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The Effects of Tax Avoidance on the Cost of Debt: A Moderating Role of Institutional Ownership

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ABSTRACT

The aim of this research is to examine the effect of the tax avoidance on the cost of debt with the institutional ownership as moderating variable; the listed firms of the food and beverage industry in Indonesian Stock Exchange have been selected with this respect. The study examined a secondary data from 35 companies during 4 years, 2009 to 2012. The results show that (1) tax avoidance can impact positively and significantly on the cost of debt; (2) shareholders activity didn't have moderating relationship with the tax avoidance and cost of debt nexus. It is concluded that shareholder's activity as moderating variable give weak influence on the relation between tax avoidance and cost of debt.

JEL Classifications: H24; H26; H71.

Keywords: Tax Avoidance; Cost of Debt; Institutional Ownership; Consumer Goods.

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1. INTRODUCTION

Source of corporate funding can be obtained through several ways such as by borrowing from creditors (debt) and loans from shareholders to deposit in the form of capital for the company (equity). The choice of debt and capital as a source of funding is an important decision affecting the company. The use of debt financing to be considering the possibility of financial distress, the company will limit the amount of debt. While the optimal capital structure will weigh the advantages and disadvantages of the tax shield because of the potential financial distress. From the government's point of view, an income tax is a very important part of state revenues (Katircioglu, 2010; Fethi et al., 2006; 2004). However, from the perception of taxpayers, especially companies, tax is a burden, not only for companies, but also to stakeholders. As those who are skeptical in paying taxes to the tax authorities, the management will engage in aggressive tax planning strategies to minimize, eliminate or defer tax obligations.

Taxation aspects is the main factor be considered as tax companies is a significant burden on the company. The main objective companies are optimizing profits, both domestic and multinational companies seek to minimize the tax burden by leveraging existing tax provisions. The owner of the company will encourage management to take action to reduce the burden of aggressive tax taxes that arise (Chen, et al 2010). The purpose of earnings management is trying to minimize tax payable should be paid companies but on the other hand retains the optimal profit to satisfy shareholders' expectations. According to Zain (2008), tax management is the process of planning, organizing, leadership, and control efforts of members of the organization and the use of all organizational resources to achieve organizational goals that have been set. Planning is the one of the elements from management indirectly implies that managers thinking out carefully with respect to the objectives and actions.

The importance of tax planning has been seen in two different perspectives. First, as the negative impact of managerial opportunism where tax planning seen in the same function as tax evasion. Previous studies have shown that corporate managers engage in tax avoidance as a means to tax shelter activities to meet the interests of himself rather than for the benefit of shareholders. Meanwhile, the second presents a more meaningful benefit in the long term rather than immediate benefits for the companies to engage in tax planning, especially as long-term investments (Minnick and Noga, 2010).

Focus on the things above are associated with agency theory; when the company's owners and managers are not fully separated or managerial ownership, create agency problems between the two sides. Thus, a second glance somehow direct solution to the problem. Tax planning activities, if done correctly in the tax law, will benefit both the manager (agent) and the owner (principal), because the tax burden is borne by both parties can be minimized as a result of effective tax planning strategies. Tax planning will be legally (tax avoidance) and illegal (tax evasion). Zain (2008) states that tax avoidance is legal earnings manipulation is still in accordance with the provisions of the tax laws to minimize the amount of tax payable. Tax evasion is illegal manipulation to minimize the amount of tax payable. However, efforts to optimize revenue tax sector is not without obstacles. One of the constraints in order to optimize the tax revenue is the tax planning (tax planning), even some companies that do tax planning. Associated with tax evasion case there are some which are:

- Credit Suisse Zurich cases that are willing to pay \$ 207 million for tax evasion. Once at the 2009 UBS - the number one bank in Switzerland to pay \$ 780 million to pemerintah U.S., now turn to Credit Suisse - the bank's second-largest Swiss paying \$ 207 million to the German government, to stop checking tax office German government over alleged tax evasion. Credit Suisse agrees with the prosecutor's office in Düsseldorf to make payments to complete their investigations in German banks in helping clients evade taxes. Applications in connection with the completion of the investigation of alleged cases of tax evasion have been submitted to the district court of Düsseldorf in Germany, on Monday 20 September 2011 along with the date of payment of 150 million euros is equivalent to \$ 207 million, will be recorded in the third quarter, according to Credit Suisse told The Wall Street Journal.

- Hyundai Automotive Group, a Korean business group (Chaebol), facing charges that create large funds through an unusual method to decrease operating income and inflating losses. In the practice of the accounting fraud, with inflating profits and losses minimized to lure investors. As a result, an official with the prosecutor stated, that " We are investigating to determine the overall scale of funding the Hyundai Automotive Group which was set up by adopting these accounting measures. If my investigation into the group revealed that it does not pay taxes and use the money for business purposes or lobbying, it will be facing charges for tax evasion and appropriation of corporate funds in a business or bribery. Investigators collect a set of evidence (Chosun Ilbo, 17 April 2006) ". In response, the group announced that its chairman pledged to donate \$ 1.1 billion worth of personal assets to the community and apologize for causing concern to the public over the scandal. As a result, the chairman was sentenced to 3 years in prison for creating such a large slush fund. The above case study is taken from Lim (2011). Meanwhile in Indonesia tax case experienced by the company Asian Agri is decided by the Directorate General of Taxation (DGT) with the Ministry of Finance has issued Surat Tagihan Pajak (STP) to the oil processing company.

"There is about 48% of the total bill so that the nominal record DGT arrears to be paid Rp 1.8 trillion. Plus, 'because there is a fine of the prosecutor, so that all payment obligations Asian Agri reached Rp 4.3 trillion. Asian Agri within a month must be paid. It does not include fines of Attorney, if totaled Asian Agri have to pay Rp 4.3 trillion as Attorney Rp 2.5 trillion and Rp 1.8 trillion us, "said Director General of Taxation Fuad Rahmany Silahaturahmi event currently Chief Editor of the Directorate General of Taxes in Tax Office, Jakarta, Wednesday (5/6). Supreme Court (MA) punish the Asian Agri, a subsidiary company owned by tycoon Tanoto. Palm plantation companies must pay a fine of Rp 2.5 trillion over tax evasion. Verdict case evasion of tax liability determined as corporate (collective responsibility) is Fucarious Liability (the company responsible for the criminal acts of employees) as quoted from merdeka.com Friday 7 June 2013. This is consistent with the statement of the Director of Intelligence and Investigation Directorate General of Taxation, Yuli Kristiyono in seconds finance (Friday, 06/21/2013) who argue that the current level of compliance WP is still very low, tax fraud case its trend is increasing from year to year. Figure to reach 80% of the total tax fraud.

Andreas Adoe, senior researcher IBFD - international tax accounting in the daily Cash December 13, 2012 wrote of "holding company, and the problem of tax evasion in Indonesia" concluded that it would be advantageous to set up a holding company in the country P3B partners to invest in Indonesia because of the tax advantages of the tax exemption of up to double non-taxation. The government needs to create an anti avoidance rules stronger in international taxation, but it is also necessary to make better regulation for the holding company in Indonesia. Tax avoidance is one effort taxpayer to refrain from any actions which are taxed or effort that is still within the framework of the provisions of tax laws to minimize the amount of tax to be paid. Hanlon and Heitzman (2010) mean that tax avoidance is the amount of tax deduction explicitly, which can be categorized as a tax avoidance tax planning activities. According to Lim (2011) defines tax avoidance as tax savings arising by utilizing regulatory tax provisions that done legally to minimize tax liabilities. Tax avoidance is part of tax planning is done with the goal of minimizing tax payments.

Tax avoidance is not tax legally prohibited although often not well considered by the Government, especially the Directorate General of Taxation because it has a negative connotation because of the amount of tax revenue is reduced. The cost of debt of a company is determined by the characteristics of the company issuing the debt because it affects the risk of bankruptcy, agency costs and information asymmetry problems (Bhoraj and Sengupta, 2003). Graham and Tucker (2006) and Lim (2011) showed that effort to minimize taxes such as tax shelters and tax avoidance is the replacement of the use of debt. Companies that do tax avoidance will reduce the use of debt that will improve the financial slack, reducing the cost and risk of bankruptcy, improve credit quality, which impacts will reduce the cost of debt. This supports the trade-off theory that tax avoidance will reduce the cost of debt according to research conducted by Lim (2011) in Korea that indicate a negative effect of tax avoidance on the cost of debt (COD) in most Korean companies. This supports the theory of trade-offs. In addition, the results obtained from this research that the negative influence institutional ownership variables moderated the relationship of tax avoidance and COD.

According to Lim (2011) Tax avoidance can also cause conflicts between management agencies and creditors, as it can lead to asymmetry of information. This can occur because the management company that manages directly to know more than the actual condition of the company shareholders (Jensen and Meckling 1976). To that required good governance by one implementation is institutional ownership. Institutional ownership is the ownership structure of the company's shares owned at the end of the year. Institutional ownership may encourage increased oversight of management. Lim (2011) showed that the negative effect of tax avoidance on the cost of debt is stronger when institutional ownership is high. Contrary to Kholbadalov study (2012) which shows the level of institutional ownership does not affect the relationship between tax avoidance and cost of debt, so no need to consider the level of institutional ownership is high or low.

Lim (2011) as has been described above that there is a negative relationship between tax avoidance and cost of debt, because the company doing the tax avoidance will reduce the use of debt, thereby increasing the financial slack, reducing the cost and risk of bankruptcy, improve credit quality, the impact will be reducing the cost of debt. In contrast, in the study Masri and Martini (2012) show that tax avoidance has a positive impact on the cost of debt, as creditors look at tax avoidance behavior as actions that involve risks, so it increases the cost of debt. Based on the research background, this study wanted to see the effect of tax avoidance on the cost of debt through institutional ownership defined in the formulation of the problem, namely:

1. Is tax avoidance negatively affect the cost of debt?
2. Was institutional ownership may moderate the relationship between tax avoidance and cost of debt?

Meanwhile the purpose of this study was to provide empirical evidence that tax avoidance negatively affect the cost of debt and institutional ownership may moderate the relationship between tax avoidance and cost of debt. This study is also expected to be useful to increase knowledge and insight regarding tax avoidance and cost of debt through institutional ownership so as to contribute ideas and references for further research may also provide input to the government, especially the Directorate General of Taxation to increase state revenue through taxation sector. This study divided into five parts. In the first part contains the background research, problem research and the purpose of this study. The second part contains a discussion of the theory, the results of previous research and hypotheses development. The third section describes the research methodology used in the form of samples and measurement of the variables in this study. The fourth section discusses the results of the data analysis in this study. The fifth section discusses the conclusions, limitations and suggestions for future research that may be conducted.

2. LITERATURE REVIEW

According to Jensen and Meckling (1976) a contract between one or more people (the principal) to delegated authority to managers (agent) then make decisions in running the company. Implementation of the contract will cause the load are referred to as agency cost. Agency costs are the costs incurred so that managers act in harmony with the purpose of such owner in conducting surveillance. The behavior of tax avoidance or tax sheltering is affected by agency problems where there is a difference between the interests of managers, who want an increase in compensation, with the owners, who want the tax burden as low as possible, with the lender, who wanted the company to meet debt contract by paying the principal debt and interest on time.

Basically, the use of debt due to considerations cost. Modigliani and Miller (1958) argue that debt and equity financing with no effect on firm value. But it is constituted with the assumption that there is no taxation. This assumption is considered to be not in accordance with reality; Modigliani and Miller (1963) and then make adjustments to the tax variables enter into the theory makes. Interest cost deduction from income that can be used to save on taxes, which led to the higher proportion of debt financing to use will increase the value of the company. In theory, Modigliani and Miller (1963) ignore the cost of bankruptcy, where the implications of these theories are that the company will use the debt as much as possible. Though the use of debt will only increase the potential likelihood of insolvent companies. Tax shield and financial distress trade of the underlying financial theory, that the company will owe to the optimal point. Optimal point will be reached when the tax benefits of debt equal to the costs incurred due to financial distress.

The increasing development of technology and the economy of a country will provide opportunities for companies to develop business. As a profit-oriented company would a company will strive to earn profits through cost efficiency, including the efficiency of the tax burden. Taxpayers want small tax payment. Therefore, there is tax evasion of tax payers legally and illegally. According Dyreng et al., (2010) Tax avoidance is any form of activity that have an impact on tax liability, both activities are allowed by tax or special activities to reduce taxes. The practice of tax avoidance typically exploits weaknesses in the tax law and does not violate the tax laws. According to Allingham and Sandmo (1972) is theoretically the factors that predispose individuals to comply with the tax is the tax rate, the possibility of detection of evasion of tax, penalties, fines and do not want to bear the risk. These reasons also apply to the company. According to Slemrod (2004) in Hanlon and Heitzman (2010), an additional factor for the company in complying with the tax, namely the separation of ownership and control in the company. The existence of separation of ownership and control can lead to decisions that reflect the interests of corporate tax management.

Literature based on the control variables of this study is presented below:

- a. Age: Age companies show how long the company has been a public company (tbk). Research Sakai, et al (2005) showed that the behavior of the company changed in line with age. In particular, it is stated that the company would avoid significant risk. This means that the higher the age of the company, the less risky the project is done. According to Lim (2010) firm age is negatively related to the cost of debt.
- b. Leverage: Leverage is the proportion of debt to equity in which case illustrates the investment risk (Bodie et al, 2008). Leverage is the ratio used to measure the extent to which the activity of the company is financed by debt. Investors prefer companies that have a low leverage ratio as it will provide the assurance that the company will better meet the accounting principle of going concern over the return on investment. The more debt the more risk. According to Lim (2010:19) leverage has a positive relationship with the cost of debt. If the company has a high leverage the company's use of debt financing on the composition so that the level of risk the company will be even greater.
- c. Cash Flow Operational (CFO): Operating cash flow is the cash flow associated with the operation of the project, such as: sales, general and administrative expenses. Operating cash flow is derived from cash inflows (cash in flow) and the flow of cash out of cash (cash out flow). CFO can be used as a control of profitability. According to research Indahningrum and Handy (2009), the low level of profitability, the company uses debt to finance its operations. In contrast to the high level of profitability of the company, the company reduces the use of debt. According to Lim (2010:17) CFO has a negative correlation with the cost of debt.
- d. Property, Plant, and Equipment (PPE): PPE variable is calculated from the total book value of the company at the end of the year PPE scaled by total assets. Myers (1977) revealed that the assets in place better funded with debt, because debt has the characteristics of a sunk cost. Assets in place referred to in this case is fixed assets such as PPE in the composition of the total assets of the company. The higher the proportion of assets in place in the composition of the company's total assets at the company's use of debt will be higher. PPE can describe how much assurance can be given when the company in debt. The greater the total asset, companies have ability to pay future liabilities so have a negative relationship with the cost of debt. Asset structure has an influence on the policy of debt, this is due to the higher amount of PPE in the total assets of the company will help companies get the debt from the creditor.

Institutional ownership is ownership by a number of governments, investment companies, banks, insurance companies, foreign institutions, except for individual investors (Lim, 2011).

The term refers to investors institutional investors are equipped with professional management that invests on behalf of another party, either a group individual or a group of organization. The existence of institutional investor is considered capable of being an effective monitoring mechanism in any decision made by the manager. Excess institutional ownership are: (1) have professionalism in analyzing information in order to test the reliability of the information, and (2) have a strong motivation to exercise tighter control over the activities that occur within the company.

Kholbadalov (2012) defines the cost of debt as the interest rate to be paid on corporate debt or when the company made a loan. The cost of debt is calculated from the amount of interest expense paid by the company within a period of one year divided by the amount of the interest-bearing loan. According to Damodaran (2002), the COD is generally influenced by the following variables:

- a. The Riskless rate (risk-free rate of return), which increased Riskless rate will increase the company's cost of debt.
- b. The default risk of the company (risk of failure of the company), where rising default risk the company will increase the cost of borrowing money.
- c. The tax advantage associated with debt (due to the utilization of the tax advantages of debt) because the interest is tax deductible expenses then COD after tax is a function of the tax rate. Recognized tax benefits of interest payments resulting COD after tax is lower than the cost of pre-tax, then the tax benefit increased with increasing levels of taxation.

According to Damodaran (2002), the magnitude of cost of debt is determined by the level of risk, which increased the risk will have increased cost of debt. So, the auditor quality is negatively related to cost of debt.

DeAngelo and Masulis (1980) show that companies can choose which debt are negatively related to the level of non-debt tax shield, such as the reduction of depreciation or investment tax credits of credit. Mackie and Mason (1990); Trezevant (1992) showed that the depreciation and investment tax credits may replace debt. Graham (2000) provide empirical evidence for the use of debt by the company and found the average amount of debt usage seems relatively small, the tax benefits of debt, because the interest deduction to income ratio that is expected for a small number of large companies. Several studies have investigated the activities of tax evasion as an extension of the tax preferred activities. Graham and Tucker (2006) empirically investigating tax shelters can be substituted for the use of debt. They built a sample of 44 companies involved in tax shelter case companies during the period 1975-2000 by comparing these firms with a matched sample of companies that are not involved in the court process, they discovered that the characteristics, such as size and profitability, is positively related with the use of tax shelters. They also argue that the tax shelter serves as a substitute for the interest deduction in determining capital structure.

Lim (2010) examine participation in the activities of tax evasion related to the capital structure in Korea and also examine the effect of the tax in this connection. Using yanbg tax avoidance measure modified from Desai and Dharmapala (2006), Lim (2010) found a substitution effect of tax evasion on the use of debt for a large sample of companies in Korea. Lim (2010) also found that increasing the tax effect of the substitution effect with evidence of exhaustion so that generalize Graham and Tucker (2006). The cost of debt of a company is influenced by the characteristics of the company and the people from the bonds that influence the risk of default, agency costs, and information asymmetry problems (Bhojraj and Sengupta, 2003). If the tax evasion function as a substitute for the use of debt (Graham and Tucker, 2006; Lim, 2010) it can improve the financial slack, reducing the expected bankruptcy costs, improving credit quality, default risk is lower, and therefore, reduce the cost of of debt. Graham and Tucker (2006) reported that the credit ratings of corporate tax shelters increased one level, compared with the company in the years before the start of the tax shelter, most likely due to the collapse of the debt ratio. Based on the framework developed from the formulation of the problem and the purpose of the study, the first hypothesis presented as follow:

H1: Tax avoidance is a significant negative effect on the cost of debt.

Desai and Dharmapala (2006) suggested that the increased use of incentive compensation for managers reduce the tax shelter activity, which is consistent with the existence of a tax shelter and diversion of rents by managers.

Desai, et al. (2007) developed a model in which the tax shelter by the rental company and the transfer of interrelated manager. Complementary strengths that may exist between the two activities, for hiding income from the tax authorities through a complex transaction reduces the ability of shareholders to monitor managerial behavior so as to make the transfer less to the manager. Desai and Dharmapala (2009) further examine the effect of corporate tax avoidance on firm valuation in relation to corporate governance. They found that the average effect of tax evasion firm value is not significantly different from zero, although positive for companies that are regulated, which indicates that the quality of corporate governance is higher, measured as a higher level of institutional ownership, which lead to beneficial effects of tax avoidance on firm value.

Wilson (2009) found that companies with a tax shelter that is active with strong corporate governance showed positive abnormal returns. As a result, Wilson argues that the tax shelter is a tool for wealth creation in regulated firms. Shackelford and Shevlin (2001) show that insider managerial or control of a company is potentially an important determinant in tax aggressiveness. Chen, et al. (2010) investigated the unique agency conflict between dominant shareholders and minority owned company by the founder members of the family. They found that family firms are less taxes than do the aggressiveness of his colleagues are non - their families, stating that the family owners are willing to forgo tax benefits to avoid the cost of a potential non-tax discount rates.

Agency theory suggests that corporate governance system designed to reduce the possibility of asymmetry of information and the transfer of the lease so as to produce a creditor discounting the future value of the company at a lower level of returns. Ashbaugh-Skaife et al., (2006) describes the price of debt on the basis of agency theory. They reveal that the bond holders and creditors more generally, face two types of conflict institutions that increase the probability of default. First, the agency conflict occurs between management and bondholders as selfish managerial behavior and induce information asymmetry creates moral hazard problem. The second agency conflict faced by bondholders occurs between shareholders and bondholders, as a shareholder in the company leveraged an incentive to make decisions that transfer wealth from bondholders to themselves. Anderson et al., (2003) showed that the bondholders look to build ownership of the family as an organizational structure in which these structures produces little agency conflicts between equity and debt claimants. However, by using a sample of multi-national companies, Boubakri and Ghouma (2010) find that ownership and control of the main families have significant positive effects on bond yield spreads, and a significant negative effect on bond ratings.

The primary measure of the quality of shareholder activity is the level of institutional ownership (Desai & Dharmapala, 2009). The basic motivation for this is that institutional investors have a greater incentive and greater capacity to monitor managerial performance (Shleifer & Vishny, 1986; Chung, et al., 2002; Bhojraj and Sengupta, 2003; Hartzell & Starks, 2003; Desai & Dharmapala, 2009). Shleifer and Vishny (1986) suggest that institutional shareholders, based on a large shareholding, have a greater incentive to monitor the performance of the company. Chung, et al. (2002) found that when institutional investors have a majority of the outstanding shares in a company, there is the use of discretionary accruals; this indicates that the agency problem between managers and shareholders decreased with an increase in institutional investor ownership. Bhojraj and Sengupta (2003) showed that a greater proportion of institutional ownership is associated with lower yields on new bond issuance. Hartzell and Starks (2003) provide empirical evidence that shows that institutional investors play a monitoring role in executive compensation contracts. Desai and Dharmapala (2009) use institutional ownership as the main quality of corporate governance. Lim (2011) anticipate that institutional ownership has a negative effect on the cost of debt and that it further reinforces the negative effects of tax evasion on the cost of debt by reducing agency costs between controlling shareholders and bondholders as well as decrease the opportunity for the transfer of the lease associated with tax evasion. Therefore, the second hypothesis is formulated below:

H2: institutional ownership may moderate the relationship between tax avoidance and cost of debt.

The influence of the independent variables and control variables on the dependent variable in the presence of moderating variables can be described in Figure 1.

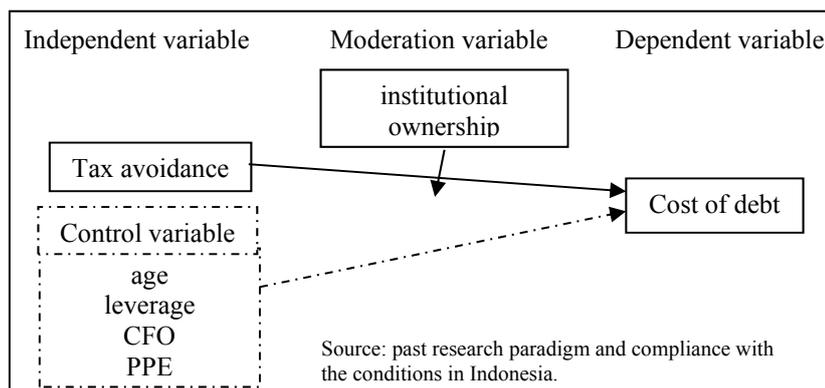


Figure 1.
Conceptual Model

Based on the literature and research framework that were mentioned above, methodological approaches will be explained in the next section.

3. METHODOLOGY

The population of this research is the food & beverage industry companies (35 firms) listed on the Indonesia Stock Exchange (IDX) during 2009-2012. The sampling method in this study was purposive to see the continuity of its business during the years 2009-2012, and that they have published annual financial reports to the Stock Exchange during the period. The data used are secondary data in the form of time series data (2009-2012) and cross section (the consumer goods industry). According Gujarati and Porter (2009), panel data (pooled data) is a combination of cross section data and time series data. Cross section data is the data that is collected in a given time against many companies, while the time series data are data collected over time to a company so that the joint between the two panels of data are included. The variables used in this study there are four, namely the independent variables, control variables, moderating variables and the dependent variable. The independent variable in this study is tax avoidance, which, according to research Lim (2011), were measured using a two-stage calculation, namely:

1) is estimated using a model of discretionary revenue Stubben (2010) for each of the sampled companies during the sample period. Estimated value of discretionary revenue of a firm is the residual from the following equatin:

$$AR_{it} = \alpha + \beta_1 \Delta R_{it} + \varepsilon_{it} \quad (1)$$

Where Δ = change in annual; AR = accounts receivable end of year; R = annual income; ε = error.

Also, the value of earnings management is proxied by discretionary revenue (DCREV) residuals obtained from the above equation that has been modeled by Stubben (2010):

$$DCREV_{it} = \Delta AR_{it} - \alpha - \beta_1 \Delta R_{it} \quad (2)$$

2) is to separate the components of book tax difference (BTD) caused by earnings management for tax purposes that is used to identify the components of a tax avoidance is done by doing the following OLS regression:

$$BTD_{it} = b_1 DCREV_{it} + u_i + e_{it} \quad (3)$$

$$TxAvoid_{it} = u_i + e_{it} \quad (4)$$

Where BTD_{it} = BTD for firm i in year t ; BTD = Accounting profit - Profit fiscal; Taxable income = Current tax expense / tax rate; $TxAvoid$ = Tax avoidance; $DCREV_{it}$ = DCREV for firm i in year t ; u_i = the average residual for firm i in the sample period 2002 – 2012; e_{it} = deviation from the average residual for firm i in year t .

Residuals from equation BTB is a component BTB that is caused by earnings management for tax purposes (Tax Avoidance, Lim: 2011). The dependent variable in this study is the cost of debt (COD). The dependent variable in this study was measured by using a lending company by way of interest expense divided by average long-term debt and short-term interest-bearing loan for a year. (Lim, 2011). Operationalization of variables defining the variables examined in this study to explain or identify the indicators measured variables. A description of the concepts involved variables and indicators can be seen in the following table:

Table 1. Description of Variables

No	Variable	The concept of Variable	Indicator	Scala
Independent				
1	Tax avoidance (TxAvoid) Lim, 2011 Stuben, 2010 Masri & Martani, 2012	A way to reduce the tax burden payments without violating the applicable tax laws.	a) discretionary revenue → Stubben model (2010) b) book tax different	Ratio
Control				
1	Age Lim, 2011	Is standing firm age.	Age starting companies since the company became Tbk.	Ratio
2	Leverage (Lev) Lim, 2011	Is the market value of a company; the magnitude of the Rupiah to measure the proportion of debt and equity capital used in the operations of the company at the end of the year.	The rate ratio measures the ratio between total loans ratio between short-term and long-term total equity.	Ratio
3	Cash flow from operating (CFO) Lim, 2011	Is the amount of payments made to the company's operations during the year.	The rate ratio measures the ratio between the amount of cash flow from operating with total assets.	Ratio
4	Plant property equipment (PPE) Lim, 2011	Is the amount of fixed assets owned by the company at the end of the year.	The rate ratio measures the ratio between the total PPE to total assets.	Ratio
Moderation				
1	Institutional ownership (Insti) Lim, 2011 Masri & Martani, 2012	Is the ownership structure of the institutional shares held at the end of the year.	The number of shares owned by the institutional compared to the total number of shares outstanding.	Ratio
Dependent				
1	Cost of debt (COD) Lim, 2011 Masri & Martani, 2012	Rate is the lending interest expense on the total number of loan companies end the year.	Ratio that measures the level of interest expense to average long-term debt and short-term, interest-bearing loan for a year.	Ratio

The models used in this study are as follows:

$$COD_{it} = \alpha_t + \beta_1 TxAvoid_{it} + \beta_2 Insti_{it} + \beta_3 TxAvoid_{it} * Insti_{it} + \beta_4 Age_{it} + \beta_5 Lev_{it} + \beta_6 CFO_{it} + \beta_7 PPE_{it} + \varepsilon_{it} \quad (5)$$

The data collected are processed and analyzed using SPSS 18.

4. RESULTS AND DISCUSSION

The total sample in this study is the consumer goods industry as many as 36 companies during the period 2009-2012. But there are 1 company (AQUA) delisted in 2011; thus, 35 companies remained with 140 observations. In accordance with the sampling criteria then there are several companies that should be excluded from the sample in which the company has no current tax expense by 27 observations and companies that have incomplete data were 13 observations in order to obtain a final sample of 25 firms with 100 observations. Descriptive statistical analysis is intended to provide a descriptive overview of the sample data used in this study so as to know the minimum and maximum value, average value and standard deviation. Results calculated descriptive statistics appear below.

Table 2. Descriptive Statistics

	Minimum	Maximum	Mean	Standard deviation
COD	-0.03	0.20	0.0244	0.03844
TxAvoid	-6E+011	1E+012	1E+011	1.936E+011
Insti	-0.01	0.75	0.3005	0.10291
TxAvoid*Insti	-3E+011	7E+011	7E+010	1.096E+011
Age	-11.05	9.55	5.1487	3.36416
Lev	-3.59	7.41	0.2905	0.91333
CFO	-1.09	1.95	0.0675	0.30902
PPE	-0.15	0.70	0.1414	0.11230

Source: Results of Treatment of SPSS 18

Based on Table 1 above it can be seen that of the 99 samples with a variable that has a value of eight standard deviations, where the standard deviation away from the numeric value of 0 means that the nature of the data varies. This means that the data of tax avoidance, age and leverage are varied because standard deviation away from the mean number 0 nature of the data varies. This study used a multiple regression model which must pass the test and classical assumption of normality in the form of multicollinearity, autocorrelation and heteroscedasticity. This study perform regression lagrange multiplier to overcome the problems of autocorrelation for the two models in this study (Ghozali, 2011). Table 3 presents the regression results of the research model. The value of Adjusted R Square is 0.340 which indicate that the independent variables in this study had only a 34% effect on the dependent variable.

Table 3. Summary of Regression Results

$COD_{it} = \alpha_t + \beta_1 TxAvoid_{it} + \beta_2 Insti_{it} + \beta_3 TxAvoid_{it} * Insti_{it} + \beta_4 Age_{it} + \beta_5 Lev_{it} + \beta_6 CFO_{it} + \beta_7 PPE_{it} + \varepsilon_{it}$			
Variable	Regression coefficient	t – statistics	sign - t
Constant	0.074	3.701*	0.000
TxAvoid	-1.3E-013	-1.036	0.303
Insti	-0.150	-2.765*	0.007
TxAvoid*Insti	2.95E-013	1.360	0.177
Age	-0.004	-3.300*	0.001
Lev	-0.002	-0.511	0.611
CFO	-0.039	-3.655*	0.000
PPE	0.076	2.260*	0.026
F – statistic	8.141	Dependent variable: COD Note: * significant at the level of 5%	
sign – F	0.000		
R Square	0.388		
Adj. R Square	0.340		
DW statistic	1.921		

Source: Results of Treatment of SPSS 18

The results of regressions as presented in Table 3 indicate that tax avoidance does not affect the cost of debt. These results show the opposite result with the hypothesis that it can be concluded that H1 is not supported (rejected). These results contrast with the results of research Lim (2011) and research and Masri & Martani (2012) where his

research produces significant results. Similarly, the regression results are presented in the table above shows that the lack of effect of tax avoidance on the cost of debt through institutional ownership as a moderating variable. These results show the opposite result with the hypothesis that it can be concluded that H2 is not supported (rejected). These results contrast with the results of research Lim (2011) and also research and Masri & Martani (2012) in which both of these studies produce results the effect of tax avoidance on the cost of debt through institutional ownership as a moderating variable.

Meanwhile institutional ownership is negatively significant effect on the cost of debt, which according to Desai and Dharmapala (2009). Lim (2011) predicts a negative relationship between the cost of debt and institutional ownership, because institutional investors would reduce the cost of debt by reducing agency costs. Institutional ownership could mean a shareholder monitoring mechanism is effective at every decision taken by the manager so that information asymmetry will decrease. This means that the effective mechanism of monitoring the additional loan amount will be smaller. The management also tends to be more cautious in making decisions regarding the use of debt. Shareholders to be included in determining the additional investment will be made by the company. Is the extra investment comes in the form of a loan from a lender or from shareholders in the form of additional capital stock sales. If most of the institutional shareholders are investing more additional decision on additional capital is not on the additional loan, and vice versa. This is done to reduce the risk of the decision to borrow and more wanted the receipt of income in the form of dividends to be declared by the company so that shareholder wealth will be increased (Lim, 2011) while the company is more profitable for the additional capital choice for dividend distribution is voluntary, unlike interest expense that is compulsion.

5. CONCLUSION

The aim of this research is to examine the effect of the tax avoidance towards cost of debt with the institutional ownership as moderating variable on firm listed in Indonesian Stock Exchange especially food and beverage industry. The results of study that tax avoidance didn't have effect towards the cost of debt. This study does not prove that the cost of debt as a way to reduce the amount of tax to be paid by the company. This study proves that the monitoring mechanism of the management shareholders did not dare to tax avoidance through the cost of debt as a way to reduce the amount of tax to be paid by the company (Lim, 2011).

In this research, institutional ownership as a moderating variable actually had weakens the influence of tax avoidance on the cost of debt. Tax avoidance is considered as a risk by the shareholders so that shareholders do not require additional investment from loans that resulted in the cost of debt. In the event of cost of debt means that the management of risk-taking by tax avoidance that reduces the amount of tax paid. The result consistent with agency theory and the management knows than the state company that manages shareholder who gave him the confidence that management will try to minimize the taxes you have paid. This study still have weaknesses that sample only from consumer goods industry so the results can't be generalized for another types of industries. The time period of observation in this study is very short (4 years) so it is less able to see the behavior of tax avoidance. Also the measurement of cost of debt in this study have not entered the loan interest rate in accordance with the time period of the loan.

Similarly, limitation on the variables not included in this study. It can be seen from the results of the R-Square in the study still has a value of about 30%. Variable cost of debt is affected by many variables firm size, business risk, liquidity levels, growth rates, and many others; such as that generated by researchers in Indonesia, making the results of this study have not been perfect. Suggestion for the future research is to increase the sample size of the study, such as the observation time period using 10 years (2000-2012) and a more complete study of variables that will be able to reveal the variables that affect the cost of debt to enrich the academic literature in the field of study for research financial accounting and can provide benefits to the regulator in determining the long-term policy direction.

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