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Tax Planning on The Multinational Companies in Indonesia

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ABSTRACT

The discussion of this review is motivated by the problems of multinational companies, especially in Australia, America and Indonesia, which prefer tax planning efforts with Tax avoidance. The purpose of this paper is knowledge of tax planning in multinational companies that occur as a result of business transactions. The results of the discussion prove that each country carries out tax avoidance using 2 (two) measurements, namely the Effective Tax Rate (ETR) and Book Tax Differences (BTD). This writing describes the reasons why business people do tax planning by tax avoidance, which can be explained, namely: 1) Tax laws that cannot be obeyed by companies and provide high costs in fulfilling them. 2) The value of the tax payable becomes large due to the process of calculation errors and deposits as well as tax reporting. 3) The company feels that it is necessary to do tax planning in order to implement tax obligations and fulfill the tax provisions that have been determined, so as not to invite suspicion from tax inspectors, 4) Good public morals in tax reporting. Finally, it is suggested to the readers that the scope of this paper is in accordance with the cases that occurred in several reviewed journals, hopefully it will provide benefits and positive contributions. 4) Good community morale in tax reporting. Finally, it is suggested to the readers that the scope of this paper is in accordance with the cases that occurred in several reviewed journals, hopefully it will provide benefits and positive contributions. 4) Good community morale in tax reporting.

INTRODUCTION

DevelopmentThe era of globalization has an impact on the progress of the economy, technology, transportation and information in a country which has a major influence on business patterns. Multinational companies through their subsidiaries, including branch companies, develop their business by investing and transnational-scale transactions. Export and import activities, international transactions, including foreign investment are the main activities of multinational companies. Some countries have certain goals and are finally able to influence economic conditions through trade traffic. This activity will cause a large tax burden, so many companies are trying to minimize taxes without problems and do not violate tax laws(Àbdullàevà, 2018; Güzel, 2020; Herman, 2021).

Companies must obey and obey in paying taxes due to the business activities they do, so that tax debt becomes an obligation that must be paid. Corporate taxes can affect a company's financial position, financial performance, liquidity, operating results and cash flow (Grubert and Mutti, 1991; Shackelford and Shevlin, 2001; Dhaliwal et al., 2005; Beattie et al., 2006). The company's management always tries to study and look for the right opportunities to get benefits in paying smaller tax obligations to local and central governments through established regulations. By paying a small tax, the company will have more cash to finance operations and expansion and open new job vacancies (Kieso, 2008:1).

Tax obligations paid by companies often raise suspicion, and it is no longer a secret that companies avoid or reduce taxes paid to the state. Tax evasion is carried out in ways that are not legal according to the rules of the Taxation Law and can also be carried out through methods that are not legal or not in accordance with the provisions of the regulations. Tax reduction can be done by passive method (compliance with tax provisions) or aggressive (arrangement of transactions with one of the principal objectives to reduce the value of tax payables).(Gnangnon & Brun, 2020; Iskamto, Ghazali, & Aftanorhan, 2020). Companies that exhibit aggressive tax and financial earnings management strategies at the same time tend to have aggressive investment, financing, operating and compensation strategies (Frank et al., 2009).

Owners will encourage management to take aggressive tax actions to reduce the tax burden that arises (Chen et al., 2010). Tax planning refers to the process of engineering taxpayers' businesses and transactions so that the tax debt is in a minimal amount and can be reduced in value, but still in accordance with tax regulations. This effort is usually referred to as tax avoidance (Barr, 1997 in Masri and Martani, 2012). Tax planning (tax planning) is part of tax management, where the process of organizing the business of a taxpayer or a group of taxpayers in such a way that the tax debt, both PPh and other tax burdens, is at a minimum position.(Gnangnon & Brun, 2020; Iskamto & Ghazali, 2021; Kalloub, Demir, & Musabeh, 2020; Magbonde, Fahinde, Adudoui, & Su, 2018; Suandy, 2008).

The explanation above provides an understanding for the author to conduct a further review of tax planning in multinational companies. The focus of the objects discussed are companies registered in Australia, America and Indonesia. The purpose of this review is to identify and describe the forms of tax avoidance that have occurred in each country and provide information on the factors in an effort to minimize taxes that have been carried out.

RESEARCH METHODOLOGY

The method used to determine tax planning in multinational companies is a qualitative method, where a survey is conducted on several sample companies and also semi-structured and structured interviews with the executives involved. Qualitative data were analyzed and used as quantitative calculations and processed statistically. This data analysis follows the analysis of journalized research that is reviewed which has the same method in discussing tax planning, especially for multinational companies, especially Australia, America and Indonesia. The reason for taking the object is based on multinational companies (MNCs) based in developed countries (Australia and America) by opening branches in developing countries (Indonesia).

DISCUSSION

Tax Planning

Tax planning is part of the management functionwhich aims to save tax legally in accordance with tax regulations. Tax planning focuses on a process of engineering taxpayers' business transactions which causes the tax payment obligation to be small but is still within the taxation rules.Tax planning is the starting point of the management in doing tax planning, where initially the collection and research of tax regulations was carried out. This explanation has been conveyed by (Suandi, 2008: 6) that the intent and purpose is to be able to select the types of tax saving measures that are appropriateevery measure of tax avoidance is a reflection of tax planning that reduces the company's tax liability without having to reduce its accounting income. Further views (Mardiasmo 2009:277) explain some of the benefits obtained in tax planning, namely: Savings in cash out, because tax planning can save taxes which are costs for the company. Manage Cash Flow (Cash

Flow), because tax planning can estimate cash needs for taxes and determine the time of payment, so the company can prepare a more accurate cash budget. Maximizing Employee Salaries, because taxes can be considered as an income deduction element, so that by utilizing the right tax planning can minimize these costs and employees get income in excess of the minimized tax difference.

Factors Affecting Tax Planning

Some things thatinfluencing the behavior of taxpayers to minimize the obligation to pay taxes is the complexity of tax regulations, the tax paid is getting bigger, negotiations in tax financing, tax penalties are getting bigger and the moral hazard of the community. All of these explanations have been presented by (Pohan 2017, 18) as follows: The complexity of tax regulations, tax regulations that are increasingly complicated, there will be a tendency for taxpayers to avoid paying taxes because the costs of complying with these tax regulations are high. The greater the tax paid, the greater the amount of tax that must be paid, the greater the tendency of taxpayers to commit fraud by reducing the amount of tax payments. Negotiations in tax financing, In negotiating intentional or not, sometimes taxpayers carry out a negotiation process and give bribes to the tax authorities in the implementation of their tax rights and obligations.

The higher the bribe paid, the less likely the taxpayer is to commit a violation. Early detection of risk. In detecting tax risk, it is closely related to the level of probability, namely whether a violation of this tax provision will be detected or not. The lower the risk of being detected, the taxpayer tends to commit violations. On the other hand, if a violation is easily identified, the taxpayer will choose a conservative position by not violating the rules. The tax fines are getting bigger, the tax sanctions are getting bigger and heavier that can be imposed by the tax authorities, then the smaller the tendency of taxpayers to commit violations. Early detection of risk. In detecting tax risk, it is closely related to the level of probability, namely whether a violation of this tax provision will be detected or not. The lower the risk of being detected, the taxpayer tends to commit violations. On the other hand, if a violation is easily identified, the taxpayer will choose a conservative position by not violating the rules.

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taxpayers will tend to take a conservative positionwithout violating tax provisions. On the other hand, the lighter the sanctions or even the absence of sanctions for violations committed by taxpayers, the greater the tendency to violate them. The moral hazard of the community, the moral of the community will give its own color in determining their compliance and awareness in carrying out their tax rights and obligations.

Based on the explanation above, it can be seen from the research of Cooper and Nguyen (2019) that tax planning develops a new theory by developing the following sketch:

Figure 1: Typology of Motivation and opportunities

Based on the figure above, it can be explained that the essence of this theoretical contribution is to develop a new theoretical framework on the typology of MNEs that analyzes the interaction between their motivation to avoid taxes and the existing opportunities that can be described from aggressive tax avoiders, frustrated tax avoiders, taxpayers. responsible and honest taxpayers produce information that can be explained as follows: 1) Aggressive tax avoiders; frustrated tax evaders; direct taxpayers and responsible taxpayers. US MNEs and UK subsidiaries adopt a strategic posture in relation to tax planning, which overall reflects an understanding of the legality of the establishment and the risks that tax authorities may encounter in the future, that could potentially result in a refund, fine, or legal case (Wall Street, 2006; Financial Times, 2016a, 2016b), 2) New empirical evidence on how US multinationals and their UK subsidiaries plan tax affairs by presenting transfer pricing is only one part of complex corporate tax planning and that in fact, MNEs use a variety of mechanisms and methods to reduce their tax bill within the scope of the law, 3) This approach allows us to provide an in-depth understanding of the heterogeneity of the tax planning approach adopted by MNE and its subsidiaries. The work will be of interest to policy makers, noting,

Furthermore, recent media releases also emphasize the ability of multinational companies operating in Australia (e.g., Apple, Google, and Starbucks) to take advantage of the differences in tax laws, rules and regulations in different jurisdictions to significantly reduce the amount of corporate tax incurred. they pay internationally (Australian Financial Review, 2012).

Tax Planning Effort

One of the tax planning is tax avoidance (tax avoidance)., where tax savings in a legal way. This means that this method does not violate the applicable tax laws. Furthermore, the explanation of tax avoidance can be measured by:

a. Cash Effective Tax Rate (CETR)

According to (Rusydi and Martani, 2014) explains that the purpose of usingThis model is to accommodate the amount of cash taxes paid currently by the company. Cash ETR is calculated using the following formula:

$$CashETR = \frac{CashTaxPaidi,t}{PretaxIncomei,t}$$

Where:
- *Cash* ETR is the Effective Tax Rate based on the amount of tax cash that paid by the company in the current year
- *Cash Tax Paid* is the amount of tax cash paid by company i in year t based on the company's financial statements
- *Pretax Income* is the pre-tax income for company i in year t based on the company's financial statements

b. *Effective Tax Rate* (ETR)

According to (Utami and Setyawan, 2015), this method is used as a measurement because it is considered to reflect a fixed difference between the calculation of book profitwith taxable profit. ETR aims to see the tax burden paid in the current year. ETR can be calculated using the formula:

$$ETR = \frac{Tax\ Expense\ i,t}{Pretax\ Income\ i,t}$$

Where:
- ETR is the Effective Tax Rate based on financial accounting reporting that apply
- *Tax Expenses* is corporate income tax expense for company i in year t based on the company's financial statements.
- *Pretax Income* is the pre-tax income for company i in year t based on the company's financial statements

c. *Book Tax Differences* (BTD)

Furthermore (Rusyidi and Martani, 2014) also explained about the BTD model which is the difference between earningsaccounting and taxable income are temporary differences, and are shown by the deferred tax expense (benefit) account. Book Tax Differences (BTD) is calculated from deferred tax divided by total assets of BTD which can be calculated using the following formula:

$$BTD = \frac{Total\ Difference\ Book - Tax\ i,t}{Total\ Aset\ i,t}$$

Where:
- BTD, is Book Tax Difference
- Total Differences Book, is the difference in profit by book
- Tax is profit based on corporate tax i in year t
- Total Assets, is the Total Assets of company i in year t

The explanation of the measurement above has been used in researchTaylor and Richardson (2014) explain that tax planning for companies in Australia has been measured using 4 (four) measures of corporate tax avoidance, namely: ETR (Effective Tax Rate (ETR) and BTD (Book Tax Differences) with the following description: 1) . 1) The first tax evasion measure (ETR1) is calculated as total tax expense (consisting of current and deferred tax expense) scaled by accounting income before tax. 2)

The second tax avoidance measure (ETR2) is calculated as cash tax paid as measured by accounting income before tax. 3) Our third tax avoidance measure (BTAX1) assesses raw BTD as per study by (Manzon and Plesko, 2002), calculating it as pre-tax accounting income minus taxable income and scaled by total assets lagging. Taxable income is calculated as income tax expense divided by the corporate tax rate of 30%. 4) The fourth tax avoidance measure (BTAX2) is calculated as residual BTD using the method developed by Desai and Dharmapala (2006) which explains that BTD may reflect earnings management activities where earnings are adjusted to avoid reporting losses or to achieve performance benchmarks or goals based remuneration. Adjustment of BTD to control earnings management activities that could account for the discrepancy. In particular,

On the other hand, it is explained in findings (Cooper and Nguyen, 2019) found that MNEs optimize rather than minimize ETR. This can make measuring tax avoidance and evaluating the scale of the problem difficult. Corporate reputation plays a key role, limiting tax minimization and otherwise leading companies to adopt an "optimal" rather than a "minimal" ETR. The ETR aims to look at the tax burden paid in the current year.

Further research (Bradshaw, Guanmin, Mark, 2019) uses two measures of income tax rates: the current effective tax rate and the cash effective tax rate. a) Our first measure is the current effective tax rate (ETR), as it is usually calculated: ETR he = Current Income Tax Expense / Income Before Tax. b) the second measure is the effective cash tax rate (CETR). her CETR = Cash Income Tax Paid / Her Income Before Tax. Both measures are at 1 to minimize the effect of the small denominator problem, and the negative value is set to 0 (Dyreng et al., 2010). Consistent with previous research, lower (higher) ETR or CETR was associated with more (less) tax avoidance.

Overview of Tax Planning

Research (Taylor and Richardson, 2014) explains that from 1,000 listed companies for the 2006-2010 period, to a data of 200 publicly listed companies in Australia, it finds that the reported uncertainty of the company's tax position, the tax expertise of its directors, and remuneration incentives are based on The performance of management personnel is significantly positively related to tax avoidance, and vice versa.

Furthermore, the findings (Cooper and Nguyen, 2019) found that MNEs (entities that conduct business activities in several countries through their branches and subsidiaries throughout the world (especially in developing countries) where the head office is located in developed countries) The US adopted a variety of heterogeneous approaches driven by motivation and opportunity to legally reduce the tax bill and developed a new theoretical framework that analyzes the interaction of motivation and opportunity in MNE tax planning strategies resulting in four typologies of corporate taxpayers namely aggressive tax avoiders, frustrated tax avoiders. , . responsible taxpayers and honest taxpayers.

Further research (Bradshaw, Guanmin, Mark, 2019)SOEs that have gone public registered in Indonesia report significantly higher effective tax rates and cash tax rates than non-SOEs, corroborated by the differential test for privatized SOEs, which found a positive relationship between tax rates and promotion of SOE managers. This is because Indonesia refers to the 2006 Chinese accounting standard which allows companies to use either the debt-based tax payment method or the tax provision method (ie, deferred basis) to calculate income tax. Companies were banned from using the tax payment method after 2007, when China adopted the International Accounting Standards (IAS). Under the tax payment method, the reported income tax expense is the same as the current tax expense (ie, deferred tax expense is not recognized); Under the tax provision method, the reported income tax expense includes current tax expense and deferred tax expense. More than 90% of public companies chose the tax payment method before 2007.

CONCLUSION

A multinational company (Multinational Company) is said to be a company located in various countries that runs industry and has offices in various other countries and has branches in various developing countries. This company is also called a global company, so every business activity can not be separated from taxes between countries. The influence of state conditions will have a strong impact on the global situation that is happening and this influence gives birth to the role of business people to think about how to minimize or avoid the tax burden in a legal way. Most countries according to the sample exemplified (Australia, America and Indonesia) prefer tax planning efforts with tax avoidace. Tax avoidance carried out by saving taxes in a legal way and not contradicting the applicable law. Tax avoidance used is measured by 2 (two), namely a) Effective Tax Rate (ETR), which is a measurement that is considered to reflect the fixed difference between the calculation of book profit with taxable profit. b) Book Tax Differences (BTD) measures the difference between profit accounting and taxable income which are only temporary differences, and are shown by the deferred tax expense (benefit) account.

The measurement used is of course hoping to provide benefits and not cause problems for tax avoidance. Some of the factors why business people carry out tax planning by means of tax avoidance can be explained, namely: 1) Increasing tax laws and regulationsThe complexity of making business people want to do tax planning in order to get a low cost without reducing the value of compliance. 2) The amount of tax payable due to errors and errors in calculation, deposit, and tax reporting, then the tax litigation action in resolving tax disputes by filing objections, appeals, and reconsideration. 3) Avoiding inspections from the tax authorities where suspicion of the reported value becomes a question mark so that it becomes a problem in reporting. Therefore, tax planning is needed so that the implementation of tax obligations does not conflict with applicable regulations. 4) Good public morals, because the better, the lower the desire to do tax planning, because awareness arises by itself on business transactions that have occurred.

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