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The Influence of Audit Quality and Fiscal Loss Compensation on Tax Avoidance

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Abstract

The purpose of this study is a quantitative study with the aim to determine the effect of audit quality and fiscal loss compensation on tax avoidance. This sample was taken from real estate and property companies listed on the IDX. The type of data used in this study is quantitative data obtained from financial statements contained in the official website of the Indonesia Stock Exchange. Data collection is carried out using documentation techniques, including collection techniques by recording and copying financial statements. In this study, the data sources used in data collection include secondary data. The results of the study show that data using statistical calculations through the application of Econometric Views (Eviews) version 12 regarding the effect of audit quality and loss compensation on tax avoidance which has been discussed in the previous chapter, the authors draw an important conclusion that audit quality affects tax avoidance while tax loss compensation does not affect tax evasion, tax evasion compensation. So the company must pay attention to the audit quality variables in examining a company's tax avoidance, fiscal loss compensation is the obligation of a company to pay taxes.

1. INTRODUCTION

In the era of globalization, industrial development is increasingly rapid, which makes companies expand their business. The higher the profit earned by the company, the higher the tax to be issued or paid. In Indonesia, tax revenue holds a very large percentage of revenue, compared to other sectors, the country's main source of income, the largest contribution comes from taxes. Where the Company as a corporate taxpayer considers that depositing a high tax burden can reduce the profits generated, it can harm the company. So that companies do tax evasion due to the large amount of tax burden that must be paid by this company making them make efforts to be able to make tax payments low (Jessica and Toly , 2014).

The main income of a country, one of which is taxes paid by taxpayers regulated in tax laws and collections imposed by the government and expenses that will reduce net income for a company. According to (Suandy, 2008) to reduce the company's economic capacity, the company seeks to pay taxes with the minimum value possible . Under these circumstances, companies are trying to find ways to minimize the payment of the tax burden that must be paid **.** Companies can follow tax regulations (*lawfull)* or violate regulations that violate tax regulations (*unlawful*) To minimize the burden of taxes that must be paid **.** In tax regulations, minimizing the tax burden can also be referred to as tax *avoidance* (Suandy, 2016).

Tax avoidance is a fairly complicated issue, this happens if a company has a good goal, then tax avoidance can be legalized or allowed but if there is an act of engineering transactions that occur then tax avoidance is considered as illegal . Tax evasion is also an act that describes legal regulations for taxpayers thereby reducing their tax liability, often used to subscribe to the avoidance achieved by regulations made for personal or business interests **.** Drafted regulations have become commonplace and often involve very complex legal provisions against tax evasion . (Suandy, 2016).

According to Jacob (2014) explains that tax avoidance is an action to reduce or minimize tax obligations with very careful arrangements to take advantage of loopholes in tax provisions, which are not tax objects such as taxation through transactions. In the act of tax avoidance, the taxpayer does not directly

violate the laws and regulations but is not in accordance with the intent and purpose of the law. The practice of tax avoidance carried out by the management of a company is only to minimize its tax obligations which are considered not against the law and make companies have a tendency to take various ways to reduce their tax burden. Therefore, the issue of tax avoidance on the one hand is considered legal, but on the other hand it is considered illegal or unwanted by the government.

Cases of *tax avoidance* carried out by a company are influenced by its corporate governance because a company is a taxpayer so that a rule of corporate governance structure affects the way a company fulfills its tax obligations, but on the other hand tax planning depends on the dynamics of corporate governance. in a company. According to Gusti Ayu Cahya Maharani and Ketut Alit Suardana (2014) *Good corporate governance* is a governance within a company that explains the relationship between various participants in a company that determines the direction of company performance. Decision making by the company affects the direction of the company's performance.

A company categorized as *Good Corporate Governance,* if the main principles of corporate governance which consist of information disclosure (*transparency*), accountability (*accountability*), responsibility (*responsibility*), independence (*independence*), and equality and fairness (*fairness*) are carried out properly in a company, so that company in paying taxes in accordance with the amount that has been set **.** With the implementation of corporate governance that is not in accordance with the principles that should be applied and the absence of adequate supervision, the company can minimize the tax burden that must be paid and this leads to tax avoidance practices.

OECD (*Organization for Economic Cooperation and Development*) states that there are three characteristics found in tax avoidance, namely as follows: 1. There is an artificial element in which there is an arrangement that seems to be in it but in reality it is not contained, this is done because there are no existing tax factors. . 2. Implementing legal provisions for various purposes, but that is not what the legislators intended. 3. Consultants generally maintain confidentiality by showing ways or tools to carry out tax avoidance actions (Annisa and Kurniawan, 2012).

According to (Dewi & Jati 2014), states that audit quality is a possibility that can occur when the auditor audits the financial statements and finds violations or errors that occur and reports them in the audited financial statements. Damayanti and Susanto (2015) define audit quality as all possibilities that can occur when the auditor audits the client's financial statements and finds violations or errors that occur and reports them in the audited financial statements. In conducting an audit, the most important thing in its implementation is the transparency of one of the elements of Good Corporate Governance (GCG). Transparency to shareholders can be achieved by reporting tax-related matters to the capital market and shareholder meetings. Increased transparency of shareholders in tax matters is increasingly being demanded by public authorities because of the implication of aggressive tax behavior , their companies take an aggressive position on tax matters and will prevent action if they know in advance. Transparency is the most important thing in auditing . Viewed from the perspective of a public accountant, an accountant audit is an objective audit of the financial statements of a company or other organization with the aim of determining whether the financial statements fairly present the financial condition and results of operations of the company.

Auditing is an examination carried out critically and systematically by an independent party on the financial statements that have been prepared by management along with accounting records and supporting evidence,

with the aim of providing an opinion on the fairness of the financial statements. Agoes (2017:4).

Judging from the examiner (auditor) who carries out the audit, basically audits can be classified into two types, namely internal audits/internal auditors and external audits / external auditors. Internal audit is an independent assessment activity formed within an organization to provide services to management in the form of reviewing organizational activities. Internal audit can be called managerial control whose function is to measure and evaluate the effectiveness of other control systems. The purpose of internal audit is to assist all members of management in managing their responsibilities effectively by providing analysis, assessment, recommendations and comments related to the activities under review. Internal auditors have the status of employees or employees of the organizational unit they are auditing, but the audits carried out must be objective and independent because if these characteristics are not met, the information they provide will not benefit management. Although it should be realized that the degree of independence of internal auditors is clearly different from that of internal accountants.

Meanwhile, external audit is a systematic and objective audit process of the financial statements of a company or other organizational unit with the aim of providing an opinion regarding the fairness of the financial condition and results of operations of the company or organizational unit. The goal is to find out whether the company's or organization's annual financial statements present real conditions about the financial condition of the company or related organization. In addition, whether the funds belonging to the agency have actually been used in accordance with the objectives that have been agreed upon or contained in the constitution. However, external auditors do not examine all financial statements one by one in detail because it will take a very long time, while they only have limited time to complete their tasks.

Fiscal compensation for losses in the calculation of income tax in accordance with Article 6 paragraph 2 of the Income Tax Law. What is meant by fiscal loss is fiscal loss based on tax assessments issued by the Director General of Taxes and fiscal losses based on the Taxpayer's Annual Income Tax Return (*self assessment*) in the event that there is no or no tax assessment has been issued by the Director General of Taxes.

In the fiscal calculation, more emphasis is placed on the preparation of tax reports in the SPT and the consideration of the tax consequences of the company. Fiscal calculations for companies can function as company financial information which will later be specifically addressed to the tax authorities as a form of *tax compliance* . From the results of these calculations, it can be seen whether the taxpayer suffers a fiscal loss or not, while the commercial calculation is that which is reported to the financial statements.

Previous research conducted by Arry Eksandy (2017) on the effect of independent commissioners, audit committees, and audit quality on tax avoidance (*tax avoidance*) concluded that the results of this study found evidence about audit quality having a positive effect on tax avoidance (*tax avoidance*). The results of this study are also in line with research by Nuralifmida (2010) which states that audit quality has a positive effect on *tax avoidance* . So if a company is audited by KAP *The big four* , it will be increasingly difficult to carry out an aggressive tax policy.

Research conducted by Nuraeni (2019) on the effect of institutional ownership, audit quality, audit committee, independent commissioner, firm size and leverage on tax avoidance. With the results of the research that the tests that have been carried out state that the Audit Quality partially does not have a significant effect on Tax Avoidance. So It is expected that companies audited by KAP are

able to apply strict rules and have high work integrity .

The discussion in this research is focused on real companies estates and properties listed on the IDX 2017-2019 because along with With the development of the number of people, the need for property will also increase also growing, especially that it is known from the property sector that the costs The tax imposed for the tax is quite high, namely the current tax for every property sale and purchase transaction is a transfer fee for land rights and building (BPHTB) of 5% of the selling value. This tax is levied by the local government. Then, 5% income tax (PPh) paid by property companies and 10% value added tax (VAT) which is borne by the buyer's consumer.

Based on the description above and the explanations of some of the foremost researchers, the researcher is interested in doing research again with the research title, namely " Effect of Audit Quality and Compensation Fiscal Loss Against Tax Avoidance (Empirical Study on Real Estate and Property Companies 2017-2019).

2. LITERATURE REVIEW

2.1 Tax

According to Pohan (2016: 23), tax avoidance is: "Efforts to avoid tax that are carried out legally and safely for taxpayers because they do not conflict with tax provisions, where the methods and techniques used tend to take advantage of the weaknesses (*grey areas*) that exist. in the tax laws and regulations themselves, in order to reduce the amount of tax payable". According to (Jacob, 2014) Tax avoidance is an effort that is carried out in a correct and safe manner in accordance with tax provisions for taxpayers, where the techniques and methods used tend to take advantage of the weaknesses contained in the tax laws and regulations themselves. to minimize the amount of tax to be paid. If you have the right goals and do not manipulate transactions, then tax avoidance is allowed. If you have a purpose and act of manipulating transactions that can be detrimental to the company, then tax evasion is not allowed.

Tax avoidance actions can affect state revenue, so the government needs to require taxpayers or entities to pay their tax obligations as much as possible so that their tax revenues continue to grow. When a taxpayer has to pay a tax rate that is too high from the amount of tax required, the taxpayer will experience a loss from the tax avoidance actions taken which aim to maximize income to obtain maximum profits (Jacob, 2014).

Lack of taxpayer compliance in complying with applicable tax regulations in Indonesia and lack of respect for the law and lack of awareness about the obligation to pay taxes by making state financial arrangements are the causes of tax avoidance. The income earned is shown to meet daily needs and interests, which causes taxpayers to take tax avoidance actions. However, when showing the amount of income for daily needs or personal interests, it will result in an obligation to pay taxes to the state, causing a dispute between personal interests and state interests (Jacob, 2014).

Tax avoidance is not a violation of the tax law because the taxpayer's efforts to reduce, avoid, minimize or alleviate the tax burden in a way that is allowed by the tax law (Putri, 2015). avoidance Tax or *Tax avoidance* is: "Engineering (*tax affairs*) which is still within the framework of tax provisions. Tax avoidance can occur in the sound of the provisions or written in the law and is in the soul of the law but is contrary to the soul of the law (Suandy, 2011;). Tax avoidance is carried out in a way (Sumarsan, 2012:118), namely:

1. Transferring tax subjects and/or objects to countries that provide special tax treatment or tax relief (*tax haven countries*) for a type of income (*substantive tax planning*).
2. Self-restraint means that the taxpayer does not do something that can be taxed. Example: not using luxury cars, to avoid the. imposition of luxury sales tax, not

consuming liquor (alcohol) to avoid the imposition of alcohol excise

3. Remote location is moving the business or domicile from a location with high tax rates to a location that is the tax rate is low example: In Indonesia, it is given a waiver for investors who want to invest in eastern Indonesia. Therefore, entrepreneurs who have just opened a new branch of business, they open a new branch in a place with a lower tax rate.

According to Suandy (2008), there are several factors that can motivate taxpayers to make tax savings illegally, including:

1. The amount of tax to be paid. on taxpayers, the amount of tax that must be paid is caused by factors, namely the greater the tax to be paid, the greater the tendency of the taxpayer to commit violations.
2. Fees for bribing the tax authorities. If the fees for bribing the tax authorities are smaller, the greater the tendency of taxpayers to commit violations **.** Likely to be detected . The smaller the possibility of a violation being detected , the greater the tendency of the Taxpayer to commit a violation, and
3. Big sanctions. The lighter the sanctions imposed on violations, the greater the tendency of taxpayers to commit violations Thus, in the form of a company, this tax avoidance is deliberately carried out by the company in order to reduce the level of tax payments that must be made and increase the company's *cash flow* .

3. RESEARCH METHODS

According to Sugiyono (2015, p. 207) defines data analysis as an activity after data from all respondents is collected. Analysis of the data used are statistical descriptions , multiple regression analysis, classical assumptions and hypothesis testing. To find out the results achieved according to the hypotheses that have been developed previously. So the author uses the method of data analysis with the SPSS *(statistical product and service solutions) program.*

3.1 Statistics Description

Descriptive statistical testing is used to provide an overview of the sample data profile. Descriptive statistics are also useful for describing variables in research which will provide an overview of each research variable. Researchers use descriptive statistics consisting of the average, maximum value, and minimum value (Sugiyono, 2017: 147).

3.2 Multiple Regression Analysis

Multiple linear regression analysis shows the direction of the relationship between variables, whether it has a positive or negative relationship. The dependent variable (Y) used in this study is tax avoidance. While the independent variable (X) used in this study is audit quality and fiscal loss compensation . The equation for multiple linear regression analysis is as follows.

$$Y = + 1X1 + 2X2 +$$

Information:

Y : Tax Avoidance
a : constant
regression coefficient
X1 : Quality Audit
X2 : Fiscal Loss Compensation error term

3.3 Classic assumption test

Before performing regression analysis, it is necessary to test the classical assumptions first, so that the processed sample data can truly represent the population as a whole. Tests include:

a. Data Normality Test

According to Juliandi et al, (2014 p. 160) the normality test of the data is carried out to see whether in the regression model, the dependent and independent variables have a normal distribution or not. A good regression model is one that has a normal distribution or is close to normal. The data normality test process was carried out using the Kolmogorov-

Smirnov test . The Kolmogorov-Smirnov test was carried out with the following decision-making guidelines:

1) If the value of sig > 0.05 then the data is normally distributed .
2) If the value of sig < 0.05 then the data is not normally distributed

4. RESULTS AND DISCUSSION

The first hypothesis is to find out whether there is an effect of audit quality on tax avoidance. Shows that the audit quality variable has a significance value of 0.014 <0.05, which means that the audit quality measured by KAP has an influence on tax avoidance. This shows that there are differences between companies audited by *big four* KAPs and non- *big four KAPs* in auditing financial statements that can be used in tax avoidance.

The quality of the audit is all the possibilities that can occur when the auditor audits the client's financial statements and finds violations or errors that occur and reports them in the audited financial statements (Dewi and Jati, 2014). In choosing an auditor, it is usually measured by the specialization of the Public Accounting Firm. Financial reports audited by specialists in the KAP industry are believed to have better attitudes and knowledge. When the audit quality in the company is good, it has an impact on the financial statements and the assessment of the company is good. So that it can reduce actions to do tax avoidance.

Companies audited by the *big four KAPs* are indeed more likely to be trusted by the tax authorities as KAPs that have high work integrity by always applying existing and quality regulations. The results of this study are in line with Arry Eksandy (2017) which states that audit quality has a positive effect on *tax avoidance* . however This study contradicts the results of research conducted by Zulfikar Dicky Arya Pandegan (2017) which states that audit quality has no effect on tax avoidance.

4.1 The Effect of Fiscal Loss Compensation on Tax Avoidance according to the SPT and according to the law

The second hypothesis is to find out whether there is an effect of fiscal loss compensation on tax avoidance. Table 4.9 shows that the fiscal loss compensation variable has a significance value of 0.303, which means it is greater than 0.05 . It can be concluded that the tax loss compensation has no significant effect on tax avoidance. Based on Law no. 36 of 2008 article 6 paragraph 2 which explains about income tax it is stated that "if the gross income after the deduction as referred to in paragraph (1) is obtained a loss, the loss is compensated with income starting from the next tax year in a row up to 5 years", this means Companies that have lost money in the previous period are given relief from paying taxes.

These losses can be compensated for over the next five years and the company's profits will be used to reduce the amount of compensation for these losses. So that the taxes that must be paid can be minimized because the amount of profit owed becomes small or even the company will avoid the tax burden. So that the tax loss compensation is used to transfer losses and also with the fiscal loss compensation it can be used to report the smallest possible profit based on the interests of management to avoid taxes that will be paid. But the company will not be spared the payment of loss compensation because the taxable profit will be used to cover the amount of the loss compensation.

The results of this study are in line with research conducted by Ridwan and Firmansyah (2017) which states that fiscal loss compensation has no significant effect on tax avoidance. Results This study contradicts Yoseph et al (2020) who stated that that fiscal loss compensation has a negative and significant effect on tax avoidance.

5. CLOSING

5.1 CONCLUSION

Based on the results of research and discussion on the effect of budgeting on financial performance accountability (Study on BKAD of Enrekang Regency), the authors can draw the following conclusions: Based on the results of the study, the value of t-count = 3.018. Where the results of the t distribution table obtained a t-table value of 1.688. So it can be concluded that t-count > t-table (3.018 > 1.688) in other words the budget has a significant effect on performance accountability.

Employees of the Regional Finance and Assets Agency (BKAD) of Enrekang Regency , have clearly known what and how the budget was used. Understand what must be done in preparing the budget, knowing the budget targets for each program implemented. In addition, the leadership and staff are responsible for the results of all programs/ activities that have been carried out.

BKAD) of Enrekang Regency, have clearly understood the implementation of performance accountability, how the budget must be accounted for to the wider community, and every year it must be accounted for in a timely manner. The budget that has been designed and determined in accordance with its realization is for the public interest. Budget programs are designed by considering the principles of effectiveness and efficiency that the government's budget will produce maximum output and right on target.

5.2 Suggestion

Based on the suggestions for data analysis, discussion and conclusions, it can be concluded that several suggestions are expected to be useful for practical purposes and further research as follows:

For the Regional Finance and Assets Agency (BKAD) of Enrekang Regency so that the benefits of the budget become more optimal, it is recommended to continue to increase the intensity of its implementation. Although the respondent's answer category is already very good, it is better for the Regional Finance and Assets Agency (BKAD) of Enrekang Regency pay more attention to the achievement of targets for programs and activities that become references

Then for performance accountability, it is necessary to consider making alternative programs in order to support the achievement of the organization's vision, mission, and goals. In this way the Regional Finance and Assets Agency (BKAD) of Enrekang Regency will be able to produce optimal performance in achieving targets in realizing its vision and mission. Future researchers can add other variables to find out other factors that influence the budget on performance accountability at the Regional Financial and Asset Agency (BKAD) of Enrekang Regency.

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