The Effect of Accounting Conservatism, Capital Intensity on Tax Aggressiveness with Audit Quality as a Moderating Variable

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Abstract: The purpose of this study is to provide empirical evidence that accounting conservatism, and capital intensity have an effect on tax aggressiveness and audit quality as a moderating variable affecting the relationship between accounting conservatism and capital intensity on tax aggressiveness. This research is associative, the sample was selected using the purposive sampling method. Data analysis techniques used secondary data and annual reports, descriptive statistical analysis and multiple regression analysis or moderate regression analysis with SPSS version 25. The results of this study indicate that accounting conservatism and capital intensity have a positive effect on tax aggressiveness. And audit quality cannot moderate the effect of accounting conservatism on tax aggressiveness, while audit quality cannot moderate the effect of capital intensity on tax aggressiveness.

Keywords: accounting conservatism, capital intensity, audit quality, tax aggressiveness

1. Introduction

Taxes are the largest source of state revenue, used to finance government spending, both routine and national (Nasution, 2019). In practice, collecting state taxes is not as easy as one might imagine (Fuad, 2019). Obstacles in tax collection result in the payment of taxpayer taxes not being paid to the fullest which in turn causes a sizable loss to the income of the government tax sector (Budiman, 2018).

Table 1 Percentage of Realized Tax Revenue in Indonesia (In Trillion Rupiah)

Year	2017	2018	2019	2020	2021
Target	1283,57	1424,00	1577,56	1.198,82	1.229,58
Realization	1151,03	1315,51	1332,06	1069.98	1.277,53
Achievements	89,67%	92,24%	84,44%	89,25%	103,90%

Source: Annual Directorate General of Tax Performance Report, processed in 2022

Based on table 1 it can be seen that the realization of tax revenue from year to year has increased, but this achievement has not met the targets planned in the RAPBN every year. Not achieving the tax revenue target, means that there are things that have affected the tax revenue in the last 4 years, namely 2017 to 2020. One of the reasons is that there are differences in interests between the government and taxpayers which can cause the revenue target not to be met.

According to a Tax Justice Network report entitled The State of Tax Justice 2020, Indonesia is estimated to lose up to US$4.86 billion per year. This figure is equivalent to Rp. 68.7 trillion rupiah. Of this figure, as much as 4.78 billion US dollars, equivalent to Rp. 67.6 trillion of which is the fruit of corporate tax evasion in Indonesia. Mean while, in The State of Tax Justice 2020 report, Indonesia is ranked fourth in Asia (https://nasional.kontan.co.id/, 2020)

Based on a report issued by Global Witness which stated that one of the largest mining companies in Indonesia, PT. Adaro Energy Tbk carried out tax fraud from 2009 to 2017. This company is said to have transferred large amounts of profits to a growing network of foreign companies and has helped PT. Adaro Energy Tbk in avoiding or reducing taxes that should be paid in Indonesia. (www.globalwitness.org, 2019).

In addition, in PricewaterhouseCoopers (PwC)'s latest publication under the title Mine 2021 Great Expectation, Seizing Tomorrow mentions that only 30 percent of the 40 large mining companies have adopted tax transparency reporting by 2020. Meanwhile, the rest have not had their tax reports transparent. Another phenomenon is the AO company which has been under scrutiny for practicing tax evasion. Through its subsidiary in Singapore, the company seeks to transfer profits to Singapore, which is a tax haven. So that the taxes paid by Indonesia are lower than the obligations that should be borne by these companies. (www.bisnis.com, 2021).

Tax aggressiveness is an action taken by companies by manipulating profits through tax planning guidelines using either legal (tax avoidance) or illegal (tax evasion) planning. This is done so that companies can increase the tax savings they will pay (Dewi & Yasa, 2020a). Many factors that influence companies to carry out tax aggressiveness including liquidity, profitability, accounting conservatism, capital intensity, audit quality, and others. In this study, the researchers only focused on testing accounting conservatism, capital intensity, and audit quality as moderating variables.

2. Literature

Tax Aggressiveness

Tax aggressiveness is an action that reduces the tax burden, this is closely related to tax avoidance. According to Col & Patel (2019), the way to minimize taxes that are the responsibility of the company is by tax aggressiveness which allows legal or illegal. This allows companies to enjoy income without incurring high taxes or deducting their income to pay taxes. So, it can be concluded that tax aggressiveness is not the same as tax evasion or tax avoidance. Tax aggressiveness itself is against the law and is closely related to business objectives which are to avoid taxes or minimize them so that the taxes paid do not swell. In this context, tax aggressiveness is in the gray area or also called the gray area even though it is more inclined towards illegal tax avoidance (Whait et al., 2018)

Accounting Conservatism

Concept Statement Glossary No. 2 The FASB (Financial Accounting Statement Board) defines conservatism as a prudent reaction in dealing with the uncertainty inherent in the company to try to ensure that uncertainty and risk in the business environment provide the best benefits for all users of financial statements.

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The measurement of conservatism is reflected by the existence of various choices of recording methods under the same conditions, this will result in the nominal value in the financial statements which will ultimately lead to profits that tend to be conservative. Conservative accounting is the attitude taken by accountants in facing two or more alternatives in preparing financial statements. If more than one alternative is available, this conservative attitude tends to choose the alternative that will not make assets and income too large. This is why the principle of conservatism applied by the company will indirectly affect the financial statements published by the company, where the financial statements prepared will later be used as a basis for decision-making for management in making policies related to the company (Adi & Mildawati, 2018).

Capital Intensity

According to (Marlinda et al., 2020) Capital Intensity is a company's ability to do how much the company can invest its wealth in the form of fixed assets and inventories. Fixed assets are one of the company's assets that have the effect of reducing the company's income where almost all fixed assets can experience depreciation and of course, will become a cost for the company itself. So it can be concluded that the greater the costs incurred due to the depreciation of fixed assets, the smaller the level of tax that must be paid or incurred by the company. Capital Intensity can be measured using the Capital Intensity Ratio (CI), namely by comparing total fixed assets with total assets. In this case, management can use fixed costs on fixed assets so that the company's tax burden can be reduced, so that the higher the company's capital intensity, the higher the tax avoidance activities carried out by the company.

Audit Quality

Audit quality is the auditor's ability to detect and report accounting system fraud in his client's accounting system (Deangelo and Masulis, 1980). According to Deangelo and Masulis (1980), audit quality can be defined as follows:

a) The auditor can report violations.
b) If the auditor is not independent, he or she usually does not report violations, which reduces audit quality.

The auditor must be competent and independent, because the auditor must know and detect fraud or violations that have occurred. Auditors must be independent because auditors must be ready to report and disclose violations that have occurred (Christa and Adi, 2020). According to the Indonesian Institute of Accountants (IAI), an audit conducted by an auditor can be said to be of high quality if it meets auditing and quality control standards. Qualified accountants help management and stakeholders make relevant and accurate decisions.

3. Framework of Thought and Hypotheses

Framework of Thought

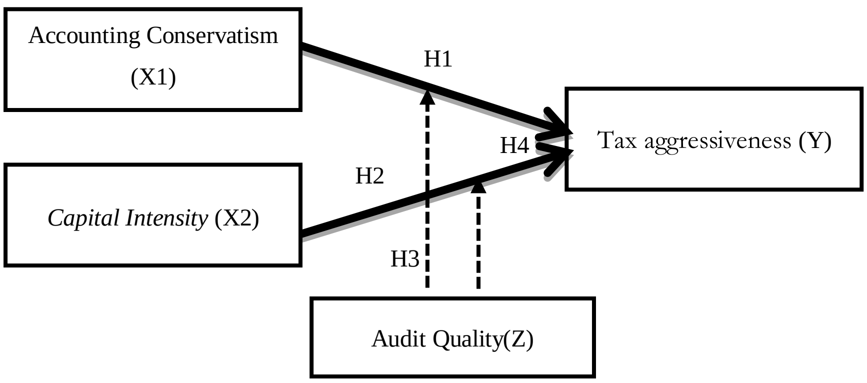

Figure 1
Framework

Hypothesis

Based on the literature review and framework that has been described previously, the hypothesis in this study is formulated as follows:

H1: Accounting conservatism effects on tax aggressiveness
H2: Capital Intensity affects Tax Aggressiveness
H3: Audit Quality moderates Accounting Conservatism against Tax Aggressiveness
H4: Audit Quality moderates Capital Intensity on Tax Aggressiveness

4. Research Methods

Research Design

The research used in this research is quantitative research with a causal approach. This study aims to determine whether or not there is a causal influence between two or more variables. Where this research consists of independent variables, accounting conservatism, Capital Intensity, and audit quality as moderating variables on the dependent variable, namely Tax Aggressiveness in energy sector companies listed on the Indonesia Stock Exchange for the period 2017 – 2021.

Variable Definitions and Operations

The operational definition of a variable is a definition given to a variable by giving meaning or providing an operation needed to measure that variable. The Variable Operational Definition used by the author in conducting research preparation is presented in the following table:

Table 2. Operasionalisasi Variable

No	Variable	Indicator	Measurement Scale
1	Tax Aggressiveness *(Y)* ((Jamei, 2017))	$STR - ETR = \frac{\text{Tax expense}}{\text{Profit before tax}}$	Rasio
2	Accounting Conservatism (X1) (Adi & Mildawati, 2018)	$KNSV = \frac{\text{Net profit} + \text{Depre} - \text{AKO x} - 1}{\text{Total Assets}}$	Rasio
3	*Capital Intensity)* *(X2)* (Marlinda et al., 2020)	$CIR = \frac{\text{Total Fixed Assets}}{\text{Total Assets}}$	Rasio
4	Audit Quality (Z) (Wiranti, 2018)	$Nominal\ Scale\ via\ Dummy\ variable$ $1\ =\ Companies\ audited\ by\ KAP\ Big - 4$ $0 =\ companies\ that\ are\ not\ audited\ by\ KAP\ Big - 4$ $(Wiranti, 2018)$	Nominal

Source: Processed by the author (2022)

Data analysis method

The statistical method used to test this hypothesis is multiple linear regression with Moderated Regression

Analysis (MRA). According to (Ghozali, 2018) Moderated Regression Analysis (MRA) is an analytical approach that maintains sample integrity and provides a basis for controlling the influence of moderator variables.

The regression equation model used in this study is:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_1Z + b_4X_2Z + e$$

Information:

Y = *Tax Aggressiveness*
a = Konstansta
b = Multiple Regression Coefficient
X_1 = Accounting Conservatism
X_2 = *Capital Intensity*
Z = Audit Quality
X_1Z = Interaction between accounting conservatism and audit quality
X_2Z = Interaction between capital intensity and audit quality
e = Error *is the level of error in the estimator research*

Result And Discussion

Individual Parameter Significance Test (t-test)

The t-test was conducted to see how much influence the independent variable has on the dependent variable individually or partially. The independent variable is said to influence on the dependent variable when the probability value obtained is below the significance level of 0.05 or 5%. The following are the results obtained from the t-test statistical test**:**

Table 3. Hasil Uji *Moderated Regression Analysis*

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.197	.053		-3.694	.001		
	CI	.300	.051	.781	5.943	.000	.741	1.349
	MR1	-.181	.586	-.059	-.308	.759	.349	2.866
	MR2	.010	.068	.019	.146	.885	.737	1.357
	SQRTKA	.555	.265	.394	2.094	.042	.361	2.770

a. Dependent Variable: Agresivitas Pajak

Source: Output results from IBM SPSS 25

Based on the results of the t-test that has been carried out in table 3 above, it can be seen that the effect of each independent variable on the dependent variable is explained as follows:

a) **Accounting Conservatism (KA)**
Accounting conservatism has a negative regression coefficient (B) value of 0.555 with a significance value of 0.042 <0.05 can be proven that accounting conservatism statistically influences tax aggressiveness. Then H1 which states "Accounting conservatism has a positive effect on tax aggressiveness" is accepted.

b) **Capital Intensity (CI)**
Capital Intensity has a positive regression coefficient (B) value of 0.300 with a significance value of 0.000 <0.05 so it can be proven that capital intensity statistically affects tax aggressiveness. Then H2 which states "Capital Intensity has a positive effect on tax aggressiveness" is accepted.

c) Audit quality moderates the effect of accounting conservatism on tax aggressiveness
The significant value of the interaction between accounting conservatism and audit quality as a moderating variable is 0.759 > 0.05. Then H3 which states that audit quality moderates the effect of accounting conservatism on tax aggressiveness is rejected

d) Audit quality moderates the effect of capital intensity on tax aggressiveness
The significant value of the interaction between capital intensity and audit quality as a moderating variable is 0.885 > 0.05. Then H4 which states that the independent commissioner moderates the effect of capital intensity on tax aggressiveness is rejected.

Discussion of Research Results

In this study, the results of tests conducted on independent variables consisting of accounting conservatism, capital intensity, audit quality on accounting conservatism, and audit quality on capital intensity on tax aggressiveness, can be concluded as follows:

The Effect of Accounting Conservatism on Tax Aggressiveness

Based on the research results obtained, accounting conservatism affects on tax aggressiveness, so the first hypothesis (H1) is accepted.

Accounting conservatism is the precautionary principle of management in recognizing income and expenses to deal with all risks that may occur. That the attitude of management optimism recognizes costs or losses that will occur compared to profits or income in the future. This shows that the more conservative a financial report, is the greater the tax avoidance (Adi & Mildawati, 2018).

Conservative accounting has an impact in the form of a decrease in company profits/profits which is used as the basis for calculating the company's tax obligations. With less profit, the tax obligations that must be paid are also lower. Accounting conservatism influences tax aggressiveness, which means the practice of tax avoidance with the concept of conservatism through the ratio of trade receivables and sales due to asymmetric recognition of delaying the recognition of income/profits and accelerating the recognition of costs/losses which can reduce the amount of taxable profits so that managers of profitable companies reduce the present value of their taxes and increase the value of the company.

The results of this study are in line with the results of research (Suhana & Kurnia, 2021), which states that companies that apply the principles of accounting conservatism are not intended to carry out aggressive tax avoidance but only for vigilance or caution in facing risks in an unpredictable future.

Effect of Capital Intensity on Tax Aggressiveness

Based on the research results obtained, capital intensity has a positive effect on tax aggressiveness, so the second hypothesis (H2) is accepted.

Capital Intensity is how much the company invests its assets in the form of fixed assets. The choice of investment in the form of assets or capital related to taxation is in terms of depreciation. Companies that have a high level of fixed assets will make these companies tend to minimize taxes resulting from the depreciation of the company's fixed assets every year, because depreciation expenses can be used to minimize the tax burden.

This means that capital intensity has a direct relationship with tax aggressiveness. When capital intensity increases, companies will be more aggressive toward their tax obligations. The results of this study are in line with research conducted by (Putu Ayu Seri Andhari & I Made Sukartha, 2017), (Mariana et al., 2021), and (Utomo & Fitria, 2021). Companies prefer to invest in assets so that a high depreciation expense arises, and this burden will reduce the company's profit so that it can affect the company's tax obligations.

The effect of audit quality in moderating accounting conservatism on tax aggressiveness

Based on the research results obtained, audit quality is not able to moderate accounting conservatism toward tax aggressiveness. This means the third hypothesis (H3) is rejected.

Accounting conservatism has a partial effect on tax aggressiveness, but if it is moderated by audit quality it is not able to influence tax aggressiveness. This may imply that audit quality, in this case, the external auditor, is unable to influence management in exercising accounting conservatism or prudence in recognizing income and expenses which results in tax evasion.

Effect of audit quality in moderating capital intensity on tax aggressiveness

Based on the research results obtained, audit quality is not a variable that moderates capital intensity on tax aggressiveness. This means that the fourth hypothesis (H4) is rejected, which means audit quality cannot moderate the effect of capital intensity on tax aggressiveness. This is in line with research conducted (Trisna, 2022) that audit quality cannot moderate capital intensity on tax aggressiveness. Audit quality, in this case, the external auditor is not able to influence management decisions in terms of selecting fixed asset investments, because the companies that researchers take are mining companies, where mining companies need fixed assets in running their business.

Conclusion

Based on the results of the data that has been analyzed, it can be concluded as follows:

1. Accounting conservatism influences tax aggressiveness.
2. Capital Intensity affects tax aggressiveness
3. Audit quality is not able to moderate accounting conservatism towards tax aggressiveness
4. Audit quality is not able to moderate capital intensity on tax aggressiveness

Suggestions

Based on the above conclusions, suggestions that can be given for further research are as follows:

For future researchers, it is expected to add a longer observation period because the longer the observation time, the greater the opportunity to make accurate observations. The result is that audit quality is not able to moderate accounting conservatism and capital intensity. So that future researchers are expected to reconsider the use of audit quality variables as a moderating variable. The results of this study still have many limitations, so it is hoped that further researchers will add other variables that can affect tax aggressiveness in order to expand the research area.

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