THE RELATIONS AMONG FIRM CHARACTERISTIC, CAPITAL INTENSITY, INSTITUTIONAL OWNERSHIP, AND TAX AVOIDANCE: SOME EVIDENCE FROM INDONESIA

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Abstract

Purpose of the study: This study is to determine the effect of profitability, leverage, company size, capital intensity, and institutional ownership simultaneously and partially on tax avoidance in Indonesia.

Methodology: This study uses a quantitative approach to the type of descriptive research. The population of this research is property, real estate, and building constructs companies from 2013 - 2017, as many as 63 companies, which listed on the Indonesia Stock Exchange (IDX). While the samples in this study were 31 companies. The data analysis method used is multiple linear regression analysis.

Principal Findings: Profitability, leverage, company size, and institutional ownership partially influencing tax avoidance. However, the intensity of capital partly does not affect tax avoidance.

Applications of this study: This study suggests that the government makes several efforts to intervene to increase tax literacy on companies, the public, and expand access to higher education, as well as improve the quality of the democratization process to enhance tax compliance in Indonesia.

Novelty/Originality of this study: This research brings new evidence on the relationship between profitability, leverage, company size, and institutional ownership on tax avoidance in Indonesia.

Keywords: Agency Theory, Capital Intensity, Firm Characteristic, IDX, Institutional Ownership, Tax Avoidance.

INTRODUCTION

State revenue reflects the country is progressing and developing for the survival of the country and the welfare of the country's people in the future. The location of a country will undoubtedly determine the country's income. The more strategic the site of a country, the more investment will enter the country. The amount of investment entering a country will cause an increase in state income through the tax revenue sector (Putra & Merkusiwati, 2016).

Tax is an essential element for every country, even crucial for maintaining the state revenue budget. The Directorate General of Taxes needs to optimize its tax revenue for national development. Efforts to maximize tax revenue are experiencing problems, one of which is tax avoidance activity or called tax avoidance, which aims to reduce the amount of tax that must pay**.**

Tax Avoidance is not a violation of tax laws because the taxpayer's efforts to reduce, avoid, minimize and alleviate the tax burden carried out in a way that is possible by the tax law (Merks, 2007). Tax avoidance can interpret as an effort to streamline taxes, but it remains within the framework of taxation provisions (Sartono, 2010)(Frank, Lynch, & Rego, 2009).

Tax Avoidance influenced by various factors such as those from the side of funding policy, such as leverage policy, which is a ratio to measure how far the company uses debt to finance investment. Besides, there is a factor of company size that can classify company size into large companies and small companies — sales growth, managerial ownership, institutional ownership, profitability, capital intensity, asset intensity. If tax avoidance is carried out by the company, then this raises the question of why companies are avoiding taxes that use the weaknesses contained in the laws and tax regulations themselves to reduce the amount of tax owed.

In this research, factors that considered influencing the occurrence of tax avoidance in companies are profitability, leverage, company size, capital intensity, and institutional ownership.

The profitability of a company illustrates the ability of a company to generate profits for a specified period at the level of sales, assets, and specific share capital (Maharani & Suardana, 2014). Increasing profits can increase company profitability. Profitability is an indicator of management performance in managing company wealth, which is shown by the gain (N. Dewi, 2016). According to (Irianto, Sudibyo, & Wafirli, 2017), profitability has a positive influence on tax avoidance. An increase in profits will result in a higher tax to pay, or it can say that there is a possibility of tax avoidance (Fernández-rodríguez & Martínez-arias, 2012).

One of the funding policies is the leverage policy. Leverage is a ratio to measure how far a company uses debt to finance investment (Puspita & Febrianti, 2017). One way to minimize tax payments is because interest rates will rise and will reduce company profits, and ETR will be lower. Leverage uses debt to finance investment (Kurniasih & Sari, 2013).

Research (Alfina, Nurlaela, & Wijayanti, 2018) states that leverage affects tax avoidance. Leverage divided into two, namely operating leverage and financial leverage. Operating leverage is an indicator of changes in net income caused by large sales volumes, while financial advantage shows the company's ability to repay debt with its equity. Debt is an agreement between a company as a debtor and a creditor (Irianto et al., 2017). In his research (Irianto et al., 2017) states that some previous studies try to explain the factors that cause tax avoidance to the company. A significant tax rate will be more significant in the amount of tax paid. Therefore, it will encourage companies to take action on tax avoidance.

As revealed by (Rego, 2003) states that large companies will be more involved in their transactions, it will increase to take advantage of the gap to avoid tax. Big companies always get big profits. Significant profits will attract the attention of the government to implement tax payments to taxpayers (Agustina & Aris, 2015). Research (Putri & Putra, 2017) states that company size has a positive and significant effect on tax avoidance. The larger the size of the company, the effective tax rate of the company will be higher, which indicates a lower level of tax avoidance.

In research (Puspita & Febrianti, 2017), capital intensity does not affect tax avoidance. Capital intensity reflects how much capital is needed by a company to generate income derived from a decrease in fixed assets or an increase in fixed assets. The capital intensity or capital intensity describes how much the company's wealth invested in the form of fixed assets. Fixed assets are entities that have a useful life of more than one period and experience depreciation during the useful life of these fixed assets. The high level of fixed assets will attract the attention of the government to implement tax payments to taxpayers (Hidayat, Ompusunggu, & Suratno, 2016).

Institutional ownership is one that can also use to reduce agency conflict (Putri & Putra, 2017). The higher the institutional ownership, the stronger the external party's control over the company, making it possible for tax avoidance. Research (Masripah, Diyanty, & Fitriasari, 2016) says that institutional ownership influences tax avoidance. The higher the institutional ownership, the higher the amount of tax burden that must be paid by the company. That is because the less likely the practice of tax avoidance is carried out by the company.

As we know that research on tax avoidance has been done a lot, but of the many studies conducted, there are differences in research results as described above. These results vary because there are differences in the variables used, the object of research used, different cases, and differences in the study period.

The inconsistency of the results of the study makes researchers interested in re-examining the variables of profitability, leverage, company size, capital intensity, and institutional ownership. Because previous research results from these variables are inconsistent so researchers are motivated to research again to obtain empirical evidence that can provide benefits to the parties -interested party.

This study refers to research (Irianto et al., 2017) that examines the factors that influence tax avoidance on manufacturing companies on the Indonesian stock exchange. The results of the study (Irianto et al., 2017) show that profitability and company size influences tax avoidance, while leverage and capital intensity have no impact on tax avoidance.

The purpose of this study is to determine the effect of profitability, leverage, company size, capital intensity, and institutional ownership simultaneously and partially on tax avoidance in Indonesia.

LITERATURE REVIEW

Agency Theory

Agency theory states that information asymmetry exists between managers (agents) and shareholders (principals) because managers know more about private information and prospects of the company than shareholders and other stakeholders (Jensen & Meckling, 1974)(Kurniasih & Sari, 2013). Asymmetry of information occurs between managers and company owners as users of financial statements, causing company owners not to be able to observe the company's overall performance and prospects correctly (Jensen & Meckling, 1974).

The principal in finance (OJK) is a body or individual who is an agreement that gives the mandate to another party to carry out a trade transaction. An agent is a distributor who, on behalf of a particular company, sells goods or services produced by the company in a specific area. Agents sell products and services at prices determined by the manufacturer.

In this tax research, the conflict occurs with the interests of corporate profits between tax collection (tax authorities) and tax payments (company management). Fiscus expects maximum income from tax collection, while management believes that the company must generate significant profits with a low tax burden. These two different perspectives cause conflicts between the tax authorities as tax collectors and company management as taxpayers.

This tax avoidance is said to be not in conflict with the taxation regulations because it considered that practices related to tax avoidance more utilize gaps in the taxation law that will affect state revenue from the tax sector (N. N. K. Dewi & Jati, 2014). Tax avoidance is carried out by only individual companies through policies taken by the leaders of the company itself. Where the leadership of different characters. A company leader may have a risk taker or risk aver style that reflected in the size of the company's risk (N. N. K. Dewi & Jati, 2014).

Hypothesis Development

The influence of profitability on tax avoidance

The ability of a company to make a profit concerning the seller, the total assets, and its capital can describe through profitability. Profitability is an indicator of management performance in managing the company's wealth, as indicated by profit. An increase in benefits will result in a higher tax to pay, or it can say that there is a possibility of tax avoidance (Fernández-rodríguez & Martínez-arias, 2012). So, the researchers propose the following hypothesis:

H1: Profitability affects the Tax Avoidance.

The influence of leverage on tax avoidance

The results of the study (Puspita & Febrianti, 2017) state leverage is a ratio to measure how far the company uses debt to finance investment. This ratio can see how now the company founded by debt or outsiders with the ability of the company described by capital (equity). Leverage uses debt to finance investment (Kurniasih & Sari, 2013). One way to minimize tax payments is because interest rates will rise and will reduce company profits, and ETR will be lower. So, the researchers propose the following hypothesis:

H2: Leverage affects the Tax Avoidance.

The influence of size on tax avoidance

Company size is a scale that can classify companies into large companies and small companies, according to various methods such as total company assets, market value, average and total sales (Suwito & Herawaty, 2005). Big companies always get big profits. Significant profits will attract the attention of the government to implement tax payments to taxpayers (Agustina & Aris, 2015). That reinforced by the results of research conducted by (Irianto et al., 2017), which shows that company size affects tax avoidance. So, the researchers propose the following hypothesis:

H3: Size affects the Tax Avoidance.

The influence of capital intensity on tax avoidance

In research (Puspita & Febrianti, 2017), capital intensity does not affect tax avoidance. Capital intensity reflects how much capital is needed by a company to generate income derived from a decrease in fixed assets or an increase in fixed assets. The capital intensity or capital intensity describes how much the company's wealth invested in the form of fixed assets (Hidayat et al., 2016). So, the researchers propose the following hypothesis:

H4: Capital intensity affects Tax Avoidance.

The influence of institutional ownership on tax avoidance

Institutional ownership is one that can also use to reduce agency conflict (Putri & Putra, 2017). Research conducted (Nursari, Diamonalisa, & Sukarmanto, 2017) revealed that from the data available in the study, institutional ownership has a positive and significant effect on tax avoidance. The higher the institutional ownership, the stronger the external party's control over the company, making it possible for tax avoidance. That is because the less likely the practice of tax avoidance is carried out by the company.

H5: Institutional ownership affects the Tax Avoidance.

Based on the literature review, grand theory, and hypothesis development above, the Objective framework of this research, which is to see how the relationship between company characteristics, capital intensity, institutional ownership, and tax avoidance in Indonesia.

METHODOLOGY

Research Design

This study uses a quantitative approach to the type of descriptive research. This study aims to determine how much profitability, leverage, company size, capital intensity, and institutional ownership of tax avoidance in property, real estate, and building construct companies listed on the Indonesia Stock Exchange (henceforth, IDX).

IDX as the only stock exchange site in Indonesia that provides free information about profitability, leverage, company size, capital intensity, and institutional ownership of tax avoidance in property, real estate, and building construction on their website: https://www.idx.co.id. Meanwhile, the source of the data used in this study is secondary data in the form of annual financial statements of mining companies listed on the IDX website in the period of 2013-2017.

The population in this study are 63 companies spread throughout Indonesia. But in this study, the sample used was 31 companies. The purposive sampling method is choosing a company. Purposive sampling was chosen based on the suitability of the characteristics of the sample with specified sample selection criteria.

Moreover, to collect and analyze the data, this study used documentation studies and literature studies by collecting, recording, and reviewing. The secondary data provided by https://www.idx.co.id and it reviews literature related to tax avoidance, profitability, leverage, company size, capital intensity, and institutional ownership such as journals, mass media, and previous research from various sources, both from libraries and other sources. Based on observations, the results of determining the research sample can see in the following Table 1.

Table 1: Purposive Sampling

No.	Criteria	Total
1	*Property real estate,& building construct* companies (IDX)	(63)
2	Companies that do not publish annual reports from 2013-2017	(15)
3	Companies that have fiscal loss compensation	(17)
4	Companies that do not present complete data	(-)
	Total research sample	31
	Total research sample during an observation	155

Source: Research Data

Operational Variables

This study uses two types of variables, namely the dependent variable and the independent variable. The dependent variable is a variable that is affected or which is due to the independent variable. In this research, the dependent variable is tax avoidance. While the independent variable is a variable that influences or is the cause of change or emergence of the dependent variable. The independent variables in this study are profitability, leverage, company size, capital intensity, and institutional ownership.

Independent variable

Tax avoidance can interpret as an effort to streamline taxes but remain within the framework of taxation provision (Sartono, 2010). This study measures tax avoidance in several proxy measurements. As for the main proxy in this study refers to the study (Kurniasih & Sari, 2013) is the Effective Tax rates (ETR) calculated from:

$$\text{ETR} = \frac{\text{Income Tax Expenses}}{\text{Income Before Tax}}$$

Dependent variables

According to (Sartono, 2010) states that: "Profitability is the ability to make profits about the seller, total assets and own capital." Based on these definitions, it can conclude that profitability illustrates the ability of companies to generate profits by utilizing company assets. The measurement using the formula:

$$\text{ROA} = \frac{\text{Net Profits}}{\text{Total Assets}} \times 100\%$$

Leverage is a ratio that illustrates the relationship between a company's debt to capital and assets (Harahap, 2010). Leverage uses debt to finance investment (Puspita & Febrianti, 2017). One way to minimize tax payments is because interest costs will rise and will reduce company profits, and effective tax rates will be lower. In this study, the indicator used to measure the level of leverage is Debt to Assets Ratio (DAR). This ratio illustrates the ratio of liabilities and total assets in corporate funding, which can measure the ratio between total debt to total assets (Harahap, 2010). The measurement using the formula:

$$\text{DAR} = \frac{\text{Total Liabilities}}{\text{Total Assets}} \times 100\%$$

The size of the company is a big picture of a company that is shown by total assets, total sales, average total sales, and average total assets, so the size of the company is the size or size of assets owned by a company using units of Rupiah (Ambarukmi & Diana, 2017). In this research, the size of the company can measure using total company assets. Total assets used as a proxy for company size with the consideration that the company's assets are relatively more stable compared to the total sales and capitalization value. With the following formula:

$$Size = \text{Ln } (Total \ assets)$$

Capital intensity ratio describes how much the company's assets invested in the form of fixed assets. Based on research conducted (Ardyansah & Zulaikha, 2014), this variable is measured using the ratio between net fixed assets divided by total assets. Capital intensity, according to (Lanis & Richardson, 2011), is calculated by dividing total net fixed assets by total assets.

The government wants to get more income from taxes, but the manager wants to minimize tax payments from capital intensity. The high level of fixed assets will attract the attention of the government to implement tax payments to taxpayers. Significant fixed assets will be more top in the amount of tax paid so that it will encourage companies to take action on tax avoidance (Irianto et al., 2017).

$$CapInt = \frac{\textbf{Total net fixed assets}}{\textbf{Total Assets}} \times 100\%$$

Institutional ownership is ownership of shares by other institutions, namely ownership by companies or other institutions. Purchase of shares by parties formed by institutions such as insurance companies, banks, investment companies, and property of other institutions (Masripah et al., 2016). Institutional Ownership is the proportion of share ownership held institutionally at the end of the year measured in the percentage of shares owned by institutional investors in a company. The higher the institutional ownership, the stronger the external party's control over the company, making it possible for tax avoidance. That is because the less likely the practice of tax avoidance is carried out by the company. The independent variable of institutional ownership defined as ownership of company shares by an institution, which is at the same time a party that monitors the company (Annisa & Kurniasih, 2012).

$$INST = \frac{\textbf{Total Institutional Shares}}{\textbf{Total Shares}} \times 100\%$$

Research Model

The data analysis method used is multiple linear regression analysis. Which is an analysis technique used to measure the effect of profitability, leverage, company size, capital intensity, and institutional ownership on tax avoidance in this study with descriptive statistical stages? The classical assumption test, the coefficient of determination test, simultaneous test (F test), Partial Test (t-test), and using the regression model as follows:

$$ETR_{it} = \alpha + \beta_1\,ROA_{it} + \beta_2\,DAR_{it} + \beta_3\,Size + \beta_4\,CapInt + \beta_5\,INST + e$$

Whereas:

ETR: *Effective Tax rates*   ROA: *Return on Asset*

DAR: *Leverage*   *Size*: Company Size

CapInt: Capital Intensity   INST: Ownership Institutional

$\beta_1, \beta_2, \beta_{3,4}, \beta_5$: Variable Coefficient

DISCUSSION / ANALYSIS

Based on the data analysis that has done, the first can explain, namely, the results and discussion of descriptive statistics that provide an overview of research data. By using descriptive statistics, we can find out the minimum, maximum, mean values, and standard deviations. The results of descriptive statistics can be seen in Table 2 as follows:

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	155	4.36	13.23	7.6635	1.85519
DAR	155	5.83	29.03	21.3169	4.02839
Size	155	146.71	173.20	163.9616	8.01051
CapInt	155	3.46	9.54	6.6795	1.61459
INST	155	8.54	31.30	23.2083	4.91177
ETR	155	14.21	22.05	17.4853	2.31711
Valid N (listwise)	155				

Source: Research Data

Based on the results of the SPSS output in table 2 shows that the amount of data (n) there are 155. On the profitability variable obtained an average value (mean) of 7.6636, with a minimum value of 4.36; and a maximum cost of 13.23. The standard deviation for this variable is 1.85519; this can interpret that the difference for this variable amounted to 1.85519.

In the leverage, variable obtained an average value (mean) of 21.3169, with a minimum amount of 5.83 and a maximum cost of 29.03. The standard deviation for this variable is 4.02839; this can interpret that the variance for this variable is 4.02839.

In the company size variable, the mean value is 163.9616, with a minimum amount of 146.71 and a maximum value of 173.20. The standard deviation of this variable is 8.01051; this can interpret that the difference for this variable is 8.01051.

In the capital intensity variable obtained an average value (mean) of 6.6795; with a minimum amount of 3.46 and a maximum value of 9.54. The standard deviation of this variable is 1.61495; this can interpret that the difference for this variable is 8.01051.

In the institutional ownership, the variable has an average value (mean) of 23.2083, with a minimum value of 8.54 and a maximum value of 31.30. The standard deviation of this variable is 4.91177; this can interpret that the variance for this variable amounted to 4.91177.

In the variable tax avoidance obtained an average value (mean) of 17.4853; with a minimum value of 14.21 and a maximum value of 22.05. The standard deviation of this variable is 2.31711; this can interpret that the difference for this variable amounted to 2.31711.

Based on calculations, the significant value of unstandardized residuals is 0.090, higher than 0.05. So, it can conclude that the residuals usually distributed. The results of the calculation of tolerance values show that all independent variables have a tolerance value of more than 0.10. And the amount of Variance Inflation Factor (VIF) also shows all independent variables have a VIF value <10. So, it can conclude that there is no multicollinearity between the independent variables in the regression model. The autocorrelation test is for this study to use the Durbin Watson Test. Durbin Watson is more excellent than -2 and smaller than +2 (-2 <DW <+2).

Testing heteroscedasticity in this study uses scatterplot charts. Assuming that the independent variable is statistically significant, affecting the dependent variable (absolute), then there is an indication of heteroscedasticity and vice versa. SPSS processing results obtained as follows:

Regression analysis in this study intended to see how the influence of profitability, leverage, company size, capital intensity, and institutional ownership on tax avoidance. Using the help of SPSS version 23, the following results obtained:

Table 3: Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.058	4.961		.818	.415
	ROA	-.242	.106	-.194	-2.285	.024
	DAR	.103	.048	.179	2.152	.033
	Size	.063	.025	.219	2.570	.011
	CapInt	.060	.124	.042	.485	.628
	INST	.098	.039	.208	2.546	.012

Source: Research Data

Table 3 shows the multiple regression equations obtained are as follows: Y = 4,058 – 0,242ROA(X1) + 0,103DAR(X2) + 0,063Size(X3) + 0,060CapInt(X4) + 0,098INST(X5).

Based on the regression model formed in table 3 it, can be seen that the constant (α) of 4.058 (positive) states that without the influence of the five independent variables and other factors, the Tax Avoidance (Y) variable is 4.058.

The profitability variable regression coefficient is -0.242 (negative). That means that every time there is an increase in profitability by one unit, it will reduce Tax Avoidance (ETR) by 0.242 units without being influenced by other factors.

The leverage variable regression coefficient is 0.103 (affirmative). That means that every time there is an increase in leverage by one unit, it will increase the Tax Avoidance (ETR) by 0.103 units without being influenced by other factors.

The regression coefficient of the variable Company Size is 0.063 (affirmative). That means that every time the company size increases by one unit, it will increase Tax Avoidance (ETR) by 0.063 units without being influenced by other factors.

The regression coefficient of the Capital Intensity variable is 0.060 (affirmative). That means that every time there is an increase in capital intensity by one unit, it will increase Tax Avoidance (ETR) by 0.060 units without being influenced by other factors.

The regression coefficient for Institutional Ownership is 0.098 (affirmative). That means that every time there is an increase in institutional ownership by one unit, it will increase Tax Avoidance (ETR) by 0.098 units without being influenced by other factors.

The results of hypothesis testing indicate that the profitability variable partially influences tax avoidance. That can see from the hypothesis test where the significant profitability value of 0.024, where the amount of 0.024 <0.05 so that the profitability variable affects tax avoidance and means H1 is accepted. The results of hypothesis testing indicate that the leverage variable partially influences tax avoidance. That can see from the hypothesis test where the significance value of 0.033 where the importance of 0.033 <0.05 so that the variable leverage affects the tax avoidance and means that H2 is accepted. The results of hypothesis testing indicate that firm size variables partially affect tax avoidance. That can see from

the hypothesis test where the value of company size is significant 0.011, where the importance of 0.011 <0.05 so that the size firm variable influences tax avoidance and means that H3 is accepted.

The results of hypothesis testing indicate that the variable capital intensity does not partially affect tax avoidance. That can see from the hypothesis test where the value of significant capital intensity is 0.628, where the importance of 0.628> 0.05 so that the capital intensity variable has no effect on tax avoidance and means that H5 rejected. The results of hypothesis testing indicate that the variable institutional ownership partially influences tax avoidance. That can see from the hypothesis test where the value of institutional ownership is significant 0.012, where the importance of 0.012 <0.05 so that variable institutional ownership influences tax avoidance and means that H6 is accepted.

Hypothesis testing results state that profitability affects tax avoidance. This study is in line with research (Irianto et al., 2017), but not in line with research (Lionita & Kusbandiyah, 2017) which states profitability hurts tax avoidance, but not in line with research (Permata, Nurlaela, & W, 2018) which says leverage does not affect tax avoidance.

Hypothesis testing results state that capital intensity does not affect tax avoidance. This study is in line with research (Irianto et al., 2017).

Hypothesis testing results state that institutional ownership influences tax avoidance. This study is in line with research (Putri & Putra, 2017) but not in line with research (Masripah et al., 2016), which states that leverage does not affect tax avoidance.

CONCLUSION

The conclusion that can take is profitability, leverage, company size, institutional ownership, and capital intensity simultaneously affects tax avoidance. Furthermore, profitability, leverage, company size, and institutional ownership partially affect tax avoidance. However, the concentration of capital partly does not affect tax avoidance. As a recommendation, the company management must be careful in determining the policy to be taken, especially regarding taxes so that they do not classify as tax evasion, which falls into the category of violation of the law.

LIMITATION AND STUDY FORWARD

The next researcher expected to be able to add other independent variables because there are still many different variables that influence tax avoidance, that study is not included. It hoped that this research could provide a complete picture of the factors that influence tax avoidance in Indonesia. Future studies can use other types of sectors so that they can provide a more comprehensive view.

AUTHOR CONTRIBUTION

Wirmie Eka Putra: Design research methods, conceptualization, analyze the data.

Yuliusman: Collecting research data, processing the data.

Raeza Firsta Wisra: Finding related literature, proofreading, and editing.

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