# The Effect Of Profitability, Tunneling Incentive And Deferred Tax On Tax Aggressiveness

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**Abstract**

*The largest source of state budget revenue in Indonesia is from tax revenue. Tax is an important factor in the development of a country. But on the one hand, companies try to minimize their tax burden, by taking tax aggressiveness. Tax aggressiveness is one of the strategies carried out by corporate taxpayers in avoiding tax burdens, by reducing tax burden reporting or by saving tax reporting. This is based on the company's desire to obtain optimal profits. This study aims to analyse the factors that influence tax aggressiveness actions taken by companies. These factors are profitability, tunnelling incentive, and deferred tax. This research is a quantitative study using a sample of 22 mining sub-sector companies listed on the Indonesia Stock Exchange, with an observation year of five years, 2018-2022. The data analysis technique used is multiple linear regression analysis. The results showed that profitability and tunnelling incentive had no effect on tax aggressiveness. Meanwhile, deferred tax has a positive but insignificant effect on tax aggressiveness.*

## INTRODUCTION

Tax aggressiveness is one of the strategies used by corporate taxpayers in avoiding the tax burden, by reducing the reporting of tax expenses or by saving tax reporting. Frank, et al. (2009) defines aggressive tax action as a management action that aims to reduce taxable income through tax planning using either tax evasion or tax avoidance. Harari, et al. (2013) state that tax aggressiveness can be defined as the main objective of tax planning activities to avoid paying taxes or to lower the tax burden paid significantly.

Based on an article published on the Detik Finance website (2019), the coal company PT Adaro Energy Tbk committed one of the acts of tax aggressiveness, namely tax avoidance (TA) with a transfer pricing scheme through its subsidiary in Singapore, Coaltrade Services International Pte Ltd. PT Adaro Energy Tbk allegedly carried out transfer pricing practices to avoid domestic tax obligations to provide higher income for company shareholders.

This is a dilemma, because taxes are an important source of funding for the country's economy. The economic progress and development of a country can be measured by the results of development that occurred during that period. Tax is a factor that plays an important role in the development of the State. APBN funds in Indonesia come from three sources of revenue including tax revenue, non-tax revenue, and grant revenue. The largest source of state budget fund revenue in Indonesia is from tax revenue. This can be proven from the data published by the Ministry of Finance that occurred in 2018: tax revenue of IDR 1,618.1 T, non-tax revenue of IDR 275.4 T, and grant revenue of IDR 1.2 T. The government uses APBN funds to carry out its programs with the aim of increasing economic growth through infrastructure development, public assets, and other public facilities.

Tax aggressiveness actions taken by companies are influenced or supported by the level of profitability, tunnelling incentive, and deferred tax. Previous research that has been conducted to examine the effect of profitability on tax aggressiveness is research from Devi and Dewi (2019), which states that the higher the profit or profitability obtained by the company, the more the company will carry out tax aggressiveness. This research is also supported by the findings of Andhari and Sukartha (2017), Herlinda and Rahmawati (2021), and Puspita and Putra (2021), who also say that profitability affects tax aggressiveness, because the greater the profit of a company, the more aggressive the tax avoidance actions taken by the company. Other research related to profitability by Rodriguez and Arias (2012) states that profitability positively affects tax aggressiveness proxied by ETR.

Previous research that has been conducted to examine the effect of tunnelling incentive on tax aggressiveness is the result of research by Andayani and Sulistyawati (2020) which shows that tunnelling incentive has a significant effect on tax aggressiveness. In addition, research conducted by Noviastika, et al.

(2016) and Kharisma (2014) also shows that tunnelling incentive has a significant positive effect on tax aggressiveness. Then the results of research conducted by Khotimah (2018) show that tunnelling incentive has an influence on tax aggressiveness.

Previous research that has been conducted to examine the effect of deferred tax on tax aggressiveness is research conducted by Feryansyah, et al., (2020) and Chrisandy and Simbolon (2022) also shows the results that deferred tax affects tax aggressiveness. This research is also supported by the results of Anggraini and Amah's research (2019) which shows that deferred tax partially has a significant effect on tax aggressiveness.

**METHODS**

The type of research used is research with a quantitative approach. The quantitative research method is based on data in the form of numbers and analysis using statistics (Sugiyono, 2019). The type of data in this study is secondary data, namely the annual reports of mining sub-sector companies in 2018-2022 listed on the Indonesia Stock Exchange, obtained on the official website www.idx.co.id.

The population in this study were all mining sub-sector companies whose shares were listed on the Indonesia Stock Exchange in 2018-2022, totalling 55 companies. The sampling technique used in this study is the purposive sampling method, namely determining the sample based on certain criteria under what the author wants. The samples that passed the criteria were 22 companies, with 5 years of observation, meaning that there were 110 samples that would be tested further.

**Table 1.Sampel List**

| No | Perusahaan | Kode Saham |
|----|------------|------------|
| 1 | PT Adaro Energy Tbk. | ADRO |
| 2 | PT AKR Corporindo Tbk. | AKRA |
| 3 | PT Aneka Tambang Tbk | ANTM |
| 4 | PT Bumi Resources Minerals Tbk | BRMS |
| 5 | PT Baramulti Suksessarana Tbk | BSSR |
| 6 | PT Bayan Resources Tbk | BYAN |
| 7 | PT Cita Mineral Investindo Tbk | CITA |
| 8 | PT Dian Swastika Sentosa Tbk | DSSA |
| 9 | PT Golden Energy Mines Tbk | GEMS |
| 10 | PT Harum Energy Tbk | HRUM |
| 11 | PT Logindo Samudramakmur Tbk. | LEAD |
| 12 | PT Mitrabahtera Segara Sejati Tbk | MBSS |

| No | Perusahaan | Kode Saham |
|----|-----------|------------|
| 13 | PT Merdeka Copper Gold | MDKA |
| 14 | PT Medco Energi Internasional Tbk | MEDC |
| 15 | PT Mitra Investindo Tbk | MITI |
| 16 | PT Perusahaan Gas Negara Tbk. | PGAS |
| 17 | PT Petrosea Tbk | PTRO |
| 18 | PT Rukun Raharja Tbk. | RAJA |
| 19 | PT Golden Eagle Energy Tbk | SMMT |
| 20 | PT Timah Tbk | TINS |
| 21 | PT Toba Bara Sejahtera Tbk | TOBA |
| 22 | PT Wintermar Offshore Marine Tbk. | WINS |

The indicators used to describe each variable in this study are

**Table 2.Research Variable Indicators**

| No | Variabel | Indikator | Skala |
|----|----------|-----------|-------|
| 1 | Tax Aggressiveness (Y) | $ETR = \dfrac{\text{Total Income Tax Expense}}{\text{Profit Before Tax}}$ | Rasio |
| 2 | Profitability (X1) | $ROA = \dfrac{\text{Net Income before tax}}{\text{Total Asset}}$ | Rasio |
| 3 | Tunneling Incentive (X2) | $KA = \dfrac{\text{Total Foreign Ownership}}{\text{Number of Shares Outstanding}} \times 100\%$<br><br>With the provision of share ownership held by foreign companies above or equal to 20%. Score 1 for shareholdings held by foreign companies above or equal to 20% and Score 0 for shareholdings held by foreign companies below 20%. | *Dummy* |
| 4 | Deferred Tax (X3) | $DTE = \dfrac{DTE_{it}}{TA_{it-1}}$ | Rasio |

The data analysis technique in this study uses multiple linear regression analysis, with the equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Keterangan
Y    : Tax Aggressiveness
X1  : Profitability
X2  : Tunneling Incentive
X3  : Deferred Tax
α    : Konstanta
β    : Koefisien Regresi
ε    : Error

**RESULTS AND DISCUSSION**

This study used a sample of 22 mining sub-sector companies with 5 years of observation, namely 2018-2022. There are 110 research data which will then be analysed descriptively. The dependent variable in this study is Tax Aggressiveness (Y), the independent variables in this study are Profitability (X1), Tunneling Incentive (X2) and Deferred Tax (X3). Descriptive statistics on each research variable can be seen in the following explanation.

This section contains (concise form) data analysis and interpretation of results, using theories from articles as used. The descriptions given include theoretical, implicative, managerial, or practical.

**Table 3.Descriptive Statistics**

|  | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Tax Aggressiveness (Y) | 110 | .20 | 71.80 | 24.9075 | 14.54013 |
| Profitability (X1) | 110 | .20 | 52.00 | 9.3827 | 10.23253 |
| Tunneling Incentive (X2) | 110 | .71 | 97.72 | 31.1046 | 24.13617 |
| Deferred Tax (X3) | 110 | 15.00 | 99.00 | 50.3455 | 21.61185 |
| Valid N (listwise) | 110 |  |  |  |  |

**Table 4.Multiple Linear Regression Analysis**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
|  | B | Std. Error | Beta |  |  |
| 1 (Constant) | .231 | .387 |  | 5.956 | .000 |
| Profitabilitas | -.288 | .138 | -.203 | -2.095 | .039 |
| Deferred Tax | .117 | .065 | .174 | 1.793 | .076 |
| Tunneling Incentives | -.213 | .285 | -.071 | -.748 | .456 |

**Table 5.Determination Coefficient Test Result (*R2*)**
**Model Summary$^b$**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .243$^a$ | .059 | .032 | 14.30262 | 1.467 |

a.  Effect of Profitability on Tax Aggressiveness

Profitability describes the level of management effectiveness in managing the company to achieve the targets expected by the principal. The company's profit level affects the movement of the tax burden, so if the company has a high profit level, the tax burden will be high. However, this study proves that the increase in corporate profits or profits, which will then also affect the increase in tax burden, does not make the company take tax planning actions or does not make the company more aggressive to minimize its tax burden. The reason for the actions taken by the company is that the company is honest in paying and reporting its taxes and does not take efficiency measures in its tax payments. This means that not all companies that experience increased profit levels try to minimize their tax burden. This study's results align with the results of Prasista and Setiawan's (2016) research, which shows that profitability negatively affects tax aggressiveness.

b.  Effect of Tunneling Incentive on Tax Aggressiveness

The company's reason for practising tunnelling incentives in this study is not for tax avoidance purposes. However, the company conducts the practice with the aim of getting a return from investing shares in the company. When associated with agency theory, the practice of tunnelling incentives is also a policy carried out by the company to maximize company profits by expecting a rate of return or return from the investment made by the company. The results of this study are in line with the research of Hutomo et al. (2021) and Idzni & Purwanto (2017), which state that tunnelling incentives have no effect on tax aggressiveness. This is shown through the data results, which state that shared ownership of overseas (foreign) companies does not aim for tax aggressiveness.

c. The Effect of Deferred Tax on Tax Aggressiveness

In Putra's research (2019) it is said that Deferred Tax has a positive influence on earnings management. Earnings management itself is part of the factors that companies can do in carrying out tax aggressiveness, which is corroborated by Feryansyah, et al.'s research (2020). The reason deferred tax does not have a significant effect is due to differences in accounting and taxation rules regarding deferred tax expenses. In terms of tax, only one tax expense is recognized in the current period, and no deferred tax expense is recognized, because deferred tax expense can only reflect the tax effect resulting from accounting and tax temporary differences, it cannot reveal earnings management activities carried out by management.

**CONCLUSION**

Based on the results of the data analysis described in the previous chapter, the conclusions are as follows. Profitability has no effect on Tax Aggressiveness. Tunneling Incentives have no effect on Tax Aggressiveness. Deferred Tax has a positive but insignificant effect on Tax Aggressiveness.

Future researchers hope to add any factors that can affect tax aggressiveness other than profitability, tunnelling incentives, and deferred tax, add relatively longer observation years to get better data quality, and increase the number of independent variables, such as including elements of moderating and intervening variables in their research.

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