Shareholders, Tax Amnesty and Tax Planning for Manufacture Industry in Indonesia

Muhammad Rifky Santoso, Azhar Maksum, Ramli, Rina Br. Bukit
Economics and Business Faculty, Universitas Sumatera Utara, Jl. Prof. T.M Hanafiah, SH, Kampus USU, Medan, Indonesia

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Abstract: The company minimizes the income tax expenses by applying the tax planning strategy. On the other hand, the government needs income taxes revenues. Therefore, the government issued a tax amnesty policy so that income tax revenues increase and taxpayers become more compliant. It is necessary to examine whether the tax amnesty program can meet the expectations of the government, namely the increase in income tax revenues and taxpayers being more compliant. By taking a sample of manufacturing companies listed on the IDX and data from 2014 to 2017, it is known that the tax amnesty program that is in effective in 2016 and 2017 can increase income tax revenue in the tax amnesty year applied but makes the taxpayers more aggressive in doing tax planning strategy. Compared to domestic institutional shareholders, foreign shareholders are more aggressive in doing tax planning strategy when tax amnesty is applied. If the government's goal is only to increase income tax revenues from the rupiah amount, then the tax amnesty can be used. The negative effect of tax amnesty is that the taxpayers are increasingly aggressive in doing tax planning.

1 INTRODUCTION

One of a corporate's objectives is to increase the shareholders' wealth. The corporate can increase the revenues with certain expenditures or decrease expenditures with certain revenues. One of the expenditures can be reduced is income tax expenses. The schema to reduce the income tax expenses is by using tax planning strategy. One indicator to know a corporate using tax avoidance strategy is effective tax rate (ETR). The lower the ETR of a corporate, the more probable the corporate applied tax planning strategy.

Management has applied a tax planning strategy in order to shareholders' benefits because the strategy can increase profit after income tax (Wahab & Holland, 2012) and finally increase the shares' value. In other side, tax planning applied by a multinational company can reduce a government's revenues and increase economic efficiency problems (Johansson, Skeie, Sorbe, & Menon, 2017). In general, tax planning can harm the state's revenues and national's economy; however, tax planning is beneficial for shareholders and management.

Board of Directors (BoD) has a power to control and to operate a corporate after receiving mandate from the shareholders. BoD has an authority to do or not to do a tax planning strategy in a corporate. Meanwhile, the BoD decisions are influenced by the shareholders. In fact, an individual shareholder can be a member of the BoD and an institute shareholder can have a representative in the BoD.

Many papers have examined the relationship between ownership structure and tax planning. A company controlled by families who own company shares is less likely to carry out tax planning compared to ownership that is not family (Chen, Chen, Cheng, & Shevlin, 2010). The amount of ownership is more than the minimum amount to be able to exercise control will reduce the possibility of doing tax planning (Gomes, 2000). However, other studies explain that when the number of ownership is at a certain minimum, there is no relationship between ownership and tax planning (Richardson, Wang, & Zhang, 2016). From previous research, there is a relationship between ownership structure and tax planning. Thus the ownership structure becomes a variable that affects tax planning.

When the government needs more revenues from taxes, a tax amnesty policy is issued. The application of tax amnesty in Indonesia has begun on July 1, 2016 until March 31, 2017. The imposition of penalty

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through sanctions on tax amnesty consists of three stages, each of which is valid for 3 months. The application of tax amnesty can affect and does not affect the company's tax planning strategy. Companies with tax planning aggressively will be affected by tax amnesty policy. For companies where the implementation of tax planning is not aggressive, there is a possibility that tax amnesty does not affect the tax planning strategy.

Form data of 137 manufacturing companies listed on the Indonesia Stock Exchange (IDX), and the period from 2014 to 2017, it is known that the tendency of taxpayers to do tax planning after tax amnesty still exists, as shown in Table 1. It can be assumed that manufacturing companies listed on the IDX have carried out aggressive tax planning because the average of ETR decreases with the existence of tax amnesty.

Table 1: Effective Tax Rate (ETR) Manufacture Companies in IDX

	2014	2015	2016	2017
Mean	0.242	0.282	0.096	0.127
Median	0.242	0.244	0.249	0.242
Maximum	4.552	5.795	3.924	1.806
Minimum	-1.074	-7.492	-7.677	-10.172

Source: IDX (2018).

Manufacturing companies are more flexible to do the tax planning strategy because there are no restrictions in doing business besides the core business. Some tax planning strategies include finding businesses and/or tax facilities that have lower tax rates than the generally applicable income tax tariff, which is lower than 25%. The manufacturing industry provides the largest contribution to Indonesia's gross domestic product (GDP), which is more than 20% of total GDP. For 2016 and 2017, the percentage of manufacturing industry GDP to Indonesian GDP was 21.28% and 20.97%, respectively. From this data, this research use manufacturing industry companies as research samples.

This paper examines the influence of the ownership structure on tax planning strategy that is intervened by the existence of tax amnesty regulations. The ownership structures in this paper are domestic institution shareholders and foreign shareholders. This paper finds that tax amnesty influences the relation between domestic institution shareholders and tax planning in different way. Tax amnesty also influences the relation between foreign shareholders and tax avoidance in significance.

This article consists of literature study that explains theory and previous related studies. Method section explains the type of research and data used. The results section explains the descriptive statistics of the data, the relation amongst the independent variables, and relation between dependent variable and independent variables. The discussion section discusses the understanding of the results.

2 LITERATURE STUDY

2.1 Theory

Agency theory arises because of the collaboration between the two parties resulting in risk sharing due to different behaviors. The parties are principle and agent. In the collaboration, there can be a problem called the agency problem. Agency theory describes this collaboration as a contract and seeks to divide the existing problems into two, namely (Eisenhardt, 1989)

1. There is a conflict of interest between the principle and the agent.
2. Difficult and/or expensive cost for the principle to ensure that the agent has done his job as it should be.

One of these conflicts of interest is the existence of the opportunistic management that uses tax planning as a tool for its interests, which is to increase the incentives received. Supposedly, the tax planning can add value to the company and the value exists if good corporate governance is implemented (Desai & Dharmapala, 2009). Without good governance, the tax planning does not produce good results for shareholders. Therefore, the control of shareholders can influence the tax planning (Badertscher, Katz, & Rego, 2013; Gomes, 2000; Khan, Srinivasan, & Tan, 2017) which can affect company value through transparency (Wang, 2011). The good governance can reduce the cost of ensuring the agent work according to the principle expectations.

2.2 Previous Study

Many terms are used by experts to explain the reduction in income tax, such as tax planning, tax avoidance, tax sheltering, tax evasion, and tax aggressive. All actions to reduce income taxes are called tax planning (Lietz, 2013). Tax planning includes all actions to reduce taxes, both legal and illegal, compliant or non-compliant with tax regulations, and the burden of tax planning can be related to income taxes or not (Myron S. Scholes, Wolfson, Erickson, Hanlon, & M, 2016). Tax planning is designed based on the company's business strategy with the aim of maximizing returns after income tax. Tax planning also includes utilizing facilities provided by the tax authority.

According to agency theory, there are conflicts between principles (shareholders) and agent (management). One of these conflicts of interest is the existence of opportunistic management that uses tax planning as a tool for its interests, namely increasing the incentives received. Supposedly, tax planning can add value to the company and this can happen if the implementation of good corporate governance (Desai & Dharmapala, 2009). Without good governance, tax planning does not provide good results for shareholders. Therefore, control of shareholders can influence tax planning (Badertscher et al., 2013; Gomes, 2000; Khan et al., 2017) which can affect company value with transparency (Wang, 2011). With good governance, the cost of ensuring that the agent has worked according to the principle expectations can be reduced. Therefore, shareholders can influence tax planning in the company.

Tax amnesty has applied in Indonesia from July 2016 to March 2017. The tax amnesty gives taxpayers the opportunity to disclose assets that have not been reported in annual tax returns by paying a fine. The nature of the tax amnesty is voluntary. If in the future the taxpayer is known to have assets that have not reported during the tax amnesty, the taxpayer will be subject to more severe sanctions. By participating in the tax amnesty, the taxpayer debts in the past have been deleted. The tax amnesty policy is a popular government policy to increase government revenues from taxes but it does not increase tax payers' compliance (Stella, 1991). This revenue increasing is only from taxpayers who gain benefit from the tax amnesty (Malik & Schwab, 1991). The implementation of the tax amnesty can make the taxpayers not compliant with taxes because there is hope for the subsequent tax amnesty (Bayer, Oberhofer, & Winner, 2015).

Many researchers have examined the relations between ownership structure and tax planning. With a sample of companies in the USA, companies controlled by family as owners is less likely to do tax avoidance compared to ownership that is not family (Chen et al., 2010). The amount of ownership more than the minimum amount to be able to control will reduce the possibility of doing tax avoidance (Gomes, 2000). However, other studies explain that the relationship between ownership concentration and tax avoidance is non-linear and inverted U-Shaped. When ownership concentration is low, the increase in ownership concentration is positively related to tax avoidance. Passing the minimum level associated with effective control, the increase in addition of ownership concentration negatively associates tax avoidance (Richardson et al., 2016).

By using a sample of companies in the USA, an increase in share ownership by institutions in a company is associated with an increase in tax avoidance (Khan et al., 2017). With increasing ownership, the number of shareholder representatives in the company will increase. Thus the control of shareholders towards the company is getting bigger to increase the value of the company by reducing the tax burden. However, companies that have a greater concentration of ownership and control, will make fewer tax deductions than companies with fewer concentrations of ownership and control (Badertscher et al., 2013).

Using a sample of companies in Thailand, it is known that domestic institutional shareholders will provide effective control of the company compared to institutional foreign shareholders (Thanatawee, 2014). This monitoring is related to the improvement of corporate governance that ultimately relates to tax planning. Foreign shareholders take company resources that are borne by minority shareholders. Thus, shareholders have a relationship with tax planning.

3 METHODS

This study uses a causally comparative method. This study answers how the relationship between the dependent variable and the independent variables by analyzing the effect of independent variables on the dependent variable. Independent variables are variable that affects the relationship between shareholders and tax planning. In this study tax planning is a dependent variable. The definition of these research variables is shown in Table 2.

Table 2: Variable Definitions

Variable	Definition
Dependent Variable	
Effective Tax Rate (ETR)	The ratio of the total current income tax expenses to current income before tax according to accounting (Armstrong, Blouin, & Larcker, 2012; Badertscher et al., 2013; Khan et al., 2017; Phillips, 2003).
Independent Variables	
Shareholders: 1. Institution (PSInstitusi) 2. Foreign (PSAsing)	1. The ratio of the domestic institutional shareholders to the number of outstanding shares. 2. The ratio of the foreign shareholders to the number of outstanding shares. State shareholders, cooperative, union, and foundation established in Indonesia are classified as domestic institutional shareholders. Some papers use the percentage of institution shareholders as proxy (Bird & Karolyi, 2017; Wahab & Holland, 2012).
Tax Amnesty (TA)	It is a dummy variable. The value is =0 if the data used before the tax amnesty applied, and the value is =1 if the tax amnesty is applied.
Control Variable	
LnSize	It is a logarithm of the total assets of the company (Taylor & Richardson, 2014).

The population of this study is all manufacturing companies whose shares are traded on the Indonesia Stock Exchange (IDX) in 2017. Data collection is from 2014 to 2017. the samples of this study are:

1. All manufacturing companies whose shares are traded in 2017 on the IDX,
2. Available financial report data and annual reports, and
3. Already registered on the IDX before 2017.

There are 126 companies as samples and 504 observations using in this paper. The model in this paper is as follow:

$$ETR_{i,t} = \alpha_0 + \beta_1 TA_{it} + \beta_2 PSAsing_{i,t} + \beta_3 PSInstitusi_{i,t} + \beta_4 (TA_{it} * PSAsing_{i,t}) + \beta_5 (TA_{it} * PSInstitusi_{i,t}) + \beta_6 LnSize_{it} + \varepsilon_{i,t}$$

4 RESULTS

The descriptive variables in this paper are shown in Table 3.

Table 3. Descriptive Variables

	Mean	Median	Max	Min	Std.Dev.
ETR	0.198	0.247	5.795	-10.172	0.807
PSInstitusi	0.394	0.419	0.982	0.000	0.316
PSAsing	0.295	0.118	0.998	0.000	0.326
TA*PSInstitusi	0.203	0.000	0.954	0.000	0.306
TA*PSAsing	0.137	0.000	0.998	0.000	0.267
LnSize	14.609	14.425	19.505	11.400	1.548

Table 4. Independent Variables Correlation.

	TA	PSInstitusi	PSAsing	TA* PSInstitusi	TA* PSAsing	LNSIZE
TA	1.000					
PSInstitusi	0.042	1.000				
PSASing	-0.067	-0.776	1.000			
TA*PSInstitusi	0.666	0.565	-0.441	1.000		
TA*PSAsing	0.513	-0.447	0.569	-0.143	1.000	
LNSIZE	0.047	-0.040	0.033	-0.001	0.069	1.000

Table 5: The data Processing Results

Independent Variables	Dependent Variables
	ETR
C	0.160350
Prob.	(0.0000)
TA	0.015030
Prob.	(0.0001)
PSInstitusi	0.050533
Prob.	(0.0000)
PSAsing	-0.000632
Prob.	(0.9491)
TA*PSInstitusi	-0.024469
Prob.	(0.0004)
TA*PSAsing	-0.126650
Prob.	(0.0000)
LnSize	0.002218
Prob.	(0.2834)
R-squared	0.974389
Adjusted R-squared	0.965370
Prob(F-statistic)	0.000000
Durbin-Watson stat	2.523695

The median of ETR is near to statue tax rate in Indonesia for the corporate taxpayer, 25%. Std.Dev of the ETR is 0.81. This fact explains that some companies have applied tax planning strategy aggressively. This condition is also supported by the large range value of the maximum and the minimum value of ETR. The domestic institution shareholders (PSInstitusi) have more percentage shares than the foreign shareholders (PSAsing). This fact is supported by mean and median of the percentage.

The model in this paper is fixed model because the number of cross section (N=126) is large, the number of time (T=4) is small, and the sample is not random (purposive sampling) (Gujarati, 2003:650-651). By using big panel data (504 observations), this paper should pass the correlation and heteroscedasticity tests. For correlation, this paper uses the limit 0.8 as a rule of the thumb. If the correlation is still under 0.8, the correlation is accepted. The correlation among the independent variables is shown in Table 4.

The correlation between domestic institution shareholder (PSInstitusi) and foreign shareholder (PSAsing) is high (0.776) but it is still under 0.8. These two independent variables are using the same base to calculate the ratio, the outstanding shares. For the heteroscedasticity tests in this fixed model, this paper is comparing the weighted and unweighted test in the eviews program. The result of the comparison is shown in Appendix 1. This comparison argues that this model has heteroscedasticity and consequently the model should have treatment to have the best model. The treatment is done by using the White cross section standard errors & covariance (no d.f. correction). The results of the data processing are shown in Table 5.

5 DISCUSSION

In theory and empirically, tax amnesty is positively and significantly related to tax planning. Tax amnesty can increase corporate income tax expenses and payments of a corporate to be the State's revenues. This is evidenced by the increase in state revenues from taxes in rupiah. So, the government's goal to increase tax revenues with the tax amnesty policy can be realized during the enactment of the tax amnesty policy. This result is in accordance with Stella's statement (1991) and the income tax revenues collected by government as shown in Table 6.

Table 6: Corporate Income Taxes Revenues

Year	Income Tax Revenues (Rp.Billions)
2012	513.650
2013	538.760
2014	569.867
2015	679.370
2016	855.843
2017	783.970

Tax Amnesty is positively and significantly related to ETR. Tax amnesty can increase ETR and reduce tax avoidance. The tax amnesty regulation requires the taxpayer to declare its assets that have not been reported so far; consequently the tax burden of the taxpayer has increased.

Domestic institutional shareholders are positively and significantly related to ETR. By applying the tax amnesty policy, the relationship of domestic institutional shareholders with tax planning (TA*PSInstitusi) changes, from positive to negative. Tax amnesty affects this relationship. Tax amnesty affects domestic institutional shareholders to reduce the tax burden.

Domestic institutional shareholders affect the company's tax burden calculated by ETR. In rupiah, there are additional tax revenues received the State, but on the corporate side there are actions to reduce the tax burdens as a percentage of accounting profit.

The relationship of foreign shareholders with ETR is not significant. By applying the tax amnesty policy, the relationship of foreign shareholders with ETR (TA*PSAsing) becomes negative and significant. It can be concluded that without tax amnesty policy, the foreign shareholder does not pay too much attention to ETR. The tax amnesty policy affects the foreign shareholder to reduce income tax burdens.

The mean of manufacturing companies' ETR in the tax amnesty year is smaller than that of the year before the tax amnesty applied. This data is shown in Table 7. These facts are supported by the value of maximum, minimum, and standard deviation of the ETR. Thus it is evident that the tax amnesty policy makes the taxpayers to do more aggressive tax planning strategy (Bayer et al., 2015).

The tax amnesty policy has more influencing to the relation between foreign shareholders and tax planning than that of between domestic institutional shareholders and tax planning. It is supported by the coefficient from the data processing results. The effect of TA*PSInstitutions to ETR is -0.024 and TA*PSAsing to ETR is -0.127. The foreign shareholders' responses are greater than that of the domestic institution shareholders due to tax amnesty policy. By applying the tax amnesty policy, the foreign shareholders are more aggressive in tax planning strategy than that of domestic institutional shareholders.

Table 7: ETR Descriptive

Descriptive	2014	2015	2016	2017
Mean	0.257	0.284	0.124	0.125
Median	0.247	0.248	0.248	0.242
Max	2.274	5.795	2.018	1.806
Min	-0.513	-7.492	-5.550	-10.172
St.Dev.	0.301	1.014	0.674	1.014

This study does not further examine how the tax planning strategy with the influence of domestic institutional and foreign shareholders carried out by the company when the tax amnesty policy applies. The results of this regression also find that increasing the percentage of domestic institutional and foreign shareholders causes the company carried out the aggressive tax planning strategy.

Table 5 explains that the adjusted R-squared is 0.965. It can be concluded that the shareholders have a significant role in doing a tax planning strategy when the enactment of the tax amnesty policy.

6 CONCLUSION

One way to increase the wealth of a company's shareholders is to reduce the tax burden and the burden can be reduced by the tax planning strategy. On the other hand, the government has an interest in increasing tax revenues, one of which is tax amnesty policy. This tax amnesty policy will certainly cause a reaction from shareholders so that their wealth in the company does not go down.

The domestic institutional shareholders have a positive influence on tax planning as measured by ETR. This means that there is no influence to reduce the tax burden aggressively. Once tax amnesty is applied, a reaction arises to reduce the tax burden aggressively. This could be due to anxiety about the decline in the value of wealth because they have to pay greater taxes.

The foreign shareholders do not care about the tax planning strategy done by the management in the company. Once there is a tax amnesty policy is applied, the foreign shareholders will feel disturbed and influence the corporate tax planning strategy so that the tax burdens becomes smaller.

The reaction of the foreign shareholders is greater than that of the domestic institutional shareholders in carrying out tax planning strategies when the tax amnesty is implemented. This fact relates to the ability to monitor a company conducted by the foreign shareholders is not as good as that carried out by the domestic institutional shareholders (Thanatawee, 2014).

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APPENDIX

By using reviews program, the fixed model is tested by weighted and unweighted for heteroscedasticity. The result of this test is as follow:

	Effective Tax Rate (ETR)	
	Unweighted	**Weighted**
Significant Independent Variables	-	TA*PSAsing
R-squared	0.313458	0.974389
Adjusted R-squared	0.071692	0.965370
Prob(F-statistic)	0.031126	0.000000
Durbin-Watson stat	2.669778	2.523695

There are some different significant between weighted and unweighted for ETR. The Adjusted R-squared is 0.071692 for unweighted and 0.965370 for weighted. It means that the model with ETR as a dependent variable has heteroscedasticity. It means that fixed model in this paper has heteroscedasticity problems