TAX MANAGEMENT IN INDONESIAN MANUFACTURING COMPANIES BEFORE AND AFTER TAX AMNESTY

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ABSTRACT

This research aims to examine the influence of capital intensity ratio, leverage, and management compensation towards the tax management with the profitability as a moderating variable and to determine differences in tax management before and after the tax amnesty. The population of this research is all manufacturing companies listed on the Stock Exchange in 2018. The sample used in this study is selected using the purposive sampling method to obtain 22 sample companies. This research uses moderate regression analysis (MRA) and difference test (t-test related sample) using IBM SPSS 21. The results show that the capital intensity ratio has a positive influence, leverage has a negative influence, and management compensation has no effect on the tax management. Profitability is proven to moderate the effect of capital intensity ratio and leverage but it has not been proven to be able to moderate the influence of management compensation towards the tax management. This research also shows that there are no significant differences in the tax management before and after the tax amnesty.

Keywords: Capital Intensity Ratio, Leverage, Management Compensation, Tax Management, Profitability.

INTRODUCTION

Tax is one of the costs that arise in the operational activities that have an impact on the reduction in net profit earned by the company. This assumption encourages the use of various methods and policies that can reduce the tax payments to be as minimum as possible, and one of which is tax management. Tax management is an activity carried out by the company to minimize its tax burden through certain ways that do not violate tax regulations to get maximum profit. The tax management must be done properly and correctly, so that the practice does not lead to violations of existing taxation rules.

One of the corporate tax subjects in Indonesia is the company, so that when it receives income, it will change its taxation status to become a taxpayer. The company is given the freedom to determine its own accounting policies taken to minimize the tax burden. This makes the company may make mistakes in making existing accounting policies. Mistakes in the policies will affect the high tax burden that can be borne, even can be an act of tax violations.

PT Asian Agri Group is a company involved in tax violation cases in Indonesia. The news quoted on Kompas.com page 24/01 (2014) explained that PT Asian Agri Group always conducted tax planning meetings every year. The tax planning done by the company was

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inaccurate and categorized as tax evation. Darmin Nasution as Director General of Tax, reported from the page Liputan6.com (2007), added the embezzlement practice was carried out by the company by raising a number of costs to reach 1.5 trillion rupiahs, reporting fictitious export transaction losses of 232 billion rupiahs and lower sales results of 889 billion rupiah. PT Asian Agri Group was suspected to have embezzled income tax for the business entity worth 2.62 trillion rupiah on its annual tax report during the period 2002-2005. The company must pay the state treasury 2.5 trillion rupiah (Kompas.com, 2014). This shows that improper tax management actually gives a loss to the company. It requires appropriate accounting policies to carry out tax management practices that can benefit it.

Putri & Lautania, (2016) examined the influence of profitability towards ETR using the data from some manufacturing companies in Indonesia in the period 2011-2014. The results showed that profitability has a significant positive effect on ETR. This finding is in line with (Richardson & Lanis, 2007; Irawan & Farahmita, 2012). The research conducted by Salaudeen (2017) and Putri & Suryarini (2017) showed that the profitability has a negative effect on ETR. Dharma & Ardiana (2016), Delgado et al. (2014), and Turyantini (2017) found a significant positive relationship between leverage and effective tax rates for IDX-listed manufacturing companies in 2012-2014. This is contrary to the results of research by Roifah et al. (2015) and Putri & Suryarini (2017) who found evidence that the leverage does not affect the effective tax rate.

Ain & Subardjo (2015) who used all companies in the manufacturing sector 2011-2013 as the research objects found a significant positive relationship between the director's compensation and effective tax rate. This is supported by the research of Irawan & Farahmita (2012), Sudirjo, (2020), Armstrong et al. (2015) and Huseynov & Klamm, (2012) who found a significant negative effect between the directors compensation on the tax management. This result contrasts with Zulma & Martani (2015) and Apriliyana & Suryarini (2018), and Armstrong et al. (2012) stating the existence of a positive and significant effect of management compensation on the tax management. Delgado et al. (2014) and Darmadi & Zulaikha (2013) prove that the capital intensity ratio has a positive and significant effect on ETR. Putri & Lautania (2016), Lahav & Salganik-Shoshan (2016), and Richardson & Lanis (2007) in their research found a significant negative relationship between the capital intensity ratio and ETR

This research aims to determine the role of profitability in moderating the influence of capital intensity ratio, leverage, and management compensation on the tax management and find evidence of differences in the tax management before and after tax amnesty. This research is expected to provide input for the companies to implement certain strategies and policies, so that their tax management practices can be carried out effectively according to their capacity and capability, especially strategies related to capital intensity ratio, leverage, management compensation, and profitability. The originality of this research is demonstrated by the presence of profitability as a moderating variable. This research is interesting with the comparison of tax management practices in the manufacturing companies listed in IDX before tax amnesty from 2014 to 2015 and after the tax amnesty from period 2016 to 2017.

LITERATURE REVIEW

The positive theory was first put forward by Watts & Zimmerman in 1986. This theory explains one of the hypotheses namely the political cost hypothesis that when the companies are confronted with political costs, their management tend to use accounting policies that will reduce profit reporting in the current to the upcoming period. This profit reduction technique is carried

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out to minimize the political costs in form of tax that must be borne by the company (Watts & Zimmerman, 1989).

The agency theory first was first proposed by Jensen & Meckling who explained the relationship between the agent and the principal. Agency theory states that the agent does not always act according to the interests of the principal. Conflicts of interest occur between the management as the agent and shareholders as the principals, so that in order to reduce this conflict, it is necessary to align the interests between them (Jensen & Meckling, 1976).

Capital intensity ratio is a ratio that can be used to see how much fixed assets owned by the company and shows its efficiency in utilizing its fixed assets to earn optimal revenue. Positive accounting theory explains that if a company is confronted with political costs such as taxes, then the company will tend to use accounting policies that can reduce current period profit reporting. Fixed assets can be used for the tax management where they generate depreciation which can be a deduction from taxable income in accordance with applicable tax rules. Roifah et al. (2015) found that the capital intensity ratio has a significant positive effect on the tax management. These findings are supported by the research of Putri & Lautania (2016), Lahav & Salganik-Shoshan (2016), and Richardson & Lanis (2007).

H1: Capital intensity ratio significantly and positively influences the tax management

Leverage is a ratio that can show the level of debt used by a company to finance its operational activities. Positive accounting theory explains that if the companies are faced with political costs, they will tend to use accounting policies that can reduce reported profits. The corporate debt can be used by to reduce the tax burden borne by the company. Interest costs arising from the debt can be used to reduce taxable income in accordance with the tax regulations. Imelia et al. (2015) found evidence that leverage has a significant positive effect on the tax management. The result is supported by research by (Richardson & Lanis, 2007; Lahav & Salganik-Shoshan, 2016; Turyantini, 2017; Noor et al., 2010).

H2: Leverage significantly and positively influences the tax management

Management compensation is the compensation given by the company its employees outside the main salary. Agency theory reveals that the conflicts between management and shareholders or company owners occur due to differences in interests between them. Management compensation, in the form of shares, is expected to unify the interests between the executives and shareholders (Zulma & Martani, 2015). This compensation is expected to improve the management performance through the tax management, so that the welfare of shareholders can also be improved.

The losses suffered by the company will also have an impact on the return of shares received by the management, so that they will perform tax management to maintain optimal profits. Minnick & Noga (2010) and Zulma & Martani (2015) showed that the management compensation has a significant positive effect on the tax management. This is supported by the research conducted by Armstrong et al. (2012) and Jihene & Moez, (2019), where there is a relationship between the compensation received by management and low corporate taxes.

H3: Management compensation significantly and positively influences the tax management

Fixed assets generate depreciation expense which can be used as an effort to manage the corporate tax. Profitability describes the company's ability to obtain a return on the effectiveness

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of its business. Those that have high level of profitability tend to have high pre-tax profits. The political cost hypothesis in positive accounting theory explains that the companies which are faced with political costs such as taxes will tend to make efforts to minimize their profits reporting, so that the political costs they bear are getting lower. This encourages them which have high profitability level to carry out the tax management practices, so that their tax payments become low by investing profits earned on the fixed assets (Roifah et al., 2015). Fixed assets experience depreciation each period, and the depreciation can be used to minimize the corporate tax payments, so that the profitability is able to strengthen or moderate the effect of capital intensity ratio on the tax management.

H4: Profitability significantly moderates the positive influence of capital intensity ratio towards the tax management

Profitability is a ratio that can describe a company's ability to obtain return on its resources. Positive accounting theory explains that the companies faced with political costs in the form of tax payments to the government will tend to shift the profits of the current to the future period. Those having high profitability will tend to carry out tax management so that they can enjoy the maximum profits they get. One of the efforts of tax management can be done through the debt

The corporate debt incurs interest expense every period. This can be used by the companies to reduce their tax payments. Profitability affects the corporate debt decisions as a tax management effort. Roifah et al. (2015) stated that the companies with high profitability do not worry about the risks arising from debt because they feel that they are able to pay the fixed costs arising from the corporate debt, so that the profitability moderates or strengthens the effect of leverage on the tax management.

H5: Profitability significantly moderates the positive influence of leverage towards the tax management

Profitability is a ratio that can describe a company's ability to earn profits through its resources. Agency theory states that the conflicts that occur between management and shareholders are due to differences in interests between the two parties. The management compensation can improve the company's performance through the tax management, so that the welfare of shareholders will also improve. Losses suffered by the company will also have an impact on the return of shares received by the management so that they will perform the tax management to maintain optimal profits. Profitability plays a role in the effect of management compensation on the tax management. The company's performance so far is still measured through the profits performance. If the management manages to reach a predetermined level of profit, it will get the expected compensation in return. Management will carry out the tax management to achieve predetermined profit and can get adequate compensation, so that the profitability strengthens or moderates the influence of management compensation on the tax management

H6: Profitability moderates significantly the positive influence of management compensation towards the tax management

Tax amnesty is one of the government's programs that are provided for the elimination of tax payable and the elimination of tax penalties by paying ransoms. Positive accounting theory explains that the companies exposed to political costs tend to use the accounting policies that can

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reduce their tax payments. Those that have assets that have not been reported believe that participating in the tax amnesty program will get several benefits including lower tariffs and write off tax penalties. The companies will take part in the tax amnesty as an effort to manage tax on unreported assets so that the tax management practices after the tax amnesty will improve well.

The research conducted by Pangkey et al. (2017) in Manado's Primary Tax Office found that there was an increase in the number of registered taxpayers during the tax amnesty period, but the realization of annual taxes apparently decreased compared to the period before the tax amnesty, and the number of SKPs issued was reduced. Januari & Hanum (2017) found an increase in the amount of tax revenue during the period before tax amnesty, while the amount of tax revenue in the period after the tax amnesty tended to decrease in Medan Belawan Tax Office. Fatih et al. (2011) found negative results of tax amnesty, especially related to the reduced level of tax compliance of the taxpayers.

H7: There is a significant difference between the tax management before and after the tax amnesty

METHODOLOGY AND DATA

This was a quantitative research that used secondary data. The population in this study was manufacturing companies listed on the Stock Exchange (www.idx.co.id) in 2018 consisting of 164 companies. The sample selection method was purposive sampling to obtain 22 companies with 88 units of analysis. The sample selection criteria were shown in Table 1 as follows.

Table 1
SAMPLE SELECTION CRITERIA

No	Criteria	Qualified	Non-qualified
1	Manufacturing companies listed on the IDX in 2018	-	164
2	Manufacturing companies that are not listed on the IDX in a row during 2014-2017	-26	138
3	The companies that do not publish complete annual reports during 2014-2017	-14	124
4	The companies that suffer losses during the study period	-36	88
5	The companies that use currencies other than Rupiah	-7	81
6	The companies with annual reports that do not contain complete information (data) needed in this research	-59	22
Total observations in the annual report for the period 2014-2017 (22 x 4 years)		-	88
Source: Processed secondary data, 2019			

The dependent variable in this study was the tax management. The independent variables in this study were capital intensity ratio, leverage, management compensation, and profitability as the moderating one. The operational definitions of each variable were explained in Table 2 as follows.

Table 2
OPERATIONAL DEFINITIONS OF VARIABLES

No	Variable (Indicator)	Operational Definition	Measurement
1	Tax Management (BTG)	Measure the efforts on the tax management through temporary and permanent differences (Armstrong et	BTG= (Total profit before tax-PKP)/(Total Assets) (Fahreza, 2014)

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		al., 2012)	
2	Capital Intensity Ratio (CIR)	Indicating the amount of company investment in the company's fixed assets (Dharma & Ardiana, 2016)	CIR= (Fixed Assets)/(Total Assets) (Noor, Fadzillah, & Mastuki, 2010)
3	Leverage (DAR)	The company's ability to meet its long-term obligations (Roifah et al., 2015)	DAR= (Total Obligations)/(Total Assets) (Turyantini, 2017)
5	Management Compensation (KOM)	Costs given to the management as a compensation to be more transparent and improve its performance (Irawan & Farahmita, 2012)	Management Compensation = Ln Total Executive Share Ownership (Zulma & Martani, 2015)
6	Profitability (ROA)	The company’s ability to earn profits (Roifah et al., 2015).	ROA= (Profit after Tax)/(Total Assets) (Putri & Suryarini, 2017)
Source: Previous studies, 2019			

The data collection method used in this research was the documentation. The data were in the form of annual reports and financial statements of manufacturing companies listed on the Stock Exchange for the period 2014-2017. Hypothesis testing was carried out using moderate regression analysis using test of absolute difference and t-test to determine differences in the management practices before and after tax amnesty by first conducting classical assumptions test.

FINDINGS AND ANALYSES

The results of the descriptive statistical analysis of capital intensity ratio, leverage, management compensation, profitability, and tax management variables are presented in Table 3 as follows.

Table 3
ANALYSIS OF DESCRIPTIVE STATISTICS

Category	N	Minimum	Maximum	Mean	Std. Deviation
CIR	88	0.0302	0.5827	0.208336	0.121741
DAR	88	0.0662	0.8638	0.368935	0.2069947
KOM	88	13.55	27.83	21.784659	3.1253413
ROA	88	0.0008	0.7523	0.106201	0.1243906
BTG	88	-0.0261	0.2063	0.009766	0.0277806
Valid N (listwise)	88	-	-	-	-
Source: Processed secondary data, 2019					

The variables of capital intensity ratio, leverage, and compensation have higher average values when compared to the standard deviation, so that the distribution of data on these three variables is homogeneous. This shows that between one company and another, there are no data differences. The average value of profitability and tax management variables is lower than the standard deviation, so that the data distribution of these variables is heterogeneous.

Different test is conducted to determine the differences in the tax management practices before and after the tax amnesty. The test results show that there is no significant difference between the tax management practices before and after tax amnesty. The average value of the tax management after tax amnesty shows a decrease, where the value of BTG before the tax amnesty is 0.010657 and the value of BTG after tax amnesty is 0.008875. This is because the tax amnesty

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assets must be corrected positively in the calculation of the company's taxable income so that it weakens the practice of corporate tax management after participating in the tax amnesty.

The classical assumption test aims to reach an unbiased estimator. The normality test using the one-sample Kolmogorov-Smirnov test shows a significance value of 0.152 and is higher than the significance level of 0.05, so that the residual data of the research variables are normally distributed. The multicollinearity test show the result that there is no multicollinearity because each study variable has a tolerance value>0.1 and VIF value<10. The autocorrelation test results show there is no autocorrelation because the Durbin Watson test generates DW value of 1.7780 which is higher than the upper limit (du) 1.7243 and lower than 4-du (2.2757), 1.7243<1.7780<2.2757. Heteroscedasticity test using white test conclude that there is no heteroscedasticity problem because c^2 count <c^2 table (59.928<109.77) with the confidence value of 0.05.

The results of the coefficient of determination indicate that the value of Adjusted R^2 is 0.127. This means that 12.7% of the tax management variable proxied by the book tax gap (BTG) can be explained by the independent variables in this research (capital intensity ratio, leverage, management compensation and profitability). The regression equation in this research is as follows. The regression equation in this research is as follows. The results of hypothesis testing is presented in Table 4.

$$BTG = 0.001 + 0.010\ ZCIR - 0.008\ ZDAR + 0.001\ ZKOM - 0.012\ |ZCIR - ZROA| + 0.016\ |ZDAR - ZROA| + 0.001\ |ZKOM - ZROA| \ldots\ldots(1)$$

Table 4
RESULTS OF HYPOTHESIS TESTING

No	Hypothesis	B	Sig.	A	Result
1	Capital intensity ratio significantly and positively influences the tax management	0.01	0.017	0.05	Accepted
2	Leverage significantly and positively influences the tax management	-0.008	0.018	0.05	Rejected
3	Management compensation significantly and positively influences the tax management	0.001	0.81	0.05	Rejected
4	Profitability significantly moderates the influence of capital intensity ratio towards the tax management	-0.012	0.006	0.05	Accepted
5	Profitability significantly moderates the influence of leverage towards the tax management	0.016	0.001	0.05	Accepted
6	Profitability significantly moderates the influence of management compensation towards the tax management	0.001	0.64	0.05	Rejected
7	There is difference of the tax management before and after the tax amnesty	-	0.766	0.05	Rejected
Source: Processed secondary data, 2019					

Capital Intensity Ratio Significantly and Positively Influences the Tax Management

The dependent variable in Model (2) is the UEOI estimated by Model 1. The experimental variables to test the hypothesis are TNOE, which represents temporary non-operating expenses relative to sales, and BIG4, which represents large-scale auditors. Temporary non-operating expenses can be measured as two types. The first is TNOE1, which is non-operating expenses without persistence, and excludes interest expenses and loss on the value of equity-method securities. The second is TNOE2, which excludes loss on asset disposals along with interest expenses and loss on the value of equity-method securities, which is used to

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enhance robustness. BIG4 is a dummy variable that takes 1 if a company is audited by one of the Big Four accounting firms (Deloitte, Ernst & Young (EY), KPMG, and PricewaterhouseCoopers (PwC)) and 0 otherwise. If a high-quality auditor can monitor shifting activity as well as other earnings management method, then the coefficient of the interaction term of TNOE and BIG4 in Model 2 would be negative. On the contrary, when audited by a Big Four auditor, if a manager opts for classification shifting by shifting operating income upwards rather than earnings management via current-period net income, then the coefficient of the interaction term of TNOE and BIG4 would be positive.

The results of the study have proved that the capital intensity ratio has a significant positive effect on the tax management. This shows that the company carries out the tax management by utilizing depreciation costs arising from its fixed assets. Depreciation costs attached to the fixed assets can be used to reduce the taxable income, thereby reducing the tax burden.

This finding supports one of the positive accounting theory hypotheses namely the political cost hypothesis which states that if the companies are faced with political costs, they will tend to use certain accounting policies that can reduce their reported profits. Fixed assets are one of the factors that influence the size of the tax paid by the companies, where the depreciation of fixed assets can be a deduction from taxable income in accordance with applicable tax rules. This finding supports the results of the research conducted by Roifah et al. (2015), Putri & Lautania (2016), Lahav & Salganik-Shoshan (2016), Salaudeen (2017), and Richardson & Lanis (2007) who found that capital intensity ratio has a positive and significant effect on the tax management.

Leverage Significantly and Positively Influences the Tax Management

This research shows that the leverage has a significant negative effect on the tax management, so that the second hypothesis is rejected. This finding does not support positive accounting theory but the results of the research are in line with the pecking order theory proposed by Myers (1984). The companies will choose funding from their internal first before deciding to take from external parties.

The average value of leverage in this research is 0.368935, which means 36.89% of the company's assets are financed by debt and the rest is financed by its own capital or internal funding. The company chooses internal funding first before deciding to use debt. The high level of debt makes the company trapped to bear the high risk of high installment payments rather than obtaining benefits in the form of interest expense. The results of this research support the research conducted by Delgado et al. (2014), Fahreza (2014), Turyantini (2017), and Dharma & Ardiana (2016) who explained that the leverage has a negative effect on the tax management

Management Compensation Significantly and Positively Influences the Tax Management

The third hypothesis which states that the management compensation has a significant positive effect on the tax management is rejected. The results of the research do not support the agency theory which explains that to reduce conflicts of interest between management as an agent and shareholders as principals, one way that can be done is by providing appropriate compensation to the management. This finding is in line with the bonus plan hypothesis in the positive accounting theory which explains that the companies that have bonus program will tend

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to use accounting policies that can improve their profit reporting, so this makes the tax management practices become weak.

This insignificant effect occurs because most of the sampled companies provide compensation not only in the form of stock bonuses, but short-term compensation such as health benefits, holiday allowances, and annual bonuses. The provision of compensation in the form of shares is still relatively low as evidenced by a small research sample. This makes the management compensation unable to encourage the management to carry out the tax management. This finding is in line with the research by Puspita & Harto (2014), Dewi & Sari (2015), and Fahreza (2014) who found that the management compensation has no effect on the tax management

Profitability Moderates Significantly the Influence of Capital Intensity Ratio towards the Tax Management

The results show that the profitability is able to weaken the influence of capital intensity ratio towards the tax management. This does not support the positive accounting theory which states in one hypothesis namely the political cost hypothesis that the companies that have high level of profitability will generate high profits so that the tax burden they bear is also higher. They will tend to use accounting policies that can reduce current period profits, so that the tax burden is also getting lower.

The companies that have high level of profitability will also must pay higher tax burden, but the differences in depreciation method used by the companies in their commercial records with applicable taxation rules may not be charged or must be corrected in the calculation of their taxable income. This causes the recognition of depreciation expenses in commercial financial statements, but based on tax regulations, these expenses do not include the companies' expenses in the concerned period, so it is necessary to make a positive fiscal correction where this will have an impact on the weak tax management (Wahab & Holland, 2011). Profitability in this research is proven to weaken the effect of capital intensity ratio on the tax management because the companies that have high level of profitability but use inappropriate depreciation method with the taxation rules will weaken the tax management practices.

Profitability Significantly Moderates the Influence of Leverage towards Tax Management

The results show that the profitability is able to strengthen the effect of leverage on the tax management. The companies that have high level of profitability will feel that they are able to pay the loan installments along with the fixed cost of interest. A high level of debt will result in fixed costs in the form of high interest costs as well. This can be used to reduce the tax payment, because the interest costs may reduce the company's taxable income in accordance with applicable tax regulations

Positive accounting theory in the political cost hypothesis predicts that the companies faced with political costs will tend to use certain accounting policies that can reduce reported profits. The higher the profitability of a company, it will not worry to take funding through debt because the interest costs incurred can be used to reduce its tax burden. The profitability in this research has been proven to significantly moderate the effect of leverage on the tax management

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Profitability Significantly Moderates the Influence of Management Compensation towards the Tax Management

This research has found that profitability is not able to moderate the effect of management compensation on the tax management. It does not support agency theory, where one way to reduce conflicts of interest between agents and principals are providing management compensation in the form of company stock ownership. This compensation aims to make management act in accordance with the wishes of the shareholders. It can be concluded that the performance of the company does not affect the size of the compensation given to the management in the form of shares

The average value of the profitability in this research is 0.106201, indicating that the company's ability to generate profits is 10.62% of the total assets. The low profitability level is not a basis for the company to provide compensation in the form of shares. The management will still get ownership of the company's shares rather than getting bonuses that might be obtained if the company's performance is getting better either by stock options or family ownership. The profitability in this study has not been proven to be able to moderate the effect of management compensation on the tax management.

There is Significant Difference of the Tax Management before and After the Tax Amnesty

The test results show that there is no significant difference of the tax management before and after the tax amnesty. This insignificant result does not support the positive accounting theory which states that the companies will tend to use certain policies that can reduce the tax payments. The average value of the BTG shows that the practice of tax management in the period before and after the tax amnesty program does not change drastically, while in fact it decreases.

This average decrease is due to a positive correction of the amnesty assets in the calculation of the company's taxable income. The Law of the Republic of Indonesia Number 11 Year 2016 Regarding Tax Amnesty Article 14 paragraph (2) and (3) states that additional assets disclosed in the form of tangible and intangible ones cannot be depreciated for taxation purposes. The cost of fixed assets depreciation resulting from the tax amnesty is allowed to reduce the profits before the company's tax, but must be corrected positively when calculating the company's taxable income. This positive correction has an impact on increasing the taxable income when compared to the company's pre-tax profits, so that the increase of the assets after participating in tax amnesty is not accompanied by an increase in depreciation costs of these fixed assets and the weak tax management practices.

CONCLUSIONS

The capital intensity ratio has a positive effect and leverage is proven that has a negative affect the tax management. On the other hands, Profitability is able to moderate the effect of capital intensity ratio and leverage on the tax management. The tax management practices do not perform any significant differences before and after the tax amnesty, they have a low level of tax management. The researchers suggest for further research to use other variables such as compensation for losses to determine the effect on the tax management, because the compensation can reduce the calculation of the company's taxable income for five years, so that it can be used to manage the tax.

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