International Journal of Social Science Research and Review

http://ijssrr.com
editor@ijssrr.com
Volume 5, Issue 9
September, 2022
Pages: 166-174

The Effect of Tax Avoidance and Tax Risk on the Cost of Debt with Institutional Ownership as Moderating Variables in the Sub-Sector of Large Trade Listed on the Bei

Suparman; Nagian Toni; Evanta Br. Tarigan

Universitas Prima Indonesia, Indonesia

Email: nagiantoni@unprimdn.ac.id

http://dx.doi.org/10.47814/ijssrr.v5i9.435

Abstract

This study aims to determine and analyze the effect of tax avoidance and tax risk on the cost of debt with institutional ownership as a moderating variable in the wholesale trade sub-sector listed on the IDX. This type of research is causal associative. The Population in this study is Big Trading Sub-sector companies listed on the Indonesia Stock Exchange. The sampling method is purposive sampling, so the number of samples used is 6 4 research sample data. Methods of data analysis using Eviews 10. The results show that tax avoidance and tax risk affect the cost of debt in large trading sub-sector companies listed on the Indonesian stock exchange in the 2017-2020 period. Institutional ownership is not able to moderate the relationship between tax avoidance and tax risk on the cost of debt in large trading sub-sector companies listed on the Indonesian stock exchange in the 2017-2020 period

Keywords: *Tax Avoidance; Tax Risk; Cost of Debt; Institutional Ownership*

Introduction

The development of business in the world has a significant influence, especially in Indonesia, which has now entered the era of globalization. The development of the business world causes competition to be sharper, so companies must maintain the continuity of the company operations to develop following the vision, mission and, at the same time, the company goals. This development also causes companies to carry out various strategies and efforts for competition between companies to run according to understanding.

To maintain and develop its business requires external sources. One of the external factors that is carried out is by issuing debt securities that creditors will purchase. By buying debt securities, creditors will get a return in the form of interest. Companies that owe will provide interest as given by the company to creditors. Situmeang (2017) said that the level given by the company would be the cost of debt (cost of debt).

Creditors, as external parties, before lending funds, must pay attention to or consider the risks that will be known. Therefore, as a creditor, you must be prepared to reduce the company's market conditions risk. From this high risk, the company will charge high debt costs.

The cost of this debt is the return for creditors on the investment given to the company, and the company will record it as debt on capital/investment loans.

Debt is another mechanism that can be used to reduce or control agency conflicts. With debt, the company must make periodic payments of interest and principal. This can reduce the desire of managers to use free cash flow to finance activities that are not optimal. The use of debt will also increase risk. Therefore, managers will be more careful because the risk of debt is more significant than public investors. In other words, companies that use debt in their funding and cannot repay the debt will be threatened with liquidity, which will threaten the management's position. On the other hand, those who benefit from the cost of debt, where the company can reduce the tax burden that the company must pay. To maintain the stability of the expected profit, the company usually makes several efforts through tax management, one of which is tax planning *(tax).*

Several cases of tax avoidance have occurred in Indonesia; in 2019, it was reported that a tobacco company owned by British American Tobacco (BAT) had evaded tax in Indonesia through PT Bentoel Internasional Investama. As a result, the state could suffer a loss of US$ 14 million annually. The report explains that BAT has diverted some of its revenue from Indonesia in two ways. First, through intra-company loans between 2013 and 2015. Second, through repayments to the UK for royalties, fees and services, Bentoel took out many loans between 2013 and 2015 from a related company in the Netherlands, namely Rothmans Far East BV, for debt refinancing. Bank and pay for machinery and equipment. Interest payments on these loans can be deducted from the taxable income of companies in Indonesia (source: kontan.co.id, 2021)

Large trading sub-sector companies are the focus of this research because the Trade Sector is one of the sectors that affect the Indonesian economy. Due to the increasing purchasing power of the people, the demand for trade goods also increases. The Manufacturing Goods Wholesale Trading Company was chosen as the object of this research. This company is engaged in the sale and purchase of distributors in bulk. This company conducts large quantities of buying and selling transactions to other traders such as retailers or industrial users. Rapid developments in this field have made the competition more demanding and required companies to take advantage of current opportunities effectively and efficiently in their operational activities.

Planning Tax planning is a research activity on tax regulations so that the types of tax savings can be selected to be implemented. (*tax planning*) is part of tax management and is the first step in doing tax management. Suandy (2008) defines *tax planning* as the process of organizing a taxpayer's business or a group of taxpayers so that the tax debt, PPh and other tax burdens are in a minimal position.

According to Mardiasmo (2016: 11), tax avoidance is an attempt to reduce the tax burden by not violatingTax*avoidance*can simply be interpreted as an effort made by the company to optimize profit after tax in a legal way by taking advantage of the weaknesses of existing regulations, one of which is by minimizing the tax burden.

According to Ross *et al*. (2016:489), The cost of debt is the return expected by the company's lenders on new loans, or simply the cost of debt is the interest rate that the company must pay on new loans. The company's funding structure is a mix or mix of long-term debt and equity used to fund operations. So it can be said that the company has several alternatives in conducting funding, namely through issuing shares to potential investors or by making loans to prospective creditors.

According to Hutchens & Rego (2012), tax risk is all tax-related uncertainties surrounding the company, transactions, operations, financial reporting decisions, and company reputation. These tax-related uncertainties include uncertainty in applying tax law to corporate facts, the possibility of examination by tax authorities, uncertainty in financial accounting for income taxes and the quality of accounting information used in taxation decisions. Taken together, these tax-related uncertainties can impose substantial costs on companies in the present and future.

Tax risk is uncertainty in the company's future taxes (Gueanther et al., 2017) due to the company's inability to maintain a tax position for a long time. The International Organization for Standardization (ISO) (2018) defines risk as to the effect of uncertainty on objectives. Tax risk comes from economic risk, tax law uncertainty, and inaccurate information processing.

According to Juniarti and Sentosa (2011), institutional ownership is the ownership of company shares owned by institutional investors; institutional investors in question are investment companies, banks, insurance companies, foreign institutions, trust funds and other institutions. Institutional investors are those professional managers who invest on behalf of other parties, either a group of individuals or a group of organizations (Murtianingsih (2014).

Institutional ownership is the percentage of share ownership by institutional investors such as investment companies, banks, insurance companies or in the form of institutional ownership and companies' other companies. This ownership represents a source of power that can be used to support or vice versa for the existence of management. So the existence of institutional ownership will encourage an increase in optimal supervision of the company's performance

Based on the descriptions and phenomena that have been stated above as well as the inconsistency of the results of previous research, the authors are interested in conducting further research with the title "The Influence of Tax Avoidance and Tax Risk on the Cost of Debt with Institutional Ownership as Moderating Variables in the Large Trading Sub-Sector Listed on the BEI".

Method

According to Sugiyono (2019:61), Population is a generalization area consisting of objects/subjects with specific qualities and characteristics determined by researchers to be studied and then conclusions are drawn. Based on this understanding, the Population in this study are all large trading sub-sector companies listed on the Indonesia Stock Exchange (IDX), totalling 47 companies.

The sample selection method in this study was carried out using a *purposive sampling method*, namely the sampling method based on specific criteria. The criteria for determining the sample are as follows:

a. Large Trading Sub-Sector Companies listed on the Indonesia Stock Exchange (IDX) in 2017-2020.
b. Significant Trading Sub-Sector has a net profit during the observation period, namely 2017-2020.
c. Large Trading Sub-Sector Company that publishes 2017-2020 financial reports.

This study has a period of 4 years, namely from 2017 to 2020, so the number of observations is 13 companies x 4 years = 52 units of analysis of observations of Big Trading Sub-Sector companies that publish financial reports on the Indonesia Stock Exchange. Collection techniques used in this study are as follows: Literature Study and Documentation.

Data were analyzed using data analysis methods with panel data regression methods and classical assumption tests, Panel Data Regression Analysis Chow and Test Hausman Research Coefficient Determination (*Adjusted*$\boldsymbol{R^2}\boldsymbol{R^2}$)Partial Test (t Test) Residual Test Moderation.

Results and Discussion

Research Results

a)Selection of Panel Data

1. Model Determination of the Estimated Model between *Fixed Effect Model* (FEM) and *Random Effect Model* (REM) with Hausman Test The

The following results are based on the Hausman test using Eviews 10

Tables of Hausman

Test Results Summary	Chi-Sq.statistics	Chi-Sqdf	Prob.
Random cross-section	0.228343	2	0.8921

Source: Results of Eviews 2022 Software Processing

Based on the Hausman test in the table above, it is known that the probability value is 0.8921. Because the probability value is > 0.05, the estimation model used is the ***Random Effect Model***

2. Determination of the Estimated Model between the *Common Effect Model* (CEM) and *the Fixed Effect Model* (FEM) with the Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistics	df	Prob.
Cross-section F	5.297770	(12.37)	0.0000
Cross-section Chi-square	51.998350	12	0.0000

Based on the results of the Chow test in the table above, it is known that the probability value is 0.000. Because the probability value is 0.000 < 0.05, the estimation model used is the *Fixed Effect Model* (FEM)

b) Research Hypothesis Testing

Coefficient of Determination

The results of the coefficient of determination test

Table of Coefficient of Determination

R-squared	0.636032	Mean dependent var	0.339381
Adjusted R-squared	0.898315	SD dependent var	0.461172
SE of regression	0.326647	Akaike info criterion	0.836725
Sum squared resid	3.947838	Schwarz criterion	1.399583
Log-likelihood	-6.754839	Hannan-Quinn criteria.	1.052511
F-statistic	4.618382	Durbin-Watson stat	1.970711
Prob(F-statistic)	0.000093		

The table above shows an Adjusted R Square of 0.89, meaning 89% of the factors that affect the cost of debt can be explained by tax avoidance and tax risk while the rest is equal to 11% is explained by other factors not examined in this study.

T Test (Partial Test)

This test is conducted to determine whether the proposed hypothesis is accepted or rejected by using the t statistic (Partial Test). The results of the t-statistic test (partial test) are:

Table of T-Test Results (Partial Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1	0.657920	1.019791	4.645151	0.0218
X2	1.251169	2.027471	3.617108	0.0400
C	1.311532	0.077277	4.031390	0.0002

concluded that the results of the significance or effect of the independent variables on the dependent variable are as follows:

1. be $_{\text{Based}}$ on the tax avoidance variable has an effect on the cost of debt with a t value of$_{4.645}$ > $_{\text{table}}$ 2008 and a significant value of 0.021 <0.05.
2. t value $_{\text{calculated}}$ for tax risk is 3.617 with a significance level of 0.04, then the risk variable affects the cost of debt with a $_{\text{count}}$ of 3.617 > $_{\text{table}}$ 2008 and a significant value of 0.04 <0.05.

Residual value

Table Residual Value Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Y	-0.041432	0.043118	-0.960894	0.3412
C	0.649446	0.024534	26.47093	0.0000

From the table above, the residual model can be formulated in the form of the following equation

=0.649446 -0.041432 (Y)

Based on the results of the residual test conducted, it is known that the Institutional ownership variable has a negative value and has significance prob = 0.3412 greater than 0.05. It can be concluded that the institutional ownership variable is not a moderating variable of the relationship between tax avoidance and tax risk on the cost of debt.

Discussion and Research Results

1.The Effect of Tax Avoidance on the Cost of Debt

The hypothesis testing results show tax avoidance on the cost of debt. This shows that tax avoidance can reduce the tendency of companies to go into debt, thereby increasing financial slack, reducing the possibility of bankruptcy, and having a lower risk of bankruptcy to reduce the cost of debt. Tax avoidance influences the cost of debt or supports the trade-off theory hypothesis. The larger the company doing tax avoidance will reduce the cost of debt.

Graham and Tucker (2016) in Masri and Martani (2012) show that favored tax activities such as tax shelters and tax avoidance are substitutes for using debt.

This Indicates that companies use less debt when involved in tax planning. The nature of this substitution is also influenced by the determination of the company's capital structure of whether the company conducts funding from its capital, namely, share capital and retained earnings, or from external parties, namely debt.

The results of this study are consistent with the results of research conducted by Fitriani (2017), which states that tax avoidance is the cost of debt.

2.The effect of Tax Risk on the Cost of Debt

The hypothesis testing results show tax risk on the cost of debt. The effect of a positive coefficient value indicates the higher the tax risk, the higher the cost of debt. That is, when a company has high tax risk, the company needs to reserve funds that the company must spend to finance tax expenses that may occur. Corporate tax risk when associated with uncertainty about future cash flows. This effect reflects the uncertainty of corporate tax payments that reflect the level of risky investment for the company or reflects uncertainty about the company's future cash flows. Because tax risk results in less predictable after-tax cash flows, creditors may perceive companies with high tax risk as riskier debtors (Jost Hendrik, 2018). In line with Hendrik and Jest (2018), tax avoidance has a significant positive effect on the cost of debt. The study results align with Dewi and Ardiyanto's (2020) results, showing that tax risk is related to the cost of debt.

3. Institutional Ownership Moderates the Relationship between the Independent Variable and the Dependent Variable

The test results show that institutional ownership cannot moderate the relationship between tax avoidance and tax risk on the cost of debt. Institutional ownership cannot moderate the effect of tax avoidance and tax risk on the cost of debt. This is because the ownership structure is concentrated, and there is no clear separation between the owner and company controller (management), causing the Ownership function as a monitor and supervision of management performance to be not optimal. The ownership function prevents *agency costs* from being optimal.

The results of this study are in line with research conducted by Utama and Sitanggang (2019), which states that institutional ownership cannot moderate the relationship between tax avoidance

Conclusion

Based on the results of data analysis and discussions that have been carried out, this study produces two conclusions as follows:

1. Tax avoidance and tax risk affect the cost of debt in large trading sub-sector companies listed on the Indonesian stock exchange in the 2017-2020 period.
2. Tax avoidance and tax risk affect the cost of debt in large trading sub-sector companies listed on the Indonesian stock exchange in the 2017-2020 period.
3. Institutional ownership cannot moderate the relationship between tax avoidance and the cost of debt in large trading sub-sector companies listed on the Indonesian stock exchange in the 2017-2020 period.
4. Institutional ownership cannot moderate the relationship between tax risk and the cost of debt in large trading sub-sector companies listed on the Indonesian stock exchange in the 2017-2020 period.

Based on the research results and conclusions mentioned above, the following suggestions can be made:

1.For further researchers, it is recommended to use other variables so that the results obtained will be more accurate and have a broad scope, such as financial ratios

2.. Further researchers need to observe A broader object is not just one industrial sector so that it can be used as a reference for a problem.

3.For investors, it is hoped that the results of this study can be used as a reference in making investment decisions, especially investments in large trading sub-sector companies on the Indonesia Stock Exchange so that investors can choose the right company to invest.

References

Agnes, Andriani. 2009. Effect *Good Corporate Governance* Level *Voluntary Disclosure* on *Cost of Debt*. Thesis. Petra Christian University Surabaya.

Anggun Putri Setya Dewi, Moh Didik Ardiyanto. 2020. the effect of tax avoidance and tax risk on the cost of debt (empirical study of banking companies listed on the Indonesian stock exchange in 2013-2018). *JOURNAL OF ACCOUNTING Volume 9, Number 3, Year 2020.*

Dewi & Ardiyanto. 2020. Tax avoidance and tax risk on the cost of debt (empirical study of banking companies listed on the Indonesian stock exchange in 2013-2018). *journal of accounting volume 9, Number 3, Year 2020, Pages 1-9.*

Erniawati, Ika. 2014. Analysis of the Effect of Tax Avoidance on the Cost of Debt and Institutional Ownership. Published Thesis. Muhammadiyah Surakarta university. Surakarta.

Ghozali, Imam. 2018. *Application of Multivariate Analysis with SPSS Program*. Diponegoro University Publishing Agency. Semarang.

Juniarti., Sentosa, AA. 2011. Effect of Good Corporate Governance, Voluntary Disclosure on Cost of Debt, *Journal of Accounting and Finance*, 11(2), 88-100.

Keown, AJ 2010. Fundamentals of Financial Management. Jakarta: Salemba Empat.

Minister of Finance Decree No. 1002/KMK.04/1984.

Mardiasmo. 2016. *Taxation*, Yogyakarta: Andi.

Masri, Indah and Dwi Martani. 2012. Tax Avoidance on Cost of Debt. XV National Accounting Symposium. University of Indonesia, Depok.

Marcelliana, elsa. 2014. *The Effect of Tax Avoidance on the Cost of Debt in Manufacturing Companies Listed on the Indonesia Stock Exchange for the* 2010-2012 Period. Thesis. Atma Jaya University, Yogyakarta. Yogyakarta.

Murtianingsih. 2014. Ownership Structure and Cost of Equity in Manufacturing Companies in Indonesia, *JIBEKA Journal*, 8(2), 39-44.

Marbun et al. 2020. The Effect of Tax Avoidance *Cost of Debt* in Manufacturing Companies Listed on the Indonesia Stock Exchange Indonesian *Journal of Accounting and Taxation UNIMED. Vol : 8, No : 2, 2020.*

Nisa,. Assyifayufi Khoirul and Sartika Wulandari (2021) The Effect of Tax Avoidance and Institutional Ownership on the Cost of Debt in Food and Beverage Sub-Sector Companies listed on the Indonesia Stock Exchange in the Accounting Journal. Vol. 5, No. 2, April 2021.

Octaviana, Natasya Elma and Abdul Rohman. 2014. The Effect of Tax Aggressiveness on Corporate Social Responsibility: To Test Legitimacy Theory. *Journal of Accounting* Vol. 3 No. 2 pp. 1-12.

Purwaningsih. 2012. The Effect of Tax Avoidance on the Cost of Debt. *Journal of Accounting & Finance*n. Yogyakarta: Atma Jaya University.

Pohan, C. 2013. Tax Management. Jakarta: PT. Gramedia Pustaka Utama.

Ross, SA., Westerfield, RW., Jordan, BD., Lim, J., Tan, R. 2016. Fundamentals of Corporate Finance, Global Asia Edition, Second Edition, New York: McGraw Hill Education.

Riyanto, Bambang. 2013. *Fundamentals of Corporate Expenditure*. BPFE Yogyakarta: Yogyakarta.

Rahmawati. (2015). The Effect of Tax Avoidance and Good Corporate Governance on the Cost of Debt. Published Padang State University, Padang.

Scott, W.R. 2012. Financial Accounting Theory, 6th edition, Toronto, Ontario: Pearson Canada Inc.

Sari, D. 2013. Basic Concepts of Taxation. PT. Refika Adimata.

Sari. 2014. The Role of Tax Avoidance in Reducing the Cost of Debt with the Effectiveness of the Audit Committee as a Moderating Variable. Jakarta: University of Indonesia. Paper presented in the National Seminar on Mataram End. Lombok: University of Mataram.

Santosa and kurniawan . 2016. The Effect *Tax Avoidance* Of *Debt* in Manufacturing Companies Listed on the IDX during the 2010-2014 period. MODUS Vol.28 (2): 139-154, 2016.

Sugiyono. 2019. *Statistics for Research*. Alphabeta Publisher. Bandung.

Septian., Muhammad & Panggabean., Rosinta Ria. 2017. The factors that affect the cost of debt to the company in Kompas 100. *Journal of Economics/Volume XXII, No.01, March 2017: 37-51. Bina Nusantara University, Jakara.*

Utama and Sitanggang. 2019. The effect of tax avoidance on the cost of debt moderated by institutional ownership. *Journal of Business and Accounting. Vol. 21, No. 1, June 2019, Pg. 47-60.* Jakarta Veterans National Development University.