International Journal of Management Research and Social Science (IJMRSS)
Volume 8, Issue 2, April – June 2021
ISSN 2394-6407(Print)
ISSN 2394-6415(Online)

Financial Distress, Company Size, and Ownership to Tax Avoidance in the Listed Indonesia Stock Exchange Companies

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Abstract — This paper assesses the effect of financial distress, business size, and institutional ownership affect tax avoidances in the Food and Beverage Sub-Sector Manufacturing Industry Registered at Listed Indonesia Stock Exchange Companies, IDX in 2016-2020. With a quantitative analysis approach, this study finds that the financial distress affects tax avoidance due to the decline in financial condition as experienced by the company. The right of large companies has a tendency to maintain its image to the public so that they will try to comply with the terms of tax payments. Meanwhile, corporate ownership has no influence on tax avoidance due to pressure on owners to implement aggressive tax policies in order to increase profits.

Keywords — Financial Distress; Company Size; Institutional Ownership; Tax Avoidance.

1. Introduction

Companies argue that taxes are the thing that can reduce income, eventually most companies want the lowest possible tax payments (Graham et al.. 2014). This situation also occurs in manufacturing companies in Indonesia. International Yearbook of Industrial Statistics, 2016 recorded that out of the 10 largest industrial countries in Indonesia, Indonesia became one of them after the United Kingdom, Kanda and Russia. On the other hand, IMF investigator Ernesto Crivelli ranked Indonesia 11th at about $6.48 billion from 30 countries due to the rejection of tax payments (Oats &Tuck, 2019). According to Dewinta & Setiawan (2016) manufacture industry is one of the largest contributors of state revenue.

One of the focuses of the State Budget comes from the tax sector, the increase in state spending resulted in increased state expenditures (Situmorang & Maksum, 2019). Tax avoidance is a profitable thing for companies but detrimental to the state (Kovermann & Velte, 2019). Very promising business is in the beverage and food sector (Dirvi Surya Abbas & Arry Eksandy, 2021). This is because Indonesia has a large population with a very large level of need, and interest in buying and selling is quite high (Suroto & Nugraha, 2019). The Ministry of Industry of the Republic of Indonesia explained that during 2018, food production increased by 7.91 percent, exceeding 5.17 percent in national economic growth. In addition, in the fourth quarter of 2018, the growth of large and medium-sized business production increased by approximately 3.90 percent compared to the fourth quarter of 2017.

In addition, the food industry is a field that supports the increasing value of national investment around 56.600 trillion in 2018 (Septifany, 2015). Over the past year, the total value of investment in the manufacturing sector has reached 222.3 trillion. As for the export market currently accounts for 50% of all the company's penju alan up to 35 trillion more (Sabaruddin, 2017). The amount of contribution contributed by the manufacturing industry in Indonesia should be followed by the amount of tax revenues obtained (Chan et al.. 2018). Tax is a source of income for management financing, but for companies, taxation becomes a dependent to cut profits (Lashkaripour, 2020). This makes the company conduct tax activities by legal means or not.

There are aspects that can make the manufacturing industry do tax evasion. (Saputra et al.. 2017) suggests that financial distress partially affects the tax avoidance of the manufacturing industry. Similar results were also found by Sadjiarto et al.. (2020), that financial distress has a significant positive influence on tax avoidance because there is a decrease in the state of the economy and financial in the company makes soaring risk of corruption and increased tax avoidance practices conducted by the company if the risk of corruption is large enough, so that the company will conduct tax prevention and neglect the effect of audits used by tax forces. This condition supports tilehnouei et al's opinion. (2018) that tax avoidance can occur in line with companies experiencing financial distress in the midst of the global financial crisis.

According to Irianto &S.Ak, (2017) Tax Avoidance can be influenced by size in the company. A. Susanti (2017) is also a measure of the company has been found to be a variable that affects tax avoidance, but CSR has no effect on tax avoidance. Similar results were also found by Ichsani & Susanti (2019) that the growing number of companies will be complicated transactions, allow companies to use these loopholes to avoid tax avoidance on every transaction. According to Nugroho, W.C., & Agustia (2018) another factor that contributes to tax avoidance is ownership, he explained that the company's property has an

DOI: 10.30726/ijmrss/v8.i2.2021.82014

impact on Ta Avoidance. Similar to what Khan et. al found., (2017) where design found a significant positive influence of institutional ownership on tax avoidance. Institutional possession plays a valuable role in monitoring improved management capabilities. The higher the qualities of the organization will the increase the control over the manager and decrease the corporate tax aggression. Corporate investors can lower their debt budgets by minimizing agency issues, reducing the company's expertise to take steps to minimize tax burdens (Avianita & Fitria, 2020). Tax is the cost incurred by the company depending on the profit obtained by the company. Tax Avoidance can lead to other costs, many companies prefer to follow tax rules rather than pay a dent for tax avoidance.

2. Literature Review

2.1 Tax Avoidance

Tax avoidance is defined as an effort aimed at minimizing the tax burden imposed on the company (Wang et al.. 2020). Tax avoidance is different from manipulating taxes. Ontax evasion, Tax payment obligations follow the relevant rules (Wen et al.. 2020). Tax avoidance is done by utilizing the arrangements in the tax aspect to the maximum, namely on the exemptions and depreciation allowed at the same time as unregulated benefits and weaknesses in the relevant tax regulations. Ozdemir (2020) suggests that institutional shareholders who own large amounts of shares have the potential to monitor any decisions that may affect the company's performance. While tax avoidance also occurs when companies have less profit than spending, thus triggering the occurrence of tax avoidance (Clausing et al., 2020).

$$Cash\ ETR: \frac{Cash\ Tax\ Paid\ i,t}{Pretax\ Income\ i,t}$$

2.2 Company Size

The size of a company is determined by the size of the company in its total assets, total sales, gross profit, tax expense, and a number of other factors. The classification of u kuran company has been described in Law No. 20 Yr. 2008 (See Table 1). The size of the company can be known using the measurement: Company size: LnToral Assets. Irianto &S.Ak (2017) in his research involving 156 manufacturing companies in IDX explained that, large companies will have a big profit. This advantage is the basis of the government in applying taxpayers to companies. The tax rate imposed on the company makes the company do the tax evasion. The amount of total assets makes the size of the company even larger.

Vaccaro et al. (2012) explains that the bigger the company, the more complicated the transaction. This allows companies to avoid tax on any transactions using existing loopholes. Moreover, companies that carry out their activities across the country tend to avoid taxes more than companies that run in the market because they are able to transfer their profits to foreign companies that receive lower tax rates than other countries. Contradictory findings by Sonia & Suparmun (2019) involving 183 data from the manufacturing industry in the 2014-2016 range showed tax avoidance was not influenced by size on companies.

2.3 Institutional Ownership

Monitoring management is an institutional ownership authority. Institutional ownership is the determinant of decisions because of its position as the majority of shareholders; in addition the determinant of institutional ownership decisions is control at as management of the company's financial policy (Rahayu & Rusliati, 2019). An institution basically has a large investment purpose. Therefore, companies sometimes put a burden on the departments that carry out corporate investment (Jannah & Khoiruddin, 2017). Because the institution monitors investment activities in the professional category, control over its management activities is very high, which prevents the possibility of fraud (Nilayanti & Suaryana, 2019).

So, it can be interpreted that the ownership of the company is the existence of share ownership of other entities or other companies. The shareholding in the party established by the organization i. a high level of institutional ownership is aimed at increasing institutional investor control, so as to prevent the act of taking advantage for yourself on the manager, minimizing the level of fraud committed by management, and lowering the value of the company. Financial distress occurs when cash income is smaller than long-term expenses.

Research by Nugroho, W. C., & Agustia (2018) revealed that corporate ownership contributes to tax avoidance. Tax avoidance will also be done by planning that has an effect on the increasing implementation of tax avoidance implemented by management in the company. The application of tax avoidance that develops can affect the profit that has been achieved by the company so that institutionally oriented ownership can maximize the profit to be obtained, the amount of profit earned by the company annually will affect the amount of dividends distributed by institutional shareholders.

Research by Jiang, Y., Zheng, H., & Wang (2021) involving 1108 Listed Chinese companies from 2009 to 2017 told the AP that increasing institutional investor shareholdings would likely encourage corporate tax avoidance. When the concentration level of ownership is low, increased institutional ownership can play a greater role in encouraging tax avoidance. In line with this opinion,

DOI: 10.30726/ijmrss/v8.i2.2021.82014

Khan et al. (2017) found that tax avoidance was done in an effort to achieve greater profit.

2.4 Financial Distress

Financial distress is interpreted as an early clue before the company went into bankruptcy. Manifestations of the financial crisis can be seen in the financial performance of the company's financial statements. The company's inability to meet obligations such as paying off debt in the short term and solvency is an indication of financial distress. The company suffered financial distress when it experienced negative profit margins over the space of several years.

Financial distress is caused by a lack of capital due to improper use of capital resources, insufficient deposits, and efficient management of all activities. Financial constraints increased risk of bankruptcy due to the economic and financial downturn of the company may improve tax avoidance practices to maintain the stability of the company.

$$Financial\ Distress: \frac{Operating\ Cash\ Flow}{Average\ Total\ Liabilities}$$

Putri & Chariri (2017) found that financial distress berpenga positive effect on tax avoidance. When companies in a financial distress state are forced to take a big risk in tax avoidance, this is because revenues are increasingly critical so that companies have more to manipulate their policy and conduct tax avoidance.

Tilehnouei et al.. (2018) has conducted research related to the financial distress and global financial crisis in Tehran involving 90 companies that experienced a financial crisis during 2008-2013, found that financial distress affect tax avoidance and more occur when the global crisis hit because it has higher economic and political power than small companies and is more likely to avoid tax because of its ability to reduce tax burdens.

3. Research Methods

A method is a way of working that can be used to acquire something. While the research method can be interpreted as a working procedure in the research process, either in the search for data or disclosure of existing phenomena (Zulkarnaen, W., et al.. 2020:229). Quantitative is the research approach used and the survey is the type of research used. Sample data in the study used in the manufacturing company's report in 2016-2020. Sampling used is Non Probability in the form of purposive sampling (Sugiyono, 2009). Supporting data used in this study. The source of information used is the annual report and audited wishful thinking registered in IDX 2016-2020 and accessed from the respective companies' websites. The data analysis method used is linear regression analysis with SPSS software.

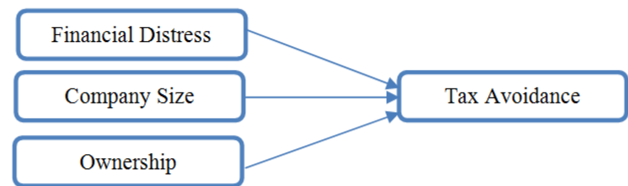

Fig.1: Research framework

Research Hypothesis
H1: There is a financial distress impact on tax avoidance
H2: There is an impact of the company's size on tax avoidance
H3: There is an institutional ownership impact on tax avoidance

4. Results and Discussion

The influence of Financial Distress (X1), Company Size (X2), Institutional Ownership (X3) on Tax Avoidance (Y) using a linear regression analysis.

Table 1. t-test result

Independent variable	β Coefficients	P-value
X1	0.236	0.001
X2	0.554	0.018
X3	0.103	0.061

Source: Data processed, 2021

Table 2. F-test result

F	P-value
18.024	0.000

Source: Data processed, 2021

Table 3. Coefficient of Determination

Adj. R-Square	Durbin Watson
0.785	1.594

Source: Data processed, 2021

The adjusted value of R^2 describes 0.785. Thus, the model can be explained that the financial distress variable, the size of the company, and institutional ownership to the tax avoidance as much as 0.785 which is about 78.5%.

4.1 Effect of Financial Distress on Tax Avoidance

Ian's research results showed that there was an influence of financial distress on tax avoidance which

DOI: 10.30726/ijmrss/v8.i2.2021.82014

showed a positive coefficient value. The p-value of 0.001, so it is significant, because p-value is smaller than 0.05, meaning financial constraints has an impaction to tax avoidance. It can be known that companies with major financial difficulties tend to carry out tax avoidance. The results are also in line with Putri's research (2017) that financial distress on the practice of tax avoidance has an influence on manufacturing companies. Financial distress experienced by the company is caused by a decrease in economic and financial conditions in the company, thus increasing the risk of bankruptcy. Therefore, tax avoidance used by the company and do not pay much attention to the tax audits that exist in the company.

4.2 Effect of Company Size on Tax Avoidance

The results of the experiment have the effect of the size of the company on tax avoidance showing the direction of the ratio, which is positive. The p-value of 0.018, so it is significant, because p-value is smaller than 0.05, meaning the size of the company has an impact on tax avoidance. This is in line with the research of Putri &Putra (2017) that the larger the company, the higher the rate ofcash pajak, will be reduced to carry out tax avoidance activities. That way it will make a large industry can protect the good name of its company so that it is always good in the eyes of citizens and rulers by carrying out taxation programming that does not violate the determination of tax law. In this regard, the Ordinary Taxation Unit needs to raise the account representative and fiscal interrogators to monitor the activities of small businesses that are not the focus of the ruler.

4.3 Effect of Institutional Ownership on Tax Avoidance

The results of the test of the effectiveness of corporate ownership in tax avoidance show a positive coefficient. The p-value is 0.061, so it is not significant, because p-value is greater than 0.05, meaning the size of the company has no impact whatsoever. In other words, corporate ownership has nothing to do with tax avoidance. This is in line with the research of Arianandini & Ramantha (2018) that Ownership of entities has no significant influence on tax avoidance. The institution's ownership structure shows that the company is under pressure to implement aggressive taxation policies to maximize the profits of institutional investors. Because the company is accountable to its shareholders, the company's owners and management are motivated to make decisions that maximize shareholder concern.

5. Conclusion

The conclusion of this study is that financial distress affects tax avoidance due to the decline in financial condition as experienced by the company so decided to do tax avoidance. In addition, it also shows that the size of the business has an impact on tax avoidance. The right of large companies has a tendency to maintain its image to the public so that they will try to comply with the terms of tax payments. Meanwhile, corporate ownership has no influence on tax avoidance due to pressure on owners to implement aggressive tax policies in order to increase profits.

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DOI: **10.30726/ijmrss/v8.i2.2021.82014**