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THE EFFECT OF ORGANIZATIONAL CAPITAL ON TAX AVOIDANCE WITH CEO OVER CONFIDENCE AS MODERATOR

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ABSTRACT

The number of companies reporting losses to avoid taxes increased significantly. This is a concern for the government. The purpose of this study was to examine the effect of organizational capital on tax avoidance with CEO overconfidence as moderator. The samples used in this study are mining companies listed on the Indonesia Stock Exchange (IDX) during 2016-2021 through the purposive sampling method. The sample in this study is manufacturing companies listed on the Indonesia Stock Exchange in 2016-2021 that were selected purposively. The year 2016 is used as the base year to measure variables that require data from the previous year. Data is obtained from financial statements published on www.idx.co.id websites and websites of each company. The results of this study confirm that organizational capital can increase tax avoidance whereas The results of this study confirm that organizational capital can increase tax avoidance.

Keywords: Tax Avoidance; Capital of Organizations; Companies

INTRODUCTION

Tax avoidance is still a concern for the government because it reduces state revenue (Edeline & Sandra, 2018). One of the actions of corporate taxpayers to commit tax avoidance is to report losses in their financial statements (Dewi & Gunawan, 2019). The number of corporate taxpayers whose losses are reported for five consecutive years has increased. Even so, these taxpayers can still operate and even develop their business in Indonesia (Suparna Wijaya & Ramadhanty, 2021). Hasan and et al. (2022) explained that tax avoidance is carried out by companies due to the support of organizational capital. Organizational capital is a collection of knowledge, skills, culture, design, and business processes that enable companies to achieve efficient production and stable business operation activities to improve productivity and performance (Hasan & Cheung, 2018); Li et al., 2018) . This condition shows that the capital of the organization is a special advantage to achieve competitive advantage. Boubaker et al. (2022) explain that these specific advantages provide an opportunity for shareholders to claim cash flows obtained from the organization's capital (Boubaker et al., 2022).

Higher organizational capital indicates higher manager compensation (Eisfeldt & Papanikolaou, 2013; Lev et al., 2009). Atkeson and Kehoe (2005) explain that an organization's capital can comprise more than 40% of the cash flow of intangible assets (Atkeson & Kehoe, 2005). Eisfeldt & Papanikolaou (2014) explain that organizational capital is a company's investment in resources. Therefore, managers will try to manage the organization's capital optimally as it relates to company productivity and compensation for managers (Makori & Jagongo, 2013).

Organizational capital as codified and integrated company-specific knowledge can help in understanding complex tax regulations. Thus, companies can take advantage of differences in tax rates, tax preferences, and tax status in a more efficient way to reduce the company's tax burden (Hasan et al., 2021). Gallemore and Labro (2015) explain that tax planning, compliance, and implementation is an expensive endeavor that requires considerable time, knowledge-intensive, and economic resources (Gallemore & Labro, 2015). Therefore, companies with high organizational capital tend to be better able to engage in tax avoidance and achieve greater tax efficiency (Alm, 2021; Marilyn & Ruslim, 2023).

Company managers who use resources efficiently in managing business activities can help raise high organizational capital and use the opportunity to avoid taxes. Managers can better allocate corporate profits from different profit centers and take advantage of tax credits or transfer prices that lead to a lower corporate tax burden (Nugroho, 2017).

Agency theory, which represents a conflict of interest between tax authorities and company managers, motivates managers to act opportunistically in fulfilling their interests through tax avoidance. This condition is caused by tax avoidance which can increase cash flow and profit after tax, thus encouraging companies with high organizational capital to carry out tax avoidance to maximize profits for both company managers and shareholders.

RESEARCH METHOD

This quantitative study examines the effect of organizational capital on tax avoidance with CEO overconfidence as moderator. The independent variable in this study is organizational capital. The dependent variable is tax avoidance. The study used a moderating variable: overconfident CEOs.

The sample in this study is manufacturing companies listed on the Indonesia Stock Exchange in 2016–2021 that were selected purposively. The year 2016 is used as the base year to measure variables that require data from the previous year. Data is obtained from financial statements published on the www.idx.co.id website and the website of each company.

RESULTS AND DISCUSSION

Hypothesis Testing

Simultaneous Test (F)

This test is used to see whether all independent variables in the regression model have an influence together on the dependent variable. Here are the calculation results obtained:

Table 1 Simultaneous Test (F)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	72.399	2	36.199	13.403	.000[b]
	Residual	164.754	61	2.701		
	Total	237.153	63			

a. Dependent Variable: Penghindaran Pajak

b. Predictors: (Constant), Modal Organisasi*CEO Over Confidence, Modal Organisasi

Hypothesis :

H_0 : $\beta_i = 0$

H_1 : There is at least one $\beta_i \neq 0$

Level of Significance :

α = 0,05

Rejection Criteria :

$F_{calculate}$> F_{table} or *Sig*< α (0.05), then reject H_0

$F_{calculate}$< F_{table} or *Sig*> α (0.05), then fail to reject H0

Based on the results of the regression above, it is known that the significant value for the influence of capital sources and capital use together on Y is 0.000. It is known that the $F_{calculate}$ value is 13.403 and the F_{table} value is 1.524 so that the Fcalculate value (13.403) > Ftable (1.524) and *Sig* value (0.000) < (0.05) then reject H 0. α So it can be concluded that there is at least one independent variable that has a positive and significant effect on the dependent variable (Y).

Partial Test

A partial test is used to see if the independent variable (X) has a singular effect on the dependent variable (Y). This test is carried out using a comparison of $t_{calculate}$ and t_{table} values measured based on the *rule of thumb.* Here are the calculation results obtained:

Table 2 Partial Test

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	3.720	.455		8.169	.000
	Modal Organisasi	-1.813	.353	-.548	-5.136	.000
	Modal Organisasi*CEO Over Confidence	.426	.690	.066	.617	.539

a. Dependent Variable: Tax Avoidance

Hypothesis :
$H_0 : \beta_i = 0$
$H_1 : \beta_i \neq 0$ (i = 1,2,3)
Level of Significance :
α = 0,05
Kriteria Penolakan :
t_{count}>t_{table} or Sig< value (0.05), then reject H 0 α
t_{count}t<t_{table} or Sig> value (0.05), then fail to reject H 0 α
Based on the output results obtained from the SPSS application above, it can be concluded that :

The Effect of an Organization's Capital Variables on Tax Avoidance

From the results of the analysis, it is obtained that the value of $t_{calculate}$ (-5.136) > t_{table} (1.96) or *the value of Sig* (0.000) < (0.05), then reject H 0 α means that there is a partial influence of capital use on the liquidity ratio. The resulting coefficient value is -1.813, meaning that the organization's capital variable has a negative and significant influence on tax avoidance.

Higher organizational capital indicates higher compensation for managers (Eisfeldt & Papanikolaou, 2013; Lev et al., 2009). Atkeson & Kehoe (2005) explain that an organization's capital can comprise more than 40% of the cash flow of intangible assets (Atkeson & Kehoe, 2005). Eisfeldt & Papanikolaou (2014) explain that organizational capital is a company's investment in resources. Therefore, managers strive to manage the organization's capital optimally as it relates to the productivity of the company and the compensation given to managers

Effect of CEO *Over Confidence* Moderation Variable on Tax Avoidance

From the results of the analysis, it was obtained that the value of $t_{calculate}$ (0.617) < t_{table} (1.96) or *the value of Sig* (0.539) > (0.05), then accept H 0 α meaning that there is no partial effect of CEO *Over Confidence* Moderation on Tax Avoidance. The resulting coefficient value is 0.426, meaning that the variable uses CEO *Over Confidence* Moderation on Tax Avoidance. The results of this study found that the strength of organizational capital as codified and integrated company-specific knowledge can help companies understand complex tax regulations.

Therefore, companies can utilize differences in tax rates, tax preferences, and tax status more efficiently to reduce the tax burden (Hasan et al., 2021). Women on the board of directors actually have the opportunity to reduce effective tax rates because they are considered to understand complicated tax rules and are able to take advantage of differences in tax rates, tax preferences, and tax status in a more efficient way to reduce tax rates (Putri & Putranti, 2019) Corporate Tax Burden.

CONCLUSION

The phenomenon of tax avoidance is still a major concern of various researchers. A recent study found that high corporate tax avoidance is due to an organization's capital. The results of this study confirm that an organization's capital can increase tax avoidance. CEOs strive to manage an organization's capital optimally as it relates to the productivity of the company and the compensation provided to them, thus motivating them to lower the effective tax rate.

The study's findings suggest that overconfident CEOs fail to moderate the influence of organizational capital on tax avoidance. Hanlon & Heitzman (2010) explain that tax avoidance refers to corporate activities that result in an explicit reduction in the tax burden including adopting different regulations with the aim of achieving a tax strategy. CEOs who lack confidence tend to take fewer risks because they are risking the company's long-term contingency risk.

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