

The Effect of Thin Capitalization, Institutional Ownership and Managerial Ownership on Tax Avoidance in Automotive Companies on the Indonesia Stock Exchange

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Abstract

This study aims to examine the Effect of Thin Capitalization, Institutional Ownership and Managerial Ownership on Tax Avoidance in Automotive Companies on the Indonesia Stock Exchange. This study uses a quantitative approach. The samples used as objects in this study were automotive companies listed on the Indonesia Stock Exchange during the 2017 – 2021 period. The samples were selected using a purposive sampling method. The type of data used in this research is secondary data. The results of this study are that Thin capitalization has an effect on Tax Avoidance, Institutional Ownership has no effect on Tax Avoidance, Managerial Ownership has no effect on Tax Avoidance and Thin capitalization, Institutional Ownership and Institutional Ownership have a simultaneous effect on Tax Avoidance. Boundary problems in research are very important in bringing the subject matter closer so that there is no confusion in interpreting research results. In order for the research to be more focused and perfect, it is necessary to limit the variables in this research. Therefore, the authors limit only using the independent variables Thin Capitalization, Institutional Ownership and Managerial Ownership and the dependent variable tax avoidance, using secondary data on automotive companies on the Indonesia Stock Exchange from 2017 to 2021. This research is expected to provide motivation for companies to be aware of not doing tax evasion, and this research is expected to be useful for investors so they can be careful in choosing companies to invest their capital.

Keyword:

Institutional Ownership, Tax Avoidance and Thin capitalization.

1. Introduction

Tax is a burden that must be paid for taxpayers. Individual and corporate taxpayers are subject to tax on income received. There are different perspectives on taxes between the government and company management. For the government, taxes paid by companies are one of the main sources of revenue. Conversely, for companies as corporate taxpayers, taxes are costs that will reduce income. This difference causes many tax avoidance practices carried out by company management. Tax planning for a business carried out by company management so that the tax burden paid by the company is not too high, so that the company can avoid fines or interest which results in a delay in repayment, underpayment or opportunity loss due to being too early in payment. In addition, tax planning activities are also permitted and do not violate tax laws in Indonesia. One of the obstacles in optimizing tax revenue is the resistance to tax avoidance by companies that seek to reduce business costs, including the tax burden. The high tax burden encourages many companies to carry out tax management so that they pay less tax. One way that many companies do is to avoid taxes.

Variables that can affect tax avoidance are Thin Capitalization, Institutional Ownership and Managerial Ownership. According to Wati, R, A & Rochmad, B. R (2020) One strategy for minimizing or eliminating the tax burden is thin capitalization. Companies take advantage of debt to be used as a loophole in tax planning, to reduce the company's tax burden by making the recognition of interest expenses a fiscal cost. Companies that finance a branch or subsidiary with a loan/debt are made to obtain tax benefits from interest costs. Thus the debt is considered as a payment of capital and interest paid by the subsidiary to the parent company cannot be reported as dividends. So to reduce the tax burden a company practices tax avoidance.

According to Putri & Lawita (2019) the higher the institutional ownership, the higher the amount of the tax burden that must be paid by the company. This is due to the smaller the possibility of tax avoidance practices carried out by companies. Institutional owners, by virtue of their size and voting rights, can force managers to focus on economic performance and avoid opportunities for selfish behavior.

According to Putri & Lawita (2019) the increasing number of managerial shares in the company means that the company's tendency to carry out tax avoidance will be lower. So that by increasing the number of shareholdings by managers can reduce the tendency of companies to do tax evasion. The reason is that share ownership by managers will tend to make managers consider the continuity of the company so that managers will not want their business to be examined regarding tax issues.

In this study, there is a phenomenon related to tax evasion where Suzuki Motor Corp., Suzuki Motor Corp. committed a case of tax evasion by using their motorcycle racing business to hide funds amounting to Rp. 38.6 billion to deceive the government so that they are not subject to higher taxes. In this case, it was reported that Suzuki had counted unused racing motorbike parts as expenses, not warehouse items. Please note that unused spare parts are categorized as warehouse goods and cannot be costed unless they have been used or discarded. In this case, Suzuki was required to pay IDR 57.9 billion to make up for the taxes they lied to and fines for the mistakes they made (<https://autonetmagz.com/>).

This research also contains GAP research in previous research on the variable Thin Capitalization on Tax Avoidance research by Afifah, S, N & Dewi (2019) obtaining the result that Thin Capitalization has an effect on Tax Avoidance, this research is in contrast to Wati, R, A & Rochmad, B. R (2020) obtaining results that Thin Capitalization has no effect against Tax Avoidance. In previous research on the institutional ownership variable on tax avoidance, Putri & Lawita, 2019; Ratnasaria, D d& Dian, A (2020) obtained the result that institutional ownership had an effect on tax avoidance. effect on Tax Avoidance. In previous research on the managerial ownership variable on tax avoidance research by Putri & Lawita (2019) obtained the result that Managerial Ownership had an effect on Tax Avoidance, this study was in contrast to Wati, R, A & Rochmad, B. R (2020) who obtained results that Managerial Ownership had no effect on Tax Avoidance.

1.1. Agency Theory

The theory used in this study is in accordance with the references from the journals Putri & Lawita, 2019; Wati, R, A & Rochmad, B. R (2020) using agency theory. Jensen & Meckling (1976) stated that agency theory is the relationship between the agent (management of a business) and the principal (business owner). In this relationship there is a contract where the principal orders the agent to perform a service but on behalf of the principal and authorizes the agent to make the best decision for the principal. The concept of agency theory reveals that conflicts occur because there are differences in interests between agents and principals.

1.2. Tax Avoidance

According to Sumarsan (2017) tax avoidance occurs before the SKP is issued. In this tax avoidance, the taxpayer does not clearly violate the law even though sometimes he clearly interprets the law not in accordance with the intent and purpose of the legislator.

1.3. Thin Capitalization

According to Afifah, S, N & Dewi, 2019; Kurniawan, A (2015) stated that thin capitalization is a framework for tax avoidance by making debt the dominant source of funding compared to capital. Companies practice thin capitalization by taking advantage of differences in tax regulations. The difference is related to interest payments which can be categorized as tax deductible, while dividends paid to owners of funds are not classified as tax deductible expenses.

1.4. Institutional Ownership

According to Wati, R, A & Rochmad, B. R (2020) The continuity of a company is inseparable from the ownership structure of the company. The ownership structure is believed to affect the ongoing activities of the company. One of these ownership structures is institutional ownership. Institutional ownership is defined as the percentage of the company's outstanding shares owned by other institutions, namely ownership by other companies or institutions. Ownership of shares by parties that form institutions such as insurance companies, banks, investment companies, and other institutional ownership. (Jensen & Meckling, 1976)

1.5. Managerial Ownership

According to Wati, R, A & Rochmad, B. R (2020) Managerial Ownership is assumed as an internal control mechanism and functions as positive monitoring to reduce agency conflicts. Managerial ownership is the number of shares owned by the management of the entire share capital in the company. Managerial share ownership can align the interests of shareholders with managers, because managers directly experience the benefits of decisions taken and managers bear the risk if there are losses that arise as a consequence of making wrong decisions. Managerial ownership is an important issue in agency theory since it was published by Jensen and Meckling (1976) which stated that the greater the proportion of management ownership in a company, the management will work harder to fulfill the interests of shareholders who are also themselves.

1.6. Research Framework

The following will explain the research framework, namely:

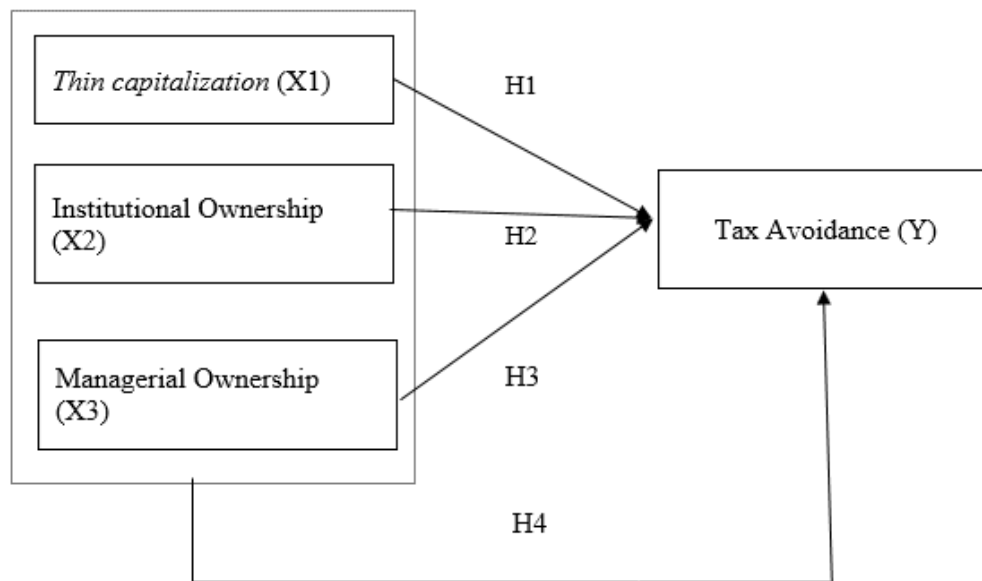


Figure 1: Research Framework

From the model above, the research hypothesis is arranged as follows :

H1: Thin capitalization has an effect on tax avoidance

H2: Institutional Ownership Has an Influence on Tax Avoidance

H3 : Managerial Ownership Affects Tax Avoidance

H4 : Thin capitalization, Institutional Ownership and Managerial Ownership Affect Tax Avoidance

2. Methodology

2.1. Types of Research

This study uses a quantitative approach. Quantitative research is a type of research whose specifications are systematic, planned, and clearly structured from the start to the creation of the research. Quantitative research methods can be interpreted as research methods used to examine certain populations or samples due to the presentation of data in the form of numbers that will reflect the relationship between each variable being studied (Sugiyono 2016).

The population is a generalization area consisting of subjects/objects that have certain qualities and characteristics determined by the researcher to then draw conclusions. While the sample is part of the population itself. The population used as the object of this research is automotive companies listed on the Indonesia Stock Exchange during the 2017 – 2021 period. The sample was selected using the purposive sampling method with the following criteria:

1. Automotive companies listed on the Indonesia Stock Exchange in the period 2017 – 2021.
2. Automotive companies that publish financial reports have been audited for the period 2017 – 2021.
3. Automotive companies that use the rupiah currency during the 2017 – 2021 period

2.2 Data Types and Sources

The type of data used in this study is secondary data. According to Sugiyono (2016) defines secondary sources as a method used by researchers to obtain data, but researchers cannot interact directly with data sources. Secondary data in this study comes from automotive companies listed on the Indonesia Stock Exchange for the period 2017 – 2021. The data used in this study are in the form of financial statements of automotive companies listed on the Indonesia Stock Exchange for the period 2017 to 2021. Data can be accessed at Indonesia Stock Exchange official website www.idx.co.id.

2.3. Variable Operational Definition

The operational definitions of several variables used in this study are:

2.3.1. Dependent Variable

The dependent variable in this study is tax avoidance. Pohan (2016) state that Tax Avoidance is an effort to avoid taxes that are carried out legally and safely for taxpayers because they do not conflict with tax provisions, where the methods and techniques used tend to take advantage of the weaknesses (gray areas) contained in the tax laws and regulations themselves, to minimize the amount of tax payable. The measurement of tax avoidance variable in this study is using the effective tax rate (ETR). The following is the effective tax rate (ETR) formula:

$$\text{Effective Tax Rate (ETR)} = \frac{\text{Income Tax Expense}}{\text{Profit before tax}}$$

2.3.2. Independent Variable

a. Thin Capitalization

According to Law Number 7 of 2021 Article Article 18 (1) In determining the limit on the amount of borrowing costs that can be charged for tax purposes, methods that are commonly applied in the international world are used, for example through the method of determining a certain level of reasonable comparison regarding the size of the ratio between debt and capital (debt to equity ratio, through a certain percentage of borrowing costs compared to operating income before deducting borrowing costs, taxes, depreciation and amortization of earnings before interest, costs, depreciation, and amortization or through other methods). Kurniawan, A (2015) states that thin capitalization is a framework for tax avoidance by making debt the dominant source of funding compared to capital. Thin capitalization is the formation of a company's capital structure with a much larger proportion of debt than the company's capital. The following is the Thin capitalization formula which is measured using the Debt to Equity Ratio (DER), namely:

$$\text{Debt to Equity Ratio (DER)} = \frac{\text{Total Debt}}{\text{Total Capital}}$$

b. Institutional Ownership

According to Sartono (2014) argues that institutional ownership is the percentage of company shares owned by institutions or institutions such as insurance companies, pension funds (dapen), or other companies. Institutional Ownership has the ability to control management through an effective monitoring process. The following is the formula for institutional ownership, namely by using the ratio obtained from the shares owned by the institution divided by the number of shares outstanding, namely:

$$\text{Institutional Ownership (KI)} = \frac{\text{Number of Institutional Shares}}{\text{Number of Share Outstanding}}$$

c. Managerial Ownership

According to Effendi (2016) Managerial Ownership is the number of shares owned by company management who actively participate in decision making in a company. The following is the formula for managerial ownership, namely by using the ratio obtained from the number of management shares divided by the number of outstanding shares, namely:

$$\text{Managerial Ownership (KM)} = \frac{\text{Number of Management Share}}{\text{Number of shares outstanding}}$$

3. Results And Discussion

3.1. Descriptive Statistics

Descriptive statistics can provide an overview or description in a data obtained from the average value (mean), standard deviation, variance, maximum and minimum Ghozali (2016).

Table 1. Descriptive statistics

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
Penghindaran Pajak	45	-0.19	2.34	0.3364	0.45329
Thin Capitalization	45	0.07	3.75	0.8323	0.85054
Kepemilikan Institusional	45	0.00	0.88	0.4889	0.29759
Kepemilikan Manajerial	45	0.00	0.22	0.0441	0.06970

1. Based on the statistical descriptive table, it can be described that tax evasion obtains a sample size of 45 and obtains the lowest value of -0.19 and the highest value of 2.34 with an average value of 0.3364 and a standard deviation of 0.45329.

2. Based on the statistical descriptive table, it can be described that Thin Capitalization obtained a sample size of 45 and obtained the lowest value of 0.07 and the highest value of 3.75 with an average value of 0.8323 and a standard deviation of 0.85054 .
3. Based on the statistical descriptive table, it can be described that Institutional Ownership obtains a sample size of 45 and obtains the lowest value of 0.00 and the highest value of 0.88 with an average value of 0.4889 and a standard deviation of 0.29759 .
4. Based on the statistical descriptive table, it can be described that Managerial Ownership obtains a sample size of 45 and obtains the lowest value of 0.00 and the highest value of 0.22 with an average value of 0.0441 and a standard deviation of 0.6970 .

3.2. Significant Test (F Test / Simultaneous Test)

The F test (Simultaneous Test) is to test how the independent variables jointly influence the dependent variable. In testing the hypothesis, the first step that must be taken by researchers is to know the basis for making decisions in the F Test (simultaneous). There are methods used in the basis of decision making, namely as follows:

1. If the Significance value (Sig.), < 0.05 then there is a joint effect of the independent variable (X) on the dependent variable (Y). Hypothesis accepted.
2. If the Significance value (Sig.), > 0.05 then there is no joint effect of the independent variable (X) on the dependent variable (Y). The hypothesis is rejected.

Table 2. Anova

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.502	3	.834	5.230	.004b
	Residual	6.539	41	.159		
	Total	9.041	44			

The results of the test show that Thin capitalization, Institutional Ownership and Institutional Ownership have a simultaneous effect on Tax Avoidance due to a significance value of 0.004. It can be concluded that H4 is accepted.

3.3. Significant Test (T Test / Partial Test)

According to Amelia, M. V (2017) Partial test (t test) is carried out to find out whether the independent variables partially have an influence on the dependent variable. This test is carried out by determining the significant level (α) which is 5%.

Table 3. Multiple Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.007	.152		.049	.961		
THINCAP	.292	.075	.549	3.911	.000	.896	1.116
KI	.199	.216	.130	.918	.364	.875	1.143
KM	-.262	.880	-.040	-.298	.768	.964	1.038

3.3.1. Thin capitalization of Tax Avoidance

The results of the test show that thin capitalization has an effect on tax avoidance due to a significance value of 0.000. It can be concluded that H1 is accepted. This is supported by the results of the significance value of the Thin capitalization variable which is less than 0.05 or $0.000 < 0.05$. This is because companies have two choices of sources of capital in running their business, namely with debt and with their own capital. Thin Capitalization is a mechanism for establishing a capital structure with a debt structure that is larger than equity. Thin Capitalization has many impacts, the debt given creates interest expenses, where the treatment of interest in taxation is different from the treatment of dividends. Interest expense in tax provisions is permitted as a deduction from income. This creates gaps and opportunities for companies to avoid taxes through the use of interest. These results support the research conducted by Afifah, S, N & Dewi (2019) who obtained results that Thin Capitalization had an effect on Tax Avoidance, this study was in contrast to (Wati, R, A & Rochmad, B. R 2020)

3.3.2. Institutional Ownership of Tax Avoidance

The results of the test show that institutional ownership has no effect on tax avoidance due to a significance value of 0.364. It can be concluded that H2 is rejected. This is supported by the results of the significance value of the Institutional Ownership variable which is greater than 0.05 or $0.364 > 0.05$. This is because the size of institutional ownership cannot affect the level of tax avoidance. Institutional ownership has the ability to supervise large management parties. Institutional investors can be directly involved in making strategic decisions in a company, namely by putting pressure on management to maximize profit income to protect their investment in the company by focusing more on improving the company's economic performance rather than practicing tax avoidance. These results support the research conducted by. These results support the research conducted by Amelia, M. V (2017) obtaining results that Institutional Ownership has no effect on Tax Avoidance, this research is in contrast to Putri & Lawita (2019) Ratnasaria, D d& Dian, A (2020) obtaining results that Institutional Ownership has an effect on Tax evasion.

3.3.3. Managerial Ownership of Tax Avoidance

The results of the test show that Managerial Ownership has no effect on Tax Avoidance due to a significance value of 0.768. It can be concluded that H3 is rejected. This is supported by the results of the significance value of the Managerial Ownership variable which is greater than 0.05 or $0.768 > 0.05$. This is because the managerial party does not have sufficient rights in making company decisions, so that the managerial party does not have a large opportunity and authority in the company and this result is also proven if the company under study has an average value of very low managerial ownership, which is equal to 4.4% so it has no effect on tax evasion. These results support the research conducted by Wati, R, A & Rochmad, B. R (2020) who obtained the result that Managerial Ownership has no effect on Tax Avoidance. This research is in contrast to Putri & Lawita (2019) which obtained the result that Managerial Ownership has an effect on Tax Avoidance.

4. Conclusion

Based on the test results and also the discussion regarding the Effect of Thin Capitalization, Institutional Ownership and Managerial Ownership on Tax Avoidance, it can be concluded that:

1. The results of the F test show that the independent variables, namely thin capitalization, institutional ownership and managerial ownership simultaneously affect the dependent variable, namely tax avoidance, so that the fourth hypothesis (H4) in this study is accepted.
2. The results of the t test show that thin capitalization has an effect on tax avoidance, so it can be concluded that H1 is accepted.
3. The results of the t test show that institutional ownership has no effect on tax avoidance, so it can be concluded that H2 is rejected.
4. The results of the t test show that Managerial Ownership has no effect on Tax Avoidance, it can be concluded that H3 is rejected,

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