Earnings, Leverage, and Deferred Tax on Tax Penalties and Fines (Case study in Indonesia)

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ABSTRACT
This study aims to determine the Penalties and fines affected by deferred taxes, earnings, and leverage. The research sample is an agricultural and plants Company listed on the Indonesia Stock Exchange in year 2009 until 2014. Observation research method used is multiple regression analysis. Based on the research results, earnings affect fines and tax penalties. The tax authorities need the data of earnings in the inspection process before creating sanction and tax penalties. Deferred tax and Leverage do not affect fines and tax penalties.

Keywords: fines, penalties, deferred tax, leverage

INTRODUCTION

Many cases concerning tax arrears made by many large companies in Indonesia both BUMN (Companies owned by Government) and private companies, estimated arrears of these companies close to 17.5 trillion (Aris, 2010). The numbers of these cases indicate that the level of awareness and taxpayer compliance is still low especially corporate tax payers.

Tax compliance is associated with tax penalties and tax fines. Fines and tax penalty depends on the results of checks carried out by inspectors of taxes (tax authorities).

Companies do not comply also got a negative reaction from the public as a stakeholder. The public would react negatively to the companies (Scott Dyreng, 2014). Non-compliance Taxpayer will lead to costs associated and the reputation will decrease (John Gellemore, 2013).

Decisive action from the taxation authorities such as inspection and tax collection is needed to reduce the non compliance tax payers, so income tax revenue would be optimal and increased. Tax audit helps improve formal and material compliance of tax payers. According Agusti and Herawaty, 2009) state, non compliance the taxpayer will evolve so it can reach a level the tax system is paralyzed. The results of the tax inspection are the issuance of tax bills.

As stipulated in Law No. 28 of 2007 which is a revision of Law No. 16 of 2000 on General Provisions and Tax Procedures, which in Article 29 paragraph (1) that "the Director General of Taxation is authorized to conduct an audit to verify compliance taxpayers and for other purposes in order to implement the statutory provisions of tax. Taxpayer's compliance is willing to meet his tax obligations, Harinurdin (2009) as quoted from Simon (2003). Financial conditions will affect the payment of taxes if experiencing financial difficulties will feel depressed when they are required to pay their obligations, including taxes (Torgler, 2003).

Financial pressure as a source of pressure for the tax payer (Bloomqis, 2003) and he also argues that taxpayers who have limited income might avoid paying the tax if the taxpayer's financial condition is bad. This indicates that compliance behaviors, comply with tax obligations depends among others on financial condition. Tax compliance is to report all assets of the taxpayer were recorded at the appointed time and returns reports accurate tax

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liability in accordance with the entry codes, regulations and court decisions determination at the time of the recording (Nasucha, 2004).

Research in the field of taxation that examines the amount of penalties and fines are still very rare because of the data are very limited and difficult to access. Based on the above researchers are motivated to conduct research whether the company's profit before reconciliation and deferred tax will affect the Tax Penalties and Fines.

THEORETICAL BACKGROUND

Taxes are compulsory contributions to the state treasury are something that must be upheld sustainability, good adherence to the community in paying the tax, or the accuracy of the calculation of the tax itself. Payment of taxes in Indonesia for the state treasury is about 75 % of the amount of cash available.

IAS also regulated the issue of tax calculation. Not only that, in the development of the Directorate General of Taxation issued a regulation on the calculation of tax, where the tax base, especially in the business unit Financial Reports Fiscal use, meaning that the financial statements prepared by business unit is then corrected by the rules applicable taxes.

Developments in the financial statements emergence treatment of commercial and fiscal experience various problems that arise as a result of the development of the rule of taxation itself, SFAS No. 46 of the income tax which gave rise to some differences in the recognition and implementation.

Deferred taxes (IAS 46)

Deferred tax is, in principle, is the impact of income tax in the foreseeable future due to temporary differences (time) between the accounting and taxation as well as tax losses can still be compensated in the future (tax loss carry-forward) that need to be presented in the financial statements.

Impact of income tax in the future that need to be recognized, calculated, presented and disclosed in financial statements, both the balance sheet, profit and loss. A company may pay less tax today, but it actually has the potential for greater tax liabilities in the future. Or conversely, could have the company pay more taxes today, but it actually have the potential for a smaller tax liabilities in the future. When the impact of future tax is not presented in the balance sheet and profit and loss, the financial statements may be misleading.

Deferred taxes are classified into deferred tax liabilities and deferred tax asset. The deferred tax liability is the amount of income tax payable in future periods as a result of taxable temporary differences while deferred tax assets is the amount of income taxes recoverable in future periods as a result of:

1. The deductible temporary differences
2. The tax losses have not been compensated
3. Accumulated tax credit has not been utilized.

In terms of tax regulations allow. Tax expense is the aggregate amount of current tax and deferred tax are taken into account in determining profit or loss in the period. Accounting profit is profit or loss for a period before deducting tax expense. Taxable income (tax loss) is the profit (loss) for the period is calculated based on regulations set by the Tax Authority on income tax payable (settled).

Final income tax is tax obligations have been completed and income subjects to final income tax are not combined with other types of income. Taxable income is not final. This kind of tax can be imposed on the type of income, transaction, or certain business.

Current tax is the amount of income tax payable (paid) on the taxable income (tax loss) for the current period. Temporary differences are differences between the carrying

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amounts of assets or liabilities on the financial position and their tax bases. Temporary differences can be:

1. The taxable temporary differences are temporary differences that give rise to taxable amount in calculating taxable income (tax loss) future periods when the carrying amount of the asset or liability is realized or settled.
2. The temporary differences are deductible temporary differences that give rise to the amount that can be deducted in the calculation of taxable income (tax loss) future periods when the carrying amount of the asset or liability is realized or settled.

Permanent differences and temporary differences in tax

a. Permanent differences

Permanent differences are differences in the recognition of tax arising due to transactions recognized income and expense for accounting purposes are not recognized by commercial and fiscal. Where the recognition as it is usually contained in this categories:

1. According to the commercial accounting is in accordance with the provisions of the income while the income tax is not an income. For example dividends received by the Company Limited as a taxpayer in the country of equity of 25% or more in the business entity established and domiciled in Indonesia. (Article 4 paragraph 3 of the Income Tax Law).
2. According to the commercial accounting earnings, while according to the income tax provision has been subject to income tax that is final. This income is taxed separately (final) so separated (do not need to be merged) with other income in calculating income tax payable.
3. According to the commercial accounting expense (costs), while according to the provisions of income tax can't be imposed (Article 9 of Law No. 17, 2000), for example, the costs of which, according to the provisions of income tax can't be charged because it does not meet certain conditions.

b. Temporary Differences

Temporary difference is the difference that occurs because of differences in the recognition of fiscal time and expense in calculating profit. As for the elements that become the object while the difference is

a) Method of Depreciation or Amortization
b) Inventory valuation method
c) Allowance for doubtful accounts
d) Loss-gain on foreign exchange
e) Compensation Losses
f) Provision for bonuses

Deferral methods of income tax

a. Deferred Method

This method uses the approach of income (Income Statement Approach) which looked at the differences between the accounting and tax treatment from the standpoint of the income statement, when a transaction is recognized in the income statement in terms of both commercial and fiscal. This approach is familiar with the term and the time differences permanent differences. Results count of this approach is that the movement will be recognized as deferred tax in the income statement. This method emphasizes the matching principle in the period of the difference.

b. Asset-Liability Method

This method uses a balance sheet approach (Balance Sheet Approach) which emphasizes the usefulness of financial statements in evaluating the financial position and

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predicted cash flow in the future. Balance approach looks at the diversity of accounting and taxation treatment from the standpoint of balance, the difference between the balance of commercial and tax bases. This approach is familiar with the term temporary differences and non-temporary differences.

c. Net-of-Tax Method

This method is no deferred tax is recognized. Tax consequences of temporary differences are not reported separately otherwise, treated as an adjustment to the value of a particular asset or liability and income or expense associated. In this method, income tax expense presented in the income statement equal to the amount of income tax payable according to the annual tax return.

a. Recognition

Standard which stipulates that income tax effects of temporary differences and tax loss carry forward (TLCF) or compensation for loss shall be recognized in the financial statements. This recognition implies that the reporting entity will recover the carrying value of deferred tax assets or deferred tax assets (DTA) and will pay off in the carrying value of deferred tax liabilities or deferred tax liability (DTL).

b. Measurement

How to calculate the amounts will be recorded in the books of the companies. In this case the deferred tax will be calculated using the applicable rates will be valid or effective in the future.

c. Presentation

Standards will determine how the presentations in the financial statements, either in the balance sheet or profit and loss. Deferred tax assets (DTA) or deferred tax liabilities (DTL) must be presented separately from current tax assets or liabilities and are presented in non-current elements in balance.

d. Disclosure

Standards related to the information that needs to be disclosed in the notes financial .Such as main elements of temporary differences that give rise to deferred tax, the elements charged directly to retained earnings, changes in tax rates and so forth.

Deferred tax, Tax Fines and Penalties

Recognition of deferred tax asset or liability based on the fact that the possibilities of recovery of assets or settlement of liabilities that result in future tax payments becomes smaller or larger. But, if there will be larger tax payments in the future, based on financial accounting standards should be recognized as a liability.

In giving the notion that there are outside influences that affect the financial statements of the relevance of the value of deferred tax (Chludek, 2011). The application of good tax planning can successfully save on taxes and increase the performance of the company to manage the tax saving obtained for programs that benefit the upgrading of employees in the future (Ampa, 2011).

Effect of Deferred Tax Company shows the company's ability to obtain lower profits resulting greater the possibility of the company to default due to inability to pay long-term liabilities in the future.

H1: Deferred tax has effect on the company tax penalties and fines.

Earnings and the Tax Penalties and Fines

Earnings are the total company profit before income tax expense. Earnings are the basis for the calculation of taxable income (PhKP). In accordance with SFAS 46, the following will be obtained fiscal reconciliation of taxable income. Various positive and

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negative corrections performed on revenues and expenses will determine the amount of taxable income (PhKP) company

Fines and Penalties Tax effect on tax compliance, fines and penalties appropriate tax will increase the compliance of the taxpayer (Doran, 2009). Penalties and fines lightweight tax is not effective to prevent the taxpayer to manipulate earnings in this case is lowered earnings to obtain a small tax payable (Craig M Boise, 2005).

H2: Earnings have affect on Corporation Tax Penalties and Fines.

Leverage and Tax Penalties and Fines

Companies using debt has a higher company value than the company do not owe. This can happen because of the tax shield (tax deduction) which can save tax payments (Modigliani and Miller, 1958). In addition the company's decision to use the financial funding the company through debt will also increase leverage which will also be improved the company's financial risk.

The company will increase the debt if the tax savings outweigh sacrifice. The use of the debt itself will be stopped if there has been a balance between austerity and sacrifice as a result of the use of the debt own (Brealey, 2009) In acquiring the debt, the company will involve costs that will raises the cost of debt (cost of debt). Cost of debt is the interest rate creditors accepted as the required rate of return. Cost of debt is the rate of return before taxes that companies pay to the grantor loan. the cost of debt determined by the riskless rate, which increased riskless rate will increase the cost of corporate debt, where rising default risk of companies going increase the cost of borrowing money (Damodaran, 2002).

The relationship between tax evasion and debt costs. Results of research conducted to prove that the relationship between tax avoidance and cost of debt is negative and the relationship will be further strengthened by institutional ownership (Graham and Tucker, 2006). The same was done by Lim (2010) to take samples of the company the companies in Korea. The results of research conducted to prove that, the tax evasion and debt costs of substitutes that will increase financial slacks of lower the cost of bankruptcy, and have a default risk low, thereby decreasing the cost of debt.

The results of research conducted by Kholbadalov (2012) in line with research conducted by Lim (2010) where tax avoidance is negatively related to the cost of debt and substitutive. The results of these studies are consistent with the trade-off theory and with research done Graham and Tucker (2006) and Lim (2010)

H3: Leverages affect on tax Penalties and tax Fines.

RESEARCH METHODOLOGY

Methodology

This study uses a quantitative method in using multiple linear of regression. The study was conducted by using secondary data obtained from the end of the financial reports the company from 2009 until 2014.

Types and Sources of Data

The data used in this research is secondary data. Sources of data obtained from the company Financial Statements of Agriculture from 2009 through 2014 are listed in the Indonesia Stock Exchange

Sample Research

The sample was a company that was classified as agricultural by-year observations from 2009 through 2014. Researchers only take companies that downloading penalties and

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tax penalties disclose in its financial statements for 5 years. Samples have been because researchers found that many companies are engaged in agriculture are exposed, fines and tax penalties. Many agricultural products are not subject to tax or taxed 0%, but not all. Taxpayer in agriculture had to be extra careful to carry out tax obligations. If not careful they will be exposed to fines and tax penalties.

The Research Variables

Conceptual Definition Fines and tax penalties are penalties and fines set by the Directorate General of taxes because the company does not comply into the applicable tax regulations. Operational Definition In this study, Fines and Penalties taxes taken from the company's financial statements from 2009 until 2014

Comprehensively profit is the company's total earnings derived from operations and non-operational prior to the calculation of corporate tax. Operational Definition In this study, a comprehensive profit taken from company financial reports from 2009 through 2014

Deferred tax Conceptual Definition is the effect of tax adjustments recognized in Income Tax Expense coming period. Operational Definition in this study deferred tax is measured by measured by a deferred tax contained in the Financial Report 2009-2014.

Data Analysis Techniques

Sugiyono (2013: 29) Descriptive statistics are statistics that serves to portray the object under study through a data sample or population existence. Descriptive statistics were used in this study is to provide an overview or a description of the data that is visible from the mean, standard deviation, maximum and minimum.

Classical Assumption Test

Normality Test, According Sarjono (2011: 53) Normality test aims to determine whether or not a normal distribution of data. Normality Test to test whether the regression model, the residuals have a normal distribution.

Multicollinearity Test

Multicollinearity test aims to test whether there is a relationship between the independent variables (independent) in the regression model. Multicollinearity is a very high correlation or very low that occurred in the relationship between the independent variable.

Test Autocorrelation

Autocorrelation test aims to test whether the linear regression model is no correlation between bullies error in period t with bullies error in period t-1 (previously).

Heteroscedasticity Test

According Ghozali (2011: 139) heteroscedasticity Test aims to test whether the regression model occur inequality residual variance from one observation to another observation. If the variance of the residuals of the observations to other observations remain, then there homoscedasticity and if different is called heteroscedasticity.

Multiple Linear Regression Analysis

Result and Discussion

Classic assumption test shows that the data has passed all test the classical assumption of normality test with indicator that the value Kolgomorov Smirnov (K / S) with a value of 0.95 means that the significance of the data has been distributed to normal. Autocollinearity test indicator visible from DW value of 1.745 means that the data is free from the problem of

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auto collinearity. A Value of TOL(Tolerance) smaller than 1 and a value of VIF below 10, meaning that the data is free from the problems of multicollinearity. Heteroscedasticity test visible indicator that the value is far above the 0.05 significance so that it can be said that the data had been passed from heteroscedasticity.

Earnings, Fines and Penalties

Results of regression seen the value of t statistic = 2.879 with significance level of 0.008 means very strong effect of Earnings to the amount of penalties and tax penalties. Gain coefficient 0.544 is a comprehensive means positive significant effect on the amount of penalties and fines received by the Company, each increase of 1 unit of Earnings will lead to increased fines and a fine of 0.544 units.

Deferred tax, Fines and Penalties

Regression test results show the value of t statistic = -1.53 with significance level of 0.13 means deferred tax does not affect the amount of tax penalties and fines received by the company. Although approaching the 10% significance level, results show that deferred tax are not used as main information by tax officer when they set a firm Tax Penalties and Fines.

DISCUSSIONS

Earnings Taxes and Penalties and Fines

Statistics test showed that the profit comprehensible is a predictor for the amount of penalties and tax penalties. From these results it can be said that tax inspectors use a comprehensive profit of the company as a base for tax audits. Companies tend to reduce the taxable income for the company to reduce the amount of tax payable on the company, results of statistical tests also show the relationship of Earnings and Magnitude Fines and Penalties had positive direction which means the greater of comprehensive income, the greater the tax penalties and fines.

Fines and Penalties taxes only occur if companies do not comply in performing their tax obligations, especially in calculating how the amount of its taxable income (PhKP) of the test results shows that the company tends to reduce the amount of its taxable income looks of existing fines and fines. Taxable income will change during fiscal reconcile process. Fiscal reconciliation with no positive correction or wrong in doing positive correction would cause taxable income to be smaller than it should be. Fiscal correction can be permanent and can also be temporary.

This study also indicates that the error in the fiscal correction that most influence on Fines and Penalties are permanent fiscal correction, which the companies have the big profits tend too much to make corrections that are negative, causing the amount of its taxable income to be small.

Deferred tax and Tax Penalties and Fines

The test result shows that the deferred tax statistic was not a predictor for the amount of fines and tax penalties. The results could indicate two things: The first indication is that the company does not have any obstacle in its calculation of deferred tax. The company has been a common understanding in the calculation of deferred tax to the general provisions of the applicable tax. The results also may also indicate that the tax audit has not focused on differences in the recognition of tax, but only on the amount of tax the amount becomes due.

Fines and Penalties taxes will arise from the condition are: recognition of the amount of their income that is not appropriate or less according to the general taxation provisions and the timing of the recognition of taxable income that is not in accordance with the general

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provisions of taxation therefore inspectors should also pay attention and focus on the timing of the recognition of income taxable in accordance with the mandate of the provisions of the applicable tax laws.

CONCLUSION

Deferred tax has no effect on the amount of tax fines and tax penalties. Based on the results of the study, found that the deferred tax no significant effect on tax penalties and fines, these results indicate that the deferred tax is not used as a reference to fines and penalties.

Results also proved that Leverage no significant effect on the sanction and penalty taxes, this indicates that the leverage is not used as a reference to sanction and penalty taxes.

The results also show that the effect on the earnings tax penalties and fines, these results indicate that earnings become an important factor in the fines and penalty taxes. The tax authorities are very dependent on the earnings in the process of tax audits.

SUGGESTED FURTHER RESEARCH

1. Researchers can further develop this research by developing existing samples for other industries that have a poor track record in the field of taxation
2. Subsequent research can sort the deferred tax is appropriate or that are still not in accordance with the general provisions of taxation so it can be more if the effect of deferred tax on the magnitude of Fines and Penalties to be more specific.

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