of the existence of the mining company.

Moreover, there are a number of facts that reinforce why the BO in the mining sector is very important to be captured.

Based on data from the Ministry of Finance of the Republic of Indonesia, tax revenues in the mining sector in 2018 amounted to Rp 80.55 trillion. Although there was an increase in revenue compared to last year of 28.22 percent, but these results are still not optimal. According to the Director General of Tax of the Ministry of Finance, tax revenues did not reach the target because there were some mining products not subject to Value Added Tax (PPN) and there were still Mining Business Permits (IUP) that were still problematic. Based on data from the Ministry of Energy and Mineral Resources of the Republic of Indonesia (ESDM), as of January 1, 2019, a total of 539 IUPs or 15.92 percent of 3,384 Minerba IUPs did not have the status of Clear and Clear (non-CnC) certificates. This problem arises due to poor mining management, which has the potential to cause corruption and tax avoidance. In addition to the problematic permits, according to data from the KPK's Coordination and Supervision, it is known that there are around 1,800 IUP owners who cannot be identified with their Taxpayer Identification Number (NPWP). National Publish What You Pay (PWYP) coordinator, Maryati Abdullah, believes that the absence of accurate information about the NPWP of the mine owner makes the tax potential in this sector disappear. Moreover, the Transparency International report shows that various major corruption scandals often have a common thread related to the BO. There are indications that the perpetrators used an anonymous network of company complexes, trusts and other legal entities located in a number of different jurisdictions to move illegal funds. Generally, they use the services of professional intermediaries and banks to move or hide money.

Several previous studies have tried to link the factors of the company's financial condition to tax avoidance, including focusing on the level of profitability of the company. Profitability is the company's ability to make a profit. The measurement of profitability is to use Return on Assets (ROA). According to Surbakti, corporate profitability has a positive relationship with the company because if the company wants to avoid tax then the company must be more efficient in managing company profits so that it does not need to pay taxes in large amounts [3].

Another factor influencing a company's financial condition towards tax avoidance is leverage policy. Leverage is the level of debt used by companies in financing. Leverage is measured by comparing the total liabilities of the company with the total capital owned by the company [3]. In debt financing there is a

component of loan interest costs which is a deduction in taxable income. Therefore, pre-taxable corporate profits that use debt as a source of financing can reduce corporate tax obligations and can be classified as tax avoidance.

Research conducted by Dharma the higher the level of debt, the higher the company indicated tax avoidance [4]. This is different from research conducted by Noor et al which explains that companies with more debt have good effective tax rates, this means that with a large amount of debt, companies to conduct tax avoidance will tend to be small [5].

Next that affects the financial condition of the company against tax avoidance is the size of the company (organization size) can be interpreted as a comparison of the size or size of an object. According to Surbakti, company size (size) has a positive effect on the level of tax avoidance in a company [3]. That is, the larger the size of the company, the more capable the company is in managing taxation by doing tax saving which can include tax avoidance.

According to Surbakti, the larger the size of the company, the more complex the transactions made [3]. It allows companies to take advantage of existing loopholes to carry out tax avoidance actions from each transaction. In addition, companies operating across countries have a tendency to take tax avoidance measures higher than those operating in cross-border services, because they can transfer profits to companies located in other countries, where the country levies lower tax rates compared to countries the other. In contrast to research conducted by Saifudin and Yunanda which states that company size has no effect on tax avoidance, because large companies tend to get more attention from the government related to the profits obtained so they often attract the attention of the tax authorities to be taxed according to applicable tax rules [6].

Much research has been done on profitability, leverage, and company size in Indonesia. Overall, these studies take the phenomenon of tax avoidance behaviour related to government efforts in maximizing tax revenue, namely by changing the corporate tax rate. The difference of this study with previous research is that the authors use data from mining companies listed on the Indonesia Stock Exchange in the period 2013 to 2018, this period election was conducted to interpret the latest situation.

Based on the explanation above, the author is interested in conducting research by taking the title **"How to Detect Tax Avoidance Through Financial Statements"** (Empirical study of mining companies listed on the Indonesia Stock Exchange for the period 2013-2018).

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

A. Agency Theory

Agency theory according to Anthony and Govindarajan is a theory that explains the relationship between principal and agent [7]. The relationship between the principal and agent is called the agency relationship that occurs when one party in this case the owner of the company as the principal hires and delegates authority to the other party, namely the manager as an agent to carry out a service. The manager of the company as

an agent performs certain tasks for the principal, while the principal, the company owner or shareholder has an obligation to reward the agent.

Agency relationships that occur sometimes cause problems between the principal and agent or are usually called conflicts of interest. The problem arises because both principals and agents try to maximize their respective interests. Shareholders as company owners who act as principals want a greater return on their investment, while managers as agents want maximum rewards for performance that has been carried out to run the company properly in the form of promotions, incentives or compensation. or other.

The manager as an agent will know all the information related to the company because the manager as the manager of the company knows the true condition of the company while the shareholders as the principal have less information related to the company compared to the manager. This situation is known as information asymmetry. The existence of information asymmetry causes managers as agents to take this opportunity to maximize their own interests [6].

In agency theory it is assumed that all individuals will act and act for their own welfare. The manager as an agent will act to prosper himself by taking opportunistic actions. Opportunistic actions carried out by maximizing corporate profits in order to get the maximum reward for its performance in running the company. With the opportunistic actions taken by managers can lead to the practice of tax avoidance.

B. Tax Avoidacne

Based on Law No. 28/2007 article 1 paragraph 1, tax is a mandatory contribution to the state owed by individuals or entities that are coercive based on the law, without causing direct compensation and used for the state's needs for the welfare of society.

Tax is a mandatory contribution for individuals or entities (companies) that must be deposited to the state. However, capital owners are reluctant to sacrifice part of the profits derived from the company's operations. The company owners also cannot completely evade their obligation to pay taxes but can only reduce the amount of tax deposited without any implication of tax refunds or underpayment.

Basically there are two approaches in the strategy of reducing tax payments, namely by reducing revenue or increasing the burden on the company. Efforts to minimize tax payments made as long as they are allowed by applicable tax regulations are called tax avoidance. Tax avoidance behaviour is included in tax planning or tax planning. Tax planning (tax planning) is the process of organizing taxpayer businesses in such a way that their tax debt, both income tax and other taxes are in the most minimal position, as long as possible by the provisions of tax laws or commercially.

Tax avoidance can be done in three ways, namely: a) restraint, namely taxpayers not doing something that can be taxed, for example such as not smoking in order to avoid tobacco excise tax; b) moving locations, is moving business or domicile locations with high tax rates to locations with low tax rates. An example is the provision of relief for investors who

want to invest capital in Eastern Indonesia; and c) juridical tax avoidance. This act is carried out in such a way that the acts committed are not subject to tax. Usually done by exploiting emptiness or unclear laws (loopholes).

Tax avoidance can be done by utilizing the opportunities that exist in the tax laws in this case are tax loopholes and gray areas. Tax loopholes are a legal way to avoid paying taxes or part of a tax bill because there are gaps in the tax provisions. By utilizing loopholes or loopholes in taxation, it can benefit taxpayers in avoiding their tax obligations. Gray area arises because of unclear taxation regulations, as a result of the unclear taxation regulations are weaknesses that can be used by taxpayers to avoid tax.

Taxpayers can take advantage of the loopholes and gray area to be able to minimize their tax payments because this method is legalized by tax laws. Taxpayers can also take advantage of several cost accounts that can be used as tax deductions, as stipulated in Article 6 of the Income Tax Act No. 36 of 2008, such as buying raw materials at high prices from one group company that stands in a low-tax country, take advantage of fiscal loss compensation to reduce the company's tax burden in the future periods, owe or sell bonds to affiliates of the parent company and pay back instalments with very high interest rates, or by moving locations, i.e. moving business locations or domiciles with high tax rates to locations with low tax rates. In addition, minimizing taxes can also be done by using the exclusion of tax objects as stipulated in Law Number 36 of 2008 article 4, such as the establishment of joint ventures by using a revenue sharing system to its members.

C. Profitability

Profitability is one measure of a company's performance. The profitability of a company illustrates the ability of a company to generate profits over a certain period at the level of sales, assets and certain share capital [8]. The better the profitability ratio, the better the company's ability to generate profit.

One proxy for profitability is Return on Assets (ROA), where ROA can be measured by comparing the profits of the company with the total assets owned. The amount of ROA will affect the value of CETR. CETR is one way to measure tax avoidance activities. If the ROA value is higher, then the CETR value is lower because the tax avoidance activity is getting higher. The higher the value of ROA means the higher the profitability of the company. Companies that have high profitability will have the opportunity to do tax planning (tax planning) carefully so that companies can minimize tax payments.

Based on theoretical and research findings above, my first hypothesis in this study is:

H1: Profitability has a positive effect on tax avoidance.

D. Leverage

Leverage is a ratio used to measure a company's ability to meet its long-term obligations. Leverage is the amount of debt a company has in financing a loan financed. Debt to Total Asset Ratio (DAR) is a proxy for leverage, where DAR is used

to measure how much the company's assets are financed with total debt. Debt from third parties will result in interest expense that must be paid by the company. The higher interest expense will have the effect of reducing the company's tax burden. The interest expense component will reduce the profit before taxable company, so that the tax burden that must be paid by the company will be less [9].

Based on theoretical and research findings above, my second hypothesis in this study is:

H2: Leverage has a negative effect on tax avoidance.

E. Firm Size

The size of the company in general can be interpreted as a scale that classifies the size of a company in various ways, among others, expressed in total assets, total sales, stock market value, and others.

The company is a taxpayer, so the size of the company is considered capable of influencing the way a company fulfils its tax obligations and is a factor that can cause tax avoidance [10]. The greater the total assets owned by the company, the greater the size of the company. The size of the total assets also affects the amount of productivity of the company, so the profits generated by the company will also be affected. Profit generated by companies that have large assets will affect the level of corporate tax payments.

The greater the size of the company, then the company will consider more risks in terms of managing its tax burden. Companies that are included in large companies tend to have more resources than companies that have smaller scale to carry out tax management. Human resources who are experts in taxation are needed so that the tax management carried out by the company can be maximized to reduce the company's tax burden. Small-scale companies cannot be optimal in managing their tax burden due to a shortage of experts in taxation. The more resources owned by large-scale companies, the greater the tax costs that can be managed by the company.

Based on theoretical and research findings above, my second hypothesis in this study is:

H3: Firm Size has a positive effect on tax avoidance.

III. RESEARCH METHODOLOGY

This type of research conducted in this study is causal associative. According to Sugiyono, causal associative research is a research that aims to analyse the causal relationship between the independent variable (the variable that affects) with the dependent variable (the variable that is affected) [11]. This study examines the effect of return on assets, leverage, and company size on tax avoidance. Where profitability, leverage, and company size are variables that influence, while tax avoidance is a variable that is affected.

In this study the data used are secondary data. Secondary data itself is data obtained from existing research. The data is in the form of annual reports which are published through the Indonesia Stock Exchange (IDX), where the data can be accessed through the website (www.idx.co.id).

The population used in this study is mining sector companies listed on the Indonesia Stock Exchange in the 2013-2018 period, amounting to 49 companies. The financial statements presented by the Indonesia Stock Exchange are financial statements that have gone public and deserve to be examined. The sampling technique in this study is purposive sampling, which is a data collection technique that uses certain criteria. The criteria used are as follows:

- There are financial reports and audited annual reports for five years in a row (2013-2018) which can be accessed from the Indonesia Stock Exchange website.

- The company did not experience delisting from IDX during the 2013-2018 period.

- The company presents its financial statement in rupiah units for the period 2013-2018.

This research defined profitability as the sum of net profit after tax divided by total assets. Leverage measured by sum of long term debt divided by total assets. Firm size measured by using a natural log, the amount of assets with the value of hundreds of billions or even trillions is simplified, without changing the proportion of the actual amount of assets. Research model used to test the hypothesis of this study are as follows:

$$CETR = \alpha - \beta 1 ROA + \beta 2 DAR + \beta 3 LnTA + e$$

Where:

CETR = Cash Effective Tax Rate
α = Constant intercept value
$\beta 1$-$\beta 4$ = Regression coefficient of the independent variable
ROA = Return on Assets
DAR = Leverage
LnTA = Company Size
E = Variables outside the model (error)

IV. RESULTS AND DISCUSSION

In this study, the authors took the population of mining companies listed on the Indonesia Stock Exchange (IDX) during 2013-2018. Based on data from the Indonesia Stock Exchange (IDX) website, the number of companies registered in the mining sector in 2013-2018 amounted to 49 companies. The sample selection is done by using purposive sampling. Of this amount, it was then selected according to the criteria to obtain 8 companies as samples. In this study, normality tests have been carried out (multicollenarity test, heteroscedasticity test, and autocorrelation test), and the results are the data normally distributed.

Based on table 1 below, for profitability, it shows a significance value of 0.493>0.05 (p value) so that it can be concluded that profitability has no significant effect on tax avoidance (with a significance value <5%). That is, the changes in the value of profitability do not affect the company's decision to avoid tax. Thus, the first hypothesis in the form of form of profitability has a positive effect on tax avoidance being rejected. This states that the higher the profitability, the more pressing the tax avoidance behaviour

(tax avoidance). Companies that have high profitability tend to report their taxes honestly compared to companies that have low profitability. Companies that have low profitability generally experience financial difficulties (financial difficulty), so they tend to do tax non-compliance. The results of this study have the same results as Kurniasih and Sari [2] and Cahyono et al [12].

TABLE I.   TEST RESULTS

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	15.389	7.029		2.189	.034
	Profitability	2.994	4.330	.106	.691	.493
	Leverage	-4.664	2.342	-.307	-1.992	.053
	Company size	-.542	.303	-.252	-1.791	.080

^{a.} Dependent variable: Tax Avoidance

For leverage, it shows a significance value of 0.053> 0.05 (p value), but the difference of 0.05 is not significant. So it can be concluded that leverage has a negative and significant effect on tax avoidance. In other words, if the value of leverage goes up, the value of CETR will go down, which means the lower the value of CETR the more the company indicates in avoiding taxes. It can be concluded that, companies that have high leverage value, tend to avoid tax. Thus, the second hypothesis in the form of leverage has a negative effect on accepted tax avoidance. Based on testing that has been done H2 declared acceptable, which means leverage negatively affects tax avoidance. The higher the value of the leverage ratio, the higher the amount of funding from third party debt used by the company and the higher the interest costs that will arise. With the high interest costs, it will give effect in the form of reduced profits before corporate tax, which in turn will make the company's tax burden lessen. So that the use of debt by companies can be used for tax savings by obtaining incentives in the form of interest costs which will be a deduction from taxable income. The results of this study have the same results as the research conducted by Swingly and Sukartha [13] and Dharma and Ardiana [4].

And then for firm size, it shows the coefficient value of -0.542, which means the size of the company has a negative effect on tax avoidance. In the t test results table also shows that the significance value of 0.08 <0.1 (p value), so that it can be said that the size of the company has a negative effect but not too significant for tax avoidance. In other words, the greater the value of company size, the lower the CETR value. Which means, the lower the CETR value, the more it indicates the company in avoiding taxes. Thus, the third hypothesis in the form of company size has a positive effect on tax avoidance being rejected. Based on the results of tests that have been done, the results obtained by company size have a negative effect on tax avoidance but not too significant. Large companies with large total assets illustrate that companies are more stable and capable of generating profits compared to companies that have smaller total assets. Companies that have greater total assets tend to generate greater profits as well, so the amount of tax burden paid is getting bigger. By utilizing large resources, the agents reduce the tax burden that must be

paid by the company by utilizing loopholes of legally applicable tax regulations, so that agents can maximize existing profits and the agent can maximize compensation for performance. These results are consistent with previous research conducted by Darmawan and Sukartha [1], Dewinta and Setiawan [10], and Dharma and Ardiana [4].

V. CONCLUSION AND SUGGESTION

Based on the results of the research that has been done, after going through the stages of data collection, data processing, data analysis and interpretation of the results of the analysis of the study using normally distributed data, the following conclusions are generated:

- Profitability has no significant effect on tax avoidance. That is, the high or low value of the company's profitability will not affect the company's decision to avoid tax. So, the first hypothesis which states that profitability has a positive effect on tax avoidance is rejected.

- Leverage has a significant negative effect on tax avoidance. That is, companies that have high leverage values, tend to avoid taxes. Thus, the second hypothesis which states that leverage negatively affects tax avoidance is accepted.

- The size of the company has a negative effect on tax avoidance but it is not too significant. That is, the greater the size of the company, the greater the tendency of companies to avoid tax. Thus, the third hypothesis which states that company size has a positive effect on tax avoidance is rejected.

For the further researchers by taking a similar topic, it is hoped to add to the research sample or replace it using another larger company sector, such as the manufacturing sector. Because the manufacturing sector has a larger sample of companies so that it can describe the overall condition of the company related to tax avoidance. And also, it is recommended to add or replace other independent variables outside of this research variable and use different proxies, such as sales growth. By using the measurement of sales growth the company can predict how much profit will be obtained. The greater the sales volume of a company, the company's sales growth will increase. If sales growth increases, the profit generated by a company is assumed to have increased. The profits of companies that have increased means the tax to be paid is getting bigger, so companies will tend to avoid tax.

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