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Company Characteristics and Related to Tax Avoidance on Sharia Commercial Banks in Indonesia

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Abstract
The sustainability of a country cannot be separated from taxes as the most dominant source of income. However, the realization of tax revenue has not shown the maximum level in meeting the set targets. One of the contributing factors is the low awareness of paying taxes. This study investigates the company characteristics of financial leverage, executive character, profitability, and its relationship with tax avoidance. Sharia commercial banks with observations of 66 banks in six years became the sample in this study. Data processing is done by software E-views. Several findings obtained from the test results prove that financial leverage (DER) positively affects tax avoidance. Meanwhile, the executive character and return on equity do not affect tax avoidance

Keywords: Company Characteristics, Financial leverage, Executive character, Profitability, Tax avoidance

Introduction

Taxes are the main income that provides the most significant contribution to the State Budget (APBN). Tax benefits are expected to be felt and used for the welfare of the people. If taxes can be collected optimally, then economic growth will move faster. The tax has a nature that forces taxpayers to pay taxes. Unfortunately, the realization of the value of tax revenue in Indonesia has not yet met the set target. The low level of awareness of paying taxes is one of the triggers for non-optimal tax revenues. Not a few individuals or entities avoid paying tax contributions. Putranti, Jati, & Tambunan (2015) stated that banking is also inseparable from the issue of tax avoidance. Various potentials can occur in banks in tax avoidance efforts, such as opening branches in countries categorized as tax haven countries and offsets from deposit interest with loan interest. This practice can occur in the context of banks as actors or banks as channels used by other parties in conducting tax avoidance efforts.

Tax avoidance is considered a legal effort carried out carefully to minimize the tax burden paid for profit. Tax avoidance is carried out by taking advantage of gaps or weaknesses in tax provisions so that the amount of tax owed becomes smaller (Hidayat & Fitria, 2018; Pohan, 2016). The government, of course, does not want this tax avoidance. Tax revenue must be able to reach the maximum level, both at the central and regional levels. In contrast, the company tries to minimize costs by making various efforts to reduce its tax obligations to achieve maximum profit. The tendency of tax avoidance in Indonesia requires serious attention. Sanctions given by the government do not necessarily make taxpayers afraid to do tax avoidance. Indonesia has a tax ratio far behind compared to other middle and developed countries, which is 11%. This figure shows that Indonesia is lagging from the ranks of middle-class countries, which has reached an average of 14-15%, while developed countries are in the range of 24-26% (Permata, Nurlaela, & Masitoh, 2018). Indeed, this figure has not yet reached the International Monetary Fund (IMF) minimum ratio of 16%.

Company characteristics are suspected to be one of the factors that can affect tax avoidance actions. Its characteristics include financial leverage (Dharma & Ardiana, 2016, Saifudin & Yunanda, 2016), executive characteristics (Novita, 2016; Prihatono et al., 2019), and profitability (Prabowo, 2020). Meanwhile, another study found that leverage (Permata, et al., 2018), executive character (Pujilestari & Winedar, 2018), profitability (Widyasari, 2019) did not affect on tax avoidance practices.

The inconsistency of the results of previous studies motivated researchers to conduct this study. In addition, research on tax avoidance in Sharia banks has a lot to do with governance. Meanwhile, if it is related to the characteristics of the company, it is still limited. This study examines the effect of company characteristics, including financial leverage, executive characteristics, and profitability, on tax avoidance. In contrast to previous studies that primarily measure profitability using return on asset (ROA), in this study, it is measured using return on equity (ROE), considering that only a few use this proxy to be tested with tax avoidance. This study takes the object of sharia banks in Indonesia because sharia banks are characteristically different from conventional banks, so clear arrangements are needed for tax treatment.

Before the issuance of Law Number 42/2009 concerning value-added tax (VAT), sharia banks had relatively large tax arrears as a result of double taxation problems in previous years. This is because the regulations regarding VAT in banking do not explain clearly and unequivocally that Murabaha is a banking service exempt from VAT (Lathif, 2009), thus creating the potential for tax and tax avoidance. As a bank that carries out its activities based on sharia principles, sharia banks also carry out their obligations following tax payments. Sharia banks contribute to the state through tax payments. This research was conducted for the development of science and can be used as a policy evaluation material to close the tax gap so that the practice of tax avoidance is narrowing.

Literature Review and Hypothesis Development

Agency Theory

In a company, there are two different interests in line with the company's running, namely between shareholders and company management. This difference in interest causes an agency conflict called type I agency problem (Kusumadewi & Wardhani, 2016; Nurim & Raharti, 2017). Shareholders want a great outcome and do not take a long time for their investment, while from the manager's side, they also want a commensurate value for their contribution to the company. This theory can solve some conditions related to the agency relationship. The first agency problem arises when there are differences in the objectives of the two parties, and the second is how the views of risk are also different (Asri & Suardana, 2016). An agency relationship occurs when the shareholder (principal) authorizes the management (agent) to run the company and make decisions therein. Managers use tax avoidance techniques to manage company income. It will increase company profits so that managers can get higher incentives (Yorke, Amidu, & Boateng, 2016).

Tax Avoidance

Tax Avoidance is a legal action that aims to minimize the tax burden (Fitriyani & Fitriana, 2020) to decrease the tax paid to the government (Ariff & Hashim, 2014). The government will tax every individual or business unit that generates income. It is not surprising if the company implements a tax avoidance strategy by reducing tax spending to get more profits. This strategy is intended to engineer the activities and transactions carried out by taxpayers to appear to be still in the corridor of tax regulations, but the tax debt can be minimized (Harventy, 2016). It is still a matter of debate because, on the one hand, tax avoidance is considered not to violate the laws and regulations. Even Dyreng, Hanlon, & Maydew (2008) state that the company does not always mean that it is involved in something wrong if it does tax avoidance. However, the tax authorities have a different view. This action is still a violation because it ignores tax benefits. As a result, state revenue becomes less so that people's welfare is difficult to achieve.

Company Characteristics

Financial Leverage

Financial leverage shows the relationship between debt and capital structure. It describes the use of funds obtained at fixed costs so that later it can increase profits for shareholders (Ahmad, Salman, & Shamsi, 2015). Debt equity ratio (DER), which is part of financial leverage, is a ratio that serves to assess the amount of debt to equity. Financial leverage can have an unfavorable impact if the income capacity generated by the company is less than expected by the lender. It emphasizes the extent to which the company's operational activities can be financed. A high level of leverage indicates that the company uses more debt as a company resource, and it will encourage the company to do tax avoidance.

Executive Characteristics

Tax avoidance activity is largely determined by the character of the leader or executive officer of the company. Executive character is classified into risk-taker and risk-averse (Low, 2006; Prihatono, Wijaya, &

Barus, 2015). Risk-takers make executives like to take risks in carrying out their business activities. Then risk-averse executives are more averse to risk. Executives who are classified as risk-averse tend to play it safe. In comparison, the risk-taker assumes that the greater the risk taken, the greater the possible level of tax avoidance that can be done so that the opportunity to get more profits will be higher. The executive plays a role in increasing the company's value, but the increasing number of risks taken can support the increase in tax avoidance (Butje & Tjondro, 2014).

Profitability

Profitability describes the extent to which the company can profit from its economic activities (Mahpudin, 2016). One of the ratios used to measure profitability is a return on equity (ROE). The ratio can describe how strong a company's position is (Kasmir, 2012). According to Rodriguez & Arias (2012), the tax burden imposed on the company can be seen with profitability. The greater the profit earned, the higher the tax paid so that the opportunity for tax avoidance is greater. In a situation where the company's profit declines, the company will pay lower taxes or even not pay taxes if it suffers a loss with the tax compensation system. By avoiding taxes, companies can benefit in the form of cash savings. Companies with high profitability tend to position themselves in tax planning that reduces the tax burden.
The relationship between variables is stated in the conceptual framework and hypotheses as follows:

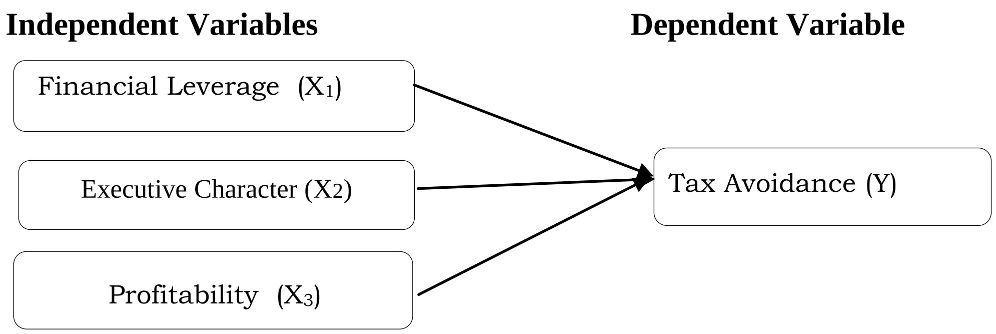

Figure 1. Conceptual Framework

The hypotheses in this study are as follows:
H1: Financial Leverage has a positive effect on tax avoidance.
H2: Executive characteristics have a positive effect on tax avoidance.
H3: Profitability has a positive effect on tax avoidance.

Methodology

The companies selected in this study were 11 Islamic commercial banks that had complete financial reports and data during the 2014-2019 period. The secondary data used is panel data for a period of six years with a total of 66 Islamic commercial banks observations. According to Astuti & Aryani (2016), to measure how much tax avoidance is, the measurements that can be used are the effective tax rate (ETR) and the cash effective tax rate (CETR). By ETR, the tax burden paid in the current year can be seen. Meanwhile, CETR accommodates the amount of cash issued by the company at this time. The CETR value is obtained from the total cash tax for one year paid in that year divided by pre-tax income.
The dependent variable used is tax avoidance using CETR (Cash Effective Tax Rate) based on the amount of cash spent to pay the tax burden divided by profit before tax (Chen, Chen, Cheng. & Shevlin, (2010). At the same time, the independent variables consist of financial leverage, executive characteristics, and profitability. Financial leverage is the level of debt that must be paid by the company to finance its operations which can be proxied by DER. This ratio describes the company's efforts to fulfill all its obligations where the company pays its debts with part of its capital.
For the executive character variable, a corporate risk proxy is used where the size indicates the tendency of the executive character. A high level of corporate risk indicates that the company's leadership is more of a risk-taker, while a trim level of risk indicates that the company's leadership is more risk-averse. Company

risk can be calculated by dividing earnings before interest and tax (EBIT) and total assets. Profitability in this study is measured by ROE which compares net income after tax with the equity that has been invested by the company's shareholders.
The hypothesis testing is done by using E-Views. The equation model of multiple linear regression is written as follows:

$$Y = \alpha + \beta 1X_1 + \beta 2X_2 + \beta 3X_3 + e \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(1)$$

Explanation :
Y = Tax avoidance
α = Constant
β = Regression coefficient
X_1 = DER
X_2 = Company risk
X_3 = ROE
e = Error.

Result and Discussion
This study analyzes panel data with the following approach: the common effect model (CEM), fixed effect model (FEM), and random effects models (REM). Of the three approaches, which approach will be used is the most appropriate in explaining the research model.

Table 1. CEM Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1	0.232954	4.25E-05	5484.454	0.0000
X2	2.915303	1.495371	1.949551	0.0558
X3	0.129096	0.228984	0.563779	0.5749
C	-0.142349	0.035516	-4.008085	0.0002

Table 2. FEM Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.137623	0.035567	-3.869350	0.0003
X1	0.232963	3.96E-05	5877.618	0.0000
X2	1.755929	2.172278	0.808335	0.4226
X3	0.491704	0.223784	2.197227	0.0325

Table 3. REM Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.139400	0.046769	-2.980610	0.0041
X1	0.232960	3.82E-05	6097.295	0.0000
X2	2.240932	1.606630	1.394803	0.1681
X3	0.326738	0.211210	1.546985	0.1270

Table 1 shows data about the results of the CEM test. One variable, namely X1 (DER), affects a probability of 0.0000 <0.05. Then, the fixed-effect model was tested. From Table 2, it is known that there are two influential variables, namely the X1 variable (DER) of 0.0000 and the X3 variable (ROE) of 0.0325. This result will be applied if the fixed effect model is the best model to choose. Then, it can be seen from Table 3 that one influential variable is the DER of 0.0000. The estimation test will then be carried out. The first step that must be done is to choose between FEM or CEM.

Table 4. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.238632	(10,52)	0.0026

Cross-section Chi-square	31.954668	10	0.0004

Table 5. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.647023	3	0.0840

Table 4 gives the results of the Chow test. The value of the Chi-square cross-section coefficient is 0.0004, so the model chosen is FEM. While in Table 5, the Hausman test results show a value of 0.0840, so the model chosen is REM. The last test using the Lagrange Multiplier in Table 6 obtained the number 0.0047, so that the selected model remains REM.

Table 6. Lagrange Multiplier Test Results

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	7.986936	1.038094	9.025030
	(0.0047)	(0.3083)	(0.0027)
Honda	2.826117	-1.018869	1.277917
	(0.0024)	--	(0.1006)
King-Wu	2.826117	-1.018869	0.799756
	(0.0024)	--	(0.2119)
Standardized Honda	3.442349	-0.812039	-1.590957
	(0.0003)	--	--
Standardized King-Wu	3.442349	-0.812039	-1.997289
	(0.0003)	--	--
Gourierioux, et al.*	--	--	7.986936
			(< 0.01)

Table 4 provides the results of the Chow test. The value of the Chi-square cross-section coefficient is 0.0004, so the model chosen is FEM. While in Table 5, the results of the Hausman test obtained a value of 0.0840, so the model chosen is REM. The last test using the Lagrange Multiplier in Table 6 was obtained, which resulted in a number of 0.0047 so that the selected model remained REM.

Based on the statistical test results, the variable debt-equity ratio (DER) has a positive effect on tax avoidance. This result supports hypotheses 1. It proves that the higher the level of debt will increase the company's efforts to avoid tax. Companies can choose leverage as an option to obtain funding sources from third-party debt. The company will take advantage of this situation to avoid a large tax burden because, with debt, the interest expense on the debt can reduce the tax burden paid by the company. The results of this study are consistent with the results of Mayarisa (2017) that leverage has a positive effect on tax avoidance. This is contrary to research conducted by Bayunanda & Ompusunggu (2018).

On the other hand, executive characteristics have no effect on tax avoidance and this is contrary to hypotheses 2. This could be due to the high awareness and responsibility of the risk-taker and the risk-averse to carry out obligations in paying taxes. Although the risk-taker takes a high risk to improve the company's performance, it does not have to be done by means of tax avoidance practices. The existence of strict regulations and sanctions issued by the government makes companies remain compliant in paying taxes. So, for the executive character, both risk-taker and risk-averse, it does not affect tax avoidance efforts. This is not in line with Prihatono et al., 2019.

The results of the last test on the ROE variable showed that this variable has no effect on tax avoidance and it does not support hypothesis 3. A high ROE value indicates a high level of profit generated by the company and indicates a high level of company profitability. With high profitability, the company will try to minimize the tax burden paid so that the profit value tends to be greater. However, referring to the test results, the high and low ROE will not affect the company in making tax avoidance efforts because the most critical factor is the company's level of awareness. With a high level of awareness owned by Islamic banks, the large or small ROE obtained does not make the company avoid taxes.

Conclusions and Suggestions

This study shows that the debt-equity ratio has a positive effect on tax avoidance. Meanwhile, executive characteristics represented by company risk and profitability as proxied by ROE do not affect on tax avoidance. It is hoped that further research can expand the period of observation and the object or sample of the research. It is interesting to add the level of awareness in paying taxes as a moderating variable. This research is expected to consider policymakers to fill gaps in tax regulations widely used by taxpayers and help investors find out how companies manage their taxes based on the policies taken to make it easier to make the right investment decisions.

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