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Agency, Leverage Policy and Tax Aggressiveness during Transition Period: Evidence from Indonesia

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Abstract

This study is aimed (1) to evaluate whether decreasing corporate income tax rates will drive towards tax payment compliance; and (2) to investigate the appropriateness of tax rate using evidence from Indonesia an example of a developing country. Aggressive tax policy occurs as a tax payment is seen to be a burden for companies (Chen et al 2010) where corporate income tax is primarily seen as the process of transferring wealth from the company to the government. Aggressive tax policy of the company exists where tax payers prepare different reports between tax and mandatory financial reports (Frank et al 2009).

This study discusses tax aggressiveness, agency problems and leverage in a setting of developing country during a transition period related to the changes in corporate income tax. A quantitative approach is applied; the study uses Indonesian listed manufacturing companies as the sample. Independent variables will be agency and leverage policy; while tax aggressiveness is the dependent variable; and lastly control variables related to tax sheltering activities were also included.

Increasing managerial ownership of agency theory exhibits higher level of tax aggressiveness while increasing debt financing of leverage policy triggers decreasing level of aggressiveness. Decreasing corporate income tax rates has driven toward lower level of tax aggressiveness, meaning that Government's objective in increasing tax compliance was accomplished. It is found out that accruals quality makes a significant contribution to tax sheltering activity. Significant changes related to corporate income tax rate have been made though at the same time tax revenue is still vital in generating country revenue.

Keywords: *Agency and leverage policy; tax aggressiveness; managerial ownership, and Indonesian manufacture listed company.,*

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