Article Type: Research Paper

Specific Anti Rule Avoidance (SAAR): How Does It Affect Tax Avoidance?

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ABSTRACT

This study aims to empirically prove the influence of the Specific Anti Avoidance Rule (SAAR), namely transfer pricing and thin capitalization on tax avoidance. SAAR is a special rule to minimize tax avoidance. The sample in this study is multinational companies listed on the Indonesia Stock Exchange in the 2015-2017 period. The method used is multiple linear regression with SPSS version 24. The results show that transfer pricing, thin capitalization, controlled foreign corporations (CFCs), utilization of tax heaven countries, and treaty shopping have no effect on tax avoidance. The absence of influence of the five independent variables on tax avoidance is due to the sample company data and also the proxy used. The results of the study are expected to contribute especially to the government regarding whether SAAR is sufficient to minimize and overcome tax avoidance and can also be a consideration for the government to implement the General Anti Avoidance Rule (GAAR) to cover the weaknesses of SAAR.

KEYWORDS: SAAR; Tax Avoidance; Thin Capitalization; Transfer Pricing

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DOI: 10.22219/jrak.v10i1.11083

Citation:
Haryanti, A.D., Amalia & Suprapti. (2020). Specific Anti Rule Avoidance (SAAR): How Does It Affect Tax Avoidance?. *Jurnal Reviu Akuntansi dan Keuangan, 10(1), 1-8.*

Article Process
Submitted:
Januari 23, 2020

Reviewed:
Januari 26, 2020

Revised:
March 2 , 2020

Accepted:
March 4, 2020

Published:
April 13, 2020

Office:
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Jalan Raya Tlogomas 246,
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Indonesia

P-ISSN: 2615-2223
E-ISSN: 2088-0685

INTRODUCTION

The importance of the role of taxes for the state is not balanced with the tax revenue that should be received. Quoted from detik finance news, 20 November 2018 which states that since 2013 tax revenue has never reached the expected target (Kusuma, 2018). Here is the data:

Table 1. Targets and Realization of Tax Revenue

No.	Year	Target (in millions)	Realization (in millions)
1	2014	Rp 1.072.000.000	Rp 985.000.000
2	2015	Rp 1.294.000.000	Rp 1.095.770.000
3	2016	Rp 1.355.000.000	Rp 1.141.450.000
4	2017	Rp 1.284.000.000	Rp 770.700.000
5	until October 2018	Rp 1.424.000.000	Rp 1.016.520.000

Not achieving the tax revenue target from 2013-2018 provides various interpretations. The interpretation is in the form of an argument why the realization of tax revenue cannot reach the target. In addition to the argument which states that the tax revenue target was not achieved because the target setting is too high, there is another argument that tax avoidance is causing this to happen.

Tax avoidance is an action taken in an effort to minimize the amount of tax that must be paid in a legal manner and does not violate tax regulations (Thomsen & Watrin, 2018). Although these actions are legal, tax avoidance has a negative impact on state revenue. The state cannot get revenue from the tax sector that should have been obtained (Inkiriwang, 2017).

Rahayu (2017) explain that tax avoidance is done in an acceptable manner (acceptable tax avoidance) and in an unacceptable tax avoidance. The term acceptable tax avoidance is actually an act of tax planning and unacceptable tax avoidance is an act of tax avoidance (Wijaya, 2014). So, however, tax avoidance is a legal action but is unethical or unjustified because it causes a reduction in tax revenue that should be received by the state.

The problem of tax avoidance is not only experienced by one country. This is due to tax avoidance covering several countries (Suparman, 2017). International tax avoidance is an interesting thing to do. This is due to the phenomenon of multinational companies experiencing continuous loss. The Directorate General of Taxes (DGT) stated that as many as 2,000 (two thousand) multinational companies operating in Indonesia were identified doing tax avoidance by way of transfer pricing (Sari, 2016).

Continual loss is an indication of tax avoidance. This was caused despite the loss but the company was still standing and operating, so it was suspected of tax avoidance (Bhakti, 2013). Losses experienced by multinational companies in Indonesia can be caused by the transfer of income to other countries or known as *Base Erotion Profit Shifting* (BEPS). Zulvina (2017) explains BEPS is a diversion of income from high-tax countries to countries with low tax rates (tax heaven).

As explained earlier, tax avoidance is a problem faced by almost every country. General rules regarding anti-tax avoidance are needed to minimize actions that are detrimental to state revenue. This general rule is called the General Anti Avoidance Rule (GAAR). The purpose of GAAR is to regulate matters that are not yet regulated in special provisions against tax avoidance (Rahayu, 2010).

The general anti tax avoidance (GAAR) regulation has not been implemented in Indonesia. Indonesia only has a specific regulation against tax avoidance or Specific Anti Avoidance Rule (SAAR). SAAR in Indonesia is regulated in Law No. 36 of 2008 concerning Income Taxes (Bhakti, 2013; Inkiriwang, 2017). However, SAAR stated in Article 18 still allows for tax avoidance loopholes so that it can harm the country (Nugroho, 2009; Rahayu, 2010). The same thing was expressed by Wijaya (2014) which explains that the development of tax avoidance schemes, the provisions in article 18 are not enough to overcome the problem of tax avoidance.

Wijaya (2014) explains that as tax avoidance schemes develop, these provisions are not enough to overcome the problem of tax avoidance. Based on this explanation, the researcher will examine the influence of SAAR as regulated in article 18 of Law No. 36 of 2008 concerning income tax on tax avoidance. The weakness of the rules in SAAR in Indonesia, should be able to be closed with GAAR rules. It's just that GAAR has not been implemented in Indonesia. Basically all the rules, including GAAR must consider not only from the government side, but also from the side of the tax payer or even rejection from the business community (Bhakti, 2013).

Tax avoidance scheme stipulated in SAAR Article 18 of Law No. 36 of 2008 concerning Income Taxes consists of five schemes, namely transfer pricing, thin capitalization, controlled foreign corporation (CFC), the use of state tax heaven, and treaty shopping (Kemenkeu, 2008). The five schemes are loopholes that can be used by multinational companies in the context of international tax avoidance. Some research results explain that tax avoidance is mostly done on two schemes, namely transfer pricing and thin capitalization. Research result (Rahayu, 2010; Taylor & Richardson, 2012) states among the five schemes that often become a tax avoidance gap are transfer pricing and thin capitalization are two common schemes carried out by companies.

The practice of transfer pricing in America proves that some of the results of the largest tax audit that is being completed involve transfer pricing transactions to areas of low taxation countries or tax heaven countries (Drucker, 2011). Davies *et al.* (2018) dan Richardson & Taylor (2015), the results of his research successfully proved that transfer pricing has a positive effect on the use of tax heaven countries. This shows that transfer pricing is used as a way to avoid taxes by multinational companies.

Thin capitalization refers to corporate financing strategies used to finance business operations primarily with debt capital rather than equity capital (Blouin *et al.*, 2014). Thin capitalization can be used by investors to reduce the tax burden. The thin capitalization rules are designed to prevent multinational taxpayers from allocating a disproportionate amount of debt in the capital structure of a company's operations.

In Indonesia, prior to PMK Number 169 / PMK.010 / 2015 which took effect in 2016 with a Debt to Equity Ratio level set at a maximum of 4: 1, in Indonesia there were no restrictions on thin capitalization. Before the entry into force of PMK 169 / PMK.010 / 2015, companies in Indonesia are free to determine the desired level of debt to equity ratio. With this regulation, the possibility of multinational companies avoiding tax from thin capitalization schemes will be even smaller.

Based on this explanation, the hypotheses proposed are as follows:

H1: *transfer pricing has a negative effect on tax avoidance*

H2: *thin capitalization has a negative effect on tax avoidance*

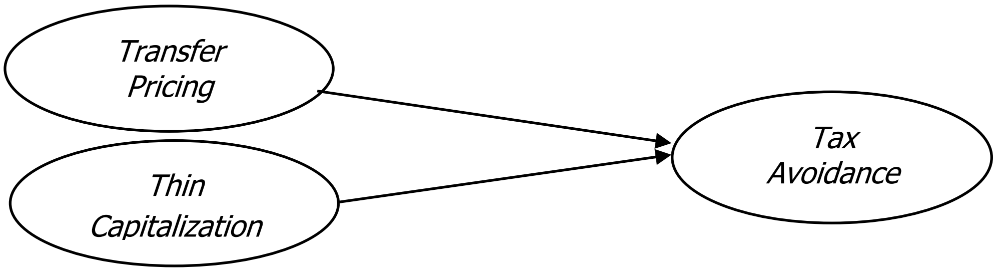

Figure 1. Research Model

METHOD

This type of research used in this research is associative research, which examines the effect of SAAR rules in five schemes (transfer pricing, thin capitalization, controlled foreign corporations, tax heaven, and treaty shopping) on tax avoidance.

The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange in the 2015-2017 period. The sampling technique is purposive sampling with the following criteria:

a. Companies whose shares are listed on the IDX in the 2015-2017 period
b. Companies that declare units in rupiah value
c. Multinational companies listing in Indonesia
d. Companies that have related parties abroad

Operational Definition and Variable Measurement

Independent Variable

Specific Anti Avoidance Rule (SAAR) is a special rule governing anti tax avoidance in Indonesia (Bhakti, 2013). Rahayu (2017) explained that there are five tax avoidance schemes carried out by multinational companies, namely transfer pricing, thin capitalization, controlled foreign corporations, the use of state tax heaven, and treaty shopping.

a. Transfer pricing is a special price for products / services that are transferred between divisions within a company or between companies that have a special relationship (Widjajanti & Rusdianti, 2017). The following proxy is used to measure transfer pricing (Tiwa *et al.*, 2017) :

$$transfer\ pricing = \frac{Special\ relationship\ receivables}{accounts\ receivable}\ x\ 100\%$$

b. Thin capitalization is one way of tax avoidance by providing financing to subsidiaries jurisdictions that are different from the parent company or corporate corporation (Nugroho, 2009; Khomsatun & Martani, 2015). Measurement of thin capitalization is as follows:

$$\text{debt to equity ratio} = \frac{total\ liabilitas}{total\ ekuitas}$$

Dependent Variable

The dependent variable in this study is tax avoidance. Tax avoidance is an action in order to minimize the tax burden by utilizing taxation loopholes (Inkiriwang, 2017). Tax avoidance in this study is proxied by the book tax difference (BTD).

$$BTD = \frac{\text{accounting income} - \text{tax returns}}{\text{total assets}}$$

The data used in this study are secondary data. Secondary data is data obtained through the company's annual financial statements obtained through the website www.idx.co.id in 2015-2017. As well as other documentation such as news, magazines, the official website of the Directorate General of Taxes.

This study uses documentation techniques by obtaining data in the form of annual reports issued by companies listed on the Indonesia Stock Exchange in the 2015-2017 period. The data was obtained through a site owned by the Indonesia Stock Exchange that deals with tax avoidance.

Data analysis technique

The study wants to see the relationship between independent variables in the form of tax avoidance schemes, namely transfer pricing, thin capitalization, controlled foreign corporations, tax heaven, and treaty shopping with the dependent variable in the form of tax avoidance. The research method uses a regression model using SPP statistical tools version 24.

RESULTS AND DISCUSSION

Descriptive statistics

Before a regression test and classical assumptions were carried out, the researchers conducted descriptive statistical data. The purpose of running descriptive statistics is to determine the characteristics of the values which include the average value, the lowest value, and the highest value of each variable. Table 1 follows the descriptive statistics of transfer pricing, thin capitalization, control of foreign corporations (CFCs), tax havens, treaty shopping, and tax avoidance.

The average transfer pricing action taken by multinational companies in Indonesia is 0.3346. This shows that the proportion of accounts receivable in a special relationship with total trade receivables as a whole is 33.46%. Based on this number, it can be said that the transfer pricing action taken is relatively small. As it is known that transfer pricing is one of the actions that can be used to avoid taxes (Dharmawan *et al.*, 2017). However, if seen from the average transfer pricing of multinational companies, the possibility of tax evasion actions is also small. The highest value of transfer pricing is in PT. Alumindo Light Metal Industry, Tbk. In 2017. Conversely the lowest transfer pricing action was found at PT. Betonjaya Manunggal, Tbk.

Table 2. Descriptive Statistics

Variabel	Average value	Lowest Value	The highest Value
Transfer Pricing	0,3346	0,00	0,86
Thin Capitalization	0,2506	0,00	0,98

Next is the thin capitalization variable which is one way to avoid taxes by enlarging the debt structure in the capital structure. This is due to the interest expense which is the debt repayment recognized in tax regulations as a tax deduction (Darma, 2019). The average value of thin capitalization in the sample companies is 0.2506. This shows the composition of debt to total capital composition is 25.06%. It can be said that the average sample capital of the company, mostly sourced from equity / shares. The company with the highest thin capitalization value is PT. Surya Toto Indonesia, Tbk, with a debt composition of 98%.

Regression Test and Classic Assumptions

Before the classic assumption test is performed, the regression test is performed first. Here are the results of the regression test:

Table 3.
Results of Multiple Linear Regression Tests

	Hypothesis	t value	Significance Value
1.	TP→TA	0,022	0,983
2.	TC→TA	0,223	0,824

Transfer Pricing and Tax Avoidance

Based on statistical tests conducted, the significance value is 0.625. Based on the significance value, then H1 is rejected. These results explain that transfer pricing has no effect on tax avoidance.

Transfer pricing is one way companies use to avoid taxes (Rahayu, 2010). However, the results of research conducted now are the opposite. Transfer pricing has no effect on tax avoidance or it can be said transfer pricing is not one of the schemes that can be used by companies to minimize taxes. The difference in the results of this study can be explained by research data. Based on table 1. Descriptive statistical tests, it appears that on average the multinational companies sampled carried out relatively small transfer pricing actions. The ratio of special accounts receivable to total trade receivables is 33.46%, less than 50%. The researcher believes that transfer pricing does not affect tax avoidance because the transfer pricing action by the sample companies is relatively small.

In addition, the transfer pricing proxy used in this study is different from previous studies. The current research uses a comparison between special accounts receivable and total trade receivables. Previous studies using dummy variables. Value 1 if the company can disclose the transaction according to the arm's length transaction and 0 if the opposite.

The results of this study are in line with Panjalusman *et al.* . The results of research conducted by Panjalusman *et al.* also explained that transfer pricing has no effect on tax avoidance. This is due to several factors, such as the change of the government system which resulted in the emergence of many new policies, such as the Tax Amnesty and others.

Thin Capitalization and Tax Avoidance

Just as H1 was rejected, H2 which stated that there was a thin capitalization effect on tax avoidance was also rejected. The results showed that thin capitalization had no effect on tax avoidance. The results of research conducted now are the same as previous studies (Dharmawan *et al.*, 2017; Darma, 2019).

The absence of thin capitalization on tax avoidance can be traced from research data. Based on the average value of thin capitalization in descriptive statistical tests, it can be concluded that the average sample company uses a source of capital that mostly comes from equity / shares, which is around 75%. Funding sourced from equity cannot be used as a loophole to avoid taxes (Darma, 2019).

The existence of this thin capitalization practice underlies the emergence of government regulation Number 169 / PMK.010 / 2015 that previously there were no official rules related to limitation of debt and equity ratio owned by the company. The existence of rule Number 169 / PMK.010 / 2015 with a maximum limit of 4: 1 DER ratio, this rule is addressed to all corporate taxpayers except bank taxpayers, financial institution taxpayers, and insurance and reinsurance taxpayers. So that more companies choose to obey government regulations by having a forest structure that does not exceed 4: 1.

CONCLUSION

This study aims to provide empirical evidence of the effect of the Specific anti avoidance rules (SAAR) represented by transfer pricing and thin capitalization on tax avoidance. Based on statistical tests conducted, it was found that transfer pricing and thin capitalization had no effect on tax avoidance.

The absence of influence of transfer pricing variables on tax avoidance is because the average multinational companies that were sampled carried out relatively small transfer pricing actions. Based on the results of this study it can be said that the transfer pricing scheme is not a scheme used by sample companies in carrying out tax avoidance practices.

Furthermore, thin capitalization variable has no effect on tax avoidance because based on sample company data, the average company does not use debt as a source of funding. The average source of funding for the sample companies is 75% comes from equity. As it is known that the source of funding from equity cannot be used as a loophole to avoid taxes.

The limitations of this study only use transfer pricing and thin capitalization as indicators of SAAR. For further research, it is better to use the five SAAR indicators, namely transfer pricing, thin capitalization, controlled foreign corporations (CFCs), the use of tax heaven countries, and treaty shopping. The implication in this research is that the government should consider implementing the General Anti Avoidance Rule (GAAR) to cover the weaknesses of SAAR. This is based on the results of research that proves that transfer pricing and thin capitalization have no effect on tax avoidance.

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