The Effect of Tax Avoidance on Cost of Debt with Institutional Ownership as a Moderating Variable (Empirical Study of Energy Sector Companies Listed on the IDX 2020-2022)

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Abstract

This research aims to test the effect of tax avoidance on the cost of debt with institutional ownership as a moderating variable. In this research, tax avoidance is measured by the effective tax rate. The population in this research is energy sector companies listed on the Indonesia Stock Exchange for the 2020-2022 period. This type of research is quantitative research. The sample in this research was obtained using purposive sampling, namely selecting samples using predetermined criteria. Based on the purposive sampling method, 57 samples were obtained from 82 energy sector companies listed on the Indonesia Stock Exchange for the 2020-2022 period. The analytical methods used are simple linear regression analysis, Moderated Regression Analysis, partial test (t), and coefficient of determination test (R²) using the SPSS version 16 program. The results of this research show that tax avoidance has a significant negative influence on cost of debt. Institutional ownership can strengthen the tax avoidance and cost of debt variables.

INTRODUCTION

In carrying out its operational activities in order for a company to run smoothly in accordance with economic developments, there are various factors that trigger these activities, namely economic resources and company funding which can be said to be the core of a business, by having large capital the business can be run smoothly and in accordance with its requirements. expected (cymbidiana, 2012 in Fajarwati, 2023). Indika Energy's IDR 450.23 billion buyback debt securities using a subsidiary, Indika Energy Capital III Pte Ltd, PT Indika Energy Tbk (INDY) has carried out a buyback or repurchase of shares worth USD 29.31 million if converted into around IDR 450.23 billion (assumption of the US dollar exchange rate relative to the value of IDR 15,360) in 2024. In addition, the IEC III subsidiary. (https://www.liputan6.com).

Based on the above phenomenon, this becomes a funding decision as a fundamental decision taken at the strategic management level for the smooth operation of the company. According to Myers & Majluf, (1984), a company's funding choice between debt and equity is determined by considering the trade-off between the two traditional ways of raising funds for company operations compared to the potential costs and benefits. Debt financing is arguably cheaper in financing investment deficits compared to issuing new shares because of the tax protection associated with it. Especially, because interest on borrowed funds is a deduction that is allowed before corporate taxes are charged on profits (Ross, Westerfield, & Jordan, 2008).

Obtaining company debt requires costs, so the cost of debt will arise. Fabozzi (2007) in Donald (2013) defines the cost of debt as the level that must be received from investment with the aim of achieving the level of return (yield rate) required by creditors or in other words, namely the level of return required by creditors when funding is carried out within an entity. As a reward for creditors for purchasing debt securities, creditors will receive a return in the form of interest (Santosa, 2016). When creditors provide debt loans, creditors take into account the company's default risk first, because default risk is the probability of inability and deliberate failure to fulfill the company's equity (Nugroho, 201:1 in Wardani, 2018: 180).
According to Wardani & Rumashorbo (2018), the factors that can influence the cost of debt include tax avoidance, corporate governance, and company characteristics. The main trigger factor is tax avoidance. Tax avoidance is an activity that seeks to reduce the tax burden that does not violate tax laws and regulations and this action is a justified or legal action through tax planning (Robert H. Anderson & Zain, 2003 in Aziza, K., 2016). Hasan et al., 2014 identified two competing channels through which tax avoidance affects the cost of debt, namely the tax savings effect and the risk exposure effect. The tax savings effect refers to the fact that a company's tax avoidance can enrich the company's retained cash flow by reducing tax payments, and abundant cash flow can reduce the demand for debt thereby increasing the company's solvency and ability to withstand financial risks which can increase the confidence of debt holders and reduce the company's debt funding costs. The risk exposure effect refers to the fact that tax avoidance activities can increase the risk exposure of the company (debt holders) by increasing information risk (Balakrishnan et al., 2012; Hope et al., 2013), agency risk (Desai and Dharmapala, 2009) and risk exposure. audited by tax authorities (Mills, 1998), thereby increasing the cost of debt (Desai and Dharmapala, 2006; Kim et al., 2011; Shevlin et al., 2013; Hasan et al., 2014). According to Chen et al., 2013) Tax avoidance can also give rise to agency conflicts between companies and shareholders. This conflict occurs because each party has different goals. Agency theory assumes that tax avoidance activities are related to corporate governance problems.

Corporate governance is a system and structure that regulates the relationship between management and owners who have majority or minority shares in a company. Corporate governance is a system and structure that regulates the relationship between management and owners who have majority or minority shares in a company. Corporate governance is useful for protecting investors from differences in the interests of shareholders (principle) and management (agent) (Damayanti and Tridahus, 2015). If the quality of Corporate Governance is still poor, it will have an impact on managers who will be more aggressive in managing taxes to improve company performance and maximize returns to shareholders. Meanwhile, tax planning will be beneficial for the company if the company has good corporate governance qualities. The form of implementation of Corporate Governance is through institutional ownership. Institutional ownership can control and supervise management performance so that it is more optimal and in line with the principal's expectations. Institutional ownership is considered capable of limiting every decision taken. Therefore, institutional ownership is very important for monitoring management because it will enable better supervision because it is considered capable of monitoring every decision made by managers. With a high level of institutional ownership, the greater the level of supervision of managers and can reduce conflicts of interest between management so that agency problems are reduced and reduce opportunities for tax avoidance. Thus, the existence of institutional investors is considered capable of being an effective monitoring mechanism in every decision taken by managers (Winata, 2014).

Based on the phenomenon and inconsistent results of previous research, the author was motivated to conduct research entitled "The Effect of Tax Avoidance on the Cost of Debt with Institutional Ownership as a Moderating Variable".

LITERATURE REVIEW

Agency Theory

Jansen and Meckling (1976) define it as a contract between one or more principals which transfers decision-making authority in managing a company to another person (agent). The essence of this theory is to confirm that there is a performance relationship in the form of cooperation between the principal, namely the owner (shareholder), creditors and investors, and the authorized party (agent), namely company management, in the form of a cooperation agreement. In this research, the principal focuses on the role of creditors as providers of authority. The essence of this theory is the separation between the principal (ownership) which is the shareholder and the agent (control) which is the management who controls and supervises the company (Vhika, 2017).

Cost of Debt

Fabozzi (2007) in Donald (2013) defines the cost of debt as the level that must be received from investment with the aim of achieving the rate of return (yield rate) required for creditors or in other words, namely the rate of return required for creditors when funding is carried out in an entity. The cost of debt according to
Ross et al. (2016) in Aziza (2016) is the return expected by the company's lenders on new loans, or simply the cost of debt is the interest rate that must be paid by the company on new loans. According to Pittman & Fortin in Masri & Martini (2014) "The cost of debt is measured by dividing the interest expense, interest expense is the costs incurred to obtain funding or debt paid by the company in year t divided by the total amount of debt in year t. The cost of debt for each company is influenced by factors, namely company characteristics, agency costs and risks for bonds as well as information asymmetry problems, interest rates, leverage and cash flow from operations and company size." Measurement of the cost of debt in this study is:

\[ \text{COD} = \frac{\text{Interest Expense}}{\text{Total Debt}} \]

**Tax Avoidance**

Lim (2011) in Rahmawati (2015:6) defines tax avoidance as an action to save taxes that arises by using tax regulations that are carried out legally and do not violate regulations which aim to reduce tax liabilities. Tax avoidance is an integral part of tax planning which is carried out to minimize tax payments. Tax evasion in this case is tax savings, a legal action, but this action gets a bad view from the tax office because it is considered a corporation that has failed to carry out its duties (Ekasanti Santosa et al., 2016). This is different from tax evasion which is considered a attempt to minimize the tax burden by violating tax regulations. Those who carry out tax evasion will receive administrative sanctions or criminal sanctions (Vhika Meiriasari: 2017). The formula used to calculate the Effective Tax Rate (ETR) refers to the formula used by Indarti (2015) in Sari (2023), namely:

\[ \text{ETR} = \frac{\text{Income Tax Expense}}{\text{Profit before tax}} \]

**Institutional Ownership**

According to Heryawati, et al (2018) Institutional ownership is ownership owned by the government, insurance companies, foreign investors or banks. Institutional ownership can be a way to minimize the occurrence of conflicts between investors and managers in the company (Nugroho & Meiranto, 2014). Institutional investors who have share ownership monitor management actions, collect information and encourage better performance and can act as a company monitoring tool. The increasing institutional ownership in a company can have an indication of the ability to monitor management (Harianto, 2020). The existence of institutional ownership can encourage companies to increase supervision so that management performance is more optimal, because share ownership is a source of power that can be used to support or otherwise affect management performance. The existence of institutional ownership causes managers to act carefully in decision making and managers will feel supervised (Horiyatul Ulfa 2018). Can be measured by institutional ownership or percentage of ownership of other institutions. Institutional ownership can be seen based on the percentage of share ownership by banks, insurance companies, pension funds, mutual funds and other institutions divided by the total number of shares outstanding. The formula is as follows:

\[ \text{IO} = \frac{\text{Number of Institutional Shares}}{\text{Number of Shares Outstanding}} \]

**Framework of Thinking**

![Research Conceptual Framework](image)

**Hypothesis**

H$_1$: Tax Avoidance Has a Positive Influence on the Cost of Debt.

H$_2$: Institutional Ownership Strengthens the Effect of Tax Avoidance on the Cost of Debt.
RESEARCH METHODS

This research is a type of quantitative research using a descriptive approach. The population in this study are energy sector companies listed on the Indonesia Stock Exchange (BEI) in 2020-2022. Sample selection was carried out using the purposive sampling method. The sample criteria used are energy sector companies listed on the Indonesia Stock Exchange (BEI) and companies that consistently report financial results in 2020-2022. The data source used is secondary data collected using documentation from the official IDX website or each company’s website. The final sample size used in this research was 57 companies with 171 observation data. This research uses an analytical method using SPSS 16 to assess the effect of tax avoidance on the cost of debt with institutional ownership as a moderating variable.

RESULTS AND DISCUSSION

Descriptive Statistical Test

The results can be seen in table 2 that the minimum cost of debt value is 0.01 and the maximum value is 0.13 with an average value of 0.0495. This shows that the company’s cost of debt is relatively small. The cost of debt is obtained from a comparison between finance costs and total debt to produce the cost of debt. The average cost of debt in this company is stated to be small because the value is 0.04 <0.5, so the debt ratio is considered low, the debt ratio is considered high if the debt ratio number is >1, this shows that the company uses more debt than equity capital.

<table>
<thead>
<tr>
<th>Table 1. Descriptive Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>COD</td>
</tr>
<tr>
<td>TA</td>
</tr>
<tr>
<td>KI</td>
</tr>
</tbody>
</table>

Source: Data processed by SPSS, 2016.

Tax Avoidance (TA) measured using ETR, the results have a minimum value of 0.02 and a maximum value of 0.48. The average tax avoidance of all sample companies is 0.1628. Shows that there is a difference between accounting profit and fiscal profit, where the greater value is accounting profit than fiscal profit, so it is indicated that the company is carrying out tax avoidance. One of the reasons for the difference between accounting profit and fiscal profit is the difference in the treatment of tax law and accounting standards. The average ETR (TA) value of 0.1628 also indicates that the average ETR (TA) value of the sample company is less than the tax rate value of 22%, which indicates that the company is avoiding tax.

Institutional ownership is symbolized by KI, which has a minimum value of 0.02, a maximum of 0.98 with an average value of 0.5495. This relatively high average ownership value indicates that the average sample company has been effectively supervised by institutions. With high levels of supervision from institutions, it will have an impact on management in using debt for funding. The average value of several variables is greater than the standard deviation value. This illustrates that the data is homogeneous.

Classic Assumption Test

The normality test results in table 3 show that the Kolgomorov-Smirnov value shows the Asymp value. Sig. (2-tailed) is 0.279, the data is normally distributed if the value of Asymp. Sig. (2-tailed) buy large from 0.05. These results show that the data has a normal distribution.

<table>
<thead>
<tr>
<th>Table 2. Normality Test Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-Sample Kolmogorov-Smirnov Test</td>
</tr>
<tr>
<td>Unstandardized Residual</td>
</tr>
<tr>
<td>N</td>
</tr>
<tr>
<td>Normal Parameters</td>
</tr>
<tr>
<td>Std. Deviation</td>
</tr>
<tr>
<td>Most Extreme Differences</td>
</tr>
<tr>
<td>Positive</td>
</tr>
<tr>
<td>Negative</td>
</tr>
<tr>
<td>Kolmogorov-Smirnov Z</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
</tr>
</tbody>
</table>

a. Test distribution is Normal

Source: Data processed by SPSS, 2016.
Simple Linear Regression Analysis

### Table 3. Simple Linear Analysis Test Results

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Constant)</td>
<td>0.056</td>
<td>0.002</td>
<td>34.979</td>
<td>.000</td>
</tr>
<tr>
<td>TA</td>
<td>-0.253</td>
<td>-0.596</td>
<td>-9.650</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Dependent Variable: COD

Source: Data processed by SPSS, 2016.

Based on Table 3, the results of simple linear regression analysis in this research are as follows:

\[ COD = 0.056 - 0.253TA \]

From the analysis table above, a significant value of 0.000 is obtained, which is smaller than 0.05. Because \( \text{Sinai} \) is significant at less than 0.05, it can be concluded that between the tax avoidance variables and the cost of debt there is a significant linear relationship.

### Hypothesis Test

Hypothesis testing is used to identify whether or not the tax avoidance variable has an effect on the cost of debt in sample companies or what is called the t test. The results of the t test show that the tax avoidance (TA) variable in this simple regression model produces a negative regression coefficient (b) of -0.253 with a significance of 0.000. These results prove that tax avoidance has a negative influence on the cost of debt so that hypothesis H1 is rejected and H0 is accepted.

### Coefficient Test \( (R^2) \)

### Table 4. Coefficient of Determination Test Results \( (R^2) \)

<table>
<thead>
<tr>
<th>Model Summary</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.596*</td>
<td>.355</td>
<td>.351</td>
<td>.01076</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), TA
b. Dependent Variable: COD

Source: Data processed by SPSS, 2016.

The data results in Table 4 which shows the results of the analysis of the coefficient of determination \( (R^2) \) in model 1 are 0.355 or 35.5%, meaning that the percentage contribution of the independent variable to the dependent is 35.5%, while the remainder is influenced by other factors not examined in this research.

### Moderation Regression Analysis Test

### Table 5. Regression Test Analysis Results MRA

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>.043</td>
<td>.002</td>
<td>26.825</td>
<td>.000</td>
</tr>
<tr>
<td>TA</td>
<td>.185</td>
<td>.025</td>
<td>.437</td>
<td>7.472</td>
</tr>
<tr>
<td>KI</td>
<td>.013</td>
<td>.002</td>
<td>.260</td>
<td>6.286</td>
</tr>
<tr>
<td>TA*KI</td>
<td>-.568</td>
<td>.028</td>
<td>-1.343</td>
<td>-20.481</td>
</tr>
</tbody>
</table>

a. Dependent Variable: COD

Source: Data processed by SPSS, 2016.
Based on table 5 it shows that institutional ownership moderates the effect of tax avoidance on the cost of debt with the results of the t test for the moderating variable having a t value of -20.481 with a significance of 0.000. So TA*KI 0.000 is smaller than 0.05. This means that the independent ownership variable becomes a moderating variable for the effect of TA on COD.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.596*</td>
<td>.355</td>
<td>.351</td>
<td>.01076</td>
</tr>
</tbody>
</table>

*a. Predictors: (Constant), TA  
b. Dependent Variable: COD

Source: Data processed by SPSS, 2016.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.918*</td>
<td>.843</td>
<td>.840</td>
<td>.00534</td>
</tr>
</tbody>
</table>

*a. Predictors: (Constant), TA*KI, KI, TA  
b. Dependent Variable: COD

Source: Data processed by SPSS, 2016.

It can be seen in the comparison of tables 6 and 7 that it can be seen from the R2 value of model one with a value of 0.355, while the R2 value of model 2 with a value of 0.843 has experienced an increase. This means that institutional ownership is able to strengthen the influence of tax avoidance on the cost of debt, so H2 in this research is accepted.

**Effect of Tax Avoidance on Cost of Debt**

The results of the analysis state that tax avoidance has a significant negative effect on the cost of debt. With the results of hypothesis testing using the t test, it is known that the tax avoidance variable produces a t value of -9.650 with a significance value of 0.000. This shows that there is a significant negative influence on the cost of debt so that H1 is rejected. That the higher the tax avoidance value, the lower the cost of debt value, conversely the lower the tax avoidance, the higher the cost of debt.

The average tax avoidance of sample companies is 16% because this value is less than the tax rate of 22%, which indicates that the company is avoiding tax. Meanwhile, the average value of the cost of debt is 0.04, which is small, meaning the company uses more equity capital than debt. So this causes debt costs to tend to be small. So it can be concluded that the higher the tax avoidance, the lower the cost of debt.

This research supports the research of Sherly & Fitria (2019), Lie & Herman (2020), Yulistin & Yanti (2022) who found the results of the negative influence of tax avoidance on the cost of debt, the higher the tax avoidance, the lower the cost of debt charged. by creditors to the company. This is in line with agency theory which states that tax avoidance can be interpreted as a substitute for debt because when a company does not use debt as an optimal source of funding because the company buys a lot of equity capital.

**Institutional Ownership as Moderator**

The results of the analysis state that institutional ownership can strengthen the influence of tax avoidance on the cost of debt. With a regression significance value of 0.000 and a comparison of R2 (1) with R2 (2), H2 is accepted. The higher the level of institutional ownership, the tighter the supervision of company management in managing profits, so that companies increase tax avoidance and use equity funding as company operational costs so that the company's debt costs are smaller so that profits are greater.

This research is in line with research by Zetira & Bambang Suryono (2022) showing the results that institutional ownership can strengthen the effect of tax avoidance on the cost of debt. This shows that creditors view tax
avoidance as tax savings that reduce the cost of debt and institutional investors as a monitoring tool that reduces the opportunity for rent transfer from tax avoidance by mitigating agency costs with controlling shareholders. This is in line with agency theory which states that tax avoidance can be interpreted as a substitute for debt because when a company does not use debt as an optimal source of funding, the taxes the company bears will be higher. The existence of institutional ownership is considered capable of being an effective monitoring mechanism in every decision taken by managers. This is because institutional investors are involved in strategic decision making so they do not easily believe in acts of profit manipulation. Thus, the higher the level of institutional ownership, the greater the level of supervision over managerial and supervision of conflicts of interest between managerial and debt holders.

CONCLUSIONS

This research aims at tax avoidance regarding the cost of debt and institutional ownership as moderating variables. Based on the results of research and analysis carried out for energy sector companies listed on the Indonesia Stock Exchange in the 2020-2022 period with a total sample of 57 companies that met the criteria. From the results of the tests carried out, the following conclusions can be drawn:

1) Tax avoidance has a negative effect on the cost of debt, the higher the tax avoidance, the lower the cost of debt charged by creditors to the company. This is in line with agency theory which states that tax avoidance can be interpreted as a substitute for debt because when a company does not use debt as an optimal source of funding, the taxes the company bears will be higher. Based on this research, it can be concluded that companies will use debt as an optimal source of funding so that corporate taxes can be as low as possible.

2) Institutional ownership can moderate and strengthen the effect of tax avoidance on the cost of debt. This shows that creditors view tax avoidance as tax savings that reduce the cost of debt and institutional investors as a monitoring tool that reduces the opportunity for rent transfer from tax avoidance by mitigating agency costs with controlling shareholders.

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https://www.liputan6.com