

# EFFECT OF FAMILY OWNERSHIP TOWARDS TAX AGGRESSIVENESS ON FOOD AND BEVERAGES INDUSTRIAL COMPANY LISTED IN INDONESIA STOCK EXCHANGE

**Sunaryo**

Accounting and Finance Department, Faculty of Economic and Communication, Bina Nusantara University,  
Jln. K.H. Syahdan No 9, Jakarta Barat, DKI Jakarta, 11480, Indonesia  
sunaryo@binus.ac.id

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## ABSTRACT

The primary objectives of this research were to learn the effects of family ownership, return on assets, leverage, property plant, and equipment with tax aggressiveness, either simultaneously or partially. This research used quantitative method with secondary data collected by purposive sampling from foods and beverages industrial companies group listed in IDX and preceding journals of scientific articles research. This research used simple regression to test the hypothesis simultaneously with F test and t test for testing the partial hypothesis. Results of this research show that family ownership, return on assets, leverage, and property, plant, and equipment have affected tax aggressiveness simultaneously and significantly. The family ownership and property, plant and equipment have significant effects to tax aggressiveness, but the return on assets and leverage do not have significant effects to tax aggressiveness.

**Keywords:** family ownership, tax aggressiveness, industrial company

## INTRODUCTION

Sumitro in Prastowo (2011) stated that tax is a levy to the State Treasury by law (enforceable), thus it does not receive direct services and can be demonstrated and used to pay for general government spending. The types of taxes by nature and taking institutions grouped into three categories: (1) according to the faction, it consists of direct taxes and indirect taxes. Direct taxes are taxes that the assignment can not be delegated to another party, but must be borne by the taxpayer directly concerned, i.e., the income tax. Indirect taxes are taxes that the assignment may be delegated to others, for example, value-added tax. (2) By their very nature, it consists of subjective taxes, namely taxes originated or based on the subject determined the terms of its objective regarding the circumstances of the taxpayer, for example, Income Tax Article 21. (3) According to the tax collector agency, it consists of state taxes and local taxes. State tax is levied by the

central government and used for financing the general households in the country, for example, property tax, stamp duty, sales tax on luxury goods. On the other hand, the local tax is a tax levied by local governments and used to finance the household of each area, i.e., advertisement tax, entertainment tax (Waluyo, 2007).

Tax collection system consists of: (1) official assessment system; it is a system of taxation which authorizes the taxation apparatus to determine or calculate the amount of tax payable in each year by themselves by following the laws and regulations of applicable tax. In this system, initiatives as well as activities counting and collecting taxes are entirely in the hands of the apparatus of taxation. (2) Self-assessment system, namely a system of taxation which authorizes taxpayers to determine the amount of tax payable by themselves in each year according to the laws and applicable tax regulations. In this case, the initiative and activity of counting and collecting taxes are entirely in the hands of the taxpayer.

(3) With holding tax system is a system that gives authority to a third party designated to determine the amount of tax payable by the taxpayer in accordance with the laws and applicable tax regulations.

Frank (2009) stated that the aggressiveness of taxes is an action aimed at reducing the amount of taxable income through tax planning either classified or not classified as evasion tax. The aggressiveness of taxes is the obstacles that occur in the tax collection which can result in reducing tax revenue for the State. Waluyo (2009) stated that the tax is community contributions to the State imposed and payable by the taxpayer and the way to pay governed by laws and not achieving return directly and used to finance general expenditures related to the State's duty to governance. Taxes to be paid by the taxpayer is a burden for the company so that the owners of the company are expected to tend to a reduction of taxes that will be paid by tax aggressiveness (Chen, 2007).

Tax aggressiveness by taxpayers will have an impact on state revenue comes from taxes. Not achieving the 2012/2013 State Budget was indicated by the aggressiveness of tax made by the company or the taxpayer. One was conducted by PT Asian Agri Group as one of the parent company in the Group Raja Garuda Mas belonged to Tanoto, Tanoto is the richest family in Indonesia with the amount of wealth reached US \$ 2.8 billion, or around 25.5 trillion rupiahs. In addition to PT Asian Agri Group, there are other companies that are under the auspices of the Raja Garuda Mas Group, including the Asia Pacific Resources International Holding Limited, Indorayon, PEC Tech, and others. Based on the investigation results of the Commission, it was found that the occurrence of tax evasion in the form of evasion of Value Added Tax (VAT) and Income Tax (PPH), deviation recording transactions and inflate the company's costs, boost the loss of export transactions and discouraging the sale, on wiping the tax alleged financial harm state most companies in developing countries are still controlled by family ownership, including most of the companies in Indonesia. The family company plays an important role in providing economic stability. A family business is regarded as a family business if the people involved in the business are still largely tied up in the family line. The main strength of a family business is the strength of kinship that is supported by good communications to run the family business. An organization called the family company when there are at least two generations of family involvement and their influence corporate policies (Chen, 2007) to USD, 1.3 trillion (Tempo, 2012).

There is an argument that the tax is a cost for the company and the owner of the company does not necessarily make companies act aggressive tax; it actions aggressive tax action may have consequences other costs as a result of the problems that arise in the form of agency problems (Sari, 2010). The agency problem in the enterprise is not always on the same level. The comparison level aggressive tax family company with its non-family (public ownership) depends on

how big the effects of benefits or costs arising from the tax measures aggressive owner of the company from the founding family of companies or securities received non-family managers of the company (Sari, 2010). From the results of the study, it is concluded that the level of aggressiveness of current corporate tax family is significantly smaller than the non-family. It is suspected that the family company is more willing to pay higher taxes than to pay a tax penalty and faces the possibility of reputational damage for their tax examination of the tax authorities which is an officer tax inspectors (Chen, 2007). Nonfamily company has aggressive tax rate higher than the family company, allegedly due to a larger agency problem occurred on the nonfamily company (Chen, 2007).

Theoretical studies related to the issue in question were the result studies of Chen (2007) and Sari (2010). In their studies, the dependent variable is the aggressiveness of the taxes while the independent variables are family ownership coupled with the control variables as independent variables such as return on assets, leverage, as well as property, plants, and equipment. In solving this problem, the next study is planned to add control variables as independent variables from scientific journals and other researchers as well as for a group of manufacturing companies other than foods and beverages thereby can solve the problem more thoroughly. The results of this study would be useful and can be used by the IRS as a tax planning arrangement consideration, especially an enhance tax collection as well as for future researchers in the field of taxation.

The problems of this study contain the influence of family ownership against tax aggressiveness with control variables as independent variables such as return on assets, leverage, and property plant and equipment as follows: (1) The family ownership significantly affect the aggressiveness of tax, (2) The return on assets significantly affects the tax aggressive, (3) It has a significant leverage effect on the aggressiveness of taxes, (4) Property, plant, and equipment have a significant effect on aggressive tax, and (5) Is the family ownership, return on assets, leverage, and property, plant, and equipment together significantly influence the aggressiveness of tax. The main purposes of this research are to know and understand whether family ownership has a significant effect on the tax aggressive, to determine whether the return on assets significantly affects the aggressiveness of tax, to determine whether leverage significantly affects on tax aggressive, to find out if property, plant, and equipment are significant affect the aggressiveness of tax and to find out if ownership family, return on assets, leverage, and property, plant, and equipment have the same significant effect on the aggressivet taxes. The results of this study would be useful to the tax office as a basis for planning and decision-making to levy taxes. This study is divided into six stages: the first stage is introduction, literature review is the second stage, the third stage is the research method, the fourth stage is result and discussion, the fifth stage

is conclusion, and the final stage is references.

Jensen and Meckling (2006) explained that the agency relationship occurs when the principal employs an agent to provide services and delegate decision-making authority. The principal is a shareholder or investor while the management agent manages the company. The agency theory cannot be separated from the two sides above because both the principal and the agent were the main perpetrators. Both of them have their respective advantages in putting the position, role, and standing. The principal as capital owners have access to the company's internal information while perpetrators in the company's operational practice have information about the operations and performance of the company and the agency theory occur the difference of interest between the principal agents. The difference of the interest becomes greater because the principal cannot monitor daily agent activity to ensure that the agent works under the needs of the shareholders. In contrast, the agent has a lot more important information about the capacity of himself/herself, working environment, and the corporate environment as a whole. Agent costs represent the costs to be incurred to reduce the agency problem as well as to meet the welfare needs of the shareholders. The types of costs incurred, among others, come from the cost of incentives to managers to maximize stock price, and other costs such as the costs associated with their control of any actions of managers, known as corporate governance.

Most enterprises in developing countries are still controlled by the family ownership, including most of the companies in Indonesia. The family company plays an important role to provide economic stability. A family business is where the people involved in the business are still largely tied up in the family line. The main strength of a family business is the strength of family relationships and good communication to run business family. An organization is named family business if there are at least two generations of family involvement and their influence corporate policies (Chen, 2007).

Frank, Lynch and Rego (2009) stated that the tax aggressiveness is downward manipulation of taxable income through tax planning that may or may not be considered fraudulent tax evasion. Tax aggressiveness done by a company can include the act of tax avoidance is legal or illegal. Act of tax avoidance is illegal may cause the company should pay sanctions made by the government and these penalties may be able to be the cost of the tax to be paid by the company if the company paying taxes properly, but there is motivation that makes the company keep doing aggressive taxes like to tax payment savings goal with through tax planning. Large companies tend to not performing aggressive tax is illegal because it can cause damage to the good name of both companies are already built for a long time, but for medium-scale enterprise down tend to do aggressive taxes illegally because of the risk that can be taken only sanction tax where the sanctions less compared to the savings tax payments

if it is not known to the tax. Sari (2010) stated that the aggressiveness of tax reporting is a situation when a company conducts a policy certain taxes and one day there is the possibility of tax measures will not be audited or question from a legal standpoint, but this action is risky because of vagueness final position as to whether the action it violates or does not violate any applicable laws. The advantage to companies doing aggressive tax is reduced fees to be paid corporation tax and in the end the company can obtain a net profit more tax, and the manager will receive compensation from the owners or shareholders. Loss is a possibility that the company obtain sanction from the taxes and falling stock prices (Sari, 2010), reputational damage as a result of the examination of the tax, as well as the decline in stock prices due to other shareholders that are aware of any aggressive adverse tax action which are detrimental to shareholders. From the results of the study, it is concluded that family firms have a less tax aggressiveness level compared to its non-family. This happens presumably because the nonfamily company is more willing to pay higher taxes than to pay a tax penalty and facing the possibility of reputational damage as a result of the examination of the tax. With the possibility of fines and reputational damage as a result of aggressive actions of tax, then family holdings prefer aggressiveness taxes action (Chen, 2007).

Brigham and Houston (2009) stated that ratio return on assets (ROA) is the ratio of net income to total assets (Net income/ total assets), return on assets is the capacity company to return income from totals asset investment. Guerard and Schwartz (2007) defined leverage as the amount of outside funds (debts). Leverage is totals fund from outsiders (debts). Guna and Herawati (2010) stated that leverage is measured by the ratio scale to the totals debts to totals assets, the following formulation is  $\text{Leverage} = \frac{\text{total debts}}{\text{total assets}}$ . Next, Doupnik and Perera (2012) described that property, plants, and equipment provides guidance for the following aspects of accounting for fixed assets: recognition of initial costs, subsequent costs, measurement of initial cost, and depreciation.

## METHODS

This study uses secondary data such as financial statements and notes to the financial statements of the group companies of industrial foods and beverages that listing on the Indonesia Stock Exchange (BEI) during 2009 to 2013 and the results of relevant research and published in scientific journals of previous researchers. Its population is a group of companies industrial foods and beverages and sample selected by purposive sampling with criteria as listed on the Indonesia Stock Exchange, the company industry group of foods and beverages, financial statements are denominated in rupiah, no losses during the year, and there is a 5% minimum of family ownership.

The variables used are for the dependent variable is the aggressiveness of the tax, while for



the variable independent is family ownership and return on assets, leverage and property, plants, and equipment that serves as a control variable. Test data used is Kolmogorov-Smirnov Z to test the normality of the data (should be greater than 0.05), and Adjusted R Square to test the amount of independent variables that affect the dependent variable (tax aggressiveness). Hypothesis test used was the F test (ANOVA) using simple regression to test the effect of independent variables as a whole on the dependent variable (tax aggressiveness) and the t test for the influence of independent variables partially on the dependent variable (tax aggressiveness). Both the F test (ANOVA) and t test with the significant level of 0.05, if the result is less than 0.05, it means the result is significant and if it is greater than 0.05, it means it is not significant with the research hypothesis model as follows: (Ha1.) There is influence which is significant between family ownership, return on assets, leverage, and property, plants, and equipment altogether. (Ha2.) There is a significant influence between family ownership against tax aggressive. (Ha3.) There is a significant influence between return on assets against tax aggressive. (Ha4.) There is a significant relationship between leverage against tax aggressive. (Ha5.) There is significant influence between property, plants, and equipment against tax aggressiveness. If the result is less than 0.05, it means there is significance, and if it is greater than 0.5, it means there is no significance.

## RESULTS AND DISCUSSIONS

Samples were selected by purposive sampling as many as 40 of 80 foods and beverages industrial companies listed in Indonesia Stock Exchange from 2009 to 2013 with the selection process as follows: foods and beverages companies listed in Indonesia Stock Exchange from the year 2009 to 2013 as many as 80 ( $16 \times 5 = 80$ ), reduced by a company that does not publish its financial statement 15 ( $3 \times 5 = 15$ ), minus the company suffered losses 10 ( $2 \times 5 = 10$ ), minus the company who do not have family ownership of at least 5% by 10 ( $2 \times 5 = 10$ ), and reduced again by companies that do not have tax expense 5 ( $1 \times 5 = 5$ ).

Table 1 indicates that all independent variables such as family ownership, return on assets, leverage, and property, plants, and equipment is normally distributed because the significance of Kolmogorov-Smirnov is 0.807, which is greater than 0, 05.

Table 1 One Sample Kolmogorov-Smirnov Test

		Unstandardized Predicted Values
N		40
Normal Parameters	Mean	0,2762725
	Std. Deviation	0,05425979
	Absolute	0,128
Most Extreme Differences	Positive	0,128
	Negative	-0,078
Kolmogorov Smirnov Z		0,807
Asymp. Sig. (2-tailed)		0,532

Table 2 shows that the value of Durbin-Watson is 2,050 which is based on the Durbin-Watson test table with sample number 40 and number one dependent variable and one independent variable and control variables that serve as the third independent variable values obtained for 1.2848 dL and dU value of 1.7209. The value of Durbin-Watson is 2,0850 lies between dU (1,7209) and dL 1, 2848, so that it can be concluded that there is no autocorrelation regression model and it is fitted for use. The value of Adjusted R Square is 0,66, meaning that the independent variables such as family ownership, return on assets, leverage, and property, plant and equipment affect the dependent variable (tax aggressiveness) by 66% while the rest 34% is influenced by other independent variables outside this research.

Table 2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin Watson
1	0,743 <sup>a</sup>	0,672	0,66	0,32688	2,0850

- Predictors (Constant), Ln KK, Ln ROA, Ln Leverage, Ln Property, Plant, & Equipment.
- Dependent Variable: Ln AGP

Table 3 indicates that the F-test (ANOVA) has a significant value of 0.004, less than 0,05. This means Ha1 is accepted and Ho1 is rejected or influence significantly, meaning that the regression model for the independent variables such as KK (family ownership), ROA (return on assets), leverage, and property, plant, and equipment significantly influence the dependent variable AGP (tax aggressiveness) with a confidence level of 95%. In other words, the regression model is worthy.

Table 3 Anova <sup>b</sup>(F Test)

Model		Sum of Square	Df	Mean Square	F	Sig.
1	Regression	0,115	4	0,029	4,764	0,004 <sup>b</sup>
	Residual	0,211	35	0,006		
Total		0,326	39			

- Dependent Variable : AGP
- Predictors (Constant), KK, ROA, Leverage, Property, Plant & Equipment.

Table 4 presents that Regression Coefficient (t-test), the following regression equation can be obtained:  $Y = 0.183 + 0.290 KK - 0.068 Leverage ROA + 0.123 - 0.210 PPE$ . Table 3 (t-test) shows that the independent variables such as family ownership (KK), and property, plant and equipment significantly affect the tax aggressiveness (AGP) because it has a value significantly less than 0, 05 are respectively 0,000 and 0,020, In other words, Ha2 and Ha5 are accepted while Ho2 and Ho5 are rejected. Other independent variables such as ROA and Leverage do

not significantly affect the aggressiveness of the tax because they have value of respectively 0.472 and 0.328 that are significantly greater than 0.05. In other words, Ha3 and Ha4 are rejected or Ho3 and Ho4 are accepted. The government, through the tax office, in planning, picking and supervise the tax should consider the independent variables and the family ownership of property, plan, and equipment while the other independent variables such as return on assets and leverage to be considered as only a supplement.

Table 4 Coefficient Regression <sup>a</sup> (t test)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
T (Constant)	0,183	0,064		2,848	0,007
KK	0,290	0,073	0,632	3,956	0,000
ROA	-0,068	0,093	-0,117	-0,726	0,472
Leverage	0,123	0,124	0,166	0,993	0,328
PPE	-0,240	0,098	-0,342	-2,447	0,020

a. Dependent Variable: tax aggressiveness (AGT)

## CONCLUSIONS

A total of 40 samples for five years (5 x 8) of the 80 group of foods and beverages industrial companies listed on the Indonesia Stock Exchange and were taken by purposive sampling from 2009 until 2013. The independent variable was family ownership, return on assets, leverage, and property, plant, and equipment, while the dependent variable is normally distributed tax aggressiveness and qualify regression. The independent variables were examined in this study was 66% significantly affect the aggressiveness of tax, while the remaining 34% is explained by other independent variables outside this study. The results of this study show that family ownership and property, plant, and equipment significantly influence the aggressiveness of the tax, while the return on assets and leverage are not significantly influence the aggressiveness of tax. This research can be developed by subsequent researchers to use a group of companies'

specialized services such as banking, hospitality, consultants, hospitals and others, or by adding control variables that function as independent variables as much as 34%. The government through the tax office, in considering the planning, collection and monitoring of tax should consider the independent variables and the family ownership of property, plan, and equipment for these two variables significantly influence the tax aggressiveness.

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