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How the Executive Characteristics Affect the Property & Real Estate Companies Do Tax Aggressiveness?

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ABSTRACT

This study purposes to find out how the influence of executive characteristics of tax aggressiveness, namely by dividing the characteristics of executives into two characters, namely risk taker and risk averse. The quantitative research method, RISk is measured using the standard deviation of RISK, by dividing EBITDA by total assets. Tax aggressiveness is measured by the Cash Effective Tax Rate proxy, which is pre-tax income divided by current tax payment, hypothesis testing in this study using linear regression analysis. The results showed that executive characteristic variables negatively affect tax aggressiveness, where the executive character is risk averse. it can be interpreted that when the value of RISK shows a low number, the executive is risk averse, where the executive avoids the risk. Furthermore, it is associated with CETR data processing results indicated that there is no tax aggressiveness in the company. so it can be concluded that when the executive has a risk averse character, then most likely the company will not do tax aggressiveness.

KEYWORDS: ***characteristics executive, risk averse, risk taker, tax aggressiveness.***

Background

This study investigates executive characteristics effect on their firms' tax aggressiveness. lately, many studies have focused on the influence of executive characteristics on tax aggressiveness (Shackelford and Shevlin, (2001), and Graham, (2003), executives were either ignored or treated as homogenous inputs to the tax aggressiveness process. In contrast, Dyreng et.al, 2010, considered the possibility that individual top executives are partially responsible for variation in tax avoidance across firms. They found that not only do executives matter incremental to firm characteristics, but also they appear to matter in a big way. Initially, they thought it might be hard to imagine a top executive having an individual effect on the firm's tax avoidance because the typical CEO is almost never a tax expert. They argued that it is reasonable that a CEO could affect the firm's operational and financial strategies, but perhaps less so the firm's tax avoidance activities. A CEO can affect tax avoidance by setting the " tone at the top" with regard to the firm's tax activities. For example, some CEOs may change the relative emphasis of different functional areas of the firm (e.g.,

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marketing, operations, treasury, tax) and the resources allocated to hiring different advisors both within and outside of the firm. The tone at the top could extend to setting the compensation incentives of the tax director (who has direct involvement for the firm's tax decisions).

However, they defined tax avoidance broadly to encompass anything that reduces the firm's taxes relative to its pretax accounting income. They did not attempting to measure tax aggressiveness, tax risk, tax evasion, or tax sheltering. They examined two standard measures, the first is the firm's effective tax rate as defined under GAAP (hereafter, GAAP ETR), which is total tax expense (current plus deferred tax expense) divided by pre-tax accounting income (adjusted for special items). The second measure is the firm's cash taxes paid divided by pre-tax accounting income (adjusted for special items) (hereafter, cash effective tax rate, or CASH ETR). The result indicated that biographical information such as educational background and age does not explain much of the variation in tax avoidance across executives. They note that this finding does not suggest that executives have no effect on tax avoidance. That results are evidence that common, observable characteristics are not strongly associated with executives' propensities to reduce effective tax rates.

Our study contributes to finding out the influence of executive characteristics on tax aggressiveness, by determining two types of executive characteristics, namely risk averse and risk takers. In decision-making, an executive can have different characters from one another. One of them is risk taker characteristics (Low, 2006), then Lawellen (2013) reveals as for risk-averse characteristics. Budiman&Setyono (2012) argued that the type of individual character (executive) sitting in the management of the company whether they are risk-taking or risk-averse is reflected in the large-small corporate risk that exists. Taxaggressiveness can enlarge the tax saving which can lead to reduced tax payments so that it can increase cash flow.

Literature Review

Tax aggressiveness refers to the tax planning activities, which may be legal, illegal or fall into a grey area (Chen et al., 2010). According to Shackelford et al.(2001), the financial income reported may vary from taxable income for a number of reasons. First, it relates to different intention of both financial and taxable income reports. While financial statements are designed to reduce information asymmetries through reliable and relevant disclosures, the tax returns on the other hand, reflect policy that balances economic objectives of revenue collection, equity, efficiency, and simplicity as well as political objectives to reward favored constituencies. Second, the financial accounting system is to record the underlying economics of a transaction in an objective and verifiable way, while the tax system is designed to persuade or reward particular behavior. Third, there are motivations to mislead the financial statements' audience and the tax return's audience about on-going operations.

Firm-level characteristics such as size, economies of scale via foreign operations, tax planning, and other factors have been examined as determinants of tax aggressiveness, where tax aggressiveness has been measured in a variety of ways (Zimmerman (1983), Gupta and Newberry (1997), Mills et al.(1998), Rego (2003), Siegfried (1974), Porcano (1986), Stickney and McGee (1982), Shevlin and Porter (1992), Callihan (1994), and Prawira (2017). In a pioneering study that examines the role of managers based on pre-tax or after-tax earning affects GAAP ETRs. Philips (2003) finds that compensation for managers of business units based on income measured after taxes (as compared to before tax) appear to be associated with a lower GAAP effective tax rate; however, this same association does not hold for CEO performance measures.

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Several other studies examine the relation between CEO characteristics or CEO personal events and company performance. Chatterjee and Hambrick (2007) examine narcissistic CEOs and company performance, while Liu and Yermack (2008) find that future company performance deteriorates when CEOs acquire very large homes or estates. Malmendier and Tate (2009) report evidence that CEOs who win awards from the business press (e.g., being named to BusinessWeek's "Best Managers"list) underperform relative to their peer group after winning the award. Bennedsen et al. (2008) use data from Denmark and report that CEOs (but not board members') own and family deaths are strongly correlated with declines in firm operating performance. The most meaningful deaths for the CEOs, as might be expected, are the death of a child or a spouse, whereas the death of a mother-in-law has very little impact upon performance.

Methodology

The population of this study are property and real estate companies listed in Indonesia Stock Exchange Year 2009 - 2016 as many as 50 companies. The sample is determined by purposive sampling technique, thus has been determined the number of samples of 27 samples of manufacturing companies.In this study tax evasion is measured by Cash Of Effective Tax Rate (CETR), because Cash Of Effective Tax Rate (CETR) is a good indicator of tax management (Rinaldi& Caroline, 2015). Executive characteristics are measured using the standard deviation of RISK, by dividing EBITDA by total assets. Tax evasion is measured by the CETR proxy of pre-tax income divided by the current tax payment. Hypothesis testing in this study using linear regression analysis.

Result and Discussion

The results of descriptive analysis of the average risk of property companies and real estate that are sampled in research during the years 2009 - 2016 are presented in Figure 1.

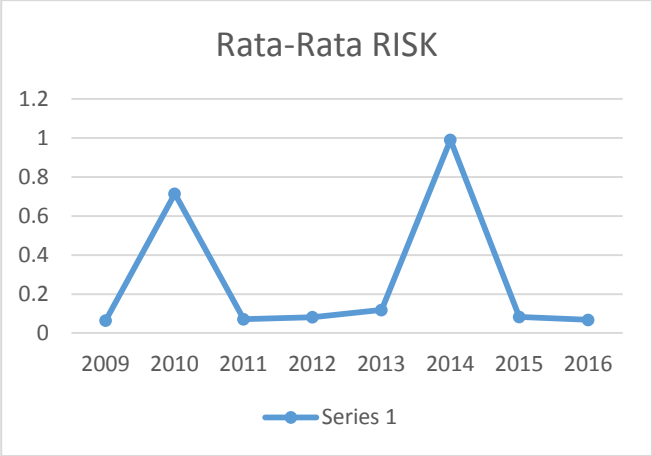

Figure 1. Average RISK graphic

Figure 1 shows a shift in the average value of RISK in 2009-2016. Table 4.3 in 2009 has an average RISK of 0.064490767. Then in the year 2010 the average increased to equal to 0.714150440.In 2011 RISK again decreased to 0.071240516, then in the following year the average experienced an insignificant increase of 0.081849811. In 2013 and 2014 the RISK averages significantly increased by 0.118389990 and 0.990268730, but in the next 2 years the average decreased to 0.083044738 and 0.067659449.

The results of descriptive analysis of the average of tax aggressiveness of manufacturing companies that were sampled in the study during the years 2013 - 2015 are presented in figure 2.

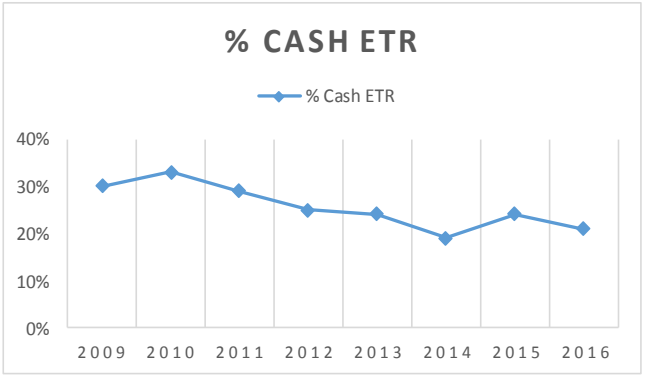

Figure 2. Average Cash ETR Graphic

Figure 2 shows a shift in the average value of Cash ETR in 2009-2016. According to Table 4.2

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in 2009 it has an average Cash ETR of 0.352805906. Then in 2010 the average decreased to as big as 0.343982956. In 2011-2014 Cash ETR always decreased at 0.310353489, 0.270351137, 0.256701341, and 0.209357081. The average CTR ETR in 2015 increased by 0.260551164, but again declined in 2016 to amounted to 0.239061355. In this study, the decrease in cash ETR appears dominant in property and real estate companies in 2009-2016. This is in line with the opinion of Fitri&Tridahun (2015) which states the greater the Cash ETR can indicate the lower level of corporate tax avoidance.

Table 1. Descriptive Statistics

	Mean	Std. Deviation	N
LN_CETR	-1,5206	,69561	216
LN_RISK	-2,6892	,64960	216

Dependent variable Executive Characteristics measured by the standard deviation of RISK, the number of samples studied are as many as 27 companies. During the eight years of 2009-2016, RISK has mean value which is the sum of all data divided by the number of data that is equal to -2.6892 . The standard deviation of the average value is 0.64960.

Independent variable Tax Aggressiveness measured by Cash Effective Tax Rate, the number of samples studied are as many as 27 companies. During the eight years of 2009-2016, CETR has mean value which is the sum of all data divided by the number of data that is equal to -1.5206. The standard deviation of the average value is 0.69561.

Table 2. Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Co linearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-2,562	,189		-13,575	,000		
LN_RISK	-,387	,068	-,362	-5,678	,000	1,000	1,000

a. Dependent Variable: LN_CETR

Table 2 shows that the regression coefficient of the constant is -2.562, which means that when the Risk variable is 0 (zero) then the value of the tax aggressiveness is -2.562. Furthermore, Risk coefficient has a negative direction that is -0.387, it shows that when Risk increased by 1% then tax aggresiveness decreased by 0.387.

The results indicate that the executives characteristic is risk averse, this is indicated by the magnitude of RISK coefficient is negative 0.387. Budiman and Setyono (2012) argued that the ups and downs of the RISK can reflect the trend of executive characteristics, when high RISK levels indicate risk taker characteristics, and if a low RISK indicates executive characteristics have risk averse characteristics compared with higher risk levels.

This result is in line with Dewi and Sari research (2015) which states that the higher the company, the tax avoidance will be lower this is because executives who are risk taker tend to present the financial statements of what it is to see how far the performance has been done by the company, so causing tax aggressiveness to be low. This result is reinforced by Mayta&Sukartha (2016) research in his article stating that the characteristics of executives proxied with corporate risk have a negative effect due to executive characteristics tend to be risk averse characteristic that is less like risk, so that in decision making does not lead to high risk .

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However, the results of this study are not in line with previous studies conducted by Budiman&Setyono (2012),Fitri&Tridhaus (2015), Kristiana&Jati (2014) stating that there is a positive influence of executive characteristics on tax evasion, if the executive is increasingly a risk taker then the greater the tax aggressiveness action is done.

Conclusions

Although research on taxation and corporate governance has begun to converge, Dyreng et al. (2010) call for more evidence on the role that characteristics of executive plays in tax aggressiveness. Dyreng et al. argues that individual executives exhibit different proclivities toward tax avoidance. They evidence indicates that these executive effect can be economically large. Given the difficulty of explaining effective tax rates or other measures of tax avoidance, documenting that executives matter to their firms' effective tax rates is an important first step and contribution.

Our study explored how executive characteristics affect tax aggressiveness by looking at the direction of RISK. When the value of RISK shows a low number, the executive is risk averse, where the executive avoids the risk. Furthermore, it is associated with CETR data processing results indicated that there is no tax aggressiveness in the company. so it can be concluded that when the executive has a risk averse character, then most likely company will not do tax aggresiveness.

These findings raise many questions that we hope will be addressed by future research. It would be interesting to know what happens to these executives and the firms they manage in the future. Perhaps an executive who previously refused to take a risky action would be a risk taker executive in the face of a condition where the firm had a high tax burden requiring him to do tax aggressiveness. In other words, risk averse turn into risk taker.

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