

Does the Audit Committee Moderate Tax Planning's Effect on the Firm's Solvability?

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Abstract—The purpose of this study is to examine the effect of tax planning which is moderated by the audit committee on the firm's solvability. In this study, the independent variable is the tax planning and the dependent variable is the firm's solvability. The authors also put the audit committee as moderating variable and the size of the company as a control variable. This study uses MRA (Moderated Regression Analysis). The population of study is all real estate companies and contractors listed in the Indonesia Stock Exchange (BEI) from 2011-2014, whether the sample of this study is taken by "purposive sampling method". Based on the the regression analysis, the results are: (1) the effect of tax planning on solvability is significantly positive; and (2) the interaction between the audit committee applied as moderating into the tax planning has significant impact on solvability. From the results of the regression analysis, it can be concluded that all research hypothesis is accepted. This research results hopefully will give empirical evident and comprehensive understanding to the academicians and public researchers or observers that the audit committee moderates the effect of tax planning on the firm's solvability.

Keywords—tax planning; solvability; and audit committee

I. INTRODUCTION

The realization of tax collection in 2016 up to 31 October 2016 reached IDR 870,954 trillion or 64.27% of the yearly 2016 target which is determined in accordance with the 2016 Revised State Budget (APBN-Anggaran Pendapatan dan Belanja Negara) amounting to IDR 1,355,203 trillion [1]. This figure when compared to 2015 collection, it was 13.30% higher for the same period, where 2015 recorded collection amounted to IDR 768,691 trillion. According to the director general of taxation, the achievement of the target of realization of tax collection was not maximized due to taxpayers making efforts to make the burden so the taxes which are they pay are smaller. These efforts do not violate tax laws [2]. Usually, the way taxpayers manage their taxes so they pay smaller is by doing tax planning. Companies that want to report their tax obligations as low as possible will make tax planning as much as possible, thereby reducing the obligation to pay corporate tax [3]. The implementation of tax planning can be seen with a variety of perspectives, one of the perspectives is the Agency Theory perspective. In Agency Theory, tax planning activities can facilitate the opportunity for managers to carry out

opportunism by manipulating profits or inappropriate placement of resources and not being transparent in carrying out company operations so the tax planning has a negative impact on company value [4].

Many companies assume that the purpose of tax planning is simply to minimize the amount of tax that must be paid. Although overall tax reduction is not the main objective of tax planning, companies often invest large amounts of time and resources in realizing a tax reduction strategy. The most important goal of tax planning is to reduce taxes without disrupting the company's overall operations because if it disrupts operations, it will disrupt the solvability of the company as a whole. According to Karayan et al. tax saving strategies are generally included in four categories, namely [5]: (1) creation; which involves planning in utilizing tax subsidies, (2) conversion; with a change of operation so that income or assets are taxed lower can be produced more, (3) timing; which involves techniques that move the amount taxed to the accounting period with lower taxes, and finally (4) splitting; namely dividing the tax base based on two or more taxpayers to take advantage of the difference in tax rates.

Several studies have proven that tax management is an activity that can increase company value and provide benefits to shareholders as well as Graham et al. [6] and Desai et al. [4]. Other studies have proven the connection between management tax planning and compensation that given to management. Rego et al. found a positive relationship between compensation and aggressive tax reporting [7]. For other studies this influence is associated with company values such as the research of Winanto et al. [8].

In the research of Hanlon et al., tax aggressiveness actions can increase or decrease the value of shares [9]. The ability to increase and decrease the value of shares will affect the solvability of the company. If tax aggressiveness is seen as an effort to carry out tax planning and tax efficiency, the effect is positive on company value and can increase the value of shares so that the solvability ratio becomes good. However, if it is seen as a non-compliance measure, it will increase risk so that it reduces the value of the company and has a negative effect on solvability which results in a decrease in the level of solvability

Further, companies' operations are often filled with uncertainty. One of the problem solving for that is the Audit Committee that is implemented by company and supported by audit committee [10]. The implementation of audit committee is relating with the conservatism principle which is an important convention of financial statements in accounting. This conservatism concept is also a means of tax planning implemented by management.

In practice, the solvability of the company will be greatly influenced by the amount of profit which is the company earns for wealth. If the company is too conservative by doing tax planning, it will have an impact on the company's wealth.

According to agency theory proposed by Jensen et al., the existence of internal control tools, such as audit committees, independent commissions and the separation of the role of CEO from president commissioner will be able to reduce agency costs, improve the quality of controls and reduce the benefits of information retention, thereby improving report quality finance [11]. In agency theory, the basic assumption used is that managers will act opportunistically by taking personal advantage before meeting the interests of shareholders. Funding policies that are decided transparently by management with funders (through the board of directors - board of commissioners) have a positive relationship with achieving good corporate governance.

In the study of Zagorchev et al., they found that the better governance was negatively related to extensive risk taking and positively related to the performance of financial institutions at U.S. [12]. With the idea that the audit committee will improve financial reporting quality and reduce manipulation, because accounting information disclosed transparently through the effectiveness of audit committees will increase the achievement of corporate governance mechanisms so that the accounting process will produce quality financial reports, this makes a positive and expected signal investors will receive this signal as a positive signal so that it can increase investors' trust in the company

The research objectives to be achieved in this study are:

- To test the effect of tax planning on the firm's solvability assessment.
- To test the effect of audit committee that moderates the effect of tax planning on firm's solvability.

II. METHOD

This study uses MRA (Moderated Regression Analysis). MRA is a form of regression which is essentially designed to define the relationship between two variables which are influenced by a third variable as the moderating variable. The regression equation contains elements or multiplicative interaction between two or more independent variables. Before perform the regression analysis, the authors performed classical assumption test which is all classical assumptions are met.

The data used in this study are secondary data from Real Estate and Contractor companies listed on the Indonesia Stock Exchange (IDX). These data are obtained from the JSX data base and Indonesian Capital Market Directory. These data are

in the form of financial statements of Real Estate and Contractor companies listed on the Indonesia Stock Exchange (IDX) and closing prices of shares.

A. Sampling

The population in this study were all Real Estate and Contracting companies listed on the Indonesia Stock Exchange (IDX) with observation periods from 2011 to 2014. The sampling method used was "purposive sampling", so the research sample taken was samples that meet the criteria in this study. The criteria for selecting samples in this study are as follows:

- The company is listed on the Indonesia Stock Exchange (IDX) from 2011 to 2014.
- The company publish financial statements in full in a row from 2011 to 2014.
- Research Variable

The dependent variable in this study is the value of Solvability. The solvability proxy used in this study is solvability where if the result is more than 0, it can indicate that creditors positively assess the implementation of tax planning. The greater value of the solvability, the better the company's valuation.

This study uses the total debt ratio with total assets, commonly called the debt ratio, measuring the percentage of the amount of funds originating from debt. What is meant by debt is all debt that is owned by the company both short-term and long-term. Creditors prefer the lace debt ratio because the security level of the funds is getting better.

The independent variable in this study is Tax Planning using the Effective Tax Rate. ETR is often used by decision makers in companies to assess the feasibility of a tax system related to the company (agency). The use of ETR as a valuation tool is considered very useful because through ETR, interested parties can see the effects of various tax incentives and corporate tax rates [13]. The ETR formula is:

$$ETR = \frac{\text{Total Tax Expense}}{\text{Pre Tax Income}} \tag{1}$$

Moderating variables are variables that weaken or strengthen the direct relationship between the independent variable and the dependent variable. A moderating variable (moderating variable) or (VMO) is another independent variable that is included in the model because it has a contingency effect from the relationship of the dependent variable and the previous independent variable. The moderating variable chosen in this study is the management structure or firm control structure as part of the specific internal mechanism of the company's Good Corporate Governance (GCG) in this case the researcher takes is the number of audit committees in a company.

NAC = Number of members of the Audit Committee in the company.

The control variable is a variable that functions to control the independent variable and/or dependent variable. The purpose of the use of control variables in this study are: (1) to neutralize the influence of unnecessary external variables (2) to bridge the relationship between the independent variable and the dependent variable. In this study using one control variable, namely company size. The size of the company used in this study is Total Assets with the Total Asset log proxy.

B. Analysis Model

Hypothesis testing is done by using Moderated Regression Analysis (MRA). MRA is a regression that is designed hierarchically to determine the relationship between two variables that are influenced by the third variable or moderator variable, the regression equation contains elements of interaction or multiplication between two or more independent variables. The regression equation for this study is as follows:

$$SOLV = \alpha + \beta_1 ETR + \beta_2 NAC + \beta_3 ETR * NAC + SIZE + \epsilon$$

Note:
 SOLV = Solvability
 ETR = Tax Planning (Effective Tax Rate)
 NAC = Number of Audit Committee
 SIZE = Company Size
 ε = Default Error

III. RESULTS AND DISCUSSION

A. Descriptive Analysis

This study was analyzed by using multiple linear regression analysis (multiple regression model) with the ordinary least square method used to determine the overall effect of the independent variables of Tax Planning, Audit Committee as a moderating variable, and company size as a control variable towards Company Solvabilitas.

The data used in this study is secondary data from companies listed on the Stock Exchange in the period of 2011-2014. Preliminary data were used by 192 companies from 48 Contracting and Real Estate companies listed on the IDX for a four-year observation period.

The method used to analyze data is by pooled data regression. The net data obtained is the initial data which is reduced by incomplete data and outliers. The data is not complete as many as 80 years of the company, while Outliers were eliminated for 3 years. So that the data can be used as many as 109 years of the company from 36 companies of real estate and contractors.

TABLE I. DESCRIPTIVE STATISTIC

	Min	Max	Mean	Std. Deviation
SOLV	0.86	2.51	1.75	0.33
ETR	0.00	2.56	0.99	0.56
NAC	1.00	9.00	2.94	1.68
ETR*NAC	0.00	2.86	1.38	0.56
Size	4.99	7.58	6.40	0.61

Table 1 is a descriptive statistic table that describes the distribution characteristics of the data used in this study. The number of samples (N) used is 109 data which should be valid

data. For the dependent variable, Solvability has a mean of 1.75 with a standard deviation of 0.33 and a maximum value of 2.51 and a minimum of 0.86. Whereas for the independent variable namely Tax Planning has an average of 0.99 with a standard deviation of 0.56 and a maximum value of 2.56 and a minimum of 0.00. The Audit Committee as a moderating variable has an average of 2.94 with a standard deviation of 1.68 and a maximum value of 9.00 and a minimum of 1.00. The size of the company (Size) used as a control variable has an average of 6.40 with a standard deviation of 0.61 and a maximum value of 7.58 and a minimum value of 4.99. The effect of the moderating variable is indicated by the interaction between ETR and NAC as indicated by ETR*NAC. ETR*NAC has an average of 1.38 with a standard deviation of 0.56 and a maximum value of 2.86 and a minimum value of 0.00.

B. Hypothesis Testing

This study uses a multiple linear regression analysis test with a significance level of α = 5%.

TABLE II. REGRESION ANALYSIS RESULTS

SOLV = α + β ₁ ETR + β ₂ NAC + β ₃ ETR*NAC + SIZE + ε				
		Coefficient	t-Statistics	Sig
1	(Constant)	30.36	2.81	0.006
	ETR	0.686**	2.126	0.036
	NAC	13.17	3.786	0.169
	ETR*NAC	-0.328**	-2.349	0.021
	Size	1.16	1.70	0.092
	Adjusted R-squared	0.169		
	F-statistik	6.50***		

***, **, * significant at 0.01, 0.05, and 0.10 simultaneously

The results in table 2 show the R Square value of 0.169 or 16.9%. This value shows that 16.9% of the total variation in the solvability dependent variable is explained by variations in the variables included in the model namely ETR, NAC, ETR*NAC, and SIZE, after considering the number of independent variables and sample size. While the remaining 83.1% is explained by other variables outside the model.

If seen from the t test it can be used to determine the effect of independent variables individually on the dependent variable. Variables are stated to significantly affect the dependent variable if the value of t counts more than t-table or its probability or its significance is less than 0.05. The criteria used are if the significance value t is greater than α = 5%, meaning that the independent variable does not significantly influence the dependent variable. And vice versa, if the significance value of t-count is smaller than α = 5%, then it means that the independent variable has a significant effect on the dependent variable.

From the regression results it can be seen that all variables have a t-statistical value whose significance is less than 0.05. From these results it can be said that all the independent variables are statistically significant influence on the dependent variable.

Independent variables are stated to significantly affect the dependent variable together if the value of f table or its

significance is less than $\alpha = 5\%$. From the estimation results obtained f-statistic value of 6.50 with a significance of 0.000. Because the significance value is smaller than 0.05, it can be said that the f-statistic value is statistically significant, influencing together all the independent variables on the dependent variable. And from the test it can be said that the research model is fit.

C. *Effect of Tax Planning on Solvability*

In table 2 the ETR coefficient is 0.686 with a significance level of 0.036 using the level of $\alpha = 5\%$. ETR variable is significant because it has a value smaller than its significance level or $0.036 < 0.05$. The first hypothesis testing shows that statistically this research has succeeded in proving tax planning has an effect on solvability, and that influence is positive. Thus, this study can accept the first hypothesis (H1). This means that investors can accept company companies that apply the principle of tax planning as a signal to provide more value for the company. The higher the level of tax planning applied, the more solvability will increase. This research result is consistent with Desai et al. [4], Graham et al. [6], Winanto et al. [8] and Hanlon et al. [9].

D. *The Effect of the Audit Committee on the Relationship between Tax Planning Against Solvability*

The interaction variables ETR and NAC which are represented by ETR*NAC have a coefficient of -0.328 with a significance level of 0.021. By using a level of $\alpha = 0.05$, the ETR*NAC variable is significant because it has a value smaller than the level of significance. The test results provide empirical evidence that the interaction between the number of Audit Committees in the company and Tax Planning has a positive and significant effect on solvability. Thus, this study succeeded in proving the second hypothesis (H2) which states that the Audit Committee influences the relationship between tax planning and solvability. This result is according with the researches of Jensen et al. [11] and Zagorchev et al. [12].

E. *Effect of Variable Control on Solvability*

Variable control (Size) has a coefficient of 1.16 with a significance level of 0.092. This shows that Size is not significant because it has a value greater than the level of significance or $0.092 > 0.05$. This shows that Company Size does not affect the solvability associated with tax planning. Thus both large and small companies have nothing to do statistically with the solvability of companies that implement tax planning.

IV. CONCLUSION

This study has two objectives. The first is to examine the effect of tax planning on solvability. The second is to examine the influence of the Audit Committee moderation on the effect of tax planning on Solvability. Based on the results of the research, the following conclusions can be drawn:

- The results of the regression analysis show that tax planning affects the solvability of the company and that influence is a positive influence. This means that

investors can accept company companies that apply the principle of tax planning as a signal to provide more value to the solvability of the company. The higher the level of tax planning applied, the Solvability will increase.

- The test results provide empirical evidence that the interaction between the Audit Committee applied by the company and Tax Planning has a positive and significant effect on solvability.
- From the test results show that Size is not significant because it has a value greater than the level of significance. This shows that Company Size does not affect Solvability where the company applies tax planning. Thus both large and small companies have nothing to do statistically with Solvability in companies that implement tax planning.

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