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The Influence of Profit Management and Corporate Governance on Tax Aggressiveness

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Abstract

This research aims to determine and evaluate the influence of earnings management and corporate governance on tax aggressiveness. This type of research is associative quantitative. The data used is secondary data. The population in this research is food and beverage sub-sector companies listed on the Indonesia Stock Exchange (BEI) in 2018-2022. The sample data collection technique in this study used purposive sampling, namely a technique that takes into account criteria, so that the sample obtained using this method was 9 companies. The data analysis technique used is panel data regression analysis using E-views 9 software. The research results show that earnings management and corporate governance influence tax aggressiveness. Then, partially earnings management has no effect on tax aggressiveness. Meanwhile, corporate governance variables influence tax aggressiveness. This result is because the higher the corporate governance, the lower the level of tax aggressiveness taken by the company.

INTRODUCTION

Funds are urgently needed for Indonesia's growth as a developing country (Agustiningrum, Husein, & Subarsa, 2021). The money comes from state revenue, namely taxes. Taxes are an important component of the State Budget which aims to improve people's welfare (Basuki & Suwarno, 2021). According to Article 23A of the 1945 Constitution Amendment, corporations as taxpayers are obliged to pay taxes in accordance with laws and regulations (taxes and other levies that are compulsory for state purposes are regulated by law).

Business actors are required to pay income tax as taxpayers in accordance with tax regulations, which are calculated by multiplying net profit before tax by the applicable tax rate. The state receives more money from the tax sector. If you consider taxes from a business perspective, some still consider it a burden that can lower their income. Businesses suffer losses if there is a large amount of tax payment. As a result, many companies are still looking for ways to lower the taxes they pay, and they will most likely start charging higher taxes (Alia & Irwansyah, 2018).

According to Andrean (2018), Tax aggressiveness is the deliberate use of legal or criminal means to avoid taxes in order to reduce a person's tax burden, with the aim of reducing taxable income through tax planning. While not all actions are illegal, a company is considered more aggressive when it comes to taxation if it uses many different tactics. Aggressive taxation by management has become a common practice among businesses to lower corporate taxes.

Law Number 16 of 2009 defines tax as a mandatory payment to the government that is owed by a person or an organization under pressure and without being paid directly. The money collected is used to fund public services needed by the government in order to provide the maximum welfare for all citizens. In addition, taxes also have other benefits, namely they can be used to pay state debts as well as interest from debts, can finance public services.

The phenomenon studied occurred on June 13, 2014 in industrial companies in the food and beverage sub-sector that carried out tax aggressiveness on online news sites (Ekonomi.kompas.com). PT Coca-Cola Indonesia (CCI) is suspected of making tax changes, resulting in underpayment of taxes of Rp 49.24 billion. There was a significant cost overrun that year, based on the results of a search by the Directorate General of Taxes (DGT) of the Ministry of Finance. High expenses reduce taxable income, which results in lower tax payments. Including advertising costs, this expenditure amounted to Rp 566.84 billion for the years 2002–2006.

The impact is a decrease in taxable income. The DGT claimed that during that time its total income was Rp 603.48 billion which was subject to CCI tax. Meanwhile, taxable income is only IDR 492.59 billion based on CCI calculations. The DGT estimates the difference in income tax (PPh) of CCI at Rp 49.24 billion using this difference. This expenditure raises serious questions for the DGT and forces them to use transfer pricing strategies to save tax money. Transfer pricing is the practice of selling goods and services at discounted prices to many business divisions within a company to minimize taxes. If there are activities that are not in line with the operations of the corporation, such practices can be found.

Taxpayers have obligations both individually and jointly to fulfill their tax obligations mandated by the state. However, all companies have their own interests, especially profit-oriented interests. The purpose of this business is to maximize profits to increase the company's capital. Financial statements provide information obtained from profits. The purpose of financial reporting as stated in PSAK No. 1 (2015:3) is to provide relevant information to readers of financial statements regarding the financial condition, financial performance, and cash flow of an institution. Financial statements including financial data can be used by shareholders to make investment decisions and by interested parties to the company to evaluate performance based on management's ability to allocate resources and generate profits.

Yahaya dkk. (2020) Defines profit management as a managerial action intended to manipulate or influence reported profits through the use of certain accounting techniques, accelerate revenue or expense transactions, or use other strategies aimed at

influencing short-term profits. Managers take on activities with the aim of controlling the amount of profits that go into the economic performance of the organization. On the other hand, managers also seek to increase revenue to maximize personal interest over the company's owner's costs.

Profit information is often the target of manipulation for management in increasing profits for their personal interests and it will result in harm to the shareholders of a company. This is what triggers the difference in information obtained, where the principal receives less knowledge than the agent, and the conflict of interest between the owner and management, also called the agency conflict, is a common cause of profit management. Due to the difference in information obtained, an owner (shareholder) wants faster access to company information, in larger quantities and more valid.

The purpose of managers conducting profit management is to improve relationships with creditors and increase shareholders' confidence in the company's performance (Iskandara & Nadhifab, 2021). The profits generated by a company have an impact on its stock price. Consistent profits have the potential to lower the company's risk. This is what underlies the company's profit management practice, which is an effort to raise the stock price and lower the company's risk.

The information contained in the financial statements presented by the company can be changed by the activities carried out by the profit management team. This happens because of inadequate corporate governance. When corporate governance is implemented correctly, fraud and profit management techniques can be avoided, and high-quality reports can be generated (Saputra et al., 2015). Therefore, changes are needed to achieve healthy corporate governance.

The purpose of corporate governance is to provide value to all parties involved, or stakeholders. Corporate governance can increase a company's value by improving its financial performance, lowering the likelihood that the board of commissioners will make decisions that are self-serving, and overall increasing investor confidence. With corporate governance, it is hoped that there will be no tax aggressiveness and profit management activities carried out by company managers.

In order for business managers to behave well and not only benefit themselves but also other parties or company owners, corporate governance is needed. The presence of an audit committee, independent commissioners, and managerial ownership are characteristics of a strong corporate governance framework (Khotijah, Rahmanto, & Satyawan, 2023). Managerial ownership is used in this study as the foundation of corporate governance. The management performance of a company can be improved by bringing together the interests of managers and shareholders through managerial ownership (Mastanora, 2020).

Managerial ownership refers to the ownership of all shares in a company led by management. Because managers immediately benefit from the aggressive decisions of corporate taxes, managerial stock ownership can balance the interests of shareholders and managers. Research findings Syahroni (2024) which shows that profit management has a positive effect on tax aggressiveness is also in line with this. Based on this study,

corporate governance is the second element that affects tax aggressiveness. Nur Ainy, Nurchahyo, A&B (2013) stated that managerial ownership as the foundation of corporate governance is expected to be able to build control and balance to stop the misuse of resources and still encourage business expansion (Firmawati, Biahimo, & Abd Kamba, 2021).

Institutional ownership and independent commissioners have a positive influence on corporate tax aggressiveness, while managerial ownership as a proxy for corporate governance has a negative influence (Sisbintari & Setiawati, 2021). Corporate tax aggressiveness is negatively affected by corporate governance, according to research (Asmawati, 2020). Research findings Chamidah (2021) Strengthening this, it shows that corporate governance as measured by institutional ownership, audit quality, and a neutral board of commissioners has nothing to do with tax aggressiveness (Burgess & Green, 2018).

Based on the background of the research, the formulation of this research problem is: 1) Is there a simultaneous influence of Profit Management and Corporate Governance on Tax Aggressiveness? 2) Is there an effect of Profit Management on Tax Aggressiveness? 3) Is there an influence of *Corporate Governance* on Tax Aggressiveness? This study aims to evaluate the simultaneous and individual effects of Profit Management and Corporate Governance on Tax Aggressiveness. The benefits of this research include practical contributions for companies to be careful in managing tax-related revenues, providing information for investors about the status of companies, advising the Directorate General of Taxes on tax aggressiveness, as well as being a guide for future research at universities. In addition, theoretically, this research is expected to increase understanding of taxation, enrich academic literature, and stimulate discussion among academics.

METHOD

The type of research used by the researcher is associative quantitative research. The data used in this study is in the form of secondary data, namely data obtained from other parties or indirectly from the main source (company). This study examines the Influence of Profit Management and Corporate Governance on Tax Aggressiveness using secondary data, namely taking data from companies in the food and beverage sub-sector listed on the Indonesia Stock Exchange in the 2018-2022 period. The research time is estimated to be completed in 19 months.

In this study, there are two variables, namely the dependent variable and the independent variable. Dependent variables are often referred to as output variables, criteria, and consequences. In Indonesian, it is referred to as a bound variable, while independent variables are often referred to as stimulus, *predictor,* and *antecedent variables.* In Indonesian Language, it is often called a free variable.

The population used in this study is food and beverage sub-sector companies listed on the Indonesia Stock Exchange in 2018-2022 with a total of 30 companies reporting their financial statements. The sampling procedure used in this study uses a purposive

sampling technique. Samples are selected based on the suitability of predetermined criteria in order to obtain a representative sample. The reason for using purposive sampling is to make it easier to determine a sample of companies that meet the criteria that have been made. The type of data used in this study is secondary data.

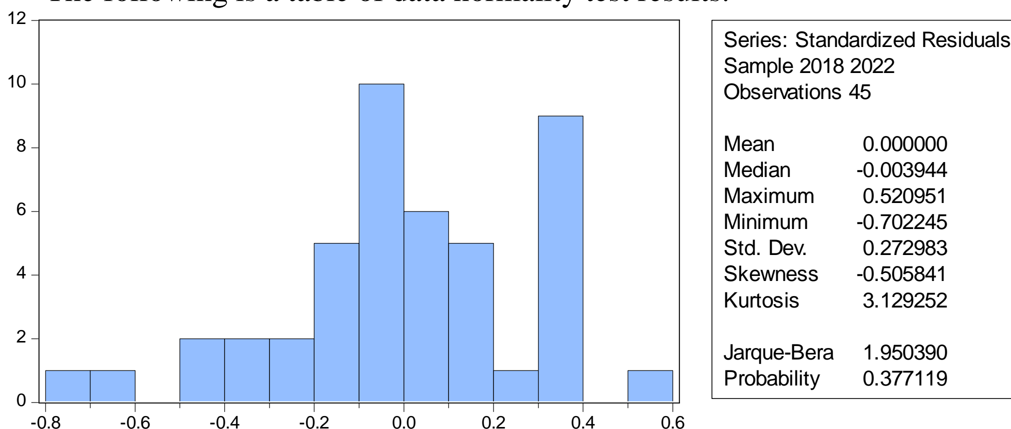
Resulth and Discussion

Classical Assumption Test

The continuity of the regression model is tested using classical assumption tests. The classic assumption tests applied in this study are:

Normality Test

The following is a table of data normality test results:



Gambar 1. Hasil Uji Normalitas

From the results of the graph above, it can be seen that the value *of Jarque-bera* is 1.950390. Meanwhile, the sample data in this study can be said to be normally distributed because the probability value is 0.377119 > 0.05.

Multicollinearity Test

The multicollinearity test produced the following data:

Table 1. Multicollinearity Test Results

	ML	CG
ML	1	0.1821968059594528
CG	0.1821968059594528	1

Based on the results of the test of the table above, there is a relationship of 0.1821968059594528 between profit management (X1) and *corporate governance* (X2). If each independent variable has a correlation coefficient greater than 0.80, it is said to be multilinear (Winarno, 2015; Ghozali and Ratmono, 2013). Therefore, from the above research, it can be concluded that there is no multicollinearity between independent variables of research.

Uji Autokorelasi

The following table displays the results of the autocorrelation test:

Table 2. Autocorrelation Test Results

R-squared	0.160346	Mean dependent var	-0.040716
Adjusted R-squared	0.120363	S.D. dependent var	0.165967
S.E. of regression	0.155658	Sum squared resid	1.017640
F-statistic	4.010304	Durbin-Watson stat	1.715440
Prob(F-statistic)	0.025475		

The table above shows the Durbin Watson stat value of 1.715440. However, Durbin Watson's table shows a dL value of 1.4298 and a dU value of 1.6148, with the number of samples (n) = 45 and the free variable (k) = 2. If the dU is less than the DW value, then the autocorrelation does not exist (4-dU). To get the conclusion that no autocorrelation occurs, the condition for values that do not experience autocorrelation is 1.4298 < 1.715440 < 2.3852 so that the result obtained is that no autocorrelation occurs.

Heteroscedasticity Test

The following is a table of heteroscedasticity test results:

Table 3. Heteroscedasticity Test Results

Heteroskedasticity Test: White			
F-statistic	0.820777	Prob. F(5,39)	0.5424
Obs*R-squared	4.284412	Prob. Chi-Square(5)	0.5092
Scaled explained SS	5.697138	Prob. Chi-Square(5)	0.3368

From the table above, it can be concluded that there is no heteroscedasticity problem in this study because the results of the heteroscedasticity test show a Chi-Square probability value of 0.5092 > 0.05.

Determination Coefficient Test (R2)

The following is a table of the results of the calculation of the Determination Coefficient Test (R2) in this study:

Table 4. Determination Coefficient Test Results

Weighted Statistics			
R-squared	0.160346	Mean dependent var	-0.040716
Adjusted R-squared	0.120363	S.D. dependent var	0.165967
S.E. of regression	0.155658	Sum squared resid	1.017640
F-statistic	4.010304	Durbin-Watson stat	1.715440
Prob(F-statistic)	0.025475		

Based on the table above, the Adjusted R-squared value is 0.120363. So it was found that the influence of independent variables (profit management and *corporate governance*) on the bound variable (tax aggressiveness) was 12% and the remaining 88% was influenced by variables outside the study.

Uji Hipotesis

Simultaneous Effect Test (F-Test)

To determine whether independent factors affect the independent variable smultantly or together, test F is used. The following table 5 displays the results of the simultaneous F test:

Table 5. Test Result F

Weighted Statistics			
R-squared	0.160346	Mean dependent var	-0.040716
Adjusted R-squared	0.120363	S.D. dependent var	0.165967
S.E. of regression	0.155658	Sum squared resid	1.017640
F-statistic	4.010304	Durbin-Watson stat	1.715440
Prob(F-statistic)	0.025475		

The prob value (F-statistics) is 0.025475 < 0.05 with an F-statistical value of 4.010304 > F table 3.20. Thus, the variables of profit management and *corporate governance* have a simultaneous effect on tax aggressiveness.

Partial Test (T-Test)

The T-test is used to show how far the influence of one explanatory or independent variable individually in explaining the variation of the dependent variable. The results of the partial regression test are shown in table 6 below:

Table 6. T Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.196701	0.081984	-2.399271	0.0209
ML	-0.257082	0.145061	-1.772229	0.0836
CG	0.271487	0.102628	2.645337	0.0114

The following is the interpretation of the results of the research T test from the table above, the t-statistic value of the variable X1 (profit management) is -1.772229 with a prob value. It was 0.0836 > 0.05. This, variable X1 (profit management) has no partial effect on variable Y (tax aggressiveness). The t-statistical value of the X2 (corporate governance) variable is 2.645337 with a prob value. By 0.0114 < 0.05, the X2 (corporate governance) variable affects the Y variable (tax aggressiveness).

Discussion of Research Results

The Influence of Profit Management and Corporate Governance on Tax Aggressiveness

Profit management and *corporate governance* on tax aggressiveness are the subjects of the first hypothesis or H1. H1 is accepted because the calculated F value is smaller than the F value of the table (4.010304 > 3.20), based on the findings of the F test in table diatas A probability value that is less than the significance value (0.025475 < 0.05) can be achieved. This shows that Tax Aggressiveness is influenced by Profit Management and *Corporate Governance* simultaneously.

According to research Naomi Malem, Rehna Ginting, dan Elly Suryani (2018), These results are in line. They stated that profit management and *corporate governance* have an effect on tax aggressiveness. Management always tries to control profits by choosing accounting practices that can reduce profits, thereby affecting the figures that will be presented in the financial statements. That is the relationship between the variables

in their research and the theory of agency. Management usually gains profits because the lower the reported profit, the lower the tax burden imposed. Aggressive taxation actions carried out by company management show that *corporate* governance does not function efficiently so that it can harm the business.

The results of this study show that profit management and *corporate governance* are interrelated with tax aggressiveness. Profit management actions and tax aggressiveness carried out by managers can be controlled by adequate *corporate governance*. Good *corporate governance* can improve management performance to produce healthy financial reports and avoid fraudulent practices.

The Effect of Profit Management on Tax Aggressiveness

The probability value of Profit Management against Tax Aggressiveness is (0.0836 > 0.05) based on the findings of the statistical test T. This shows that the H2 hypothesis is rejected. Therefore, Profit Management has no partial effect on Tax Aggressiveness.

The findings of this study are in line with the research Jasman dan Mega Dwi Mustika (2023), Risma Cahyani (2016), and Mar Atun Kariimah dan Rini Septiowati (2019) which shows that profit management has no effect on tax aggressiveness. They stated that tax cuts and increased profits were not much influenced by profit management.

The Influence *of Corporate Governance* on Tax Aggressiveness

The significance value of *Corporate Governance* on Tax Aggressiveness is (0.0114 < 0.05). This shows that the H3 hypothesis is accepted. Therefore, *corporate governance* has a partial effect on tax aggressiveness. The findings of this study are inversely proportional to the research of Lucy Tania and Yolanda Putri (2014) which found a negative correlation between tax aggressiveness and *corporate governance* in general. The findings of this study show that *corporate governance* has been carried out correctly and in accordance with all relevant laws and guidelines, so that corporate *governance* can increase the efficiency of superior performance in the organization.

The findings of this study are also contrary to the research Akbar Sitepu (2020) which found no evidence of a proximal *corporate governance* relationship in managerial ownership against tax aggressiveness. The tax aggressiveness of a company does not depend on the level of managerial ownership. The company's performance is positively correlated with the level of managerial ownership and shareholders.

According to previous research conducted by Naomi Malem Rehna, Ginting, Elly Suryani (2018), stated that there was an influence of profit management and *corporate governance* on tax aggressiveness simultaneously, profit management variables partially had no effect on tax aggressiveness, corporate *governance variables* proxied by the independent board of commissioners and the audit committee had no partial effect on tax aggressiveness.

Previous research conducted by Shelly Novitasari (2017) stated that there is an influence between the profit management variable on tax aggressiveness, the *corporate governance* variable proxied by managerial ownership has no effect on tax aggressiveness. Previous research conducted by Lucy Tania Yolanda Putri (2014) stated

that the profit management variable had no effect on tax aggressiveness, the *corporate governance* variable had a significant negative effect on tax aggressiveness.

Based on previous research conducted by Dany Andrean (2018), Profit management variables have an effect on tax aggressiveness, corporate *governance* variables proxied by institutional ownership, audit quality, and independent board of commissioners have no effect on tax aggressiveness. Previous research conducted by Jhon Wesly dan Cris Kuntadi (2024) stated that there is an influence of profit management variables on tax aggressiveness.

Previous research conducted by Mar Atun Karimah dan Rini Septiowati (2019) stated that the profit management variable partially had a negative and insignificant effect on tax aggressiveness. Previous research conducted by Risma Cahyani (2016) stated that the profit management variable had no effect on tax aggressiveness, the corporate *social responsibility (CSR) variable* had an effect on tax aggressiveness.

Previous research conducted by Jasman and Mega Dwi Mustika (2023) stated that the profit management variable had no effect on tax aggressiveness, the corporate *social responsibility (CSR) variable* had an effect on tax aggressiveness. Previous research conducted by Irvan Tiaras and Henryanto Wijaya (2015) stated that the profit management variable has an effect on tax aggressiveness, the independent commissioner variable which is a proportion of *corporate governance* has no effect on tax aggressiveness.

CONCLUSION

Based on the results of the analysis and discussion that has been carried out, the following conclusions are obtained: 1) Profit management and corporate governance affect tax aggressiveness together (simultaneously). 2) Profit management has no effect on tax aggressiveness partially. 3) Corporate governance has a partial effect on tax aggressiveness.

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