International Journal of Research and Review
Vol.7; Issue: 7; July 2020
Website: www.ijrrjournal.com
Research Paper E-ISSN: 2349-9788; P-ISSN: 2454-2237

The Determinants of Tax Avoidance with Firm Size as Moderating Variable at Multinational Companies

Neni Kristiani Sianipar[1], Idhar Yahya[2], Isfenti Sadalia[2]

[1]Postgraduate Students Department of Accounting, Faculty of Economics and Business at Universitas Sumatera Utara, Indonesia
[2]Postgraduate Lecturer Department of Accounting, Faculty of Economics and Business at Universitas Sumatera Utara, Indonesia

Corresponding Author: Neni Kristiani Sianipar

ABSTRACT

The aim of this research is to analyze the effect of multinationality, utilization of tax havens, thin capitalization, and business strategy with firm size as a moderating variable on tax avoidance at multinational companies listed on the Indonesia Stock Exchange (BEI) for the period of 2016 to 2018. The population of this research is that companies listed in Indonesia Stock Exchange in 2016-2018. The sample which are used in this research are 22 (twenty two) multinational companies. The sampling method that used in this research is by using purposive sampling. The criteria which are used to measure tax avoidance determined by using effective tax rate ratio (ETR). Data analysis in this research performed by multiple linear regression analysis with statistical program tool, SPSS. The result of this research indicate that multinationality has significant effect on tax avoidance, utilization of tax havens has significant effect on tax avoidance, thin capitalization doesn't has significant effect on tax avoidance, business strategy doesn't has significant effect on tax avoidance, and firm size can not moderating the effect between multinationality, utilization of tax havens, thin capitalization, and business strategy on tax avoidance.

Keywords: Multinationality, Utilization of Tax Havens, Thin Capitalization, Business .Strategy, Firm Size, Tax Avoidance

INTRODUCTION

Taxes are the largest source of state income. Where 85.63% of the country's total revenue comes from tax revenues. This is evident from the tax revenue of Rp1,498 trillion from the country's total revenue of Rp1,750 trillion rupiah in the budget 2017 (www.kemenkeu.go.id). Wieta (2016) reveals the acceptance is used to support and carry out national development activities in order to run well for the welfare of the lives of the entire people of Indonesia. Due to the huge tax role for the country, governments are continually striving to increase revenues from the tax sector. If the source of funds is insufficient then automatic state operational activities can be interrupted.

Suryarini (2012) revealed that tax evasion is an effort of the tax burden efficiency by avoiding tax imposition through transactions that are not tax object. For example, companies that still suffer losses, need to change employee benefits in the form of money into the provision of Natura. If the company does so, the company can obtain savings of between 3%-5% because of Natura is not a tax object of article 21.

Arthur (2010) revealed that in the context of tax planning, multinational companies have many opportunities compared to domestic companies because it has geographic flexibility in placing economical resources in accordance with production and distribution systems. This geographical flexibility offers a variety of schemes of total minimization of the company's global tax burden. Shifting the income and costs through internal engineering between multinational company members is also potentially minimizing global tax burden. State losses through the use of increasingly aggressive tax evasion schemes by multinational companies are difficult to estimate, but are taken seriously. Press reports have highlighted the low taxes paid by well-known and successful companies.

Adil (2017) reveals that one tax planning application that is also often used by multinational companies is when funding the company. In the effort to find a source of funds, a company can choose a form of funding in the form of debt or capital. Multinational companies are utilizing debt as one of the gaps in conducting tax planning, which is by suppressing the tax burden that the company pays through an increase in the interest expense recognized as a fiscal fee. Companies by financing a child or branch of a company with a loan in the form of flowering debt are carried out to obtain tax benefits from the interest expense. Because if the company financed the child or branch of the company with a stock capital, then the dividend fee paid by the child to the parent company can not be recognized as a fiscal fee. The company's strategy in acquiring capital has a significant impact on the reported profit level for taxation purposes. The more level of debt in the company, the higher the interest expense that hams paid. This resulted in the lower fiscal return. Multinational companies often restructured their funding policies to maximize this benefit. Not only can they compile a combination of debt and capital that generates tax efficiencies in the country of the loan source, they can also affect the taxation of taxes implemented by lenders. Some developed and developed countries have suffered a lot of losses due to the reduction of taxes on high levels of debt caused by the funding system commonly known as thin capitalization.

Ning (2010) reveals that another fact about tax evasion in Indonesia, many large companies in Indonesia, has chosen its head office in Singapore, whereas the source of income is in Indonesia, with the payment variant of services, royalties to the head office. Although the corporate tax rate of Indonesia has been lowered to 25% in 2010, but this tariff is relatively high apabiladi compare to neighbouring countries in ASEAN, Malaysia equals 25%, Thailand 20%, Vietnam 22%, while Singapore only pegged the tariff 17%. As a small country, Singapore plays a role like a small country in Europe that is siphon the country's tax revenues with a tax rate facility or complex scheme to lower taxes in the source country. Singapore is aggressive in providing tax incentives. For foreign investors who put the head office/regional business on the condition of hiring Singaporeans, instead get a decreased larif of 10-15%. There is also a drop in rates for companies engaged in shipping and maritime fields. Plus the absence of withholding tax for interest payments and dividends, so it is not surprising if many Indonesian entrepreneurs who choose Singapore to eliminate their money (www.pajak.go.id).

LITERATURE REVIEW

2.1 Tax Avoidance

The economic principle adopted by business people is how to earn a maximum income by pressing the cost of detail. Taxes on the government side, is an important source of acceptance. On the side of the tax entrepreneur is seen as something that is not profitable for the company. This unprofitable thing usually encourages an attempt to conduct tax evasion or resistance. Efforts to minimize tax payments are also made as long as they are allowed by the prevailing tax regulations and tax evasion behaviour included in tax planning or tax planning. Suandy (2016) stated that taxation planning is generally always initiated by convincing whether a transaction or phenomenon is taxable. If the phenomenon is taxable, whether it can be attempted to exclude or deduct the tax amount, then whether the payment of such taxes can be delayed payments, and so forth.

Basically two approaches in the tax payment reduction strategy, which is to minimize revenue or increase the cost of the company. In the rule of taxation usually there are gaps or loopholes, such as exceptions and cuts are allowed in tax regulations or things that have not been regulated in the taxation regulations that can be utilized by the company to the amount of tax paid by the company optimal and minimum (overall) and this is a way legalized by tax laws. Optimal here is interpreted as, the company does not pay anything (tax) that should not be paid, pay the least amount of tax but still do not violate the prevailing provisions.

2.2 Multinationality

Multinationality refers to the "internationalization level" or "geographical/international diversification". Suandy (2016) states that multinational companies are companies that operate across borders across countries, which are tied to a privileged relationship, whether it is due to stock capital inclusion, control of management or use of technology; can be subsidiaries, branches, agents, etc., with various objectives, such as to maximize profit after tax (minimizing taxes). According to Salvatore (2014) multinational company (multinational corporation – MNC) is a business entity that owns, controls, and or manages production facilities spread across a number of countries. From the definition it is most conceivable that multinational companies are large-scale companies, have a tremendous gross profit, and often involve complex management.

2.3 Tax Haven Country

Darussalam (2007) states that tax haven country is a country's tax policy that intentionally provides tax facilities in the form of low tax rates or not even impose taxes at all. This aims to allow the income of other countries to be transferred to the country. Tax haven country definitions may vary by country. And according to the OECD tax haven in "classic" meaning it refers to a country that charges a low or no tax, and is used by the company to avoid taxes that would otherwise be paid in high tax countries.

2.4 Thin Capitalization

Ning (2010) reveals that one of the tax evasion schemes by using the loopholes of the tax provisions is to change the inclusion of capital to the party having a special relationship into lending either directly or through intermediaries or often referred to as thin capitalization. Thin capitalization is a practice of financing larger branches or subsidiaries with flowering debt than with stock capital.

2.5 Business Strategy

The high level of competition between companies in business competition today demands that the management of the company should really think about and find a specific strategy to confront its competitors. In general and simple definitions of strategy one way to achieve the goal of a plan. The strategy as a direction and long-term coverage of the Organization to gain excellence through the configuration of resources and environment that change to achieve market needs and meet the expectations of stakeholders.

2.6 Firm Size

Amalia (2015) revealed that large size companies can describe the operational activities of the company and the revenues gained by the company. Large companies have a wider base of interests so that a wide range of large corporate policies will have a greater impact on the public interest than small companies. For investors, the company's policy will have implications for the prospect of future cash flows, while the government will have an impact on the amount of tax that will be accepted.

RESEARCH METHODS

This research uses a quantitative approach. Wahidmurni (2017) revealed that a quantitative approach was a study whose data was expressed in numerical form and analyzed by statistical procedures. The type of research conducted is causal associative, associative research is a formulation of research problem that is asking relations between two or more variables.

The population of this research is that companies listed in Indonesia Stock Exchange in 2016-2018. The sample which are used in this research are 22 (twenty two) multinational companies. The sampling method that used in this research is by using purposive sampling.

The criteria which are used to measure tax avoidance determined by using effective tax rate rasio (ETR). Data analysis in this research performed by multiple linear regression analysis with statistical program tool, SPSS. .

RESULT

Partial Effect Significance Testing (t Test)

Table 1. Partial Effect Significance Testing (t Test)

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.248	.020		12.208	.000		
	Multinationality (X_1)	.070	.025	.390	2.824	.007	.770	1.299
	Utilization of Tax Havens (X_2)	-.060	.025	-.336	-2.409	.019	.757	1.321
	Thin Capitalization (X_3)	.021	.011	.227	1.836	.072	.959	1.042
	Business Strategy (X_4)	-.492	.513	-.119	-.959	.342	.960	1.042
a. Dependent Variable: Tax Avoidance (Y)								

Based on Table 1, results obtained:

1.Known value of tcount is 2.824 and sig. 0.007 <0.05, it was concluded multinationality significant effect on tax avoidance.

2.Known value of tcount is -2.409 and sig. 0.019 < 0.05, it was concluded utilization of tax havens significant effect on tax avoidance.

3.Known value of tcount is 1.836 and sig. 0.072 > 0.05, it was concluded thin capitalization significant effect on tax avoidance.

4.Known value of tcount is -0.959 and sig. 0.342 > 0.05, it was concluded business strategy significant effect on tax avoidance.

Moderation Testing

Furthermore, moderation testing, which is testing whether the firm size is significant in moderating the effect of multinationality, utilization of tax havens, thin capitalization, business strategy against firm size. Moderation testing is done with an interaction test or MRA approach. Table 2 presented the results of moderation testing with an interaction approach or MRA.

Table 2. Moderation Testing

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.488	.505		.965	.339
	Multinationality (X_1)	.545	.649	3.048	.839	.405
	Utilization of Tax Havens (X_2)	-.188	.591	-1.045	-.318	.752
	Thin Capitalization (X_3)	.182	.438	1.972	.416	.679
	Business Strategy (X_4)	-5.549	13.112	-1.338	-.423	.674
	Firm Size (Z)	-.009	.018	-.172	-.501	.618
	X_1Z	-.016	.023	-2.677	-.703	.485
	X_2Z	.005	.021	.827	.242	.810
	X_3Z	-.006	.016	-1.699	-.357	.722
	X_4Z	.192	.446	1.399	.432	.668
a. Dependent Variable: Tax Avoidance (Y)						

Based on the results of the moderation test in Table 2, the results obtained:

1.Known sig. value in line X_1Z is 0.485 > 0.05, then it is concluded that firm size is not able to moderate multinationality effect on tax avoidance. Still weak fisial supervision of business people who have many operations abroad, causing the behavior of tax evasion spread on all firm size both small and large.

2.Known sig. value in line X_2Z is 0.810 > 0.05, then it is concluded that firm size is not able to moderate utilization of tax havens on tax avoidance. Still weak fisial supervision of business people in the country that imposed the imposition of low tax burden, causing the behavior of tax evasion spreads on the entire all firm size both small and large.

3.Known sig. value in line X_3Z is 0.722 > 0.05, then it is concluded that firm size is not able to moderate thin capitalization on tax avoidance. Still weak fisial supervision of short-term debt that does not contain interest, causing tax evasion behavior spreads on all firm size both small and large.

4.Know sig. value in line X_4Z is 0.668 > 0.05, then it is concluded that firm size is not able to moderate business strategy on tax avoidance. Still weak fisial supervision of to the business strategy, causing the behavior of tax evasion spread on all firm size both small and large.

CONCLUSION AND SUGGESTION

The result of this research indicate that multinationality has significant effect on tax avoidance, utilization of tax havens has significant effect on tax avoidance, thin capitalization doesn’t has significant effect on tax avoidance, business strategy doesn’t has significant effect on tax avoidance, and firm size can not moderating the effect between multinationality, utilization of tax havens, thin capitalization, and business strategy on tax avoidance.

By conclusion, the advice that researchers can give to subsequent researchers is as follows:

1.Further research needs to add more samples for the wider range of companies that can be sampled, so that it can be used to better predict and further research results better.

2.Using a research period with a much longer span of time to get better research results.

3.Adding or using other independent variables that affect the tax avoidance or other variables that differ from previous research so that it can be a source of new information for subsequent studies.

4.Further research is expected to use different proxies to measure the tax avoidance. For example, with the difference in the value of taxable profit book according to commercial and fiscal (boox tax difference).

REFERENCES

1. Adil. 2017. *Perilaku Wajib Pajak Orang Pribadi dalam Penggunaan Sistem Informasi e-Filling: Sebuah Pendekatan Fenomenologi.* Universitas Hasanuddin.
2. Amalia. 2015. *Pengaruh Ukuran Perusahaan, Profitabilitas, Struktur Modal, dan Keputusan Investasi Terhadap Nilai Perusahaan (Studi pada Perusahaan Sektor Properti, Real Estate, dan Building Construction yang Terdaftar di Bursa Efek Indonesia (BEI) Periode 2010-2013).* Universitas Brawijaya Malang.
3. Arthur. 2010. *Analisis Kebijakan Perlakukan Transfer Pricing Baik Menurut Ketentuan Domestik dan Perjanjian Internasioanal.* Universitas Indonesia.
4. Darussalam. 2007. *Konsep dan Aplikasi Cross-Border Transfer Pricing Untuk Tujuan Perpajakan.* Danny Darussalam Tax Center.
5. Ning. 2010. *Evaluasi Regulasi Atas Praktik Penghindaran Pajak Penanaman Modal Asing.* Jurnal Akuntansi Dan Keuangan Indonesia.
6. Salvatore, Dominick. 2014. *Ekonomi Internasional.* Edisi 9-Buku 1. Jakarta: Salemba Empat.
7. Suandy, Erly. 2016. *Perencanaan Pajak.* Edisi 6. Jakarta: Salemba Empat.
8. Suryarini. 2012. *Pajak di Indonesia.* Yogyakarta: Graha Ilmu.

9. Wahidmurni. 2017. *Pemaparan Metode Penelitian Kuantitatif.* UIN Maulana Malik Ibrahim Malang.
10. Wieta. 2016. *Analisis Determinan Penerimaan Pajak Penghasilan Orang Pribadi di Provinsi Banten.* Universitas Mercu Buana.

How to cite this article: Sianipar NK, Yahya I, Sadalia I. The determinants of tax avoidance with firm size as moderating variable at multinational companies. International Journal of Research and Review. 2020; 7(7): 237-242.

******