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The Influence of Financial Derivatives, Financial Leases and Institutional Ownership on Tax Avoidance

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Abstract

This research falls under the category of quantitative research, aiming to ascertain the impact of the variables Financial Derivatives, Financial Leases, and Institutional Ownership on the variable Tax Avoidance. The study focuses on manufacturing companies listed on the Indonesia Stock Exchange, employing a purposive sampling method that yields a sample size of 19 companies. The analysis is conducted with a 5% significance level, utilizing the Panel Data Regression Analysis Method facilitated by the E-Views 12 computer program. The findings of the analysis reveal that (1) there is no statistically significant effect of financial derivatives on tax avoidance, (2) there is a significant effect of financial leases on tax avoidance, and (3) there is no significant effect of institutional ownership on tax avoidance.

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INTRODUCTION

From a governmental standpoint, taxes play a pivotal role in ensuring the sustained economic well-being of the country. They constitute the primary source of state revenue, facilitating the financing of diverse public programs and initiatives, including but not limited to infrastructure development, education, healthcare, and social protection. However, it is essential to recognize that taxes can impose a burden on segments of society, particularly those with lower incomes. Consequently, governmental strategies should involve careful consideration of tax rates and the implementation of social protection measures to mitigate the impact on individuals facing financial constraints.

In Indonesia, a significant challenge lies in the relatively low level of taxpayer compliance. Numerous companies engage in tax avoidance practices, leading to

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disparities between accounting profit and fiscal profit, commonly referred to as Book Tax Differences (BTD) (Windarti & Sina, 2017). The objective of tax planning is often to minimize the tax liability to the government by strategically reducing profits. This is achieved through the employment of taxation experts and the utilization of depreciation charges on the company's fixed assets (Apollo & Mailia, 2020). According to the Tax Justice Network, the ramifications of widespread tax avoidance in Indonesia are substantial, with estimated annual losses reaching up to US$ 4.86 billion. Translated to the local currency at the prevailing exchange rate of IDR 14,149 per United States (US) dollar on the closing spot market as of Monday (22/11), this figure amounts to IDR 68.7 trillion. Addressing these issues requires a multifaceted approach that combines effective tax policies, enhanced compliance mechanisms, and measures to curb tax avoidance, ultimately safeguarding the fiscal health of the nation.

Table 1. BTD value of manufacturing sector companies

No	PERUSAHAAN	TAHUN 2019	2.020	2021	2022
1	Astra International Tbk	0,009018	0,014278	0,009491	0,015025514
2	Barito Pasific Tbk	-0,03381	-0,03826	-0,02309	-0,044566791
3	Fajar Surya Wisesa Tbk	0,085358	0,023069	0,058319	-0,003748686
4	Indomobil Sukses International Tbk	-0,00791	-0,01868	-0,01627	-0,007236774
5	Indo Rama Synthetic Tbk	0,053531	0,003155	0,069819	0,035449255
6	Krakatau Steel Tbk	-0,17094	-0,01026	0,00283	0,047008096
7	Multi Bintang Indonesia Tbk	0,167332	0,01242	0,075777	0,079009881
8	Selamat Sempurna Tbk	0,134146	0,109455	0,129488	0,144343164
9	Tunas Baru Lampung Tbk	0,020489	0,015479	0,013538	0,011236546
10	Trias Sentosa Tbk	0,002333	0,010629	0,02504	0,022903986
11	Unggul Indah Cahaya Tbk	-0,02296	0,016608	0,049224	0,030904087
12	Unilever Indonesia Tbk	0,361907	0,346775	0,305048	0,292499872
13	Voksel Electric Tbk	0,007839	-0,00688	-0,08948	-0,086757878
14	Solusi Bangun Indonesia Tbk	0,01013	0,032862	0,044562	0,010097149
15	Asahimas Flat Glass Tbk	-0,02027	-0,05995	0,051153	0,072681785
16	Pelat Timah Nusantara Tbk	0,000915	-0,00152	0,042605	0,036016852
17	Chandra Asri Petrochemical Tbk	0,007971	0,003807	0,03185	-0,0358411
18	Panca Budi Idaman Tbk	-0,05936	0,025523	0,150831	0,114525696
19	Japfa Comfeed Indonesia Tbk	0,014939	0,017756	0,034927	0,011177213
	Rata-rata	0,029509	0,02612	0,050824	0,039196204

The presented table delineates the Book Tax Difference (BTD) values attributed to manufacturing companies enlisted on the Indonesia Stock Exchange (IDX). BTD, in this context, signifies the variance between accounting profit computed under the Generally Accepted Accounting Principles (PSAK basis) and fiscal profit formulated in accordance

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with the Taxation Law basis. A positive BTD value in this context implies a potential indication of tax avoidance, as it suggests that companies may be understating the fiscal profit through the exploitation of legislative loopholes.

To standardize the BTD values across companies of diverse sizes, the discrepancy values are normalized by being divided by the respective total assets of each company. Noteworthy is the discernible range of BTD values in the table, spanning from negative values to figures substantial enough to represent up to 50% of total assets. This variability underscores the nuanced landscape of tax-related practices within the manufacturing sector, necessitating a thorough examination of individual company behaviors and an overarching commitment to regulatory scrutiny to uphold fiscal transparency and integrity.

Figure 1. Average BTD chart

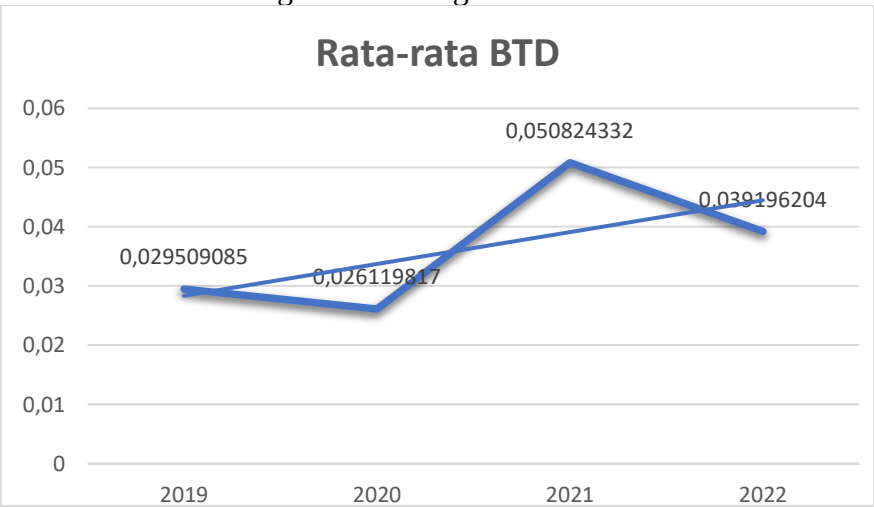

Figure 1 shows that the average value of BTD fluctuated from 2019 to 2022. In 2019, it was 0.029509085, then decreased to 0.026119817 in 2020, then increased to 0.050824332 in 2021, and then decreased again to 0.039196204 in 2022. However, the trend is upward.

There have been several cases of tax avoidance in Indonesia, including PT Adaro using transfer pricing in 2019, PT RNI increasing its debt specifically, and PT Indosat and PLN using derivative transactions.

Based on these findings, the author decided to conduct further research on the effect of financial derivatives, financial lease, and institutional ownership on tax avoidance.

LITERATURE REVIEW

Table 2. Literatur Review

No	Author Name and Years	Title	Publication Media	Hasil Penelitian
1	(Sundari & Nofryanti, 2019)	"Pengaruh Derivatif Keuangan Dan *Financial Lease* Terhadap Tax Avoidance"	Jurnal Penelitian Pendidikan dan Ekonomi Volume 16, Issue 2, Juli 2019	Financial derivatives and Financial Lease have a significant effect on tax avoidance

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2	(Rosdiani & Hidayat, 2020)	"Pengaruh Derivatif Keuangan, Konservatismeakuntansi Dan Intensitas Aset Tetap Terhadappenghindaran Pajak"	Journal of Technopreneurshipon Economics and Business Review	Financial Derivatives have a significant effect on Tax Avoidance, Accounting Conservatism has a significant effect on Tax Avoidance, Fixed Asset Intensity has no effect on Tax Avoidance, financial derivatives, accounting conservatism and fixed asset intensity simultaneously have a significant effect on tax avoidance.
3	(Meliani & Lesmana, 2022)	"Pengaruh Kepemilikan Manajerial Dan Konservatisme Akuntansi Terhadap Tax Avoidance"	Jurnal Informasi Akuntansi	Managerial ownership has a positive effect on tax avoidance and accounting conservatism has no effect on tax avoidance.
4	(Orlando & Murwaningsari, 2022)	"Pengaruh Instrumen Derivatif Dan Corporate Social Responsibility Terhadap Penghindaran Pajak Dengan Peran Tata Kelola Perusahaan Sebagai Pemoderasi"	Jurnal Magister Akuntansi Trisakti	Derivative instruments have a positive effect on tax avoidance. Corporate social responsibility has a negative effect on tax avoidance. Corporate governance as a moderating variable weakens the relationship between derivative instruments and tax avoidance. Corporate governance as a moderating variable weakens the relationship between corporate social responsibility and tax avoidance.
5	(Maradjabessy, 2018)	"Pengaruh Tata Kelola Perusahaan Dan Penggunaan Derivatif Keuangan Terhadap Praktik Penghindaran Pajak (Tax Avoidance)"	journal.widyadharma.ac.id	The results of this research show that independent commissioners have a positive influence on tax avoidance practices. Meanwhile, the variables audit committee, audit quality and use of financial derivatives do not have a significant effect on tax avoidance practices.
6	(Sari, 2019)	"Analisis Pengaruh Return On Assets, Debt To Equity Ratio, Debt To Assets Ratio, Current Ratio Dan	Jurnal Sains, Akuntansi dan Manajemen (Vol. 1, No. 1: Januari, 2019)	The return on assets variable has a negative effect on tax avoidance as indicated by a significance value of 0.00. The current ratio variable has a negative effect on tax avoidance as indicated by a

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		Financial Lease Terhadap Tax Avoidance Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Periode 2012-2017"		significance value of 0.03. However, the debt to equity ratio has no influence with a significance value of 0.48, the debt to assets ratio has no influence with a significance value of 0.81 and Financial Lease has no influence with a significance value of 0.13.
7	AFIATUL ANDRIYAH	"Pengaruh Derivatif Keuangan, *Financial Lease*, Dan Kompensasi Eksekutif Terhadap Penghindaran Pajak	*Jurnal Akuntansi dan Keuangan Indonesia*	financial derivatives have an effect on tax avoidance, Financial Lease has no effect on tax avoidance, executive compensation has no effect on tax avoidance.
8	Fatahul Rahman, Noor Fachman Tjetje, Mohammad Randy Syaputra (2018)	Analisis Faktor-Faktor Yang Mempengaruhi Tax Avoidance"	JURNAL AKUNTANSI MULTI DIMENSI (JAMDI) Volume 1, Nomor 1, Mei 2018 (pp: 15-19)	The research results show that there is a negative influence of Financial Lease and capital intent ratio on tax avoidance. Other results show that there is a positive influence of return on assets, debt to assets ratio and company size on tax avoidance.
9	(Lastyanto & Setiawan, 2022)	"Pengaruh Kepemilikan Institusional Terhadap Penghindaran Pajak Perusahaan Manufaktur Di Indonesia (2017-2019)"	Jurnal Akuntansi Trisakti	Institutional ownership has a significant and negative effect on tax avoidance. This finding means that in the context of agency theory, institutional investors tend to ignore the supervisory function, focus more on getting more benefits and encourage tax avoidance practices.
10	(Oktavia et al., 2019)	*"The Role Of Country Tax Environment On The Relationship Between Financial Derivatives And Tax Avoidance"*	*Asian Journal of Accounting Research*	*financial derivatives can be used as tax avoidance tool. Furthermore, the positive effect of the level of financial derivatives usage on the level of tax avoidance is lower in countries with a competitive tax environment than in countries with an uncompetitive tax environment*
11	(Donohoe, 2012)	"Financial Derivatives In	ProQuest LLC. 789 East	These tax avoidance features are easily organized according to the (1)

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		Corporate Tax Avoidance"	Eisenhower Parkway	fundamental, (2) transactional, (3) tax reporting, and (4) cognitive aspects of derivatives. Using this simple framework, this section describes why derivatives are useful for avoiding taxes.
12	(Utama et al., 2020)	*"Analysis of the Effect of Business Diversification and Derivative Disclosures on Tax Avoidance in Manufacturing Companies Listed on IDX."*	JURNAL PENDIDIKAN AKUNTANSI DAN KEUANGAN	*corporate diversification as measured by the hirschman-herfindhl index has no effect on tax avoidance activity. Meanwhile, the derivative transaction disclosure variable as measured by the disclosure score has an effect on tax avoidance activities.*

2.1 Hypothesis/es Development

2.1.1 The effect of financial derivatives on tax avoidance

The unique tax treatment of speculative derivatives has the potential to lead to disputes between taxpayers and tax authorities. The ambiguity in tax regulations pertaining to the use of derivatives creates opportunities for companies to engage in tax avoidance strategies (Oktavia & Martani, 2013). As demonstrated by Donohoe (2012), companies can strategically employ financial derivatives as a means of tax avoidance.

Research conducted by Devi & Efendi (2018) highlights the strategic coordination of losses and gains during derivative recognition to optimize tax outcomes. Companies tend to delay recognizing hedging gains from derivatives, capitalizing on tax regulations that permit deferral until the derivative position is closed. Conversely, companies expedite the recognition of derivative losses to diminish taxable income. Further investigation is required to delve into the correlation between the level of tax avoidance and the extent of utilization of financial derivatives. This study employs the net fair value of derivative instruments as a proxy for the use of financial derivatives (Oktavia & Martani, 2013). In light of the foregoing, the hypothesis formulated is as follows:
H1: Financial derivatives exert an impact on tax avoidance.

2.1.2 The effect of financial leases on tax avoidance

Tax planning can be effectively implemented through asset acquisition methods, such as leasing and obtaining bank loans. Leasing, introduced in Indonesia in 1974, represents a novel financing approach that deviates from traditional banking practices. As defined by Pohan (2013):

For companies that engage in leases with option rights, per the Decree of the Minister of Finance of the Republic of Indonesia No. 1169/KMK-01/1991, expenses deductible from the company's gross income encompass all costs incurred to acquire fixed assets over the contract duration. Upon completion of the lease term, the company has the option to depreciate the leased fixed assets, with the depreciation basis being the option value.
H2: Financial leases have a significant impact on tax avoidance.

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2.1.3 The Effect of Institutional Ownership on Tax Avoidance

In the realm of corporate governance, institutional owners wield substantial potential to shape policies related to tax avoidance. Aligning with the findings of Melisa (2017), institutional ownership emerges as a factor exerting a negative influence on tax avoidance practices. This observation underscores the pivotal role that institutional ownership plays in influencing and shaping the regulatory landscape surrounding tax avoidance policies, as corroborated by prior research conducted by Rahmawati et al., (2016).

While investors typically seek heightened profitability and robust dividend yields, majority shareholders may prioritize their interests over broader stakeholder concerns. In contrast, management faces a direct nexus between profit augmentation and the ensuing tax obligations of the company. The presence of external monitors, such as institutional owners, assumes significance in this context, contributing to the oversight of management actions and ensuring alignment with established regulatory frameworks. Institutional owners, in particular, are focused on evaluating the extent to which management adheres to stipulated regulations in profit generation, as articulated by Sugiyono (2019).

In light of these considerations, we formulate the third hypothesis, positing that institutional ownership exerts a discernible influence on tax avoidance:
H3: Institutional ownership influences the prevalence of tax avoidance practices

METHODOLOGY

The research methodology employed in this study adopts a descriptive quantitative approach with a causal orientation. In accordance with the insights provided by Sugiyono (2019), a causal research design entails the exploration of cause-and-effect relationships, where the independent variable is posited to exert an influence, and the dependent variable is subjected to the consequential impact. This methodological choice underscores the intention to not only describe the observed phenomena but also to ascertain the causal dynamics governing the relationship between variables under investigation. The utilization of quantitative techniques enhances the precision and rigor of the study, facilitating a systematic analysis of the identified causal connections within the research framework.

3.1 Population and Sample

The study's population encompasses manufacturing companies that have been listed on the Indonesia Stock Exchange (BEI) between the years 2019 and 2022. Nonprobability sampling, specifically purposive sampling, is employed as the chosen technique. The research sample consists of 19 manufacturing sector companies that are actively registered and disclose their financial reports.

3.2 Data collection technique

The data utilized in this research is classified as quantitative and is derived from secondary sources. The data collection methods in this study rely on documentation and a review of relevant literature.

3.3 Data Analysis and Hypothesis Testing Techniques

For data analysis in this study, Microsoft Excel and E-Views 12 are employed as analytical tools. The research utilizes the panel data regression analysis method,

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encompassing model selection tests and classical assumption tests. Hypothesis testing involves partial tests and tests for the coefficient of determination.

RESULTS AND DISCUSSION

4.1 Chow Test

Table 3. Chow Test Result

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

Effects Test	Statistic	d.f	Prob
Cross-section F	13.101856	(18,54)	0.0000
Cross-section Chi-square	127.704490	18	0.0000

The Cross-section probability value has a value of 0.000, which is not more than the significance value of 0.05, according to the Chow test findings in Table 3 above. As a result, it can be said that these data support H1 and refute H0, suggesting that FEM is the better model for this study.

4.2 Haussman Test

Table 4. Haussman Test Result

Correlated Random Effects-Hausman Test
Equation: Untitled
Test cross-section random effects

Effects Test	Chi-sq. Statistic	Chi-sq. d.f	Prob
Cross-section random	8.684392	3	0.0338

Based on the test findings in Table 4. As previously mentioned, the random cross-section probability is 0.0338, which is less than the significance value of 0.05. These results, which accept H0 and reject H1, can also be understood in the context of an analysis that use FEM—a superior model—as the estimation model.

4.3 Heteroskedastisitas Test

Table 5. Heteroskedastisitas Test Result

Dependent Variable: ABS (RESID)
Method: Panel Least Squares
Date: 11/12/23 Time: 14:39
Sample: 2019 2022
Periods included: 4
Cross-sections included: 19
Total Panel (balanced) observations: 76

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.048396	0.038598	1.253856	0.2153
FVDER	0.832333	0.781283	1.065341	0.2915
FINANCIALLEASE	-0.008869	0.006673	-1.329176	0.1894
INSTITUSIONAL	-0.020673	0.055264	-0.374085	0.7098

Based on the results of the heteroskedasticity test, it was determined that the probability of the first four variables was higher than 0.05. Based on the above, it can be explained that heteroskedastisitas is not a problem. Due to data that indicates heteroskedasticity is not present, this can be continued in the following pengujian.

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4.4 Multikolinearitas Test

Table 6. Multikolinearitas Test Result

	FVDER	FINANCIALLEASE	INSTITUSIONAL
FVDER	1	0.03614137686…	-0.1848390667…
FINANCIALLEASE	0.03614137686…	1	-0.0653585146…
INSTITUSIONAL	-0.1848390667…	-0.0653585146…	1

The correlation coefficient between FL and FVDER is 0.03614137686, FL and INST is -0.065359, and the correlation between FVDER and INST is -0.1848390667, as can be shown by looking at Table 6 above. These values are less than the significance value of 0.80. The data results do not exhibit multicollinearity, it can be concluded.

4.5 R^2 Test

Table 7. R2 Test Result

R-squared	0.844371	Mean dependent var	0.036412
Adjusted R-squared	0.783849	S.D. dependent var	0.087915
S.E. of regression	0.040874	Akaike info criterion	-3.319466
Sum squared resid	0.090215	Schwarz criterion	-2.644780
Log likelihood	148.1397	Hannan-Quinn criter.	-3.049828
F-statistic	13.95140	Durbin-Watson stat	1.935511
Prob(F-statistic)	0.000000		

Table 7 indicates that the Adjusted R-Squared value is 0.783849, or 78.3%. This indicates that the variables related to financial derivatives, financial leasing, and institutional ownership account for 78.3% of the variation in the tax avoidance variable, with other variables accounting for the remaining 31.7% (100% - 78.3%) of the variance.

4.6 Fixed Effect Model

Table 8. Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.004963	0.082606	0.060085	0.9523
FVDER	-2.671707	1.672076	-1.597838	0.1159
FINANCIALLEASE	0.035015	0.014281	2.451803	0.0175
INSTITUSIONAL	-0.003539	0.118273	-0.029922	0.9762

The outcomes of the multiple regression analysis, as per the established model, are presented below:

BTD = 0,004963 + -2,671707 FVDER + 0,035015FL + -0,000353INST + ε

An evaluation of the impact of financial derivatives on tax avoidance, using the statistical t-test, yielded a regression coefficient of -2.671707. The resulting t-statistic (-1.597838) is less than the critical value from the t-table (1.666) at a significance level of (0.1159), surpassing the conventional (0.05) threshold. Consequently, H1 is rejected, indicating that financial derivatives do not exert a discernible influence on tax avoidance. This implies that, within the sampled manufacturing companies, the utilization of financial derivatives, regardless of their values relative to the average, does not correlate with tax avoidance.

The restricted deductibility of costs associated with financial derivatives poses a challenge in significantly impacting tax avoidance. Additionally, this study diverges from agency theory, positing that management, as agents, is empowered by investors to

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maximize corporate profits. However, the optimization of financial derivatives' potential may prove challenging for management, thereby mitigating their impact on the company's tax burden.

For instance, Voksel Electric Tbk, holding the highest FVDER value in this study (0.01182117), indicates that its derivative transactions in 2020 constituted 1% of its total assets in 2021. Despite this, the BTD value of -0.08676 suggests a low level of tax avoidance, with taxable income surpassing accounting profit.

The findings align with the studies of Sandra & Yensi (2019) and Sista & Ardityanto (2017), which similarly found no sufficient evidence linking financial derivatives to tax avoidance.

Upon examining the influence of financial leases on tax avoidance, the statistical t-test yielded a coefficient of 0.035015. The resulting t-statistic (2.451) surpasses the t-table value (1.666) at a significance level of (0.0175 < 0.05), leading to the acceptance of H2. This indicates that financial leases do impact tax avoidance.

The results affirm that companies with fewer assets acquired through financial leases are less inclined to engage in tax avoidance, as evidenced by a higher effective tax rate (CETR) when financial leases are minimal. Notably, Unilever Indonesia Tbk exhibits the highest BTD value in the study (0.361907), signifying that accounting profit exceeds taxable profit by 36% of total assets. This aligns with the company's recorded transactions related to the right-of-use assets and lease liabilities.

Regarding the impact of institutional ownership on tax avoidance, the statistical t-test yielded a coefficient of -0.003539. The resulting t-statistic ((-0.0299)) is below the t-table value ((1.666)), with a significance level of (0.9762 > 0.05), leading to the rejection of H3. This implies that institutional ownership does not significantly affect tax avoidance.

In conclusion, institutional ownership size, whether large or small, does not necessarily influence the formulation of regulations and policies regarding tax avoidance. The effectiveness of institutional shareholders in preventing management from engaging in tax avoidance varies, as institutional ownership delegates supervision responsibilities to the board of commissioners, regardless of its magnitude.

CONCLUSION

4.1 Conclusion

The findings of empirical research suggest that financial derivatives do not significantly influence corporate tax avoidance. This lack of impact stems from the limited deductible cost components associated with derivative transactions, which constrains their potential to reduce taxable income. In contrast, financial leases can exert a more pronounced effect on tax avoidance, as they involve complex arrangements that can significantly impact a company's profit structure. Institutional ownership, however, does not appear to play a decisive role in shaping tax avoidance behavior. This is attributed to the fact that institutional investors are primarily focused on profit maximization and shareholder welfare, rather than tax optimization. Additionally, the responsibilities of institutional owners often encompass ensuring compliance with tax regulations, which further diminishes the likelihood of tax avoidance.

5.3 Limitation

The present study faced several limitations that potentially restricted its scope and the generalizability of its findings. Firstly, the derivative transaction variable encompassed a

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wide range of instruments, making it challenging to accurately assess the impact of specific derivatives on tax avoidance. Secondly, a significant portion of manufacturing companies failed to disclose their derivative transactions, preventing their inclusion in the research sample. This limited the diversity of the sample and potentially skewed the results.

5.3 Suggestion

Future research should consider incorporating additional independent variables that were not included in this study, such as managerial ownership, sales growth, corporate governance, and other relevant factors. To enhance the generalizability of the findings, it is recommended that future research expand its scope beyond manufacturing companies to include other entities listed on the Indonesian Stock Exchange.

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