

BANK PERFORMANCE INDICATORS AND TAX AVOIDANCE IN INDONESIA

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BANK PERFORMANCE INDICATORS AND TAX AVOIDANCE IN INDONESIA

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Abstrak

Tujuan dari penelitian ini adalah menguji pengaruh indikator kinerja bank berdasarkan profil risiko, Good Corporate Governance, Earnings and Capital (RGEK) terhadap perilaku penghindaran pajak perusahaan. Beberapa variabel independen seperti profil risiko diwakili oleh tiga variabel risiko yaitu risiko kredit, risiko pasar dan risiko likuiditas. Variabel GCG menggunakan skor komposit, variabel Earnings diukur menggunakan ROA, dan Capital diwakili oleh CAR. Perilaku penghindaran pajak diprosikan dengan Book Tax Difference yang sudah mengisolasi dampak manajemen laba. Sebanyak 64 observasi yang berasal dari bank yang terdaftar di Bursa Efek Indonesia sepanjang tahun 2012 sampai 2014. Hasil penelitian menunjukkan bahwa variabel risiko pasar, risiko likuiditas, dan good corporate governance memiliki pengaruh signifikan terhadap perilaku penghindaran pajak. Implikasi dari penelitian ini adalah pentingnya penegakan good corporate governance perbankan sebagai upaya untuk mengurangi perilaku penghindaran pajak.

Kata Kunci: Penghindaran Pajak, Profil Risiko, Good Corporate Governance, Earnings, Capital.

1. INTRODUCTION

One of the objective of a company is to achieve optimal profit. The company's profits can be maximized when the company strives to manage its business costs, including to get lower tax expense. The effort of lowering the tax expense is also related to the tendency of paying less taxes burden by the taxpayers. Due to mandatory tax regulation, companies reduce their tax expense by applying tax planning. Tax planning enables companies to avoid paying higher taxes and it is a normal practice among employers.

Tax avoidance is commonly associated with the practice of corporate governance. ²⁴ The role of corporate governance is expected to control the agency problem related to tax avoidance. ³ Corporate governance explains the relationship between various participants in the company that determines the direction of the company's performance. The condition of corporate governance influences the decisions taken by the company.

This study used banking company as the sample. Banking sector is a service industry that highly rely its activities on public trust to manage the funds. Banks must maintain their asset quality, have enough capital, be well-managed and operated based on the precautionary principle. Banks should generate enough profit to sustain their business and maintain their liquidity, so that they can perform well. Thus, maintaining bank's soundness is important. Banks with good level of safety and soundness are able to keep and maintain public trust, perform intermediation function, help payment processes, and can help the government implement various policies, especially monetary policy (Permana, 2012).

The soundness of banks can be assessed from various aspects. Assessing banks soundness aims to determine whether the bank is in good health, reasonably healthy, less healthy or unhealthy. In order to keep banks soundness level, it is important to maintain liquidity. Proper liquidity indicates that the bank is able to meet its obligations and maintain its performance in order to get the trust from the community. Additionally, a bank must constantly

meet variety of regulations, which basically refer to the precautionary principle in banking industry. Generally, in Indonesia, there are four aspects of bank assessment according to the Bank Indonesia Regulation No.13 / 1 / PBI / 2011 using the RGEC approach (Risk Profile, Good Corporate Governance, Earnings and Capital). The regulation replaced the Bank Indonesia Regulation No. 6/10 / PBI / 2004 with 6 (six) factor called CAMELS (Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risks).

Banks soundness assessment based on RGEC is a quantitative judgement measured by financial ratios. The measurements are credit risk (NPL), market risk (IRR) and liquidity risk (Cash Ratio) for aspects of Risk Profile. Assessment of Good Corporate Governance is conducted using a composite score of companies that have been assessed by Bank Indonesia according to Bank Indonesia's circular No. 9 / 12 / DPNP, and also Earnings and Capital.

This study examine whether the level of banks' soundness based on risk profile, good corporate governance, earnings, and capital affect the behavior of tax avoidance by the company. Maulana (2012) analyzed the soundness of banks using the CAMELS (Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risks). While this study used RGEC (Risk Profile, Good Corporate Governance, Earnings, Capital) to measure the level of banks' soundness because RGEC has an impact on bank's performance, earnings quality and growth of profits.

The focus on banking sector in this study is based on some arguments. First, the recent regulation by International organization of OECD (2013) to enforce the scheme of "base erosion and profit shifting" (BEPS) has been motivated by aggressive tax planning by many big companies. While this practice is common among companies, bank has significant role to facilitate the movement of profit off-shore. Second, within its operation, banks are dealing with tax charge related with saving and deposit, loan that eventually cause bank to get optimal tax allocation. Finally, prior research usually focus on manufacturing or non-financial sectors as

the research object when investigating tax avoidance. This research attempt to apply tax avoidance behavior in regulated industry such as banking sector.

2. THEORETICAL FRAMEWORK AND HYPOTHESES FORMULATION

7 Agency Theory

Agency theory explains the relationship between principal and agent. Jensen and Meckling (1976) define a contract between one or several principals who delegate authority to the agent to make decisions in performing company's activities. Implementation of the contract raises the cost which is called agency cost. Agency costs are the costs incurred in order to keep managers act accordingly with the purpose of the owner, such as the making of a contract or conduct surveillances.

Tax avoidance behavior is influenced by the agency problem. Agency problem arise because there is a difference of interests between the managers who want to increase compensation, shareholders who want to reduce the tax expenses, also the lenders who want the company meets contractual debt and pays interest and debt principal on time. The agent (bank) wants to avoid taxes, but still have to be concerned with the soundness of banks. Therefore, it can be concluded that there is a relationship of information asymmetry between the principal and agent. Principals want to pay their taxes according to the profits earned without "beautifying" the financial statements because the tax paid to the government will be used for the prosperity of the community or the country's development.

Tax Avoidance

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Tax avoidance is a part of tax planning strategies. Tax avoidance mostly known as non-compliance, fraud (evasion), aggressiveness and sheltering of tax payments. This tax strategy

can be conducted at anytime and anywhere depends on how aggressive the activity in reducing taxes (Hanlon and Heitzman, 2010).

Tax avoidance is often used to minimize the tax expense burden by the company. Lowering the tax expense can be conducted by reducing corporate profit. Armstrong et al. (2013) states that the consequences of doing tax avoidance are the sacrifice of time and energy used for tax avoidance, and also risk faced if the activity of tax avoidance is revealed. The risk can be seen as the interest, penalties, and chance of losing corporate reputation, which give bad impacts for sustainability of the company.

Previous research mention the benefit of a long-term tax avoidance (Desai and Dharmapala 2006; Minnick and Noga, 2010). There is a use of the time dimension in tax avoidance, the time differences is use to get the time value of money. Dyreng et al. (2007) states that most companies managed to avoid tax expense in a sustained period of time. It means that tax avoidance by the company in the short term is part of a trend of long-term tax avoidance. So, although this study examines tax avoidance in the short term (i.e 3 years), it can be an indication of the tendency of tax avoidance in the long term.

Risk Profile

Risk Profile is an assessment of inherent risk in the bank's business activities, which could potentially affect the financial condition of banks. In the risk assessment, it is important to determine the inherent risk ratings and analyze the quality of risk management. Based on ¹ Bank Indonesia regulation No.13 / 1 / PBI / 2011, Article 7, paragraph 1 about the assessment of the risk profile referred to Article 6(a), an assessment of the inherent risks and the quality of risk management in banks were carried out on 8 factor of risks ¹² such as credit risk, market risk, liquidity risk, operational risk, legal risk, strategic risk, compliance risk and reputation risk. In

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this study, three risks are used in assessing banks' risk profile, such as credit risk, market risk and liquidity risk.

Good Corporate Governance

Corporate governance arises because there is a gap between the owners and managers of the company, this gap commonly known as the agency problem. Corporate governance manages the relationship between shareholders, managers of the company, the creditors, government, employees and other stakeholders related to their rights and obligations, or simply, a system that regulates and controls the direction of the strategy and the performance of a company (Nugroho, 2014).

GCG factor assessment analyze the management quality of the bank in implementing corporate governance principles. GCG principles and the assessment of corporate governance principles guided by the provisions of Bank Indonesia concerning on the implementation of GCG for Commercial Banks No. 8/4 / PBI / 2006 by taking into account the characteristics and complexity of the bank. Assessment of GCG factor in RGEC approach implemented into three major aspects of governance structure, governance processes, and governance outputs.

Earnings

Earnings is a measurement of banks' ability to generate profits or measure the efficiency and effectiveness of management in operating the business. Earnings factor or profitability also reflects the bank's ability to support current and future operations. Earnings are calculated based on the Return on Assets (ROA). According to Riahi-Belkaoui (1998), Return on Assets (ROA) is used to measure the financial performance for multinational corporations, especially from the standpoint of investment opportunities.

Capital

Capital is used to measure the ability of banks to provide capital according to the minimum capital requirement of a bank. A common indicators of the capital is the Capital Adequacy Ratio (CAR). CAR is the ratio of bank performance to measure capital adequacy of a bank to fund the assets that contain or produce risks (credit, investments, securities, bills to other banks), which are financed by their own capital instead of the funds from other sources outside the bank.

Capital Adequacy Ratio (CAR) significantly influence the bank's financial sustainability. The size of the capital owned by a bank can be used to predict whether banks will be bankrupt or solvent in the future. So, with sufficient bank capital, the banks can keep their operations efficiently (Ahmad et al., 2003).

The Relationship between Risk Profile and Tax Avoidance

Banking soundness level is measured using risk profile. The risk profile is proxied by credit risk, market risk and liquidity risk. A well-managed risk profile will improve the performance and condition of the bank, so there will be no information asymmetry when the principal asked for tax expense of the bank. The credit risk is the risk arising from the failure of the debtor or other party in fulfilling the obligations to the bank. One measurement for assessing a company's ³⁵ credit risk is Non Performing Loan (NPL). Non-performing loans are calculated based on the ratio between the numbers of bad debts compared to total loans.

This hypothesis examines the effect of credit risk to tax avoidance. When the banks' income is low, banks will not avoid tax because the tax expense is also low and banks can not modify their profit. The company will provide real data when the company had a slightly profit. This study is in line with research conducted by Maulana (2012), who examined the CAMELS influence on the quality of earnings. One of CAMELS component is Non Performing Loan

measurement used to assess credit risk. Based on these descriptions, the research hypothesis is formulated as follows

H_{1a}. Credit risk has negative effect on tax avoidance behaviour

Second, the market risk is the risk arises due to changes in market conditions. One of the measurement used to assess market risk is the Interest Rate Risk (IRR) ratio. Interest Rate Risk is calculated based on the ratio of sensitive assets to sensitive liabilities. The gap between sensitive assets and liabilities will determine the amount of losses that would arise from interest rates changes. This explains that when interest rate risk is high, an investment is considered beneficial. If the investment is profitable in the future, the profit will be greater so that the bank may perform earnings management and tax avoidance. Therefore, the hypothesis can be formulated as follows.

H_{1b}. Market risk has positive effect on tax avoidance behaviour

Third, the risk profile is also measured using liquidity risk. Liquidity risk is the consequences of the inability of banks to meet obligations that have maturities of cash flows and liquidity assets in financing bank's operation. Liquidity risk is measured by cash ratio which reflects the ratio of liquid assets to the bank's short-term liabilities. If the bank liquid assets lower than third party funds, the liquidity risk of banks will be smaller. It means the bank's ability to meet its short term debt is low. This led the banks unable to meet its liquidity so that banks' liquidity risk will be greater. The greater the bank's liquidity risk the greater the chance of tax avoidance conducted by companies.

H_{1c}. Liquidity risk has positive effect on tax avoidance behaviour

Banks that implement good corporate governance would reveal information to avoid information asymmetry to the principal in order to avoid the practice of tax avoidance. This hypothesis examines ¹¹ the effect of good corporate governance to tax avoidance. Without the supervision of the independent board, there is tendency that other executives manipulate their position to gain full control over their own remuneration to secure their positions (Solomon, 2007).

Good corporate governance will reduce agency problem, because good corporate governance balance the interests of principal and agent. The lower the rating, the more soundness owned by the company. So if the company is categorized as soundness company, it will have lower rate of manipulation and tendency of tax avoidance is lower too. Thus, it can be hypothesized that

H₂. Good Corporate Governance has negative effect on tax avoidance behaviour

The Relationship between Earnings and Tax Avoidance

Earnings management commonly used to manage the tax to be paid by the bank. Earnings ³⁸ is measured using the Return on Assets. Return On Assets (ROA) is a ratio to measure the ability of the bank's management to gain profit. The larger the ROA, the greater the profits from the company. Agency theory stated that there's tendency of agent to increase company profit. When profits grow, the amount of income tax will be increased accordingly. Agent in agency theory will try to manage their tax expense in order not to reduce the compensation for agent performance.

The results obtained in previous study by Tommy and Mary (2013) states that ROA negatively effect on tax avoidance because ROA is an important factor in determining income tax for companies. Similarly, the high value of ROA will cause the management to conduct tax

planning carefully in order to produce an optimal tax. This activity shows that tax avoidance tends to decline when company get higher ROA. Efficient companies will receive a tax subsidy in the form of a lower effective tax rate than inefficient companies. So, the higher the ROA, the lower the tax evasion committed by the company. So it can be formulated in the following hypothesis

H₃. Earnings has negative effect on tax avoidance behaviour

The Relationship between Capital and Tax Avoidance

Capital can be measured using the Capital Adequacy Ratio (CAR). CAR is the ratio of performance to measure the capital adequacy of banks owned bank to cover assets that contain or generate risk (Kashmir, 2009: 198). This ratio indicates the adequacy of capital held by a bank to cover the current and future risks. It can be concluded that the level of capital adequacy shows the ability to fulfill a company's obligations, in funding the operations or facing the future risk. The level of capital adequacy is affecting the bank's operations in gaining profit. The higher the corporate profits, the higher the level of tax avoidance by companies. So it can be formulated in the following hypotheses

H₄. Capital has positive effect on tax avoidance behaviour

3. RESEARCH METHODS

Research Variables

This study uses tax avoidance as the dependent variable. Tax avoidance is defined as a reduction of the tax to be paid by the company. Tax avoidance in this study is symbolized by Tax Avoidance (TA). Measurement of tax avoidance is conducted by separating the components of book-tax difference (BTD) which is not caused by earnings management.

Earnings management in this study was measured by using a proxy of discretionary accruals. To calculate discretionary accruals, the first step is calculating the value of non-discretionary accruals. Steps in calculating tax avoidance can be identified from the following equation:

1. Calculating non-discretionary accruals using the formula Beaver and Engel (1996):

$$NDA = \beta_0 + \beta_1 CO_{it} + \beta_2 LOAN_{it} + \beta_3 NPA_{it} + \beta_4 \Delta NPA_{(it+1)} + \varepsilon$$

NDA : Non Discretionary Accruals
 CO_{it} : Loan charge offs (written off) of firm i on year t.
 $LOAN_{it}$: Loan outstanding of firm i on year t.
 NPA_{it} : Non performing assets of firm i on year t
 $\Delta NPA_{(it+1)}$: Difference of non performing assets on year (t + 1) and year t

2. Calculate the total accruals using the formula by Dechow et al. (1995) and Nikhili et al. (2015):

$$TAC_{it} = NI_{it} - CFO_{it}$$

Whereas:

TAC_{it} : Total accruals for firm i on year t.
 NI_{it} : Net profit after tax (net income) of firm i in year t.
 CFO_{it} : cash flow from operation for firm i on year t.

3. Calculate discretionary accruals (Beaver and Engel, 1996; Dechow et al., 2005):

$$DA_{it} = TAC_{it} - NDA_{it}$$

Whereas:

DA_{it} : discretionary accruals of firm i on year t.

4. Calculate tax avoidance using equation from Desai Dharmapala (2006):

$$BTD_{it} = b_0 + b_1 DA_{it} + \varepsilon_{it}$$

Whereas:

BTD_{it} : Book-tax difference or differences in the profit according to the accounting and tax accounting calculation for firm i in year t divided by total assets of the previous year.
 DA_{it} : Discretionary accrual of firm i in year t.
 ε_{it} : Residual of company i in year t, and used as measurement of tax avoidance. Residual is expressed as T afterward

The independent variable of this study consisted of risk profile, good corporate governance, earnings, and capital. Variable risk profile is measured using a credit risk, market risk, and liquidity risk. First, the credit risk is proxied by the ratio between the total non-performing loans and total loans. Second, market risk is proxied by the ratio between rate sensitive assets and rate sensitive liabilities. Third, liquidity risk is proxied by the ratio between liquid assets and funds controlled by third parties. Meanwhile, the good corporate governance variable is measured by a composite score that has been specified by the provisions of Bank

Indonesia. Last, earnings variable is proxied by return on assets measured using a comparison between profit before tax to average total assets for the period. Measurements of capital adequacy ratio calculated by the ratio between capital and risk-weighted assets.

Population and Sample

The population in this study are all banking companies listed in Indonesia Stock Exchange during the period 2012-2014. Sampling method used in this study is purposive sampling method, with the following criteria:

1. The banking companies that go public or listed on the Indonesia Stock Exchange during 2012-2014.
2. Companies that have profit (no loss) for 3 consecutive years from 2012 to 2014
3. Companies that publish annual financial statements in the company's website or the website BEI during the period 2012-2014 expressed in rupiahs (IDR)
4. Companies with comprehensive data provided in the publication during the period 2012-2014

Method of Analysis

Testing of the hypothesis is conducted by multiple regression analysis with the equation:

$$TA = \alpha_0 + \beta_1.RK + \beta_2.RP + \beta_3.RL + \beta_4.GCG + \beta_5.EARN + \beta_6.CAP + e$$

Whereas:

TA	= Tax Avoidance proxied by Book Tax Difference.
α_0	= constant
RK	= The risk profile of credit risk proxied by NPL
RP	= The risk profile of market risk proxied by IRR
RL	= The risk profile of liquidity risk proxied by cash ratio
GCG	= Good Corporate Governance proxied by composite score of Bank Indonesia
EARN	= Earnings proxied by return on asset
CAP	= Capital proxied by capital adequacy ratio
e	= error

4. RESULTS AND DISCUSSIONS

Research Object Description

Based on pre-defined criteria in the selection of the sample, banking companies is chosen as the sample with criterias such as ²⁹ listed in Indonesia Stock Exchange (IDX) during the period 2012-2014, should be profitable (not losses) during observation period. After the sample selection conform these criteria, this study obtained 64 firm year of banking companies that meet criteria of the study during the period.

Descriptive Statistics

Descriptive statistics analysis is used to show the distribution of research data. This analysis of data describes the research by looking at the value of the average (mean), standard deviation, maximum value and minimum value of data. The result of ⁶ descriptive statistics of the variables are presented in Table 1.

Table 1
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
TA	64	39.782.607	2.445.534.427	357.794.096	480.628.413
RK	64	,0013	,0436	,0167	,0110
RP	64	,7710	1,3283	1,0230	,0994
RL	64	,0679	,1619	,1106	,0166
GCG	64	1,0000	3,0000	1,8280	,5507
EARN	64	,0030	1,9987	,0543	,2471
CAP	64	,1044	,2791	,1689	,0299
Valid N (listwise)	64				

The independent variables of risk profile were proxied of three risks. First, the credit risk is measured by Non Performing Loan (NPL) with a standard deviation of 0.011 and an average value of 0,016. Second, market risk, which is measured by Interest Rate Risk (IRR), has a standard deviation of 0.099, and the average value of 1.023. Third, liquidity risk, as measured by the Cash Ratio value of standard deviation 0.016 with the average value of 0.110.

The independent variable, Good Corporate Governance which is proxied by a composite score set by Bank Indonesia has a standard deviation of 0,550 and an average value of 1.828. Earnings proxied by Return on Assets (ROA) has a standard deviation of 0.952 and an average value of 1.193. Meanwhile, variable of capital proxied by capital adequacy ratio (CAR) has a standard deviation of 0.043 and the average value of 0.174.

Discussion of Results

Based on the normal probability plot graph, the points of normality spread around the diagonal line and follow the direction of the diagonal line. Based on this graph, it can be concluded that the residual value has been distributed normally. To strengthen the normality test, the Kolmogorov-Smirnov test was conducted. Kolmogorov-Smirnov test showed a significance level of 0.493. It shows that the data has been distributed by the normal due to the significance above 0.05.

Multicollinearity test examines whether the regression model found a correlation among the independent variables. Detecting multicollinearity can be seen from the value of tolerance, and the variance inflation factor (VIF). Based on the test multicollinearity, all of the independent variables have a tolerance value greater than 0.10 and has a VIF value of less than 10. It can be concluded that there's no multicollinearity between independent variables in the regression model. The results showed that Asymp. Sig. (2-tailed) with a probability of 0.131, it means the hypothesis is accepted, so it can be inferred that the regression model is free from the problem of autocorrelation between residual value.

Model summary shows determination coefficient value (adjusted R square) is 0.122. This means that 12.2% of the variation dependent variable (tax avoidance) can be explained by the variation of the independent variables (risk profile, good corporate governance, earnings

and capital). SEE (Standard Error of the Estimate) of 0.81326. The smaller the value of SEE will increase precise regression models in predicting the dependent variable (Ghozali, 2011). Results of ANOVA test or F test shows the calculated F value of 2.458 with a probability of 0.035 or less than 0.05. It can be inferred that the regression model can be used to predict the dependent variable, or it can be said that the independent variables influence the dependent variable (tax avoidance).

Hypotheses Testing

Hypothesis tests of multiple regression analysis use significant regression value which is $\alpha = 5\%$. If the level of significance < 0.05 , then H1 can not be rejected or accepted. If the level of significance > 0.05 , then H1 is rejected.

Table 2
Hypotheses Test Results

	B	Sig.
RK	-2.488	.796
RP	-2.837	.015
RL	14.492	.028
GCG	-.419	.047
EARN	-.523	.257
CAP	3.891	.300
Constant	20.721	.000

Source : secondary data, 2016

The independent variable tested were the proxies of risk profile such as credit risk, market risk, liquidity risk, good corporate governance (GCG), earnings and capital. The independent variables that have a significance level of 0.05 is below the market risk, liquidity risk and good corporate governance. This result shows that the risk profile which is proxied by market risk, liquidity risk and good corporate governance are individually affect the dependent variable, tax avoidance.

The Effect of Risk Profile on Tax Avoidance

Results of testing the hypothesis one (H1a) proves that the proxy variable risk profile which is the credit risk (RK) negatively and not significantly affect tax avoidance with a significance level of 0.796 and -2.488 B value. Credit risk is measured using the Non Performing Loan (NPL), which reflects the amount of bad debts in a bank. The higher non-performing loans means receivables income acquired by company will be lower, so the company is not committed to do tax avoidance because the tax expense is low and banks can not manage their profit. So the company will provide real data when the company had a profit slightly. So this ²⁵ shows that the higher the value of non-performing loans, the lower level of tax avoidance conducted by companies.

Results of testing the hypothesis one b (H1b) indicates that the variable risk profile proxied by market risk (RP) has a significant negative effect on tax evasion with a significance level of 0.015 and -2.837 of Bvalue. Based on these test results, high IRR value means an investment would be considered beneficial. If the investment is profitable in the future, money earned by the banks are also getting bigger. So the bank will tend to commit tax avoidance by means of managing earnings. So if the value of interest rate risk, the higher the tax avoidance tendency committed by the banks.

Results of testing the hypothesis one c (H1c) indicates that variable risk profile proxied by liquidity risk (RL) has a positive and significant impact on tax avoidance with a significance level of 0.028 and B value 14.492. Based on the test results proved that the liquidity risk reflects the liquidity of banks assets against the short-term liabilities. When the liquid assets of banks are low, the bank's ability to meet its short-term will also lower. This situation leads the banks unable to meet its liquidity, thus banks' liquidity risk will be greater and the company will tend to perform the behavior of tax avoidance.

The Effect Good Corporate Governance on Tax Avoidance

Results of testing hypotheses two (H2) indicates that the variable good corporate governance (GCG) has ³⁷ negative and significant effect on the behavior of tax avoidance with a significance level of 0.047 and B value of -0, 419. The test results proved that good corporate governance variables have significant influence because based on analysis of data obtained from Bank Indonesia Circular No.9 / 12 / DPNP shows that no banking companies that have poor corporate governance. Corporate governance composite obtained from Bank Indonesia Circular shows that they are in scale of very good to quite good. Good corporate governance should be an anticipation ⁴⁶ of the tax avoidance.

The Effect of Earnings and Tax Avoidance

Results of the third hypothesis test (H3), shows that the earnings variable is proxied by return on assets (EARN) is negatively and not significant at the .257 and B value -0.523. Based on the results of the analysis, it can be concluded that the higher profits from the company, the higher ROA. When profits grow, ²⁶ the amount of income tax will be increased according to the increase in corporate profits. Agent in agency theory will try to manage their tax expense in order not to reduce their compensation. Measurement of Return on Assets derived from ³³ the ratio of profit before tax to the average of total assets.

³⁴ This result is in line with research conducted by Meilinda & Cahyonowati (2013) and Prakosa (2014) which states that ROA has negative effect on tax avoidance since ROA is an important factor in defining income tax for companies. The high value of ROA will result a cautious tax planning to get an optimal tax and tax avoidance activity tends to decline. So ⁹ the higher the ROA value the lower the tax avoidance committed by the company.

The Effect of Capital and Tax Avoidance

Results of the fourth hypothesis test (H4), shows that the variable capital, which is proxied by capital adequacy ratio (CAP), has no significant effect proven by 0.300 and has a positive direction on the number B = 3.891. The test results proved that high value of the CAR shows that the capital could be used to cover the risks of bad debts. The good level of capital adequacy will benefit the bank's operations. The higher corporate profits, the higher the level of tax avoidance by companies.

5. CONCLUSIONS AND LIMITATIONS

Conclusions

The results of this study showed that there are several variables that influence significantly to the behavior of corporate tax avoidance. There two variables that have significant effect on tax avoidance are the risk profile, which is proxied by market risk and liquidity risk, and good corporate governance.

This study encountered limitation. There is a limited number of public listed banks in Indonesia, therefore future studies are expected to extend the scope of sample to broader financial sector. Future studies also to develop further analysis of the application of renewable RGEC based banking risk assessment, instead of CAMELS.

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