

Muhammed Veysel Kaya / Fazlida Mohd Razali /
Yusarina Mat Isa (eds.)

Contemporary Highlights

This book includes empirical and theoretical original chapters written by researchers from different countries and universities. The target audience of this book is researchers, students and academics interested in financial and economic studies.

The Editors

Muhammed Veysel Kaya is a professor at Ankara Hacı Bayram Veli University, Türkiye. He teaches macroeconomics and central banking in postgraduate and PhD programmes. His research interests include macroeconomics, banking, monetary policy and economic growth.

Fazlida Mohd Razali is currently a research fellow at the Accounting Research Institute and senior lecturer at the Faculty of Accountancy, Universiti Teknologi MARA, Malaysia. Her teaching portfolio at the faculty includes external auditing, internal auditing, risk management, business ethics and corporate governance. Her research interests cover financial criminology, auditing, governance, risk management & control, and information security.

Yusarina Mat Isa is currently a senior lecturer at the Faculty of Accountancy, Universiti Teknologi MARA, Malaysia. Her teaching portfolio at the faculty includes external auditing, internal auditing, corporate governance and risk management. Her research interests cover financial crimes, auditing, risk management, banking operations and regulatory enforcement.

Contemporary Highlights

M. Veysel Kaya / F. Mohd Razali / Y. Mat Isa (eds.)

Muhammed Veysel Kaya / Fazlida Mohd Razali /
Yusarina Mat Isa (eds.)

Contemporary Highlights

Risk Navigation in Financial Criminology



ISBN 978-3-631-91474-8



9 783631 914748

www.peterlang.com



PETER LANG

Muhammed Veysel Kaya / Fazlida Mohd Razali /
Yusarina Mat Isa (eds.)

Contemporary Highlights: Risk Navigation in Financial Criminology



PETER LANG

Berlin - Bruxelles - Chennai - Lausanne - New York - Oxford

Library of Congress Cataloging-in-Publication

A record in the CIP catalog has been requested for this book
of the Library of Congress.

Bibliographic information published by the Deutsche Nationalbibliothek

The Deutsche Nationalbibliothek lists this publication in the Deutsche
Nationalbibliografie; detailed bibliographic data is available on the
Internet at <http://dnb.d-nb.de>.

ISBN 978-3-631-91474-8 (Print)
E-ISBN 978-3-631-91949-1 (E-PDF)
E-ISBN 978-3-631-91950-7 (E-PUB)
DOI.10.3726/b21870

© 2024 Peter Lang Group AG, Lausanne
Published by Peter Lang GmbH, Berlin, Germany

info@peterlang.com - www.peterlang.com

All rights reserved.

All parts of this publication are protected by copyright.
Any utilization outside the strict limits of the copyright law, without
the permission of the publisher, is forbidden and liable to prosecution.
This applies in particular to reproductions, translations, microfilming,
and storage and processing in electronic retrieval systems.

Contents

List of Contributors	7
Lists of Figures and Graphs	11
Lists of Tables	13
<i>Muhammed Veysel Kaya / Fazlida Mohd Razali / Yusarina Mat Isa</i> Foreword	15
<i>Zaini bt Ahmad & Sharifah Norzehan Syed Yusuf</i> Risk Identification	17
<i>Nazifah Mustaffha, Sharifah Norzehan Syed Yusuf, Nawal Kasim, Roszana Tapsir, & Ghafarullahuddin Din</i> Risk Transfer and Risk Retention in the Banking, Construction, Extractive, and Insurance Industries	29
<i>Nazifah Mustaffha, Sharifah Norzehan Syed Yusuf, Nawal Kasim, Roszana Tapsir, & Ghafarullahuddin Din</i> Risk Management Framework for Zakat Institution	47
<i>Nurliyana Haji Khalid & Zuraidah Mohd Sanusi</i> Tax Fraud Risk Judgment: The Lens of Tax Auditors and Tax Investigators ...	61
<i>Fazlida Mohd Razali, Jamaliah Said, & Razana Juhaida Johari</i> Empowering Organisations Through Confident Risk Navigation: The Crucial Role of Internal Auditors	73
<i>Yusarina Mat Isa, Zuraidah Mohd Sanusi, & Muhammad Nazmul Hoque</i> Theorising Money Laundering Risk Assessment from Behavioural Perspective	85
<i>Ainul Huda Jamil, Zuraidah Mohd Sanusi, Yusarina Mat Isa, & Najihah Marha Yaacob</i> The Importance of Behavioural Judgment and Decision-Making Towards Anti-Money Laundering Compliance	99

<i>Salwa Zolkaflil, Sharifah Nazatul Faiza Syed Mustapha Nazri, Normah Omar, Nur Aima Shafie, & Aziatul Waznah Ghazali</i> An Overview of Trade-Based Money Laundering Risk Indicators	109
<i>Nur Syuhada Jasni & Haslinda Yusoff</i> Corporate Environmental Social Governance Challenges and Opportunities	119
<i>Aizad Haroon, Maslinawati Mohamad, Hairul Suhaimi Nahar, & Nurhidayah Yahya</i> Occurrences of Occupational Fraud in Financial Institutions	131
<i>Vidiyanna Rizal Putri, Nor Balkish Zakaria, & Jamaliah Said</i> Financial and Government Factors Involved in Tax Avoidance: Evidence in Financial Institutions of Indonesia	139
<i>Erlane K. Ghani, Azleen Ilias, & Kamaruzzaman Muhammad</i> Risk Management in Procurement in the Public Sector: A Research Opportunity	151
<i>Nur Arini Mohamad Rusop, Nor Farizal Mohammed, & Nor Aqilah Sustainim</i> Ethical Perception of Students on Earnings Management	169

List of Contributors

Zaini Ahmad

Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Kampus Puncak Alam, Malaysia

Ghafarullahuddin Din

Academy of Contemporary Islamic Studies, Universiti Teknologi MARA, Selangor, Malaysia

Erlane K. Ghani

Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Kampus Puncak Alam, Malaysia

Aziatul Waznah Ghazali

Faculty of Economics and Management, Universiti Kebangsaan Malaysia, Malaysia

Aizad Haroon

Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Kampus Puncak Alam, Malaysia

Azleen Ilias

Uniten Business School, Universiti Tenaga Nasional, Malaysia

Ainul Huda Jamil

Graduate School of Business, Universiti Kebangsaan Malaysia, Malaysia

Nur Syuhada Jasni

Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Kampus Puncak Alam, Malaysia

Razana Juhaida Johari

Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Kampus Puncak Alam, Malaysia

Nawal Kasim

Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Kampus Puncak Alam, Malaysia

Nurliyana Khalid

School of Accounting & Finance, Taylor's University, Malaysia

Yusarina Mat Isa

Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Kampus Puncak Alam, Malaysia

Maslinawati Mohamad

Accounting Research Institute, Universiti Teknologi MARA, Malaysia

Nur Arini Mohamad Rusop

Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Kampus Puncak Alam, Malaysia

Nor Farizal Mohammed

Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Kampus Puncak Alam, Malaysia

Fazlida Mohd Razali

Accounting Research Institute, Universiti Teknologi MARA, Malaysia

Zuraidah Mohd Sanusi

Accounting Research Institute, Universiti Teknologi MARA, Malaysia

Kamaruzzaman Muhammad

Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Kampus Puncak Alam, Malaysia

Nazifah Mustaffha

Kolej Universiti Islam Antarabangsa Selangor, Malaysia

Hairul Suhaimi Nahar

Accounting Department, Faculty of Business Administration, University of Tabuk, Kingdom of Saudi Arabia

Muhammad Nazmul Hoque

Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Kampus Puncak Alam, Malaysia

Normah Omar

Accounting Research Institute, Universiti Teknologi MARA, Malaysia

Vidiyanna Rizal Putri

Department of Accounting, STIE Indonesia Banking School Jakarta, Indonesia

Jamaliah Said

Accounting Research Institute, Universiti Teknologi MARA, Malaysia

Nur Aima Shafie

Accounting Research Institute, Universiti Teknologi MARA, Malaysia

Nor Aqilah Sustainim

Accounting Research Institute, Universiti Teknologi MARA, Malaysia

Sharifah Nazatul Faiza Syed Mustapha Nazri

Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Kampus Puncak Alam, Malaysia

Sharifah Norzehan Syed Yusuf

Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Kampus Puncak Alam, Malaysia

Roszana Tapsir

Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Kampus Puncak Alam, Malaysia

Najihah Marha Yaacob

Faculty of Accountancy, Universiti Teknologi MARA Cawangan Terengganu, Kampus Dungun, Terengganu Malaysia

Nurhidayah Yahya

Accounting Research Institute, Universiti Teknologi MARA, Malaysia

Haslinda Yusoff

Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Kampus Puncak Alam, Malaysia

Nor Balkish Zakaria

Accounting Research Institutes, Universiti Teknologi MARA, Malaysia

Salwa Zolkaflil

Accounting Research Institutes, Universiti Teknologi MARA, Malaysia

Vidiyanna Rizal Putri, Nor Balkish Zakaria, & Jamaliah Said

Financial and Government Factors Involved in Tax Avoidance: Evidence in Financial Institutions of Indonesia

1. Introduction

The tax collection system in Indonesia is self-assessment. This is one of the causes of tax avoidance. Based on Law No. 6 of 1983 covering General Provisions and Tax Procedures, self-assessment was adopted on January 1, 1984. Law No. 9 of 1994, Law No. 16 of 2000, and, most recently, Law No. 28 of 2007 were all used. In this self-assessment method, the taxpayer determines the amount of tax due, then pays it directly to the registered tax service office and reports it. Because the tax authorities are not directly involved in the taxpayer's income tax computation process, using this self-assessment system permits taxpayers to alter income data and the amount of tax that must be paid. Indonesia's consistent failure to meet its tax revenue goals is largely due to two forms of community resistance to taxation: passive and active resistance. Passive resistance is closely tied to a nation's economic structure, the intellectual and moral development of its citizens, and the technology used for tax collection, serving as a significant barrier to tax collection. Active resistance, on the other hand, involves forceful actions by taxpayers aimed at avoiding taxes, whether through legal, illegal, or tax-saving means. Tax avoidance, a strategy to decrease tax liability while still adhering to tax laws, is a common form of active resistance. Another form is tax evasion, an illegal practice of avoiding taxes by employing methods that contravene tax regulations. Tax evasion can also occur when a taxpayer circumvents taxes by not buying items subject to value-added tax or by employing other transaction methods that affect the tax amount due.

2. Background of Study

Tax avoidance is a legal form of tax planning that involves exploiting loopholes in a country's tax law system. It refers to tax planning that is done lawfully and does not violate tax legislation, whereas tax planning refers to a company's efforts to lower its tax burden. The tactics and strategies used to reduce

the amount of tax payable take advantage of weaknesses (grey areas) in the laws and tax regulations themselves.

Tax planning is a legal action because the only way to save money on taxes is to take advantage of items that aren't governed by the law. The goal is to reduce the amount of tax paid so that individual and corporate taxes do not exceed the amount that should be paid. Tax planning is the initial step in tax management and is a component of it. Because taxation affects net revenue, the firm attempts to keep tax payments to a minimum.

Tax aggressiveness, also known as tax avoidance. Tax avoidance is a legal kind of tax planning that involves using loopholes in a country's tax law system (Blaufus et al., 2015; Deak, 2004; Gun et al., 2020; McLareen, 2008). Tax avoidance refers to tax planning that is done lawfully and does not violate tax legislation, whereas tax planning refers to a company's efforts to lower its tax burden. The tactics and strategies used to reduce the amount of tax payable make use of weaknesses (grey areas) in the laws and tax regulations themselves (Pamungkas, 2018). Tax planning is a legal action because the only way to save money on taxes is to take advantage of items that aren't governed by the law. The goal is to reduce the amount of tax paid so that individual and corporate taxes do not exceed the amount that should be paid (Natakarisma & Sumadi, 2014).

Tax planning is the initial step in tax management and is a component of it. Because taxation affects net revenue, the firm attempts to keep tax payments to a bare minimum. Tax aggressiveness, often known as tax avoidance or tax evasion, is used to lower taxable profit by planning tax avoidance. Companies that are tax-aggressive make use of loopholes in relevant tax legislation to decrease the amount of tax burden to be paid, so that the amount of tax to be paid is calculated by multiplying taxable income by the applicable tax rate (Frank et al., 2009). Tax avoidance, defined as tax savings resulting from exploiting loopholes in tax legislation, was previously deemed illegal, but it is now regarded permissible. With the goal of lowering your tax burden.

Tax avoidance is not a breach of the law because it is a method for taxpayers to reduce, avoid, or alleviate their tax burden in a way that is permissible under the law (Lim, 2011). Tax avoidance is when a firm pursues a certain tax strategy in the hopes that the tax measures will not be inspected or questioned legally, but it is risky if the tax tactics are found to be illegal (Hite & McGill, 1992). A corporation's owner wishes that the corporation engage aggressively in tax avoidance because of the tax burden (Chen et al., 2010).

Tax avoidance includes three features, according to the Fiscal Affairs Committee of the Organisation for Economic Cooperation and Development

(OECD) (2008): (1) Many regulations disregard the tax aspect, (2) Taking advantage of legal loopholes for personal gain, which regulators do not want, and (3) The tax expert demonstrates tax avoidance and asks the taxpayer to keep it hidden. Tax avoidance is one of twelve various taxation tactics used by organisations or individuals to lower the tax burden payable without breaching existing tax legislation, according to Mardiasmo (2015). And it is obvious that tax avoidance occurs in banks and financial institutions, which are one of each country's main sources of tax revenue (Ebi, 2018; Francis, 2017; Hanlon & Heitzman, 2010; Reiter, 2021). Banks and financial institutions are seen to be able to boost a country's economic operations, resulting in increased tax collections. However, the development of the banking sector and financial institutions is also recognised as an indicator of economic growth, demand for goods and services so that new investment increases, which also has an impact on tax revenues. As a result, it may be inferred that banks and financial institutions contribute to tax income, either directly or indirectly (Ebi, 2018). Tax avoidance is one of the company's strategies for legally decreasing the tax burden by using gaps in tax legislation.

UK Finance reported roughly £27.7 billion in tax revenue contributions from their banking sector, according to statistics from PWC (2019). However, as compared to the prior year, there was a 5.8% decrease. One of the reasons is that tax revenue from corporate income tax and bank levy has decreased. Based on this data, it can be assumed that tax revenue has decreased, which should be based on the year's trend before it rises. According to data from the Ministry of Finance of the Republic of Indonesia, tax revenue in Indonesia has decreased from 2015 to 2019. This is backed up by the significant discrepancy in tax revenue targets for its realisation, which range from 94% to 84%. Companies are said to have engaged in aggressive tax planning, taking advantage of tax loopholes. This strategy reduces the amount of tax owing by utilising Tax Weaknesses (grey area) laws and regulations.

The banking industry handles a large number of financial transactions and corporate activity. This also implies that there would be a plethora of tax income streams available from transactions. Tax evasion in the banking industry is likely to occur as a result of: (i) the banks acting as tax evasion actors through various schemes; and (ii) banks acting as conduits for third parties to engage in tax avoidance.

The government as a policymaker continues to strive to increase public awareness and compliance in paying taxes because many companies avoid tax. One of the government's efforts, especially for the banking industry, was the abolition of Bank Indonesia Regulation Number: 2/19/PBI/2000. This

rule relates to banking secrecy, in which banks are required to keep all information relating to customer deposits. This policy is thought to be a barrier to the government getting banking data information. This is an asymmetric information scenario that generates a moral hazard for banking taxpayers to avoid paying their taxes. As a result, the Government Regulation instead of Law (PERPU) Number 1 Year 2017 respecting Access to Financial Information for Tax Purposes was issued in 2017 for tax purposes. Tax authorities now have the authority to pursue tax revenue targets thanks to this PERPU.

Tax avoidance in Indonesia occurs when companies exploit gaps and loopholes in tax regulations to reduce their tax liability. This is often done by including unreasonable expenses in their financial records, thereby inflating costs, minimising profits, or even creating losses. For instance, PT Bank Mandiri was found to have manipulated its financial records by providing excessively high management compensation, allowing the company to reduce its taxable income and pay lower taxes. However, according to (Wijaya, 2017), there was another tax avoidance issue in Indonesia, which occurred at PT. BCA Tbk and resulted in state losses of Rp 375 billion. This issue concerns BCA's objection to the Directorate General of Taxes' tax rectification (DGT). According to BCA, DGT's revision to the Rp 6.78 trillion fiscal profit should be reduced to Rp 5.77 trillion. Because it has concluded asset transfer operations with IBRA, BCA exists (National Bank Restructuring Agency). As a result, BCA claims there is no tax avoidance.

Economist Yusuf Rendy Manilet of the Center of Reform on Economics (CORE) Indonesia noted that there are still various loopholes in the financial business, both domestically and globally. Transfer pricing is one of three tax evasion methods that are regularly utilised. Multinational corporations use transfer pricing to move funds from nations with high tax rates to countries with lower tax rates. Similarly, to what happened in Indonesia, multinational banks often acquired funding from the head office rather than from other parties. Foreign ownership of Indonesian national banks indicates that there is still a transfer pricing gap for banks to fill.

Transfer pricing is one of the common tax avoidance strategies in Indonesia, as evidenced by the cases also involving several insurance companies, including PT Asuransi Jiwa Sinarmas MSIG Tbk and PT Asuransi Allianz Life Indonesia. These companies were found to have shifted profits to subsidiaries in lower tax jurisdictions, resulting in significant revenue losses for the Indonesian government.

Transfer pricing approaches respond to chances for establishing values in ways that improve private advantages while avoiding the payment of public

taxes. MNEs frequently shift earnings from high-tax jurisdictions to low-tax jurisdictions (Davies et al., 2018; Huizinga & Laeven, 2008; Trslv et al., 2020). Transfer pricing is intended to analyse and measure a company's performance; but, multinational corporations frequently utilise it to reduce the amount of tax they pay by transferring price engineering between divisions. Furthermore, transfer pricing tries to reduce the amount of taxes and tariffs collected around the world (Harimurti, 2007). Indonesia's tax potential is high due to its large population and vast territory, because the use of this tax loophole results in tax revenues that are still not optimal.

According to a report by <https://id.investing.com/> stated, the increasing interest of foreign investors in joining commercial banks in Indonesia, such as PT Bank BTPN Tbk and PT Bank Danamon Tbk, which were acquired by foreign parties. This growing attractiveness of Indonesia's banking sector for foreign investment further emphasises the importance of robust regulatory and tax compliance frameworks.

Apart from that, there are also several examples of tax avoidance that occur in various countries around the world. For example, tax avoidance is estimated to cost EU members 1 trillion euros (Rp. 12,000 trillion) in 2012, especially in the European Union. The British experience has shown that tax avoidance is a well-organised process. HMRC (HM Revenue and Customs) of the United Kingdom investigated the tax reporting of many multinational corporations in late 2012. A case in point occurred with a coffee shop franchisor from the United States (US). The financial accounts of the franchisor, which showed a loss of 112 million pounds from 2008 to 2010, as well as the fact that it did not pay corporate income tax in 2011, were highlighted by the British Parliament. According to investor reports, the franchisor had a 1.2-billion-pound turnover from 2008 to 2010. (IDR 18 trillion). This franchisor approach is characterised by financial statements that are prepared as if the company is losing money in three ways. First, it paid royalties to its Dutch operations for offshore licensing of designs, recipes, and logos. Second, in other nations, paying extremely high interest rates on debt is utilised to expand coffee shops. Third, purchasing raw materials from its Swiss affiliate. However, commodities delivered straight from the manufacturer's nation do not enter Switzerland.

Hanlon and Heitzman (2010) argued that ownership structure is an essential factor that can influence corporate tax avoidance, and therefore requires further research from this perspective. Executives in a company are those who are at the top level of management (top management). Top management, which consists of commissaries, managing directors and directors, is

the party with the authority to make decisions. Avoidance of paying taxes by reducing the amount of the tax burden is usually done not by chance. In addition, the executive is directly involved in tax decision-making. All decisions made within the corporation, including corporate tax evasion decisions, are influenced by the company leadership, either directly or indirectly (Hanafi & Harto, 2014). Executive incentives are the actions of executives who transfer corporate assets and profits for their own gain, primarily in the form of high executive compensation expenses, which benefit both the executive and the firm by lowering the tax burden. The size of a company might have an impact on taxes. Companies with substantial total assets are more capable and stable in creating profits than those with little total assets. According to Dyreng et al. (2007), firm size and growth play a role in tax management. Smaller businesses with significant growth rates have higher tax rates, according to the researchers. As a result, corporations with significant and predictable profits are more likely to engage in tax avoidance.

2.1. Underpinning Theory

2.1.1. Stakeholder Theory

According to stakeholder theory, a firm cannot operate solely for its own profit; it must also benefit all of its stakeholders (Freeman & Mc Vea 2001). Shareholders, management, employees, consumers, creditors, investors, regulators, and the government are all stakeholders in financial institutions. Who has a connection to the company and is interested in it. Essentially, stakeholders have control over or influence over the company's use of economic resources.

The company's aim is to balance the interests of all of its stakeholders in order to stay afloat and compete. This is in line with the application of stakeholder theory. Superior technology is required for businesses to compete and maximise revenues for the benefit of all stakeholders, just as it is in the current day. One of the stakeholders is the government. In particular, in terms of taxation. When a firm follows through on its tax commitments, the country benefits greatly. As a result, as a stakeholder, you may assist the state government in getting tax revenues to fund growth (Donaldson & Preston, 1995).

2.1.2. Positive Accounting Theory

The Positive accounting theory explores the factors that influence management attitudes towards accounting standards that tend to influence corporate

lobbying against accounting standards. There are three positive accounting theory hypotheses: the bonus plan hypothesis, the debt covenant hypothesis, and the political cost hypothesis (Watts & Zimmerman, 1986). Companies have the freedom to choose one alternative accounting policy to minimise costs and maximise firm value. With this freedom, managers tend to take opportunistic actions that are profitable and maximise company satisfaction (Scott, 2014).

2.1.3. Agency Theory

Agency theory is a contract given by the principal to delegate authority to another person (agent) in terms of the company's strategic decisions (Jensen & Meckling, 1976). In a firm, the separation of ownership by the Principal and control by the Agent tends to cause agency issues between the two. The principal, as the owner of capital, wants to see the value of the business's shares rise as a result of his investment, but the management that the principal has entrusted with running the company wants to be paid well. Because of the disparity in the goals of gaining welfare, management makes decisions that are not in the best interests of shareholders.

The basic reason for corporate tax avoidance is alleged to be agency theory. This contributes to the development of knowledge related to tax avoidance practices in Indonesia and the current implementation of corporate governance. It also shows how the government, as a policymaker, can anticipate taxpayer behaviour that can affect state revenues from the sector. tax. Income tax is one of the state's biggest revenue sources. When it comes to paying taxes, taxpayers typically aim to reduce their tax burden; this effort is referred to as tax planning. In general, there are two types of factors that influence tax evasion in Indonesian financial institutions: financial factors and governance issues. The financial factors are debt shifting, derivative transactions and transfer pricing and governance factors are foreign ownership, executive incentives and corporate social responsibility.

3. Literature Review

Debt shifting is defined as interest income obtained in low-tax countries and withheld in high-tax countries in order to save taxes resulting from deductions in high-tax countries in excess of the appropriate tax payments in low-tax countries (De Mooij, 2011). This is most common in multinational corporations, when the leverage ratio is found to be more tax sensitive due to changes

in international debt. The corporate debt policy of a country appears to be influenced by local taxation. Multinational corporations frequently avoid paying high taxes by transferring debt to countries with high tax rates. Profit margins and tax liabilities are reduced as a result. Multinational firms, for example, move Intellectual Property to subsidiaries in low-tax jurisdictions in order to shift income and hence pay fewer taxes (Gravelle, 2013).

Financial derivatives are tools used by companies to reduce cash flow fluctuations and income fluctuations caused by market risk factors, such as interest rate fluctuations, foreign currency exchange rate fluctuations, commodity price fluctuations, and other risk factors. According to Barton (2001), Pincus and Rajgopal (2002), Huang et al. (2009), and Oktavia et al. (2019), financial derivatives can be used to reduce the volatility of company profits. This is because financial derivatives have a direct impact on the company's cash flow, which will ultimately affect the company's profit.

Derivatives are also utilised as a tax avoidance technique in addition to being used as an earnings management tool. According to Donohoe (2015) financial derivatives are a complicated type of tax avoidance. Company may take advantage of anomalies in tax legislation due to the intricacy of such derivative arrangements. The cash effective tax rate (Cash ETR) is negatively related with the fair value of hedging derivative assets, according to several previous research (Devi, 2018). Furthermore, the fair value of non-hedging derivative assets is positively connected with Cash ETR (liabilities). This suggests that the corporation held off on realising profits while increasing the realisation of non-hedging derivatives losses in order to save money on taxes.

Devi and Efendi's (2018) research delved into the utilisation of financial derivatives concerning corporate tax aggressiveness in the Indonesian context. Their study seeks to gain insights into the ways in which Indonesian businesses integrate financial derivatives and whether this integration corresponds with tax avoidance tactics. The research explores the interplay between the use of financial derivatives and strategies for corporate tax planning, focusing on the distinctive landscape of Indonesian corporate taxation.

Transfer pricing is a mechanism for allocating expenses and revenues among divisions, subsidiaries, and joint ventures within a group of connected firms, according to classic accounting literature (Sikka & Willmot, 2010). Transfer pricing approaches respond to chances for establishing values in ways that improve private advantages while avoiding the payment of public taxes. MNEs frequently shift earnings from high-tax jurisdictions to low-tax jurisdictions (Davies et al., 2018; Huizinga & Laeven, 2008; Trslv et al., 2020). Transfer pricing is intended to analyse and measure a company's

performance; but multinational corporations frequently utilise it to reduce the amount of tax they pay by transferring price engineering between divisions. Furthermore, transfer pricing tries to reduce the amount of taxes and tariffs collected around the world (Harimurti, 2007). Supriyanto et al. (2022) conducted research to investigate the factors influencing transfer pricing and tax avoidance in forty-one Indonesian conventional banks that registered with the Financial Services Authority during the period from 2017 to 2021. The research findings indicated that transfer pricing had a negative effect on tax avoidance.

Companies in Asia, especially Indonesia, have a concentrated ownership structure, which has the potential to allow controlling shareholders to become more active in company management. In Indonesia, the ownership structure is concentrated among a few owners, resulting in agency conflicts between majority and minority shareholders (Hartati et al., 2014). The dominant shareholder, often known as the controlling shareholder, has the capacity to sway management to make choices that benefit only them and are detrimental to smaller shareholders. Management is encouraged to undertake tunnelling that is harmful to minority shareholders by a concentrated ownership structure (Hartati et al., 2014).

Pratama (2020) also found the interaction of corporate governance, foreign operations, and transfer pricing practices within Indonesian manufacturing companies. The research object is to investigate the complex dynamics of transfer pricing in the context of corporate governance and foreign operations, specifically within Indonesian manufacturing firms. This study sheds light on the unique conditions of the Indonesian business environment and how they affect the practice of transfer pricing in multinational corporations operating in the country.

Executive incentives are a bonus given to a manager or other executive who has had a role in a corporation to take action based on the power given by the employer. These incentives can take the form of an annual bonus or the opportunity for the company's owner to purchase shares at a specific price (long-term dividends). According to Sarwoto (2000), rewards can be both tangible and non-material. Both the principal and the agent have interests and seek to attain their respective goals, according to agency theory and positive accounting theory. As a result, executive incentives are intended to solve the problem of unequal information agency (information asymmetry) and conflict of interest (conflict of interest).

CSR (Corporate Social Responsibility) is a business commitment to act ethically, contribute to economic success, and improve employee and societal quality

of life (Sari & Tjen, 2017). CSR, according to Andre and Baker (2020), refers to how firms conduct their activities in order to have a positive impact on society as a whole. CSR is a sort of corporate responsibility that encompasses all stakeholders. Taxation is a form of corporate social responsibility to stakeholders that is administered by the government. Companies that engage in tax evasion are not considered socially responsible (Lanis & Richardson, 2012). According to Lanis and Richardson (2012), the quantity of business tax avoidance is negatively connected with corporate CSR disclosure. Meanwhile, Carroll and Joulfaian (2005), Preuss (2010), and Sikka (2010) claim that certain companies with high CSR engage in extensive tax avoidance. Lanis and Richardson (2012) found that the level of corporate CSR disclosure is negatively correlated with the amount of corporate tax avoidance. Meanwhile, Carroll and Joulfaian (2005), Preuss (2010), and Sikka (2010) claim that certain companies with high CSR engage in extensive tax avoidance.

4. Conclusion

The chapter concludes that tax avoidance remains a significant issue in Indonesia, contributing to the country's failure to meet its tax revenue targets. This chapter identifies two forms of community resistance to taxation, passive and active, with active resistance including tax avoidance strategies such as transfer pricing. The article also highlights the role of multinational corporations in tax avoidance, often shifting earnings from high-tax jurisdictions to low-tax jurisdictions and also points out the role of top management in tax decision-making, suggesting that tax avoidance is often a deliberate strategy influenced by executive incentives. The chapter suggests that the ownership structure of a company can influence corporate tax avoidance, with top management playing a crucial role. Therefore, further research is needed from this perspective to understand and overcome the problem of tax avoidance in other emerging countries.

Acknowledgement

The authors would like to extend their gratitude to the Accounting Research Institute, HiCOE and Universiti Teknologi MARA for funding this research under the Bestari Grant – Islamic Financial Criminology, with reference number 600-RMC/DANA 5/3/BESTARI (TD) (010/2022)

References

- Andrew, J., & Baker, M. (2020). Corporate social responsibility reporting: the last 40 years and a path to sharing future insights. *Abacus*, 56(1), 35–65.
- Bank Indonesia. (2000). Regulation Number: 2/19/PBI/2000. Bank Indonesia. Retrieved from <https://www.bi.go.id/>
- Hanlon, M., & Heitzman, S. (2010). A review of tax research. *Journal of Accounting and Economics*, 50(2–3), 127–178.
- Carroll, C., & Joulfaian, D. (2005). Taxes and corporate social responsibility. *Business and Society Review*, 110(1), 73–92
- Ebi, Y. (2018). Tax avoidance, corporate governance and corporate social responsibility: The Indonesian case. *Journal of Legal, Ethical and Regulatory Issues*, 21(1), 1–13.
- Davies, R. B., Martin, J. S., & Parenti, M. (2018). Market access, regional price level, and poverty reduction in Brazil. *The Economic Journal*, 128(608), 1239–1269.
- Devi, B., & Efendi, S. (2018). Financial derivatives in corporate tax aggressiveness. *The Indonesian Journal of Accounting Research*, 21(2).
- Francis, J. (2017). Tax avoidance and evasion: Causal factors and control strategies. *International Journal of Economics, Commerce and Management*, 5(6), 30–40.
- Government of Indonesia. (2017). Government Regulation instead of Law (PE. RPU) Number 1 Year 2017. Government of Indonesia. Retrieved from <https://www.pajak.go.id/>
- Harimurti, W. (2007). Transfer pricing system and its potential impact on global income shifting and taxation. *Bulletin for International Taxation*, 61(9), 404–413.
- Huizinga, H., & Laeven, L. (2008). *Accounting discretion of banks during a financial crisis* (European Central Bank Working Paper Series, No. 979).
- Lanis, R., & Richardson, G. (2012). The effect of corporate tax avoidance on the level and composition of CEO compensation. *Journal of American Taxation Association*, 34(1), 1–29
- Mardiasmo, M. B. A. (2015). *Perpajakan –New edition*. Publisher Andi Indonesia.
- Ministry of Finance of the Republic of Indonesia. (2019). *Tax revenue report*. Ministry of Finance of the Republic of Indonesia. Retrieved from <https://www.kemenkeu.go.id/>
- Reiter, S. A. (2021). The ethics of tax avoidance. *Business & Society*, 60(1), 3–34.

- Sari, D., & Tjen, C. (2017). Corporate social responsibility disclosure, environmental performance, and tax aggressiveness. *International Research Journal of Business Studies*, 9(2).
- Preuss, L. (2010). Corporate social responsibility and tax avoidance: A meta-analysis. *Critical Perspectives on International Business*, 6(2/3), 161–178.
- Putri, V. R., Zakaria, N. B., Said, J., Azis, M. A. A., & Putra, M. R. A. (2023). Management incentives and foreign ownership effect on tax avoidance with the presence of credit risk. *Asia-Pacific Management Accounting Journal*, 18(2), 311–337.
- PWC. (2019). *Total tax contribution of UK financial services*. Retrieved from <https://www.pwc.co.uk/industries/financial-services/insights/total-tax-contribution-of-uk-financial-services.htm>
- Sikka, P. (2010). Smoke and mirrors: Corporate social responsibility and tax avoidance. *Accounting Forum*, 34(3–4), 153–168.
- Supriyanto, Q. M., Pratama, B. C., Hariyanto, E., & Kusbandiyah, A. (2022). Tax avoidance in Indonesian banking: The role of transfer pricing and corporate ownership. *Journal of Finance and Business Digital*, 1(4), 251–270.
- Trslv, J., Elschner, C., Alstadsæter, A., & Johannesen, N. (2020). The rise of phantom investments. *International Tax and Public Finance*, 27, 772–800.
- Wijaya, I. (2017). Tax avoidance issue in Indonesia. *Journal of Indonesian Economy and Business*, 32(1), 1–16.