

CHAPTER IV

RESULT AND DISCUSSION

A. Description of Research Objects

The object in this research are manufacturing companies listed in Indonesia Stock Exchange (BEI). This research uses data from 2014 to 2016 intended to better reflect the current conditions. The reason why the writer choose manufacturing companies is because manufacturing companies have large number, so there are more data variations. In other hand, manufacturing companies also process their own raw materials into finished goods, so the opportunity to commit fraudulent aggressiveness of financial reporting and tax aggressiveness is greater than other companies. These actions can be done by re technique in this research uses purposive sampling method, which obtained 65 manufacturing companies. It's sample selection uses some specific criteria. These criteria are:

1. Manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2014 to 2016 and publish annual report which can be accessed at www.idx.co.id.
2. Company never suffered losses in 2014 to 2016. The company that suffered losses included may harm the research result.
3. The financial statements of manufacturing companies taken as samples must use rupiah currency in order not to cause any difference in exchange rate.

4. Manufacturing companies that disclose reports corporate social responsibility report in 2014 to 2016
5. Company that have completes data required in this research.

The total of annual reports that meet sample criteria mentioned above in each year are 65 samples, so the total amounted from 2014 to 2016 is 195. Sample selection procedure is presented in table 4.1 as follows:

Table 4.1.
Sample Selection Procedure of Manufacturing Companies in 2014-2016

No	Sample Research Criteria	Year			Total
		2014	2015	2016	
1	Manufacturing companies listed in BEI 2014-2016	137	137	137	411
2	Companies that do not publish annual reports and financial statements	(9)	(9)	(9)	(27)
3	Companies that suffered losses	(40)	(40)	(40)	(120)
4	The financial statements are not presented in rupiah	(23)	(23)	(23)	(69)
5	Do not disclose CSR report	0	0	0	0
Total Sample					195
Data Outliers					(20)
Total					175

B. Instrument and Data Testing

1. Descriptive Statistics

Descriptive statistics in this research present total of data, minimum, maximum, mean and standard deviation from tax avoidance, derivative transactions, corporate social responsibility disclosure, and political connections variables. Descriptive statistical results is presented in table 4.2 below:

TABLE 4.2
Result of Descriptive Statistic

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
TA	175	,0907	,5957	,266394	,0833367
DEV	175	0	1	,49	,501
CSR_D	175	,0000	,8462	,230330	,1401962
PC	175	0	1	,49	,501

Source: SPSS Data Result 15.0

Table 4.2 shows that sample in this research are 175 companies. From the descriptive statistic table, the minimum value of tax avoidance is 0,0907 which is obtained by PT Sepatu Bata Tbk on 2015 while the maximum value of tax avoidance is 0,5957 which is obtained by PT Budi Starch & Sweetener Tbk on 2015. Tax avoidance variable (TA) has mean - 1,3661. The standard deviation is 0,0833367 which means that the variation of data is low.

From the descriptive statistic table, the minimum value of derivative transactions is 0 which is obtained by PT Akasha Wira

International Tbk on 2014 while the maximum value of derivative transactions is 1 which is obtained by PT Tiga Pilar Sejahtera Food Tbk on 2014. Derivative transactions variable (DEV) has mean 0,49. The standard deviation is 0,501 which means that the variation of data is low.

From the descriptive statistic table, the minimum value of corporate social responsibility disclosure is 0,0000 which is obtained by PT. Wilmar Cahaya Indonesia, Tbk on 2014 while the maximum value of corporate social responsibility disclosure is 0,8462 which is obtained by PT Akasha Wira International Tbk on 2014. Corporate social responsibility disclosure variable (CSR_D) has mean 0,230330. The standard deviation is 0,1401962 which means that the variation of data is low.

From the descriptive statistic table, the minimum value of political connections is 0 which is obtained by PT Akasha Wira International Tbk on 2014 while the maximum value of political connections is 0,00 which is obtained by PT Tiga Pilar Sejahtera Food Tbk on 2014. Political connections variable (PC) has mean 0,49. The standard deviation is 0,501 which means that the variation of data is low.

2. Classical Assumption Test

a. Normality Test

Normality test used to examine whether in regression model, dependent variable, independent variable or both have a normal distribution or not. Normality test in this research uses

Kolmogorov-Smirnov statistic test. The results of normality test by One-Sample Kolmogorov-Smirnov is presented in Table 4.3 as follows:

TABEL 4.3
Result of Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		175
	Mean	,0000000
	Std. Deviation	,28260725
	Absolute	,124
	Positive	,124
	Negative	-,093
	Kolmogorov-Smirnov Z	1,643
	Asymp. Sig. (2-tailed)	,09

a. Test distribution is Normal.

b. Calculated from data.

Source: SPSS Data Result 15.0

Table 4.3 shows that the value of Asymp. Sig (2-tailed) in the Kolmogorov-Smirnov One-Sample test is 0.09. The result show that value Asymp. Sig. (2-tailed) is more than 0.05 which means that the residuals distribute normally. Thus, the data can be used for the research.

b. Multicollinearity Test

Multicollinearity test purpose is to examine whether there is any correlation between independent variables in regression model. Multicollinearity in the regression model can be seen from Variance

Inflation Factor (VIF) values and tolerance. Multicollinearity test results is presented in Table 4.4 as follows:

TABLE 4.4
Result of Multicollinearity Test

Variabel	Collinearity Statistics		Information
	Tolerance	VIF	
DEV	2,912	,004	Doesn't contain multicollinearity
CSR_D	,322	,748	Doesn't contain multicollinearity
PC	2,619	,010	Doesn't contain multicollinearity

a. Dependent Variable: TAX AVOIDANCE

Source: SPSS Data Result 15.0

Table 4.4 shows that the result all of the variables have tolerance value more than 0.1 and the VIF value less than 10. Tolerance value of derivatives transaction (DEV) variable is 2.912 and VIF value is 0.004. Tolerance value of Corporate Social Responsibility Disclosure (CSR_D) variable is 0.322 and VIF value is 0.748. Tolerance value of Political Connection (PC) variable is 2,619 and VIF value is 0,010. So it can be concluded that each variable does not contain multicollinearity.

c. Autocorrelation Test

Autocorrelation test purpose is to examine whether there is any correlation between the disturbance error at certain period and the

disturbance error at previous period in linear regression. Thus, there must be no correlation between them. This research uses Durbin-Watson test (DW test). The results of autocorrelation test is presented in table 4.5 as follows:

TABEL 4.5
Result of Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,460(a)	,267	,251	,48508	1,674

a. Predictors: (Constant), POLITICAL CONNECTION, CSR DISCLOSURE, DERIVATIVES

b . Dependent Variable: TAX AVOIDANCE

Source: SPSS Data Result 15.0

From table 4.5 shows that Durbin Watson value in this research is 1.674. The value of Durbin Watson is between the limit -2 and +2. Thus, it can be conclude that the regression model doesn't contain auto-correlation.

d. Heteroscedasticity Test

Heteroscedasticity test purpose is to examine whether in the regression model has any inequality variance from residual one observation to another observation or not. This research uses Glejser test to test the variance from the residual observation. The result of heteroscedasticity test in this research is presented in table 4.6 as follows:

TABEL 4.6
Result of Heteroscedasticity Test

Variabel	Sig.	Conclusion
DEV	,170	Doesn't contain heteroscedasticity
CSR_D	,957	Doesn't contain heteroscedasticity
PC	,224	Doesn't contain heteroscedasticity

a Dependent Variable: ABS_RES
Source: SPSS Data Result 15.0

Based on table 4.6, it can be concluded that the significance value of each independent variable in this study are more than 0.05. The significance value of derivative transactions (DEV) variable is 0.170, corporate social responsibility disclosure (CSR_D) variable is 0.957, and political connection (PC) variable is 0.224. Thus, it can be concluded that the regression model doesn't contain heteroscedasticity.

C. Hypothesis Testing

This research use multiple linear regression analysis to test the effect of derivative transactions, corporate social responsibility disclosure and political connections toward tax avoidance. The result of multiple linear regression analysis in this research is presented in table 4.7 as follows:

TABLE 4.7
Result of Multiple Linear Regression Analysis

Variabel	Unstandardized Coefficients		T	Sig.
	B	Std. Error		
(Constant)	-1,389	,065	-21,481	,000
DEV	,131	,045	2,912	,004
CSR_D	,011	,033	,322	,748
PC	,117	,045	2,619	,010

Source: SPSS Data Result 15.0

Result of hypothesis regression in this research is:

$$TA = -1,389 + 0,131 \text{ DEV} + 0,11 \text{ CSR_D} + 0,117 \text{ PC} + e$$

1. Result of T-Test

T test or partial test purpose is to examine how influence of each independent variable individually to the dependent variable. This test is done by determining the level of significance and looking at the direction of regression coefficient. If the level of significance is less than 0.05 ($\alpha < 5\%$) and has the same direction as hypotheses, it means that the independent variable influences the dependent variable significantly. Table 4.7 shows the results of multiple linear regression analysis of research model in this research. From the table above, it can be concluded:

a. Hypothesis One (H1)

Based on table 4.7, the regression coefficient of derivative transactions (DEV) variable is positive and significance value is (0.004) less than α (0.05). The value of t arithmetic (2,912) > t table (1.97393). However, effective tax rate (ETR) and tax avoidance (TA) is opposite analysis. Thus, the hypothesis one (H1) which stated derivative transactions have positive effects towards tax avoidance is rejected (**hypothesis one is REJECTED**).

b. Hypothesis Two (H2)

Based on table 4.7, the regression coefficient of corporate social responsibility disclosure (CSR_D) variable is negative and significance value is (0.748) more than α (0.05). The value of t arithmetic (,322) < t table (1.97393). Thus, the hypothesis two (H2) which stated corporate social responsibility disclosure has negative effects towards tax avoidance is rejected (**hypothesis two is REJECTED**).

c. Hypothesis Test Three (H3)

Based on Table 4.7, the regression coefficient of political connections (PC) variable is positive and significance value is (0.010) less than α (0.05). The value of t arithmetic (2,619) > t table (1.97393). However, effective tax rate (ETR) and tax avoidance (TA) is opposite analysis. Thus, the hypothesis three (H3) which stated political connections has positive effects towards tax avoidance is rejected. (**hypothesis three is REJECTED**).

2. Result of F Test

F test is test to find out how the influence of all independent variables together to the dependent variable. If sig value less than 0,05, then the independent variables simultaneously have significant effect towards dependent variable. The results of F-test is presented in Table 4.8 as follows:

TABLE 4.8
Result of F Test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1,004	3	,335	4,118	,008(a)
Residual	13,897	171	,081		
Total	14,901	174			

a Predictors: (Constant), POLITICAL CONNECTION, CSR DISCLOSURE, DERIVATIVES

b Dependent Variable: TAX AVOIDANCE

Source: SPSS Data Result 15.0

Table 4.8 shows that f table is 4.118 and significance value is 0.008 less than 0.05. Thus, it can be concluded that the independent variables simultaneously affect the dependent variable

3. Result of Determination Test

Coefficient of determination (R square) is used to find out how big the relation of some variables in clearer definition is. The determination test aims to measure how far the ability of independent variables in explaining the variation of dependent variables (Nazaruddin

and Basuki, 2016). The result of determination coefficient test in this research is presented in table 4.9 as follows:

TABEL 4.9
Result of Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,460(a)	,267	,251	,48508

a. Predictors: (Constant), POLITICAL CONNECTION, CSR DISCLOSURE, DERIVATIVES

b Dependent Variable: TAX AVOIDANCE

Source: SPSS Data Result 15.0

Based on table 4.9, value of Adjusted R Square is 0.251 or 25.1%. It means that the dependent variable (Tax Avoidance) can be explained 25,1% by the independent variables (Derivative Transactions, Corporate Social Responsibility Disclosure, and Political Connections). The other 74,9% is explained by other variables which is not contain in the model.

D. Interpretation

Based on the results above, it can be concluded the results of hypothesis test in Table 4.10 as follows:

TABLE 4.10
Summary of Hypothesis Test Results

Hypothesis	Result
H ₁ Derivative transactions have positive effects towards tax avoidance.	Rejected
H ₂ CSR disclosure has negative effects towards tax avoidance.	Rejected
H ₃ Political connections have positive effects towards tax avoidance.	Rejected

1. The Influence of Derivative Transactions toward Tax Avoidance

According to Donohoe (2015), derivatives are used to avoid taxes on corporations because derivatives can smooth out or refine taxable income, mimic virtually the economic position, obscure economic substance, and increase ambiguity in tax reporting. In Indonesia, the rules or definitions of derivative transactions are still unclear, so companies may use financial derivatives as a means of tax avoidance. According to Oktavia and Martani (2013), to determine whether derivative loss is either deductible or non-deductible, a clear definition of the tax regulation concerning whether or not a derivative is required.

Based on the result of t-test in table 4.7, it shows that derivative transactions have negative significant effects toward tax avoidance. Even though the significance value is (0.004) less than α (0.05), ETR and TA has opposite analysis. The higher Cash ETR indicate the lower tax avoidance performed. Conversely, the lower Cash ETR rate, indicate the

higher corporate's tax avoidance performed (Dewinta and Setiawan, 2016). Thus, hypothesis 1 is REJECTED. The result of this research is not in line with other researches that are done by Octavia and Martani (2013), Donhoe (2012) and Musyarofah (2016) which stated derivative transactions have positive effect toward tax avoidance. This proves that tax avoidance rates of companies who use derivatives transactions are lower than companies that does not use derivative transactions.

2. The Influence of Corporate Social Responsibility Disclosure toward Tax Avoidance

CSR disclosure according to Lindawati and Puspita (2015) is a signal given by the management to all stakeholders including potential investors regarding the prospect of the company in the future as well as showing more value owned by the company for its concern on the economic, social and environmental impact arising from the company's activities.

Watson (2011) argues that low-ranking firms in Corporate Social Responsibility (CSR) are perceived as socially irresponsible companies that can make tax strategies more aggressive than socially conscious companies. The same is expressed by Hoi et al. (2013) where companies with irresponsible CSR activities are more aggressive in avoiding taxes.

Based on the result of t-test in table 4.7, it shows that CSR disclosure has no significant effects toward tax avoidance. It can be seen

from significance value is (0.748) more than α (0.05), means that hypothesis 2 is REJECTED. The result of this research is in line with other researches that are done by Femitasari (2014) and Rahmawati et al (2016) which stated that CSR disclosure has positive effect toward tax avoidance. Companies that engage in tax avoidance tend to disclose a wider CSR disclosure to get support from society and environment to maintain its existence and cover up the company's bad image.

The result of this research is not in line with other researches that are done by Hoi et al. (2013) and Pradipta and Supriyadi (2015) showing that companies that does not disclose CSR activities are considered to have higher tax avoidance rates when compared to similar companies that disclose CSR activities.

3. The Influence of Political Connections toward Tax Avoidance

Political companies are companies that in certain ways have a political bond or seek closeness with politicians or government (Purwoto, 2011). Butje and Tjondro (2014) stated that the political connections they have make the company get special treatment, such as the ease in obtaining capital loans, low tax audit risk that makes the company more aggressive in applying tax planning resulting in decreased transparency of financial statements. In addition, losing investors due to decreased transparency of financial statements can be replaced with the role of government as the main funder.

Based on the result of t-test in table 4.7, it shows that political connection have negative significant effects toward tax avoidance. Even though the significance value (0,010) less than α (0.05), ETR and TA has opposite analysis. The higher Cash ETR indicate the lower tax avoidance performed. Conversely, the lower Cash ETR rate, indicate the higher corporate's tax avoidance performed (Dewinta and Setiawan, 2016). Thus, hypothesis 3 is REJECTED. The result of this research is in line with other researches that are done by by Nugroho (2011), Fatharani (2012), and Marfu'ah (2015) which stated political connections have negative effect toward tax avoidance. The political process of taxation is not applied in the form of regulations or laws that give directly tax relief, so companies that indicated have political relationships with government authorities do not have lower effective tax rates. This proves companies that have political connection with the government or special connections have low tax avoidance rates compared with similar companies that does not have political connections.

The result of this research is not in line with other researches that are done by Mulyani et al. (2014), Butje and Tjondro (2014), Kim and Zhang (2013) and Christensen et al. (2014) which stated political connections have positive effects toward tax avoidances.