



VOL 4 NOMOR 01  
**January 2023**

p ISSN 2777-0915 | e ISSN 2797-6068

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Devotion : Journal of Research and Community Service with registered number p-2777-0915, e-ISSN 2797-6068 is a scientific multidisciplinary journal published by Green Publisher. Journal has become a member of Crossref (Prefix: 10.36418). This article contains the results of research and community service related to relevant science focus and scope including: education, social, law, business and economics, technology, Health, Human resource development, MSMEs and entrepreneurship.

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Journal of Research and Community Service

Devotion Journal of Research and Community Service  
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This issue has been available online since 16th January 2023 for the regular issue of January 2023. All articles in this issue (30 original research articles) were authored/co-authored by 149 authors from Indonesia

DOI: <https://doi.org/10.36418/dev.v4i1>

Published: Jan 14, 2023



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### Factors-Factors Affecting Tax Avoidance

<https://doi.org/10.36418/dev.v4i1.383>

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**Abstract**

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## FACTORS-FACTORS AFFECTING TAX AVOIDANCE

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### ABSTRACT

#### KEYWORDS

Tax avoidance, executive character, thin capitalization, book tax gap.

This study aims to analyze and prove empirically (1) the effect of executive character on Tax Avoidance, (2) the effect of thin capitalization on Tax Avoidance and (3) the effect of the book tax gap on Tax Avoidance. This research method is carried out by taking secondary data, namely manufacturing companies listed on the Indonesia Stock Exchange for the period 2018-2020. The data collection technique uses the purposive sampling method and the method used in analyzing is the multiple regression analysis method. The results show that the executive character and thin capitalization have a positive effect on tax avoidance, while the book tax gap has a negative influence on tax avoidance. So the H3 in this study was rejected. Based on the results of the partial test, the research shows that the effect of the book tax gap on tax avoidance is a negative effect, which means that the larger the book tax gap in the company, the no indication of an increase in tax avoidance

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### INTRODUCTION

Taxes are an important part of the country's revenue structure. From year to year tax revenues have an increasingly large proportion in state revenues. Apart from being a state revenue (budgetary function), the tax function is also a tool in regulating or implementing government policies in the social and economic fields (regular function). So, the achievement of the tax revenue target is important to ensure the fulfillment of the tax function for the greatest prosperity of the people as mandated in Law No.6 of 1983 concerning General Provisions and Tax Procedures (KUP Law) article 1.

However, in pursuing the state revenue target, the government is constrained by several factors, one of which is tax avoidance. Tax avoidance is the ability to pay a low amount of tax compared to the pre-tax profit on a company through a series of management actions to downplay its outstanding taxes. Management conducts tax avoidance practices by exploiting loopholes in tax regulations to significantly reduce taxes. It can be said that tax avoidance is the behavior of taxpayers to reduce the tax burden but not violate tax regulations. Tax avoidance is one of the factors that there are still countries that apply low tax rates, thus triggering multinational companies to make investments or divert income to the country.

The Tax Justice Network (or TJN) is an advocacy group consisting of a coalition of researchers and activists that has a focus around taxes such as tax avoidance, tax competition, and tax exemption. The Tax Justice Network's findings state that in practice multinational companies shift their profits to countries that are considered tax havens. The goal is not to report how much profit is actually made in the country where it does business so that the corporation will eventually pay less tax than it should.



Currently, the Directorate General of Taxes monitors these special transactions based on financial information data that exists abroad, this effort utilizes relations between countries. In this case, Indonesia and treaty partner countries exchange information related to the transaction.

An executive is an individual who is in a very important position in a company because the executive has the highest authority and power to regulate the operations of his company. Executives have a great influence on the company being led so this executive plays a very important role in being able to coordinate his subordinates. The executive determines the direction of the company so that the executive must be precise in making decisions and policies in the company. Each individual certainly has a different character as well as each executive who has a different character in leading his company.

Executive characters have two types, namely risk taker and risk averse. The risk taker character is an executive character who is brave or likes to take risks in his decisions. Meanwhile, risk averse is an executive character who lacks courage in taking risks. Executive characters with risk taker characteristics will be more courageous in taking or doing anything in order to get the greatest benefit so that they are more courageous in taking risks even though the risks taken are quite large and have large negative risks as well. Vice versa, executive characters who have a risk averse type, are more likely to play safe, or choose to follow the rules and don't like to take big risks.

According to the OECD (2012), thin capitalization is the action of a company to use more debt than equity in a company's funding source. The practice of thin capitalization by companies can be used as one of the tax avoidance strategies because debt can provide tax incentives for companies through the ability of loan interest expense to reduce taxable income (tax shield).

In addition to the executive character and thin capitalization, one of the growing issues regarding the analysis of tax regulations that has attracted a lot of attention is the book-tax differences or book-tax gap, which is the difference between recording taxable income or company profits according to the tax point of view based on tax laws and regulations and recording income before taxation or corporate profits before taxation according to accounting standards in Indonesia. Tax and accounting laws and regulations have different points of view and objectives so that these differences appear in almost all countries with regulations that are certainly different as well as their application in each country, both from the application of taxes and accounting. The occurrence of the book-tax differences phenomenon or book-tax gap causes differences in the results of financial statements, causing an opportunity for management to increase the company's profit and profit quality on financial statements in accounting and reduce profits in terms of taxation.

(Sugiyanto en Fitria 2021) conducted a study to see the relationship between executive character and tax avoidance carried out by food and beverage sector manufacturing companies listed on the Indonesia Stock Exchange in 2017 \u2013 2018. The results of the study on executive character variables had a significant negative effect on the dependent variable, namely tax avoidance. This shows that if the executive is more risk taker, the greater the tax avoidance action will be carried out. The size of the company's risk indicates a tendency to executive character. A large level of risk indicates that the company's leadership is more of a risk taker who is more willing to take risks.

This is in line with research conducted by (Sugiyanto en Fitria 2021) which shows that executive character negatively affects tax avoidance.

(Hidayat en Mulda 2019) conducted a study to see the relationship between the book-tax gap and foreign ownership with tax avoidance carried out by food and beverage sector manufacturing companies listed on the Indonesia Stock Exchange in 2017\2018. The results of the study for foreign ownership variables did not have a significant effect on tax avoidance in food and beverage sector manufacturing companies listed on the IDX in 2017\2018 based on partial testing. However, for variable book-tax gap has a relationship to tax avoidance In simultaneous testing of foreign ownership and book-tax gap has an influence on tax avoidance or tax avoidance.

Based on news and problems related to state revenues in the tax sector which often experience an erratic decline or increase, especially during a pandemic that attacks the world economy, with the leeway given by the government in utilization to reduce the tax burden borne by companies because the economy in all aspects of business has decreased income, which is feared to be increasingly intensive tax avoidance carried out by corporate as well as personal taxpayers. Therefore, the author wants to discuss how the influence of Executive Character, Thin Capitalization and Book Tax Gap on Tax avoidance. This study aims to obtain empirical evidence regarding: The influence of executive character on Tax Avoidance, The effect of thin capitalization on Tax Avoidance, The effect of book tax gap on Tax Avoidance.

### **Agency Theory**

Agency Theory is a concept that describes the employment relationship between the agent (manager) and the principal (company owner), where the relationship is governed by a contract to carry out company activities (Jensen en Meckling 2019). The management of a company often creates conflicts of interest between the owner and the manager. This conflict in agency relationships can be attributed to game theory, which is a theory that models the interaction between two or more players when there are conditions of uncertainty and information asymmetry, where each player is assumed to have a desire to maximize the benefits of expectations (Scott, 2015).

The essence of agency theory is that there are differences in interests between agent and principal (agency conflict). Shareholders as principals are assumed to be interested only in financial results in the form of increased dividend distributions. The manager as an agent is assumed to receive satisfaction in the form of high financial compensation and accompanying conditions in the relationship. Agency theory implies that there is an asymmetry of information between the manager as an agent and the owner as a principal which occurs due to differences in interests between managers and company owners which can trigger agency conflicts.

The difference in point of view between shareholder thinking and company management can influence management to set policies in achieving company performance, one of which is tax policy. Shareholders want management to comply with tax regulations, while company management will exploit existing loopholes in tax regulations in order to minimize tax payments by conducting tax avoidance.

### **Tax Definition**

According to Law Number 6 of 1983 as last amended by Law Number 11 of 2020 concerning General Provisions and Tax Procedures in article 1 paragraph 1:



Taxes are mandatory contributions to the state owed by private persons or entities of a coercive nature under the Law, with no direct remuneration and are used for state purposes for the greatest prosperity of the people

Taxes are mandatory and are implemented based on laws and regulations. There are two main functions of taxes, namely the revenue function (budgeter) and regulating (regular). Budgeter means that taxes serve as a source of funds for the government to finance its expenses. While the regular function means tax as to regulate or implement government policies in the social and economic fields (Mardiasmo 2021).

### **Tax Avoidance**

In general, the measure of compliance with meeting tax obligations is usually measured and compared to the size of tax savings, tax avoidance and tax evasion, all of which aim to minimize the tax burden.

The desire of taxpayers to not comply with tax regulations makes there a tax resistance they provide. Resistance to taxes can be divided into two namely, passive resistance and active resistance. Passive resistance is in the form of obstacles that make it difficult to collect taxes and have a close relationship with the structure of the economy. Meanwhile, active resistance is all efforts and actions that are directly shown to the government (fiscus) with the aim of avoiding taxes. There are 3 ways of active resistance, namely tax avoidance, tax evasion, and tax evasion.

From an economic point of view, tax avoidance, tax evasion, and tax flight have the same effect, namely they are both actions to reduce the value of profits with the aim of reducing the tax burden. But from the legal and moral side, the three terms have different meanings and levels of justice. Tax avoidance is defined as an effort to reduce tax payments in a legally permissible way, namely by taking advantage of existing regulatory loopholes.

### **Executive Character**

Executive characteristics include psychological characteristics such as cognition and executive value, and can be observed externally. As decision makers and executors of a company, executives are directly responsible for the financial performance and operations of the company (Arena, Wang, en Yang 2021). The executives of the company contribute greatly in running the company because they have the highest position in decision making. Executives have two characteristics, namely risk-takers or risk aversion. This is reflected in the risks of the company. The greater the risk of the company, the more executives take risks (Maharani en Baroroh 2019). According to (Prihartono 2020) executive character is something that makes a person qualified and becomes a fixed trait, executives have diverse qualities and styles in decision making. Each leader has certain characteristics to provide direction in carrying out business activities in accordance with the goals to be achieved by the company. The executive determines the number of alternative policy options and measures the magnitude of the risks that will be faced by certain characteristics (Sugiyanto en Fitria 2021). Each manager has different characteristics. It is stated that each individual has one of two characteristics, namely risk taker or risk averse (Fitria, Taufik, en Siddik 2019). Executives who have the characteristics of being risk-takers will be more willing to take risks in decision making. In addition, the executive nature of risk-takers has a desire to meet high cash flow needs. On the other hand, risk averse is a characteristic of executives who do not like risk, so in

business decision making these executives will prefer to make smaller risk decisions. Executives who are risk averse will prefer to avoid all sorts of opportunities that have the potential to pose risks and prefer to have most of the assets they have in relatively safe investments to avoid funding from debt, uncertainty of the amount of return and so on. Factors that influence executive psychology in carrying out tax avoidance due to the high tax rate that applies. On the other hand, if the applicable tax rate is low enough, psychologically the taxpayer will fulfill the obligation to pay taxes.

### **Thin Capitalization**

According to the OECD (2012), thin capitalization is a situation where a company is financed by a higher level of debt compared to capital. This understanding is in line with the notion of thin capitalization contained in the research of (Denney en Tewksbury 2013). The company's strategy in obtaining financing has an impact on the level of corporate taxable income. Tax regulations allow interest expense as a deduction from income (deductible). Conversely, if the company obtains financing through equity, the dividends distributed cannot be a deduction from income for tax calculations (nondeductible).

The higher the level of debt in the company, the higher the interest expense that must be paid which results in lower fiscal profits (OECD, 2012). In line with this, a company's funding policy will affect the effective tax rate (ETR) because taxes have different treatment related to the capital structure of a company. A low ETR is an indication of tax avoidance in a company. In other words, funding policies have an influence on tax avoidance carried out by companies.

According to (Fama en French 2002), the optimal capital structure can be identified through the benefits of debt interest tax deductions and bankruptcy costs. The concept of trade-off in balancing theory is to balance the benefits and costs of using debt in the capital structure so it is also referred to as trade off theory (Brigham, Conlon, en Farquharson 1999). In addition to being able to save taxes with interest costs as a deductible expense, high levels of debt can result in conflicts between shareholders and debtors, requiring agent fees in resolving the conflict.

### **Book Tax Gap**

Book tax differences themselves are manifestations of temporary differences and permanent differences. This temporary difference can occur due to the difference in the time of income recognition and expense recognition between fiscal financial statements and commercial financial statements, while permanent differences occur due to different policies regulated in financial accounting standards and regulations in the field of taxation (Jati en Murwaningsari 2020). Differences in financial statements can be permanent because not all revenues or costs recognized according to accounting are also recognized according to fiscal. Meanwhile, temporary differences occur as a result of differences in the timing of revenue recognition or costs in calculating the amount of profit. A temporary tax gap book can reveal the flexibility of accounting accruals (Hidayat en Mulda 2019).

In addition to some differences in commercial and fiscal financial statements, the deduction of an expenditure is not black and white as stated in the regulations. In the extreme, according to (Santoso 2019) even companies can perform aggressive 'transform non-deductible to deductible expense' techniques if there is an opportunity for loopholes in a rule. Especially the taxpayer's 'judgement' plays a role in determining whether a deduction fee can be charged fiscally or not.

## Hypothesis Development

### The Effect of Executive Character on Tax Avoidance

Tax avoidance carried out by companies cannot be done apart from the role of leaders or executives in decision making. The executive must determine the number of alternative policy options and measure the magnitude of the risks that will be faced by certain characteristics. Each manager has different characteristics. It is stated that each individual has one of two characteristics, namely risk taker or risk averse. Executives who have the characteristics of being risk-takers will be more willing to take risks in decision making. In addition, the executive nature of risk-takers has a desire to meet high cash flow needs. High cash flow will be obtained from tax avoidance activities by increasing tax savings. On the other hand, risk averse is a characteristic of executives who do not like risk, so in business decision making these executives will prefer to make smaller risk decisions. Executives who are risk averse will prefer to avoid all sorts of opportunities that have the potential to pose risks and prefer to have most of the assets they have in relatively safe investments to avoid funding from debt, uncertainty of the amount of return and so on. When managers with a risk averse character are given the opportunity to choose an investment, this character will tend to choose an investment far below the risk that the company can tolerate. According to agency theory, differences in interests can be a factor in the occurrence of deviations in executive behavior. Deviations that occur in realization compared to the planned one, in particular in the area of the company's revenue. The greater the deviation that occurs from the initial plan that the company has predicted, it can mean that the company's risk is greater. Large company risks are a direct impact of the policies taken by the company's management, so that if the company's risks are large enough, it can be said that the company's management is parties who are quite willing to take risks, and vice versa for low-risk companies. In carrying out tax avoidance, the dominant characteristic is a risk taker with the assumption that tax avoidance can be done legally (tax avoidance) even in an extreme way that utilizes 'judgement' assuming that the truth is decided by the judge through disputes and loopholes contained in a. Risk takers are responsible to stakeholders in optimizing profit management by conducting tax avoidance which has a low level of risk detection and a low level of sanctions. Research conducted by (Pratomo en Triswidyaria 2021) states that executive characteristics has a positive effect on tax avoidance. Based on the foregoing, the first hypotheses in this study are:

H1 = Executive character has a positive effect on tax avoidance.

### Effect of Thin Capitalization on Tax Avoidance

(Falbo en Firmansyah 2018) found that companies with high levels of debt have low ETRs because these companies get a reduction in taxes owed due to interest expense. Multinational companies get an incentive to finance their investments in other countries with debt if the country has a higher tax rate. This statement is in line with (Dahlby 2008) who stated that debt levels have a positive effect on tax avoidance.

Based on tax regulations, interest expense can be a deduction from deductible income, while dividend distribution is not a deduction from taxable income (nondeductible). When viewed in multinational companies, companies will get incentives in the form of tax reductions at higher rates due to interest expense. On the other hand, interest income will be earned by groups of companies located in countries with lower

rates. The existence of information asymmetry between managers and shareholders results in managers being able to set company capital structure policies. Shareholders may only think that the addition of debt can add to the source of funding, but the policy turns out to be used by managers to carry out tax avoidance. Thus, the second hypothesis of the study is:

H2 = Thin capitalization positively affects tax avoidance

### **Effect of Book Tax Gap on Tax Avoidance**

Book tax gap is a book difference between business financial statements and financial statements for taxation caused by differences in accounting standards and tax provisions. This difference, arises due to several reasons such as the financial and tax systems have different users and purposes therefore the rules are also different. While taxable income is determined by fiscal standards in which policymakers formulate tax rules to collect income, encourage or prevent some activities, stimulate the economy and avoid tax avoidance measures in accordance with generally accepted accounting principles as well as strive to provide useful information to decision makers. According to agency theory, the existence of a book tax gap can cause conflicts of interest that arise in the relationship between shareholders and company management. The book tax gap occurs due to three activities, namely profit management, tax management and differences in accounting and taxation provisions. Of the three activities, normal differences can be used as a tool to predict the occurrence of tax avoidance. Meanwhile, profit management and tax planning factors are more towards opportunistic actions of the company, causing asymmetry of financial statement information. Book tax gaps against tax avoidance can be found in various recognitions including differences in the calculation of penyusutan or amortization of companies, inventory valuation systems and bookkeeping using accrual or mixed (modified) cash stelsel. Research conducted by (Hidayat en Mulda 2019) states that the book tax gap has a significant positive effect on tax avoidance. Based on the foregoing, then the third hypothesis is:

H3 = Book tax gap positively affects tax avoidance

### **METHOD RESEARCH**

This research was conducted quantitatively using the Descriptive Statistics method, which is a research method that tests the influence and analyzes whether between one variable affects other variables. This study uses hypothesis testing to determine the influence of independent variables, namely executive character, thin capitalization and book tax gap on dependent variables, namely tax avoidance.

#### **Dependent Variables**

Dependent or bound variables are variables that are the result of the influence of independent or free variables (Payadnya and Jayantika, 2018). The dependent variable used in this study is tax avoidance. Tax avoidance is a way to reduce taxes that are still within the limits of tax laws and regulations, especially through tax planning. Tax avoidance was measured using an effective tax rate (ETR) proxy modified by Yorke et al. (2016) in (Nadhifah and Arif, 2020). The results of the ETR modification are as follows:

$$\text{ETR} = \frac{\text{Corporate Tax Expense} - \text{Deferred Tax Expense}}{\text{Pre-tax Income}}$$

Net Profit Before Tax

### Independent Variables

Independent or free variables are variables whose position has an influence on dependent or bound variables, can be manipulated, changed, or replaced (Payadnya en Jayantika 2018). The independent variables used in this study were:

Executive Character

According to (Sugiyanto en Fitria 2021) executive character is something that makes a person qualified and becomes a permanent trait, executives have diverse qualities and styles in decision making. The formulation of the executive character calculated using risk is as follows:

$$\text{RISK} = \frac{(\text{Current Year Profit} + \text{Interest Expense} + \text{Income Tax Expense})}{\text{Total Assets}}$$

Thin Capitalization

This study measures thin capitalization using Maximum Allowable Debt (MAD) Ratio

(Richardson et al., 2015) (Falbo en Firmansyah 2018) which is formulated as follows:  
Average Debt

$$\text{MAD Ratio} = \frac{\text{*SHDA} = (\text{average total assets} - \text{non IBL}) \times 80\%}{\text{average debt}}$$

\*80% is adjusted to the debt to equity ratio limit in Indonesia according to PMK 169 / PMK.010 / 2015 which is 4: 1.

### Book Tax Gap

According to (Hidayat en Mulda 2019) book tax difference is a book difference between business financial statements and financial statements for taxation caused by differences in accounting standards and tax provisions. The formulation of the tax gap book is as follows:

$$\frac{(\text{Accounting Profit} - \text{Tax Profit})}{\text{Total assets}}$$

### Data Collection Techniques

The unit of analysis refers to the degree of unity of the data collected during the next stage of data analysis. This study uses quantitative type data derived from secondary data sources, namely financial statements of manufacturing companies that have gone public and are listed on the Indonesia Stock Exchange (IDX) during 2018 – 2020 and can be accessed through the official website of the Indonesia Stock Exchange (IDX), namely [www.idx.co.id](http://www.idx.co.id).

### Research Population and Sample

The population used in this study is manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2018 – 2020. The determination of samples in this study is to

use purposive sampling, which is a way of sampling with predetermined criteria. The criteria in question are:

1. Manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2018 – 2020.
2. Manufacturing companies that report their financial statements during 2018– 2020 consecutively.
3. Manufacturing companies that did not suffer losses during 2018 – 2020.
4. Manufacturing companies that use Rupiah currency during 2018 – 2020.

### **Analysis Methods**

This study used panel data analysis with the Eviews tool, because the data used in this study was panel data. Before conducting data testing, a descriptive statistical analysis is first carried out to see the characteristics of the data used. Testing of the research model was carried out by choosing a model from three existing approach models, namely Common Effect or Pooled Least Square (PLS), Fixed Effect Model (FEM) or Random Effect Model (REM). To analyze the panel data requires a precise test of the specifications of the model to describe the data. The tests are: Chow Test, Hausman Test, and Lagrange Multiplier Test

### **Hypothesis Test and Coefficient of Determination Test (R<sup>2</sup>)**

The hypothesis testing technique used to determine whether there is a significant influence of free variables on the value of the company with the F Statistical Test and the T Statistical Test using a significance level of 0.05 ( $\alpha = 5\%$ ). Test coefficients to measure how much a free variable is capable of explaining bound variables. The value of the coefficient of determination is between zero and one. A small R<sup>2</sup> value means that the ability of independent variables to describe the variation of dependent variables is very limited. This study used Adjusted R<sup>2</sup>. Using the Adjusted R<sup>2</sup> value, it can be evaluated which regression model is the best. Unlike R<sup>2</sup> values, Adjusted R<sup>2</sup> values can go up or down if one independent variable is added to the model. In reality, the Adjusted R<sup>2</sup> value can be negative although the desired one must be positive. If in the empirical test a negative Adjusted R<sup>2</sup> value is obtained, then the Adjusted R<sup>2</sup> value is considered to be zero.

### **Multiple Regression Analysis**

Multiple regression analysis in this study was used to determine the influence of executive character, thin capitalization and book tax gap on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange (IDX). The formulation of the multiple regression equation is as follows:

$$TA_{it} = a + b_1 KE_{it} + b_2 TCAP_{it} + b_3 BTG_{it} + \epsilon$$

Information:

TA= Cumulative Abnormal Return of the company i year t

a= Konstanta

b= Koefisien Regresi

KE= Executive Character of the company i t-th year TCAP= Thin Capitalization of the company i t-th year BTG= Book Tax Gap of the company i year t

$\epsilon$ = Random error component (random err

## **RESULT AND DISCUSSION**

### Data Description



This research was used to test the presence or absence of the Influence of Executive Character, Thin Capitalization, Book Tax Gap and Tax avoidance on manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2020 period. Based on the data obtained and company criteria, there were 19 companies that met the criteria and were sampled in the study with a total of 57 observations of financial statements, shown in the following table

Manufacturing Companies listed on the IDX 2018-2020	193
- Basic Industry and Chemical (81)	
- Consumer Good Industry (61)	
Miscellaneous Industry (51)	
Reduced : The company is in the development category	(86)
Reduced : The Company does not publish an Annual Report	(18)
Reduced : Financial statements are not presented in Rupiah	(22)
Reduced : The company suffered a loss	(48)
Number of companies entering the research sample	19
Years of Observation	3
Number of Observation Samples	57

Source : Processed by the Author (2022)

#### Descriptive Statistical Analysis

Descriptive statistical analysis is the analysis of data in the form of collecting, presenting, processing, and summarizing data that does not provide conclusions.

**Table 2**  
**Descriptive Statistics**

	HE	WED	TCAP	BTG
Mean	0.207632	0.610146	0.954788	0.142573
Maximum	0.357510	4.990970	5.761040	1.270140
Minimum	-0.075340	0.038900	0.099850	-0.035080
Std. Dev.	0.097228	0.938361	1.136013	0.228891

Based on the results of a descriptive statistical test with 57 observations, the average value tax avoidance variable of 0.207632 explains that companies that have a difference between company tax expense and deferred tax expense are not material with the company's earnings before tax. Variables Executive character is something that qualifies a person and becomes a fixed trait, the executive has diverse qualities and styles in decision making. The mean value of 0.610146 indicates that on average the sample company has executives who do not like risk, so in business decision making these

executives will prefer to take smaller risk decisions and for a standard deviation of 0.938361. The thin capitalization / TC variable measured using the ratio between average debt and safe harbor debt amount (SHDA), the average value of .954788 explains that most companies are indicated to be practicing thin capitalization. The book tax gap variable is the book difference between business financial statements and financial statements for Taxation, on average sample companies do not have so much book difference between business financial statements and financial statements for Taxation.

#### Test Panel Effects

Panel data regression has a combination of characteristics, namely that the data owned consists of several objects and covers some time. This kind of data has the main advantage, which is that it is robust against several types of violations, such as heterokedasticity and normality. Panel data regression can be done with three models, namely pooled / common effect, fixed effect, and random effect with their respective advantages and disadvantages. The selection of the model depends on the assumptions used by the researcher and the fulfillment of the requirements for processing the correct statistical data so that it can be statistically accounted for.

The main goal in the panel effects test is to choose a model from all three available models. The first step, compare the results of the common effect and fixed effect models using the chow test. The test is needed to choose the most appropriate model between the common effect and fixed effect models. The results of the chow test can be seen in table 3

**Table 3**  
**Chow Test**

Effects Test	Prob.	Conclusion
Cross-section Chi-square	0.0000	Ha accepted

Source : Data processed Eviews 9 (2022)

Ho: common effect

Ha: fixed effect

The results of the chow test in table 4.4 show that the probability value of cross section chi square is  $0.0000 < 0.05$  (alpha 5%), then Ha is accepted. Based on the results of the chow test, a fixed effect was selected so that it showed that there were differences in characteristics both in

individual as well as between periods. Furthermore, a Hausman test was carried out to test whether it was better estimated using a fixed effect model or a random effect model. Hausman test results can be seen in table 4

**Table 4**  
**Uji Hausman**

Test Summary	Prob.	Conclusion
Cross-section Random	0.2068	Ho accepted

The results of the hausman test in table 4.5 show that the probability value of cross section random is  $0.2068 > 0.05$  (alpha 5%), then Ho is accepted. Therefore, it can be concluded that the best model chosen is random effect.

**Table 5**  
**Test Lagrange Multiplier**

Test Summary	Prob.	Conclusion
Breusch-Pagan	0.0001	Ha accepted

Ho: common effect

Ha: random effect

The results of the lagrange multiplier test in table 4.6 show that the Breusch-Pagan probability value is  $0.0001 < 0.05$  (alpha 5%), hence Ha is accepted. Therefore, it can be concluded that the best model chosen is random effect.

### Hypothesis Testing

After conducting a panel effect test and testing that the overall data is suitable for use in the study, the research can proceed to the hypothesis testing stage. Hypothesis testing consists of the interpretation of the regression model and the testing of the regression coefficient. The analysis is intended to look at the influence of independent variables on dependent variables. This is a one-sided or one-tailed test.

**Table 6**  
**Hypothesis Test**

Variable	Coefficient	Prob.	Conclusion
C	0.197316	0.0000	
WED	0.104161	0.0001	H1 accepted
TCAP	0.011335	0.0585	H2 accepted
BTG	-0.297503	0.0024	H3 is deprecated
<b>Goodness of Fit Test</b>			
Adj R <sup>2</sup>		0.175383	
Prob F-statistic		0.004109	

Source : Data processed Eviews 9 (2022) Based on table 4.6, the regression model obtained is:

$$TA_{it} = 0.197316 + 0.104161 KE_{it} + 0.011335 TCAP_{it} - 0.297503 BTG_{it} + e$$

The regression coefficient testing based on table 4.6 is as follows:

Coefficient of Determination (Adjusted R-Square)

Based on table 4.6, the Adjusted R-Square (R<sup>2</sup>) value is 0.175383. This shows that the ability of independent variables to explain the behavior of dependent variables is 17.54%. It can also be interpreted that there are other independent variables besides executive character, thin capitalization and book tax gap that are able to explain tax avoidance behavior in the company of 82.46%.

Test F

Test F results are reflected in table 4.6 at the Prob (F-statistic) value of 0.004109. This shows that there is at least 1 (one) independent variable that affects the dependent variable, and means that the research model is feasible to use.

t-test

The results of the t Test reflected in table 4.6 partially interpret the influence of independent variables on the dependent variables as follows :

### Hypothesis 1: Executive Character Positively Affects Tax Avoidance

Based on the test results, it is known that the coefficient of the executive character variable is 0.104161. That is, if the executive character increases by 1 unit, then tax avoidance on average will increase by 0.104161 units. Then, the probability value or significance is known to be 0.0001 : 2 i.e.  $0.00005 < 0.05$  (alpha 5%),  $H_0$  is accepted. Statistically, it can be concluded that at a 95% confidence level there is a positive influence of executive character on tax avoidance so that  $H_1$  is accepted.

### Hypothesis 2: Thin Capitalization Positively Affects Tax Avoidance

Based on the test results, it is known that the coefficient of the thin capitalization variable is 0.011335. This means that if thin capitalization increases by 1 unit, then tax avoidance will increase by an average of 0.011335 units. Then, the probability value or significance is known to be 0.0585: 2 i.e.  $0.02925 < 0.05$  (alpha 5%). Statistically, it can be concluded that at a 95% confidence level there is a positive influence of thin capitalization on tax avoidance so that  $H_2$  is accepted.

### Hypothesis 3: Book Tax Gap Positively Affects Tax Avoidance

Based on the test results, it is known that the coefficient of the book tax gap variable is -0.297503. This means that if the book tax gap increases by 1 unit, then the average tax avoidance will decrease by 0.297503 units. Then, the probability value or significance is known to be 0.0024: 2 i.e.  $0.0012 < 0.05$  (alpha 5%). Statistically, it can be concluded that at a 95% confidence level there is a negative influence of the book tax gap on tax avoidance so that  $H_3$  is rejected.

### Discussion of Research Results

The panel data regression analysis that has been carried out aims to determine the relationship that can be measured from the character of the executive, thin capitalization and book tax gap to tax avoidance. The following is a summary of the results of research that has been carried out.

#### The Positive Influence of Executive Character on Tax Avoidance

Executive character has a positive effect on tax avoidance. So that  $H_1$  in this study is accepted. Based on the results of partial tests, research shows that the influence of executive character on tax avoidance is positive, which means that the higher the executive character in the company, the action for tax avoidance will increase, and vice versa. An executive is an individual who occupies an important position in a position in the leadership system in a company and or an organization. The size of the company's risk indicates a tendency to executive character. The greater the risk-taking of the company, the higher the tax avoidance that can be carried out by the company's managers. This research is contrary to agency theory which states that differences in interests can be a factor in the occurrence of deviations in executive behavior. The results showed that company executives will prefer to carry out tax avoidance of all kinds of opportunities that have the potential to cause risks, thereby increasing the company's tax avoidance actions. The results of this study are in line with research conducted by Pratomo & Triswidyaria (2021) stated that executive characteristics has a positive effect on tax avoidance.

#### Positive Effect of Thin Capitalization on Tax Avoidance

Thin capitalization is the second most popular strategy in tax avoidance (www.news.ddtc.co.id) practice. Thin capitalization is defined as a company's financing strategy by prioritizing debt instruments over equity or capital (Falbo and Firmansyah, 2018). Debt referred to in the practice of thin capitalization refers more to debt to creditors who have a special relationship (related party) with the company (Widodo, et al. 2020). Debt itself was chosen because of its ability to increase company value through tax incentives in the form of loan interest expenses (Salwah and Herianti, 2019).

The results of the study prove that thin capitalization has a positive effect on tax avoidance. These results are in line with the research of Falbo and Firmansyah (2018) which proves that the practice of thin capitalization has a positive influence on tax avoidance. That is, the higher the value of thin capitalization, the higher the tendency of companies to use debt as the largest composition in its financing. The results of this study are strengthened by research conducted by Olivia and Dwimulyani (2019) which also proves that thin capitalization has a positive effect on tax avoidance

#### The Positive Effect of Book Tax Gap on Tax Avoidance

Book tax gap negatively affects tax avoidance. So the H3 in this study was rejected. Based on the results of the partial test, the research shows that the effect of the book tax gap on tax avoidance is a negative effect, which means that the larger the book tax gap in the company, the no indication of an increase in tax avoidance. Book tax gap is a book difference between business financial statements and financial statements for taxation caused by differences in accounting standards and tax provisions. Different bases in the preparation of these financial statements can cause differences in the calculation of the company's profit and loss. This result is not in accordance with agency theory, with the existence of a book tax gap can cause conflicts of interest that arise in the relationship between shareholders and company management, so as to increase the company's tax avoidance actions. This is because the high book tax gap can be caused by significant differences between the accounting system applied and the applicable tax regulations to meet the interests of investors in terms of the returns provided. The results of this study are not in line with research conducted by Hidayat and Mulda (2019) stating that the book tax gap has a significant positive effect on tax avoidance.

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## CONCLUSION

Based on the results of the research and discussion in the previous chapter, several conclusions can be drawn from this study, namely: Executive character has a positive influence on tax avoidance. This means that it can be said that H1 in this study is accepted. Thin capitalization has a positive influence on tax avoidance. This means that it can be said that H2 in this study is accepted. Book tax gap has a negative influence on tax avoidance. This means that it can be said that H3 in this study was rejected.

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**Lestari, R. Rosiyana Dewi, Ika Wahyuni, Ika Wahyuni, Windiyani (2023)**

**First publication right:**

**Devotion - Journal of Research and Community Service**





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