

TAX AVOIDANCE IN JAKARTA ISLAMIC INDEX COMPANIES

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Abstract: The trend of tax avoidance in Indonesia is predicted to increase when the government cancels some anti-tax avoidance instruments. The purpose of this study is to determine the trend of tax avoidance in JII companies so that it can show a tendency to decrease or increase tax avoidance of JII companies in the long term. This type of research is a descriptive study that uses data from the annual report of the JII company for the years 2011-2020. In general, JII companies during 2011-2020 experienced an increase in tax avoidance. This can be seen from the smaller ETR value from 2011-2020. A small ETR value is an indication that the company is doing tax avoidance. Based on the results of this study, DGT can make forecasts related to tax avoidance, become DGT's input in detecting JII companies that do tax avoidance and evaluate anti-tax avoidance instruments that were previously abolished by the government.

Keywords: Tax avoidance; Jakarta Islamic index; earning tax ratio

Received
November 28, 2021

Revised
March 21, 2022

Accepted
March 28, 2022

Published
March 31, 2022

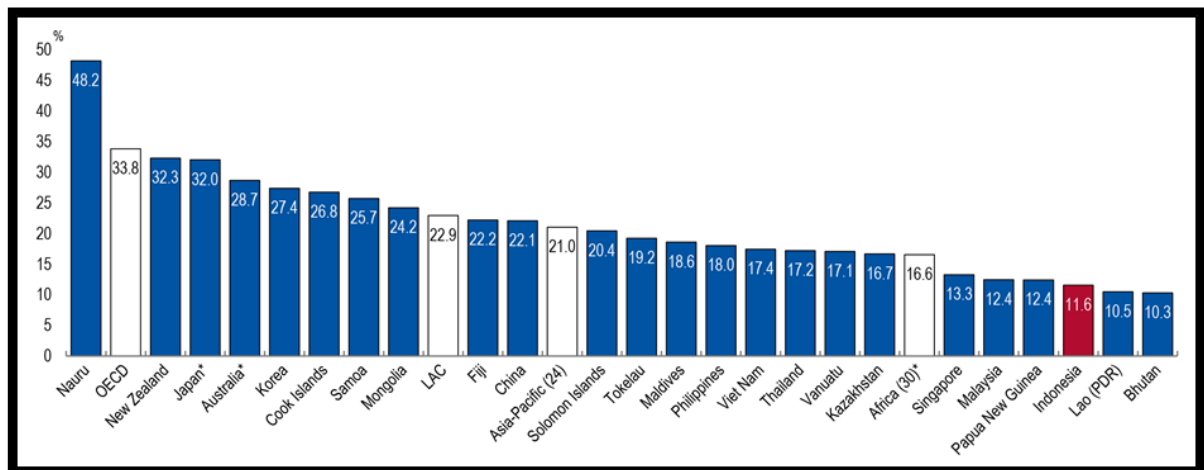
To cite this article: Budiman, N. A. & Bandi. (2022). Tax avoidance in Jakarta Islamic index companies. *IJIBE (International Journal of Islamic Business Ethics)*, 7(1), 30-39.
<http://dx.doi.org/10.30659/ijibe.7.1.30-39>

INTRODUCTION

Indonesia implements a self-assessment system as a tax collection system that entrusts taxpayers to calculate the tax payable, pay tax shortages, and report to the Directorate General of Taxes (DGT). However, the self-assessment system does not substantially improve the performance of tax compliance in Indonesia. Many taxpayers do not believe in the existence of taxes. Taxpayers only recognize taxes as a tradition of paying many levies to the government, without understanding the basis and purpose, and objectives of paying taxes because of a lack of understanding of taxes. Lack of understanding of taxes will encourage taxpayers, in this case, companies to commit fraud in reducing the amount of tax paid (Kurniasih & Sari, 2013; West, 2018).

The effectiveness of the implementation of the self-assessment system can be reflected in the tax ratio. The tax ratio in Indonesia is still below the World Bank standard, which is 15%. Based on data published by the Organization for Economic Co-operation and Development (OECD) in the 2021 Revenue Statistics in Asia and the Pacific report, Indonesia's tax ratio was recorded at 11.6%. This figure makes Indonesia the country with the third-lowest tax ratio out of 24 Asian and Pacific countries. The low level of the tax ratio indicates that taxpayers are still reluctant to make tax payments by the actual amount. This is very worrying considering that 82.85% of the state budget comes from tax revenues

(APBN, 2021).



Source: OECD (2021)

Figure 1. Tax Ratio of 24 Asian and Pacific Countries

The low tax ratio is a serious problem for Indonesia because it results in unfulfilled tax revenue targets. A country's low tax ratio can be caused by tax avoidance (Dyrenge et al., 2010). Tax avoidance is a practice that exploits legal loopholes and weaknesses in the self-assessment system. Companies take advantage of unclear legal loopholes in the context of tax avoidance to obtain favorable tax outcomes (Dyrenge et al., 2008; Assidi et al., 2016; Oats & Tuck, 2019; Tang, 2020; Morally, any legal loopholes used by taxpayers to minimize the amount of income tax payable cannot be justified (Alasfour et al., 2016).

The trend of tax avoidance in Indonesia is predicted to increase when the government cancels some anti-tax avoidance instruments, including the Alternative Minimum Tax (AMT) and General Anti Avoidance Rule (GAAR) in the Tax Regulation Harmonization Bill. AMT is a taxation scheme for companies that record fiscal losses for 5 consecutive years while GAAR is an anti-tax avoidance provision to prevent transactions carried out by taxpayers to avoid or not include business substance.

Jakarta Islamic Index (JII) is a sharia stock index that was first launched in the Indonesian capital market. JII has advantages compared to other sharia indices in terms of liquidity, stocks that meet sharia criteria, have the largest market capitalization, and have a high level of trading value liquidity. One of the cases of tax evasion that occurred in the JII company was PT Adaro Energy, Tbk. (ADRO). Until this research was completed, DGT was still studying the Global Witness report (4 July 2019) which revealed allegations that ADRO made a profit transfer from 2009-2017 by utilizing its subsidiary in Singapore, Coaltrade Services International. ADRO paid US\$ 125 million in taxes less than it should have paid to the state, so the Indonesian government could potentially lose nearly US\$ 14 million/year in revenue that the Indonesian government could use for the development of essential public services (Friana, 2019).

Another tax evasion case occurred at PT Kalbe Farma, Tbk. (KLBF). In 2017, KLBF received an underpaid tax assessment letter of Rp 527.85 billion for income tax and value-added tax for the 2016 fiscal year. The issuance of this letter by the DGT indicates that KLBF is trying to minimize the taxes paid by taking tax evasion measures (Maitriyadewi &

Noviari, 2020).

The tax burden that burdens the company makes the company do tax avoidance (Chen, 2010; Hines Jr., 2017). Tax avoidance can be done by doing tax planning (Wang et al., 2019), aggressive taxation (Chyz, 2013), and tax sheltering (Olsen & Stekelberg, 2016). Tax avoidance can reduce cash outflows and increase firm value (Graham & Tucker, 2006), whereas Desai & Dharmapala (2009) find that tax avoidance is associated with opportunistic behavior and increased agency costs that can reduce firm value. Tax avoidance is positively related to corporate risk (Kim et al., 2011). However, based on the research results of Guenther et al. (2017), tax avoidance does not increase firm risk.

Research on tax avoidance has been widely carried out in various countries, such as the United States (Rego & Wilson, 2012; Chyz, 2013; Gaertner, 2014; Armstrong et al., 2015; Abernathy et al., 2016; Seidman & Stomberg, 2017; Hsieh et al., 2018; Chen et al., 2019), China (Chan et al., 2013; Richardson et al., 2016; Huang et al., 2018; Chen et al., 2019; Tang, 2020; Liang et al., 2021), Japan (Orihara, 2017), Malaysia (Salihu et al., 2015; Wahab et al., 2017), Australia (Lanis & Richardson, 2011; Taylor & Richardson, 2014; Richardson et al., 2016; McClure et al., 2018), UK (Dyrenge et al., 2016), Germany (Feller & Schanz, 2017), and Tunisia (Gaaya et al., 2017). In Indonesia, research on tax avoidance, especially in JII companies, has been carried out by Ismi & Linda (2016), Meilia & Adnan (2017), Kalbuana et al. (2020), Kalbuana (2021), and Rokhaniyah (2021).

The purpose of this study is to determine the trend of tax avoidance in JII companies so that it can indicate a tendency to decrease or increase in overall JII tax avoidance in the long term. Based on the results of this study, DGT can make forecasts related to tax avoidance, become DGT's input in detecting JII companies that do tax avoidance, and evaluate anti-tax avoidance instruments, namely the provision of Alternative Minimum Tax (AMT) which was abolished by the government in the draft on the Harmonization of Tax Regulations.

LITERATURE REVIEW

Agency Theory

The concept of agency theory is a contractual relationship between principals and agents in a company. The principal is the shareholder, while the agent is the management who holds the function of managing the company (Jensen and Meckling, 1976). The principal employs the agent to carry out tasks in the principal's interest, including the delegation of decision-making authority from the principal to the agent. Agency theory uses 3 assumptions of human nature, namely: (1) humans are generally self-interested, (2) humans have limited thinking power about future perceptions (bounded rationality), and (3) humans always avoid risk (risk-averse). Based on the assumption of human nature, it can be concluded that the agent as a human is most likely to act based on opportunistic nature, namely prioritizing his interests.

The existence of different interests causes the agent to receive satisfaction not only from financial compensation but also from additions to an agency relationship, such as having plenty of free time, attractive working conditions, club membership, and flexible working hours while the principal is assumed to be only interested in returns from their

investment. The principal does not have sufficient information regarding the agent's performance and the principal can never be sure how the agent's efforts in contributing to the company's actual results result in an information gap between the principal and the agent (information asymmetry).

The relationship between agency theory and this research is the practice of tax avoidance if it is not managed properly, it will cause a conflict of interest that begins with information asymmetry. The conflict occurs in the interests of corporate profits between tax collectors (fiskus) and taxpayers (company management). Fiskus hopes that there will be as much income as possible from tax collection, while the management of the company is of the view that the company must generate significant profits with a low tax burden. These two different points of view have led to conflicts between the tax authorities as tax collectors and the company management as taxpayers (Prakosa, 2014).

Tax Avoidance

Tax avoidance is a way to reduce taxes that are still within the limits of the provisions of tax laws and regulations and can be justified, especially through tax planning (Wang et al., 2019). Tax avoidance is a tax deduction from pre-tax accounting profit. Corporate tax avoidance describes the transfer of wealth from the government to the company and should add value to the company (Chen et al., 2014). According to Dyreng et al. (2008), it is important to emphasize that tax avoidance does not necessarily mean the company is involved in something that is not right. There are many loopholes in tax regulations that allow and encourage companies to reduce their tax rates. Tax avoidance does not violate the law and only takes advantage of the loopholes in the law.

According to Suandy (2011), several factors motivate taxpayers to make tax savings illegally, namely: (1) the amount of tax to be paid, the greater the amount of tax to be paid, the greater the tendency of taxpayers to commit violations, (2) the cost of bribing the tax authorities, the smaller the fees for bribing the tax authorities, the greater the tendency of taxpayers to commit violations, (3) the possibility of being detected, the less likely a violation is detected, the greater the tendency of taxpayers to commit violations, and (4) the number of sanctions, the lighter the sanctions imposed on violations, the greater the tendency of taxpayers to commit violations.

Tax avoidance is part of tax planning that is carried out to minimize payments (Masri, 2013). Three things must be considered in a tax planning, namely (Suandy, 2011): (1) not violating the provisions of taxation if a tax planning is forced by violating the provisions of taxation, for taxpayers it is a very dangerous tax risk and threatens the success of tax planning. This, (2) makes business sense because tax planning is an inseparable part of the company's overall planning, both long-term and short-term so that unreasonable tax planning will weaken the planning itself, and (3) the supporting evidence adequate, for example, agreement support, invoices, as well as accounting treatment.

METHOD

Population and Sample

This research uses a descriptive research method. Descriptive research is one of the

research methods used in research that aims to explain an event. Sugiyono (2011) explains descriptive research as a study that aims to provide or describe a situation or phenomenon that is currently happening by using scientific procedures to answer actual problems. Descriptive research is a method that seeks to describe, interpret something, for example existing conditions or relationships, developing opinions, ongoing processes, consequences, or effects that occur or about ongoing trends.

The population in this study is the JII company in 2011-2020. The sampling technique is purposive sampling with the following criteria: (1) companies that are consecutively included in JII during 2011-2020, (2) companies that present annual reports during 2011-2020, and (3) companies have positive profits and there is no tax compensation due to losses from previous years. The sample selection process was carried out by eliminating 62 JII companies in 2011-2020 that did not meet the sample criteria. Based on the results of the elimination, there are only seven companies with 70 observations during 2011-2020.

Table 1. Research Sample

No.	Code	Company Name
1	ADRO	PT Adaro Energy, Tbk.
2	AKRA	PT AKR Corporindo, Tbk.
3	ICBP	PT Indofood CBP Sukses Makmur, Tbk.
4	KLBF	PT Kalbe Farma, Tbk.
5	TLKM	PT Telekomunikasi Indonesia (Persero), Tbk.
6	UNTR	PT United Tractors, Tbk.
7	UNVR	PT Unilever Indonesia, Tbk.

Source: Research Results (2021)

Tax Avoidance Measurement

Earning Tax Ratio (ETR) is a measurement of tax avoidance in this study because it is by tax regulations in Indonesia. Research that uses ETR as a measure of tax avoidance, such as Chan et al. (2013), Gaertner (2014), Armstrong et al. (2015), Salihu et al. (2015), Richardson et al. (2016), Gaya et al. (2017), and Chen et al. (2019). ETR is calculated by (Hanlon & Heitzman, 2010):

$$ETR = \frac{\text{Tax Expense}}{\text{Earning before Tax}}$$

The use of ETR is expected to be able to provide a comprehensive picture of the tax burden that will have an impact on accounting profit in the notes to the company's financial statements and be able to identify JII corporate tax avoidance in 2011-2020. Companies that have low ETR will try to increase ETR by lowering profits because companies tend to want small accounting profits to avoid the possibility of paying high taxes in the future.

RESULT

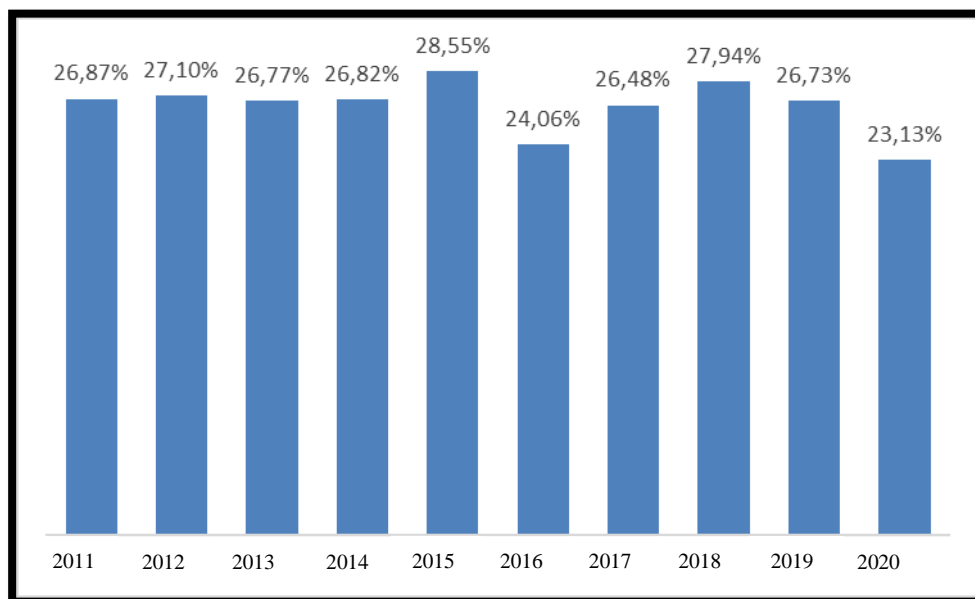
Table 2 shows the ETR of the sample companies during the 2011-2020 period. The greater the ETR value, the smaller the level of tax avoidance and vice versa that the smaller the ETR value will indicate the greater the tax avoidance (Hanlon & Heitzman, 2010). ETR aims to see the tax burden paid in the current year.

Table 2. ETR Value of Research Sample

No.	Code	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1	ADRO	0.4493	0.4629	0.4532	0.4303	0.4607	0.3766	0.4229	0.4183	0.3400	0.2865
2	AKRA	0.1971	0.2357	0.1602	0.1955	0.1805	0.0641	0.1111	0.2359	0.1917	0.1928
3	ICBP	0.2472	0.2460	0.2473	0.2529	0.2710	0.2722	0.3195	0.2773	0.2793	0.2551
4	KLBF	0.2336	0.2309	0.2340	0.2325	0.2437	0.2395	0.2431	0.2447	0.2542	0.2283
5	TLKM	0.2583	0.2421	0.2553	0.2565	0.2560	0.2361	0.2334	0.2589	0.2721	0.2376
6	UNTR	0.2422	0.2274	0.2715	0.2574	0.3340	0.2415	0.2708	0.2680	0.2806	0.1967
7	UNVR	0.2530	0.2517	0.2523	0.2524	0.2526	0.2545	0.2526	0.2525	0.2534	0.2219

Source: Research Results (2021)

Six sample companies are indicated to be tax evasion in 2020. This is associated with the Covid-19 pandemic. During the pandemic, company management took advantage of greater tax avoidance with the tax incentives provided by the government in the form of lowering income tax rates and taxes borne by the government. This condition makes the company's management more aggressive in tax avoidance. The company's management looks for any loopholes that can lower the company's tax burden.



Source: Research Results (2021)

Figure 2. Trends in Tax Avoidance of the Research Sample

Based on Figure 2 regarding the trend of JII corporate tax avoidance in 2011-2020, in general, there is a high trend of tax avoidance seen from the ETR value. The smaller the ETR value indicates that there is a tax avoidance action by a larger company. The value of ETR in 2017 experienced the highest increase of 2.42% because in 2017 the government implemented a tax amnesty policy. Companies tend to make tax payments by actual conditions without having to do tax evasion. The year 2020 was the lowest year related to

the trend of JII corporate tax avoidance during 2011-2020 because in 2020 all aspects of life in all countries are experiencing the Covid-19 pandemic. Even though the government has issued a tax incentive policy, the company's management is trying to reduce the tax burden paid to the state treasury.

CONCLUSION

In general, JII companies during 2011-2020 experienced an increase in tax avoidance. This can be seen from the smaller ETR value from 2011-2020. A small ETR value is an indication that the company is doing tax avoidance. Not all years experienced a decline in the value of the ETR. In 2017, the ETR value of JII companies increased because in that year the Indonesian government issued a tax amnesty policy. This encourages companies to try to present their financial statements fairly without having to look for loopholes to avoid taxes.

The year 2020 is the year with the lowest ETR value during 2011-2020. This is due to the impact of the Covid-19 pandemic. The company looks for loopholes in every tax regulation to make the tax burden paid to a minimum. The company's management must think about the company's sustainability during and after the Covid-19 pandemic so that the management does tax avoidance.

This study has limitations on the small number of samples due to several sample selection criteria that must be met. For further research, we can add a sample of JII 70 companies and use tax avoidance measurements other than ETR.

The implications of this research are expected to be useful for the government, especially tax policymakers. This study provides an overview of tax avoidance in JII companies which is increasing over time. The government is required to be able to take policies and review tax incentive policies that will make companies avoid tax evasion and pay their tax burdens by reasonable conditions. For company management, it is hoped that this research will serve as a basis for reference in making company policies so that tax management is better.

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