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Original Research Article

The Influence of Tax Avoidance on Cost of Debt with Managerial Opportunism as Variable Moderating

Giawan Nur Fitria[1*], Riaty Handayani[2], Bambang Subiyanto[3], Molina[4]

[1,2]Faculty Economic and Business Universitas Mercu Buana, Jakarta, Indonesia
[3,4]Faculty Economic and Business Universitas Nasional, Jakarta, Indonesia

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***Corresponding author:** Giawan Nur Fitria

Abstract

The purpose of this study is to determine the effect of tax avoidance on the cost of debt on sector of food and beverage manufacturing companies in Indonesia. This research is a quantitative study that analyzes the effect of tax avoidance on the cost of debt with managerial opportunism as a moderating variable. The cost of debt is one important component that must be considered because it can affect company sustainability. Tax avoidance is also one of the management strategies that can affect rising debt costs if managers behave opportunistically to increase debt costs due to avoiding taxes that must be paid by companies. This study used a food and beverage sub-sector manufacturing company for 4 years of observation, namely from 2014-2017. We used multiple regressions with SPSS 23 for hypotheses tested. The results of this study indicate that tax avoidance affects the cost of debt. Whereas the managerial opportunism can be weakens the effect of tax avoidance on the cost of debt.

Keywords: Cost of debt, tax avoidance, managerial opportunism.

INTRODUCTION

In running business, companies often require sources of funds from various parties, such as from debt. Debt is an alternative source of financing that can come from external or creditors. In granting loans such as debt, creditors will first take into account the default risk in the company. Default risk is the probability that a company is unable or intentionally not to pay its debt. One way for creditors to anticipate default risk is to charge a certain amount of interest to the cost of debt [1]. The decision to make a debt is one of the most important things to consider, because the decision to receive a loan (debt) will have an impact on the company's short-term obligations for the payment.

The decision to make a loan from an external party is a normal phenomenon and can be seen by the number of companies that really use this financing alternative, both for business development or investment. The increase in corporate debt must be followed by an increase in the company's business performance. If this does not happen, then the company's management must pay attention to the continuity of the company's business, because the amount of costs incurred on debt continues to run. Costs arising from debt loans from external parties will result in disruption of company performance which is often indicated by declining corporate profits due to companies having to bear the amount of debt costs to be paid.

Some examples of cases concerning companies whose performance is disrupted due to poor management of debt costs that are increasingly bad for the company and cause bankruptcy, for example in our country, Indonesia, PT. Nyonja Meneer is one of the most recent examples of companies that have been established for a long time but suffered bankruptcy which was decided by the Semarang Commercial Court in August 2017 (www.tirto.id).

The greater the company's debt, it can be the greater the cost of debt that will be borne by the company. In taxes, debt costs are regulated in the Regulation of the Minister of Finance of the Republic of Indonesia Number 169 / PMK.010 / 2015 concerning determining the magnitude of the ratio between debt and company capital for the purposes of calculating income tax. In this case of the calculation of income tax, the ratio between debt and equity is set at a maximum of four to one [2].

Taxes are the largest cost component in most companies, reducing net income and earnings after cash flow taxes, triggering companies to reduce their taxes through several practices known as tax avoidance [3]. Generally tax avoidance used to explain manipulation legal by taxpayers to reduce tax [2]. Isin [4] and Purba [5] conducted a study on the effect of tax avoidance on the cost of debt with the result that tax avoidance has a positive effect on the cost of debt. Unlike the research conducted by Wardani & Rumahorbo [1] and Zahro [6], their research has the result that tax avoidance has no effect on the cost of debt.

Several studies have been carried out by previous researchers to explore the relationship of tax avoidance to the cost of debt, tax avoidance measurement using effective tax rate (ETR), cash ETR or GAAP ETR [7, 3, 5, 4, 1].

Capital is not the main source of financing. The second source of financing is in the form of debt. For the lenders, if the company succeeds in tax avoidance, then the shareholder will get the profit, not the debt holder. They will pose risks in the taxation field. Shareholders may get benefit from tax avoidance. If managers make savings on tax payments, then shareholders will get greater dividends or higher share prices [3].

Conversely, if viewed from the side of debt holders, if the company succeeds in making tax savings, then the company can save the cash used to pay costs of debt. In this condition, the company will face a dilemma, whether it decides to pay taxes or pay the cost of debt. Based on this description, this research has a question whether does tax avoidance affect the cost of debt?

Agency theory explains that the interests of management and the interests of shareholders are likely to conflict. The appointment of managers by shareholders to manage the company in reality often faces problems because the company's goals clash with the manager's personal goals. With the manager's authority, the manager can take action that is more beneficial to himself at the expense of the interests of shareholders.

Within the framework of agency theory, tax avoidance activities can facilitate managerial opportunism, such as manipulating income while transferring resources [8]. Tax avoidance activities can create opportunities for managers to pursue activities designed to hide bad news and mislead investors. Simply, under the real goal of reducing corporate tax obligations, managers can manipulate income and hide certain negative information by using tax planning strategies.

In this study, researchers wanted to examine the actors associated with the existence of tax avoidance planning and decisions on debt costs. The reason for choosing food and beverage sector manufacturing companies is because the achievement of tax revenues from this sector every year has fluctuated, and companies in this sector have survived in the current economic crisis [9]. Actors in this study are managers. This study uses the variable manager's opportunism as moderation. The manager's opportunism in this study is defined as the opportunistic attitude of manager proxy by earnings management activities [10] uses earnings management activities as a proxy to see managers' opportunistic attitudes. Research [10] explains that managers' opportunistic attitudes affect the cost of debt.

This research is expected to be able to contribute in increasing the literature on what factors trigger the cost of debt, especially on taxation issues such as tax avoidance on cost of debt. Another expected contribution from the results of this study is the existence of managerial opportunistic literature as a moderating variable between tax avoidance and cost of debt. This research model involves actors from companies that play a role in decision making in debt financing.

LITERATURE REVIEW AND HYPOTHESES

Cost of Debt

Cost of Debt is arises due to debt acquisitions made by companies in the past. Debt is an obligation of the company to pay the agreed interest expense to the parties concerned and must be paid in the future. Debt costs are divided into two kinds, namely the pre-tax cost of debt and the after-tax cost of debt [6]. Pittman and Fortin [11], Cost of Debt is measured based on the company's interest expense per year divided by the average non-current liabilities for the year.

Tax Avoidance

Tax resistance is a constraint that occurs in tax collection efforts. Active resistance in the form of tax avoidance which is a legal reduction effort that is carried out by utilizing the provisions in the field of taxation optimally, such as exceptions and allowable deductions or utilizing things that have not been regulated and weaknesses - weaknesses in taxation rules [12]. Irwan and Farahmita [13] cite Dyreng *et al*. [14] measuring effective tax using cash tax payments as a proxy for tax management. For this reason, this study uses a Cash Effective Tax Rate (CETR) proxy as a Tax Avoidance proxy. CETR is the ratio of cash tax payments to company profits before income tax.

Managerial Opportunism

One of the main objectives of the company is to maximize the prosperity of its shareholders. To achieve this goal, the company owner delegates the process to the professional due to the owner's limitations. The relationship between the owner (principal) and the professional (agent) has been explained in agency theory. However, there are often conflicts of interest between the two parties because of the asymmetry information. Not infrequently agents will be opportunistic to maximize their interests, such as engineering accrual posts to increase bonuses and so on.

Earnings management activities can represent manager opportunism [10] in his research that explores the effect of manager behavior on the cost of debt financing. This study shows that low levels of managerial opportunism result in companies enjoying lower corporate bond costs and higher credit ratings. The results of his research showed that higher cost of debt was followed by improved earnings management.

Scott [15] defines earnings management as the selection of accounting policies by managers, or actions that can affect earnings, which aim to achieve several objectives in earnings reporting. There are two ways of looking at earnings management by corporate managers: first, it aims to maximize the utility of management (opportunistic behavior). Second, it aims to provide benefits to all parties involved in the contract (efficient contracting) where earnings management gives managers a flexibility to protect themselves and the company in anticipating unexpected events for the benefit of parties involved in the contract, if management earnings are opportunistic, the earnings information can lead to wrong investment decisions for investors.

Hypotheses Development

The effect of tax avoidance on the cost of debt

Darmapala 2006 which states that the use of tax avoidance can have a substitution effect on debt users. Meanwhile, according to research [16] states that efforts made to reduce taxes such as tax protection (tax shelter) and tax avoidance (tax avoidance) is a substitution of debt users, so the impact will reduce debt costs. This supports the research conducted by [3] that tax avoidance has a negative effect on the cost of debt.

However, tax avoidance behavior is an risky act, and tax regulations in Indonesia more stringently govern the burden reduction criteria. So, if tax avoidance goes up, the value of cost of debt will also go up. Masri & Martani [17] prove that tax avoidance has a positive effect on the cost of debt. This research is supported by research Isin [4] and Purba [5].

H1: Tax Avoidance has a positive effect on the Cost of Debt

The Effect of Tax Avoidance on the Cost of Debt with Managerial Opportunism as a Moderation Variable

Earnings management activities can represent manager opportunism managers [10] in his research that explores the effect of manager behavior on the cost of debt financing. This study shows that low levels of managerial opportunism result in companies enjoying lower corporate bond costs and higher credit ratings. The results of his research showed that higher cost of debt was followed by improved earnings management.

Within the framework of agency theory, tax avoidance activities can facilitate managerial opportunism, such as manipulating income while transferring resources [8]. Tax avoidance activities can create opportunities for managers to pursue activities designed to hide bad news and mislead investors. Simply put, under the real goal of reducing corporate tax obligations, managers can manipulate income and hide certain negative information by using tax planning strategies.

H2: Managerial opportunism strengthens the relationship between tax avoidance and the cost of debt.

RESEARCH METHOD

This type of research uses content analysis with a quantitative approach. The study was conducted on the food and beverage manufacturing sector companies that went public on the Indonesia Stock Exchange in 2014 – 2017 with saturated sampling technique. We observe 11 companies on Food and Beverage sector in Indonesia. This study uses a causal method, a method that aims to test the hypothesis of how much influence (several) independent variables have on the dependent variable. The dependent variable used is the cost of debt (cost of debt) while the independent variable used is tax avoidance. The research data obtained will be processed and analyzed quantitatively and further processed so that it can clarify the picture of the object under study and then from these results can be concluded.

We define the variable in this study below

Cost of Debt

Debt costs arise due to debt acquisitions made by companies in the past. Debt is an obligation of the company to pay the agreed interest expense to related parties and must be paid in the future. Pittman and Fortin [11], Cost of Debt is measured based on the company's interest expense per year divided by the average non-current liabilities for the year.

Tax Avoidance

Tax resistance is a constraint that occurs in tax collection efforts. Irwan and Farahmita [13] cite Dyreng *et al*. [14] measuring effective tax using cash payments. CETR is the ratio of cash tax payments to company profits before income tax.

Managerial Opportunism

Earnings management activities can represent manager opportunism managers [10] in his research that explores the effect of manager behavior on the cost of debt financing. Earnings management in this study was calculated based on Kothari [15] with the formula: DACit = TACit / TAit-1 - (α1 (1 / TA it-1) + α2 (ΔREVit / TA it1-ECRECit / TAit-1) + α3 (PPEit / TAit-1) + αROAit.

RESULT AND DISCUSSION

Table 1 shows the results that the coefficient of determination or R square of 0.182 or 18.2%. This shows that Tax Avoidance, ROA and SIZE can explain variations in the cost of debt. While the remaining 72.8% was explained or influenced by other factors not examined

Table-1: Coefficient Determinant (R^2) Tax Avoidance on Cost of Debt (Before Moderating Variable)

Model	R	R Square	Adj R Square	Std. Error of the Estimate
1	0.286	0.182	0.154	0.6217051
a. Predictors: (Constant), Tax Avoidance, SIZE, ROA				
b. Dependent Variable: Cost OF Debt				

Table-2: Coefficient Determinant (R^2) (Including Moderating Variable)

Model	R	R Square	Adj R Square	Std. Error of the Estimate
1	0.299	0.190	0.132	0.6189813
a. Predictors: (Constant), Z_EM, Tax Avoidance, Earnings Management				
b. Dependent Variable: Cost OF Debt				

Based on table 2, it shows that the coefficient of determination or adjusted R square decreases 0.132 or 13.2%. This shows that managerial opportunism which is proxy by earnings management as a moderating variable can weaken the relationship between tax avoidance and the cost of debt. While the remaining 86.8% is explained or influenced by other factors that not examined in this research.

Table-3: Goodness of Fit Result

Model	Sum of Squares	df	Mean square	F	Sig
Regression Residual Total	1.374 15.461 16.834	3 40 43	0.458 0.387	1.185	0.032
a. Dependent Variable: Cost OF Debt					
b. Predictors: (Constant), Tax Avoidance, SIZE, ROA					

Based on the results of the simultaneous significance F-test, the results of the significance value of 0.032. The results of this test <0.05, so it can be concluded that it can be concluded that together (simultaneously) all independent variables significantly influence the dependent variable. Thus this regression model can explain that tax avoidance, ROA, SIZE and earnings management influence the cost of debt.

Table-4: Hypotheses Test Result

Model	Koefisien	t-stat	Sig
Constant CETR ROA SIZE	1.622 -1.015 -0.452 -0.066	1.646 -1.258 -0.484 -0.993	0.208 0.021 0.036 0.327

Dependent Variable: Cost of Debt

Based on the results of the t test, then to answer hypothesis 1, namely the effect of tax avoidance on the cost of debt has a significance value of 0.021 <0.05, it can be concluded that tax avoidance affects the cost of debt H1 received.

As for the ROA control variable has a significance value of 0.036 <0.05, it can be concluded that ROA has a significant effect on the cost of debt. SIZE has a significance value of 0.327 which means it exceeds 0.05 so it is concluded that size does not affect the cost of debt.

Table-5: Moderate Regression Analysis Result

			Coefficients[a]			
		Unstandardized Coefficients		Standardized Coefficients		
	Model	**B**	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Contant)	1,147	,527		2.177	0.035
	Tax Avoidance	-2.638	1.874	- 0.542	-1.407	0.167
	Managerial Opportunism	- 1.065	,932	-0.,471	-1.143	0.260
	TA*MO	2.994	3.462	0.865	0.865	0.392

a. Dependent Variable: Cost of Debt

Based on the outputs in Table 5, this moderation regression analysis obtained information that the significance of the variable tax avoidance results showed 0.167 results or it can be said that 0.167> 0.05 means that tax avoidance is not significant; Managerial Opportunism (MO) variable shows the results of 0.260 or it can be said that 0.260> 0.05 means that the Managerial Opportunism variable is not significant; and the interaction variable between tax avoidance and managerial opportunism shows a result of 0.392 or it can be said that 0.392> 0.05 means that the variable of tax avoidance interaction with managerial opportunism is not significant.

Our Study proved that the moderating variable (Managerial Opportunism) and the interaction between the tax avoidance variable and managerial opportunism do not have an influence on the dependent variable (Cost of debt) with a significance level of 0.260 greater than the alpha that has been set at 5% (0.05) means Managerial opportunism moderating variables weaken the relationship between tax avoidance and the cost of debt. Likewise, it can be concluded that the managerial opportunism variable is a moderating variable (Pure Moderator) where the managerial opportunism variable cannot moderate the relationship between the independent variable and the dependent variable so that H2 is rejected.

The Effect of Tax Avoidance on the Cost of Debt

Tax avoidance which is proxy by cash effective tax rate has a negative effect on the cost of debt. This shows that if a company increases tax avoidance, it will have an impact on the amount of the company's cost of debt. Darmapala [16] which states that using tax avoidance can have a substitution effect on debt users. Meanwhile, according to research [16] states that efforts made to reduce taxes such as tax protection (tax shelter) and tax avoidance (tax avoidance) is a substitution of debt users, so the impact will reduce debt costs. This supports the research conducted by [3] that tax avoidance has a negative effect on the cost of debt.

Managerial Opportunism can be Moderate the Effect of Tax Avoidance on the Cost of Debt

Earnings management activities can represent manager opportunism managers [10] in his research that explores the effect of manager behavior on the cost of debt financing. This study shows that low levels of managerial opportunism result in companies enjoying lower corporate bond costs and higher credit ratings. The results of his research showed that higher cost of debt was followed by improved earnings management.

Within the framework of agency theory, tax avoidance activities can facilitate managerial opportunism, such as manipulating income while transferring resources [8]. Tax avoidance activities can create opportunities for managers to pursue activities designed to hide bad news and mislead investors. Simply put, under the real goal of reducing corporate tax obligations, managers can manipulate income and hide certain negative information by using tax planning strategies.

Based on the results of the t-test pasial test in table 5.10 it can be seen that the value of the interaction variable between tax avoidance and managerial opportunism is not significant, the managerial opportunism moderating variable cannot strengthen the relationship of tax avoidance to the cost of debt, so managerial opportunism is not a moderating variable so H3 is rejected.

T value in this study is positive. This shows that the greater the company practices earnings management it is also followed by the greater value of the cost of debt. This is due to the fact that many manufacturing companies in the food and beverage sector in the sample finance the company's operations by way of debt so as to incur high debt costs. To avoid bad financial reporting, the company practices earnings management so that profits can still be reported well by the management.

CONCLUSION

Tax avoidance has a negative effect on the cost of debt. This shows that if a company increases tax avoidance, it will have an impact on the decline in the amount of the company's cost of debt. This is because the use of tax avoidance can have a substitution effect on debt users. Efforts made to minimize taxes such as tax protection (tax shelter) and tax avoidance (tax avoidance) are substitutes for debt users, so the impact will reduce debt costs.

Managerial opportunism moderation variable cannot strengthen the relationship of tax avoidance to the cost of debt, so managerial opportunism is not a moderating variable so that H3 is rejected. T value in this study is positive. This shows that the greater the company practices earnings management it is also followed by the greater value of the cost of debt. This is due to the fact that many manufacturing companies in the food and beverage sector in the sample finance the company's operations by way of debt so as to incur high debt costs. To avoid bad financial reporting, the company practices earnings management so that profits can still be reported well by the management.

Investors are expected to be able to consider the level of debt costs at companies that want to provide funds. For academics, our study has so many limitations in observation area. We only observed in Food and beverage companies in manufacturing sector. For future research can be expand the study in all of manufacture companies listed in Indonesia Stock Exchange, so the result can be generalize for manufacture companies. We also recommend for future research to use different measurement of tax avoidance so that can give more difference result for scholar information.

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