JOURNAL of Applied Economic Sciences

JAES

Journal of Applied Economic Sciences

Volume XIII
Issue 8(62) Winter 2018

ISSN-L 1843 - 6110
ISSN 2393 - 5162

European Research Center of Managerial Studies in Business Administration
http://www.cesmaa.org
Email: jaes_secretary@yahoo.com
Web: http://cesmaa.org/Extras/JAES

Editorial Advisory Board

JOURNAL

of Applied Economic Sciences

Journal of Applied Economic Sciences

Journal of Applied Economic Sciences is a young economics and interdisciplinary research journal, aimed to publish articles and papers that should contribute to the development of both the theory and practice in the field of Economic Sciences.

The journal seeks to promote the best papers and researches in management, finance, accounting, marketing, informatics, decision/making theory, mathematical modelling, expert systems, decision system support, and knowledge representation. This topic may include the fields indicated above but are not limited to these.

Journal of Applied Economic Sciences be appeals for experienced and junior researchers, who are interested in one or more of the diverse areas covered by the journal. It is currently published quarterly in 2 Issues in Spring (30th March), Summer (30th June), Fall (30th September) and Winter (30th December).

Journal of Applied Economic Sciences is indexed in SCOPUS www.scopus.com, CEEOL www.ceeol.org, EBSCO www.ebsco.com, and RePEc www.repec.org databases.

The journal will be available on-line and will be also being distributed to several universities, research institutes and libraries in Romania and abroad. To subscribe to this journal and receive the on-line/printed version, please send a request directly to jaes_secretary@yahoo.com.

Journal of Applied Economic Sciences

ISSN-L 1843 - 6110
ISSN 2393 – 5162

Table of Contents

The Tax Aggressiveness Behavior in the Companies Complying with the Sharia

Kautsar Riza SALMAN
Department of Accounting
STIE Perbanas Surabaya, Indonesia
kautsar@perbanas.ac.id

Suggested Citacion:

Salman K.R. 2018. The tax aggressiveness behavior in the companies complying with the Sharia. *Journal of Applied Economic Sciences*, Volume XIII, Winter, 8(62): 2493-2501.

Abstract:

Tax aggressiveness is an attempt by the company to reduce the income tax payments to the state. The level of such aggressiveness is measured using the indicators of effective tax rate (ETR). The study analyzed the factors affecting the activity of aggressiveness of tax behavior. The independent variables consisted of the size of the company, ROA, Leverage, and Capital Intensity. Some previous studies provide controversial results so that they still give us opportunities to undertake similar studies in different time and places.

This study took the sample of companies that meet the criteria of sharia banks registered in Indonesia Sharia Stock Index (ISSI) in four years: 2011-2014. One of the considerations choosing that period is due to the lack of previous studies that used companies that meet the criteria of Shariah banks. It is strongly suspected that the companies differ in their tax aggressiveness activity compared with those that meet the criteria of conventional banks. Sharia companies emphasize accountability, transparency, fairness, and responsibility in the frame of sharia compliance so as to reduce the tax aggressiveness. This study utilized quantitative analysis and the data were taken using multiple linear regressions with SPSS. It was found that ROA, Company size, and capital intensity significantly affect the tax aggressiveness.

Keywords: taxation; tax aggressiveness; company size; ROA; leverage; capital intensity

JEL Clasiffication: E22; H21; H71

Introduction

The company conducted tax aggressiveness in order to reduce the tax obligation they have to pay to the state treasury through tax evasion or tax avoidance. It is allowed but for tax evasion, it is prohibited by the tax regulation. The smaller the amount of tax paid by the company, the more aggressive tax practice done by the company. Not all companies have the same opportunity to do tax aggressiveness. Some implemented tax aggressiveness moderately. It is due to being its broad scope with several factors such as company size and capability of the company (Noor, Fadzillah and Mastuki, 2010). The greater the company size, the greater the opportunity to do tax aggressiveness. Similarly, the greater the capability resources owned by the company, the greater the opportunity to practice tax aggressiveness.

This study is aimed to analyze empirically the factors that influence the practice of tax aggressiveness. The characteristics of the business activities also affect the company an opportunity to be involved in designing the tax. Companies in different sectors produce different associations in terms of tax planning (Noor *et al.*, 2010). Similarly, companies that meet the criteria of sharia are in contrast to those that do not meet the criteria for participation in the practice of sharia in taxation.

1. Literature review

The tax aggressiveness is due to the fact that companies that meet the criteria of sharia hold the principles of transparency and accountability as the values of Islam that must be obeyed. On the contrary, tax planning in the form of aggressive tax practices degrades the quality of financial reporting. To represent the companies that meet the criteria of sharia, the researchers selected the companies registered in Indonesia Sharia Stock Index (ISSI). This is a quantitative study because it tries to examine empirically the effect of ROA, firm size, leverage, capital intensity, and inventory intensity towards tax aggressive.

The researchers were motivated by the disparity of the results of previous research studies. As described earlier, the previous studies showed inconsistent or contradictory results, including on the relationship between firm size and tax aggressiveness. Studies by Noor *et al.* (2010), Zemzem and Ftouhi (2013) and Wang *et al.* (2014) found a positive effect of company size on the tax aggressiveness of while Khaoula and Ali (2012) could not explain the relationship between the company size and tax aggressiveness. On the other hand, studies by Hanum and Zulaikha (2013) found a negative relationship between company size and tax aggressiveness.

In addition, the relationship between tax aggressiveness and profitability also showed inconsistent results. For example, studies by Derashid and Zhang (2003), Adhikari *et al.* (2006), and Noor *et al.* (2010) provide empirical evidence that tax aggressiveness negatively related to profitability. Again, studies by Zemzem and Ftouhi (2013) and Hsieh (2012) provide different findings that there is a positive effect of tax aggressiveness on the profitability. Also, studies by Hanum and Zulaikha (2013) could not either prove the effect of profitability on tax aggressiveness. The study of the relationship between the two variables, therefore, needs to be done again using the sample of companies that meet the criteria of sharia.

Considering the above gaps, this study tries to do the same study but entailing the the sample that was less investigated by previous ones, such as the companies that meet the criteria of sharia, as listed in the Stock Index Syariah Indonesia (ISSI) in Indonesia. This index is relatively new because the new release was in 2011 so that previous studies in Indonesia did not yet use this index as sample with the topic of tax aggressiveness. The study on tax aggressiveness has the goal to provide empirical evidence regarding the factors suspected to affect tax aggressiveness in the companies that meet the criteria of sharia.

It is expected that this study can demonstrate empirically the significant influence of the three variables (firm size, ROA and capital intensity) against the tax aggressiveness practices in the companies that meet the criteria of syariah. This study is also expected to support the results of previous studies on the impact of firm size, ROA and capital intensity towards the tax aggressiveness practice. This research is finally also expected to contribute the theoretical and practical contributions towards the government policies. Besides that, it is also expected to provide additional theory and literature in research on tax aggressiveness that there is not currently an explanation of similar practices occurring in companies that meet the criteria of sharia. The study is also expected to provide the potential with information for investing their funds, or in making decisions regarding the shares owned.

Based on the gap in the previous studies and the importance of providing the consistency of the results of the same study, the researchers in this study have some objectives as the following. First, the researchers want to find out whether (1) the company size affects tax aggressiveness, (2) Profitability affects tax aggressiveness, (3) Leverage affects tax aggressiveness, (4) Capital intensity affects tax aggressiveness and (5) Inventory Intensity affects tax aggressiveness.

1.1. The concept of Sharia

Companies that meet the criteria of sharia have a different philosophy. In this case, four characteristics of companies that meet the criteria of sharia such as accountability, transparency, fairness, and responsibility. Accountability interprets that every Muslim has the belief that they should be held accountable for their deeds in the hereafter. Muslims should follow the concept of transparency because as a Muslim he would not be involved in any sort of corruption or fraud so that they have to emphasize the need for transparency in everyday life. Fairness is one of the important characteristics in Islam and Muslims have to follow the concept of collective decision-making, political freedom, and tolerance in solving any problems. Every person work in the company is bound to work ethically and follow the teachings of Islam even in the commercial activities (Qureshi and Qurashi 2013).

1.2. The concept of tax aggressiveness

Tax aggressiveness is an act that has the objective to reduce taxable income through tax planning as well as using methods that are either classified or not classified as tax evasion. Although not all actions taken are against the rules, the more the methods used by the company should make the company assumed to be more tax-aggressive (Frank *et al.*, 2009). By doing tax aggressiveness, the company can minimize the payment of income tax they owe. The smaller the amount of the income tax expense paid by the company, the higher level of tax aggressiveness is. Conversely, the bigger the amount of corporate income tax payment, the lower the level of tax aggressiveness.

Tax aggressiveness can be done in which anyone does not violate the law (tax planning) as well as breaking the rules (tax evasion), but they should be more tax aggressive to be agents' unlawful actions. Hite and McGill (1992) and Murphy (2004) also argue that the tax aggressiveness reporting is a situation when a company conducts a policy of certain taxes and one day there is a possibility that the tax policy will not be audited or will give rise to a legal dispute. But, this action still has a potential risk of settlement and uncertainty that is complied with or non-complied with the law (Sari and Martani, 2010). Based the description above, the concept of tax aggressiveness can be described as an action that does not violate the law, as referred to tax avoidance or unlawful acts.

1.3. Empirical studies research accomplished

In their study, Noor *et al.* (2010) tested the effective corporate tax rate (ETR) for the implementation of official assessment system and self-assessment system in public companies listed on Bursa Malaysia. The study found that the larger company bears greater ETR. Company size in this study is proxied by the value of sales, so the greater the sales obtained by the company, the higher the tax to be paid. ETR high value indicates a low level of tax aggressiveness. ETR is lowering significantly associated with high leverage, greater investment in fixed assets, and lower investment in inventory. The study also showed that companies with a high ROA show lower ETRs. Companies with high ROA tend get tax incentive and tax provision from the the state. This can reduce taxable income so that it can make the tax paid by the company lower. In other words, the company has a low ETR.

The study of Lanis and Richardson (2012) examined the relationship between corporate social responsibility (CSR) and tax aggressiveness using samples of 408 public companies in Australia for the financial year 2008/2009. The study showed that the higher the level of disclosure of a company's CSR, the lower the level of aggressiveness of corporate taxes. This proves the existence of a negative relationship and statistically significant between CSR and aggressiveness taxes so that companies with social responsibility greater aggressiveness tend to be less in taxes. Additional findings from this study that the commitment to social investment and corporate strategy and CSR (including ethics and business conduct) of a company is an important element of the CSR activities have a negative impact on tax aggressiveness.

Khaoula and Ali (2012) examined the influence of gender diversity on corporate tax planning. Samples were selected from this study are 300 companies that are members of the S and P 500 over the period 1996-2009. This study proves empirically that gender diversity in the board does not have an influence on the activity of corporate tax planning. ROA significantly affect tax planning, while the size of the company and the size of the board do not have a significant relationship with the tax practices.

Hsieh (2012) attempted to detect variations in the sensitivity of the company's effective tax rate by using ROA, firm size, leverage, capital intensity and inventory intensity. The study sampled 421 companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange in the period 1998- 2001. The study showed that all the variables have a significant effect on the aggressiveness of tax: company size and capital intensity negative effect while ROA, leverage, and the intensity of the positive effect of inventory.

Zemzem and Ftouhi (2013) examined the effect of the characteristics of the board of directors in the aggressiveness of tax behavior. Sampling 73 companies in France over the years 2006-2010, results revealed that the size of the board and the percentage of women on the board decreases the activity of the tax aggressiveness, while the size of the company and related ROA significantly positive. However, this study was not able to prove the proportion of external members and the duality of ownership affect the aggressiveness of tax.

Hanum and Zulaikha (2013) tested the effect of the characteristics of corporate governance (independent directors, audit committees, and institutional shareholders) to the effective tax rate (ETR). Samples from this study were 50 state-owned enterprises listed on the Indonesia Stock Exchange (BEI) in the period 2009-2011.The study found no effect of these three characteristics governance against aggressive tax. The size of the company has a negative effect on the aggressiveness of tax behavior. ROA, capital intensity, and the intensity of the inventory do not affect and leverage positive effect.

Richardson *et al.* (2013) examined the effect of the characteristics of the board of directors on the aggressiveness of tax behavior using 203 samples of public companies listed on the Australian Stock Exchange for the period 2006-2009. This study explains that companies that implement risk management systems and effective internal controls, involving big-four auditors, external auditors have a proportion less on non-audit services and internal auditors more independent practices result in decreased tax aggressiveness. Another finding is on the effect of the interaction between board composition and implementation of risk management systems and internal controls that can effectively reduce the aggressiveness of the tax.

Francis *et al.* (2014) investigated the effect of CFO gender on the aggressiveness of corporate tax. The study focused on companies in transition CFO male to female and then compares the level of aggressiveness of tax firms during the period before and after the transition. The study found that female CFOs associated with the aggressiveness of a lower tax than the CFO male counterparts. Overall, this study establishes that the CFO gender as an important determinant factor in tax aggressiveness.

Wang *et al.* (2014) studied the factors that affect ETR in public companies in China. The research began from 2007-2011. The auditor found no influence of the big-4 and international ownership of the ETR. In contrast, industry factors, asset mix, firm size, leverage had influence on ETR State ownership.

Rashid *et al.* (2014) studied the red flags to report tax on the value of the company. The samples used were 123 companies that abide by the rules of Sharia and is listed on Bursa Malaysia started from 2001 - 2012. The findings of the study indicate that the level of the tax reporting can affect the market value of the capital market. This study also provides empirical evidence of the possibility of manipulation of accounting red flags among the company's tax planning strategies which were sharia listed on Bursa Malaysia.

Boussaidi and Hamed (2015) tested the effect of several governance mechanisms against tax aggressiveness. Samples from this study are 39 companies listed on the Tunisian Stock Exchange (TSE) in the period 2006-2012. The study found that gender diversity in board and managerial ownership has a positive relationship with Effective Tax Rate (ETR) while an increase in the concentration of ownership of a negative effect on ETR profiles. The board and the external auditor has no significant effect on the ETR.

2. Methodology

2.1. Research design

This study is quantitative to examine the factors that affect tax aggressiveness. They are factors to be suspected to affect tax aggressiveness such as company size, profitability, leverage, capital intensity, and inventory intensity. It is also an explanatory study because it attempts to explain the factors that influence the practice of using a company's tax aggressiveness. The unit of analysis is the registered companies in Indonesia Sharia Stock Index (ISSI) during the period 2011-2014. The reasons are as follows: the company size is greater than WPOP and they have greater opportunity to practice tax aggressiveness. The previous studies did not use the companies registered in ISSI that is why they are lack of the criteria that is sharia being aggressively toward tax paying. This is the criteria that in practice, sharia companies have tax aggressiveness.

2.2. Population and sample

The companies whose shares were listed in Indonesia Sharia Stock Index (ISSI) were used as the sample with the panel data for four years. They were collected by using purposive sampling with the following criteria: (1) the issuers whose shares are registered in the successive ISSI and began in May 2011 till end of 2014; (2) The complete financial statement data of 2011 till in 2014; (3) during the study period have a value of inventories; (4) during the study period, the companied had reported earnings before tax (pretax income) and were positive; and (5) during the study period, they had a positive income tax expense. By using a purposive sampling, this study obtained 83 companies from the panel data of 332 (83 x 4 years).

2.3. Research hypothesis

The relationship between tax aggressiveness and company size

The company size has become a major concern of most studies of tax aggressiveness but with different results. Noor *et al.* (2010), Zemzem and Ftouhi (2013) and Wang *et al.* (2014) demonstrated empirically that the company size has a positive effect on the tax aggressiveness. On the contrary, studies by Khaoula and Ali (2012) showed the absence of a relationship between the company size and tax aggressiveness. Another one is by Hanum and Zulaikha (2013) and Hsieh (2012) also provided different results that company size negatively affects tax aggressiveness.

H1: The company size affects tax aggressiveness

The relationship between tax aggressiveness and profitability

Derashid and Zhang (2003), and Adhikari *et al.* (2006) showed empirical evidence that tax aggressiveness and profitability were negatively related (Noor *et al.* 2010). Noor *et al.* (2010) showed a negative relationship between tax aggressiveness and profitabiltyy. On the contrary, Zemzem and Ftouhi (2013) and Hsieh (2012) provide different findings on the positive effect of the profitability towards tax of aggressiveness. Hanum and Zulaikha (2013), on the other hand, provided a different result which said that profitability does not affect the tax aggressiveness. Companies that have high profitability tend to be in low tax agressiveness because they take advantage of tax incentives and tax provisions to reduce taxable income. Thus, the ETR is low showing that the company is less aggressive in their tax planning.

H2: Profitability affects tax aggressiveness

The relationship between tax aggressiveness and leverage

Studies by Gupta and Newberry (1997), Buijink and Janssen (2000), Adhikari *et al.* (2006) and Richardson *et al.* (2013) found a negative relationship between tax aggressiveness and leverage (Noor *et al.* 2010). Studies by Hanum and Zulaikha (2013), Wang *et al.* (2014) and Hsieh (2012) gave different results that there is a positive relationship between leverage and tax aggressiveness. This is due to the company's total liabilities that may impose substantial interest expense in fiscal reports. Such efforts can lower incomes to be taxed (taxable income) resulting in low ETR. The ETR decline indicates that companies tend to decline in tax aggressiveness behavior.

H3: Leverage affects tax aggressiveness

The relationship between aggressiveness and capital intensity

Studies by Hanum and Zulaikha (2013) were unable to prove the relationship between the capital intensity and tax aggressiveness. This relationship has also been investigated by Gupta and Newberry (1997) and Hsieh (2012) found that the companies with a large proportion of fixed assets tended to have low tax aggressiveness (Noor *et al.* 2010) the number of major assets a company can result in depreciation of fixed assets in charge-setting. This can reduce taxable income (taxable income) and further provides a low ETR.

H4: Capital intensity affects tax aggressiveness

The relationship between tax aggressiveness and inventory intensity

Studies by Hanum and Zulaikha (2013) were unable to prove the effect of the inventory intensity against tax aggressiveness. On the contrary, study by Hsieh (2012) found a positive relationship between the inventory intensity and ETR. Companies with a solid inventory have higher ETRs (Noor *et al.* 2010). The companies with a lot of inventory can generate sales with a large amount so as to increase the taxable income. In turn, this can increase the amount of taxable income that shows the results increased ETR.

H5: Inventory Intensity affects tax aggressiveness

Model of the research

The study used research model that uses company size, ROA, leverage, capital intensity, and inventory intensity as independent variables and tax aggressiveness as the dependent variable. The following was the statistical formula:

$$TA = \alpha + \beta 1SIZE + \beta 2ROA + \beta 3LEV + \beta 4CAPINT + \beta 5INVINT$$

where: TA = tax aggressiveness, SIZE = company size, ROA = return on investment, LEV = leverage, CAPINT = capital intensity, INVINT = inventory intensity.

2.4. Variable descriptions and indicators and data analysis technique

1. Tax Aggressiveness tax is proxied by ETR. ETR that is measured by income tax expense of operation (the income tax expense was reduced by deferred tax expense) divided by income before taxes.
2. Company size is measured by the log of total sales.
3. Return on Assets is measured by earnings before taxes divided by total assets.
4. Leverage of the company is measured by total liabilities divided by total assets.
5. The capital intensity is measured with fixed assets divided by total assets.
6. The inventory intensity is measured by inventory divided by total assets.

The data were analyzed using multiple linear regressions with SPSS software version 19, in the following order:
- descriptive analysis for the variables on the sample characteristics;
- the Test of the classical assumption (normality, multicollinearity, heteroscedasticity, and autocorrelation) was done too;
- test T and F were done test to test the hypothesis;
- calculate the R2 of the model.

3. Result of the study

3.1. Data description

Based on the data produced by screening 144 companies, the shares are listed on the Indonesia Sharia Stock Index (ISSI) in the period 2011 to 2014. The sample used in this study is as follows:

a. shares of issuers are successively entered in ISSI 2011-2014 144;
b. data of Incomplete financial statements of 2011 s/d 2014 (4);
c. not having a value of inventories (6);
d. the Company reported negative earnings before tax (44);
e. the Companies reported negative income tax expense (7).

The total sample was 83 companies which were observed for 4 years or as many as 332 observations. Regression equations of the study areas are the following:

a. SIZE coefficient of -0024 shows that the bigger the company size, the smaller the company's possibility to practice tax aggressiveness, the company size is not increased by 1 unit TA resulted in a decrease of 2.4%.
b. ROA coefficient of -0187 shows that the larger the ROA, the more the less likely companies to practice tax aggressiveness, meaning that the increase in ROA of 1% resulted in a decrease of 18.7% TA.
c. LEV coefficient of -0.0006 LEV indicates that the greater the leverage, the less likely companies to practice tax aggressiveness, meaning that if LEV rose by 1%, then the TA will tend to decline by 0.6%.
d. CAPINT coefficient for 0133 showed that the greater the capital intensity, the greater the probability of enterprise activity for tax aggressiveness, meaning that if the capital intensity is increased by 1%, the tax aggressiveness behavior the revenues rose by 13.3%.
e. INVINT coefficient of 0001 indicates that the greater the inventory intensity, the greater the tendency of companies to conduct tax aggressiveness, meaning that if the inventory intensity is increased by 1%, the greater the tendency of companies practice tax aggressiveness by 0.1%.

3.2. Simultaneous and partial test

Simultaneously, the result of SPSS output shows that all the independent variables have a significant influence on the tax aggressiveness (Table 1).

Table 1. Results of F-Test

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	.453	5	.091	7.130	.000[a]
Residual	4.141	326	.013		
Total	4.593	331			

Source: SPSS

Based on the results of SPSS output, it is known that there are three independent variables that significantly influence the probability of under 0.05 which is a measure of the company size, ROA, and capital intensity. The company size *t* statistic has a value of -2475 with a probability of 0.014. ROA has a value of *t* statistics for -3419 with probability equal to capital 0.001. Capital Intensity *t* statistic has a value of 4.228 with probability equal 0.000. Leverage and inventory intensity not significantly affect the aggressiveness of the tax due has a probability of above 0.05 (Table 2).

Table 2. Results of t-Test

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.542	.117		4.627	.000
SIZE	-.024	.010	-.138	-2.475	.014
ROA	-.187	.055	-.188	-3.419	.001
LEV	-.006	.039	-.008	-.143	.886
CAPINT	.133	.031	.234	4.228	.000
INVINT	.001	.046	.001	.019	.985

Source: SPSS

3.3. Discussion

3.4. Company size tax towards aggressiveness

The study found that for the companies whose shares are listed on the Indonesian Sharia Stock Index (ISSI), their company size has a negative and significant correlation with tax aggressiveness practices. The finding is in line with the results of a study conducted by Hanum and Zulaikha (2013) and Hsieh (2012) who also found the negative effects of company size on the tax aggressiveness. The larger the size of issuers listed on ISSI, the smaller the probability of tax aggressiveness.

The above evidence shows that the company has the potential to charge depreciation, maintenance costs, and other costs that are relevant to their fixed assets, so as to decrease the taxable income. This, in turn, can reduce the amount of taxes to be paid. Such a condition is the tax aggressiveness practice is lower, compared with those with size smaller company.

3.5. Profitability towards tax aggressiveness

This study shows evidence that the profitability of the companies listed on the Indonesian Sharia Stock Index (ISSI) has a negative and significant effect on the tax aggressiveness. This also supports the previous studies by Noor *et al.* (2010) that also proved there was a negative relationship between profitability and tax aggressiveness. The companies with a high level of profitability tend to practice low tax aggressiveness. Otherwise, the company with a low level of profitability is due to tend aggressively.

The companies with high profitability level have portfolios of tax incentives that can be utilized to reduce the tax rate they should pay. For example, income received in the form of dividends is not subject to income tax if the company has a share ownership level of at least 25% of the shares of companies with a certain level. On the contrary, the stake below 25% is subject to income tax at the rate 15%. This is why companies with a high level of profitability tend to practice tax aggressiveness is lower for the policy of tax incentives is stipulated in the tax regulations.

3.6. Leverage towards tax aggressiveness

This section provides a significant contribution to the theory and literature related to tax aggressiveness. This study, more importantly, provides exciting and different findings compared to previous research conducted by Gupta and Newberry (1997), Buijink and Janssen (2000), Adhikari *et al.* (2006) and Richardson *et al.* (2013) found a negative association between aggressive tax leverage, as well as research conducted by Hanum and Zulaikha (2013), Wang *et al.* (2014) and Hsieh (2012), giving the output of a positive relationship between leverage and tax aggressiveness.

The different result concerns the evidence that there is no significant relationship between the leverage and tax aggressiveness. The previous studies took the object of research in conventional companies. That was the limitation of liability or the company's debt against the assets of the company. Therefore, it provided the results of their positive or negative relationship between profitability and tax aggressiveness. On the contrary, this study deals the companies which meet sharia criteria. The different characteristic provides different results.

The findings of this study provide empirical evidence that leverage does not have a significant effect on the tax aggressiveness. This is because the average companies listed in Indonesia Sharia Stock Index (ISSI) have a low level of leverage in which they do not t undertaking tax aggressiveness relating to the tax obligation or debt (e.g. cost bung). Thus, this is different from the previous dealing with conventional companies that do tax aggressiveness taxes by decreasing or increasing interest costs.

3.7. Capital intensity towards tax aggressiveness

In this respect, this study provides interesting findings in which there are some differences compared to the previous studies. It shows there is a positive and significant relationship between capital intensity and tax aggressiveness. Studies by Hanum and Zulaikha (2013) were unable to prove this relationship while that by Gupta and Newberry (1997) and Hsieh (2012) found a negative relationship between capital intensity and tax aggressiveness.

Sharia companies with the high level of capital intensity tend to practice tax aggressiveness and it does not violate the rules or laws of taxation. It is commonly known as tax avoidance by utilizing a gap or loophole of the Act related to fixed assets and reviews the depreciation method that can provide the potential for greater tax reductions.

3.8. Inventory intensity towards tax aggressiveness

Leverage also contributes to the theory and literature of taxation. The on tax aggressiveness did not find the relationship between inventory intensity and tax aggressiveness. This study supports by Hanum and Zulaikha (2013). But, it is unlike the studies by Hsieh (2012) that found a positive relationship between inventory intensity and tax aggressiveness. In the context of context of sharia, the company seeks to present and report honestly all their inventories such as recorded sales with a reasonable margin. For that reason, that companies do not have the incentive or encouragement to practice tax aggressiveness associated with this inventory. Thus, it is different from what happened in conventional firms. In conventional companies, the positive relationship between intensity and aggressiveness tax inventory due to the cost of sales charged by the company in the calculation of taxable income. Therefore, it can reduce the amount of tax paid by the company. The reduced amount of income tax paid by the company indicates a high level of tax aggressiveness by the company.

Conclusion

The tax aggressiveness is part of tax planning applied by the companies in order to minimize or reduce the amount of taxes they are supposed to pay. This tax aggressiveness can be done by either lowering the amount of income or increase the amount of load that taxable income (taxable income) is reduced. Then, ultimately, it can reduce the amount of income tax that must be paid by the companies. Tax aggressiveness is a form of tax that is illegal tax evasion or tax avoidance which do not violate the law by exploiting loopholes in tax regulation. The researchers for more than 20 years have struggled to do empirical studies on the determinants that determine tax aggressiveness and provide different findings. The study does not justify that the entire practice of tax aggressive for it is unlawful as described by Frank *et al.* (2009). The study refers to previous studies which explain that the smaller the tax burden paid by the company, the more the company does tax aggressiveness in the practice of taxation.

The research determinants in assessing the tax aggressiveness practice still focus on the tax on conventional companies. However, this current study uses sharia companies which are assumed to have different phenomenon. It was found a strong relationship between tax aggressiveness and company size, ROA and capital intensity that meet the criteria sharia. This evidence supports the previous studies that these three variables significantly influence the way the tax aggressiveness does. The results of this study confirm the previous ones that the bigger the entity of sharia the lower the tax paid by the company because they can take advantage of tax incentives that can reduce the amount of income tax owed. This study also confirms the finding that a high level of profitability for sharia entity, the lower the tax rate to be paid for sharia entities that can take advantage of tax incentives as variable of the company size. This study also confirms that sharia entity with a high level of capital intensity less inclined to practice tax aggressiveness and they do not violate the rules or the tax laws.

This study provides additional findings it can contribute to literature theory of tax aggressiveness. There is no strong evidence that leverage and inventory intensity as the basis for sharia companies to practice tax aggressiveness. The findings in this study concerning the leverage can increase the wealth of empirical research results. The leverage of the sharia entity is not a significant determinant that can affect the level of tax aggressiveness.

References

[1] Adhikari, A., Derashid, C., Zhang, H. 2006. Public policy, political connections, and effective tax rates: Longitudinal evidence from Malaysia. *Journal of Accounting and Public Policy*, *25*: 574-595. DOI: 10.1016/j.jaccpubpol.2006.07.001

[2] Boussaidi, A. and Mounira Sidhom Hamed. 2015. The Impact of Governance Mechanisms on Tax Aggressiveness: Empirical Evidence from Tunisian Context. *Journal of Asian Business Strategy, 5*(1): 1-12. DOI: 10.18488/journal.1006/2015.5.1/1006.1.1.12

[3] Buijink, W., Janssen, B. 2000. Determinants of the variability of corporate effective tax rates (ETR): Evidence for the Netherlands. *MARC Working Paper*, University of Maastricht. Available at: https://core.ac.uk/download/pdf/6941696.pdf

[4] Derashid, C., Zhang, H. 2003. Effective tax rates and the "industrial policy" hypothesis: Evidence from Malaysia. *Journal of International Accounting*, *Auditing & Taxation, 12*: 45-62. DOI: 10.1016/S1061-9518(03)00003-X

[5] Francis, B. B., Hasan, I., Wu, Q., and Yan, M. 2014. Are female CFOs less tax aggressive? Evidence from tax aggressiveness. *The Journal of the American Taxation Association*, *36*(2): 171-202. Available at: https://doi.org/10.2308/atax-50819

[6] Frank, M. M., Lynch, L. J., and Rego, S. O. 2009. Tax reporting aggressiveness and its relation to aggressive financial reporting. *The Accounting Review*, *84*(2): 467-496. Available at: https://doi.org/10.2308/accr.2009.84.2.467

[7] Gupta, S., dan Newberry, K. 1997. Determinants of the variability in corporate effective tax rates: evidence from longitudinal data. *Journal of Accounting and Public Policy*, *16*: 1-34. DOI: https://doi.org/10.1016/S0278-4254(96)00055-5

[8] Hanum, H. R., and Zulaikha 2013. Pengaruh Karakteristik Corporate Governance Terhadap Effective Tax Rate. *Diponegoro Journal of Accounting, 2(2):* 1-10.

[9] Hite, P.A., & McGill, G.A. 1992. An Examination of Taxpayer Preference for Aggressive Tax Advice. *National Tax Journal*, *45*: 389-403. Available at: https://www.ntanet.org/NTJ/45/4/ntj-v45n04p389-403-examination-taxpayer-preference-for.pdf?v=%CE%B1

[10] Hsieh, Y. C. 2012. New evidence on determinants of corporate effective tax rates. *African Journal of Business Management*, *6*(3): 1177-1180. DOI: 10.5897/AJBM11.1522

[11] Khaoula, A. and Ali, Z. M. 2012. Demographic diversity in the board and corporate tax planning in American firms. *Business Management and Strategy*, *3*(1): 72-86. DOI:10.5296/bms.v3i1.1851

[12] Lanis, R., and Richardson, G. 2012. Corporate social responsibility and tax aggressiveness: An empirical analysis. *Journal of Accounting and Public Policy*, *31*(1): 86-108. Available at: https://doi.org/10.1016/j.jaccpubpol.2011.10.006

[13] Murphy, K. 2004. Aggressive tax planning: Differentiating those playing the game from those who don't. *Journal of Economic Psychology,* 25: 307-329. DOI: 10.1016/S0167-4870(03)00011-4

[14] Noor, R. M., Fadzillah, N. S. M. and Mastuki, N. 2010. Corporate tax planning: a study on corporate effective tax rates of Malaysian listed companies. *International Journal of Trade, Economics and Finance*, *1*(2): 189-193.

[15] Qureshi, A. and Qurashi, M. 2013. Islamic corporate Governance practices in Pakistan. *Journal of Research in Business and Management,* 1(3): 01-15.

[16] Rashid, N. M., Noor, R. M., Mastuki, N., Bardai, B., Hashim, J. H., and Harun, M. H. 2014. The Red Flags of Tax Reporting on the Market Value. *International Business Research*, *7*(4): 142–150. DOI: 10.5539/ibr.v7n4p142

[17] Richardson, G., Taylor, G., and Lanis, R. 2013. The impact of board of director oversight characteristics on corporate tax aggressiveness: An empirical analysis. *Journal of Accounting and Public Policy*, *32*(3): 68-88. Available at: https://doi.org/10.1016/j.jaccpubpol.2013.02.004

[18] Sari, D. K., and Martani, D. 2010. Ownership Characteristics, Corporate Governance and Tax Aggressiveness. In *The 3rd International Accounting Conference & The 2nd Doctoral Colloquium. Bali*.

[19] Wang, Y., Campbell, M., and Johnson, D. 2014. Determinants of Effective Tax Rate of China Publicly Listed Companies. *International Management Review*, *10*(1): 10-20. Available at: http://scholarspress.us/journals/IMR/pdf/IMR-1-2014/v10n1-art-2.pdf

[20] Zemzem, A. and Ftouhi, K. 2013. The Effects of Board of Directors' Characteristics on Tax Aggressiveness. *Research Journal of Finance and Accounting, 4*(4): 140-147.

JOURNAL of Applied Economic Sciences

ISSN 2393 – 5162 ISSN - L 1843-6110