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Abstract

This study aims to examine the influence of internal factors (management compensation and company liquidity) and external factors (tax consultant variable) on tax aggressiveness. Using multiple regression analysis, the hypothesis testing results based on 116 panel data observations from the healthcare sector companies listed in the IDX between 2019-2022 indicate that all variables have an impact on the tax aggressiveness of the company, with less consistent directions of influence, especially for company liquidity and tax consultant. Those independent variables influence tax aggressiveness positively, indicating that the more liquid the company and more tax consultants it hires, the higher its aggressiveness. These results were robust to the alternative models of the tax aggressiveness, which each of the independent variables were placed in the models. The practical implication of this study is that tax aggressiveness behavior will not only be triggered by internal factors, but it is possible to be affected by external ones.

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Introduction

As the largest source of financing for the country, taxes play a crucial role in promoting the welfare of society through various development efforts (Gracelia & Tjaraka, 2020). According to the Ministry of Finance of the Republic of Indonesia (2024), Indonesia's tax revenue for three consecutive years has shown promising performance. During the year 2022, the Directorate General of Taxes (DJP) successfully achieved a tax revenue realization of 116%, compared to the revenue target in Presidential Regulation (Perpres) 98 of 2022. Similarly, a similar achievement occurred in 2021, where there was a 19% higher revenue realization compared to the previous year. The latest revenue realization in 2023 reached Rp1.869 trillion (108.8% achievement against the APBN target or 102.8% against Presidential Regulation (Perpres) No. 75 of 2023). Several conditions that have contributed to these achievements over the three years include: euphoria in the oil and gas commodities during the period 2021-2022, stable economic growth, DJP policy mix (including the voluntary tax disclosure program (PPS) and changes in VAT rates), low baseline tax targets and hidden blessings of the pandemic in certain sectors, especially the health sector (protective equipment, vaccines, medicines, etc.).

However, the above-mentioned tax revenue achievements have not eliminated the phenomenon of tax avoidance efforts by taxpayers. This tax avoidance effort may be suspected as a form of information asymmetry, which is discussed in agency theory by Jensen & Meckling (1976). The agency problem in agency theory is then discussed by Watss & Zimmerman (1986) through positive accounting theory. The hypotheses proposed by Watss & Zimmerman (1986) include: bonus plan hypothesis, debt/equity hypothesis, and political cost hypothesis. Tax research generally uses the bonus plan hypothesis, where tax avoidance efforts are a manifestation of management's opportunistic behavior towards owners (Margiyanti & Tjaraka, 2019). Management seeks to optimize their bonuses through tax avoidance efforts without disclosing adequate information to owners.



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In general, tax research cannot clearly distinguish between tax avoidance and tax aggressiveness. Lietz et al. (2013) attempts to propose a conceptual framework on how to distinguish between these two corporate tax planning activities. This research did not make a clear distinction between the two terms above, considering that the distinction becomes relevant when returned to the research context. Research limited to factors influencing tax planning activities does not need to make a distinction. This will impact the use of the same indicators, in this case effective tax rate (ETR) and cash ETR (CETR). The lower the ETR or CETR, the higher the company's tax planning efforts (tending to avoid taxes, even becoming more aggressive). Conversely, a high ETR or CETR indicates low tax avoidance or aggressiveness (Probowulan & Tjaraka, 2024).

Tax aggressiveness and avoidance are influenced by many factors and can be viewed from various perspectives. Gracelia & Tjaraka (2020) found that risk preference factors from company leaders and gender diversity are determinant variables for tax avoidance. Margiyanti & Tjaraka (2019) concluded that a company's efforts to expand its production process can encourage management to avoid taxes.

Tax uncertainty factors, in this case variations in sales tax or consumption tax types, apparently affect corporate tax avoidance efforts in the e-commerce sector (Probowulan & Tjaraka, 2024). Regarding tax authority policies, Jin et al. (2023) found that when there is a tax increase, companies tend to be aggressive in their tax planning. Cao et al., (2022) also found that deregulation of the capital market authority also influences companies' aggressive behavior in tax planning.

Tax aggressiveness research conducted by Sumiati et al. (2023) and Amri et al. (2023) attempts to look at factors influencing tax aggressiveness from financial and non-financial perspectives. Sumiati et al. (2023) found that only financial factors, in this case profitability (with ROA as a proxy), influence tax aggressiveness. Meanwhile, Amri et al. (2023) proved that internal (ownership structure) and external (supervision role from tax authorities) factors are determinant factors for companies becoming more aggressive in tax planning. The effort to look at factors influencing tax aggressiveness from different perspectives underlies this research.

This research is in line with Iazzi et al.'s (2023) efforts to see whether internal (corporate board) and external (auditor) factors can influence company tax planning efforts. The distinguishing factor is that Iazzi et al. (2023) does not explicitly mention what tax planning efforts companies are making and does not categorize them as internal and external. The internal factors that can be suspected as determinant factors for tax aggressiveness in this study are compensation given to company leaders, in line with the research conducted by Arora & Gill (2022), and company liquidity, as studied by Yuan et al. (2022). The external factors used are based on the research of Raithatha & Shaw (2022), which uses tax consultants as parties providing input to companies about whether the company needs to be more aggressive in tax planning.

In general, taxes tend to be a driving factor for the growth of the health sector. During the pandemic, various tax relief incentives and exemptions were provided to the health sector. As part of the National Economic Recovery Program (PEN), the government issued Minister of Finance Regulation (PMK) No. 9/PMK.03/2021, which regulates various incentives for WP whose economic sectors are affected by the COVID-19 pandemic. These incentives touch almost all tax components, both self-assessment (e.g., income tax for SMEs) or withholding (e.g., income tax Article 21), and in the form of different tax objects (ranging from exemption of value-added tax to income tax for the health sector). These tax incentives amounted to up to Rp9.05 trillion. In addition, some health facilities received tax revenue allocations, specifically intended for the health sector (earmarking tax).

However, besides being one of the sectors prioritized by the DJP during the pandemic, tax revenue from the health sector also became one of the drivers of tax

revenue, especially during the pandemic. According to Purwanti (2022), the health sector is one of 17 sectors contributing to the national gross domestic product (GDP). The growth rate of this sector can be said to be significant, with a weight of around 10.46% in 2021. This growth will certainly encourage a broader tax revenue base, especially for actors in the health sector who do not receive the tax incentives mentioned above.

Literature Review

Positive Accounting Theory and Agency Theory

Positive accounting theory by Watts & Zimmerman (1986) proposes three hypotheses related to the relationship between principal and agent, which will ultimately affect the behavior of the agent in reporting and presenting their performance. First, bonus plan hypothesis that places the owner as the principal, and management as the agent. Second, debt/equity hypothesis that places the creditor as the principal, and the debtor as the agent. Third, political cost hypothesis that places the government as the principal, and the public or citizens as the agent.

From the perspective of tax aggressiveness, this study attempts to examine tax avoidance from the political cost hypothesis, where the tax authority (DJP) becomes the principal, while taxpayers (WP) act as the agent. The tax authority (DJP) entrusts taxpayers (WP) to fulfill their tax obligations. However, in practice, taxpayers tend to engage in moral hazard, where their behavior in calculating taxable income generally cannot be directly identified by the tax authority (DJP) (Putong et al., 2017).

Tax Aggressiveness

Tax aggressiveness, according to Elouaer et al. (2022), is a condition in which managers engage in tax planning activities, both legal and illegal, including when attempting to calculate taxable income (PKP) within the gray area. This is in line with the corporate tax planning framework offered by Lietz et al. (2013) in Figure 1, which distinguishes tax planning activities from tax avoidance to tax aggressiveness. Tax aggressiveness lays between a legal (tax avoidance) and illegal act (tax evasion) of tax planning; that's why we call it as a tax gray-area activity.

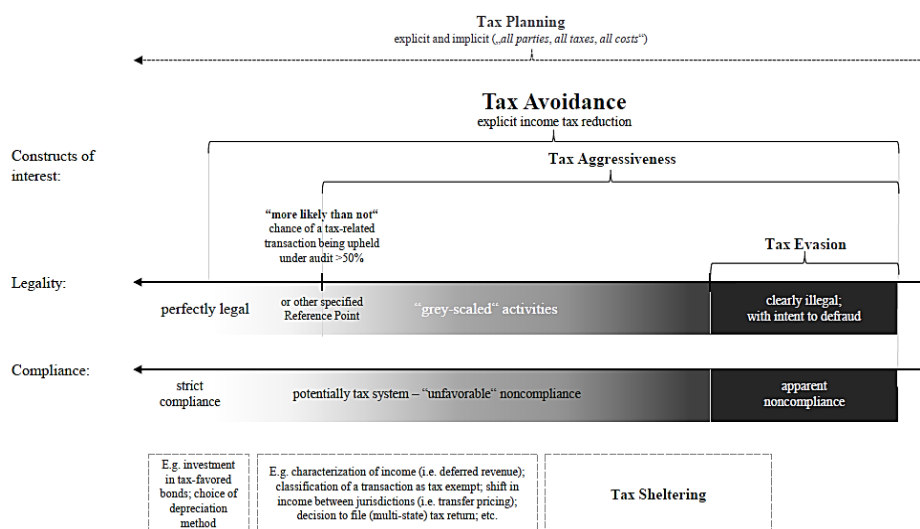


Figure 1. Conceptual framework of corporate tax planning
Source: Lietz et al., 2013.

The selection of variables that affect tax aggressiveness is very diverse and can be viewed from various perspectives. For example, Kim et al. (2023) conducted an

experiment on several tax consultants in Korea to test whether psychological aspects (ethics) and economic factors (standard tax preparation fee) can influence these consultants to follow their clients' desire to be aggressive. In general, existing research does not categorize specific variables for tax aggressiveness. For example, Pranata et al. (2021) studied the influence of CSR level, firm size, and leverage on tax aggressiveness.

The use of CEO profiles (with gender as a majority indicator) as a determining variable in tax aggressiveness is also a mainstream issue in tax aggressiveness research (Cortellese, 2022; Elouaer et al., 2022; Garcia-Blandon et al., 2022; García-Meca et al., 2021; Gracelia & Tjaraka, 2020; Herawati et al., 2021; Jbir et al., 2021; X. Liu et al., 2022; Pebriyanti et al., 2022; Sri Utaminingsih et al., 2022; Toly et al., 2023; Zirgulis et al., 2022). In addition, the categorization of financial and non-financial factors has also become a pattern in tax aggressiveness research (Hong et al., 2023; Jbir et al., 2021; Jiménez-Angueira et al., 2021; H. Liu, 2022; Reineke et al., 2023; Sumiati et al., 2023; Vito et al., 2022).

Furthermore, research studies that use internal and external categories as patterns for forming variables that determine tax aggressiveness are also widely found. Kuo (2022) studied how community welfare affects the behavior of family businesses in Taiwan in tax planning. Similarly, a similar study was conducted by Parisi & Federici (2022) in Italy. The conflict of interest between owners and creditors in tax aggressiveness also underlies similar research by Francis et al. (2022). Menchaoui & Hssouna (2022) examined the extent to which internal governance in public companies in France influences their tax aggressiveness behavior. Blaufus et al. (2023) combined a company's experience when audited by tax authorities with internal tax planning and control as determining factors for tax aggressiveness. Chughtai et al. (2021) examined sustainability issues in their research, where board networking became one of the determinants of tax aggressiveness. Madah Marzuki & Syukur (2021) studied the presence of auditors compared to corporate ownership structures in Thailand. Boussaidi & Hamed-Sidhom (2021) also conducted similar research in Tunisia, as did Flamini et al. (2021) in Italy.

This research uses internal factors such as management compensation and company liquidity variables, as well as external factors such as tax consultant variables. The model intended to be used by this research can be seen in the Figure 2..

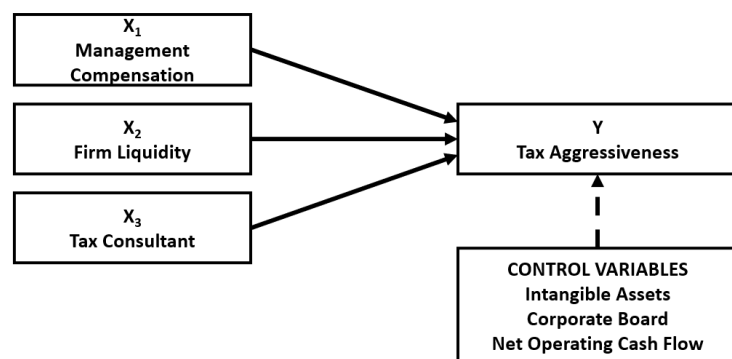


Figure 2. Research model

Hypothesis Development

The compensation received by management in the form of salary, bonuses, allowances, and various other forms of remuneration tends to make management or top executives tend to have moderate to small risk preferences (risk averse). With this characteristic, management with high compensation tends to avoid aggressive tax planning strategies. Executives in India with fixed compensation tend to be less tax aggressive in, where there is no direct relation between variable executive compen-

sation on tax aggressiveness (Arora & Gill, 2022). Huang et al. (2018) with their research in China concluded that executive with higher compensation in cash will deal with lower tax aggressiveness. The use of salary and stock options as the components of CEO compensations also shows a negative effect on earnings management and financial aggressiveness (Neifar et al., 2016). Saputra and Indawati (2023) indicates one of the companies' ways to lower tax payment is by giving high compensation to its executives.

H1: Management compensation affects tax aggressiveness.

In a study related to corporate willingness to donate in China, there is tax planning consideration. Companies with high liquidity tend to be more willing to donate to minimize their tax burden (Yuan et al., 2022). Companies with high liquidity tend to deal with more income tax liability. To mitigate that higher tax burden, there will be a high probability for management to use tax planning aggressively (Astrina et al., 2024). Kim et al. (2022) found that companies with higher liquidity (proxied by stock) will tend to have high tax aggressiveness (indicated by high level of tax noncompliance). Research in the Brazilian capital market concluded that companies with liquid stock will adopt tax planning aggressively (Prímola et al, 2021). Ann et al. (2019), based on their findings, suggest that higher liquidity ratio indicates the ability of the company to pay its short-term obligation, hence the level of the tax aggressiveness will be low.

H2: Company liquidity affects tax aggressiveness.

The ideal role of a tax consultant is to act as an extension of the government in promoting tax compliance. However, in practice, tax consultants tend to be on the side of the taxpayer, who is generally suspected of engaging in aggressive tax planning. Research on CSR in India found that tax consultants tend to steer taxpayers towards less aggressive tax planning (Raithatha & Shaw, 2022). The accountability pressure on tax consultants can affect their behavior on searching information (Misra et al, 2019). The more information they search, the more conservative the recommendation they present, including tax planning recommendation. Kittl (2015) presented an interesting finding: when a tax consultant deals with high income clients, he or she will be more aggressive in tax planning. On the other hand, when he or she has a low-income one, the recommendation will be less aggressive.

H3: Company tax consultants affect tax aggressiveness.

Methodology

Sample Criteria and Data Sources

This research utilized data from 29 health sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2019-2022 (four years), obtained from the Refinitive database. The sampling firms should not experience any suspension or termination of stock trading transactions during the period 2019-2022, resulting in 116 panel data observations.

Model Setting

This study proposes multivariate analysis using multiple regression with the basic research model as follows:

$$\text{TAGR}_{it} = \alpha + \beta_1 \text{COMP}_{it} + \beta_2 \text{NOCF}_{it} + \beta_3 \text{INTA}_{it} + \beta_4 \text{COBR}_{it} + e \quad (1)$$

$$\text{TAGR}_{it} = \alpha + \beta_1 \text{LIQD}_{it} + \beta_2 \text{NOCF}_{it} + \beta_3 \text{INTA}_{it} + \beta_4 \text{COBR}_{it} + e \quad (2)$$

$$\text{TAGR}_{it} = \alpha + \beta_1 \text{TXCT}_{it} + \beta_2 \text{NOCF}_{it} + \beta_3 \text{INTA}_{it} + \beta_4 \text{COBR}_{it} + e \quad (3)$$

$$\text{TAGR}_{it} = \alpha + \beta_1 \text{COMP}_{it} + \beta_2 \text{LIQD}_{it} + \beta_3 \text{TXCT}_{it} + \beta_5 \text{NOCF}_{it} + \beta_6 \text{INTA}_{it} + \beta_7 \text{COBR}_{it} + e \quad (4)$$

which are
 TAGR_{it} : ETR company *i* for the year *t*
 α : constant
 COMP_{it} : management compensation company *i* for the year *t*
 LIQD_{it} : current ratio company *i* for the year *t*
 TXCT_{it} : tax consultant company *i* for the year *t*
 NOCF_{it} : net operating cash flow company *i* for the year *t*
 INTA_{it} : intangible assets company *i* for the year *t*
 COBR_{it} : corporate board company *i* for the year *t*
 e : error

The Model (4) presented above is called a basic model. To run robustness check, there will be additional models that will be tested. They represent partial causal relationship among variables.

Hypothesis testing was conducted using STATA software, where various alternative research models were tested to identify internal or external variables influencing tax aggressiveness.

Variables Description

Tax aggressiveness with the ETR indicator is measured using the following formula:
 $ETR_{it} = \text{Tax Expense}_{it} / \text{Income before Tax}_{it}$

The lower the ETR value, the higher the tax aggressiveness. Conversely, a larger ETR value indicates lower tax aggressiveness. Positive or negative signs on the ETR are reversed concerning the positive or negative direction of tax aggressiveness.

Management compensation is obtained from the cash compensation value given by the company to top management.

Company liquidity is indicated by the current ratio, which is measured using the following formula:

$$\text{Current Ratio}_{it} = \text{Current Asset}_{it} / \text{Current Liability}_{it}$$

The measurement of tax consultants is done using a dummy variable, where companies using tax consultants from the Big Four accounting firms will be assigned a value of 1, while those not affiliated with the Big Four will be given a value of 0.

Analysis and Discussion

With a total of 116 observations, not all companies have complete data for all variables. Table 1 are the descriptive statistics for each variable.

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
TAGR_Y	105	-1.266	.906	-4.629	4.341
COMP_X1	92	1.872e+10	2.537e+10	1.114e+08	2.006e+11
LIQD_X2	113	2.605	2.609	.079	16.151
TXCT_X3	116	.345	.477	0	1
NOCF_C1	113	3.475e+11	7.229e+11	-1.840e+12	4.265e+12
INTA_C2	64	8.989e+10	2.558e+11	18447917	1.505e+12
COBR_C3	116	4.414	1.779	2	9

Table 1 shows the descriptive statistics related to the sample. The results indicated lower tax aggressiveness in health sector companies during 2018-2022, compared to corporate income tax rate 22%. There is no significant dispersion among management compensation. However, there is a wide gap among health sector companies regarding the liquidity. Markedly, majority of the companies did not use tax consultant services.

To test whether there is a correlation between variables (to avoid multicollinearity), the correlation test between each variable is presented in Table 2. If

there is a correlation above 0.7, it is concluded that multicollinearity exists. Table 2 are the results of the correlation test for each variable.

Table 2. Pairwise Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) ln_TAGR_Y	1.000						
(2) COMP_X1	0.001	1.000					
(3) LIQD_X2	-0.251*	0.025	1.000				
(4) TXCT_X3	-0.014	0.322*	0.100	1.000			
(5) NOCF_C1	-0.083	0.342*	0.189	0.265*	1.000		
(6) INTA_C2	-0.050	0.202	0.209	0.287	0.807*	1.000	
(7) COBR_C3	-0.031	0.388*	-0.109	0.117	0.295*	0.249	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Based on the test results on Table 2, it can be concluded that there is no multicollinearity among independent variables. The correlation value of 0.807 for the control variable is considered irrelevant and does not require further action.

Table 3. Hypothesis Test

	(1) TAGRY	(2) TAGRY	(3) TAGRY	(4) TAGRY
Intercept	-1.233*** (-6.814)	-1.093*** (-6.145)	-1.166** (-2.375)	-1.073*** (-5.906)
COMPX1	0.000*** (2.929)			0.000** (2.438)
LIQDX2		-0.062*** (-4.500)		-0.059*** (-4.339)
TXCT_X3			-0.069*** (-2.135)	-0.059*** (-2.553)
NOCF_C1	-0.000 (-1.525)	-0.000 (-1.381)	-0.000 (-0.384)	-0.000 (-1.308)
INTA_C2	0.000 (0.825)	0.000 (0.835)	0.000 (0.175)	0.000 (0.773)
COBR_C3	-0.019 (-0.471)	0.006 (0.151)	0.035 (0.384)	-0.009 (-0.220)
Adj.R2	0.07	0.33	0.35	0.34
N	24	24	24	24

t statistics in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

The Effect of Management Compensation on Tax Aggressiveness

Based on Table 3, it can be observed that the initial test using the basic model (4) indicates that management compensation has a negative effect on tax aggressiveness. Robustness tests using an alternative model (1) also show consistent results. Both models also demonstrate a negative direction of influence on tax aggressiveness (positive sign on the impact of management compensation on ETR). These results are inconsistent with the findings of Arora & Gill (2022). Based on political cost hypothesis (Watts & Zimmerman, 1986), the behavior of the corporate tax aggressiveness is represented by its management tax planning activity. When the executives earned more compensation, they will be more conservative in tax planning, so that the level tax planning will be less aggressive (Huang et al., 2018). As part of the CEO psychological variables, such compensation should be considered by the shareholder to get better investment decision, including tax planning activities (Neifar et al., 2016). For a risk-averse company, it is better to allocate some of the expenditure for management compensation to lower their tax aggressiveness.

The Effect of Company Liquidity on Tax Aggressiveness

Based on Table 3, it can be observed that the initial test using the basic model (4) indicates that company liquidity has a positive effect on tax aggressiveness. Robustness tests using an alternative model (2) also show consistent results. Both

models also demonstrate a positive direction of influence on tax aggressiveness (negative sign on the impact of the current ratio on ETR). These results are consistent with the findings of Yuan et al. (2022); when companies have higher liquidity, they will use that for other non-business activities (including tax payment), especially when there is more media coverage. However, when there is lack of media coverage, companies tend to allocate their liquidity to pay tax voluntarily. Ann et al. (2019) presents the tendency of the companies with more liquidity to fulfill their short-term obligation first, including income tax payable. Based on that behavior, when such companies experience a high liquidity, they will not burden themselves to have a massive tax planning.

The Effect of Tax Consultant on Tax Aggressiveness

Based on Table 3, it can be observed that the initial test using the basic model (4) indicates that tax consultants have a positive effect on tax aggressiveness. Robustness tests using an alternative model (3) also show consistent results. Both models also demonstrate a positive direction of influence on tax aggressiveness (negative sign on the impact of tax consultants on ETR). These results are consistent with the findings of (Raithatha & Shaw, 2022). When tax consultants perform their role ideally, there will not be an agency problem, based on political cost hypothesis (Watts & Zimmerman, 1986), because they influence the taxpayer to comply to the tax rule and law. Misra et al. (2019) concludes the same perception about tax consultants but from a different point of view. When there is pressure on their accountability, they will try to find ways to get a better recommendation to their client. One of the examples of the recommendation is regarding the tax planning activity which is lead to a less tax aggressive. Taxpayers and tax authorities can count on tax consultants to develop a supporting tax environment, especially for state revenue.

Conclusions and Recommendations

This study was conducted to examine internal factors (management compensation and company liquidity) and external factors (tax consultants) on the tax aggressiveness of health sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2019-2022. All independent variables were found to have an impact on tax aggressiveness. A different direction of influence from previous research was found in the impact of management compensation on tax aggressiveness.

However, this study has some limitations. Future research may consider using different research period, namely between pandemic and after or before pandemic years, to check the robustness of the model. In addition, researchers might use the other indicator of tax aggressiveness than ETR.

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