



Determinants of Tax Avoidance in Technology Sector Companies Listed on The BEI Period 2019-2023

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ABSTRACT

Over the past few years, technology companies have overcome major challenges in providing the tools and technology the world needs to work remotely, run online businesses, and keep the world economy running over the impact of the covid-19 pandemic. The technology sector is believed to be fundamentally strong and will overcome adverse conditions to return to being a driver of economic growth, although it is expected that the level of volatility will remain high in most sectors. This study aims to determine the effect of institutional ownership, human capital expense, research and development expense, advertising expense, capital structure on tax avoidance with Return On Assets as control variable. The population is technology companies listed on Indonesian Stock Market Exchange 2020-2023, with a samples of 75 companies. This research first testing with descriptive analysis, then using classic assumption test include normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. And after that this study uses Hypothesis testing in the panel data regression statistical test with the Random effect model (REM) and descriptive research with quantitative approach. The results of the analysis show that institutional ownership have an insignificant effect on tax avoidance and advertising expense have an insignificant effect on tax avoidance. While Human capital have effect on tax avoidance, Research and Development expense have effect on tax avoidance and capital structure have effect on tax avoidance.

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1. INTRODUCTION

Based on data from the Central Bureau of Statistics, although experiencing fluctuations in value, overall Indonesia has experienced an increase in the economy in the past 5 years. Indonesia managed to prove to rise faster and recover stronger after the impact of the covid-19 pandemic which began to spread in 2019 and not only hit the country but also had a major impact around the world. The description of the country's economic improvement is represented by the Gross Domestic Product is shown as Table 1:

Table 1. Realization of Indonesia's Gross Domestic Product for The Period 2019 - 2023

Year	GDP Indonesia (in million rupiah)
2019	15.832.657,20
2020	15.443.353,20
2021	16.976.690,80
2022	19.588.445,60
2023	20.892.376,70

Source: www.bps.co.id (2024)

Indonesia's success in developing the country is also evidenced by the increase in Gross Domestic Product, making Indonesia ranked first with the highest GDP value in ASEAN in the 2023 period. International Monetary Fund (IMF) data states that Indonesia's GDP ranks first in ASEAN with a value of 20,892.3 trillion rupiahs. The increase in revenue certainly has a positive impact on the state, one of which is through the tax sector in terms of realization of state revenue that we can see the range period of 2019 until 2023.

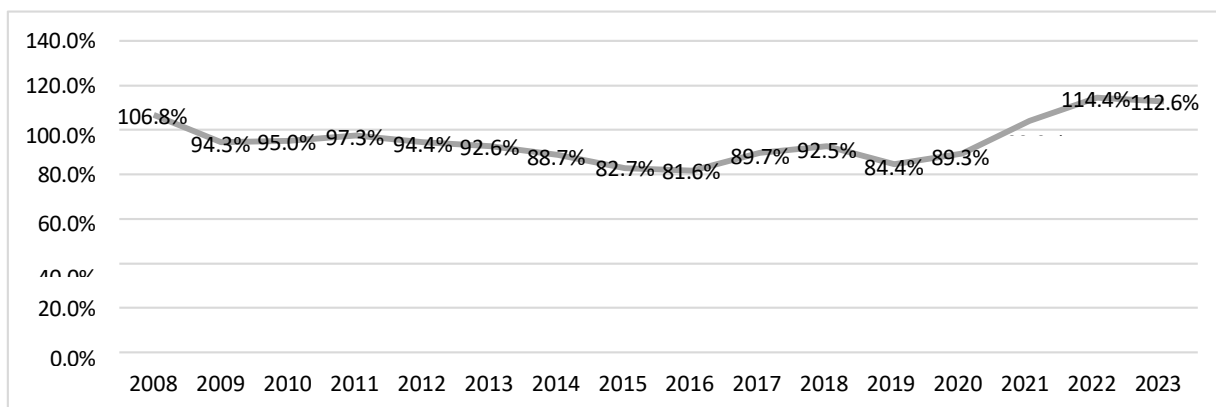
Table 2. Realization of Indonesia's State Revenue for The Period 2019 - 2023

Sources	Realization of Indonesian revenue (in million rupiah)				
	2019	2020	2021	2022	2023
Taxation	1.546.141,90	1.285.136,32	1.547.841,10	2.034.552,50	2.118.348,00
PNBP	408.994,30	343.814,21	458.493,00	595.594,50	515.800,90
Hibah	5.497,30	18.832,82	5.013,00	5.696,10	3.100,00
Total	1.960.633,50	1.647.783,35	2.011.347,10	2.635.843,10	2.637.248,90

Source: www.bps.co.id (2024)

When viewed in the percentage of tax revenue realization from the 2008 period to the 2023 period, Indonesia experienced significant fluctuations in value. Indonesia's tax revenue contribution has never exceeded the target since 2008 at 106.8%, and finally in 2021 Indonesia made history that tax revenue was able to exceed the target at 103.9% or IDR 1,547.8 trillion. Meanwhile, in the 2022 financial report published by the Ministry of Finance, it was stated that the realization of tax revenue throughout 2022 reached IDR 2,034.5 trillion or 114.04% of the budget target of IDR 1,783 trillion (CNN, 2023).

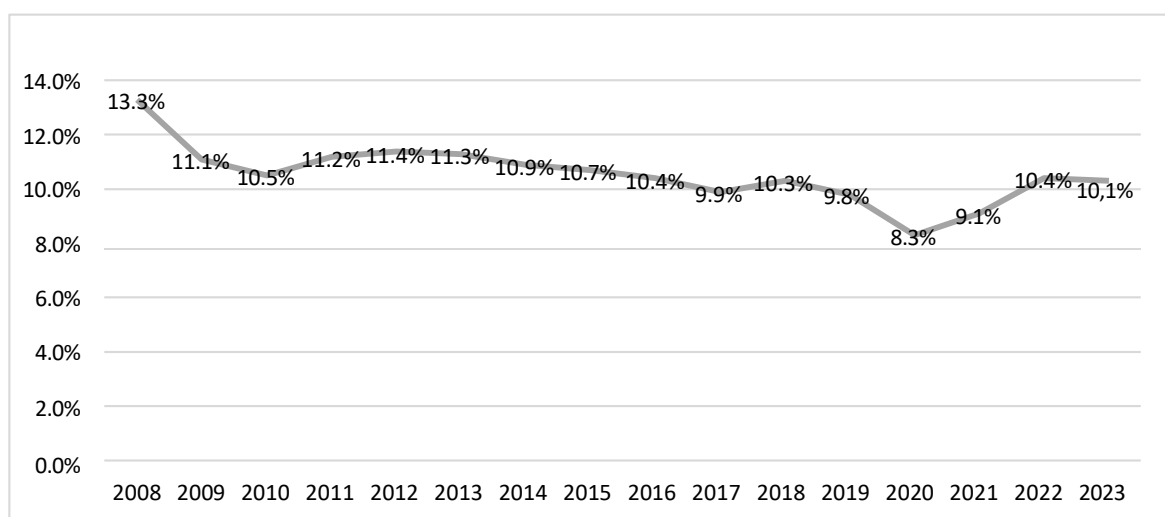
Realization of state revenue between 2008 until that can be seen in this graphic:



Source: data processed (2024)

Figure 1. Realization of State Revenue for The Period 2008 - 2023

However, Indonesia's economic growth and improving tax revenues are not directly proportional to the tax surrender implemented by tax contributors. When referring to international standards where the expected tax ratio is at 15%, Indonesia's tax ratio is still far below the standard at 10.39% in 2022, indicating that Indonesia still needs hard efforts to make the best contribution through tax revenue in accordance with the Gross Domestic Product generated by the country. Indonesia's Tax Ratio over the last 15 years illustrates a fairly fluctuating percentage with a tendency to decline, and has not shown a significant increase to catch up with the international standards suggested by the International Monetary Fund. Compared to the tax ratio of ASEAN countries, Indonesia ranks seventh or above Laos, Myanmar and Brunei, and the tax percentage shows that Indonesia is unable to exceed the average percentage of tax ratio in ASEAN countries at 10.75%. As can be seen the range of Indonesia Tax Ratio percentage for the priode 2019 – 2023 below:



Source: data processed (2024)

Figure 2. Indonesian Tax Ratio Presentage for The Period 2019 - 2023

Several phenomena can trigger Indonesia's low tax revenue. One of them is the 'tech winter' condition that has hit globally and impacted Indonesia. Tech winter can be explained

as a condition of slowing down all activities in the technology industry. Tech winter is characterized by declining investment value and slowing revenue. There are various causes of tech winter, including the impact of the covid-19 pandemic, the increase in US central bank interest rates, and geopolitical tensions between Russia and Ukraine. So there was a time when many technology companies failed to get investment so they had to mass layoffs and hiring freezes as happened to Shopee Indonesia, TaniHub, SayurBox, Ajaib, and Pegipegi.com. (teknologi.bisnis.com)

So that in this global pressure, it triggers other conditions, namely conflicts of interest that occur within the scope of the Company. In an external situation that has not been said to be good, the Company is still required to carry out its tax obligations that have been regulated by the state. So that the conflict of interest results in efforts to minimize taxes in accordance with applicable law by using the grey area loophole in the tax provisions aimed at saving the tax burden. Minister of Finance Mrs. Sri Mulyani said that although the Corporate Income Tax rate decreased from 25% to 22%, it turns out that the submission of loss reports by corporate taxpayers still increased. Based on data from 2015-2019 there were 9,496 corporate taxpayers who reported losses in their reporting. Corporate taxpayers who submit company loss reports periodically are still running their businesses and even continue to grow (Putri, 2021). So it is not impossible that the statement of losses reported by taxpayers but not in accordance with the conditions in the field makes one indication of the occurrence of tax avoidance practices in the company.

Although taxes play a significant role in developing the country, in this case the support from the community is still quite low. This is evidenced by the fact that there are still many corporate taxpayers who use loopholes in the tax laws and regulations in order to make low tax contributions so that profits are maintained at the desired value by management. In an era where the internet 'dictates' human life, technology companies are 'kings'. They benefit tremendously because billions of citizens around the world depend on them for their daily needs, from shopping, to finding entertainment, to helping with school or office work.

Indonesia is one of the largest digital target markets in the world. This is due to Indonesia's large demographics and the habits of its people who tend to be consumptive. For 2020 alone, it is estimated that the number of digital transactions in Indonesia will reach USD 35 billion (Redseer, 2020), which is higher than previous projections due to the Covid-19 pandemic that forced people to reduce activities outside the home. Other projections issued by Temasek and Bain&Company also provide quite impressive forecasts. Both companies predict that the number of digital transactions in Indonesia will reach USD 130 billion by 2025. Based on the information above, there is no question why many global companies often make Indonesia a field for profit. Along with the coronavirus/covid-19 pandemic. The role of technology companies became more vital because everything had to be done at home. Work and study from home. This makes the income of technology companies soar when other business sectors in difficult situation.

Over the past few years, technology companies have overcome major challenges in providing the tools and technology the world needs to work remotely, run online businesses, and keep the world economy running over the impact of the covid-19 pandemic. The

technology sector is believed to be fundamentally strong and will overcome adverse conditions to return to being a driver of economic growth, although it is expected that the level of volatility will remain high in most sectors (Englund et al., 2022). For example, the technology industry in the financial subsector has contributed to the recovery and improvement of the national economy. A significant increase in performance and growth rates shows that the technology industry has the opportunity to further drive the country's economic progress (Anisa, 2021). However, in Research (Yoon et al., 2023) explains that technology companies in China have a tendency to reduce greater tax costs supported by the low corporate tax rate for technology companies.

For example, the Netflix Company from California has a main business in the form of digital streaming services for several film and television programs, including Netflix's own programs. Statista data states that Netflix had around 906,800 subscribers in Indonesia in 2020 but unfortunately Netflix did not pay taxes, the government admitted that it missed it. It is said that Netflix does not have a tax payment obligation because it has not become a Permanent Establishment tax object even though according to the rules it is clear, all forms of buying and selling transactions to services must be subject to taxation rules.

In 2023, the Panel of Judges of the South Jakarta District Court decided that the Director of PT CSI Kim Nam Hee alias David Kim had been legally proven to have committed a tax crime, for not depositing the Value Added Tax (VAT) that had been collected. The taxpayer, who is registered at the Foreign Investment Tax Office (KPP) Tiga, was imprisoned for 1 year and 8 months and fined Rp 10.12 billion. PT CSI is a business entity engaged in information and technology (IT) that produces cyber security products, closed circuit television (CCTV), e-commerce, and smart building/office. According to (Duhoon & Singh, 2023) in literature review research explains that one of the factors that influence tax avoidance is institutional ownership. (Velte, 2023) explains that some short-term shareholders may choose a higher level of tax avoidance to increase their profits in this case through dividends. Research (Prasetya & Venusita, 2023) explains that intellectual capital has an influence on tax avoidance.

The purpose of this research is to analyze the effect of institutional ownership, human capital, Research and Development, Advertising expense, and Capital Structure on tax avoidance partially.

2. METHODS

This research uses a quantitative approach and regression descriptive statistical techniques, namely statistics used in data analysis to describe or describe the data that has been collected and look for a one-way relationship in the independent variable to the dependent variable (Sugiyono, 2022). The data used in this study are secondary, namely derived from financial reports from technology sector companies listed on the IDX in the 2019-2023 period totaling 42 companies. The sampling technique uses non-probability sampling with a purposive sampling method where each element allows it to be sampled and

does not have the same opportunity as each other (Sugiyono, 2022) which results in a sample of 25 companies.

The data analysis techniques used in this study are descriptive analysis, classical assumption test, and panel data regression with the help of eviews 12 software. Descriptive analysis is carried out by calculating the indicators of each variable by classical assumption test, panel data model test, MRA, and finally hypothesis testing including F test and t test:

a. Institutional Ownership

Alkurdi dan Mardini (2020) said that institutional ownership is a group that is able to use the authority to bear or reject management decisions with the aim of monitoring company performance more optimally. In this study, institutional ownership uses the following indicators:

$$\text{INST} = \frac{\text{Number of shares of Institutional investors}}{\text{Total number of shares}} \times 100\%$$

b. Human capital expense

Human capital is one of the dimensions of intellectual capital related to human knowledge and experience that can affect the value of the company. Human capital describes the company's ability to produce the best output based on the knowledge possessed by human resources in the company (Saragih, 2017)

$$\text{Human Capital ROI} = \frac{(\text{Revenue} - (\text{Employee Compensation Expenses}))}{\text{Employee Compensation}}$$

c. Research & Development expense

Sugiyono (2022) said that research and development is a research method that is carried out to produce a certain product or test the effectiveness of a method. Research and development is a way to discover knowledge related to products, processes, or services and how to apply that knowledge to create products, processes, or services that meet market needs.

$$\text{R \& D} = \frac{\text{Research and Development Expenses}}{\text{Total Asset}}$$

d. Advertising expense

Advertising expense as one of the company's business strategies is used in the form of goods or services with the aim of introducing products or services produced by a business entity as a form of marketing to maintain and attract potential consumers. Advertising expense has a fairly important role where companies with high advertising expenses will affect the recognition of the company by the public as a positive image so that it is considered to have a good image (Nguyen, 2015).

$$\text{Advertising expense intensity} = \frac{\text{Advertising Expense}}{\text{Total Sales}}$$

e. Capital Structure

A company's capital structure is usually expressed as a debt-to-equity or debt-to-capital ratio. Debt and equity capital are used to fund business operations, capital expenditures, acquisitions, and other investments. There are tradeoffs that companies must make when they decide whether to use debt or equity to finance operations, and managers will balance the two to find the optimal capital structure (Junaidi et al., 2023)

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity Ownership}} \times 100\%$$

f. Tax Avoidance

Taxation is a serious issue because many parties view taxes as a burden because the payment is an obligation and is regulated by the government but the benefits are not received directly. Therefore, they will consider taking options that can reduce the tax burden as efficiently as possible. Taxes are calculated on the basis of the income earned by the taxpayer. The amount of tax payable will increase along with the increase in the value of the taxpayer's income. (Ramdiani et al., 2023)

$$\text{ETR} = \frac{\text{Income tax expense}}{\text{Pretax Income}}$$

g. Profitability

Profitability ratio measure a company's capacity to earn profits, explaining the impact of liquidity policies, asset management, and debt management for the company's operational results. The profitability ratio that the author uses is Return on Assets (Kasmir, 2019)

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Asset}}$$

Tax avoidance as the dependent variable in this study is a serious issue because many parties view taxes as a burden that needs to be paid even though the benefits cannot be received directly (Ramdiani et al., 2023) So that the Company uses methods by utilizing the gray area of tax law with the aim of minimizing the tax burden that must be paid (Pohan, 2018) Based on research (Duhoon & Singh, 2023) ETR as one of the formulas that can be used in calculating tax avoidance is used with the following formula:

$$\text{ETR} = \frac{\text{Income Tax Expense}}{\text{Pretax Income}}$$

Company size is a classification of companies based on scale, be it large or small, based on the calculation of total assets or assets of the company, stock market value, average sales level, and total sales. The classification of the Company's measurement above is calculated on the basis of equity value, sales value, or asset value (Suwito & Herawati, 2005)

3. RESULTS AND DISCUSSION

3.1 Descriptive Analysis

As can be seen for the results of descriptive analysis below:

Table 3. Descriptive Analysis Results

	INST	HCROI	RD	ADV	DER	ROA	TA
Mean	0,54904	145,34040	0,02152	0,01208	1,97059	-0,03589	0,20311
Median	0,58932	35,81470	0,00245	0,00172	0,33921	0,00767	0,14698
Maximum	0,91613	1396,35500	0,33319	0,42384	54,97596	0,53659	0,81282
Minimum	0,08231	0,49020	2,98E-05	3,46E-06	-6,26843	-1,25608	0,00026
Std. Deviasi	0,20913	291,85920	0,05551	0,05541	7,85508	0,23518	0,19870

Source: data processed (2024)

Based on table 3, the dependent variable in this study is tax avoidance. The descriptive statistics results for this variable show the highest value of 0.81282 the lowest value of 0.00026 and an average value of 20.3% or 0.20311. The standard deviation value obtained is 0.19870. The first independent variable in this study is institutional ownership. The descriptive statistical results for this variable show the highest value of 0.91613, the lowest value of 0.08231 and an average value of 54.9% or 0.54904. The standard deviation value obtained is 0.20913. The second independent variable is human capital expense. The results of descriptive statistics for this variable show the highest value of 1396.355, the lowest value of 0.49020 and the standard deviation value obtained is 291.8592. The third independent variable in this study is research and development expense. The descriptive statistics for this variable show the highest value of 0.4238, the lowest value of 0.0000298 and an average value of 2.15% or 0.02152. The standard deviation value obtained is 0.05551.

The fourth independent variable in this study is advertising expense. The results of descriptive statistics for this variable show the highest value of 0.42384, the lowest value of 0.00000346 and an average value of 1.20% or 0.012079. The standard deviation value obtained is 0.05541. The fifth independent variable in this study is capital structure. The results of descriptive statistics for this variable show the highest value of 54.97596, the lowest value of - 6.268432 and an average value of 197.05% or 1.970591. The standard deviation value obtained is 7.85508. The control variables in this study is Return on Asset (ROA). The ROA variable shows the highest value of 0.53659, the lowest value of -1.25608 and an average value of -3.58% or - 0.03589. The standard deviation value obtained is 0.23518.

3.2 Classic Assumption Test

In this study, the classic assumption tests used are normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. First, the normality test shows the probability result at a value of 0.0000 < 0.05 so it can be concluded that the data is not normally distributed. However, in large samples the normality test in panel data regression can be ignored (Ghozali & Ratmono, 2016). Second, based on the Autocorrelation test using the Breusch-Godfrey Serial Correlation LM Test, the Prob Chi Square (2) value is 0.8549 > 0.05, so it can be concluded that there is no autocorrelation in this regression model. Third, based on the heteroscedasticity test, it shows that the p-value indicated by the Prob. Chi Square on

Obs * R-Square, which is $0.9069 > 0.05$, the regression model is homoscedasticity or no heteroscedasticity occurs. Fourth, based on the multicollinearity test results, it shows that all variables have low centered VIF below 0.80 so it can be concluded that there is no multicollinearity in this study.

3.3 Panel Data Estimation Model Selection

The selection of the panel data estimation model was tested using the Chow test, Hausman test, and LM test. In the Chow test results the cross-section F probability has a value of $0.0069 < 0.05$ with the conclusion that the FEM model is better. The test then continued on the Hausman test where the result was a probability value of $0.5035 > 0.05$ so it was concluded that the REM model was better. Finally, the Lagrange Multiplier test with a Breusch pagan cross-section value of $0.0426 > 0.05$ concluded that the REM model was better. From the results of the three tests above, it can be concluded that the best model that can be used is the Random Effect Model. As can be seen for the result of panel data regression below that used Random Effect Model:

Table 4. Panel Data Regression (Random Effect Approach)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.166293	0.817716	-5.095038	0.0000
INST	0.191316	0.392957	0.486861	0.6283
HCROI	-0.263939	0.131011	-2.014635	0.0488
R_D_ASSET	-0.204428	0.082752	-2.470367	0.0166
ADV	0.057452	0.084242	0.681985	0.4981
DER	0.320100	0.133821	2.392009	0.0202
ROA	-0.779063	0.091167	-8.545484	0.0000
Weighted Statistics				
R-squared	0.605890	Mean dependent var	-1.198150	
Adjusted R-squared	0.562896	S.D. dependent var	1.362787	
S.E. of regression	0.899561	Sum squared resid	44.50652	
F-statistic	14.09250	Durbin-Watson stat	1.851369	
Prob(F-statistic)	0.000000			

Source: data processed (2024)

Based on the table 4, the multiple linear regression model equation is as follows:

Panel regression model equation:

$$ETR_{it} = \alpha_{0i} + \beta_{1it}INST_{1it} + \beta_{2it}HCROI_{2it} + \beta_{3it}R\&D_{3it} + \beta_{4it}ADV_{4it} + \beta_{5it}DER_{5it} + \beta_{6it}ROA_{6it} + \varepsilon_1$$

Description:

- ETR = tax avoidance
- a = constant
- β_1, \dots, β_6 = regression coefficient
- INST = institutional ownership
- HCROI = human capital

R&D Asset	= research and development
ADV	= advertising expense
DER	= capital structure
ROA	= Return On Asset
i	= interest
t	= Time
ϵ	= Standard error

Based on the equation, it can be explained as follows:

1. The constant (a) value of -4.166293 indicates that when independent variables such as institutional ownership, human capital, research and development, advertising expenses, capital structure, and company size have a value of 0, the value of tax avoidance will show a negative trend of 4.166293% which indicates that when these variables are zero, tax avoidance in a company is lower.
2. The regression coefficient of institutional ownership is 0.191316, meaning that each increase in institutional ownership by one unit will increase tax avoidance by 0.191316%.
3. The human capital regression coefficient is -0.263939, meaning that each increase in human capital by one unit will reduce tax avoidance by 0.263939%.
4. Research and development regression coefficient of -0.204428, meaning that each increase in research and development by one unit will reduce tax avoidance by 0.204428%.
5. The advertising expense regression coefficient is 0.057452, meaning that each increase in advertising expense by one unit will increase tax avoidance 0.057452%.
6. The capital structure regression coefficient is 0.320100, meaning that each increase in capital structure by one unit will increase tax avoidance by 0.320100%.
7. The Return on Assets regression coefficient is - 0.779063, meaning that each increase in company size by one unit will reduce tax avoidance by 0.779063%.

The R square value is 0.60589 or (60.5%) This shows that the percentage influence of human capital, research and development, advertising, capital structure and company size is 60.5%, the remaining 39.5% is influenced by other indicators from outside the influence of human capital, research and development, advertising, capital structure and company size.

3.4 t-Test Results

Based on the results of this research uses the Random effect model, partial test carried out to assess the statistical significance of each variable independent in influencing the dependent variable partially:

The institutional ownership variable shows a probability value of 0.6283 which is greater than alpha (0. 6283 > 0.05), so it can be concluded that H0 is accepted and H1 is rejected, meaning that institutional ownership has an insignificant effect on tax avoidance. this result consistent with previous research conducted by (Widya Santi et al., 2023). High or low percentage of institutional ownership in a company has no influence on possible

avoidance activities tax. Basically, tax decision making is part of Management's responsibility to increase profits and welfare for employee's investors. So investors try to influence their tax activities to get maximum dividends.

The human capital expense variable shows a probability value of 0.0488 which is lower than alpha ($0.0488 < 0.05$), so it can be concluded that H1 is accepted, meaning that human capital expense has significant effect on tax avoidance. This research is in line with (Freire-Serén & Panadés i Martí, 2013) because the results show that spending on human capital significantly influences tax avoidance practices company. Expenditures on human capital have an important role in affects operational costs and the company's cost structure in general, so that this quite large operational burden makes management take advantage of the tax rule that employee expenses can be deductible expense so as to reduce the Company's tax costs

The research and development expense variable shows a probability value of 0.0166 which is lower than alpha ($0.0166 < 0.05$), so it can be concluded that H1 is accepted, meaning that research and development expense has significant effect on tax avoidance. These results are not in line with research (Gao et al., 2016) indicates that in allocating R&D resources with value large enough, the company has indications of using regulations taxation regarding research and development to reduce tax costs. Companies allocate large funds for R&D in the hope that they can improve product innovation, market competitiveness, and operational efficiency however also has a direct impact related to tax regulations.

The advertising expense variable shows a probability value of 0.4981 which is greater than alpha ($0.4981 > 0.05$), so it can be concluded that H1 is rejected, meaning that advertising expense has an insignificant effect on tax avoidance. This shows that the amount of costs spent on advertising does not have a significant impact on the company's tendency to avoid taxes in line with research (Novitasari & Suharni, 2019). The company spends significant budget for advertising activities with the aim of increasing brand visibility, expanding market share, and increasing product sales or their services. However, from a tax perspective, management does not push advertising costs as a deduction from fiscal profit

The capital structure variable shows a probability value of 0.0202 which is lower than alpha ($0.0202 < 0.05$), so it can be concluded that H1 is accepted, meaning that capital structure has significant effect on tax avoidance. This shows that companies with Certain capital structures tend to be more active in adopting strategies tax evasion. This finding is consistent with previous research conducted by (Prabowo, 2020) and (Pangestu & Bimo, 2018), who identified the Debt-to-Equity Ratio (DER) as a proxy for capital structure and found that DER has an influence on the Effective Tax Rate (ETR). This means that the higher the DER, the greater the company's inclination to carry out tax evasion. This is due to ability companies to utilize interest costs from debt financing as tax deduction, which ultimately reduces the tax liability owed paid. Companies can strategically design their capital structure to optimize available tax benefits, in accordance with the objectives for minimize the required tax burden.

4. CONCLUSION

Based on the results of the research and discussions that have been carried out in this research, the following conclusions can be drawn that Institutional ownership and advertising expense has an insignificant effect on tax avoidance. Meanwhile Human capital expense, Research and development expense, and Capital structure has significant effect on tax avoidance.

Based on the results of the research conducted, here are several suggestions. For companies, especially those operating in the technology sector, they are expected to report financial performance in accordance with applicable tax regulations so that information transparency can be felt by all investors. Management as performance controller is able to make the best decisions without intervention from anywhere with the aim of increasing company profits and avoiding tax avoidance.

For future researchers who will take on similar research topics, it is recommended to expand the sample and research period and conduct further studies on other variables that influence tax avoidance. It is hoped that this research can serve as a reference for continuing to strive to build better tax regulations and improve regulations that tend to be gray areas with the aim of increasing taxpayer compliance and increasing the efficiency of tax revenues for the government.

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