

Customer Concentration and Tax Aggressiveness of Non Financial Company in Indonesia Stock Exchange in 2014-2015

Wika Arsanti Putri*

Politeknik Negeri Batam
Batam, Indonesia

*wika@polibatam.ac.id

Abstract—This study aims to analyze empirically about the influence of customer concentration to tax aggressiveness. This research is motivated by the phenomenon of tax ratio in Indonesia which is still low in the year 2014-2015. The population in this study are all non-financial companies in Indonesia Stock Exchange 2014-2015. Sampling using purposive sampling and the number of samples obtained is 516 company annual report. Data collection method is secondary data that is in the form of annual report in BEI. The approach used in this research is quantitative approach. Data were analyzed using multiple regression analysis technique. The result of the research shows that customer concentration has a significant negative effect to the tax aggressiveness of the company occurring in non-financial companies in BEI period 2014-2015 which has been selected as research sample.

Keywords—*BEI, tax ratio, concentration*

I. INTRODUCTION

Influence of customer concentration to tax Aggressiveness with moderation financial distress on The number of tax evasion is seen from the phenomenon of tax ratio in Indonesia is still low. Sourced from worldbank.org accessed on July 12, 2017, the tax revenue contribution to the total Gross National Domestic Revenue in Indonesia is only 11.28% in 2013, 11.83% in 2014 and 10.3% in 2016, a global average of 15%. This is seen still low tax revenue in Indonesia [1].

The act of tax Aggressiveness is an action aimed at reducing taxable income or taxable income through tax planning by using both legal and illegal means [2]. Tax evasion can be said legal (tax avoidance) that is by utilizing taxation rules. While said to be illegal (tax evasion) or violate the tax regulations in the presence of elements of tax evasion. Although not all of the company's actions are in violation of the rules, but more and more gaps are used then the company is considered more aggressive in determining the tax.

In Indonesia has actually been established in the tax law regarding the existence of special sanctions for tax violations, but there are still many companies that violate the tax that causes the ratio of tax revenue in Indonesia is still low. There are many modes by companies in tax evasion. Increasing the company's tax Aggressiveness will make the company save

more money from the cash flow stream, even though tax Aggressiveness will encourage lower transparency and higher agency costs because tax enforcement rates can also increase the company's tax risk. On the value of money held, tax enforcement rates can also make the marginal value of tax Aggressiveness higher or lower [3]. It can be concluded that the marginal value of tax Aggressiveness depends on the risk of tax enforcement conditions in a country.

Companies in running their business activities have various strategies. One strategy is to gain profit by relying on the sales of its products to some of the major customer (customer concentration) customers. Major customers are customers who contribute at least 10% of total sales of suppliers [4-7].

The purpose of the company to establish the relationship is to increase the company's revenue from the possibility of efficiency that occurs from the operation and delivery of goods. This strategy but not necessarily directly make the company profit, but there are risks that must be borne. In the early years when the company has customer concentration company's profitability level will decrease, but when the relationship lasts long enough then customer concentration will significantly affect the profitability of the company [8]. This happens because at the beginning of the contract with the major customers the company will lose a lot of money to invest. However, after investments such as technology investments, there is a high benefit felt by the company at maturity due to its dependence on the resources.

Major customer relationships with companies in addition to having benefits also have a higher risk associated with future cash flow. Economic researchers have long warned of the dangers of supplying most of the company's output to specific customers. Major customers threaten the company's operating profit [9]. The problem of companies with key customers is the recovery of the profits to be achieved through sales efficiency. Major customers often bargain with the company and there is a possibility of renegotiation of the terms of the pre-defined contract. At the beginning of the agreement the company also agreed on the use of resources to produce for sales to key customers. The existence of this customer-specific investment is a considerable initial cost, so inevitably the company will benefit by maintaining their relationship. Major customers can

also disrupt the company's profitability by requiring price agreements, extended trading credits, or other benefits. The explanation causes the company with customer concentration to hold more cash in cash for several reasons. Companies with high primary customers also have a tendency in tax avoidance in order to increase revenue. Building a relationship between the company and the major customer requires a long-term sales commitment and a special relationship investment that will eliminate a value (sacrifice) [10]. The customer will feel hesitant to commit to the relationship if the supplier company is deemed to have a bad future prospect. Therefore, suppliers have a motive to raise their income which is expected to improve perceptions of better business prospects in the future [5].

The main customer of the company, as a large counter party also has a risk of default to the company when the main customer in the state of financial distress and vice versa. The existence of the transfer of financial risk of major customer distress to the supplier company or vice versa [11]. It can be concluded that the existence of major customers can affect the level of financial distress company. One company in the United States that General Motors (GM) went bankrupt during the financial crisis. GM's bankruptcy in 2009 caused more than 40 major suppliers who rely on GM as their primary customer to seek bankruptcy protection. Protection of these key customers to the U.S. Treasury. led to the U.S. Treasury Department. should provide \$ 5 billion to save these suppliers [5].

The number of tax revenue that has not been maximized in Indonesia one of them caused by the company go public. Sourced from cnnindonesia.com accessed on May 15, 2017, Head of Regional Office of the Directorate General of Taxation Special mention in 2016 tax arrears of public companies listed in the Office of Tax Service Companies Entry Exchange (KPP PMB) reached Rp94, 4 trillion. In addition, issuers often do tax planning to reduce their tax obligations. The Corporate Tax Service Office of Exchange Enterprises continues to strive to provide services as well as to supervise for listed companies in the stock so that state revenues from taxes can be maximized [12].

Based on the above background is the possibility of tax evasion by the company and also the number of violations committed by companies including companies in BEI, then this study will provide empirical evidence and discuss about the non-financial companies in IDX.

II. THEORY AND HYPOTHESIS

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A. Agency Theory

The agency theory illustrates a relationship between principals and agents. The agency relationship as a contract in which a person or more (principal) involves another person (agent) to perform some services on their behalf involving the delegation of some decision-making authority to the agent. In carrying out business activities in the company usually the

owner submits to the management causing agency relationships. This agency relationship will cause a conflict of interest. Company managers play a role as decision makers in companies including in decision-making related to fund raising and how to utilize the funds. The decisions that are made must be in accordance with the main objective of the company to increase the value of the company through an increase in the prosperity of the company owner [13].

Decisions taken by managers tend to protect and fulfill the manager's self-interest rather than fulfill the interests of the owner such as expansion to raise the status of salary or other gains. At the time of customer concentration, the company will hold a higher cash and the desire increase in profits that will cause one of the alternative decisions taken by managers is through tax Aggressiveness. This is done because an increase in debt or issuance of new shares will be vulnerable to conflicts of interest between shareholders (stockholders), managers (manager), and creditors (creditor) commonly called the agency conflict.

B. Customer Concentration and Tax Aggressiveness

Companies with customer concentration must maintain the company's cash condition. There are several reasons underlying why companies with customer concentration should hold more cash. The first reason is that there is a higher risk of cash flow in the future. A possible future loss of key customers could lead to a substantial reduction in cash [4,6,14]. This major customer loss could be due to major customers going bankrupt or switching to other suppliers. Risks that occur if the company does not have enough cash is the obstacle of fulfillment of obligations or debts of the company and also can hamper the company's operational activities.

Another reason companies will hold more cash is the company's motive in maintaining the company's financial condition in order to demonstrate their commitment to continuing to invest in a special relationship to key customers [6,15]. This happens because if one company in a financial distress condition then the related company will be reluctant to maintain their cooperation relationship.

Major customers also tend to have high bargaining power over the company [16,17]. The bargaining power that a major customer can do is to ask for a lower price, extend credit terms and supply a smaller, more frequent supply to a major customer. This unfavorable deal will lead to lower profit margins and a liquidity risk transfer that results in lower corporate profits. Because the company can experience losses and must consider the company's cash flow.

This reason causes the company to maintain the company's cash because the company with customer concentration has a greater risk to the company's cash. The company will take the option to withhold a larger amount of cash to avoid future risks. Some ways to get cash are by issuing new shares, reducing dividends or issuing new debt. Companies will certainly choose a relatively low cost in order to maximize future corporate profits.

Tax Aggressiveness is also expected to be one of the alternatives that can be selected company in order to withhold

cash money. Tax Aggressiveness can increase cash flow due to reduced cash outflow to finance corporate taxes and the marginal value of tax Aggressiveness will increase [14]. Tax Aggressiveness is considered to be one alternative that has a relatively low cost in companies with high customer concentration.

Companies with higher customer concentration have higher share capital costs [14]. This is because the company with customer concentration has a higher corporate risk. Another alternative is to reduce dividends, but this will signal the prospects of unprofitable business and will make it difficult for the company to retain key customers. Companies need to demonstrate profitable business prospects to maintain long-term relationships with key customers [10]. Higher customer concentration also increases debt interest rates and the amount of new debt restrictions to be made as well as possible bank loans that may be renegotiated [4]. Companies with high customer concentration will also maintain a low debt ratio to signal to major customers that they are not subject to financial stress [18].

Companies with customer concentration will also strive to create an investment strategy in order to maintain their special relationship. The company will keep the future prospects of the company in order to continue to win the trust of customers, thereby encouraging companies to raise their revenues to make the company's business prospects look favorable. Firms with customer concentration are positively correlated with the amount of discretionary accruals and reporting that result in large revenue increases [19]. So there is a tendency companies use tax Aggressiveness to manage the increase in income.

H1: Customer concentration positively affects tax Aggressiveness.

III. RESEARCH AND METHODS

A. Sample Research

The sample used is a company listed on the Indonesia Stock Exchange period 2014-2015, non-financial companies because companies engaged in finance have characteristics of different financial statements with the financial statements of non-financial companies, companies that publish financial statements on the Stock Exchange in 2014 and or 2015, the company does not experience negative taxes and negative tax before taxes and the value of tax Aggressiveness is less than 1 as this would be a problem in the model [20]. The final total of the company's financial statements that can be sampled amounted to 516.

B. Dependent Variables

The dependent variable of this study is tax Aggressiveness. This study uses ETR in measuring. This ETR measurement is considered to reflect the corporate income tax that must be paid and paid by the company [2]. ETR is the ratio of total tax expense to profit before tax.

C. Independent Variables

The independent variable of this study consists of one independent variable, namely customer concentration. Customer concentration is the main customer whose value of purchase in the company exceeds 10% of the total sales of the company. The following are assessments used in assessing customer concentration by Huang et al. [5] and Dhaliwal et al. [14]. Measurements from key customers are by means of variable dummy that is by coding one if the company has at least one major customer of the company (sales more than 10%), and zero if it has no major customers.

D. Control Variables

1) *Company size (size)*: This study uses the logarithm of the total value of the company's assets. Companies with large sizes can finance taxation by professional companies because large companies have expert resources so they can do a good tax planning. Then firm size is thought to have an effect on tax Aggressiveness [21].

2) *Profitability*: This study controls the profitability of a company by including Return on Assets (ROA), which is measured as operating profit divided by total assets. Firms with high levels of profitability have the opportunity to position themselves in tax avoidance that can reduce the amount of tax burden liabilities [22].

3) *Leverage*: Leverage is measured as long-term debt divided by total assets. Leverage will cause the cost of interest in the company. Higher interest rates will affect the company's tax burden [23].

4) *Property, plant, equipment*: Fixed assets may result in differences in tax reporting and reporting reports that are higher or lower depending on tax regulations and applicable regulations regarding fixed assets. This is related to the depreciation of assets by the company will affect the cost of the company [22]. For this purpose, the fixed asset ratio to total assets of the company is used.

E. Regression Analysis Model

Model of analysis in this research by using regression model. Here is the equation model used:

$$ETR = \alpha + \beta_1 Cus + \beta_2 SIZE + \beta_3 ROA + \beta_4 LEV + \beta_5 PPE + \varepsilon \quad (1)$$

ETR = Tax Aggressiveness

Cus = Customer Concentration

SIZE = Log of company size

ROA = The ratio of earnings to total assets

LEV = The ratio of total liabilities to total assets

PPE = The ratio of total fixed assets to total assets

IV. RESULTS AND DISCUSSION

The proof of this hypothesis is based on the results of multiple linear regression testing on the independent variables. Data in this study before doing regression test has done the normality test and the classical assumptions required and all

data have met the test. Here are the results of the regression test:

TABLE I. MULTIPLE LINEAR REGRESSION COEFFICIENT AND MODERATION REGRESSION

Variables	Regression Test		
	B	T	Sig.
Constants	0,125		
Cus1	0,029	2,872	0,004
Size	0,003	0,842	0,400
ROA	-0,180	-3,448	0,001
Lev	0,011	0,577	0,564
PPE	0,155	6,500	0,000
R	0,353		
R2	0,124		
F Test	14,500		
Significan	0,000		

Hypothesis one states that customer concentration has a positive effect on tax Aggressiveness. These results can be seen in regression model 1. The results showed that customer concentration has a significant negative effect on tax aggressiveness. It can be seen from the hypothesis test using t test, it is known that the tax Aggressiveness variable which is evaluated using ETR gives t on cus1 2,872 with sig equal to 0,004. The higher ETR value indicates that the company is getting less aggressive. It shows that the existence of customer concentration has a significant negative effect on tax Aggressiveness. So the conclusion that can be taken is the one hypothesis rejected.

The results of this study indicate that the existence of customer concentration will cause an increase in the value of tax Aggressiveness. This means that the concentration of customers in a company will lead to more obedient company in paying taxes because the value of tax Aggressiveness (ETR) increased means greater the ratio of companies in paying taxes. Tax evasion can reduce the company's cash outflow, companies with concentrated customers will have significant tax evasion activities [24]. But apparently it is not proven in non-financial companies in the BEI 2014-2015. This result is not in accordance with the results of research that has been done by taking samples of companies in America [5].

A company that has a major customer turns out in choosing a strategy in running its operational activities does not necessarily make tax evasion in order to meet the cash needs that occur in the presence of major customers in the company and the company's desire to increase profits from the decrease in tax costs incurred. In the results found that managers as agents do not use the opportunity tax Aggressiveness in order for the main customers to increase cash and profits due to the company's main customers. Companies with large major customers in the BEI in 2014-2015 may be utilizing funding other than tax Aggressiveness. The company may either issue debt or shares in the event of a drop in profits or in cash fulfillment. Itzkowitz conducting research on the needs of the firm's cash with key customers finds out that companies with customer concentration make money through stock issuance as opposed to debt or retained earnings [6]. Balakrishnan et al. also indicates a negative relationship between the dependence of firm relations (supplier-customer) on the payment of

dividends [16]. So there is the possibility of companies choose other alternatives such as lower shareholder dividends. On the other hand, managers can make decisions by adding debt. For the company itself the use of this debt can also provide corporate profits that can increase corporate profits in the form of tax reductions but still pay attention to the risk of default (financial distress) and bankruptcy. So it can be concluded the results of this study are not in line with the results of research conducted by Huang et al. which states that the existence of customer concentration will have a positive effect on tax Aggressiveness [8].

In Indonesia, the self-assessment taxation system makes it easier for companies to avoid taxes, but the regulation does not cause the company to make tax evasion immediately. The existence of a system of cut collection by third parties in the taxation rules of Indonesia caused the inevitable company will pay taxes. The existence of the role of third party data (customers) is very influential on the level of tax compliance. Tax compliance can be formed as well because the more the third party data entered into the tax system, the tax compliance and tax ratio higher. This is the result of the Taxpayer who will be difficult to hide his income because of the opponent of the transaction. So companies that have large major customers are more likely to be at risk from tax audit. In Indonesia itself is also a more supervision of companies listed on the Stock Exchange is visible with the office of special tax services that KPP Enter Enterprises Exchange. There is a risk of future audits that will cause the company to pay fines and even large criminal sanctions in the future if proven to have committed a tax violation. This will cause the value of the benefits of tax evasion not proportional to the risk to be borne by the company in the future.

The risks that may arise as a result of a tax violation will also cause the company's reputation to decline and will result in loss of trust from major customers to keep supplying the needs of the company. This causes the company to lose key customers. Therefore, corporate managers tend to choose to pay taxes in accordance with existing rules.

Companies with key customers do not choose to increase internal funding from tax evasion. The established capital structure also considers the marginal profit value of the cost source incurred. Companies with major customers make the company more obedient to tax payments. The manager considers the risks that will occur when tax evasion. Tax evasion may encourage lower transparency and lead to higher agency costs because tax enforcement rates can also increase the risk of corporate taxes. On the value of money held, tax enforcement rates can also make the marginal value of tax Aggressiveness higher or lower [3]. It can be concluded that the marginal value of tax Aggressiveness depends on the risk of tax enforcement conditions in a country.

V. CONCLUSION

This study aims to analyze empirically about the influence of customer concentration to tax Aggressiveness due to the phenomenon of tax ratio in Indonesia is still low. The result of this research is the existence of significant negative effect of customer concentration to tax Aggressiveness, so that one

hypothesis that Customer concentration have positive effect on tax Aggressiveness is rejected. This study proves that the higher the major customers will reduce the tax avoidance rate which shows the ratio of increased tax payments.

Managers as agents in the management of the company in making funding decisions the company does not choose tax Aggressiveness as a way to financing with investment objectives in customer concentration as well as in the presence of financial distress in the company. This is done because managers do not want to take risks that will lead to loss of trust of shareholders and creditors as principals who have given trust to agents. This proves that managers as agents avoid the existing agency conflict.

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