THE IMPACT OF IFRS 16 IMPLEMENTATION ON TAX AGGRESSIVENESS: DO LEASE LIABILITIES AND RIGHT-OF-USE ASSETS MATTER?

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Abstract
Implementing PSAK 73 in Indonesia means that lease liabilities and right-of-use assets must be disclosed in financial reports. This research examines the effect of changes in the disclosure of lease debt and leasehold assets as an implication of the implementation of PSAK 73 on tax aggressiveness. The data for this research are financial reports of non-cyclical consumer sector companies listed on the IDX for the 2020-2022 period. Based on purposive sampling, this research used 24 companies with a total research observation sample of 72 observations. Research data analysis uses linear regression for panel data. The test results show that leasehold assets have a positive effect on tax aggressiveness, while lease liabilities do not affect tax aggressiveness. This study contributes to the literature on PSAK 73 and its association with tax aggressiveness, and it can be utilized by the Directorate General of Taxes to formulate tax monitoring and examination strategies.

Keywords: Consumer Non-Cyclical Sector, IFRS 16, Lease Liabilities, Right-of-Use Assets, Tax Aggressiveness

INTRODUCTION
PSAK 73, adopting IFRS 16 regarding leases, is effective in Indonesia starting in 2020 (Amrulloh & Jasmadeti, 2022). Implementing PSAK 73 in Indonesia has implications for treating companies that make leases. All leases, including operating leases made by companies after implementing PSAK 73, are treated as finance leases (Ikatan Akuntan Indonesia, 2020). It makes lease accounting, initially off the balance sheet, a part that should be disclosed in the financial statements. Amrulloh & Jasmadeti (2022) stated that PSAK 73 requires companies to record right-of-use assets and lease payables in the company's statement of financial position.

The recording of asset recognition and lease debt as a result of the implementation of PSAK 73 will change the company's debt-to-equity ratio (Harwoko & Kurniawati, 2022). An increase in the debt-to-capital ratio can encourage companies to practice tax aggressiveness, such as transfer pricing or using complex corporate structures to reduce the tax expenses that must be paid. In addition, having to record lease expenses in the income statement can reduce the company's net income. The decrease in the company's net income will result in a decrease in income tax expense, which creates a potential loophole that taxpayers can utilize to avoid tax.

The implications of the enactment of PSAK 73 not only result in changes in lease accounting but also affect the recording of right-of-use assets, in which case assets become one of the quantities that measure the firm size. PSAK 73 requires companies to record lease assets in their statement of financial position. Ardyansah & Zulaikha (2014) stated that increasing the value of assets owned by the company will increase the company's productivity, and the income generated will also increase. The obligation to record right-of-use assets in the company's financial statements after implementing PSAK 73 can lead to depreciation expenses on right-of-use assets (Ikatan Akuntan Indonesia, 2020). Depreciation expense will reduce net income in the company's income statement. It can encourage companies to utilize depreciation expense accounts in the context of tax avoidance. The implementation of PSAK 73 in Indonesia has potential loopholes that taxpayers can use to practice tax aggressiveness. Therefore, tax aggressiveness activities that utilize right-of-use assets accounts and lease payables are important for further research.
Previous research on lease debt and right-of-use assets as company size concerning tax aggressiveness has been conducted several times. Mulyaningsih et al. (2023) stated that a finance lease has a negative effect on ETR. Thus, a finance lease has a positive influence on tax aggressiveness. Another similar study by Ramadhani et al. (2020) concluded that finance leases positively influence tax aggressiveness. The costs paid for acquiring fixed assets during the lease period can be used as a deduction from gross income.

Meanwhile, the correlation test results conducted by Nuzulla (2023) suggested that implementing PSAK 73 has no association with the level of corporate tax aggressiveness. In addition, related to the right-of-use assets as a measure of firm size, conducted by Allo et al. (2021), it is stated that firm size positively affects tax aggressiveness. However, this research does not align with research conducted by Herlinda & Rahmawati (2021), which concluded that firm size does not affect tax aggressiveness.

This study is different from previous research, namely by examining special items in the statement of financial position when PSAK 73 was implemented in Indonesia, which is associated with its influence on tax aggressiveness by companies. There is still heterogeneity in the results of research on the impact of the application of PSAK 73 on tax aggressiveness in previous studies. In addition, quantitative research that has been conducted generally only uses dummy variables to measure finance leases. Therefore, this study is conducted by testing specific items in the financial statements, namely by using certain proxies with numerical variables to measure finance right-of-use assets and lease debt as Heryana et al. (2023) in testing the implementation of PSAK 73 and its effect on firm value.

The research data is the financial statements of non-cyclical consumer sector companies listed on the Indonesia Stock Exchange from 2020 to 2022 as the object of research, namely companies that produce products for people's basic needs (Kesara et al., 2023). The year selection was made because PSAK 73 became effective in Indonesia in 2020 when the COVID-19 pandemic began to emerge, resulting in significant company profitability changes. Meanwhile, the non-cyclical consumer sector is the object of research because many companies in this sector have experienced an increase in profits during the COVID-19 pandemic (Kesara et al., 2023). Using the research data of non-cyclical consumer sector companies is expected to provide unbiased results in testing the effect of PSAK 73 due to the impact of the COVID-19 pandemic. This research is expected to be a source of new knowledge in accounting research and can be considered by the Directorate General of Taxes to see the level of corporate tax aggressiveness in carrying out tax supervision and audit activities.

**LITERATURE REVIEW**

Agency theory is explained by Jensen & Meckling (1976) that agency problems arise due to the agency relationship between the principal as the owner of the company and the agent as the company manager, where there is a conflict of interest by the agent of the two parties. In this relationship, managers are responsible for managing the company and will attempt to ensure that the positions and facilities they have obtained are not at stake (Luayyi, 2010). The influence arising from differences in interests owned by principals and agents is related to company performance, where tax becomes one of the company policies and is implemented to reduce the tax burden (Indradi, 2018).

Of course, this is done to obtain a significant company profit so the manager receives the bonus he expects. However, according to Suyanto & Supramono (2012), the manager's opportunity to be aggressive towards taxes is reduced due to the strict supervision of independent commissioners. Suyanto & Supramono (2012) continued that even so, managers will still be aggressive towards taxes because of their interest in maximizing company profits.
Companies that are aggressive in tax aim to reduce corporate taxes (Leksono et al., 2019). Tax aggressiveness is defined as an action that aims to reduce the tax burden by doing tax planning, which may or may not be included in tax violations (Hadi & Mangoting, 2014). An aggressive attitude toward taxes is not always related to non-compliance with tax regulations but is conducted to save taxes under applicable regulations. Tax-saving actions can be aggressive if the company increasingly takes advantage of legal loopholes even though no regulations are violated (Kamila, 2014).

On the other hand, PSAK 73 discusses leases and adopting IFRS 16, which establishes the principles of recognition, measurement, presentation, and disclosure of leases. The purpose of implementing PSAK 73 is to ensure that lessees and lessors provide relevant information while adequately representing the transaction. The Financial Accounting Standards Board approved PSAK 73 on 18 September 2017, and it must be applied starting 1 January 2020. Upon the application of PSAK 73, PSAK 30, ISAK 8, ISAK 23, ISAK 24, and ISAK 25 are declared no longer applicable. Amrulloh & Jasmadeti (2022) stated that at the beginning of the lease, the lessee records finance leases as assets and liabilities in the statement of financial position using the fair value of the leased assets.

In tax regulations, leasing activities are regulated in the Decree of the Minister of Finance of the Republic of Indonesia Number 1169/KMK.01/1991 concerning Leasing Activities. Article 1 letter (a) of the decree explains that leasing is a financing activity in the form of providing capital goods either with option rights (finance lease) or without option rights (operating lease) for the lessee to use for a certain period through periodic payments. Leasing activities can be classified as finance leases if the following criteria are met. First, the total leasing payments during the first lease period, summed up with the residual value of the capital goods, must be able to cover the acquisition price of the capital goods and the lessor's profit. Second, the leasing period is set for at least two years for capital goods class I, 3 (three) years for class II and III, and 7 (seven) years for building class. Third, the leasing agreement contains provisions related to options for the lessee. If the criteria are unmet, leasing is classified as an operating lease.

Not all costs incurred on loans can be deducted in calculating taxable income, where in PMK 169/PMK.010/2015, it is regulated that the maximum ratio between debt and capital is 4 to 1 (4:1). Therefore, to calculate income tax, the ratio between debt and capital for corporate taxpayers is determined. If the ratio between the debt and capital of the taxpayer exceeds the ratio of 4:1, the amount of borrowing costs that can be calculated in taxable income is the maximum ratio of debt and capital that has been regulated.

With the enactment of PSAK 73, it is possible that all borrowing costs cannot be calculated in taxable income due to the increase in lease debt and borrowing costs arising from the lease debt. This encourages companies to act aggressively toward tax practices because the 4:1 ratio is exceeded, so companies must find ways to maximize profits. The existing influence of lease liabilities on tax aggressiveness has been carried out in previous research conducted by Ramadhani et al. (2020), which found that financial leases positively influence tax aggressiveness.

**H1: Lease liabilities have a positive effect on tax aggressiveness**

The implications of applying PSAK 73 also affect the disclosure of the company's lease assets. Assets owned by the company are one of the benchmarks for assessing company size. Large company size reflects significant operating behavior (Prameswari, 2017). The greater the assets owned by the company, the higher the company's productivity level, so the profit generated will also increase (Ardyansah & Zulaikha, 2014). The firm size has increased regarding the implementation of PSAK 73, which requires companies that carry out finance leases to record lease assets in the statement of financial position. Large firm size will increase
investor expectations of the company's positive performance, allowing managers to act aggressively against taxes for higher profits. The existing influence of the use of the right-of-use assets, which are part of the company's assets, has been carried out in previous research by Allo et al. (2021), and it was found that firm size has a positive effect on tax aggressiveness.

**H2:** Use of right-of-use assets has a positive effect on tax aggressiveness.

**METHODS**

The data of this study is derived from data engaged in the non-cyclical consumer sector listed on the Indonesia Stock Exchange (IDX) in 2020-2022. This research data was obtained through the Indonesia Stock Exchange (IDX) website. The data employed from the financial statements is the value of right-of-use assets and lease liabilities in the statement of financial position. Based on purposive sampling, which was carried out with the criteria of companies having positive net income and complete data for three consecutive years, the number of companies can be used in this research is 24 companies. Thus, the sample employed in this research consisted of 72 observations.

In this study, the proxy used to measure tax aggressiveness is the Effective Tax Rate (ETR) as used by Mulyaningsih et al. (2023) and Lanis & Richardson (2012) in Maulana (2020).

\[
ETR = \frac{\text{Income Tax Expense}}{\text{Earnings Before Income Tax Expense}}
\]

The ETR value is then multiplied by -1 because the tax aggressiveness value is the opposite of the tax compliance value (Hutabarat & Firmansyah, 2022). The independent variables used in this study are lease liabilities and right-of-use assets. The ratio of lease liabilities divided by total liabilities is used as a proxy for measuring lease liabilities, whereas the proxy is also used by Heryana et al. (2023) for the lease liabilities variable.

\[
\text{LL} = \frac{\text{Lease Liabilities}}{\text{Total Liabilities}}
\]

Furthermore, the ratio of right-of-use assets divided by total assets is used as a proxy for measuring right-of-use assets, whereas the proxy is used by Heryana et al. (2023) as a proxy for the right-of-use assets variable.

\[
\text{RUA} = \frac{\text{Right of Use Assets}}{\text{Total Assets}}
\]

The statistical model used to determine the effect of variables in this study is a multiple linear regression model using panel data. There are three types of modeling in panel data regression, namely, common/pooled model, fixed-effect model, and random effect model (Baltagi, 2005). After selecting the best model, the classical assumption test will be conducted. The hypothesis test will be performed if the classical assumption test is met.

The research models used in this study are as follows:

\[
\text{TAGG}_{it} = \beta_0 + \beta_1 \text{LL}_{it} + \beta_2 \text{RUA}_{it} + \beta_3 \text{ETR}_{i,t-1} + \varepsilon_{it}
\]

Where:

- \( \text{TAGG}_{it} \): Tax Aggressiveness firm \( i \), year \( t \)
- \( \text{LL}_{it} \): Lease Liabilities firm \( i \), year \( t \)
- \( \text{RUA}_{it} \): Right of Use Assets firm \( i \), year \( t \)
- \( \text{ETR}_{i,t-1} \): Effective Tax Rate firm \( i \), year \( t-1 \)
- \( \varepsilon \): Error

**RESULTS AND DISCUSSION**

The descriptive statistical presentation of the variables of right-of-use assets, lease liabilities, Tax Aggressiveness, and \( \text{ETR}_{i,t-1} \) can be seen in Table 1 as follows:
Table 1. Descriptive Statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>Observation</th>
<th>Min.</th>
<th>Max.</th>
<th>Std. Dev.</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>LL</td>
<td>72</td>
<td>0.0006</td>
<td>0.1794</td>
<td>0.0345</td>
<td>0.0265</td>
</tr>
<tr>
<td>RUA</td>
<td>72</td>
<td>0.0006</td>
<td>0.2821</td>
<td>0.0623</td>
<td>0.0305</td>
</tr>
<tr>
<td>TAXAGG</td>
<td>72</td>
<td>-0.6655</td>
<td>-0.1472</td>
<td>0.0952</td>
<td>-0.2560</td>
</tr>
<tr>
<td>ETR_{t-1}</td>
<td>72</td>
<td>0.1472</td>
<td>0.6655</td>
<td>0.1103</td>
<td>0.2662</td>
</tr>
</tbody>
</table>

Data statistics in this study found that the average tax aggressiveness was -0.2560, with a minimum value of -0.6655 and a maximum value of -0.1472. The lease liabilities variable shows that the average lease liabilities is 0.0265 with a minimum value of 0.0006 and a maximum value of 0.1794. In the right-of-use assets variable, it is found that the average right-of-use assets are 0.0305 with a minimum value of 0.0006 and a maximum value of 0.2821. Furthermore, In the ETR_{i,t-1}, it is found that the average ETR_{i,t-1} is 0.2662 with a minimum value of 0.1472 and a maximum value of 0.6655.

Table 2. Hypothesis testing summary

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coef.</th>
<th>t-Stat.</th>
<th>Prob. value</th>
</tr>
</thead>
<tbody>
<tr>
<td>LL</td>
<td>-0.1233</td>
<td>-0.95</td>
<td>0.343</td>
</tr>
<tr>
<td>RUA</td>
<td>0.1709</td>
<td>3.40</td>
<td>0.001</td>
</tr>
<tr>
<td>ETR_{t-1}</td>
<td>0.4221</td>
<td>6.05</td>
<td>0.000</td>
</tr>
<tr>
<td>Cons</td>
<td>-0.1255</td>
<td>-7.63</td>
<td>0.000</td>
</tr>
<tr>
<td>R^2</td>
<td>0.7465</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F/ chi2</td>
<td>0.0000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The results of hypothesis testing obtained that lease liabilities do not affect tax aggressiveness. The hypothesis test results show that managers do not use lease liabilities to conduct tax aggressiveness. Lease payments of the principal debt do not affect the company's profit. Implementing PSAK 73 means that not all borrowing costs can be considered in taxable income due to the increase in rent payables and borrowing costs arising from rent payables. This condition does not result in managers taking advantage or acting aggressively because this action is considered unprofitable for the manager or the company.

Additionally, if lease liabilities exceed the ratio of 4:1 debt to equity, lease interest can only be recognized up to the maximum allowed by that ratio. Also, principals do not always agree with utilizing lease liabilities as tax aggressiveness, as excessive lease liabilities can increase the company's financial risk, raising concerns among stakeholders.

Meanwhile, hypothesis testing suggests that right-of-use assets positively affect tax aggressiveness. Implementing PSAK 73 has led to the emergence of right-of-use asset accounts that can be further amortized. Managers are utilizing right-of-use assets to engage in aggressive tax planning, as the larger the lease asset, the greater the amortization expense that can be deducted from taxable income. In addition, hypothesis testing was obtained that the effective tax rate of the company i in year t-1 affects tax aggressiveness.

The increase in the right-to-use assets owned by the company results in an increase in the company's total assets. The company's total assets indicate the size of the company where the higher the size of the company has a tendency to do more aggressive tax avoidance (Allo et al., 2021). The increase in the company's total assets in line with the implementation of PSAK 73 because this implementation standard requires companies that carry out lease financing to record lease assets in the financial statement position. investors' expectations of large asset values encourage managers in the company to carry out tax aggressiveness to get higher profits.
CONCLUSIONS

This study suggests that lease liabilities do not affect tax aggressiveness. Lease liabilities do not directly impact profit and limit the amount of interest that can be expensed. Meanwhile, right-of-use assets have a positive influence on tax aggressiveness. Companies utilize right-of-use assets to inflate amortization expenses, which reduces taxable income. It was also found that the company's effective tax rate one year earlier affected this research model. Implementing PSAK 73 affects tax aggressiveness regarding right-of-use assets without being influenced by lease debt.

This study still has limitations. This study only utilizes data from non-cyclical consumer sector companies that possess lease liabilities and right-of-use assets information from 2020 through 2022. The sample selection in this study also utilized companies with positive ETR. Consequently, the sample remains limited. Future research could incorporate other sectors, such as the property and real estate sector, which relies heavily on lease financing. This would enable a more accurate assessment of the implications of PSAK 73 on tax aggressiveness. The findings of this study underscore the importance of comprehensive regulatory oversight by the Otoritas Jasa Keuangan (OJK) for companies listed on the Indonesia Stock Exchange. The OJK should consider implementing stricter guidelines and monitoring mechanisms to ensure that companies adhere to fair and transparent financial reporting principles.

REFERENCES


