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Analysis of the Effect of Business Diversification and Derivative Disclosures on Tax Avoidance in Manufacturing Companies Listed on IDX.

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Abstract

One of the obstacles to accelerating national development is the existence of tax evasion activities or what is commonly referred to as tax avoidance. It is estimated that there are 110 trillion rupees each year, the figure for tax evasion. Most are business entities, around 80%, the rest are individual taxpayers. This study aims to examine the effect of diversification of activities and disclosure of derivative transactions on tax evasion activities. The research was conducted on manufacturing companies listed on the Indonesia Stock Exchange from 2014 to 2018, with a sample of 92 companies. The data analysis method for this study used multiple linear regression. The results prove that 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.

Keywords: *Business Diversification; Derivative Disclosures; Tax Avoidance.*

Abstrak

Salah satu kendala dalam percepatan pembangunan nasional adalah adanya aktivitas penghindaran pajak atau biasa disebut *tax avoidance*. Diduga setiap tahun ada Rp.110 triliun yang merupakan angka penghindaran pajak. Sebagian besar adalah badan usaha, sekitar 80 persen, sisanya adalah wajib pajak perorangan. Penelitian ini bertujuan untuk menguji pengaruh diversifikasi usaha dan pengungkapan transaksi derivatif terhadap aktivitas penghindaran pajak. Penelitian dilakukan pada perusahaan manufaktur yang listing di Bursa Efek Indonesia dari tahun 2014-2018, sampel penelitian sebesar 92 perusahaan. Metode analisis data dalam penelitian ini menggunakan regresi linier berganda. Hasil penelitian membuktikan bahwa diversifikasi usaha yang diukur menggunakan *hirschman-herfindhl index*, tidak mempunyai pengaruh terhadap aktivitas penghindaran pajak. Sedangkan variabel pengungkapan transaksi derivatif yang diukur dengan pemberian skor pengungkapan berpengaruh terhadap aktivitas penghindaran pajak.

Kata Kunci: Diversifikasi Usaha; Pengungkapan Derivatif; *Tax Avoidance*.

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INTRODUCTION

The phenomenon of tax evasion in Indonesia can be seen in the report of the Directorate General of Taxation (DGT) which was only able to collect tax revenue of IDR 1146.9 trillion, 92% of the target of 1246,1 billion IDR in the 2014 APBNP. In addition, the General Directorate of Taxes and the Ministry of Finance with reference to Law No.14 of 2008, concerning freedom of information. It is estimated that every year there is Rp110 trillion which is the tax evasion figure. Most are business entities, around 80%, the rest are individual taxpayers (Manurung, 2019). From the description of the above figures, it can be concluded that the State, in this case the General Tax Directorate, must optimize its tax revenues in order to accelerate national development. However, efforts to maximize tax revenue have encountered many obstacles, one of which is the existence of tax evasion activities or commonly referred to as tax avoidance (Swingly & Sukartha, 2015). Therefore, the issue of tax evasion is a complex and interesting one to study.

Several factors can influence tax management practices, especially tax avoidance practices, companies that have a profitable strategy avoid less than companies that have a product differentiation strategy (Higgins, Omer, & Phillips, 2011).

Business diversification is a form of business merger by expanding the number of business segments and geographic segments, increasing existing market shares or developing various diversified products. This policy will be used to maintain or improve business excellence by improving business performance. Thus, companies can develop the line of business or diversify their activities in the form of business expansion and market expansion through a strategy of diversification of business segments (Harto, 2019).

Companies that develop their business abroad tend to face competition in free trade, which creates uncertainty about market price fluctuations with increasing business risk.

Unpredictable movements in exchange rates have made multinational corporations very cautious in the conduct of international trade in order to avoid large losses due to fluctuations in exchange rates. The risk of exchange rate fluctuations for multinational companies has an impact on the level of profitability, net cash flow and market value of the company. The risk of currency loss can affect economic activities, such as sales, changes in product prices and the value of assets.

The risk of exchange rate loss can affect the company's cash inflows, because when the national currency depreciates, import costs and the amount of external debt will increase, which will be detrimental to the business because the costs incurred will increase in number and reduce the profit that will be obtained (Hidayah & Prasetiono, 2016). Due to the risk of change, the company may make currency derivatives in order to protect the value of its exports and imports. Currency exchange rate fluctuations are also used by speculators to profit by using exchange rate derivatives.

The recognition of derivatives has two objectives, namely hedging and speculation (Subramanyam & Wild, 2010). This hedging transaction is similar to an insurance policy, where a company enters into a contract that guarantees a certain return without being influenced by market forces.

This study concerns a manufacturing company, due to the consideration that this sector is a relatively large number of companies which diversify either by increasing the number of segments of the company, or by increasing the number of subsidiaries through acquisitions or mergers. This stems from the onset of a currency crisis which caused difficulties for many companies, so that many conglomerates were rocked and eventually went bankrupt. After the turbulent period of the currency crisis ended so far, some companies

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have merged with other companies or diversified to become stronger.

LITERATURE REVIEW

Positive Accounting Theory

According to positive accounting theory, the accounting procedures used by companies do not necessarily have to be the same as others, but companies are free to choose any of the alternative procedures available to minimize procurement costs and maximize efficiency. company value.

There are 3 agency relationships, namely between management and owners, between management and creditors, and between management and government. In this study, of the three hypotheses, the political costhypothesis is appropriate to describe this research. In fact, in ceteris paribus, the higher the political costs of the company, the more the company manager is likely to choose an accounting method which defers current profits to future periods. A business that makes tax evasion efforts tries to minimize tax payments by choosing an accounting method that defers profits made in the current year in order to minimize political costs incurred (Watts & Zimmerman, 1990).

Business diversification

The diversification of activities aims to achieve maximum profit by combining several investment portfolios, whether it be producing various goods, creating a number of business units or creating new subsidiaries or even buying existing companies. Based on this definition, it is concluded that companies that diversify their activities are companies that have several business units or subsidiaries and that the diversification of activities is carried out to increase the added value of business owners (Hariadi, 2005).

The aim of diversification is linked to the control of costs and the quality of production, which makes it possible to control selling prices and increase income. The more the diversification is linked, the lower the level of diversification. Meanwhile, diversification is not linked or vertical diversification does not depend on some form of linkage with existing businesses. Diversification is not linked to improving the performance of the company through the efficiency of internal capital because it is used for activities unrelated to its main activity (Harto, 2019).

Derivative Disclosures

Prior to adopting IAS 39, the term financial instruments in PSAK 50 (1998) para. 06 is referred to as securities which have the definition of securities, namely debt securities, trade securities, stocks, bonds, debt securities and collective investment contract units. In addition, forward contracts on securities and each derivative of securities are included in the definition of a financial instrument or in PSAK 50 (1998) referred to as securities.

On the basis of PSAK 50 (revised in 2014), financial instruments are divided into 6 types, namely financial assets, financial liabilities, equity instruments, derivatives, hedging instruments and instruments with 'a put option (*puttable instrument*).

Financial assets in PSAK 50 (2010) para. 07 is defined as any asset in the form of cash, equity instruments issued by another entity, contractual rights to receive cash or other financial assets from another entity or to exchange financial assets or financial liabilities with another entity on terms potentially favorable to that entity, and contracts that will or may be settled using equity instruments issued by the entity that are either derivative or non-derivative.

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Tax Avoidance

Taxes on businesses are burdens that will reduce net income so that businesses always want to pay as little tax as possible. The existence of a tax burden that weighs on the company and its owners, so there are efforts to avoid taxes (Chen, Chen, Cheng, & Shevlin, 2010). Businesses take advantage of unclear regulations in the context of tax evasion to achieve favorable tax outcomes. Tax evasion is an explicit reduction in tax rates that represents a series of tax planning strategies from tax management, tax planning, tax aggression, tax evasion and tax protection (Dyreng, Hanlon, & Maydew, 2010)

Tax aggressive action is an action aimed at reducing taxable profit through tax planning, both in a legal way (tax avoidance) and in a way that violates the law (tax evasion) (Sari & Martani, 2010). This can occur because of weaknesses in tax regulations that can be used by managers as company leaders.

The existence of a positive accounting theory and agency problems related to the development of hypotheses related to business diversification of tax avoidance activities. Tax avoidance structures and transactions are usually very complex and confidential which can cause managers to engage in unsafe activities for shareholders, while diversification strategies are an investment strategy implemented by placing funds in various instruments with different levels of risk and potential benefits (Suwarni & Pakaryaningsih, 2007).

Tax avoidance can create a conflict of interest between management and creditors due to information asymmetry and moral hazard problems. Tax avoidance can also provide both positive and negative reactions to the market. When the market expects that the company's expenses will increase, there will be a negative reaction. If the market expects that disclosure to increase there is a positive reaction (Frischmann, Shevlin, & Wilson, 2008)

The company has a goal of doing tax avoidance in order to minimize the level of tax payments that must be made and at the same time increase the company's cash flow. Companies can increase discretional expenses to reduce taxes paid, considering that these expenses become tax deductibles.

Business diversification represents the number of business segments, this happens because when a company implements a diversification strategy the company has several segments and with the presence of several business segments, the risk experienced by one segment does not really affect the company, because the company can still get returns from other business segments, by spreading the risk, the total risk will be reduced. Besides the research results Higgins et al., (2011) proves that companies that diversify their business, be it cost or product diversification, tend to do tax avoidance, the hypothesis that can be proposed is:

H1: business diversification has a positive effect on tax avoidance activities

Losses from derivative transactions that are not for hedging purposes should not be allowed to be recognized as Deductible Expense. The party that transacts the derivative instrument will adjust the contract value agreed in the future which affects profit (Kurniasih, Sari, & Maria, 2013).

The lack of clarity of tax regulations on derivative transactions which continues to be allowed to cause disputes that are difficult to avoid and difficult to resolve between tax officials and taxpayers. The unclear tax regulations on the use of derivative transactions can be an opening for companies to carry out tax avoidance activities (Darussalam, 2009).

Derivative transactions can be used as a tax avoidance tool, this is evident from research Donohoe, (2015) that financial derivatives can be used by companies as a means of tax avoidance, there is unclear definition of speculative transactions whether or not a derivative transaction is used by companies to use financial derivatives as a means of tax avoidance. Based on this explanation, the second hypothesis is:

H2: Disclosure of derivative transactions has a positive effect on tax avoidance activities

Based on the description previously stated, it can be formulated through the following framework:

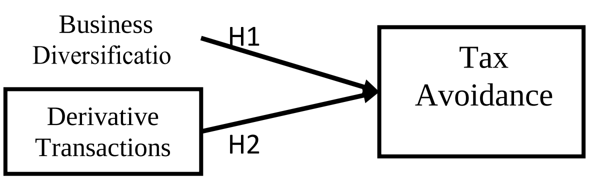

Figure 1. Framework

RESEARCH METHODOLOGY

The method used in this research uses quantitative methods, which aim to examine the effect of diversification of activities and disclosure of derivative transactions on tax avoidance in manufacturing companies listed on the Indonesian Stock Exchange from 2014 to 2018. In this study, the companies which were the samples were selected on the basis of a reasoned sampling.

The dependent variable used in this study is Tax Avoidance and the measurement of this variable uses the Gaap Effective Tax Rate (ETR)..

$$TAX = \frac{\text{Income Tax Expense}}{\text{Profit before tax}}$$

The independent variable in this study is business diversification and disclosure of derivative transactions, in calculating the diversification strategy using the Hirschman-Herfindhl Index (HHI).

$$HHI = \frac{\sum n=1 \text{Segsales}^{2}}{\sum n=1 (Sales)}$$

Explanation:

Segsales: Sales of each segment

Sales : Total Sales

In this study, the variable disclosure of derivative transactions is based on the applicable financial accounting standards in Indonesia, particularly PSAK 55 (revised 2014). Furthermore, a company is categorized as a sample low disclosure level user if the company does not disclose or only discloses one of the three value components related to its derivative transactions, namely: (i) fair value of derivative transactions; (ii) the nominal amount of the derivative; and (iii) gains / losses on derivative transactions.

The analysis technique in this study uses multiple linear regression. The regression method was carried out on the model proposed by the researcher using the SPSS program to predict the relationship between the independent variable and the dependent variable.

RESULT AND DISCUSSION

Sampling using purposive sampling, with the total number of manufacturing companies listed on the IDX from 2014 is 126 companies, then there are 4 companies that in 2014-2018 experienced delisted. In addition, there are 11 companies that use foreign currencies. So the companies that were taken as samples were 92 companies with the number of observations made during 2014-2018 (5 years) were 460 observation items.

Table 1. Descriptive statistics

Variable	Min	Max	Mean	Std. Dev
TAX	-5,550	8,895	0,275	0,732
HHI	0,009	99,521	0,981	5,160

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DEV	1,000	3,000	2,072	0,867

Source: Results of data processing, 2020.

The tax avoidance activity variable (TAX) as measured by the Gaap Effective Tax Rate (ETR) has the highest (maximum) value of 8.894 and the lowest (minimum) value of -5.5498, and the average value of the tax avoidance activity variable (TAX) at The observation year 2014-2018 is 0.274, this value shows that the average research sample company pays low taxes so that the variable value of tax avoidance activities is also low, low ETR is a key indicator or a sign of company aggressiveness that avoids corporate taxes by reducing taxable income. them while maintaining financial accounting earnings.

The business diversification variable is measured using the Hirschman-Herfindhl Index (HHI), with the highest occurring in 2014 at 99.52 owned by the company Kertas Basuki Rachmat Indonesia Tbk with the KBRI code and the lowest occurred in 2014, namely 0.0086 owned by Yanaprima Hastapersada Tbk company with the YPAS code and the average value of the business diversification variable of 0.98 shows that the average business diversification variable in the research sample company is diversified in several business segments because the average number approaches 1. The closer to number 1, then the company's sales will be diversified in several business segments. Conversely, the closer to zero, the company's sales will be concentrated in a particular business segment or the company is in a single segment.

The variable of derivative transaction disclosure as measured by using the disclosure score, has the highest (maximum) value of 3, and the lowest (minimum) value of 1, and the average value of the variable disclosure of derivative transactions in the 2014-2018 observation year is 2.07. that the average research sample company as a user of financial derivatives does not disclose the main component of its derivative transactions (low disclosure level user), because in this study the disclosure of derivative transactions is measured by using a disclosure score.

Tabel 2. Coefficient Determination Test

Model	*R*	R^2
1	0,192	0,037

Source: Results of data processing, 2020.

The test results obtained an R2 value of 0.037, which means that 3.7% tax avoidance as measured by the cash effective tax rate (ETR) can be explained by business diversification, disclosure of derivative transactions and return on assets. While the remaining 96.3% is explained by other factors that were not tested in the research.

Table 3. Statistical Test F

F_{count}	F_{tabel}	Sig
5,357	2,6	0,001

Source: Results of data processing, 2020.

The significance value of 0.001 is smaller than 0.05, by looking at this level of significance, this model can be used to predict tax avoidance activities in manufacturing companies listed on the Indonesia Stock Exchange from 2014-2018, thus, the equation of this model is fit or fit for use.

Table 4. Statistical Test t

Variabel	Coefficients	t-count	sig
(Constant)	0,137	3,247	0,001
HHI	0,046	0,953	0,341
DEV	0,110	2,264	0,024

Source: Results of data processing, 2020

Based on the results of business

diversification tests measured using the Hirschman-Herfindhl Index, it can be seen that business diversification variables have no effect on tax avoidance activities as measured using the cash effective tax rate. So the hypothesis which states "business diversification has a positive effect on tax avoidance activities", is not supported. The results that do not have an effect are contrary to the results of the study Higgins et al., (2011), but has something in common with research Sulastri (2015) who concluded that the diversification strategy has no effect on the company's financial performance.

The absence of effect of business diversification on tax avoidance activities was possible because the average sample of companies implemented a diversified strategy in several business segments. In general the strategy is to develop greater efficiency in existing operations until exploration of changes in an attempt to open up new areas at an opportunity. This strategy only stabilizes the action to form a specific pattern in response to environmental conditions. Companies that adhere to this strategy do not follow any consistent strategy but only respond to environmental changes and are thus expected to change over time. This strategy is also not feasible in the long term.

Because the company's strategy changes every year, this year the company uses a defender strategy, the following year it uses an analyzer strategy, and the following year it uses a prospector strategy. So, on average, companies are still unable to establish a consistent pattern of competitive strategies from year to year. As a result of the inconsistent implementation of the strategy, using any strategy still has nothing to do with the level of tax avoidance, because it will have

CONCLUSIONS AND SUGGESTIONS

The results prove that business diversification as measured using the hirschman-herfindhl index has no effect on tax avoidance activities. Meanwhile, the variable of derivative transaction disclosure as measured by the disclosure score has an effect on tax avoidance activities.

For companies to be able to become material to increase knowledge and insight about *tax avoidance*, so company management can design a mechanism for implementing the continuation of the company well, by not doing illegal tax planning so that the company does the same effect on the level of tax avoidance activity.

Based on the test results of derivative transaction disclosure as measured by the disclosure score, it can be seen that the variable derivative transaction disclosure has an effect on tax avoidance activities as measured by the cash effective tax rate. So the hypothesis which states "Disclosure of derivative transactions has a positive effect on tax avoidance activities" is supported. The influential results are in line with the research Donohoe (2015) stated that companies that use larger derivatives as tax savings and tax aggressiveness that can reduce tax burden are stated to have a positive effect.

Financial derivatives are financial instruments that serve to protect value. However, hedging by companies can become an opening for companies to avoid taxes. The influential research results are in accordance with the theory which states that if the company has an unstable net income every year, then the company sometimes becomes the subject of a high tax range. Companies that use hedging will flatten net income over several years, allowing the average company to fall into a lower tax range.

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not commit tax fraud that can harm the country and can damage the name and reputation the company is in the public eye, because for investors as *principals* who have placed their funds in the company will make a low valuation to the company is known to avoid tax

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