



Company Characteristics as a Determinant of Tax Aggressiveness in Real Estate and Property Companies in Indonesia

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A B S T R A C T

This study aims to obtain empirical evidence regarding the effect of company characteristics on the level of tax aggressiveness. The level of tax aggressiveness is measured by the effective tax rate (ETR). Company characteristics in this study are represented by leverage, capital intensity, inventory intensity, and liquidity. The population in this study are all companies engaged in real estate and property and listed on the Indonesia Stock Exchange (IDX) for the 2015-2019 period. This study's empirical finding is that leverage positively affects the effective tax rate (ETR). High leverage results in a lower level of tax aggressiveness because it is proven that companies pay higher income taxes. This study did not find the effect of capital intensity, inventory intensity, and liquidity on the level of tax aggressiveness. The policy implication for tax institutions is that high leverage on real estate and property companies does not necessarily increase the tendency of corporate tax aggressiveness; even the research results show the opposite result.

Keywords: Tax Aggressiveness, Leverage, Capital Intensity, Inventory Intensity, Liquidity.

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INTRODUCTION

Research on tax aggressiveness is very important not only in order to expand its contribution to the level of tax theory and concept but also because of the contribution of taxes in increasing state revenues from the tax sector. The tax contribution to the state is largely determined by the amount of income tax paid by the company. The greater the amount of income tax paid by the company compared to the profit before tax in the financial statements reflects a lower level of tax aggressiveness. On the other hand, the smaller the amount of income tax paid compared to pre-tax profit reflects a higher level of tax aggressiveness. The current study seeks to obtain empirical evidence regarding the effect of the four characteristics of the company, namely leverage, capital intensity, inventory intensity, and liquidity on the level of tax aggressiveness.

Conceptually, companies that have a high level of leverage can charge interest in their financial statements so that they have the potential to reduce the amount of corporate income tax. This indicates that the company is practising tax aggressiveness with an increasing number of liabilities. However, the results of empirical studies on the effect of leverage on the level of tax aggressiveness show inconsistent results. Richardson et al. (2013), Wang et al. (2014), Yao-Chih Hsieh (2012), Hanum & Zulaikha (2013), Noor et al. (2010), Suyono (2018), and Hidayati et al. (2021) found a significant effect of leverage on the level of tax aggressiveness. In contrast, Salman (2018) and Hasyim & Jiwayana (2021) did not find the effect of leverage on the level of tax aggressiveness.

The concept explains that companies that have a level of capital intensity can charge depreciation costs in their fiscal statements so that income taxes become smaller. The condition of lower income tax payments causes companies to be more likely to be aggressive in terms

of their income tax. However, empirical research on the effect of capital intensity on the level of tax aggressiveness also gives contradictory results. Hidayati et al. (2021), Salman (2018), Yao-Chih Hsieh (2012), and Gupta & Newberry (1997) found the effect of capital intensity on tax aggressiveness. In contrast, Indradi (2018), Hanum & Zulaikha (2013), and Apriyanti & Arifin (2021) failed to find the effect of capital intensity on the level of tax aggressiveness.

The third factor that is thought to affect the level of tax aggressiveness is inventory intensity. Inventory intensity is related to the composition of the amount of inventory compared to the number of current assets. The amount of inventory owned by the company conceptually can affect the level of tax aggressiveness because inventory is correlated with the number of sales and the cost of goods sold achieved by the company. On the other hand, the results of empirical research do not show results that are in line with the concept. The empirical findings show contradictory results, where Yao-Chih Hsieh (2012) found the effect of inventory intensity on tax aggressiveness, while Salman (2018), Hanum & Zulaikha (2013), and Apriyanti & Arifin (2021) did not find the effect of inventory intensity on tax aggressiveness.

The fourth factor that is thought to affect the level of tax aggressiveness is liquidity. Liquidity is related to the ownership of resources in the form of cash flows by the company. Companies that have a high level of liquidity tend to have no problems in paying income taxes or in other words, the level of tax aggressiveness is lower than companies that have problems with liquidity. However, the results of previous empirical studies showed contradictory results, where Indradi (2018) found the effect of liquidity on tax aggressiveness, while Hidayati et al. (2021) did not find the effect of liquidity on the level of tax

aggressiveness.

The current research has novelty compared to previous empirical research because the samples used are companies that are members of the real estate and property sector and are listed on the Indonesia Stock Exchange (IDX). Companies that are members of real estate & property in their financial statements have several characteristics including a high level of leverage, a high level of capital intensity, and a high level of inventory intensity. It is interesting to study whether leverage, capital intensity, and inventory intensity in real estate & property companies affect the level of tax aggressiveness? This study aims to obtain empirical evidence regarding the effect of leverage, capital intensity, inventory intensity, and liquidity on the level of tax aggressiveness.

Leverage is thought to affect the level of tax aggressiveness. Companies that have a high level of leverage have the opportunity to charge interest expense from debt in the income statement so that it has an impact on reducing the amount of their corporate income tax. This condition means that companies tend to practice tax aggressiveness when they have a higher leverage ratio. This concept received support from the results of previous empirical research conducted by Gupta & Newberry (1997), Janssen & Buijink (2000), Adhikari et al. (2006), Noor et al. (2010), Yao-Chih Hsieh (2012), Richardson et al. (2013), Hanum & Zulaikha (2013), Wang et al. (2014), Suyono (2018), and Hidayati et al. (2021) who found a significant effect of leverage on tax aggressiveness.

Capital intensity is suspected as one of the factors that affect the level of tax aggressiveness. Companies that have a level of capital intensity indicate the composition of the number of fixed assets that is greater than the total amount of assets. This condition causes the company to charge a larger depreciation expense

in the income statement so that it can potentially reduce the amount of income tax that will be paid by the company. The smaller amount of income tax paid by the company indicates that the company tends to be more aggressive in reducing the amount of income tax. This concept is supported by Hidayati et al. (2021), Salman (2018), Yao-Chih Hsieh (2012), and Gupta & Newberry (1997) where all of these studies found a significant effect of leverage on tax aggressiveness.

Inventory intensity is suspected as one of the factors that affect the level of tax aggressiveness. Companies with high inventory intensity indicate a higher composition of total inventory compared to total current assets. The company can control the amount of income tax it pays through the ownership of the amount of inventory it has because inventory is correlated with the number of sales and cost of goods sold which is presented in the income statement. This concept is supported by the results of a study by Yao-Chih Hsieh (2012) which empirically found the effect of inventory intensity on the level of tax aggressiveness. Liquidity is suspected as one of the factors that affect the level of tax aggressiveness. Companies that have a high level of liquidity tend to pay higher taxes because the company has sufficient cash flow resources. On the other hand, conceptually, companies that have a low level of liquidity tend to suppress income tax payments or in other words tend to be more aggressive in reducing the amount of their income tax payments. This concept is supported by the results of a study by Indradi (2018) which empirically found the effect of liquidity on the level of tax aggressiveness.

METHODOLOGY

The population is all companies belonging to the property and real estate sector which are listed on the Indonesia Stock Exchange in the 2015-2019 period.

The sample was selected based on the following criteria: (a) the companies were consecutively listed on the IDX in the 2015-2019 period, and (b) had complete financial statements and annual reports for the 2015-2019 period. Based on the purposive sampling method, there were 24 real estate and property companies in a 5-year period (2015-2019).

Tax aggressiveness is proxied by the effective tax rate (ETR). ETR is measured by (income tax expense after deducting deferred tax expense) divided by profit before tax. Leverage is measured by total liabilities divided by total assets. Capital intensity is measured by total fixed assets divided by total assets. Inventory intensity is measured by inventory divided by total assets. Liquidity is measured by current assets divided by current liabilities. The data collected was then analyzed using multiple linear regression with SPSS software. The stages used are descriptive analysis of each variable studied, classical assumption test, F test, coefficient of determination, and t-test.

The OLS (Ordinary Least Square) technique is actually an extension of statistical regression analysis that is adapted to economic needs. This method is used to determine the magnitude of the influence of changes in the independent variable on the dependent variable. The

least squares method will obtain a system of linear equations that can be formed into matrix multiplication. The calculation of the regression coefficient value is done by completing the system solution. The system solution can be found using Gaussian elimination. The function of the t test is to determine the significance or significance of an independent variable individually in influencing the dependent variable. The usefulness of the F test to determine the significance or significance of an independent variable simultaneously in influencing the dependent variable.

RESULT AND DISCUSSION

The results of the classical assumption test have been carried out with the normality test, multicollinearity test, and autocorrelation test. The normality test showed that the data were not normally distributed because the significance value was 0.000 (< 0.05). The results of the multicollinearity test showed that all research variables had a tolerance value > 0.10 and a VIF value 10. The results of the autocorrelation test were carried out with the Durbin Watson test where the significance value was > 0.05.

The results of the F test indicate that the regression model is fit so that further interpretation can be carried out, with a significance value of 0.014 (Table 1).

**Table 1.
Results of F test**

Model		F	Sig.
1	Regression	3.264	.014 ^b
	Residual		
	Total		

Based on the results of the coefficient of determination test, the Adjusted R Square value is 0.071 which indicates that the variables in the model (leverage, capital intensity, inventory

intensity, and liquidity) have an effect of 7.1% on the level of tax aggressiveness, while 92.9 % is the influence of variables outside the research model (Table 2).

Table 2.
Results of Determination Coefficient

Model	R	R Square	Adjusted R Square
1	.319 ^a	.102	.071

The results of the t-test prove that only leverage has a significant effect on tax aggressiveness. This is indicated by a significant leverage value of 0.002. On the other hand, capital intensity, inventory

intensity, and liquidity have no significant effect on tax aggressiveness, with a significance value > 0.05, which is 0.354; 0.749; and 0.481 (Table 3).

Table 3.
Results of t test

Model	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
1(Constant)	-.089	.097	-.918	.360
LEV	.274	.088	3.099	.002
CAPINT	.092	.099	.931	.354
INVINT	-.029	.089	-.321	.749
LIQ	.004	.005	.707	.481

The results show that leverage has a significant effect on tax aggressiveness in companies engaged in real estate and property. Based on Table 3, it is known that the significance value is 0.002 (<0.05) and the unstandardized beta coefficient is 0.274. The results indicate that leverage has a positive effect on the effective tax rate (ETR), meaning that the greater the leverage, the greater the amount of income tax paid by real estate and property companies. In other words, that the greater the leverage, the level of corporate tax aggressiveness becomes smaller. The results of this study support the agency theory compiled by Jensen & Meckling (1976) where agents will behave in a self-interested manner. However, according to the same theory, the principal can run a monitoring mechanism in order to control the opportunistic behavior of the agent so that the agent behaves in accordance with the interests of the principal. This is proven by the results of current research that with high leverage, companies as taxpayers pay income taxes in larger amounts.

The results of this study support Gupta & Newberry (1997), Janssen &

Buijink (2000), Adhikari et al. (2006), Noor et al. (2010), Yao-Chih Hsieh (2012), Richardson et al. (2013), Hanum & Zulaikha (2013), Wang et al. (2014), Suyono (2018), and Hidayati et al. (2021) where all of these studies found a significant effect of leverage on tax aggressiveness. The results of this study are also supported by data on leverage which has decreased for the last 3 years (2017-2019) from 0.41246 to 0.36232 which resulted in the ETR value also decreasing from 0.08561 in 2017 to 0.06252 in 2019. This result indicates that the reduced leverage causes the ETR to decrease significantly. This condition occurs because real estate and property companies have experienced a decrease in their level of leverage over the last 3 years due to a decrease in sales turnover so that this has a significant impact in reducing ETR.

The results showed that capital intensity did not significantly affect tax aggressiveness in companies engaged in real estate and property. Based on Table 3, it is known that the significance value is 0.354 (> 0.05) and the unstandardized beta coefficient is 0.092. The results

indicate that capital intensity does not affect the effective tax rate (ETR), meaning that the rise and fall of capital intensity do not affect the amount of income tax paid by real estate and property companies. The results of this study support Hanum & Zulaikha (2013), Indradi (2018), and Apriyanti & Arifin (2021) where they do not find the effect of capital intensity on the level of tax aggressiveness.

The results of this study are supported by data on the capital intensity of real estate and property companies which have increased over the last 4 years (2016-2019) from 0.52641 in 2016 to 0.54780 in 2019 which resulted in the ETR value also increasing during the period (2016-2018) from 0.05356 in 2016 to 0.13646 in 2018. There is a unidirectional relationship between capital intensity and ETR, but not significant. These results indicate that the increase in capital intensity over the last 4 years (2016-2019) caused ETR to increase during the 2016-2018 period, but not significantly. Real estate and property companies are not proven to take advantage of the increasing number of fixed assets to reduce ETR through the imposition of depreciation expense.

The results showed that inventory intensity did not significantly affect the level of tax aggressiveness in companies engaged in real estate and property. Based on Table 3, it is known that the significance value > 0.05 is 0.749 and the unstandardized beta coefficient is -0.028. The interpretation of the research results shows that inventory intensity has a negative effect on the effective tax rate (ETR), but it is not significant. These results indicate that the rise and fall of inventory intensity does not affect the amount of ETR. These findings support Hanum & Zulaikha (2013), Salman (2018), and Apriyanti & Arifin (2021) where they do not find the effect of inventory intensity on tax aggressiveness.

The results of this study are

supported by data on inventory intensity at real estate and property companies which have increased over the last 3 years (2017-2019) from 0.20847 in 2017 to 0.21426 in 2019 which resulted in the ETR value, on the contrary, decreasing from 0, 08561 in 2017 to 0.06252 in 2019. This result indicates that the increase in inventory intensity over the last 3 years (2017-2019) caused the ETR to decrease, but with an insignificant effect. The results indicate that real estate and property companies do not take advantage of the increasing amount of inventory through the imposition of cost of goods sold (HPP) so that it does not have an impact on decreasing income tax expense (ETR). This condition indicates that the fluctuating inventory intensity does not result in the company being more aggressive in reducing the current year's income tax burden.

The results of the study did not find the effect of liquidity on the level of tax aggressiveness in companies engaged in real estate and property. This can be seen from the significance value of 0.225 (>0.05) and the unstandardized beta coefficient of 0.003. These results indicate that the better the company's liquidity does not affect the level of tax aggressiveness by the company. The results of this study support Hidayati et al. (2021) who did not find the effect of liquidity on the level of tax aggressiveness.

The results of the study are supported by graphs of tax aggressiveness and liquidity data for the last 5 years (2015-2019). The trend of corporate liquidity has increased successively during the 2015-2019 period from 2.08978 in 2015 to 4.05152 in 2019. However, this trend is not the same as the trend of tax aggressiveness where during the 2015-2018 period the ETR value has increased successively. -consecutively from 0.03762 in 2015 to 0.13646 in 2018. In 2019, tax aggressiveness decreased drastically by 0.06252, lower than the ETR score in 2017

and 2018. This condition causes liquidity not to affect significant ETR movement.

CONCLUSION

Tax aggressiveness is proven in this study only significantly influenced by leverage. The results of this study are interesting because the explanations are different from the concepts and results of previous research. Conceptually, a high level of leverage affects tax aggressiveness because companies can charge interest costs in calculating taxable income so it has an impact on a high tendency to tax aggressiveness levels. The results of this study prove the opposite condition that high leverage can increase the company's ETR, where this condition indicates a decrease in the company's tendency to tax aggressiveness.

In addition, capital intensity and inventory intensity do not have a significant effect on ETR. The fluctuations in capital intensity and inventory intensity in companies involved in real estate and property are not related to the rise and fall of ETR, which means that there is no significant impact on the amount of income tax paid by the company. This condition indicates that the factors of capital intensity and inventory intensity do not cause companies to tend to be more aggressive in suppressing income tax payments. Likewise, the results of this study also do not find the effect of liquidity on the level of tax aggressiveness in companies engaged in the real estate and property sectors.

Suggestions for further research are the use of data on companies that are directly affected by the covid-19 pandemic, by adding other variables that are still rarely studied, such as governance and corporate social responsibility. This research has practical implications for tax institutions in order to pay attention to factors that can affect the level of tax aggressiveness, namely leverage. The policy implication for tax institutions is that high leverage on

real estate and property companies does not necessarily increase the tendency of corporate tax aggressiveness, even the research results show the opposite result

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