



Tax avoidance motives in property and real estate firms

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Abstract

The purpose of this study is to examine and determine the impact of CSR, capital intensity, and corporate risk on tax avoidance in property and real estate sector firms listed on the Indonesia Stock Exchange from 2016 to 2019. This quantitative study utilized secondary data from 101 sample companies collected purposively. To test the hypotheses, multiple linear regression was employed. The findings showed that CSR had no effect on tax avoidance. In contrast, capital intensity had a negative impact on tax avoidance, whereas corporate risk had a positive impact. Thus, it is implied that property and real estate companies do not use their fixed assets to take advantage of depreciation to avoid taxes that can harm the government; on the contrary, companies have fixed assets to run their operations.

Keywords: Tax Avoidance; Capital Intensity; Corporate Risk; Corporate Social Responsibility

Abstrak

Tujuan penelitian ini adalah untuk meneliti pengaruh CSR, intensitas modal, dan resiko perusahaan terhadap penghindaran pajak di perusahaan sector property dan real estate yang terdaftar di Bursa Efek Indonesia mulai tahun 2016 sampai dengan 2019. Penelitian kuantitatif ini menggunakan data sekunder dari 101 data perusahaan. Regresi linear berganda digunakan dalam penelitian ini untuk menguji hipotesis. Hasil penelitian menunjukkan bahwa CSR tidak memiliki pengaruh terhadap penghindaran pajak. Namun, intensitas modal memiliki pengaruh negative terhadap penghindaran pajak, sedangkan resiko perusahaan memiliki pengaruh positif. Hal itu berarti perusahaan property dan real estate tidak menggunakan asset tetap perusahaan sehubungan dengan depresiasi untuk menghindari pajak yang dapat merugikan pemerintah. Sebaliknya, perusahaan menggunakan asset tetap untuk menjalankan kegiatan operasional perusahaan.

Kata Kunci: Penghindaran Pajak; Intesitas Modal; Resiko Perusahaan; Corporate Social Responsibility

INTRODUCTION

Tax avoidance is one of the tax collection issues that might reduce tax revenues. Tax avoidance is conducted by the use of exceptions and deductions permitted by tax regulations or unregulated activities. The perspective on tax avoidance varies according to the interests of the company as well as related stakeholders (Purwantini, 2017). Tax avoidance directly affects the level of fiscal income, causes distortions in market mechanisms, and can increase social inequality due to differences in taxpayer access and tax avoidance motivations (Şuvelea, 2014).

From 2016 to 2020, the tax ratio realization in Indonesia has not been able to meet the target (Figure 1). In 2019, the gap between the targeted and the actual tax ratio was the

greatest, at 2.49%. In addition, the comparison of the 2016-2017 tax ratio decreased and then increased in 2018, but it declined in 2019 and 2020, resulting in the lowest tax ratio in the past five years with an 8.17% tax ratio realization value. According to Maulana (2020), the achievement of the tax ratio does not meet the specified target, in part because of tax aggressiveness, which includes tax avoidance and tax evasion. According to Cobham *et al.* (2020), countries around the world lose more than \$427 billion annually in tax income owing to tax theft by international corporations and private tax evasion. In addition, it is predicted that Indonesia suffers an annual loss or loss of tax income of \$4,864 billion due to taxpayers' unethical activities or use of tax havens.

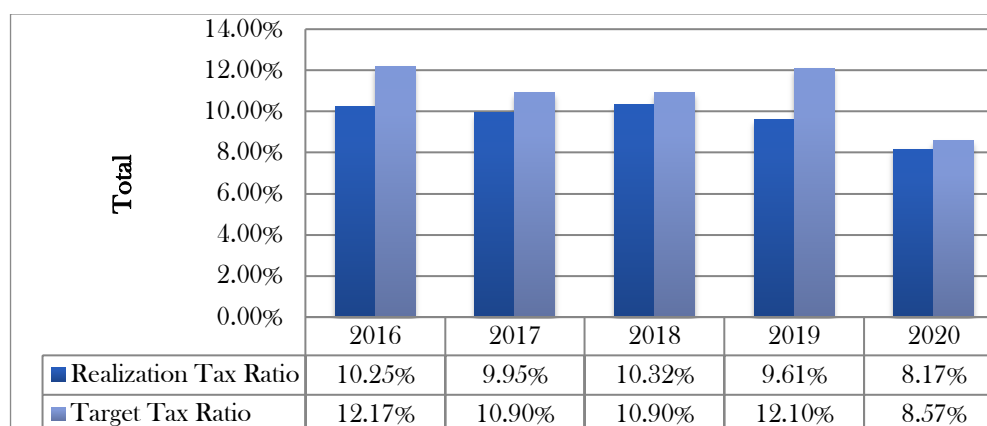


Figure 1. Indonesia Tax Ratio (2016-2020)

According to the International Consortium of Investigative Journalists (2016), the Panama Papers represent the disclosure of 11.5 million confidential financial records. Mossack Fonseca is a law firm that provides service for the foreign companies, asset management, and overseas company management. Mossack Fonseca assists companies in forming shell firms. In addition, the law firm has worked closely with major banks and large law firms in countries such as the Netherlands, Mexico, the United States and Switzerland, assisting clients with money transfer, tax bills reductions, and the handling of other confidential records. Clients use Mossack services for assets embezzlement, tax avoidance, tax evasion, corruption, and other financial fraud. This Panama Papers scandal relates to tax avoidance actions where client companies who use Mossack's services attempt to shift profits from high-tax countries to entities that only exist on paper in tax haven jurisdictions that can be called "shell companies". Sudarsono (2016) reported that the owners of property and real estate companies such as Ciputra Development and Lippo Group are listed in the Panama Papers. Ciputra owns the shares of Grace Global Inc in the British Virgin Islands. The company was founded in April of 2003. Furthermore, the owner of the Lippo Group was listed as a shareholder in a British Virgin Islands firm called Golden Walk Enterprise Ltd. in 2011. In addition to the Panama Papers, Putri (2021) reported that the Ciputra family, the owner of Ciputra Development, the company sampled for this research, is included in the Pandora Papers. Ciputra family owns a company on the British Virgin Island called Louve Landing Investments Incorporated and Great Oriental Holdings Limited which are "shell companies". International Consortium of Investigative Journalists (2021) reported that the Pandora Papers leak contains as many as 11.9 million financial records. The Pandora Papers differs from the Panama Papers in the quantity of exposed documents, the number of people, and there were 14 financial services companies involved for the Pandora Papers. The Pandora Papers and the Panama Papers share a similar

concept: clients use the services to secure confidential data, embezzle assets, avoid taxes, evade taxes, commit corruption, and engage in other forms of financial fraud.

The results of Purwantini's (2017) study explain that differences in the principles of recording financial statements for tax purposes affect companies in practicing tax avoidance with the book-tax difference (BTD) proxy. BTD captures temporary economic items such as write-offs of goodwill or restructuring costs (Jackson, 2009). BTD is primarily attributed to two factors: (1) different income calculation procedures for book and tax revenue as well as (2) different strategies employed by management to boost book income while reducing tax revenue. BTD can therefore originate from earnings management, tax avoidance, or both (Lee, Vetter, & Williams, 2015).

Hidayati and Fidiana (2017) explain that one item of the company's corporate social responsibility (CSR) involves costs that can be deducted as business expenses, such as community health initiatives, scholarship programs, and environmental protection, which can be associated with tax avoidance activities. Companies engage in CSR activities to charge them as costs that can reduce gross profit. According to Kim and Im (2017), in addition to CSR, another aspect that impacts tax evasion is capital intensity. Capital intensity is related to the company's investment activities, and is correlated with investment in supplies and fixed assets. In addition, the capital intensity ratio elucidates the efficiency of the use of assets to generate sales. Guenther, Matsunaga, & Williams (2017) also noticed that the high corporate risk pushes management to carry out tax avoidance. In this case, tax evasion substantially impacts company risk, indicating that companies are not transparent in carrying out tax avoidance actions, which will result in bigger financial losses (Carolina, Oktaviani, & Handayani, 2019).

Based on the previous studies, there is still a gap in the literature that examines the impact of CSR, capital intensity, and corporate risk on tax avoidance. Abdelfattah & Aboud (2020) explain that CSR positively impacted tax avoidance, while Gulzar *et al.* (2018) revealed that CSR negatively impacted tax avoidance. Panjaitan, Maksum, and Abubakar (2021) argue that CSR did not affect tax avoidance. On variables related to capital intensity, Pattiasina *et al.* (2019) demonstrate that tax avoidance was not impacted by capital intensity. In contrast to the findings of Kim and Im's (2017), the capital intensity was identified as having a substantial positive impact on tax avoidance. Furthermore, Amalia's (2020) research provides evidence that tax avoidance was negatively impacted by capital intensity. Meanwhile, research on corporate risk remains divided. Fitria's (2018) research shows that corporate risk had a negative impact on tax avoidance. In contrast, Rizky and Puspitasari (2020) found that corporate risk had a positive impact on tax avoidance, but and Chasbiandani, Astuti, and Ambarwati (2019) conclude that corporate risk had no effect on tax avoidance.

Previous studies mainly discuss tax avoidance related to property and real estate companies. However, the practice of tax avoidance is very likely to occur. Therefore, further research is required, especially concerning tax avoidance, because there are potential loopholes that this sector can use. Thus, research needs to be conducted. The limited calculation of tax avoidance using the book-tax difference (BTD), particularly on the factors of CSR, capital intensity, and corporate risk to tax avoidance, is another rationale for the study. For this reason, this study used the current effective tax rate, the effective tax rate, and the cash effective tax rate to address a gap in the literature on tax evasion.

Irianto, Sudibyo, and Wafirli (2017) state that the principal in tax evasion is the government, whereas the agent is a manager. In this regard, the government has an interest in achieving the target of state revenue through taxes, hence it tries to maximize tax revenue, as opposed to managers who attempts to minimize tax payments to the government to

obtain greater profits. The practice of managers to reduce tax payments is a tax avoidance practice. Tristiano and Oktaviani (2016) also suggest that the principal (the government) has the authority to establish tax policy legislation in Indonesia. Agents (companies) are required to comply with the predetermined tax regulations. However, managers as agents have their own interests in practicing tax avoidance. Therefore, there is a conflict of interest between the principal and the agent, because the agent may deviate from the interests of the principal, resulting agency costs. In this study, agency costs are associated with the capital intensity variable, where management attempts to add fixed assets that will raise depreciation expense; as a result, the earnings of the company are reduced, lowering its tax liability.

Pohan (2016) defines tax avoidance as a company's attempt to lower tax expense by evading taxation by transferring it to non-tax object transactions. This is one type of active tax resistance, namely the taxpayer's business method, that is useful for avoiding taxation (Pohan, 2016). Mardiasmo (2019) explains that tax avoidance is a sort of active tax resistance; the taxpayer's attempts to evade taxes. In other words, tax avoidance refers to efforts to reduce the tax burden by not deviating from the laws and regulations. It is a series of tax planning strategies characterized by non-compliance, tax avoidance, and tax aggressiveness. The size of tax planning activity or tax strategy depends on how much the company avoids reducing taxes (Hanlon & Heitzman, 2010).

In this study, the **BTD** proxy was used in calculating tax avoidance. **BTD** differs from fiscal profit according to tax provisions under the tax regulations of a country with commercial profit per accounting standards. The main difference in the preparation of financial statements between tax and accounting standards can cause differences in the company's profit and loss (Yulyanah & Kusumastuti, 2019).

As stated in Law Number 40 of 2007 on Limited Liability Companies, Article 1 Paragraph 3, **CSR**, which encompasses social responsibility and regional responsibility, it is a company's commitment to contribute to long-term economic growth by improving the quality of life and the environment for the firm, the neighboring community, and the settlers. According to Maulinda and Fidiana (2019), **CSR** is a mandate for the company to the surrounding community due to its operational activities. **CSR** is a form of assistance and solutions for the surrounding community through sustainable activities. According to Das & Padhy (2019), **CSR** is also known as corporate sustainability, sustainable business, corporate conscience, or responsible business. In Indonesia, the concept of preparing **CSR** reports for several companies is to apply the Global Reporting Initiative (**GRI**) standards. **GRI G4** is the latest standard with 91 standard items and several references categories, including economic, environmental, and social aspects.

On the other hand, capital intensity is a key metric for determining how an industry's output has changed over time (Zheng, Li, & Wang, 2018). The ratio of tangible assets to total assets is also known as capital intensity (Delgado, Fernandez-Rodriguez, & Martinez-Arias, 2014). According to Indradi (2018), it is the association between the company's investment and its investment in fixed assets and inventories. Efficiency in the use of assets to generate sales can be demonstrated by the capital intensity ratio. In addition, Andhari & Sukartha (2017) explain that the capital intensity of a company refers to the proportion of its wealth that is invested in fixed assets. Examples of fixed assets include equipment, machinery, property, buildings, and factories. According to Financial Accounting Standard (**PSAK**) 16, fixed assets are tangible assets of a company utilized for production activities, supplying of goods or services, renting to other parties or administrative used across many periods. Companies tend to use accounting policies in the form of depreciation methods

that are more profitable for the company. Depreciation methods that are profitable for the company can be a deduction for taxable income.

According to Siswanti *et al.* (2020), risk is uncertainty resulting from a lack of or insufficient information about future events. The cause of this uncertainty can be detrimental or beneficial. All the company's operational activities have risks. In business activities, the risk is proportional to the expected rate of return for the risk-taker. The higher the risk is, the higher the return is obtained. According to Kartana and Wulandari (2018), the company risk is a divergence from anticipated earnings deviation of less than or greater than expected (downside risk or upside potential). The level of corporate risk depends on the executive character and risk-taking or risk-averse personality. Mayuni (2020) explains that executives who exhibit risk-taking characteristics are indicative of a company's high risk. Meanwhile, if the executive is risk-averse, the company faces minimal risk.

CSR can be related to tax avoidance. According to Zeng (2018), tax avoidance is a dangerous business practice since it comes at a high cost to businesses, such as the government and the public oversight, which can damage their reputation. CSR can protect the company from risk in the event of a negative event. According to Abdelfattah & Aboud (2020), corporate tax behavior is not always consistent with its CSR. Companies that are attempting to avoid paying taxes tend to enhance their CSR disclosures to allay public worries and demonstrate compliance with social standards. This is in accordance with the stakeholder theory, which discusses related parties that impact or are influenced by the organization or company (stakeholders). Stakeholders have rights to the CSR activities of an organization. CSR is anticipated to have a good impact on the company's image. The association between stakeholders and tax avoidance is that the firm must consider tax avoidance because it will have an effect on stakeholders, especially through the reduction of government tax revenues.

H₁: CSR has a positive effect on tax avoidance.

The capital intensity ratio is calculated by dividing the fixed assets by the total assets owned by the firm. Capital intensity is linked to the quantity of capital owned by the company in the form of fixed assets. Capital intensity affects tax avoidance because the company's fixed assets can be depreciated, and asset depreciation can be charged as a reduction of profits; thus, it can reduce the tax burden paid to the government (Amalia, 2020). According to Dwilopa and Jatmiko (2016), companies tend to take advantage of depreciation costs or depreciation expenses, which can reduce company profits which are the basis for calculating corporate tax. It is consistent with the agency theory, which classify capital intensity as an agency cost due to differences in interests between management and government. Differences in interests are evident in the manner in which management increases investment in fixed assets, resulting in a reduction in the company's gross profit and corporate tax burden.

H₂: Capital intensity has a positive effect on tax avoidance.

Company executives make management decisions (Rizky & Puspitasari, 2020). The executive can be categorized as either a risk-taker or risk-averse. The risk is measured by using deviations in earnings, such as upside earnings or downside earnings. According to Chasbiandani, Astuti, and Ambarwati (2019), executives who are a risk-taker or companies with a high corporate risk are most likely to engage in aggressive tax avoidance. This is in accordance with the agency theory, whereby risk-taker executives try to avoid tax to reduce the tax burden. Thus, the company's profits are higher although it faces a bigger risk in the future owing to tax avoidance. It is different from the government's interest to increase state revenues by maximizing taxes.

H₃: Corporate risk has a positive effect on tax avoidance.

METHODS

This quantitative study used secondary data which was tested by multiple linear regression using IBM SPSS 26. This study focused on property and real estate firms listed on the Indonesia Stock Exchange (IDX) from 2016 to 2019. There was a decline in the growth or performance of tax revenues from the construction and real estate sector during that period. We chose samples that have published their audited financial statements, have not suffered losses, and have provided complete information regarding the variables studied. The model should pass the 4 classical assumption tests. Afterwards, analysis and hypothesis testing were conducted.

Tax avoidance is a part of legal tax planning that is still compliant with the applicable tax laws and regulations and involves reducing the tax object, which is the basis of taxes. This study measures the tax avoidance variable using book tax difference (BTD), which is the difference between accounting profit and profit measured in accordance with tax regulations. Desai & Dharmapala (2006) explained that the wider the disparity between fiscal profit and accounting profit, the greater the practice of tax avoidance. According to Hanlon and Heitzman (2010); Wibawa, Wilopo, and Abdillah (2016); Yulyanah and Kusumastuti (2019), we can calculate BTD as follows:

$$BTD = \frac{(Book\ Income - Taxable\ Income)}{Total\ Asset} \quad (1)$$

According to Das and Padhy (2019), CSR shows the responsibility of companies to contribute to the economic, social, and environmental development that creates positive impact on the community. CSR disclosure is calculated by identifying the items that have been disclosed by the company in its annual report, and then matching them to the 91 standard items contained in the GRI-G4. If the company implements CSR disclosure, it will be assigned a value of 1, but if it does not, it will be assigned a value of 0 for the items listed, using a ratio data scale. The formula to calculate CSR according to Chabachib *et al.* (2019); Fitri, Hapsarai, and Haryadi (2019) is:

$$CSRDI = \frac{\sum xy_i}{ni} \quad (2)$$

The capital intensity is measured by the ratio of the intensity of fixed assets. Richardson and Lanis (2007) state that fixed asset intensity ratio is used to measure the ratio of fixed assets to the firm's total assets, where the ratio represents the proportion or extent of the firm's fixed assets from its total assets. The formula is as follows:

$$CINT = \frac{Total\ Fixed\ Asset}{Total\ Asset} \quad (3)$$

The executive character can be classified into two types: risk takers or risk averse individuals. The executive character is measured by firm's risk. Corporate risk is calculated using EBITDA (earnings before tax and interest, depreciation, and amortization) divided by total assets (Paligorova, 2011), as follows:

$$RISK = \frac{EBITDA}{Total\ Asset} \quad (4)$$

To analyze the data, a multiple regression analysis was conducted by examining the independent variables of CSR, capital intensity, and corporate risk and the dependent variable of tax avoidance. The formula of regression is as follows:

$$\text{BTD} = \alpha + \beta_1\text{CSRDI} + \beta_2\text{CINT} + \beta_3\text{RISK} + \varepsilon \quad (5)$$

Remark:

BTD	= Tax avoidance, book tax difference
α	= Constant
$\beta_1, \beta_2, \beta_3$	= Regression coefficient
CSRDI	= Corporate social responsibility disclosure
CINT	= Capital intensity
RISK	= Corporate risk
E	= Error

RESULTS AND DISCUSSION

Ghozali (2018) explains that the coefficient of determination is a measurement of the model's capability to describe the variance in the dependent variable. Table 1 shows that the adjusted R^2 is 0.644. Hence, CSR, capital intensity, and corporate risk can explain the variations in tax avoidance by 64.4%, while 35.6% is explained by other factors. Table 1 also shows that F value is 60.803, meaning that H_a is accepted and H_o is rejected. It indicates that CSR, capital intensity, and corporate risk have a simultaneous effect on tax avoidance.

Based on Table 1, H_o1 is accepted, and H_a1 is rejected. Hence, it can be concluded that CSR does not impact tax avoidance. In contrast, H_a2 and H_a3 are accepted, indicating that capital intensity negatively impacts tax avoidance, but the corporate risk has a positive impact on tax avoidance.

Table 1. Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	C	Std. Error	Beta		
1 (Constant)	0.011	0.005		2.141	0.035
LAG_CSRDI	-0.061	0.051	-0.074	-1.188	0.238
LAG_CINT	-0.216	0.038	-0.340	-5.619	0.000
LAG_RISK	0.674	0.055	0.749	12.233	0.000
F test	60.803***				
Adjusted R^2	0.644				

Note: *** p-value significant at $p < 0.001$.

CSR has no significant influence on tax avoidance because several firms disclose almost similar content annually. For example, from 2017 to 2019, PT Roda Vivatex (RDTX) disclosed 8 out of 91 (8.79%) GRI G4 items consecutively. In average, property and real estate companies in the sample disclosed 16 out of 91 GRI G4 items (17.9%). This shows that the company disclose CSR activities because it is mandated, and not to meet GRI G4 requirements. The result of this study is inconsistent with the stakeholders theory. The stakeholders theory explains that stakeholders influence or are influenced by the company. In this study, CSR has no effect on tax avoidance, indicating that the company has no detrimental impact on stakeholders (reducing government income). The finding contradicts the hypothesis, but supports Panjaitan, Maksum, and Abubakar (2021) and Pattiasina *et al.* (2019) who explain that CSR has no significant effect on tax avoidance.

However, it disagrees with the findings of Hidayati and Fidiana (2017), Zeng (2018), and Abdelfattah and Aboud (2020), which conclude that CSR has a positive impact on tax avoidance, because the firms studied in those studies have different characteristics than the firms studied in this study.

This study uncovers that capital intensity negatively impacts tax avoidance because property and real estate companies are service companies that run their business in the form of leasing buildings (such as housing, offices, apartments, and hotels), engaging on construction activities or selling houses. Most of these operations are driven by fixed assets. Hence, the operation of property and real estate companies is strongly tied to fixed assets. Their fixed assets greatly affect their production capacity. It will also impact on their sales and profits. High profits due to an increased in production capacity will result in higher tax payments. The increase in the tax amount indicates that the firm is not attempting to avoid taxes by taking advantage of depreciation on fixed assets. From the data, PT Summarecon Agung (SMRA) had the highest **BTD** value in 2018 at 0.2896 (in 2016, it was 0.2879; in 2019, it was 0.02494) and the lowest was in 2017 at 0.02361. **BTD** does not show a positive effect because SMRA largest capital intensity (**CINT**) value was 0.02169 in 2016. This data shows that the increase and decrease in the **BTD** values are different from the **CINT** values, indicating that tax avoidance is negatively affected by capital intensity. Property and real estate companies rely on fixed assets to operate their business and do not seek to avoid taxes.

According to the agency theory, the finding fails to demonstrate that companies use fixed assets to avoid taxes that can harm the principal (government). Rather, the company uses fixed assets to run its business. The company uses fixed assets to increased its production capacity. Companies with a large amount of fixed assets will increase their production, which can lead to an increased of tax liability. The findings confirm the study of Amalia (2020) and Suciarti, Suryani, and Kurnia (2020) which show that capital intensity has significant negative impact on tax avoidance. However, the results do not support the hypothesis and do not corroborate the findings of Kalbuana *et al.* (2020) and Kim and Im (2017), which demonstrate that capital intensity had a substantial and positive impact on tax avoidance.

This study shows that corporate risk has a significant positive impact on tax avoidance. This indicated that risk-taker executives or companies that have high risks are more likely to engage in tax avoidance. Meanwhile, if the executive is risk-averse or if the company has low risk profile, they will engage in low-risk tax avoidance strategies. The majority of risk-taking executives will do whatever to attain their goals, regardless of the risk. This relates to how risk taker CEOs employ tax avoidance to achieve their goals to minimize the taxes paid, despite the fact that these activities pose dangers to the company in the future. In contrast, risk-averse executives tend to be more alert and avoid big risks that threaten the company, such as avoiding tax. The finding of the study is consistent with the agency theory. Executives who are risk-takers try to carry out tax avoidance for the benefit of the company by lowering the tax burden. There is conflict of interest between the principal (Tax Directorate General) and the agent (executives). The government (Tax Directorate General) seeks to maximize government revenue from taxation, whilst executives as agents has their own interests and try to reduce tax payments. This finding is consistent with the hypothesis and the findings of Mayuni (2020), Oktamawati (2017), Pratomo and Triswidyaria (2021), and Rizky and Puspitasari (2020) that corporate risk positively impact tax avoidance. It can be indicated that executives who are risk-takers will engage in high-risk actions to achieve their goals to maximize profit by doing tax avoidance. This study's result

is different from the findings of Dewi and Sari (2015) and Novita (2016), which indicated that corporate risk had a negative impact on tax avoidance.

CONCLUSION

The property and real estate firms' CSR disclosure has no effect on their tax avoidance. It is interesting that capital intensity results in a negative impact on tax avoidance. This can be explained by the capital intensity of SMRA which is inversely related to BTD. Furthermore, company risk positively impacts tax avoidance practices. The bigger the risk, the more tax avoidance it employs. This can be explained by the fact that that risk-taking executives engage in tax avoidance. The findings suggest that tax avoidance in the property and real estate firms is motivated by a high level of company risk. The results of this study are expected to be able to provide recommendations to the government (Direktorat Jenderal Pajak) regarding factors that can affect tax avoidance behavior, so that the government can carry out tax management in Indonesia in the most effective manner possible. This study aims to provide recommendations to the government to minimize tax avoidance practices, especially among companies listed on the IDX. There are just 4 years of research data available, from 2016 to 2019. Not all obtained data can be analyzed. Of 116 observed samples, 15 were deemed ineligible or outliers due to their excessive values. It can affect the results of the analysis. Therefore, further research is recommended to add the measurement of tax avoidance so that it can be used as a comparison tool, such as, abnormal book-tax difference and the effective tax rate, and to extend the research period to get more accurate data. The fact that the majority of property and real estate enterprises in this study only disclose 17.9 percent CSR, should also be addressed for future research. It is also important to use data from companies who disclose their CSR using the GRI G4 standards.

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