International Tax Avoidance Practice in Asean-4 Multinational Company

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Abstract. This study held an evaluation on the role of Tax Risk Management and Government Governance in accordance with international tax practice with tax avoidance. This study uses panel data from year 2010 to 2016 of multinational companies in 4 ASEAN countries namely Indonesia, Malaysia, Singapore, and Philipines as samples. The study result proves that Tax Risk Management and Government Governance successfully decrease international tax avoidance practice in multinational companies in ASEAN especially on Thin capitalization and multinational practice. It means the company performing internal supervision by having task risk management and a better government governance can minimize the negative impact of international tax avoidance practice. Meanwhile, tax havens practice is not significantly influenced since some samples of this study are multinational companies in tax haven country namely, Singapore and Labuan Malaysia. Therefore, the role of task risk management and government governance is not too significant.

Keywords: tax risk management; government governance; thin capitalization; multinationality; tax havens; tax avoidance

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INTRODUCTION

The rapid development on technology and globalization era results in making distance to be closer. Likewise, the business development grows fast so that investment could flow anytime anywhere. This pursues multinational companies to keep mushrooming, especially in the developing countries that become the big target market for developed countries. Dunning (2008) defines multinational company as a company that focuses on foreign direct investment and possesses or, in some ways, controls ownership additional value of more than one country.

Multinational company could give advantages and disadvantages to the host country which is usually developing country. Shah *et al.* (2012) states some advantages or disadvantages of multinational company in the host country. Some advantages of the multinational company are investment on foreign caused by multinational company capital investment, technology transfer for developing country, and giving contribution on invention and innovation. The disadvantages caused are technology designed only to maximize the benefit of multinational company, not for the development of poor countries, multinational company can cause rapid depletion from several non-renewable natural resources in the host country. Besides, multinational country has power and flexibility to avoid policy from the local government and control their activity conflicting with national interest of certain countries including minimizing or even avoiding tax payment in the host country. It is proved by the study held by Rego (2003) that shows multinational companies, generally, will avoid tax payment more than domestic companies with lower effective rate level. In performing tax avoidance, the multinational company could perform some international tax practices held to minimize the obligation of paying tax. There are several studies that have successfully proved international tax practice conducted by the multinational companies, namely: Taylor & Richardson (2012, 2013), Lee & Swenson (2012), Richardson & Taylor (2015), Richardson, Taylor & Lanis (2013).

Negative impact of tax avoidance is quite significant for the income of host country, especially on the multinational company indicated performing international tax avoidance

practice. Government policy is needed though regulations to be able to decrease the negative impact of the tax avoidance. Therefore, government role is needed to perform a supervision with a better government governance. Beside the government role, there should be company role that conducting internal supervision with tax risk management. Tax avoidance could decrease company value because tax avoidance could cause risk to the company by giving bad signal to government and stock holders. The study of Chen, Wu, Wang & Tang (2014) found that tax avoidance behavior could increase agency cost and decrease company value, on the other hand, Desai & Dharmapala (2009) found that tax avoidance could increase company value if the company is managed well. The previous study has successfully proved that the better company management by applying tax risk could minimize negative signal from tax avoidance they perform. Risk management is a specific internal control specially to overcome risk attached to taxes. (PricewaterhouseCoopers, 2004).

By seeing the importance of supervision role from outside the company such as from the government through Government Governance, and the supervision from inside the company that is by performing Tax Risk Management, this study tries to develop the research construct in order to see the role of Government Governance and Tax Risk Management toward the practice of international tax avoidance. This study uses multinational companies registered in ASEAN region that are 4 countries, namely: Indonesia, Malaysia, Singapore and Philippines from year 2010 to 2016. This study managed to contribute by proofing that the application of better Government Governance and Tax Risk Management has successfully decrease the negative impact of international tax avoidance practice, especially for Thin Capitalization and Multinationality practice. In contrast, international tax practice on tax haven, Government Governance role and Tax Risk Management do not significantly decrease the negative impact on tax avoidance. It is because the sample of multinational companies in this study are located in Singapore and Labuan Malaysia that are tax haven countries.

The tax avoidance measurement keeps expanding. Some tax avoidance measurements use discretionary from total BTD (Desai & Dharmapala, 2006; Lim et al., 2011; Tang et al., 2011) and discretionary from permanent difference (Frank and Rego, 2009) that show an aggressive tax avoidance behavior that keeps increasing and assigned as a reference to measure tax avoidance in some studies up to now. Hanlon and Heitzman (2010) stated that permanent differences are not related to accountancy on accrual basis. Frank and Rego (2009), Tax Committee Council Congress in America (1999), Weisbach (2002) and Shevlin (2002) describe that, ideally, tax shelter is created on permanent difference basis rather than temporary difference and total book tax difference. Permanent difference is a tax difference caused by its character. Based on literature review from the researcher, nobody measures tax avoidance on permanent book-tax difference. This study contributes in developing tax avoidance measurement by using tax profit management on permanent book-tax different. The result shows that tax avoidance management by using permanent book-tax difference can reflect the behavior of international tax avoidance more, after evaluating on analytical sensitivity on tax avoidance measurement of the previous study.

Tax Avoidance

Tax burden is a fairly large cost, so tax aggressive behavior is a way for companies to be able to do saving (Chen, Chen, Cheng and Shevlin, 2010). Aggressive tax behavior is a part of tax avoidance to reduce the obligation to pay (Slemrod (2004) and Slemrod and Yitzhaki (2002). Tax avoidance behavior is based on the agency problem, evidenced by the results of research conducted by Desai and Dharmapala (2006) that shows tax avoidance conducted by a manager in order to rent extraction that is a decision making activity that does not maximize company value and causes cost to the stock holder.

Related to the profit management for tax purpose shows that tax avoidance cannot be separated from profit management done by the company. In a research, Hanlon and Heitzman (2010) reviewed some tax avoidance measurements often used in some literatures such as total book tax difference. Book Tax Difference is a difference between profit before tax according to accountancy and fiscal. Based on previous study, it is shown that book tax difference could give information as tax avoidance behavior. However, tax avoidance information in book tax difference is hard to be documented since a valid tax calculation is hard to get. Previous study developing tax avoidance based on book tax difference (Desai and Dharmapala, 2006, 2009; Lim et al., 2011; Tang et al., 2011). Residual from regression total accrual and discretionary accrual with book tax difference is a component of book tax difference caused by profit management for tax purposes.

Frank and Rego (2009) estimate discretionary permanent difference to measure aggressive tax report. They believe that measurement with permanent difference is better than temporary difference. Permanent difference to measure aggressive tax report is more consistent with the evidence on character of tax shelters that refers to final difference where the Tax Committee Board Congress in America (1999), Weisbach (2002) and Shevlin (2002) describe that ideal tax shelter created permanently to temporary and total book tax difference. Tax shelters based on Tax Committee Board Congress in America (1999) is defined as an effort to avoid tax without having economical risk or loss. Tax shelters referring to final difference, does not relate to accountancy on accrual basis related time or temporary, so it leads more to real profit management activity conducted by the management. This study develops tax avoidance measurement based on abnormal residual from permanent difference regression with real profit management, using the measurement of Rowchowdhury (2006), and successfully proves the explanation of international tax avoidance behavior on multinational companies.

International Tax Practice

There are many international tax avoidance practices carried out by multinational companies such as the study held by Taylor and Richardson (2012) on multinational company in Australia, there are five international tax practices that are thin capitalization multinationality, tax haven, transfer pricing, and

income smoothing that support company to perform tax avoidance by minimizing the obligation to pay. This study uses three international tax practices that is thin capitalization, multinationality, and tax haven.

Thin Capitalization

Thin Capitalization is an investment decision made by a company where its capital structure refers to debt capital rather than share capital (Taylor, Tower, & Van der Zahn, 2011). Taylor and Richardson (2012) stated that there are rules on thin capitalization known as maximum debt limit allowed that is by documenting the process where the company could calculate maximum amount of interest-bearing loan that causes interest deduction in one income-year, company with debt level close or in maximum debt limit allowed (Safe Harbour Limit), but exceeding industry standard could indicate tax avoidance.

Many determinant factors that could support company to do thin capitalization, in the study of Taylor and Richardson (2013), shows that multinational companies and subsidiary company in tax haven countries support companies to hold thin capitalization practice. Shackelford & Shevlin (2002) in the study also shows that subsidiary company located in high tax jurisdiction tends to have thin capitalization with excessive debt financing structure. Multinational company has incentive to finance foreign investment directly with debt. If it can reduce interest payment on a higher level held by foreign subsidiary company

with a higher tax rate than tax rate in main company (Dahlby, 2008), it is related to the relation between company strategy and funding decision and related tax. Therefore, company with debt ratio on higher capital will do efficiency by minimizing income tax in company group. Based on the explanation, the hypothesis developed related to thin capitalization is as follows:

H1a: Company tends to do tax avoidance activity if it has thin capitalization funding structure

Multinationality

Multinationality shows that the company operates and has subsidiary companies in several companies. Generally, multinational company holds a more efficient tax planning in all business group entity, where the more they get foreign source of income, the more they have tax avoidance (Taylor and Richardson, 2012). In taxation in multinational company, besides what connected with price changing, multinational company also involves in investment and loss compensation. The study result of Waegenaere *et al.* (2012) found that a high domestic tax rate can reduce investment in R&D if production happened in domestic country, it will increase investment in R&D if production happens abroad. Study held by Haufler and Mardan (2014) shows there is coordination on loss compensation in multinational companies on the investment risk measure selection and the selection on tax rate of uncooperative host country. Rego (2003) also found that company with higher international exposure has more chance to involve in tax avoidance activity. The explanation from some researches above show that multinational company has more role in tax in main company and subsidiary, so it can confirm that there are many international tax avoidance practices conducted by multinational. The hypothesis developed in this study on the relation of multinationality and tax avoidance is as follows:

H1b: Company tends to hold tax avoidance activity if it has wider company operational.

Tax Havens

Tax haven or so called tax heaven is a facility of a member or company group located on the countries with tax haven status that offer the benefit of tax, finance and law. According to Gravelle (2015), OECD in the beginning defines the features of tax havens as no tax or low tax, has law practice and administration that can reduce effective information exchange, less transparency and no substantial activity. The country that has tax haven status has no tax or low tax and also has law and administration practice that avoid information exchange and less transparency related to financial and tax strategy. Richardson and Taylor (2015) in the study has successfully proved that multinational company in America, transfer pricing activity, thin capitalization and intangible assets are positively related to the use of tax haven facilities. Their study result supports Desai, Foley, and Hines (2006) that multinational company that has subsidiary companies in tax haven company could conduct some tax avoidance activity by allocating taxable income to the subsidiary company or group company in the country with low tax jurisdiction or the country that gets tax havens facility. Based on some study results, the hypothesis developed in this study on tax haven and tax avoidance relation is as follows:

H1c: Company tends to perform tax avoidance activity if it has subsidiary company in the country that has tax haven facility.

Tax Risk Management

In business process there is always uncertainty and in the uncertainty attached a risk, so there is business risk. Likewise, tax that is a transaction in a business process could cause attached risk called tax risk. Managing tax risk is managing uncertainty where there is often

no right or wrong answer, so tax risk management is about the understanding how the risk occurs and makes adjustment to overcome the risk (PricewaterhouseCoopers, 2004). Wunder (2009) states that tax risk management and control internal related more focus than a general risk management. The study result of Rossing (2013) also shows that tax strategy function could influence management control system as a form of tax risk management in facing tax risk over transfer pricing.

Tax risk management in this study develops task risk measurement used by Minnick and Noga's (2010) and Assidi (2015) that is ETR cash deviation standard of five years back. Companies are considered to have done a better tax risk management if the tax risk level is below average industry. Companies that have done a better task risk management will reduce the task risk attached in the company business operation, so it is expected that the influence of international tax practice toward tax avoidance will be reduced. Therefore, the hypothesis presented is as follows:

H2a: Tax risk management can reduce the use of thin capitalization in tax avoidance activity
H2b: Task risk management can reduce the use of multinational company operation in tax avoidance
H2c: Tax risk management can reduce tax haven facility in tax avoidance activity

Government Governance

Wilson (2009) found that companies that conduct tax shelter and implement strong government governance show positive abnormal return and stated that tax shelter is a tool to create prosperity in the well-governed companies. And the study of Desai and Dharmapala (2009) also indicates that tax avoidance influence or also referred to as average tax avoidance toward company value has no significant influence, but has positive influence for well-governed firms or companies with good governance. The implementation of a good company management is expected to reduce the use of international tax avoidance practice. Therefore, the hypothesis presented is as follows:

H3a: Government Governance can reduce the use of thin capitalization in tax avoidance activity
H3b: Government Governance can reduce the use of company multinational operation in tax avoidance activity
H3c: Government Governance can reduce the use of tax haven facility in tax avoidance activity

The Role of Tax Risk Management and Government Governance

The application of good internal supervision and control both from within the company through tax risk management and government control with better government governance can reduce the negative influence of international tax practices in an effort to avoid taxes. Based on this analogy of thinking, this study developed a hypothesis by using two moderations over the joint role of tax risk management and government governance to link international tax practices with tax avoidance. The hypothesis proposed is as follows:

H4a: Tax Risk Management and Government Governance can reduce the use of thin capitalization in tax avoidance activity
H4b: Tax Risk Management and Government Governance can reduce the use of company multinational operation in tax avoidance activity
H4c: Tax Risk Management and Government Governance can reduce the use of tax haven facility in tax avoidance activity

METHOD

The method of data collection used in this research is a documentation study, which is a method that is done by collecting all secondary data and all the information needed. The data collected are data related to the measurement of tax avoidance practices, tax avoidance and corporate governance and tax risk management contained in financial statements and annual reports on multinational companies in 4 ASEAN countries namely Indonesia, Malaysia, Singapore and the Philippines.

The research was conducted on multinational companies registered in the ASEAN Region, namely for Indonesia, Malaysia, Singapore, and the Philippines from 2010 to 2016. Sample selection is done purposive sampling to obtain a sample that can represent the specified criteria. The criteria set out in the selection of samples are as follows:

1. Financial report in English
2. Eliminate observations with negative sales figures or where the total value of an asset is zero or lost.
3. Exclude the financial sector because the industry has different accounting rules, operating characteristics, and debt financing.
4. The financial year ends in December 31 n this case for uniformity in the bookkeeping period.
5. Companies that have a present tax burden, in this case as one of the proxies to measure book tax difference as a proxy of aggressive tax behavior, and to assert that the company has not suffered a fiscal loss.
6. Companies with relevant data in accordance with variable measurement.

The test held to observe the influence of international tax avoidance practices by developing the model in the study done by Taylor and Richardson (2012), as follows:
Model to test hypothesis 1a-c is shown by β_1 to β_3

$$TA_{it} = \alpha_{0it} + \beta_1 TCAP_{it} + \beta_2 MULTI_{it} + \beta_3 THAV_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 CINT_{it} + \beta_7 INVINT_{it} + \beta_8 ROA_{it} + \beta_9 GDP_{it} + \varepsilon_{it}$$

Model to test hypothesis 2a-c is shown by β_5 to β_7

$$TA_{it} = \alpha_{0it} + \beta_1 TCAP_{it} + \beta_2 MULTI_{it} + \beta_3 THAV_{it} + \beta_4 TRM_{it} + \beta_5 TCAP_{it}*TRM_{it} + \beta_6 MULTI_{it}*TRM_{it} + \beta_7 THAV_{it}*TRM_{it} + \beta_8 SIZE_{it} + \beta_9 LEV_{it} + \beta_{10} CINT_{it} + \beta_{11} INVINT_{it} + \beta_{12} ROA_{it} + \beta_{13} GDP_{it} + \varepsilon_{it}$$

Model to test hypothesis 3a-c is shown by β_5 to β_7

$$TA_{it} = \alpha_{0it} + \beta_1 TCAP_{it} + \beta_2 MULTI_{it} + \beta_3 THAV_{it} + \beta_4 GG_{it} + \beta_5 TCAP_{it}*GG_{it} + \beta_6 MULTI_{it}*GG_{it} + \beta_7 THAV_{it}*GG_{it} + \beta_8 SIZE_{it} + \beta_9 LEV_{it} + \beta_{10} CINT_{it} + \beta_{11} INVINT_{it} + \beta_{12} ROA_{it} + \beta_{13} GDP_{it} + \varepsilon_{it}$$

Model to test hypothesis 4a-c is shown by β_6 to β_8

$$TA_{it} = \alpha_{0it} + \beta_1 TCAP_{it} + \beta_2 MULTI_{it} + \beta_3 THAV_{it} + \beta_4 TRM_{it} + \beta_5 GG_{it} + \beta_6 TCAP_{it}*TRM*GG_{it} + \beta_7 MULTI_{it}*TRM*GG_{it} + \beta_8 THAV_{it}*TRM*GG_{it} + \beta_9 SIZE_{it} + \beta_{10} LEV_{it} + \beta_{11} CINT_{it} + \beta_{12} INVINT_{it} + \beta_{13} ROA_{it} + \beta_{14} GDP_{it} + \varepsilon_{it}$$

Notes:

TA : *Tax avoidance* is residual from permanent book-tax different regression as a proxy for profit management in taxes developed in this study

TCAP : *Thin Capitalization*, that is variable dummy 1 if a company in thin capitalization position, and 0 vice versa. Using the Measurement of Taylor and Richardson (2012)
MULTI : *Multinationality*, variable dummy 1 if it has 4 subsidiaries in other countries and 0 vice versa.
THAV : *Tax Haven*, is variable dummy 1 if it has at least 2 affiliated companies in the countries with tax haven facilities, and 0 vice versa.
GG : Aggregate World Governance Index, from website www.govindicators.org, that shows government governance based on country level
TRM : Tax risk management developed in this study that is the standard average of ETR cash deviation over the past five years. Tax risk management uses variable dummy that is 1 if the deviation standard is below standard based on industrial sector
SIZE : Natural logarithmic from total asset
LEV : Total debt ratio towards total asset
CINT : Net PPE divided by lag total asset
INVENT : Inventory divided by lag total asset
ROA : Profit before divided by total asset
GDP : Gross Domestic Product country level

Analytical technique used in this study is descriptive quantitative analysis and regression analysis on panel data to test the influence of international tax practice towards tax avoidance, and the role of task risk management in this relation. Using panel data rather than cross section and time series so personal heterogeneity can be determined, for example, personal characteristic differences and the influence of variable observation observed in the different years. This is very useful to observe the tendency of company behavior sample (Gujarati, 2003).

RESULT AND DISCUSSION

This study result is using Total Sample. Sample used is 60 multinational companies registered in Indonesia, 177 multinational companies registered in Malaysia, 229 multinational companies registered in Singapore, and 50 multinational companies registered in Philipines. Overall companies total sample is 516 companies or 3612 company years.

The descriptive statistics measurement in this study is meant to facilitate the observation through the calculation of average values, median, minimum, maximum value and standard deviation. Descriptive statistics from the used variable is presented in Table 1. For both measurement variables tax avoidance shows that mean value is smaller than median which means that aggressive tax behavior in multinational company sample is relatively large. For international tax practice variable using dummy variable shows the level of international tax practice in this study sample is around 15,42% for thin Capitalization, 40,42% for multinationality and 33,44% for tax haven. While for moderation variable of tax risk management that used dummy variable is around 71 companies have done a better task risk management.

Table 1. Descriptive Statistics

	N	Mean	Median	Maks	Min	Std Deviasi
TA	3612	2.8E-09	0.00001	1.92454	-4.68080	0.14057
Thin Cap	3612	0.15421	0.00000	1.00000	0.00000	0.36120
Multi	3612	0.40421	0.00000	1.00000	0.00000	0.49081

Tax Haven	3612	0.33444	0.00000	1.00000	0.00000	0.47186
TRM	3612	0.71152	1.00000	1.00000	0.00000	0.45312
GG	3612	412.99370	373.83000	539.85000	208.49000	114.69990
Size	3612	20.83154	20.78000	32.00000	11.28000	2.31358
Leverage	3612	0.21739	0.18895	1.52349	0.00000	0.18660
CINT	3612	0.33143	0.28724	1.58854	0.00000	0.24495
INVENT	3612	0.13656	0.09413	1.58256	0.00000	0.15054
ROA	3612	0.04491	0.04404	1.91042	-1.13297	0.14533
GDP	3612	360.52550	304.10000	932.26000	199.59000	191.46300

This study uses panel data. Based on Chow Test and Hausman Test, model test result shows fixed effect model and general random effect is the best for processing panel data in this study. Overcoming heteroscedasticity problem, GLS heavy maintenance (cross-section weight) is done. GLS model is free from classical assumption. However, multicolinearity test is still needed to be done to identify the partial effect between independent variables. Pearson correlation matrix (table 4) shows that variable correlation tested is smaller and less than 0,8, so it can be concluded that there is no serious multicolinearity.

The Analysis of International Tax Practice Influence towards Tax Avoidance

$$TA_{it} = \alpha_{0it} + \beta_1 TCAP_{it} + \beta_2 MULTI_{it} + \beta_3 THAV_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 CINT_{it} + \beta_7 INVINT_{it} + \beta_8 ROA_{it} + \beta_9 GDP_{it} + \varepsilon_{it}$$

Table 2. H1 Test Results

		TA		Regression Result
Variable	Hypotesis	Coefficient	Prob.	
C		0.44218	0.1438	
TCAP	H1 +	0.02595	0.0476**	H1 Accepted
MULTI	H1 +	0.01272	0.0004***	H1 Accepted
THAV	H1 +	-0.01477	0.0178**	H1 Rejected, opposite direction
SIZE	+/-	-0.02688	0.0997*	Appropriate to previous research
LEV	+	0.01830	0.2612	Not significant effect
CINT	+	0.08335	0.1112	Not significant effect
INVENT	-	-0.21357	0.0000***	Appropriate to previous research
ROA	+/-	0.87930	0.0000***	Appropriate to previous research
GDP	+/-	0.00020	0.0002***	Appropriate to previous research
R-squared		0.41775		
Adjusted R-squared		0.31891		
F-statistic		4.22675		
Prob(F-statistic)		0.00000***		

*** significant 1%, ** significant 5%, dan * significant 10%

Study result testing the international tax practice influence towards Tax Avoidance could be seen on table 2. The result of Probability F statistics shows on level 1%, with R square 41,77%. The result of hypothesis 1 test in this study is proven significantly positive on level 5% fora thin capitalization and 1% for multinationality. It is proven that both international tax practice could support the companies to perform tax avoidance activity by minimizing tax obligation payment. Meanwhile, for tax haven practice, it shows the opposite result, significantly negative on level 5%, which means hypothesis is rejected and tax haven is not proven could increase tax avoidance. This opposite results might happen because the

samples used in this study are the tax haven countries, namely Singapore and Labuan Malaysia, so tax haven practice in subsidiary countries does not influence tax avoidance since the main company is already a tax haven country with relatively low fare which cause tax haven practice in subsidiary countries will decrease tax avoidance.

The Analysis of Task Risk Management Influence on International Tax Avoidance Practice

The study result that studies the effect of tax risk management moderation on the international tax practice relation towards tax avoidance can be seen on Table 3 Result Probability F-statistics shows significant level 1% with R square 22,18%. The hypothesis test result shows that moderation tax risk management on international tax practice towards tax avoidance influences in significantly negative for thin capitalization, negatively influence on level 5% for multinational companies, on the other hand, insignificantly positive for tax haven.

Table 3. H2 Test Results

$$TA_{it} = \alpha_{0it} + \beta_1 TCAP_{it} + \beta_2 MULTI_{it} + \beta_3 THAV_{it} + \beta_4 TRM_{it} + \beta_5 TCAP_{it}*TRM_{it} + + \beta_6 MULTI_{it}*TRM_{it} + \beta_7 THAV_{it}*TRM_{it} \quad \beta_8 SIZE_{it} + \beta_9 LEV_{it} + \beta_{10} CINT_{it} + \beta_{11} INVINT_{it} + \beta_{12} ROA_{it} + \beta_{13} GDP_{it} + \varepsilon_{it}$$

Variable	Hipotesis	TA Coefficient	TA Prob.	Regression Result
C		0.07214	0.0001	
TCAP	+	0.03321	0.0017***	Appropriate to previous research
MULTI	+	0.01757	0.0139**	Appropriate to previous research
THAV	+	-0.00193	0.4096	Not significant effect
TRMR	-	0.01355	0.0142**	Not appropriate to previous research
TCAP*TRM	H2 -	-0.01216	0.1608	H2 Rejected, not significant
MULTI*TRM	H2 -	-0.01778	0.0327**	H2 Accepted
THAV*TRM	H2 -	0.00877	0.1918	H2 Rejected, not significant
SIZE	+/-	-0.00515	0.0000***	Appropriate to previous research
LEV	+	0.01805	0.0924*	Appropriate to previous research
CINT	+	0.01037	0.1168	Not significant effect
INVENT	-	-0.05495	0.0000***	Appropriate to previous research
ROA	+/-	0.47453	0.0000***	Appropriate to previous research
GDP	+/-	-0.00001	0.4397	Not significant effect
R-squared		0.22185		
Adjusted R-squared		0.21904		
F-statistic		78.90612		
Prob(F-statistic)		0.00000***		

*** significant 1%, ** significant 5%, dan * significant 10%

The test result in this study shows that hypothesis 2 is accepted for multinational company, and rejected for thin capitalization and tax haven practice. The study result shows that a better tax risk management could weaken positive effect of international tax practice on multinationality This result shows that tax risk management is one of the controls for multinational companies in performing tax avoidance, especially related to the increased number of subsidiary companies (multinationality). International tax practice on tax haven,

with moderation tax risk management shows a positive direction even though it has no significant influence towards tax avoidance which means a better tax risk management will not influence tax haven practice towards tax avoidance.

The analysis of Government Governance Influence on International Tax Avoidance Practice

The study result that studies the moderation effect of Government Governance on the relation of International Tax Practice towards Tax Avoidance can be seen on Table 4 Result Probability F-statistics shows significant level 1% with R square 23,19%. Hypothesis test result shows that moderation Government Governance on international tax practice towards tax avoidance influences significantly negative on level 1% for thin capitalization and multinationality, on the other hand, insignificantly positive for tax haven.

Table 4. H3 Test Results

$$TA_{it} = \alpha_{0it} + \beta_1 TCAP_{it} + \beta_2 MULTI_{it} + \beta_3 THAV_{it} + \beta_4 GG_{it} + \beta_5 TCAP_{it}*GG_{it} + \beta_6 MULTI_{it}*GG_{it} + \beta_7 THAV_{it}*GG_{it} + \beta_8 SIZE_{it} + \beta_9 LEV_{it} + \beta_{10} CINT_{it} + \beta_{11} INVINT_{it} + \beta_{12} ROA_{it} + \beta_{13} GDP_{it} + \varepsilon_{it}$$

		TA		Regression Result
Variable	Hipotesis	Coefficient	Prob.	
C		0.03275	0.4269	
TCAP	+	0.06526	0.0014***	Appropriate to previous research
MULTI	+	0.02513	0.0060***	Appropriate to previous research
THAV	+	0.00547	0.3978	Not significant effect
GG	-	0.00019	0.0000***	Not appropriate to previous research
TCAP*GG	H3 -	-0.00011	0.0030***	H3 Accepted
MULTI*GG	H3 -	-0.00006	0.0013***	H3 Accepted
THAV*GG	H3 -	0.00001	0.3777	H3 Rejected, Not significant
SIZE	+/-	-0.00779	0.0000***	Appropriate to previous research
LEV	+	0.03218	0.0812*	Appropriate to previous research
CINT	+	0.01793	0.0703*	Appropriate to previous research
INVENT	-	-0.05480	0.0001***	Appropriate to previous research
ROA	+/-	0.49582	0.0000***	Appropriate to previous research
GDP	+/-	0.00004	0.0264**	Appropriate to previous research
R-squared		0.23197		
Adjusted R-squared		0.22919		
F-statistic		83.59206		
Prob(F-statistic)		0.00000***		

*** significant 1%, ** significant 5%, dan * significant 10%

The study result in this study shows that hypothesis 3 is accepted for thin capitalization practice and multinational companies, and rejected for tax haven. This study result shows that a better Government Governance on country level could weaken the positive influence of international tax practice on thin capitalization and multinationality towards tax avoidance. This result shows that Government Governance is one of the controls for multinational companies in performing tax avoidance, especially related to capital structure (thin capitalization) and the increased numbers of subsidiary companies (multinationality).

International tax practice on tax haven, with moderation Government Governance shows positive direction even though it influences significantly towards tax avoidance. This is consistent with hypothesis 2 that influences positive on moderation government governance with tax haven towards tax avoidance shows that a better supervision from the government does not influence the tax haven international tax practice towards tax avoidance since most of the main companies' samples are located in tax haven countries.

The Analysis of Task Risk Management and Government Governance on International Tax Avoidance Practice l

The study result that studies the moderation effect of Tax Risk Management and Government Governance on International Tax Practice towards Tax Avoidance can be seen on Table 5 Result Probability F-statistics shows significant level 1% with R square 23,33%. Hypothesis test result shows that moderation Government on international tax practice towards tax avoidance shows significant negative influence on 10% for thin capitalization and on level 1% for multinationality, and in contrast, insignificant negative influence for tax haven.

Table 5. H4 Test Results

$$TA_{it}= \alpha_{0it} + \beta_1 TCAP_{it} + \beta_2 MULTI_{it} + \beta_3 THAV_{it} + \beta_4 TRM_{it} + \beta_5 GG_{it} + \beta_6 TCAP_{it}*TRM*GG_{it} + \beta_7 MULTI_{it}*TRM*GG_{it} + \beta_8 THAV_{it}*TRM*GG_{it} + \beta_9 SIZE_{it} + \beta_{10} LEV_{it} + \beta_{11} CINT_{it} + \beta_{12} INVINT_{it} + \beta_{13} ROA_{it} + \beta_{14} GDP_{it} + \varepsilon_{it}$$

Variable	Hipotesis	TAC3 Coefficient	Prob.	Regression Result
C		0.02381	0.5112	
TCAP	+	0.04042	0.0066***	Appropriate to previous research
MULTI	+	0.01324	0.0000***	Appropriate to previous research
THAV	+	0.00774	0.1241	Not significant effect
GG	-	0.00018	0.0000***	Appropriate to previous research
TRMR	-	0.02000	0.0001***	Appropriate to previous research
TCAP*GG*TRMR	H4 -	-0.00006	0.0729*	H4 Accepted
MULTI*GG*TRMR	H4 -	-0.00004	0.0009***	H4 Accepted
THAV*GG*TRMR	H4 -	0.00002	0.1600	H4 Rejected, Not significant
SIZE	+/-	-0.00781	0.0000***	Appropriate to previous research
LEV	+	0.02948	0.1044	Not significant effect
CINT	+	0.01704	0.0925*	Appropriate to previous research
INVENT	-	-0.05723	0.0001***	Appropriate to previous research
ROA	+/-	0.50055	0.0000***	Appropriate to previous research
GDP	+/-	0.00005	0.0133**	Appropriate to previous research
R-squared		0.23332		
Adjusted R-squared		0.23033		
F-statistic		78.18909		
Prob(F-statistic)		0.00000***		

*** significant 1%, ** significant 5%, dan * significant 10%

The test result in this study shows that hypothesis 4 is accepted for thin capitalization practice and multinational companies, and rejected for tax haven. This result shows that a better tax risk management and Government Governance on country level could weaken positive influence of international tax practice on thin capitalization and multinationality

towards tax avoidance. This result proves that Tax Risk Management and Government Governance are one of the controls for multinational companies in performing tax avoidance, especially related to capital structure (thin capitalization) and the increased number of subsidiary companies (multinationality).

International tax practice on tax haven, with moderation tax risk management and government governance shows a positive direction does not influence tax avoidance which means a better tax risk management and supervision from the government influences tax haven international tax practice influence towards tax avoidance. The result that is contrast with the hypothesis shows that companies tend to do tax avoidance on tax haven international tax practice even though internal control has been done on a better tax risk management and external supervision from the government on government governance, It can be caused by the company samples which are mostly main companies in the tax haven countries and establishing subsidiary companies in tax haven facilities is one of the strategies of risk management performed by the companies to minimize income tax payment. This result is consistent for the four hypotheses that tax haven does not influence tax avoidance activity in multinational companies in ASEAN-4 region.

Analysis Sensitivity

For analysis sensitivity test, this study does a retest by using tax avoidance measurement developed by Lim (2011). The result (not tabulated) is consistent with the major test that develops the tax avoidance measurement construct itself. With a smaller R square from the major test, it could prove that the development of profit management measurement in taxation by using permanent book-tax different is successful and could be used to add the literatures on tax avoidance measurement development for the next study.

CONCLUSION AND SUGGESTION

Based on this study result, it can be concluded that: This study tests the influence of international practice towards tax avoidance and the role of tax risk management as the moderation variable on multinational companies registered in ASEAN-4 region during 2010 – 2016 period.

The result of this study also succeeded in proving hypothesis 1, especially for thin capitalization practice and multinationality that companies that practice international taxes in the form of thin capitalization and multinationals can increase the amount of company tax avoidance, supports the research of Taylor and Richardson (2012).

The results of this study also succeeded in proving hypothesis 2, especially for multinationality, that tax risk management can reduce the positive influence of multinational international tax practices on tax avoidance. The implementation of better tax risk management can reduce the tax risk attached in the practice so that the amount of tax avoidance will be reduced.

The results of this study also succeeded in proving hypothesis 3, especially for thin capitalization and multinationality, that government governance can reduce the positive influence of international tax practice thin capitalization and multinationality towards tax avoidance. A better government governance application can reduce tax avoidance activity.

The results of this study also succeeded in proving hypothesis 4, especially for thin capitalization and multinationality, that the tax risk management role and government governance altogether can reduce the positive influence of international tax practice thin capitalization and multinational towards tax avoidance. A better government governance application can reduce tax avoidance activity because there is a better supervision done by the company internally through tax risk management and external supervision done by the government with government governance.

The results of the study for tax haven practice shows a contrast direction for every research model and hypothesis. This is because most of the company samples are main companies in tax haven countries and establishing subsidiary companies in the countries with tax haven facilities is one of the risk management risks performed by the company to minimize income tax payment. This result is consistent for the four hypotheses that tax haven does not influence tax avoidance activity in multinational companies in ASEAN-4 region.

The study still uses a proxy in measuring each international tax practice on thin capitalization, multinationality and tax havens. The future study could be developed for international tax practice measurement proxy. Besides, this study only uses three international tax practices, many other international tax avoidance practices can be added such as transfer pricing and income shifting. With a variety of tax avoidance measurements, future study can also develop tax avoidance measurements or compare the results of this study with other tax avoidance measurements.

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