

Tax Incentives, Growth Opportunities and Size of Companies with Conservatism Accounting Applications

Holiawati¹, Resty Julianty²

¹Lecture at Universitas Pamulang, Indonesia

²Bachelor Accounting at Universitas Pamulang, Indonesia

ABSTRACT

The purpose of this study is to determine the effect of tax incentives, growth opportunities and firm size for accounting conservatism in financial firms listed on the Indonesia Stock Exchange during the period 2011-2015. This study uses a sample population of financial firms listed on the Indonesia Stock Exchange during 2011-2015. The number of companies in the sample of 11 companies. Research method used is purposive sampling. The hypothesis of this study was tested by multiple regression analysis using SPSS 23. The results show that tax incentives have no significant effect on accounting conservatism, growth opportunities have significant effect on accounting conservatism, and firm size has no significant effect on conservation acclaim.

Keywords: Tax Incentive, Growth Opportunities, Size Companies and Accounting Conservatism

I. INTRODUCTION

Enterprises to anticipate the economic crisis and the unstable economic situation, companies are asked to be careful in presenting the financial statements. Financial Accounting Standards (SAK) have given freedom, in choosing the methods that will be applied and used in preparing financial statements. For the freedom that is given this, often kai utilized by the company to produce different financial statements, in accordance with the wishes and needs of the company. On the other hand, there is a need for caution by recognizing any possible costs or losses, but not immediately recognizing future income or profits. One of the basic principles used in the preparation of financial statements is the application of the principle of conservatism. The principle of accounting conservatism is very important to deal with the uncertainty of economic activity and business enterprise.

Conservatism can be defined as an attempt to select acceptable public accounting methods that will result in the recognition of income as slowly as possible, the recognition of expenses as quickly as possible, lower asset valuations and higher liability assessment. Specifically, this principle shows that it is preferred to report the lowest value for assets and revenue and the

highest value for debt and expense (Riahi Belkaoui, 2000). Conservatism is an important principle in financial reporting that is intended for the recognition and measurement of assets and profits done with great care. The conservatism can be described as a pessimistic view when choosing accounting techniques for financial reporting. Conservatism is the principle that most affects valuation in accounting (Watts, 2003). Research on accounting conservatism, one of which uses the explanation related to tax. Currently, almost all industrial and business sectors are affected by the provisions of taxation legislation regulations. Taxation regulations are always changing to adjust to the social, economic and political conditions of a country. The only concerning the amendment of provisions on the rate of corporate income tax.

On the other hand the company's growth is also the company's ability to increase its size (Fatmariani, 2013). Companies that are growing tend to choose accounting conservatism because of lower earnings calculations than using optimistic accounting with higher profit calculations. It can happen because the company uses its hidden reserves to increase investment that indirectly hidden reserves can be used to increase investment and reduce earnings during that period.

Based on the above description, the authors are interested to examine the companies listed on the Indonesia Stock Exchange about how much Incentive Tax Incentives, Growth Opportunities and Company Size Against Accounting Conservatism.

II. METHODS AND MATERIAL

Literature Review and Hypothesis Development

1. Literature Review

A. Positive Accounting Theory

Scott (2006) Positive accounting theory is a theory that predicts accounting policy selection actions by managers and how managers will respond to proposed new accounting policies. Positive accounting theory aims to explain and predict (Watt and Zimmerman, 1986). The explanation in question is about what reasons are used in choosing the accounting policies undertaken. Positive accounting theory and explanations are based on the process of contact or agency relationships between managers and other groups such as investors, creditors, auditors, capital market managers and government institutions (Watts and Zimmerman, 1986).

B. Tax

According to Mardiasmo (2011: 1) the definition of tax is the contribution of the people to the state treasury under the law (which can be enforced) with no direct payments of return (kontraprestasi) which can be directly addressed and used to pay public expenditure.

C. Tax Incentives

Tax incentives according to Suandy (2003) is a grant of tax facilities granted to foreign investors for certain activities or for a particular region.

D. Growth Opportunities

Company growth can be defined as an increase that occurs in the company. The higher the growth of the company which means also that the opportunity to grow the company the higher, the greater the necessary

funding needs. Companies that have high growth rates are generally small companies (Bonifacius 2010).

E. Company Size

Company size can be interpreted as a scale which can be classified the size of a company in various ways, among others stated in total assets, stock market value, and others. Decision of the Chairman of BAPEPAM. Kep 11 / PM / 1997 mentions small and medium-sized companies based on assets (wealth) are legal entities that have total assets of not more than one hundred billion, while large companies are legal entities that have total assets above one hundred billion.

F. Accounting Conservatism

Basu (1997) defines conservatism as a practice of reducing profits (and shrinking net assets) in response to bad news, but not increasing profits (raising net assets) in response to good news.

2. Development of Hypothesis

A. The Effect of Tax Incentives on Accounting Conservatism

Tax management behavior is influenced by elements of tax incentives and non-tax incentives. Companies that have good tax planning, will tend to reduce the company's net profit in order to obtain tax benefits. Wicaksono and Laksito (2012) Tax incentives have an effect on accounting conservatism with a negative direction, if the taxplan increases, accounting conservatism decreases. This indicates that changes in tax incentives make firms tend to do accounting conservatism.

H1: Tax incentives relate significantly to Accounting Conservatism.

B. The Effect of Growth Opportunities on Accounting Conservatism

The growth of the company can be seen from the opportunity to grow (growth opportunities). Companies to grow and grow need opportunities or opportunities, companies also need funds where there is a challenge for

managers to balance between income and cash usage. The higher the opportunity to grow the company the greater the required funding needs of the company. The amount of funds required by the company causes the manager to apply the principle of conservatism so that financing for investment can be fulfilled, ie by minimizing profits (Deslatu and Susanto, 2007). Based on Fatmariansi (2013) and Widya (2005) states that growth opportunities affect accounting conservatism. This means companies with a growing and growing opportunity will apply the principles of accounting conservatism to lower profits related to political costs.

H2: Growth Opportunities is significantly related to Accounting Conservatism.

C. The Influence of Corporate Size on Accounting Conservatism

The size of the company is one indicator to observe the huge political costs that must be borne. The size of a company can be measured by looking at the total assets owned by a company. The size of the company (size) indicates the company's activities owned perusahaan. Semakin size of the company means the greater the asset that can be used as collateral to obtain debt so that large size facilitate the company in funding (Raharja and Sandra, 2011). Large corporations have the capability of sufficient resources to manipulate the political process as they wish for example by tax planning or regulate their activities to achieve optimal tax savings. Therefore, large firms will tend to report relatively low profits permanently by administering conservative accounting. Based on the above explanation, thus the size of the company affect the accounting conservatism

H3: Company size is significantly related to Accounting Conservatism.

C. Research Method

1. Data, Population and Sample

The population used as the object in this study is the financial companies listed on the IDX period 2011-2015 amounted to 81 financial companies. The company's financial report is a quantitative data as a source of

information used to know and measure research variables, namely: conservatism, tax incentives, growth opportunities and company size. The sample selection using purposive sampling method with the aim to get the appropriate sample criteria that have been determined and only 11 companies that meet the criteria.

2. Variable Operations

a. Dependent Variables

The dependent variable is a variable that is influenced by other variables and cannot stand alone but the result of the influence of the independent variable. The dependent variable in this study is accounting conservatism. Givoly and Hayn (2000) measured conservatism by looking at trends of accrual accrual over several years calculated by the following formula:

$$CONACC_{it} = NI_{it} - CFO_{it}$$

Information :

CONACC_{it}: Accounting conservatism for firms on Period et

NI_{it}: Net income plus depreciation and Amortization for firm i in period t

CFO_{it}: Cash flow from operational activities to Company in period t

In the Wicaksono (2012) study, the results of CONACC above multiplied by -1 then divided by total assets so that the greater the positive value of the ratio the more conservative. Thus, the formula for total accrual is as follows:

$$TACC_{it} = \frac{(NI_{it} - CFO_{it}) \times (-1)}{TA_{it}}$$

Information :

TACC_{it}: Total accrual for company at i or period t

NI_{it} : Net income plus depreciation and Amortisation for period i and period t

: Cash flow from operation activities I and periode t

: Total asset for period i and t

b. Independent Variables

1) Tax incentives

Calculation of income tax rate change using tax planning proxy as a measure of tax incentives in accordance with research conducted by Yin and Cheng (2004), where :
TaxPlan (TP): Tax planning,
PTI: Pre-tax income, CTE: Current portion of total tax expense (Current tax expense)

2) Growth Opportunities

Growth opportunity is a company opportunity to invest in things that are profitable. In accordance with Collins and Kothari (1989) research in Widya (2005), this variable is proxied by using market to book value of equity (MBV).

3) Company Size

Company size is proxied by using the natural logarithm of total assets owned by the company that is sampled in this research.

Size = Ln TAit

3. Analisis Data Method

Hypothesis testing technique begins by calculating the classical assumption test which is statistical requirement that must be fulfilled in linear regression analysis based on Ordinary Least Square (OLS) which means regression analysis requires classical assumption requirement. The classical assumption test used is normality test, heteroscedasticity test, Test autocorrelation, and multicollinearity test. After that tested the hypothesis consisting of correlation coefficient, coefficient of determination, t test, and f test. For. All the tests that have been described, calculated using the program IBM SPSS Version 23.0.

III. RESULTS AND DISCUSSION

1) Significant Incentive Tax Against Conservatism

The tax incentive variable has a value of -1.337 <2.00758 and sig of 0.187> 0.05. This shows that this research refuses which means that the independent variable that is individual tax incentive does not significantly affect the dependent variable that is accounting conservatism. This is in accordance with the results of research Windra Septian Wicaksono and Herry

Laksito stating that tax incentives negatively influence not significant Accounting conservatism.

2) Significant Growth Opportunities Against Accounting Conservatism

Variable growth opportunity has a value of -3,822 >2,00758 and sig of 0.000 <0.05. This shows that this research accept that means that independent variable that is growth opportunity individually have significant effect to dependent variable that is accountancy conservatism. This is in accordance with the results of research Natalia Raharja and Amelia Sandra who stated that the growth opportunities significant effect on accounting conservatism.

3) Significant Corporate Size on Accounting Conservatism

Variable size of the company has a value of 1.047 <2.00758 and sig of 0.300> 0.05. This shows that this study refuses which means that the independent variable that is the size of the company individually has no significant effect on accounting conservatism. This is in accordance with the results of research Natalia Raharja and Amelia Sandra stating that the size of the company has no significant effect on accounting conservatism.

IV. CONCLUSION

The conclusions of this study are:

1. The tax incentive variable has no significant effect on accounting conservatism at the financial companies listed on the Indonesia Stock Exchange (IDX) for the period of annual report data and financial statements for 2011-2015.
2. Variable growth opportunities significantly influence accounting conservatism at financial firms listed on the Indonesia Stock Exchange (BEI) for the period of annual report data and financial statements for 2011-2015.
3. The firm size variable has no significant effect on accounting conservatism at the financial companies listed in Indonesia Stock Exchange (BEI) for the period of annual report data and financial report year 2011-2015.

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