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The Effect of Accounting Conservatism, Sales Growth, Institusional Ownership, Company Size, and Political Connections to Tax Avoidance with Audit Quality as a Moderating Variable

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Abstract: The research objective to be achieved is to provide knowledge about the effect of accounting conservatism, sales growth, institutional ownership, company size, and political connection to tax avoidance moderated by audit quality and can be used as a reference for future researchers and stakeholders (investors, creditors and governments) in making relevant and reliable decisions. The method used is quantitative research with secondary data taken from the financial statements of issuers on the IDX with data collection technique using purposive sampling method. The data analysis used is multiple linear regression. Population in this study are manufacturing companies listed on the Indonesian Stock Exchange. The exchange was carried out for 3 years of observation, namely 2016-2020. The sample is determined by purposive sampling so that as many as 140 samples were obtained. The analysis technique used is the classical assumption tests which include the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

Keywords: Accounting Conservatism, Sales Growth, Institutional Ownership, Company Size, Political Connection, Tax Avoidance, and Audit Quality.

1. Introduction

Taxes are an important component in a state, because it is one of the sources of state income that will later be used for the benefit of the people. According to law Number 16 of 2009 which contains, mandatory contributions to the state owed by private persons or entities of a coercive nature under the law, without direct reciprocity and are used for state purposes for the greatest prosperity of the people.

Taxes are intended to fill the state treasury, but it is a burden for companies from all sectors of the country. Efforts to optimize revenue from the tax sector in Indonesia are running with various obstacles. This is because there are differences in interests between the government and companies. Taxes in the eyes of the state are a source of revenue to finance the administration of government, while taxes for companies as taxpayers are a burden that will reduce net profit in Dewinta & Setiawan, 2016. This leads to large and small companies using various means to pay taxes with a small nominal in order to reduce the burden on the company economically, or even avoid taxes.

Tax avoidance itself is an effort to reduce the tax burden borne by taxpayers but still within the limits of the provisions of laws and regulations and tax regulations that are still justified, especially through tax planning. The problem of avoidance of tax burdens is a complicated and unique problem. On the one hand tax avoidance is allowed, but on the other hand this is undesirable. However, if the tax avoidance itself is carried out by companies on a large scale, it will certainly lead to a decrease in the state treasury to the detriment of the country itself.

Reporting from news.ddtc.co.id, it states that mining companies are companies that are prone to tax avoidance with a transfer pricing strategy. The Corruption Eradication Commission (KPK) also sees the mining sector as a sector prone to corrupt practices, one of which is tax avoidance. The KPK once recorded a shortage of mining tax payments in forest areas of IDR 15.9 trillion per year. Even until 2017, arrears of Non-Tax State Revenues (PNBP) in the mineral and coal sector reached Rp25.5 trillion. This shows the large amount of potential state revenue that is lost from year to year. These various negative issues are fiscal challenges in itself, one of which is related to transfer pricing practices. In these cases, multinational corporations are considered to have always minimized the amount of their taxes through engineering the prices transferred, in particular to affiliated entities abroad. There are two major challenges in the mining sector related to transfer pricing carried out by multinational companies, namely determining selling prices and efforts to minimize taxes in the source country through changes in the overall supply chain scheme.

Based on the phenomena described above, the variables that can affect the tax avoidance of a company include accounting conservatism, sales growth, institutional ownership, company size, and political connections and as a connecting variable, audit quality variables are used as moderatinng variable.

Accounting conservatism is an attitude used by an accountant if he is dealing with more than one alternative in the preparation of financial statements. Accounting conservatism is also referred to as the ability of company management to recognize income and expenses to deal with risks that may occur in the future. Policies related to companies in this case certainly include taxation, especially related to tax avoidance because tax avoidance carried out by companies is usually carried out through policies taken by company leaders and not accidentally(Sari, Kalbuana, & Jumadi, 2016)

Next is the variable sales growth (sales growth), sales growth or sales growth is a measuring tool that can show the development of a company or sales growth over time. Sales growth is one of the most important aspects so it must be considered what developments occur (www.harmony.co.id). Companies can optimize well existing resources by looking at sales from the previous year.

Next is the variable institutional ownership, institutional ownership is joint ownership owned by the government, insurance companies, foreign investors or banks that have a large interest in the investment made. This includes stock investments. Then, the institution usually hands over the responsibility to a specific division to manage the invested company (Oktaviyani & Munandar, 2017).

The size of the company is a variable company size, company size is a scale where can be classified as large and small companies according to various ways, including: total assets, log size, sales and market capitalization, and others (Sari, Kalbuana, & Jumadi, 2016). In some sources it is also explained that the size of a company can be seen based on activities or transactions carried out by a company, so the more and larger transactions carried out by a company, the larger the size of the company.

Political connection is a condition in which a relationship is established between certain parties and parties who have interests in politics which is used to achieve a certain thing that can benefit both parties (Purwanti & Sugiyarti, 2017). There are many benefits that can be obtained by companies through Political Connections, one of which is loans that can be obtained easily and many more conveniences that can be obtained by companies, especially for companies that have high political connections.

The moderating variable in this study is the audit quality variable. Audit quality is used as a moderating variable in this study because, this variable is considered to be able to detect fraud and violations that occur in a company including tax avoidance, and also good audit quality owned by a company is one of the benchmarks in seeing whether the company has good financial statements. Good audit quality is when the audit report owned by a company not only detects errors and fraud in the company's financial statements, but in the audit report there is also the auditor's ability to convey irregularities found by the auditor in the financial statements of an audited company. (Krisna, 2019)

In addition to previous studies, the grand theory that can support this research is Agency Theory which states the relationship between principal and agent in a company (Govindarajan, 2011 in (Mahdiana & Amin, 2020). The reason researchers choose this theory as the basis of research is that it is assumed that all individuals will act and act to prosper themselves, both outside and inside the company. It does not rule out the possibility that managers as agents can take opportunistic actions to maximize company profits by avoiding taxes for the benefit of bonuses obtained from principals.

2. Literature and Hypothesis

Theory of agency

Agency theory is an implementation in modern organizations. Agency theory emphasizes the importance of company owners (shareholders) handing over the management of the company to professionals called agents who understand better in running the daily business. The purpose of separating management from company ownership is so that company owners get the maximum possible profit at the most efficient cost possible by managing the company by professionals. Professionals are tasked with the interests of the company and have flexibility in carrying out company management.

So in this case, these professionals act as agents of shareholders. The greater the managed company earns profits, the greater the benefits obtained by agents. While company owners (shareholders) are only tasked with supervising and monitoring the running of the company managed by management and developing an intensive system for management managers to ensure that they work for the benefit of the company (Tandiontong, 2016).

Tax Avoidance

Tax avoidance itself is an effort to reduce the tax burden borne by taxpayers but still within the limits of the provisions of laws and regulations and tax regulations that are still justified, especially through tax planning (Yusrianthe & Fatniasih, 2021). In the context of companies, tax avoidance is deliberately carried out by companies in order to minimize the level of tax payments that must be made and increase the company's cash flow. Tax avoidance as a legal manipulation of income that is still in accordance with the provisions of tax laws and regulations to minimize the amount of tax owed in the explanation of the law on general provisions and tax procedures (KUP Law) has been stated that tax is one of the means and rights of every taxpayer to participate in state administration and development. But for business people it is considered an investment burden.

Accounting Conservatism

Accounting Conservatism is an attitude used by an accountant if he is dealing with more than one alternative in the preparation of financial statements, Accounting Conservatism is also called the ability of company management to recognize income and expenses to deal with risks that may occur in the future. By applying the principle of accounting conservatism, a company will receive consequences in the form of persistent understatements in the value of net assets and profits in subsequent periods (Sundari & Aprilina, 2017) dalam (Nuryeni & Hidayati, 2021). This is what can indirectly affect the financial statements, which will later be used by stakeholders to make decisions and determine policies in the future.
H1: Accounting conservatism influences on tax avoidance

Sales Growth

Sales growth is one aspect that can show the development of a company or sales growth over time. Sales growth is one of the most important aspects so it must be considered to find out what developments occur in a company. Companies can optimize well existing resources by looking at sales from previous years. Sales growth has an important role in working capital management. This research uses sales growth measurement because it can describe the good or bad sales growth rate of a company.
H1: Sales growth influences tax avoidance

Institutional Ownership

Institutional ownership is joint ownership owned by governments, insurance companies, foreign investors or banks that have a large interest in the investment made. Institutional ownership has an important role in monitoring the management of a company because institutional ownership is owned by external parties so that it will be easier to supervise internal parties more optimally. The higher the level of institutional ownership owned by a company, it will lead to greater supervisory efforts by institutional investors so as to hinder the behavior of managers who prioritize their own interests which will ultimately harm company owners (Riadi, 2019)
H3: Institutional ownership influences tax avoidance

Company Size

Company size is a scale where companies can be classified according to various ways, including: total assets, log size, sales and market capitalization, and others (Sari, Kalbuana, & Jumadi, 2016). In some sources it is also explained that the size of a company can be seen based on activities or transactions carried out by a company, so the more and larger transactions carried out by a company, the larger the size of the company. Company size is considered to affect company value because the larger the size of a company, the easier it is for the company to obtain funding sources that can be utilized to achieve company goals. However, on the other hand, it will incur a lot of debt because the company's risk in fulfilling its responsibilities is very small (Indriyani, 2017).
H4: Company size influences tax avoidance

Political Connection

Political connection is a condition in which a relationship is established between certain parties and parties who have interests in politics which is used to achieve a certain thing that can benefit both parties (Purwanti & Sugiyarti, 2017). Political connections owned by a company, make the company get various benefits including loans, companies that have good political connections will easily get loans. In addition, companies that have good political connections will also benefit from low tax audits, so that the company is not afraid to do tax planning (Lestari & Putri, 2017).
H5: Political connection influences tax avoidance

Audit Quality

Good audit quality is when the audit report owned by a company not only detects errors and fraud in the company's financial statements, but in the audit report there is also the auditor's ability to convey irregularities found by the auditor in the financial statements of an audited company. Audit quality itself has a role as a determinant of the fairness and transparency of a financial statement to stakeholders, therefore a competent auditor is needed to audit the financial statements of a company or institution in this case usually the company entrusts it to KAP (Public Accounting Firm) The big four, This is shown by the high level of confidence that companies audited by the big four have a lower level of avoidance compared to companies audited by non-Big Four.

H6: Audit Quality moderate accounting conservatism, sales growth, institutional ownership, company size, and political connection by tax avoidance.

3. Research Methodology

The population in this study consists of all mining sector companies companies listed on the Indonesia Stock Exchange in the period 2016-2020. The sample of this research is the entire mining sector company listedontheIndonesiaStockExchangeandthefinancialreportfortheperiod2016-2020.Thesample-takingtechnique in this study is by using purposive sampling which is a technique of taking samples from a population randomly by considering certain criteria. Sample determination is based on a number of criteria:

1. Mining sector company listed on the Indonesia Stock Exchange for the period 2016-2020.
2. An entity that publishes financial statements and annual reports that have been audited for the period2016-2020.

Measurement of Tax Avoidance

Table1: Independent Variable Measurement

Variabel	**Variabel Operational Definitions**	**Source**
Conservatism accounting	$CONACC = \frac{\text{NIO + DEP − CFO}}{\text{TA}} \times -1$ Explanation : CONACC: conservatism accounting index NIO: Net profit DEP: Depretiation TA: Total asset	Sari et al.,(2016)
Sales growth	$GS = \frac{\text{sales t − sales t − 1}}{2asales\ t - 1} \times 100\%$	Safirra et al.,(2018)
Institutional ownership	$KL = \frac{\text{Total shares owned by institution}}{\text{Total Outstandin Shares}}$	Prasetyo et al., (2018)
Company size	CS= Log Total Asset	Mahdiana et al.,(2020)
Political connection	Dummy by Dummy based on political connection Explanation : 1: there is connetion 0: there is no connection	Lestari et al., (2017)

In predicting the level of tax avoidance in mining sector companies can be formulated:

$$CETR = \frac{\text{Tax Rate}}{\text{Net Income Before Tax}}$$

Data Analysis Technique

In this study, hypothesis testing used multiple linear regression analysis. This analysis is a regression model that involves more than one independent variable. Multiple linear regression analysis is used because it is intend to determine the direction and how much influence the independent variable has on the dependent variable. The feasibility of the regression model is determined from the results of the model feasibility test (F test) and the coefficient of determination used by the coefficient of determination (R2) test. The regression model equation in this study is as follows:

TA = -3455486662 – 5,804 KA -1,305 PP -0,094 KI +1,141 UP +393711410 KP +0,593 KLA*KA +1,477 KLA*PP -7,526 KLA*KI -7,072 KLA*UP -958361104,1 KLA*KP + e

4. Result and Discussion

Descriptive Statistical Analysis

Manufacturing companies listed on the Indonesian Stock Exchange (BEI) that issued complete reports in a row during the 2016-2020 totaled 140 companies and totaled 68 after outlier. Based on these criteria, there were 28companiesselectedas a sample.

Table2: Descriptive Statistical Test Results

Variabel	N	Minimum	Maksimum	Rata-rata	Std. Deviation
TA	68	-7605,751859	4784785,569	-651,7114420441	2,61492179232525
KA	68	-0,413822007	0,344347771	-0,52822493382	0,10552517975593
PP	68	-0,826296534	1,610002564	0,08281437975	0,04445272178088
KI	68	0,451	0,910193881	0,4091314344853	0,25380990429465
UP	68	24,12384756	32,26337026,00	27,517968733235	0,71880492572793
KP	68	0,00	1,00	0,3824	0,48958
KLA	68	0,00	1,00	0,2794	0,45205

Source: Data process, 2022.

Based on the descriptive statistical test results in Table 2, there is information about the minimum, maximum, average, and standard deviation values of each variable studied. From the table above, it is explained that the tax avoidance (TA) variable has a minimum number of -7605.751859 in Darma Henwa Tbk. company and a maximum value of 4784785,569 by Atlas Resource Tbk. The average value that is closer to the minimum value means that the tax avoidance variable has little influence on the companies in this study. In the accounting conservatism (KA) table, the minimum value owned is -0.413822007 owned by Bumi Resource Minerals Tbk. and the maximum value is 0.344347771 by Energi Mega Persada Tbk. With an average value that tends to be close to the minimum value, it can be concluded that the accounting conservatism variable has little influence on the company in this test. The table above shows that sales growth (PP) has a minimum value of -0.826296534 owned by Bumi Resource Minerals Tbk. and a maximum value of 1.610002564 owned by Atrindo Nusantara In frastruktur company. An average value that is smaller than the standard deviation value indicates that the development of sales growth tends to be small. The minimum value of the institutional ownership (IP) variable is 0.451 by Borneo Olah Sarana Sukses Tbk. company with a maximum value of 0.910193881 by Cita Mineral Investindo Tbk. from the table above shows that the average value is more likely to be the minimum value, it can be concluded that the institutional ownership variable has little influence on the company in this test. the minimum value in variable size company (UP) is 24.12384756 owned by Aneka Tambang Tbk. and the maximum value is 32.26337026 by Adaro Energy Tbk. with an average value of 27.517968733235. From the results of the data above shows that the average value is closer to the minimum value, it can be concluded that the company size variable has a small influence on the company in this test. the minimum value on the political connection (KP) variable is 0 and the maximum value is 1 with an average value of 0.3824. With an average value closer to the minimum value, it can be interpreted that political connections have little influence on the company in this test. the minimum value on the audit quality variable (KLA) is 0 and the maximum value is 1 with an average value of 0.2794. With the average value closer to the minimum value, it can be concluded that audit quality has a small influence on the companies in this test.

Hypothesis Testing

Table3: Hypothesis Test Results

Variabel	t	Signifikansi	Keterangan
KA	-2,018	0,048	H1 Accepted
PP	-1,907	0,062	H2 Unaccepted
KI	-0,068	0,946	H3 Unaccepted
UP	2,664	0,01	H4 Accepted
KP	0,524	0,603	H5 Unaccepted
KLA	1,515	0,135	H6 Unaccepted
KLA*KA	0,058	0,954	
KLA*PP	0,482	0,632	H7 Unaccepted
KLA*KI	-1,369	0,168	H8 Unaccepted
KLA*UP	-1,671	0,1	H9 Unaccepted
KLA*KP	-0,414	0,68	H10 Unaccepted

Source: Data process, 2022.

The table shows the significant value of the Accounting Conservatism (KA) variable of 0.048 which value is smaller than 0.05 which means it can be concluded that Accounting Conservatism affects Tax Avoidance. Then it can be concluded that hypothesis 1 is accepted. In the table above, it can be seen that the significance value of the Sales Growth (PP) variable is 0.062 which is greater than 0.05 which means that it can be concluded that Sales Growth has no effect on Tax Avoidance. Then it can be concluded that hypothesis 2 is not accepted. In the table above, the significance value obtained by the variable Institutional Ownership (IP) is 0.946 which value is greater than 0.05, it can be concluded that Institutional Ownership has no effect on Tax Avoidance. Then it can be concluded that hypothesis 3 is not accepted. The significance value of the Company Size (UP) variable is 0.01 which means it is smaller than 0.05 which can be concluded that Company Size affects Tax Avoidance. Then it can be concluded that hypothesis 4 is acceptable. The significance value possessed by the Sales Growth (PP) variable is 0.603 which value is greater than 0.05 and it can be concluded that Sales Growth has a significant effect on Tax Avoidance. Then it can be concluded that hypothesis 5 is not accepted. The significance value possessed by the Audit Quality variable moderated with the Accounting Conservatism variable (KLA*KA) is 0.954 which means the value is greater than 0.05 which means Audit Quality cannot strengthen the relationship between the variables of Accounting Conservatism and Tax Avoidance. Then it can be concluded that hypothesis 6 is not accepted. The significance value possessed by the Audit Quality variable moderated with the Sales Growth variable (KLA*PP) is 0.632 which means the value is greater than 0.05 which means Audit Quality cannot strengthen the relationship between the Sales Growth and Tax Avoidance variables. Then it can be decided that hypothesis 7 is unacceptable. The significance value possessed by the Audit Quality variable moderated with the Institutional Ownership variable (KLA*KI) is 0.168 which means that the value is greater than 0.05 which means Audit Quality cannot strengthen the relationship between the variables of Institutional Ownership and Tax Avoidance. Then it can be concluded that hypothesis 8 is unacceptable. The significance value possessed by the Audit Quality variable moderated with the Company Size variable (KLA*UP) is 0.100 which means the value is greater than 0.05 which means Audit Quality cannot strengthen the relationship between the Company Size and Tax Avoidance variables. Then it can be concluded that hypothesis 9 is not accepted. The significance value possessed by the Audit Quality variable moderated with the Political Connection variable (KLA*KA) is 0.68 which means the value is greater than 0.05 which means Audit Quality cannot strengthen the relationship between the variables of Political Connection and Tax Avoidance. Then it can be concluded that hypothesis 10 is not accepted.

5. Conclusion

From the results of the t test, it shows that Accounting Conservatism (KA) has a significant effect on Tax Avoidance (TA). Which shows that accounting conservatism is what affects the companies listed in this study in terms of tax avoidance. Sales Growth (PP) does not affect Tax Avoidance (FY). This is because sales growth is considered unable to show the amount of profit that is the basis for taxation. Institutional Ownership (IP) does not significantly affect Tax Avoidance (TA). This means that the higher the level of institutional ownership, the higher the level of tax avoidance carried out by the companies contained in this study. Company Size (UP) affects Tax Avoidance (TA). The size of the company is considered to reflect the amount of profit obtained by a company, where the profit will be the basis for imposing taxes on a company. Political Connection (KP) has no effect on tax avoidance (TA) variables. Quality Audit (KLA) cannot moderate the independent variables used in this study, namely accounting conservatism, sales growth, institutional ownership, company size, and political connections to the dependent variable of tax avoidance.

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