

**TAX AGGRESSIVENESS AS FIRM'S BUSINESS
STRATEGY AMONG MANUFACTURING
COMPANIES LISTED ON THE IDX**



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Diponegoro University

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Declaration of Originality

I, Siti Mutingah stated that the undergraduate thesis is real and accurate to be my own work, especially written for partial requirement to complete Undergraduate Program of Accounting, and has not been presented in any other occasion before. I bear full responsibility for my undergraduate thesis.

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A handwritten signature in black ink, enclosed within a hand-drawn oval. The signature appears to be "Siti Mutingah".

Siti Mutingah
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MOTTO AND DEDICATION

“Ridha Allah tergantung Ridha Orangtua”

I dedicate this thesis for :

***My beloved mom, Masitin
My beloved dad, Sudaryo
My dearest brothers Amin, Ali and Didi
My dearest sisters Rosi and Yani
My family
All of my beloved friends***

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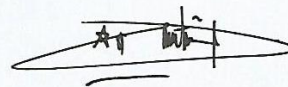
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ABSTRACT

This study aims to examine whether the business strategy applied by the company influences the level of corporate tax aggressiveness. The type of business strategy applied by the company is measured by five proxies, which are then carried out scoring. The scoring results are then converted into a dummy variable. Whereas for corporate tax aggressiveness measured by two measurement models, namely Book ETR and Cash ETR.

This study uses a purposive sampling method, where manufacturing companies listed on the Indonesia Stock Exchange in 2013-2017 are the research population. From the application of the method obtained 44 manufacturing companies each year that meet the criteria as a research sample, so the total sample used in this study as 220 samples.

This research uses panel regression analysis where REM (Random Effect Model) is used for the first model regression with Book ETR as proxy for measured tax aggressiveness, meanwhile FEM (Fixed Effect Model) is used for second model regression with Cash ETR as a proxy for measured tax aggressiveness. The results of this study indicate that there is no influence of the firm's business strategy with the level of corporate tax aggressiveness. Because majority of companies in Indonesia have not applied business strategies constantly for five years research.

Keywords: *Business strategy, Tax aggressiveness, ETR, REM, FEM*

ABSTRAK

Penelitian ini bertujuan untuk menguji apakah strategi bisnis yang diterapkan perusahaan berpengaruh terhadap tingkat agresivitas pajak perusahaan. Jenis strategi bisnis yang diterapkan perusahaan diukur dengan lima proksi, yang kemudian dilakukan scoring. Dari hasil scoring tersebut kemudian diubah menjadi bentuk variabel dummy. Sedangkan untuk agresivitas pajak perusahaan diukur dengan dua model pengukuran, yaitu Book ETR dan Cash ETR.

Penelitian ini menggunakan metode purposive sampling, dimana perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia tahun 2013-2017 merupakan populasi penelitian. Dari penerapan metode tersebut diperoleh 44 perusahaan manufaktur setiap tahunnya yang memenuhi kriteria sebagai sampel penelitian, sehingga untuk total sampel yang digunakan dalam penelitian ini sebanyak 220 sampel.

Penelitian ini menggunakan analisis regresi panel dimana REM (Random Effect Model) digunakan untuk model pertama regresi dengan Book ETR sebagai proksi pengukuran agresivitas pajak sedangkan FEM (Fixed Effect Model) digunakan untuk model kedua regresi dengan Cash ETR sebagai proksi pengukuran agresivitas pajak. Hasil penelitian ini menunjukkan bahwa tidak ada pengaruh dari strategi bisnis yang diterapkan perusahaan dengan tingkat agresivitas pajak perusahaan. Hal ini karena mayoritas perusahaan di Indonesia belum menerapkan strategi bisnis secara konstan selama lima tahun penelitian.

Kata kunci : Strategi bisnis, Agresivitas pajak, ETR, REM, FEM

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CHAPTER I

INTRODUCTION

1.1 Background

The position of tax in the Indonesian economy is very important because taxes are one of Indonesia's biggest sources of income. High state income will encourage people's prosperity to be better. In 2019 Ministry of Finance expected to raise the state income derived from tax revenues 15,4 percent of APBN 2018 amounted IDR 1.786,4 trillion with tax ratio approximately 12,2 percent. Tax revenue target data to APBN 2019 is presented in figure 1.1.

Figure 1.1
Target of Tax Revenue towards APBN 2019

Uraian (triliun Rupiah)	2016	2017	2018	2019
	LKPP	LKPP	Outlook	APBN
A. PENDAPATAN NEGARA	1.555,9	1.666,4	1.903,0	2.165,1
I. PENDAPATAN DALAM NEGERI	1.546,9	1.654,7	1.897,6	2.164,7
1. PENERIMAAN PERPAJAKAN	1.285,0	1.343,5	1.548,5	1.786,4
Tax Ratio (%)	0,01	0,01	11,57	12,22
a.l. PPh Migas	666,2	646,8	761,2	894,4
2. PENERIMAAN NEGARA BUKAN PAJAK	262,0	311,2	349,2	378,3
II. PENERIMAAN HIBAH	9,0	11,6	5,4	0,4
B. BELANJA NEGARA	1.864,3	2.007,4	2.217,3	2.461,1
I. BELANJA PEMERINTAH PUSAT	1.154,0	1.265,4	1.453,6	1.634,3
1. Belanja K/L	684,2	765,1	813,5	855,4
2. Belanja Non K/L	469,8	500,2	640,2	778,9
II. TRANSFER KE DAERAH DAN DANA DESA	710,3	742,0	763,6	826,8
1. Transfer ke Daerah	663,6	682,2	703,6	756,8
2. Dana Desa	46,7	59,8	60,0	70,0
C. KESEIMBANGAN PRIMER	(125,6)	(124,4)	(64,8)	(20,1)
D. SURPLUS/ (DEFISIT) ANGGARAN (A - B)	(308,3)	(341,0)	(314,2)	(296,0)
% Surplus/ (Defisit) Anggaran terhadap PDB	(2,49)	(2,51)	(2,12)*	(1,84)
E. PEMBIAYAAN ANGGARAN	334,5	366,6	314,2	296,0
I. PEMBIAYAAN UTANG	403,0	429,1	387,4	359,3
II. PEMBIAYAAN INVESTASI	(89,1)	(59,8)	(65,7)	(75,9)
III. PEMBERIAN PINJAMAN	1,7	(2,1)	(6,5)	(2,4)
IV. KEWAJIBAN PENJAMINAN	(0,7)	(1,0)	(1,1)	0,0
V. PEMBIAYAAN LAINNYA	19,6	0,4	0,2	15,0

Source : www.kemenkeu.go.id/media/11213/buku-informasi-apbn-2019.pdf

Data from Ministry of Finance showed that the tax sector is the biggest contributor to Indonesia's income. The realization of Ministry of Finance target depends on the compliance of the Taxpayers in depositing their taxes. But the awareness of taxpayers in paying taxes is still low. This can be seen from their efforts to take advantage of the loophole of tax regulations to carry out tax planning.

Tax planning is process was legalized by the state if it is done by considering the tax regulations and the impact of such actions are not detrimental to the state. Tax planning carried out by the company is by utilizing exceptions and deductions allowed in the provisions, as well as utilizing things that have not been regulated in the applicable tax regulations (Mangunsong, 2002). If this is still done fairly, the country will not be too disadvantaged. However, many companies abuse this by acting excessively so that the income earned by the state becomes smaller. Such excessive tax planning can be referred to as an aggressive tax avoidance (tax aggressiveness).

Since 2000 the phenomenon of increasing tax aggressiveness has attracted attention, especially in the field of accounting (Haliloui, et al, 2016). There is no definite definition of the notion of tax aggressiveness itself, but according to Slemrod (2004) (in Balakrishnan, et al, 2011) tax aggressiveness is a specific action that includes the act of manipulating transactions, with the main goal being to reduce the company's tax liability. The act of tax aggressiveness can also be interpreted as a plan or arrangement that places its main purpose is to avoid taxes by not following applicable laws (Lanis and Richardson, 2012).

According to Frank (cited by Lanis, 2013) tax aggressiveness a tax planning action carried out legally or tax avoidance, as well as illegal or tax evasion. Whereas according to Garbarino (2008) tax aggressiveness is the behavior of tax managers who advance their own interests by reducing the company's tax burden. In essence, tax aggressiveness can take any form as long as the tax burden that is supposed to be paid turns out to be smaller than expected.

The act of tax aggressiveness is always closely related to corporate taxpayers because they will look for ways to reduce their tax payments (Ngadiman and Puspitasari, 2014). One of them is by conducting tax aggressiveness which is considered as an act that is not socially responsible (Christensen and Murphy, 2004; Erle, 2008; Schön, 2008). To see whether a company does tax aggressiveness or not, it can be seen from the business strategy that they apply amid the current business competition.

Business strategy is a method made by managers to run their business. This business strategy is related to all company activities. Therefore, everything that is done by the company must be in line with what has been determined by the manager through the company's business strategy. Because every business decision taken by the company, will cause different transaction costs that have an impact on the consequences of the tax they receive.

According to Porter (1996), the best way for a company to achieve its competitive advantage and be able to compete in the market is to strengthen its business strategy through a number of activities, for example through functional

policies, improvements in terms of organizational structure, and so on. According to Higgins, et al, (2011), the selection of a company's business strategy determines how the company can compete in a market. Therefore, every company must try to optimize their business strategy so that it has an impact on minimizing the tax payments they incur.

There are several ways for a company to determine its business strategy. For example, from the type of product to be produced, does the company tend to make products that are homogeneous by maintaining existing products or preferring to produce something according to customer demand. Then whether in terms of innovation the company tends to choose to actively do various innovative things or not. Or the company's strategy can also be seen from how it manages the organization in it, whether centralized or decentralized.

In defender business strategy, companies only produce a limited number of types of products aimed only at a certain narrower segment in order to find the stability of the company and to more efficiently finance the costs they incur. In this strategy, companies use cost leadership strategies, where they minimize risks and uncertainties, try to maintain organizational stability and operations of the company, are not aggressive in pursuing new opportunities, and are always careful in planning everything before making a decision.

In prospector's business strategy, the company has the advantage there are products that continue to be updated because the company is able to see existing market opportunities. This strategy will succeed if the products that are

manufactured continue to grow by continuing to conduct research or exploitation of the surrounding environment. In other words, this strategy survives because of the product innovations they make. This strategy further embraces uncertainty, dares to make decisions before finalizing existing plans, and is more aggressive in pursuing new opportunities by entering the new product market as well.

Based on the description of the background, research was conducted on how a company's business strategy is able to influence the level of corporate tax aggressiveness. This research was conducted by referring to the research of Higgins, et al, (2014) entitled **“The Influence of a Firm's Business Strategy on its Tax Aggressiveness”**. The research of Higgins, et al, (2014) aims to provide a better understanding of the factors that influence companies involved in tax aggressiveness actions (Hanlon and Heitzman, 2010). Higgins, et al, (2014) used a sample of research in the form of American companies using data from 1993-2010.

The method used by Higgins, et al, (2014) to categorize the types of corporate business strategies using the same method as that of Bentley, et al, (2010), namely by using 6 proxies which will be classified depending on the number of scoring results. Whereas to find out the relationship of the company's business strategy to tax avoidance, Higgins, et al, (2014) used 3 test tools namely Cash ETR, Book ETR, and Permanent BTM. The results of the research findings are that companies that adopt a prospector strategy tend to be involved in more tax aggressiveness than companies with a business strategy defender and analyzer. In addition, the results of the study also state that companies with prospector

strategies tend to place foreign companies operating in tax haven countries compared to companies with defender strategies and analyzers.

Previous research such as Arieftiara (2015) in determining the type of business strategy applied by the company used six proxies (RDS, EMPS, GMVA, σ EMP, SGAS, and CAP). In contrast to Muhammad (2012) and Daniela (2011) who only used four proxies to determine the type of business strategy applied by the company (EMPS, MtoB, SGAS, and PPEINT). Whereas to measure tax avoidance, Arieftiara (2015) used four measuring instruments, namely BTD, Abnormal PermDIFF, Abnormal BTD, and Composite Measure of Tax Avoidance. Higgins, et. al (2014) measured tax aggressiveness with three measuring instruments, namely Book ETR, Cash ETR, and PermBTD. While Muhammad (2012) and Daniela (2011) measure tax avoidance with Book ETR and Cash ETR.

The results research of Arieftiara (2015) state that companies that adopt the prospector strategy have higher tax avoidance intensity than defenders and analyzers. This is in line with the research of Higgins, et al, (2010) who had previously conducted research in the context of companies in America. However, different results are explained by Muhammad (2012) and Daniela (2011) who state that the type of business strategy applied by the company has no influence with tax avoidance. According to Muhammad (2012) this happened because the majority of companies in Indonesia had not implemented a fixed and continuous type of business strategy. Because of differences or research gaps in previous researchers, this research was carried out with some adjustments.

This research is entitled **“Tax Aggressiveness as Firm's Business Strategy among Manufacturing Companies Listed on the IDX”**. The distinguished of this research from the previous research used as a reference is that this study uses a sample of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2013 - 2017. This study used a sample of manufacturing companies because the sector carries out complex business activities as a whole starting from the purchase of raw materials to processing raw materials into semi-finished products and finished products so that the products are ready for sale (Nugraha and Setiawan, 2019; Khumairoh, et. al, 2017). Another reason for using manufacturing as a sample because this company is the biggest tax contributor compared to other sectors (www.liputan6.com) (Khumairoh, et. al, 2017).

The difference in research with Higgins, et al, (2014) research which is a reference is that this study uses a business strategy defender and prospector because the two types of business strategies are contradictory. The results of the scoring calculation of the firm's business strategy (defender and prospector) is modified into a dummy variable, where 1 is a business strategy with a prospector type and 0 for a defender business strategy. In addition, this study does not include R&D ratio in the calculation of business strategy proxy and INTAN (Intangible) as the control variable. This is done because there are still few companies that disclose the R&D expense and intangible assets in their financial statements. Another difference from this study in the measurement of corporate tax aggressiveness which only used ETR proxies (Book ETR and Cash ETR). This is done because ETR proxies have been widely used by many researchers

and the results are most accurate, as was done by Desai and Dharmapala (2006), Dyreng, et al, (2008), and Lanis and Richardson (2012).

1.2 Research Problems

Actions of tax aggressiveness will always be closely related to corporate taxpayers because they do not there are any parties who like to pay taxes (Mangunsong, 2002) so that taxpayers will tend to find ways to reduce their tax payments (Ngadiman and Puspitasari, 2014). They do this action even though the actual act of tax aggressiveness can be considered as an act that is not socially responsible (Christensen and Murphy, 2004; Erle, 2008; Schön, 2008). To see whether a company is doing tax aggressiveness or not, it can actually be seen from what business strategies they apply amid the current business competition.

According to Higgins, et al, (2011), the selection of a company's business strategy determines how the company can compete in a market. Therefore, every company must try to optimize their business strategy so that it has an impact on minimizing the tax payments they incur. There are several ways for a company to determine its business strategy. For example, from the type of product to be produced, does the company tend to make a homogeneous product or prefer to produce something according to customer demand. Then whether in terms of innovation the company tends to choose to actively do various innovative things or not. Or the company's strategy can also be chosen from how it manages the organization in it, whether centralized or decentralized.

Based on these problems, it is important to know the effect of the company's business strategy on tax aggressiveness so that the following research question is, **“Does the firm with prospector’s business strategy has higher tax aggressiveness compare with defender’s business strategy?”**

1.3 Research Objective and Contribution of Study

1.3.1 Research Objective

Based on the research problems that have been prepared above, the objectives of the research were to determine whether the business strategy used by the company influences the level of tax aggressiveness. In addition, this research is expected to be able to provide a better and useful understanding for investors, governments, and academics in evaluating the influence of the company's business strategy on corporate tax aggressiveness.

1.3.2 Contribution of Study

The results of this study can be used:

1. Academic, Society and Future Research

This study can be used to contribute the development of science in strategic management and taxation and the result of this study is expected to be a reference for future research.

2. Investors

By knowing the influence of business strategies on the level of tax avoidance by companies, this can be used as a guideline for investors in terms of consideration of making investment decisions.

3. The Government

This research can be utilized by the government, especially the Direktorat Jenderal Pajak to help adjust existing rules regarding taxation, so that state revenues obtained from the taxation sector can be optimized and realize the targets.

1.4 Structure of the Study

This research is presented in the systematics of writing as follows :

CHAPTER I: INTRODUCTION

This chapter consists of background, research problem, research objectives and contribution to study, and the structure of this research.

CHAPTER II: LITERATURE REVIEW

This chapter consists of theoretical framework and the results of previous studies which are then described in the research framework and the formulation of hypotheses from the research.

CHAPTER III: RESEARCH METHODS

This chapter describes about research design, type and sources of data used, and data collect method.

CHAPTER IV: RESULT AND ANALYSIS

This chapter explains about the research object, data analysis, hypothesis test result and interpretation of research results.

CHAPTER V: CONCLUSION

This chapter consist of conclusion from the results of the study, which are supplemented by disclosure of limitations in the study, and suggestions for future research.