The Factor of Tax Avoidance

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Abstract: This study aimed to determine the effect of return on assets and political connection to the avoidance of tax on manufacturing companies Indonesia Stock Exchange in 2011-2017 by multiple linear regression method. The results of this study indicate that in partial return on assets negatively affect tax avoidance, and political variables did not affect the partial connection to tax avoidance. Then simultaneously that the return on assets and political influence on tax avoidance connection.

Keywords: Return On Assets, Political Connection, Tax Avoidance.

1. Introduction

Taxes are a source of state revenues in the State Budget (APBN) in Indonesia, the largest, which is 1618.1 trillion (85.4 percent) of total revenues 1894.7 trillion in Budget 2018 (www.kemenkeu.go.id, 2018).

Therefore, the government has always sought to increase the tax revenue target every year. The efforts made them such as the removal of sanctions, namely the interest of tax administration, the final tariff reduction revaluation of assets, and the tax amnesty policy or tax forgiveness. One of the problems that could hinder the achievement of the target of tax revenue is tax evasion or tax avoidance.

In the global financial integrity, the report noted at the end of 2014, that Indonesia is ranked number eight of the 25 countries as one of the developing countries most affected by the practice of tax evasion with the potential loss of US $ 18.78 billion or equivalent to Rp 178.41 trillion (www.tempo.com, 2014). Dalu et al. (2012) state that there is an increasing amount of violence around us. There is a growing amount of force around us. Evasion and tax avoidance tend to show lower investment be the product mix, in which it means more moderate economic growth and public companies will be affected negatively

Lim (2011) states as a tax avoidance tax savings arising from a general tax reduction method which sometimes legality to minimize tax liability is still questionable. Meanwhile, according to (Aumeerun, et al., 2016) of tax evasion part of measures to minimize the tax liability within the law, while tax evasion is an illegal act to avoid paying taxes. According to Mardiasmo (2016), tax evasion including tax relief efforts does not violate the law.

Many of the world's major corporate practice of tax evasions, such as Google and Microsoft. Where in 2014, Google moved revenues worth $ 12 billion to a container company in Bermuda, registered affiliate Irish are known to Google Ireland Holdings. Google uses a strategy known as "Double Irish with a Dutch Sandwich," which helped its parent company, Alphabet, enjoy an effective tax rate of only 6% of its profits outside the US. Microsoft in 2011 reported tax paid 19 million pounds, of which only 2.8% of revenue. Avoid paying tax in the UK with sales of $ 2.4 trillion in 2012. (Chew, 2016).

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For companies and shareholders, the tax is a significant cost component, so the desire to reduce the burden of tax paid (Hanlon & Slemrod, 2009). The company will analyze high tax profitability (Return on Assets) is high (Chen X, Cheng Q, Shelvin T Chen S, 2010).

Based on the research results Richardson et al. (2016), Kraft (2014), and Delgado et al. (2014) shows that there is a significant correlation between the profitability of the company with tax evasion. Different with Zarai research (2013) indicates that the higher profitability of the company will be the higher effective tax rate, which means that the lower the tax evasion by the company while the research results Prakosa (2014) found that the return on assets negatively affects tax evasion.

Another factor that led to the company tax evasion that their political connections in it with the government. They are because of political connections in the trust as a precious resource for many companies (Leuz and Gee, 2006). Companies that have political connections tend to favor the parties in both the organizational structure of commissioners or directors who have a special affinity with the government (Fisman 2001). Wicaksono (2017) argues that the tax aggressiveness action, in general, is often done by the companies having political connections. According to Sudibyo and Jianfu (2016), tax evasion escalation politically connected companies will be higher if they have a different activity as a multinational corporation.

Faccio (2007) found one determinant for tax evasion is their political connections. Companies that have political connections tend to pay lower taxes. Kim and Zhang (2016) also mention that political connections positively associated with the degree of tax evasion. But in contrast with the results Adhikari et al. (2006) found that political connections negatively affect the effective tax rate. Likewise, the results of research Chaney, Faccio, and Parsley (2011) that the political connections to make the company more to avoid engaging in risky activities such as aggressive tax management activities.

2. Literature Review

2.1 Return On Assets

Return On Asset (ROA) is a measure of the effectiveness of management in managing the investments. The lower Return On Asset (small) less and less well, and vice versa. According to Eduardus Tandelilin (2010), Return On Assets (ROA) is a ratio that illustrates the extent to which the ability of the assets owned by the company can generate profit. At the moment the company has profitability (return on assets) is high then it will position itself into the activities of tax planning to reduce the tax burden (Chen X, Cheng Q, Shelvin T Chen S, 2010). This is due to the tax took a large proportion of the company's profit before tax thus reducing the benefits that can be distributed to shareholders, the reason for the company's tax evasion (Annuar et al., 2014).

a. Political Connection

Connections according to Big Indonesian Dictionary (KBBI) is to facilitate relationships (launch) all affairs (activities). While politics according to Big Indonesian Dictionary (KBBI) is (knowledge) about the constitutional or state (such as the system of the government system, basic government). Companies connect politics is a company with certain ways to have political ties or pursue their proximity to politicians or government. Companies that have political connections tend to favor the parties in both the organizational structure of commissioners or directors who have a special affinity with the government (Fisman, 2001).

That political connections in the trust as a very valuable resource for many companies (Leuz and Gee 2006).

2.2 Tax Avoidance

In a country, taxes are one of the most significant sources of state revenues. However, not all taxpayers want to carry out their tax obligations as they should. Aumeerun et al. (2016) state that tax non-compliance is an act that does not comply with the laws and tax regulations of a country by not paying taxes or not reporting the actual amount of income, which can include avoiding taxes in a legal manner, namely tax avoidance and illegal, namely embezzlement tax.

According to Mardiasmo (2016), tax evasion is tax relief efforts do not violate the law. Lim (2011) defines tax evasion as tax savings arising from a general tax reduction method which sometimes legality to minimize tax liability is still questionable.

Many ways can be used to measure the presence of tax evasion. Most proxy or a measuring tool for measuring tax evasion requires data from company financial reports.

2.3 Research Methods

This study uses a type of hypothesis testing research. According to Sugiyono (2012), hypothesis testing aims to explain the properties of a causal relationship and understand the relationships between various variables. In this study, the Independent variable used is a return on assets (ROA) measured by a comparison between net income and total assets at the end of the period and political connection. While the dependent variable is tax avoidance measured using the effective tax rate proxy. The secondary data is in the form of annual reports from automotive & component sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2011 to 2017. Data analysis methods use multiple linear regression.

3. Discussion

Regression equation as follows:

LNY =-1.342 - 0,196X1 -1,189X2

The constant coefficient of -1.342 means that if there is no return on assets (X1) and political connection (X2), the potential for tax avoidance (Y) obtained a decrease of 1,342.

The regression coefficient of variable return on assets (X1) of -0.196 meaning that if the other independent variables fixed-value and return on assets rose 1 percent, the tax avoidance (Y) will be decreased by 196 and vice versa.

The regression coefficient political variable connection (X1) of -1.18 means that if the other independent variables remain and a political relationship worth rose 1 percent, the tax avoidance (Y) will be decreased by1,189 and vice versa.

3.1 Test Statistic t

Based on the statistical test t can be described as follows:

1. *Return On Assets* (X1)

   Based on the results of the regression test t above, *Return On Assets* have t (-4.513) <T table (-2.022) and significant value 0,000 0,000 where the significance value <0.05, which means that *return On Assets* significantly adverse effect on Tax Avoidance.

2. *Political Connection* (X2)

   Based on the results of the regression test t above, *Political Connection* has t (-0.654)> T table (-2.022) and significant value where the significance value 0.517 0.517> 0.05, which means that *political Connection* negatively and not substantial to the Tax Avoidance.

3.2 Test Statistic F

From the results of calculations using SPSS ANOVA indicated by the table above, in the know the value of F (11.253)> F table (3.24) at the significant level of 0.000 and df = (2:39) thus it can be concluded that all independent variables (return on assets and political connection) simultaneously significant effect on the dependent variable (tax avoidance).

4. Conclusion

The constant coefficient is negatively concluded that the lack of return on assets (X1) and political connection (X2), then the potential for tax avoidance (Y) obtained tends to decrease. The regression coefficient of variable return on assets (X1) and significant negative meaning if the return on assets has increased the probability of companies doing tax avoidance (Y) tends to decline significantly. The regression coefficient political variable connection (X2) is negative and not significantly higher mean if the political connection, then the probability of companies doing tax avoidance (Y) tends to decrease, but not significantly.

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