

The Effect of Tax Avoidance on Cost Of Debt with Institutional Ownership as Moderating Variable

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Abstract: This study aims to examine the effect of tax avoidance on the cost of debt and also examine the effect of institutional ownership in moderating the relationship between tax avoidance on the cost of debt in mining companies listed on the Indonesia Stock Exchange. The research design is structured as quantitative research. The number of observations was 30 companies using purposive sampling method. The researcher's analysis technique is multiple linear regression. The result of the study show that the tax avoidance variable has no effect on the cost of debt. Meanwhile, institutional ownership cannot moderate either strengthen or weaken the effect of tax avoidance on the cost of debt. The implications of this study is to assist the Director General of Taxes in identifying tax avoidance practices, provide more in-depth information about tax avoidance for taxpayers, and to offer insights related to tax avoidance on the cost of debt.

Keywords: Tax Avoidance, Cost Of Debt, Ownership Institutional

1. Introduction

Tax is one of the important components in state revenue and is the largest source of income for Indonesia. Tax itself is a levy imposed on an object, whether it is goods, services, or certain assets that have value and benefits and become a mandatory contribution for citizens who have met the criteria as Taxpayers. According to Law Number 16 of 2009 concerning the fourth amendment to Law Number 6 of 1983 concerning General Provisions and Tax Procedures in Article 1 Paragraph 1, tax is a mandatory contribution to the state owed by individuals or entities that is mandatory based on law, without receiving direct compensation and used for state needs for the greatest prosperity of the people. Based on the definition of tax, it can be concluded that it is appropriate for taxpayers to pay taxes according to their obligations. Sources of state revenue according to the State Budget based on Law Number 17 of 2003 concerning State Finance Article 11 Paragraph 3 stipulates that "State revenue consists of tax revenues, non-tax revenues, and grants". According to data sourced from the Directorate General of Taxes, the tax sector is the largest source of revenue for Indonesia. The realization of Indonesia's state revenues for 2019-2022 is presented in Table 1.

Based on Table 1, it can be seen that tax revenue is the largest source of revenue for the Indonesian state. This can be seen from the consistency of the percentage of tax revenue each year where tax revenue is always the largest.

Table 1. Realization of Indonesian State Revenues in 2019-2022

Year	Tax Receipts		Non-Tax Revenue		Grant	Total
	Billion Rupiah	%	Billion Rupiah	%		
2019	1.332.659,14	99,99	43,03	0,01	- 1.332.702,17	- 1.332.702,17
2020	1.072.114,56	99,99	38,13	0,01	- 1.072.152,69	- 1.072.152,69
2021	1.278.654,45	99,99	42,81	0,01	- 1.278.697,26	- 1.278.697,26
2022	1.716.763,78	99,99	44,53	0,01	- 1.716.808,31	- 1.716.808,31

Tax regulations set by the government aim to increase taxpayer awareness to participate in the country's development process through tax payments. Companies are corporate taxpayers. Companies view tax payments as a burden that must be paid to the government, the impact of which will reduce the net profit generated by the company (Mulyadi & Anwar, 2015). Taxpayers will tend to look for ways to minimize the tax obligations paid. Every company wants maximum profit with a minimum tax burden. Companies can carry out tax management by means of tax planning to reduce the tax burden in order to obtain optimal profits according to investor expectations. One form of tax planning is tax avoidance.

According to Mardiasmo (2018), tax avoidance is an effort to reduce taxes without violating the law. Tax avoidance takes advantage of the weaknesses in legal tax regulations. Blaufus et al., (2019) argue that tax avoidance is a legal tax planning practice that is still within the limits of tax regulations to reduce the tax burden by exploiting loopholes in the law. Deductible expenses can be utilized in tax avoidance. Deductible expenses are a cost policy that has been set to reduce gross income with the aim of obtaining, collecting, and maintaining tax income as regulated in Law No. 36 of 2008 concerning Income Tax. Deductible expenses can be interpreted as costs that can be deducted as tax deductions without violating the law. One way to utilize deductible expenses is to use interest costs. Interest costs arise from the cost of debt. Cost of debt is the rate of return before tax that must be paid by a company when taking out a loan. According to the regulation of the Minister of Finance of Indonesia No. 169/PMK.010/2015 Article 2 Paragraph 1 states that the ratio between debt and capital is set at a maximum of four to one (4:1). This regulation arises due to different tax treatments between the results or returns from financing through debt and capital which then creates an impact of different treatment in financing decisions or is often referred to as debt bias (Faticam Hemmelgarn, & Nicodeme in Togarotop 2020). Blessing argues that this debt bias results in the erosion of the company's net income and ultimately affects tax revenues from Corporate Income Tax (PPh) (Togarotop & Tambunan, 2020).

Debt financing is more attractive because it reduces the tax burden and as a consequence produces a low cost of capital, especially when associated with the concept of weighted average cost of capital (Blessing in Togatorop & Tambunan, 2020). Masui stated that this opportunity is utilized by multinational companies that have member entities in more than one country through what is known as cross-border financing (Togatorop & Tambunan, 2020). The tax avoidance phenomenon that occurred in Indonesia was reported in Pajakku in 2021 where according to the Tax Justice Network, Indonesia is estimated to experience a loss of US\$4.86 billion per year or equivalent to IDR68.7 trillion (the rupiah exchange rate is IDR14,149 per US dollar) due to tax avoidance. This tax avoidance is not illegal but is still detrimental when viewed from a tax perspective for the country. This tax avoidance case was proven to have been carried out by the ADRO company. The Directorate General of Taxes (DJP) in 2019 investigated allegations of tax avoidance by the ADRO company. ADRO company is suspected of running away with income and suppressing taxes paid to the Indonesian government. According to Global Witness, tax avoidance is done by selling coal at a low price to ADRO's subsidiary in Singapore to then be resold at a high price. Global Witness found the potential for lower tax payments than they should have been worth 125 million US dollars to the Indonesian government. Global Witness pointed to the role of tax havens that allow ADRO company to reduce its tax bill by 14 million US dollars per year.

Tax avoidance can be explained by agency theory. Jansen and Meckling (1976) define an agency relationship as a contract in which one or more principals (owners) hire another person (agent) to perform some services for the benefit of the company's profit by delegating some authority to make decisions to the agent. The relationship between agency theory and this research is that tax avoidance practices if not managed properly will cause a conflict of interest that begins with information asymmetry (Prasiwi in Wirdaningsih et al., 2018). This conflict occurs in the interests of the company's profit between tax collectors (taxpayers) and tax payments (company management). The tax payers hope for the greatest possible income from tax collection, while management is of the view that the company must generate significant profits with a low tax burden. These two different perspectives are what cause conflict between the tax payers as tax collectors and the company management as taxpayers (Prakosa in Prasetya & Muid 2022). Research conducted by Trisnawati & Nasser (2017) found that tax avoidance has no effect on the cost of debt. Research conducted by Hasan et al. (2014), A. P. S. Dewi & Ardiyanto (2020), Khoirul Nisa & Wulandari (2021), Suparman et al. (2022), and Dananjaya & Erawati (2023) found that tax avoidance has a positive effect on the cost of debt. This is different from research conducted by Abdussaid et al. (2021) which states that tax avoidance has a negative effect on the cost of debt.

Tax avoidance has an element of secrecy so that it can reduce corporate transparency and cause conflicts of interest between management and creditors due to information asymmetry and moral hazard. Tax transparency refers to the

level of openness and exposure of information related to an entity's tax affairs. Tax transparency involves the disclosure of tax information openly and clearly to interested parties such as tax authorities, shareholders, investors, and the general public. This information can be in the form of financial statements, tax reports, and other relevant information related to tax aspects. Tax transparency also helps reveal aggressive tax avoidance practices. Tax avoidance is indicated to occur in the mining company sector, according to Pricewaterhouse (PwC) Indonesia in 2021 there were 70% of the 40 largest mining companies that had not used tax transparency reports. This is reinforced by data that Indonesia is one of the most productive countries in the coal mining industry in the world and is the fifth largest coal producing country in the world. Indonesia produces around 485 million tons of coal or around 7.2% of the world's total coal production and is the second largest coal exporter in the world after Australia, with around 80% of Indonesia's total coal production exported. However, the large economic value generated by the coal mining industry is not in line with its minimal tax contribution (Suwiknyo, 2021). Therefore, it is necessary to implement good corporate governance. One of the applications of good corporate governance is institutional ownership.

Institutional ownership is the ownership of shares by an institution (agency) (Merawati & Pramitha, 2020). Ownership by institutional investors will encourage more optimal supervision of management performance, because share ownership represents a source of power that can be used to support or vice versa against management performance (Taner, 2020). A high level of institutional ownership will result in greater supervision efforts by institutional investors so that it can prevent opportunistic behavior by managers and can minimize the level of misappropriation by management which will reduce the value of the company (Rohmawati, 2020). High company value will increase investor and creditor confidence, allowing companies to obtain debt with lower interest rates and reduce the cost of debt. Research conducted by Ekasanti Santosa et al. (2016) states that institutional ownership affects the cost of debt. This is different from research conducted by Abdussaid et al. (2021) which states that institutional ownership has no effect on the cost of debt.

Based on the inconsistency of the results of previous studies, the researcher is interested in conducting further research using one independent variable, namely tax avoidance, and one moderating variable, namely institutional ownership. This study focuses on mining sector companies listed on the Indonesia Stock Exchange due to the vulnerability of tax avoidance cases in mining companies.

2. Research Method

The approach used in this study is a quantitative approach. This study was conducted on mining sector companies listed on the Indonesia Stock Exchange (IDX) in the 2019-2023 period through the official website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id. The object of this study is the financial statements of mining sector companies listed on the IDX

in the 2019-2023 period. The dependent variable in this study is Cost of Debt. The independent variable in this study is Tax Avoidance. The moderating variable in this study is institutional ownership. The population in this study were all mining sector companies listed on the Indonesia Stock Exchange for the 2019-2023 period. The sample in this study was taken using the nonprobability sampling method, namely purposive sampling which will filter the sample so that the sample used is representative. The criteria or considerations in determining the sample that must be met in this study include Financial statements have interest expenses, The company's financial statements report the amount of tax paid on operating cash flow, The company did not experience losses during the 2019-2023 period, and Institutional ownership above 20%. Institutional ownership of more than 20% indicates that institutions have a significant influence on the company. Based on these criteria, the sampling results were 6 companies with 5 years of observation, resulting in 30 research samples. The types of data used are Quantitative Data and Qualitative Data sourced from secondary data, namely from the financial statements of companies listed on the Indonesia Stock Exchange (IDX) from 2019-2023 sourced from the official website of the Indonesia Stock Exchange (IDX) accessed via www.idx.co.id. The data collection method in this study is the non-participant observation method. The data analysis technique used is the Moderated Regression Analysis (MRA) Test

3. Result and Discussion

Descriptive statistical analysis provides an overview of data obtained from the number of observations, minimum value, maximum value, average value, and standard deviation. The results of the descriptive statistical analysis in this study can be seen in Table 2 below.

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CETR (X)	30	0,06	0,95	0,3234	0,23644
KI (Z)	30	37,37	97,00	79,1933	20,5169
COD (Y)	30	0,00	0,15	0,0614	0,04651
Valid N (listwise)	30				

The Tax Avoidance (X) variable proxied by the Cash Effective Tax Rate (CETR) has a minimum value of 0.06 owned by PT. TBS Energi Utama Tbk in 2021. The maximum value of 0.95 is owned by PT. Petrosea Tbk in 2023. The average value (mean) shows a figure of 0.3234 and a standard deviation value of 0.2364. The results of this study indicate that the standard deviation value is lower than the average value, which means that the data distribution is even.

The Institutional Ownership variable (Z) has a minimum value of 37.37 owned by PT. Radiant Utama Interinsco Tbk in 2023. The maximum value of 97 is owned by PT. Golden Energy Mines Tbk in 2019 and 2020. The average value

(mean) shows the number 79.1933 and the standard deviation value is 20.5169. The results of this study indicate that the standard deviation value is lower than the average value, which means that the data distribution is even.

The Cost Of Debt (Y) variable has a minimum value of 0.00 owned by PT. Mitrabara Adiperdana Tbk in 2022. The maximum value of 0.15 is owned by PT. Radiant Utama Interinsco Tbk in 2020. The average value (mean) shows the number 0.0614 and the standard deviation value is 0.04651. The results of this study indicate that the standard deviation value is lower than the average value, which means that the data distribution is even.

Table 3. Multicollinearity Test Results

Variable	Tolerance	VIF
CETR	0,859	1,164
KI	0,859	1,164

Based on the test results in Table 3, it can be seen that each variable has a tolerance value greater than 10% or greater than 0.1. Likewise, the VIF value of each variable is less than 10. This means that the regression model used in this study is free from multicollinearity symptoms.

Tabel 4. Hasil Uji Normalitas

		Unstandardized Residual
N		30
Normal Parameters ^{a,b}	Mean	0,0000000
	Std. Deviation	0,03383273
Most Extreme Differences	Absolute	0,116
	Positive	0,116
	Negative	-0,099
Test Statistic		0,116
Asymp. Sig. (2-tailed)		0,200 ^{c,d}

Based on the results of the Kolmogorov-Smirnov (K-S) test analysis in Table 4, it can be seen that asymp. Sig (2-tailed) shows a value of 0.200 where this value is greater than 0.05 which means the data is normally distributed. So, it can be concluded that the regression equation model in this study is normally distributed and can be continued by conducting the next classical assumption test.

Table 5. Heteroscedasticity Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0,002	0,017		0,147	0,884
TA	-0,012	0,015	-0,141	-0,763	0,452
KI	0,036	0,018	0,377	2,035	0,052

Based on Table 5, it can be seen that each variable has a significance level greater than 0.05. This means that there is no similarity in variance from the residuals of one observation to another observation of the regression model used in this study so that it can be concluded that the regression model is free from heteroscedasticity symptoms.

Table 6. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,686 ^a	0,470	0,431	0,03529	1,633

Based on the results of the Durbin-Watson test in Table 6, the d value is 1.773. To compare the d, dL, and dU values, the DW table value is used with a research sample (n) of 30 samples and the number of independent variables (k) of 2. Based on the DW Table, the dL value is 1.283; the dU value is 1.566; and the 4-dU value is 2.4334. Therefore, it can be concluded that $1.566 < 1.633 < 2.433$ meets the requirements of $dU < d < 4-dU$ so that the regression model does not experience autocorrelation symptoms.

Table 7. Moderated Regression Analysis Test Results

Model	<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	t	Sig.
	B	Std. Error	Beta		
(Constant)	0,162	0,091		1,784	
TA	0,047	0,180	0,238	0,259	0,086
KI	-0,130	0,105	-0,574	-1,240	0,798
TA.KI	-0,051	0,216	-0,203	-0,238	0,226

Adjusted R² = 0.411

F = 7.747

Sig F = 0.001

Based on the test results in Table 7, the following regression equation was obtained.

$$Y = 0,162 + 0,047X - 0,013Z - 0,051XZ + \epsilon$$

Based on Table 7, it is known that the Adjusted R² value is 0.411, which means that 41.1% of the variation in changes in the cost of debt is influenced by the variables of tax avoidance, institutional ownership, and the interaction between tax avoidance and institutional ownership, while the remaining 58.9% is explained by other factors that are not tested in this research model.

Based on Table 7, the F significance value shows a value of $0.001 < 0.05$ and the calculated F value is $7.747 > F$ table 2.975 (df1 = 3 and df2 = 26 at a

significance of 0.05). These results indicate that the independent variables, namely tax avoidance, institutional ownership, and their interactions have an effect on the dependent variable, namely the cost of debt. Based on this, it is concluded that this research model is said to be feasible to be studied and can be continued with hypothesis proof.

Based on the results of the research conducted, it can be said that the results of this study are not in accordance with the agency theory which states that tax avoidance is considered to reduce corporate transparency which will cause institutional conflict (agency) between management and debt holders because it can cause information asymmetry. The results of this study indicate that if tax avoidance activities increase, it does not affect the cost of debt. In other words, companies that carry out tax avoidance do not always have high debt costs. This study is also unable to support the trade-off theory which states that tax avoidance will reduce the cost of debt. The results of this study are in line with the research conducted by Dan Suminar & Luh Nadi (2020). Conversely, the results of this study are not in line with the research conducted by Ekasanti Santosa et al. (2016), Arista Amalia & Duma Sitinjak (2020), and Abdussaid et al. (2021).

Institutional ownership is an indicator used to describe the percentage of share ownership of an institution in a company. The results of this study indicate that if institutional ownership increases, it does not affect the effect of tax avoidance on the cost of debt. This means that companies that have high cost of debt do not always have large institutional ownership. Based on the results of the study, it can be said that the results of this study are not in accordance with the agency theory which states that institutional ownership is able to monitor management performance thereby reducing opportunistic actions from managers. The results of this study are in line with the research conducted by Utama et al. (2019). Conversely, the results of this study are not in line with the research conducted by Sinaga (2023).

4. Conclusion

Based on the research results obtained, several conclusions can be drawn as follows. The results of this study indicate that tax avoidance has no effect on the cost of debt. This means that high or low levels of tax avoidance will not affect the level of cost of debt. The results of this study indicate that institutional ownership is unable to moderate the effect of tax avoidance on the cost of debt. This means that institutional ownership cannot strengthen or weaken the effect of tax avoidance on the cost of debt.

Based on the research results and conclusions that have been described, the suggestions given are as follows. The Director General of Taxes should provide socialization regarding tax regulations to improve tax compliance. Taxpayers should carry out tax obligations in accordance with applicable regulations. Further researchers should add or replace other variables that are closely related to the cost of debt and use other measurements as a proxy for tax avoidance such as BTD and ETR.

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