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Effect of Tax Avoidance, Profitability, Leverage on Cost of Debt with Institutional Ownership as Moderating

Brigita Wahyu Yuliarti[1], Nuramalia Hasanah[2], Tri Hesti Utamaningtyas[3], Etty Gurendrawati[4], Unggul Purwohedi[5]
State University of Jakarta[1,2,3,4,5]
Jl. R.Mangun Muka Raya No.11, RT.11/RW.14, Rawamangun, Kec. Pulo Gadung, Kota Jakarta Timur, Daerah Khusus Ibukota Jakarta 13220
Correspondence Email: brigitalia2@gmail.com
ORCID ID: https://sandbox.orcid.org/0000-0003-3059-3524

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ABSTRACT

The purpose of this study is to determine and also examine the effect of tax avoidance, profitability, leverage on the cost of debt with institutional ownership as moderating agent in property and real estate companies listed on the Indonesia Stock Exchange (IDX) in 2016-2019. The sampling method used is purposive sampling with 22 listed companies included in the sampling criteria. The data is obtained from financial reports downloaded from the company's own website or the IDX. The analytical method used is moderate regression using SPSS 25. The results of this study indicate that tax avoidance has a positive and insignificant effect on the cost of debt. Profitability has a negative and significant effect on the cost of debt. And leverage has a negative and significant effect on the cost of debt. Then, institutional ownership is not able to moderate the effect of tax avoidance on the cost of debt. Meanwhile, institutional ownership is able to moderate the effect of profitability and leverage on the cost of debt.

Keywords: Cost of Debt, Institutional Ownership, Leverage, Profitability, Tax Avoidance

JEL Classification: H20, H26, G32, M40, M41

INTRODUCTION

To be able to operate business activities properly, the company needs adequate sources of funds. Source of funding is important for business development. The sources of funding are usually obtained from internal and external parties. Debt is one of the important sources of funding for companies that can affect the value of the company. If the company has large debt, then the value of the company will increase compared to if the company had to use its own capital.

Factors that can affect the cost of debt are agency costs, information asymmetry problems and also tax factors. Agency costs arise because of the implementation of the contract so that management as an agent acts in harmony with the goals of the principals. The problem of information asymmetry in the principal and agent relationship.

Efforts to minimize taxes are often called tax planning. Tax planning is a means by which taxpayers can minimize the tax payable through the scheme regulated in the tax law. One of the tax planning strategies is tax avoidance, also known as tax avoidance.

In the cost of debt, the characteristics of the company are also included in the factors that influence it. One of the characteristics of the company can be seen from the profitability. Profitability determines decisions in the use of debt for company funding. In providing loans, creditors will also see the state of the company from the leverage or debt ratio. Leverage is a ratio that shows the extent to which the company's assets are financed by debt. Leverage refers to the debt owned by the company.

Tax avoidance can reduce the transparency of the company so that it can lead to agency conflicts between management and shareholders which causes information asymmetry. Therefore, it is necessary to apply Good Corporate Governance (GCG) in a company. In the Indonesian GCG guidelines published in 2006 there are 5 principles of GCG, namely transparency, accountability, responsibility, independence, as well as fairness and equality. One of the implementations of GCG itself is institutional ownership.

LITERATURE REVIEW

Agency Theory

Agency theory is the relationship between the principal and the agent. Principal delegates responsibility for decision making to agent. It can be said that the principal gives a mandate to the agent to be able to carry out certain tasks in accordance with the agreed contract. The problem with this theory is that each party has different goals in controlling the company, especially about how to maximize decisions and the importance of the results achieved (Suwardjono, 2005). Agents have more information about their own capacity, work environment, and overall company prospects in the future compared to principals (Hidayat, 2017).

Trade Off Theory

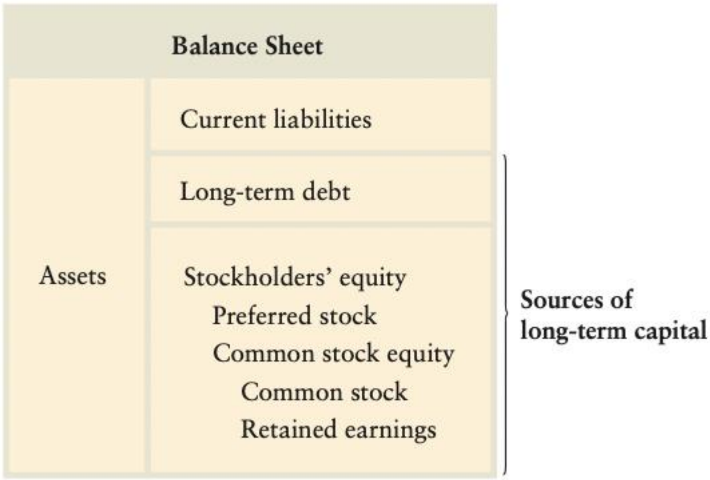
This theory was first introduced in 1963 by Modigliani and Miller. According to Kaaro in Tunnisa (2016) the concept of trade off in balancing theory is about how to balance the benefits and costs of using debt in the capital structure, so it is called the trade-off theory. If the benefits are greater, then adding debt will be allowed. However, if the sacrifice due to the use of debt is greater, then the additional use of debt is no longer allowed.

Pecking Order Theory

Pecking order theory is characterized by the emergence of information asymmetry where managers have more information about the company's prospects. This asymmetry of information affects the choice of funding from internal or external sources. This pecking order theory is a sequence of internal (retained earnings) and external (new equity issuance) sources of funding (Husnan, Suad and Enny Pudjiastuti, 2016).

Cost of Debt
One of the important components used in investment appraisal is the source of expenditure and asset management is the cost of capital. The cost of capital component consists of the cost of debt, the cost of preferred stock, the cost of own capital and the weighted average cost of capital. Capital is the funds used to finance the procurement of assets and operations of the company. Capital consists of own capital and foreign capital.

Figure 1. Source of Long-Term Capital



Source: (Gitman, 2015)

Debt can be obtained from financing institutions or by issuing debt acknowledgments called bonds. The cost of debt that comes from the loan is the interest that must be paid by the company. Meanwhile, the cost of debt by issuing bonds is the required rate of return expected by investors which can be used as a discount rate in finding the value of bonds.

Tax Avoidance
Tax avoidance are obstacles that occur in tax collection, resulting in reduced state treasury revenues. Taxpayers always want a small tax payment, because of this, the taxpayer avoids taxes, both legal and illegal. Tax avoidance that is legal is called tax avoidance while tax avoidance that is illegal is called tax evasion.

Tax avoidance is characterized by fraus legis, namely the gray area whose position is between tax compliance and tax evasion. Broadly speaking, tax avoidance is carried out in 3 ways, namely postponing income, tax arbitrage by utilizing differences in general rates related to individual taxpayers, and tax arbitrage to take advantage of different tax treatment.

Profitability
Profitability is the company's ability to generate profits during a certain period (Munawir, 2014). In a company, profitability is measured by the ability to use its assets productively. Profit is often one of the measures of company performance. If the company has a high

level of profit, it can be said that the company's performance is good. Vice versa, if the company's profit is low, the company's performance is not good.

Profitability ratios describe how the company's ability to generate profits from revenues related to sales, assets and equity. Profitability ratios are used to assess and also measure the company's financial position in a certain period. The definition of the profitability ratio according to Kasmir (2014) is the ratio used to assess the company's ability to seek profit.

Leverage
Leverage the existing financial condition in the company by describing the financial ratios through the relationship of the company's debt with capital and assets in the company. Leverage or debt ratio is a ratio that compares total liabilities with total equity owned by a company at the end of the year. According to Lim (2012), leverage is positively related to the cost of debt. If the company has high leverage, the source of funding used by the company comes from debt.
There are several ratios used as indicators for measuring leverage as described by Kasmir (2014), namely debt to equity ratio (debt to equity ratio), debt ratio (debt ratio), and time interest earned ratio.

Institutional Ownership
Ownership structure is the difference between company ownership and company managers. The ownership structure in this case is institutional ownership in the management monitoring role. Institutional ownership is the most influential party in decision making because of its majority nature as share owners.

Institutional ownership is the percentage of shares owned by institutions (Pasaribu, Topowijaya and Sri, 2016). This institutional ownership is a tool that can be used to reduce conflicts of interest in a company. Institutional ownership has an important meaning in monitoring management because institutional ownership will encourage a more optimal level of supervision.

Hypothesis
The Effect of Tax Avoidance on the Cost of Debt
In carrying out business activities, the company always strives to generate high profits. Therefore, the company tries to reduce expenses that are considered capable of reducing the level of profit expected by the company. One way is by paying taxes. This tax avoidance is deliberately carried out by the company in order to reduce the level of tax payments made by the company. In a study conducted by (Santosa & Kurniawan, 2016) stated that ETR is considered to have the opposite relationship with tax avoidance. The higher the ETR value of a company, it indicates that the lower the tax avoidance and the lower the cost of debt from the company.
H1 = Tax avoidance has a positive effect on the cost of debt.

The Effect of Profitability on Cost of Debt
In this study, profitability is proxied through Return On Assets (ROA). The higher the ROA value, the better the financial performance. Research conducted by Awaloedin & Nugroho (2019) states that one of the company's characteristics can be seen from profitability. If the ROA value increases, the company's profitability also increases. If the profitability of a company is high, the company tends to use high internal funds in financing so that the use of external funds in the form of debt will be lower. Some of the advantages it has as an internal source in terms of financing.
H2 = Profitability has a negative effect on the cost of debt.

The Effect of Leverage on Cost of Debt

Leverage is a ratio that describes the relationship between the company's debt to capital. This ratio is used to assess how far the company's assets are financed by debt. Companies that have a high level of leverage have a higher cost of debt. Research conducted by Sri Amanda Fitriani (2017) states that the higher the leverage, the higher the company's risk level will also be. One of the risks that arise is the company's default which will cause the cost of debt to be higher. Research conducted by Awaloedin & Nugroho (2019) also states that the lower the leverage ratio value, the smaller the risk experienced by creditors when dealing with their capital in the company.
H3 = Leverage has a positive cost of debt.

The Effect of Tax Avoidance and Institutional Ownership as Moderators on the Cost of Debt

Tax avoidance can reduce company transparency and can lead to asymmetric information or information inequality. For this reason, the implementation of corporate governance in a company is very important. One of them is that with institutional ownership there will be better control.
H4 = Institutional ownership is able to moderate the effect of tax avoidance on the cost of debt.

The Effect of Profitability and Institutional Ownership as Moderators on the Cost of Debt

Institutional ownership is the large proportion of company shares owned by other external institutions. The high level of institutional ownership will increase the profitability of the company. A high level of profitability in a company also indicates that the company can pay its debts well. According to research conducted by Azizah (2016), one of them is that with institutional ownership there will be better control.
H5 = Institutional ownership is able to moderate the effect of profitability on the cost of debt.

The Effect of Leverage and Institutional Ownership as Moderators on the Cost of Debt

Institutional ownership has an important role in overseeing the running of a company's business. Institutional ownership is also considered to be able to minimize agency conflicts that occur between managers and shareholders. Institutional ownership is also able to reduce the company's cost of debt. Due to the monitoring carried out effectively by the institutional side, it can encourage management to improve the company's performance.
H6 = Institutional ownership is able to moderate the effect of leverage on the cost of debt.

RESEARCH METHOD

According to Sugiyono (2012), the population is a generalization area consisting of an object or a subject that has certain qualities and characteristics determined by the researcher which will later be studied and also then a conclusion will be drawn. The sample is an integral part of the population. This research uses purposive sampling technique. According to Sugiyono (2016) purposive sampling is a sampling technique with certain considerations. The following is a table of sample selection from this study:

Table 1. Sample Selection Criteria

No	Criteria	Number of Companies
1	Property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the 2016-2019 period.	48
2	Property and real estate companies that did not report financial statements in a row in 2016-2019.	(1)
3	Property and real estate companies that do not publish financial statements in rupiah.	(4)
4	Property and real estate companies that experienced losses during the year of observation.	(12)
5	Property and real estate companies that do not have institutional ownership data.	(9)
	Number of companies earned	22
	Number of samples obtained	88

Moderating Regression Analysis or interaction test is a special application of linear multiple regression where the regression equation contains an interaction element (multiplication of two or more independent variables). The following equation formula is used:

CODit = α + β1ETRit + β2ROAit + β3DERit + β1ETRit * KIit + β2ROAit * KIit + β3DERit * KIit + εit

RESULTS

Descriptive Statistical Analysis

Descriptive statistical analysis is used to be able to analyze data by describing or describing the data that has been collected.

Table 2. Descriptive Statistics Test Results – Before Outlier

Variable	N	Minimum	Maximum	Mean	St. Deviation
ETR	88	0,000	158,938	3,07122	19,611896
ROA	88	0,002	0,5447	0,5447	0,55773
DER	88	0,0000	0,74090	0,7409	0,511042
COD	88	0,000	0,03217	0,3217	0,034668
KI	88	0,323	0,995	0,75951	0,182268

It can be seen in Table. 2 that the mean value of some variables is smaller than the standard deviation value. Usually there are data outliers (data that are too extreme) which results in the data not being normally distributed.

Table 3. Descriptive Statistics Test Results – After Outlier

Variable	N	Minimum	Maximum	Mean	St. Deviation
ETR	64	0,000	0,382	0,07445	0,081120
ROA	64	0,004	0,124	0,4745	0,034391
DER	64	0,000	1,832	0,77538	0,472089
COD	64	0,000	0,090	0,3452	0,022842
KI	64	0,323	0,995	0,77738	0,173425

Classic Assumption Test

Normality Test

Normality test is useful to test whether in the regression model, the variables studied have a normal distribution or not. Testing for normality in this study used the One Sample Kolgomorov Sminov Test.

Table 4. Kolmogorov-Smirnov Test (K-S) – Before Outlier Test

Significance Level	Asymp. Sig	Conclusion
0,05	0,000	Data Not Normal Distributed

It can be seen in Table 4 that the Asymp value. Sig. (2-tailed) is 0.000. When viewed from the criteria, the value is < 0.005, so it can be concluded that the data is not normally distribute.

Table 5. Kolmogorov-Smirnov Test (K-S) – After Outlier Test

Significance Level	Asymp. Sig	Conclusion
0,05	0,200	Data Normal Distributed

From Table. 5 can be seen that the value of Asymp. Sig. (2-tailed) is 0.200. Based on the existing criteria, if the K-S test value is significant > 0.05, it indicates that the data is normally distributed.

Multicollinearity Test

This multicollinearity test was carried out by looking at the tolerance and Variance Inflation Factor (VIF) values. The results of the tolerance and VIF values in the table below show a tolerance value > 0.10 and a VIF value < 10 which indicates that there are no symptoms of multicollinearity

Table 6. Multicollinearity Test Results

Variable	TOL	VIF	Conclusion
ETR	0,548	1,824	There is no multicollinearity
ROA	0,841	1,188	There is no multicollinearity
DER	0,818	1,222	There is no multicollinearity
KI	0,590	1,694	There is no multicollinearity

Autocorrelation Test

The autocorrelation test aims to determine whether in a linear regression model there is a correlation between the confounding error in period t and the confounding error in period t-1 (previous) using the Durbin Watson test. The calculation results show that the

DW value of 1.842 lies between dU and (4-dU) which is 1.7303 < 1.842 < 2.2697. So, it can be concluded that there is no autocorrelation in the regression used in this study.

Heteroscedasticity Test
The heteroscedasticity test was carried out using the Glejser test. The overall significance value of the independent variables is above 0.05 with the tax avoidance variable being 0.766 and the profitability variable being 0.202, then the leverage variable being 0.102 and the institutional ownership variable being 0.993. From the existing criteria if the value of Sig. > 0.05 then there is no symptom of heteroscedasticity and the test results show an overall value of > 0.05. So it can be concluded that in this study there were no symptoms of heteroscedasticity.

Moderation Regression Analysis
The following is the equation of the moderation regression analysis of this study:

Y = 0,223 – 0,116 ETR – 1,793 ROA – 0,83 DER + 0,110 ETR*KI + 1,757 ROA*KI + 1,115 DER*KI

DISCUSSION

The Effect of Tax Avoidance on the Cost of Debt
In tax management, tax planning is the main step taken. The source of funding itself comes from external and internal. One of these external sources is debt. The relatively low cost of debt will reduce the risk of default on the company's debt, which will have less impact on tax avoidance.

The Effect of Profitability on Cost of Debt
When the company has high profitability, the company will allocate some of its profits as internal sources in terms of company financing. If the company's internal funding sources are high, then the company uses low external funds or does not use external funding at all. The higher the value of profitability, the lower the cost of debt in a company.

The Effect of Leverage on Cost of Debt
The company bases its funding decisions on the optimal structure. Companies with high cost of debt and business risk should use a lower debt level than companies with low cost of debt and business risk. However, as long as the cost of debt is considered capable of providing higher benefits when compared to the risks that arise, the company will continue to increase leverage.

Effect of Tax Avoidance and Institutional Ownership as Moderators on the Cost of Debt
The existence of institutional ownership is considered capable of being an effective monitoring tool for a company. In this study, the presence or absence of institutional ownership can’t affect tax avoidance on the cost of debt. This happens because the ownership structure in Indonesia is still unclear between ownership and control.

Effect of Profitability and Institutional Ownership as Moderators on Cost of Debt
A high level of institutional ownership will increase the value of the company's profitability. Institutional ownership is believed to have good ability in supervising management performance, so that optimal supervision can be created and company value will be better.

Effect of Leverage and Institutional Ownership as Moderators on the Cost of Debt
Institutional ownership is able to encourage a more optimal level of supervision. If the level of institutional ownership is high, it will lead to greater supervisory efforts by institutional parties so as to prevent opportunistic behavior by managers.

CONCLUSION

Based on the results of hypothesis testing, it can be concluded that the results of this study are tax avoidance and have a positive and insignificant effect on the cost of debt. Profitability has a negative and significant effect on the cost of debt. Leverage has a negative and significant effect on the cost of debt. Then institutional ownership is not able to moderate the effect of tax avoidance on the cost of debt. Meanwhile, institutional ownership is able to moderate the effect of profitability and leverage on the cost of debt. This research only focuses on the property and real estate sector. Therefore, the researcher recommends to expand the analysis of the sector and used and extend the research period in order to be able to present the actual situation to all companies. Future researchers are expected to be able to use different proxies for the variables of tax avoidance, profitability, leverage, so that these variables can be seen from the other side. For further researchers, it is hoped that they can add variables related to the company's external conditions, for example economic conditions that affect the cost of debt.

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DECLARATION OF CONFLICTING INTERESTS
We declare that we have no conflict of interest with the WIMAYA Yogyakarta 2021 committee or staff from AIPBM or any conflict regarding to this article.

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