

The Effect of Profit Behavior and Tax Aggressiveness After The Impelementation of PSAK 73: Literature Review

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ABSTRACT

This article aims to present a literature review related to research that discusses the impact of the implementation of PSAK 73, especially on profit behavior and tax aggressiveness. PSAK 73 is a new regulation that was implemented effectively on January 1, 2020, so this change is still a hot issue to be discussed. This literature review contains articles from 2018 to 2023. This article shows that there are still differences in results related to profit behavior, which shows an increase and decrease in profits. Meanwhile, for tax aggressiveness behavior some studies show influence and some show no effect on the level of tax aggressiveness.

INTRODUCTION

PSAK 73 is a financial accounting standard adopted from IFRS 16 on Leases. PSAK 73 replaces several previous standards, namely "PSAK 30: Lease, ISAK 8: Determination of Whether an Agreement Contains a Lease, ISAK 23: Operating Lease-Incentives, ISAK 24: Evaluation of the Substance of Some Transactions Involving a Legal Form of Lease, and ISAK 25: Land Rights". PSAK 73 is effective since January 1, 2020, which brings significant changes in accounting for lessees because all types of leases are considered financing leases (on balance sheet) (IAI, 2018).

The necessity of the lessor or lessee to record the entire amount of the lease in the statement of financial position as a finance lease reflects the lessor's right to utilize the asset during the applicable lease period. The tenant must also acknowledge liability for his rent payments. This is certainly different from recording based on PSAK 30 where companies can choose to register as operating leases or financing leases, and companies tend to register as operating leases.

Quoted from (PwC), the impact of the main performance of leases on the implementation of PSAK 73 is that it can increase the value of EBIT, EBITDA because the recording that was previously recognized as a lease expense becomes an interest expense on lease liabilities and depreciation expense on right-of-use assets (PricewaterhouseCoopers, 2010).

In addition, tax aggressiveness is also still a major topic in Indonesia. Which is reported in the State of Tax Justice Report by the Tax Justice Network Institute that the global tax loss incurred from Indonesia of 0.2% amounted to USD 2.67 million (Cobham et al., 2023). Although the percentage of tax revenue in Indonesia continues to increase, this does not indicate that Indonesia's tax participation is large. The Organization for Economic Cooperation and Development (OECD) also revealed that Indonesia obtained a low ratio of 10.9% below the Asia Pacific average of 19.8% in 2023 (Asia, 2023).

There are still limited studies that discuss the impact of the implementation of PSAK 73 on the value of profits and limited researchers who discuss tax aggressiveness after the period of application of PSAK 73. According to (Iswandana, 2018) the convergence of IFRS 16 is related in the aspect of tax avoidance due to the increasing burden of tax payments due to restrictions on interest costs. These results are in line with research conducted by (Harwoko & Kurniawati, 2022; Mulyaningsih et al., 2023; Ramadhani et al., 2020). But on the contrary, research based on (Sari, 2019) actually states that there is no effect of recording financial leases on tax avoidance.

With the new application in PSAK 73 adopted from IFRS 16, a lot of research is needed that discusses the effect of this application. This article will discuss previous studies that discuss the effect of the application of PSAK 73 on profit behavior and the level of tax aggressiveness.

LITERATURE REVIEW

Agency Theory

Jensen & Meckling (1976) define agency theory as the theory of agency relations between management/agent contracts and shareholders/principals. Managers as agents in the company have the responsibility to increase and optimize the profits obtained by the company and distributed to the principal as a form of responsibility, then the manager will get compensation or bonuses in return (Samsiah & Mashuri, 2023). The emergence of tax avoidance problems in agencies is caused by the manager's lack of transparency in carrying out the company's operational activities (Utama et al., 2019). The conflict over tax avoidance is due to the desire to achieve maximum profit for stakeholders so that management can then save expenses (Jeong, 2020).

PSAK 73

PSAK 73 aims to establish the principles of recognition, measurement, presentation, and disclosure of rental transactions including accounting models specifically for tenants (IAI, 2018). Some exceptions within the scope of PSAK 73 include:

- a. Leases for exploration/mining of minerals, oil, natural gas, and non-renewable resources.
- b. Rent for biological assets.
- c. Implementation of service concession agreements.
- d. License to the intellectual property of the lessor.
- e. Rights that the lessee has in the license agreement.

The implementation of PSAK 73 will affect the balance sheet, especially related to debt and equity ratios because lease capitalization creates rental liabilities. In addition, the implementation of PSAK 73 will also incur interest expense and rental expense accounts. This is then considered to increase the EBITDA value and the level of tax aggressiveness.

Tax Aggressiveness

Tax aggressiveness is an action that has the aim of manipulating corporate taxable profits by various ways of tax planning through legal means (tax avoidance) and through illegal means (tax evasion) (Frank et al., 2009). Some of the advantages in tax-based aggressiveness measures (Chen et al., 2010) are:

1. Corporate tax savings to the State
2. Compensation obtained by managers from shareholders for tax aggressiveness actions committed.
3. Rent extraction by managers.

METHODOLOGY

The method used in this study is narrative literature review. Davies & Green et al., quoted from (Lau & Kuziemy, 2016) stated that narrative review to summarize what has been written related to a topic but does not attempt to seek generalizations from what is reviewed. Narrative literature review can identify inconsistencies in knowledge, so that researchers can determine

research questions. It can also be used as an educational article in providing practitioners information on developing topics or issues.

The data collection of this study used documentation methods and secondary data related to the article with the issues discussed.

RESEARCH RESULT

There are several studies that have discussed the effect of PSAK 73 implementation on profit and taxation behavior, especially tax aggressiveness. Although there hasn't been much research on this subject, here are detailed articles that discuss the topic:

Table 3. Previous Research

Num	Authors and Year	Title
1	Salma Putriyuliani, Yusep Friya Purwa Setya (2022)	The Impact of the Implementation of PSAK 73 (on Leases) on the Financial Statements of Infrastructure Companies Listed on the Indonesia Stock Exchange for 2017-2020.
2	Sita Ayu Samsiah, Ayunita Ajengtiyas Saputri Mashuri (2023)	Application of lease capitalization to profit management.
3	Eka Sundari, Nofryanti (2019)	The Effect of Financial Derivatives and Financial Leases on Tax Avoidance.
4	Lusi Indah Sari (2019)	Analysis of the Effect of Return on Assets, Debt to Equity Ratio, Debt to Assets Ratio, Current Ratio and Financial Lease on Tax Avoidance in Manufacturing Companies Listed on the Indonesia Stock Exchange for the 2012-2017 Period.
5	Winda Sangata Ramadhani, Dedik Nur Triyanto, Kurnia (2020)	The Effect of Hedging, Financial Lease and Sales Growth on Tax Aggressiveness.
6	Ade Harwoko, Lestari Kurniwati (2022)	Post-Implementation Tax Aggressiveness of PSAK 73 in Pharmaceutical Industry Companies: Difference in Difference Analysis.
7	Nurwita Mulyaningsih, Ayu Noorida Soerono, Mukhtar (2023)	Effect of Hedging, Financial Lease, Sales Growth, and Earning Management on Tax Aggressiveness.

DISCUSSION

Changes in the use of PSAK 73 on Leases adopted from IFRS 16 have several impacts, especially based on what was revealed by (IAI, 2018) that the application will cause an increase in interest expense and depreciation expense on lease capitalization that occurs. In addition, many studies state that the recognition of finance leases has an influence on tax behavior, especially tax aggressiveness.

Related to profit behavior, there are two previous studies that have addressed this topic, namely revealed by (Putriyuliani & Setya, 2022) and (Samsiah & Mashuri, 2023). Putriyuliani & Setya (2022) used a descriptive quantitative approach with documentation data collection techniques. In the study, using the method of constructive capitalization of rent modified by Ozturk and Sercemeli (2016) from the results developed by Imhoff, Lipe, and Wright (1991). Researchers made infrastructure companies listed on the Indonesia Stock Exchange as research objects with an observation year during 2017-2020. As a result, this study shows that there is a significant difference in the statement of financial position after the implementation of PSAK 73 with an increase in the income statement with an average increase in profit of 213.13%. It has also shown an adjustment to the application of PSAK 73 with the onset of depreciation expense and interest expense on lease liabilities, although not all companies have shown such adjustments.

Meanwhile, another study related to profit behavior was conducted by (Samsiah & Mashuri, 2023) which made all companies listed on the IDX during 2018-2021 with the condition of disclosing operating lease commitments and reporting minimum rents in the Notes to Financial Statements (CALK). The study used a quantitative approach and data acquisition using secondary data. The final total of companies that became research samples was 37 companies so that the total sample became as many as 148 samples. In this study, conducting multiple linear regression tests and Wilcoxon tests whose results showed that lease capitalization measured using lease liabilities had a significant influence on profit management. This influence shows a negative influence where the results can be seen from the number of losses of the company studied. So if it is associated with agency theory, this will affect the decrease or even absence of manager incentives because they do not succeed in posting positive profits. Other results in this study are in line with those that show that there are differences in lease capitalization on profit management before and after the application of lease capitalization. The difference shows a significant decrease. This result was evidenced by the acquisition of a decrease of 54 samples from 74 samples after the implementation of lease capitalization.

Previous research that supports the effect of financial lease on tax aggressiveness or tax avoidance is research conducted by (Harwoko & Kurniawati, 2022; Mulyaningsih et al., 2023; Purwitasari & Kuntadi, 2023; Ramadhani et al., 2020; Sundari & Nofryanti, 2019).

Sundari & Nofryanti (2019) in their research on manufacturing companies on the Indonesia Stock Exchange for the period 2014-2016 with a quantitative approach and a total sample of 28 companies and 84 observational data showed that financial leases have a significant negative influence on tax

avoidance. Companies that acquire few assets with financial leases are indicated that these companies tend not to engage in tax avoidance practices. This is shown in the acquisition of a high Cash Effective Tax Rate value with low financial leases.

Ramadhani et al., (2020) used quantitative research and observed mining sector companies for the period 2011-2018 by conducting panel data regression tests. By using the Effective Cash Rate as a proxy for tax aggressiveness, the results of the study show a positive influence on tax aggressiveness after making a financial lease. This means that companies with high financial lease acquisition will increase tax aggressiveness. It was conveyed in the study that the cost of acquiring fixed assets during the lease period can be a deduction from gross income, financial lease in this case can increase expenses including interest expenses so as to reduce the amount of taxable income which tends to be smaller.

Harwoko & Kurniawati (2022) observed pharmaceutical companies during 2017-2020 using Difference in Difference Analysis. The study was to determine the impact of changes in PSAK 73 on the level of tax aggressiveness proxied using the Effective Tax Rate. By separating control groups and treatment groups, this study shows that there is an increase in tax aggressiveness after the implementation of PSAK 73 by treatment group companies or those affected by PSAK 73 compared to control groups or those not affected by PSAK 73. The increase is suspected that treatment group companies can use rents to reduce their tax burden, it can be seen in the average ratio of debt to equity treatment group is lower than control group. This is also because the control group avoids adding value to liabilities due to lease liabilities.

Mulyaningsih et al., (2023) in their research on 37 manufacturing companies in Indonesia Stock Exchange during the 2016-2022 period using a quantitative approach and making GAAP ETR as a proxy for measuring tax aggressiveness showed a positive effect of financial lease on tax aggressiveness. This shows that the higher the financial lease rate, the lower the effective tax rate, so it is indicated that tax aggressiveness increases.

Other studies show that there is no effect of financial lease on tax avoidance conducted by (Sari, 2019). Researchers observed manufacturing companies on the Indonesia Stock Exchange in 2012-2017 as many as 67 sample companies using multiple linear regression analysis using Cash Effective Tax Rate as a measurement of tax avoidance showed the results that there was no effect of financial lease on tax avoidance. This result contradicts the other research above which states the effect of financial leases on tax aggressiveness. Reasons have no influence due to several things. First, companies that use financial leases will be given flexibility and alternatives to finance their business without worrying about the possibility of endangering their business. Secondly, the terms are more flexible in terms of agreement so that it will be easier to adjust the lessee's circumstances. Third, after the lease expires, the company can depreciate the leased fixed asset by the value of the option. Thus, this will lead to tax savings for the lessee.

CONCLUSIONS AND RECOMMENDATIONS

This article aims to determine a literature review related to the impact of the implementation of PSAK 73, especially on profit behavior and tax aggressiveness. The references in this article use previous articles that have examined the effects of the implementation of PSAK 73.

Based on the implementation of literature studies, research related to the topic still gives different results. Some consider that the implementation of PSAK 73 will increase the value of profits and the level of tax aggressiveness. However, some researchers also point to a decrease in the value of profits and the level of tax aggressiveness. This difference is based on the literature because some researchers consider tax rules related to interest expense limits and some do not consider tax rules related to the topic.

ADVANCED RESEARCH

The limitation in this study is that the researcher did not provide criteria for selecting articles used so that this still consists of credible journals and not and the number of articles that become references is still limited in number. Then the discussion in it is not too comprehensive to discuss the points of reason.

Suggestions for future researchers in order to increase the number of articles used as references and the number of articles used should be more and use accredited journals. In addition, it is also expected for further researchers to expand the content of a more comprehensive discussion.

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