CHAPTER I

INTRODUCTION

1.1 Background of Research

Tax amnesty was a government program that granting one more chance to "forgive" the delinquent taxpayers for their tax liability (Shevlin, Thornock, & Williams, 2017). Surely the program was carried out with bringing benefit to local government in the form of short-term revenue collection. Furthermore, the long term effect was able to augment new taxpayers to the system by revealing their hidden income. This event still become the current issue in Indonesia, since the implementation itself was conducted in 2016-2017. Tax amnesty can be said as an opportunity for noncompliant taxpayers, so they can report their real additional income without incurred to a high penalty that they supposed to get. Naturally, the companies have the desire to display high income to appeal the shareholders but will end up to tax cost, and on the other side, they also try to do otherwise for their tax reporting, which reports their income low to tax authority but will end up with financial reporting cost. Eventually, some companies engage to aggressive tax reporting which associated with manipulation to report lower taxable income in the manner of tax planning, which both could be considered as fraudulent tax evasion or not (Frank, Lynch, & Rego, 2009). Another literature defines tax aggressive is associated with the willingness for risk tax planning for gaining tax benefit (Blouin, 2014). Hereinafter, tax aggressiveness also defined as taking advantage by an opportunity to reduce their tax burden.

According to the prior research, the tax aggressiveness can be indicated by effective tax rates which are formulated by divide the total tax expense with pretax income (Chen, Chen, Cheng, & Shevlin, 2010). The companies with lower effective tax rates are associated with more tax aggressive compared to the higher one. Based on the prior finding, the trend of

1

corporate effective tax rates tends to be declined over 25 years from 1988-2012. In particular, the multinational companies are likely to have lower effective tax rates swiftly compared to the domestic companies (S. Dyreng, Hanlon, Maydew, & Thornock, 2016). While based on the literature, lower the effective tax rates signify the companies are more tax aggressive and vice versa (Shevlin et al., 2017). Build upon the finding, this research is going to see the tendency of tax aggressive Indonesian companies toward the tax amnesty participation.

1.2 Research Gap

This topic becomes interesting because we can say that the event of tax amnesty was prime implementation, that happen for the first time in Indonesia. According to the previous research, the tax aggressive companies will respond the repeated implementation of tax aggressive with low expectation of getting caught (Shevlin et al., 2017). They view the implementation of repeated tax amnesty was a signal of low tax enforcement. Moreover they become expect more future implementation of tax amnesty,that's why they become more aggressive for the post implementation of repeated tax amnesty. But in this research, the story might be different about how the tax aggressive companies view the prime implementation of tax amnesty In Indonesia. They could be worried that the first time implementation will be associated with stronger tax enforcement and detection. Moreover, they could think that this tax amnesty could be their last opportunity to get tax forgiveness. So they will consider it carefully whether participate this prime implementation of tax amnesty or not. Furthermore, the main subject of this research is noncompliant corporate taxpayers which are more engage strategic tax planning because they are more capable if they compared to the individual taxpayers (Shevlin et al., 2017). Therefore, in this research we want to examine the response of companies that already tax aggressive from the beginning, are they likely to participate the tax amnesty or not. This research is also conducted to respond to the current issue that arises at the beginning of 2019, was about the discourse of government were considering the repeated tax amnesty

implementation in Indonesia. By examining further the response of tax aggressive companies toward the tax amnesty participation, we can see whether repeated tax amnesty implementation is necessarily needed or not, or further tax policy that should be considered in the future.

Companies with aggressive tax planning tend to have less transparent of financial disclosure because their problem inclined to be more complex. This low company's financial transparency denotes the cost of them to be tax aggressive to obtain tax benefit (Balakrishnan, Blouin, & Guay, 2018). Moreover tax amnesty itself could be their last chance to gain tax forgiveness, and they realized that nowadays the technology is more sophisticated and it might increase the tax inspection by technology (Macho-Stadler, Olivella, & Pérez-Castrillo, 1999).

However another research stated that tax amnesty implementation can be regarded as a weak signal of tax authorities by the noncompliant taxpayers, particularly if the implementation is repeated it could push the perspectives of taxpayers that they are less likely to get caught (Shevlin et al., 2017). So they just assume that tax amnesty program just an event to collect revenues quickly for government spending. Build upon that finding, there is a possibility that the taxpayers become more reluctant to participate in tax amnesty. Tax amnesty is perceived can not effectively generate tax revenue for the long term, but efficiently generate revenue for short term (Fisher, Goddeeris, & Young, 1989). Not only that, but also there is another reason why noncompliant taxpayers are unwilling to participate tax amnesty because they consider that after they disclose their real income to the tax authorities, it will obstruct their action to do tax cheat in the future (Stella, 1989).

But, in this research, the story might be different if the companies that already tax aggressive from the beginning for years, they might consider and view this prime tax amnesty implementation as an opportunity to make amends. They scared the future stricter detection and stronger enforcement by tax authorities will happen after the period of the tax amnesty program. They worried it will lead to the higher tax

penalties so they might be just decided to participate tax amnesty (Bayer, Oberhofer, & Winner, 2015)

1.3 Research Objective

The objective of this research is giving knowledge about Indonesian companies response to the prime implementation of the tax amnesty in Indonesia. This research is important for policymakers to become more considerate to issue the new tax-related policy and it should be associated with stronger enforcement of tax law for Indonesian companies since tax is revenue for financing the government spending. Hopefully this research could contribute to give insight and knowledge about the current tax-related issue happened and the government are able to consider the second volume of tax amnesty implementation in Indonesia, whether the policy was necessarily needed or not.

1.4 Research Summary

The result of this research indicates the company that engages to be tax aggressive in the years before tax amnesty will respond positively toward the tax amnesty implementation. They will more likely to participate in this prime implementation of tax amnesty because they consider this is an opportunity to make amends of their previous act to uncover their hidden income.

The implication of this research intends to give a contribution to the government so they could pay more attention and give concern toward the tax policy implementation in Indonesia. The government should consider carefully the cost and benefit of implementing tax amnesty in Indonesia.

The quantitative method is used to assess how the relatively tax aggressive companies will respond to the prime implementation of tax amnesty event in Indonesia. This research analyzed using logit regression through STATA 14.0 software and data from Indonesian companies that listed in IDX from 2010-2015, to see the tendency of tax aggressive companies to the tax amnesty participation. The

tax amnesty program in Indonesia held between 1 July 2016 to 31 March 2017 (Kemenkeu, 2016) therefore the data used is the period of pre- implementation of tax amnesty from 2010-2015.

There are some proxies to capture the tax aggressiveness based on prior research with their every strength and weakness, moreover this research employs proxies of GAAP Effective Tax Rate, Cash Effective Tax Rate, and Current Effective Tax Rate. GAAP effective tax rate is defined as tax expense divided by pretax income. Cash effective tax rate is defined as cash paid for tax divided by pretax income, and last but not least the current effective tax rate is current tax expense divided by pretax income. If those ratios are lower, they indicate a higher level of tax aggressiveness, while higher the ratios indicate lower level of tax aggressiveness (Shevlin et al., 2017).

1.5 Writing System

The remainder of this paper will be arranged as follows: section 2 literature review; section 3 research methodology; section 4 result and discussion; section 5 conclusion.