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Analysis of the Effect of Institutional Ownership Profitability, Sales Growth and Leverage on Tax Avoidance in Construction Subsector Companies

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Abstract

This study Purpose to analyze the Effect of Institutional Ownership, Profitability, Sales Growth and Leverage on Tax Avoidance in Construction Subsector Companies listed on the Indonesia Stock Exchange in 2017 – 2019, this study amounted to 16 Construction Subsector companies listed on the Indonesia Stock Exchange. by using the type of associative analysis research with panel data design that is a combination of time series data and cross-sectional data. The type of data used is panel data (pooled data), panel data regression analysis with Fixed Effect Model (FEM) estimation method and reviews 9 SV program. Hypothesis testing carried out is the Coefficient of Determination Test (R Square), F-Test, and t-Test. The results showed that the institutional ownership variable had a negative and positive effect on tax avoidance, the Profitability variable had a positive and positive effect on tax avoidance. The sales growth variable had a positive and positive effect on tax avoidance. Leverage has a negative and positive effect on tax avoidance.

Keywords
institutional ownership (KI); profitability (ROA); sales growth (SG); leverage; tax avoidance (ETR)

I. Introduction

One of the tax objects in Indonesia is the Corporate Taxpayer (company). The company has so far made a significant contribution to state tax revenues. So that its existence is needed and needed by the state and society. However, the satisfaction in maximizing profit by the company is reduced because of the obligation to pay taxes to the state. This condition creates a conflict of interest between the state and the company. The state views taxes as a corporate obligation and is the main source of state revenue, but companies view taxes as a burden that reduces net income. Theoretically, the purpose of the company is to maximize profit. This causes companies tend to look for ways to reduce the amount of tax payments,

Strategies that can be done for tax savings and are still in accordance with tax regulations (legal) are: tax avoidance(Suandy & Lukviarman, 2015). Tax avoidance is a tax avoidance effort that has an impact on tax obligations that is carried out in a way that is still within the tax provisions and does not violate the tax provisions that have been determined. The technique is carried out by exploiting weaknesses in tax laws and regulations to reduce the amount of tax payable so that transactions are not charged with the tax burden, the issue of tax avoidance is a complicated and unique issue because on the one hand tax avoidance does not violate the law (legal). , but on the other hand tax avoidance is not wanted by the government. Differences in the interests of the state that want large and sustainable tax revenues are in contrast to the interests of companies that want minimal tax payments. Differences in interests for the state and for companies will lead to non-compliance by

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corporate taxpayers which will have an impact on the company's efforts to carry out tax avoidance. Although literally no law has been violated, all parties agree that tax avoidance is something that is practically unacceptable. This is because tax avoidance has a direct impact on the erosion of the tax base, which results in reduced tax revenues required by the state. From a tax policy point of view, omission of the practice of tax avoidance can result in the realization of tax revenues not in accordance with the tax revenue target. This can be proven from the achievement of the realization of tax revenues that did not reach the target and even experienced a decrease in tax revenues.

Overall, the achievement of tax revenue from all sectors in 2019 has decreased, in this case tax revenue is on the threshold of a maximum of 92% not more than 95%. One of the factors in the occurrence of the difference in revenue is believed to be due to the efforts of the taxpayer in making tax paymentstax avoidance, namely corporate taxpayers. This indicates the existence of tax avoidance efforts or unpaid tax debts. One of the reasons why taxpayer compliance is very low is because taxpayers try to at least fulfill their tax obligations that must be paid by practicing tax avoidance. The development of tax avoidance practices is supported by advances in information technology which will provide opportunities for companies to expand their business overseas in the midst of increasingly fierce competition in the business world (Winata, 2014). One of the sectors indicated for tax avoidance is the construction sector company. There are several types of taxes allocated from the construction sector, one of which is the Final PPh tax.

The construction sector is one of the mainstay sectors to encourage economic growth and is always required to continue to increase its contribution through benchmarks to national GDP. In its development, construction sector activities have made a good contribution to the country's economic growth, including in contributing to GDP. With a large level of GDP indicates that the company can generate large profits. Companies with big profitswill have a large tax burden as well, thus enabling the company to carry out tax avoidance.

There is a case tax avoidance in Indonesia is the case of a company affiliated with a company in Singapore, namely PT RNI. In terms of capital, PT RNI relies on affiliate debt for a living. This means that owners in Singapore provide loans to RNI in Indonesia. The owner does not invest, but seems to give a debt. In the financial statements of PT RNI, the debt is recorded at Rp. 20.4 billion. Meanwhile, the company's turnover is only Rp. 2.178 billion. Not to mention there was a loss held in the same year's report worth Rp 26.12 billion. From the financial statements, it can be seen that the company is trying to reduce profits by increasing loans which later on interest payments can reduce taxes. Another phenomenon is that two former directors of a property company from Purwokerto were convicted by the Regional Office (Kanwil) of the Directorate General of Taxes (DGT) of Central Java II for allegedly evading taxes that cost the state Rp5.1 billion. Both are former directors of PT KJS. The two directors did not report the company's sales results properly. In fact, both of them have received guidance from the Purwokerto Primary Tax Office [KPP]. WP does not report actual sales value. For example, the actual sales value is higher than the sales value reported in the tax return. Another case of tax avoidance in Indonesia involves PT Bentoel Internasional Investama. PT. Bentoel Internasional Investama is the second largest cigarette company after HM Sampoerna in Indonesia. According to a report from the Tax Justice Network Institute on Wednesday, May 8, 2019, a tobacco company owned by British American Tobacco (BAT) carried out tax avoidance through PT Bentoel Internasional Investama by taking a lot of debt between 2013 and 2015 from an affiliated company in the Netherlands, namely Rothmans Far East BV. to refinance bank loans and pay for machinery and equipment. The interest payments paid will reduce taxable income in Indonesia, so that less taxes are paid as a result the country could suffer a loss of US$14 million per year. May

8, 2019 a tobacco company owned by British American Tobacco (BAT) carried out tax avoidance through PT Bentoel Internasional Investama by taking large amounts of debt between 2013 and 2015 from an affiliated company in the Netherlands, namely Rothmans Far East BV to refinance bank loans and pay for machinery and equipment . The interest payments paid will reduce taxable income in Indonesia, so that less taxes are paid as a result the country could suffer a loss of US$14 million per year. May 8, 2019 a tobacco company owned by British American Tobacco (BAT) carried out tax avoidance through PT Bentoel Internasional Investama by taking large amounts of debt between 2013 and 2015 from an affiliated company in the Netherlands, namely Rothmans Far East BV to refinance bank loans and pay for machinery and equipment . The interest payments paid will reduce taxable income in Indonesia, so that less taxes are paid as a result the country could suffer a loss of US$14 million per year.

II. Review of Literature

2.1 Tax Avoidance

Tax avoidance is a series of tax planning strategies, because economically it tries to maximize after-tax return (Prakosa, 2014). Tax Avoidance is an effort made within the company to reduce, avoid and alleviate the company's tax burden in a way that is allowed by tax laws. Tax avoidance actions for companies provide several benefits. With tax avoidance, the company will get greater tax savings. This can provide benefits for shareholders and company managers as decision makers. Tax avoidance is a way to avoid taxes legally and does not violate tax laws and regulations. This tax avoidance can be said to be a fairly complicated and unique issue because on the one hand it is allowed, but not desirable on the party concerned. Tax avoidance actions can provide benefits for the company because the company will not pay the tax burden, so that the resulting profit increases.

Tax is a compulsory levy paid by the people to the state and will be used for the benefit of the government and the general public. People who pay taxes will not feel the benefits of taxes directly, because the tax is used for public purposes, not for personal gain. Taxes are one source of government funds for development, both the central and regional governments. Tax collection can be forced because it is carried out according to the law. (Siregar, R et al. 2019)

Tax is a public contribution to the State treasury (transfer of private sector wealth to the law) based on the Act (can be forced) with no reciprocal services (tegen prestatie) which can be directly demonstrated and used to finance public expenditure (publieke uitgaven) (Marpaung, 2020). According to Soemitro quoted Mardiasmo (2011: 1) and Siti Official (2011: 6) that: "Tax is a public contribution to the state treasury based on the law (which can be forced) by not getting lead services (contra) which can be directly addressed and used to pay general expenditure ". (Hendayana, Y. et al, 2021)

2.2 Institutional Ownership

Institutional ownership is ownership of company shares owned by institutions or institutions such as insurance companies, banks, investment companies and other institutional ownership. These institutions are authorized to supervise the performance of management. Institutional ownership is divided into two types, namely majority ownership with institutions above 5% and minority ownership with institutions below 5%. Institutional ownership is one of the good corporate governance mechanisms that can reduce the problem of agency conflict between company owners and managers as stated in agency theory.

2.3 Profitability

Profitability is a company's ability to generate profits, Return On Assets (ROA) is one indicator that we can make a reflection of a company's net profit due to the use of assets. So, the high value of ROA has an impact on net income and the higher the profitability, the more opportunities to reduce the tax burden. Profitability is one of the determinants of the tax burden, because companies that have large profits will pay taxes every year (Rodriguez and Arias, 2013). Meanwhile, companies that have low profits or even suffer losses will pay less tax or not at all.

2.4 Sales Growth

Sales growth is an illustration of the increase in the company's sales from year to year. Sales growth aims to measure the revenue generated from sales and compare it from year to year whether it has increased or decreased. According to Widarjo and Setiawan (2009:112) sales growth reflects the company's ability to increase its sales from time to time. The higher the sales growth rate of a company, the company is successful in carrying out its strategy in terms of marketing and product sales. Companies that successfully carry out their targets and strategies, the company will get a higher profit, the higher the profit earned by the company, the higher the company will tend to do tax avoidance.

2.5 Leverage

Leverage is a ratio that serves to measure how far the company uses debt in financing. Leverage is the company's ability to meet its financial obligations, both short-term and long-term if a company is liquidated and is the use offunds from outside parties in the form of debt used to finance investments and assets. Debt to other parties will certainly cause interest expenses which will reduce the tax burden.

2.6 Hypothesis

Provisional assumptions from the results of this study can be described as follows:

H1: Institutional ownership affects tax avoidance

H2: Profitability has a positive effect and has an effect on tax avoidance

H3: Sales growth affects tax avoidance

H4: Leverage has a negative effect and has an effect on tax avoidance

H5: Price book value (PBV) has a partial effect on stock prices in coal mining sub-sector companies listed on BE

H6: Institutional ownership, profitability, sales growth, and leverage have a simultaneous effect on tax avoidance.

III. Research Methods

This type of research emphasizes the analysis of quantitative data which is then processed to produce conclusions. The population in this study is a construction company listed on the Indonesia Stock Exchange in the period 2017-2019 which consists of 18 companies. The sample selection used purposive sampling method, where the sampling was carried out with certain criteria that had been determined to be relevant to the research objectives. The data criteria used as samples are as follows:

1. Construction Subsector Companies that are listed on the IDX in 2017-2019 and are not delisted during the research observation period.
2. Construction Subsector Company that publishes financial statements ending on December 31 and complete with data related to the variables in the study.

3. Construction Subsector Company that publishes financial reports in rupiah currency.

Based on these criteria, the sample that can be used is 16 construction companies that consistently publish annual reports during the 2017-2019 period. The type of data used is panel data (pooled data), with penel data regression analysis method. Hypothesis test consists of partial test and simultaneous test.

IV. Result and Discussion

4.1. Chow Test

The Chow Test is a test used to determine whether the Pooled Least Square (PLS) or Fixed Effect Model (FEM) model will be selected for data estimation. The Chow test is used to find out which Pooled Least Square (PLS) or Fixed Effect Model (FEM) model will be selected for data estimation that can be done with the F test. If the calculated F value is greater than F table at certain constants, then the selected model is FEM models. Here are the results of the Chow test in this study.

Table 1. Chow Test Results

Redundant Fixed Effects Tests
Equation: FIXED_EFFECT_MODEL
Test cross-section fixed effects

Effects Test	Statistics	df	Prob.
Cross-section F	6.227789	(15.28)	0.0000
Cross-section Chi-square	24.261967	15	0.0000

Source: Test Results (2021)

Based on table 1, the estimation results of the Chow test show that the F-statistics and Chi-square values are significant at 0,0000. Based on the hypothesis if accepted H0 = PLS (probability > (0.05)) and if accepted Ha = FEM (probability < (0.05)). In this case, it can be concluded that the model chosen is the Fixed Effect Model (FEM). This is based on the F-statistical value of (0.0000) <0.05 so that Ha is accepted by the FEM model. The next step is to continue testing with the Hausman test.

4.2. Hausman Test

This test is conducted to determine whether the Fixed Effect or Random Effect model will be selected. If the Hausman test accepts H1 or p value <0.05 then the method used is FEM, otherwise if the Hausman test accepts H0 or p value >0.05 then the method used is REM. The following are the results of the Hausman test in this study:

Table 2. Hausman Test Results

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Cross-section random	19.0940437	5	0.0153

Source: Test Results (2021)

Based on the output of the Hausman Test in table 2 which shows that the Chi-Square statistic in the Hausman Test is significant. These results indicate that the Chi-Square Statitic value is greater than the Chi-Square table 19.0940437 > 9.49) and the probability value is 0.0153 < 5%, then H0 is rejected and H1 is accepted, so it can be concluded that the Fixed Effect Model is chosen so that the model chosen is The most appropriate method used in this analysis is the Fixed Effect Model (FEM).

4.3 Hypothesis Testing

a. T Test (Partial Test)

Based on the results of the Chow Test and Hausman Test in table 4.2 and table 4.3, the most appropriate model used in this study is the Fixed Effect Model (FEM). The following output results obtained from the regression estimation for profitability can be seen in table 3:

Table 3. Partial Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.050844	0.005557	5.235024	0.0000
KI	-0.045586	0.122887	-4.533715	0.0002
ROA	0.020366	0.221819	0.042631	0.0356
SG	0.063488	0.000286	0.016784	0.0138
LEV	-0.050045	0.084746	-4.681384	0.0000
Cross-section fixed (dummy variables)				
R-squared	0.801181	Mean dependent var		0.311949
Adjusted R-squared	0.714198	S.D. dependent var		0.875255
S.E. of regression	0.827729	Akaike info criterion		1.596343
Sum squared resid	7.40542	Schwarz criterion		1.871896
Log likelihood	-54.01405	Hannan-Quinn criter.		1.700035
F-statistic	19.210757	Durbin-Watson stat		1.811816
Prob(F-statistic)	0.000000			

Source: Test Results (2021)

b. The Effect of Institutional Ownership (KI) on Tax Advoidance (ETR)

From the results of hypothesis testing which shows that the Institutional Ownership (KI) variable has a coefficient value of -0.045586 and a Profitability value of 0.0002 (smaller than =0.05). This means that Institutional Ownership (KI) has a negative and significant effect on profitability (ROE). This value can be interpreted when the Institutional Ownership (KI) variable increases by 1%, the profitability (ROE) variable tends to decrease by 0.045586 (in percent). Based on this, Hypothesis 1 is proven. The results of this study are consistent with the results of research fromPuspita, Silvia Ratih and Puji Harto (2014). explained that the amount of institutional ownership has a significant negative effect on Tax Advoidance. In his explanation, this is because institutional ownership is divided into two types, namely majority ownership with institutions above 5% and minority ownership with institutions below 5%. Institutional ownership is one of the good corporate governance mechanisms that can reduce agency conflict problems between company owners and managers as stated in agency theory. This condition can certainly reduce the level of tax avoidance. Thus the analysis that can be given is that very high Institutional Ownership (KI) will reduce the company's profitability due to increased tax avoidance.

c. Effect of Profitability (ROA) on Tax Advoidance (ETR)

From the results of hypothesis testing which shows that the Profitability (ROA) variable has a coefficient value of 0.020366 and a probability value of 0.0356 (smaller than =0.05). This means that Profitability (ROA) has a positive and significant effect on Institutional Ownership (KI)). This value can be interpreted when the Profitability variable (ROA) increases by 1%, the profitability variable (ROE) tends to increase by 0.0356 (in percent). Based on this, Hypothesis 2 is proven. The results of this study are consistent with the results of research from Dewinta and Setiawan (2016) that the higher the return on assets, the greater the profit obtained by the company and vice versa, so that the higher the ROA level, the higher the company's profit so that the tax charged by the companywill be higher, so the company will take tax avoidance actions.

d. Effect of Sales Growth (SG) on Tax Advoidance (ETR)

From the results of hypothesis testing which shows that the sales growth variable has a coefficient value of 0.063488 and a probability value of 0.0138 (smaller than = 0.05). This means that sales growth has a positive and significant effect on profitability (ROE). This value can be interpreted when the growth variable increases by 1%, the profitability (ROE) variable increases by 0.063488 (in percent). Based on this, Hypothesis 3 is proven. The results of this study are consistent with the results of research byHanafi, Umi and Puji Harto (2014). The company can predict how much profit will be obtained by the amount of sales growth. If the sales growth of a company has increased from year to year, then the company has good prospects. If the level of sales increases, then the tax avoidance increases. This happens because if sales increase, it will increase profits so that it has an impact on the higher tax costs to be paid. Therefore, the company will do tax avoidance so that the company's tax burden is not high.

e. The Effect of Leverage on Tax Advoidance (ETR)

From the results of hypothesis testing which shows that the Leverage variable has a coefficient value of -0.050045 and a probability value of 0.0000 (smaller than = 0.05). This means that Leverage has a negative and significant effect on profitability (ROE). This value can be interpreted when the growth variable increases by 1%, the profitability (ROE) variable increases by -0.050045 (in percent). Based on this, Hypothesis 3 is proven.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 arising from the debt. The higher interest costs will have the effect of reducing the company's tax burden. Research on leverage that has been studied includes Swingly and Sukartha (2015), regarding the effect of leverage on tax avoidance which states that leverage has a negative effect on tax avoidance. This explains that the higher the value of the leverage ratio, the higher the interest costs arising from the debt which will have the effect of reducing the company's tax burden.

f. F Test (Simultaneous Test)

The F test is a simultaneous regression relationship test with the aim of knowing whether all independent variables together have a significant effect on the dependent variable. The hypothesis (H0) with the condition (Prob F.Statistic > 0.05) is a hypothesis that shows no effect, while the hypothesis (Ha) with the condition (Prob F.Statistic <0.05) is a hypothesis that shows an effect. The following are the results of the T-Test (Simultaneous Test):

Table 4. Simultaneous Test Results

F-statistics	3.297862
Prob(F-statistic)	0.017686

Source: Test Results (2021)

Based on the estimation results using the Fixed Effect Model (FEM), the Prob value (F-statistic) is 0.000012 <0.05. In accordance with the hypothesis, (H0) is rejected and (Ha) is accepted, which means that the independent variables (Institutional Ownership, Profitability, Sales Growth and Leverage simultaneously or jointly have a significant effect on the dependent variable Tax avoidance (ETR).

V. Conclusion

Based on the results of data analysis and data discussion that has been described in the previous chapter on the Analysis of the Effect of Institutional Ownership, Profitability, Sales Growth and Leverage on Tax Avoidance in Construction Subsector Companies listed on the Indonesia Stock Exchange in 2017 – 2019". It can be concluded that:

1. The results of the study indicate that institutional ownership variables have a positive and significant influence on tax avoidance in Construction Subsector companies listed on the Indonesia Stock Exchange (IDX).
2. The results of the study indicate that the profitability variable has a positive and significant influence on tax avoidance in Construction Subsector companies listed on the Indonesia Stock Exchange (IDX).
3. The results show that the sales growth variable has a positive and significant effect on tax avoidance in the Construction Subsector companies listed on the Indonesia Stock Exchange (IDX).
4. The results showed that the leverage variable had a negative and insignificant effect on tax avoidance in the Construction Subsector companies listed on the Indonesia Stock Exchange (BEI from =0.05)
5. The results showed that out of 16 companies, 11 companies had high tax avoidance levels and 5 other companies had low tax avoidance levels.

Based on the results of the research that has been done, suggestions or input can be given as follows:

1. Future research is expected to use different variables that can detect tax avoidance or add other variables that can trigger tax avoidance factors in companies. because it is very possible that other financial ratios that are not contained in this study have an influence on Tax Avoidance, for example, such as tax incentives, corporate social responsibility (CSR), and fiscal loss compensation.
2. Further research can use other analytical techniques such as ARDL panel analysis (Autoregressive Distributed Lag) which can also be used to obtain a comprehensive picture of the influence between independent variables on tax avoidance and also to determine the correlation value between variables.
3. Further researchers can use measurements other than ETR (Effective Tax Rate) in measuring tax avoidance (tax avoidance), because the measurement of tax avoidance is very diverse, not only ETR, but also CETR (Cash Effective Tax Rate) and BTD (Book Tax Difference).

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