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KARYA ILMIAH : PROSIDING INTERNASIONAL**

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Cooperative Tax: Regulation, Implementation, and Expectation of Legal Avoidance

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Cooperative Tax: Regulation, Implementation, and Expectation of Legal Avoidance

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ABSTRACT

Cooperatives as one of the economic actors in Indonesia with a total of around 154,000 units, as a business entity legally has the same obligations as other business entities such as tax payments. However, the contribution of cooperatives as taxpayers is still relatively limited. This condition is not only caused by the small scale of the cooperative business but also the understanding of practitioners that cooperatives do not need to pay taxes, especially corporate taxes. The aims of this study to examine the tax regulations, implementation and to determine the cooperative practitioner's expectations of legal tax avoidance. This study uses descriptive research methods. The data needed consists of secondary data from the cooperative financial statements and primary data obtained from the cooperative practitioners. The result of this study indicates that there is no difference in tax regulations for cooperatives and other business entities. The studies on 97 cooperatives sample are still many cooperatives that have avoided with their tax obligations for various reasons. The interesting results of the study showed that the bigger cooperative more compliance to pay corporate tax. The expectation of cooperative practitioners that cooperatives can avoid corporate tax obligations legally, through the consistent implementation of the objectives, principles, and characteristics of cooperatives.

Keywords: *tax regulations, tax implementation, expectations on legal tax avoidance*

1. INTRODUCTION

One source of state income is tax. Its mandatory contributions for individuals or entities to the state by not getting direct coercive remuneration, forceful, and their collection is done according to the law. The government uses taxes to carry out national development in order to achieve general welfare in various sectors of life. Tax is a manifestation of the devotion and role of taxpayers to contribute to increasing national development. Tax collection is an important phenomenon and the focus of the government and must be managed properly.

Business entities including cooperatives are tax subjects that contribute to state income. In 2018 the number of active cooperatives in Indonesia was 153,171 units with 26,535,640 members, with a contribution of gross domestic product (GDP) of 5.1% and a tax of IDR 5.7 Trillion. Tax contributions have increased compared to 2016 amounting to 3.4 trillion and 4.4 trillion in 2017 [10].

Taxes are an expense on cooperatives that reduce the residual of operation income, we called "Sisa Hasil Usaha" (SHU), while taxes on the state are income that is used to fund governance. This difference in interests encourages taxpayers including cooperatives to manage tax expenses, through tax avoidance, both legal and illegal. Efforts to avoid tax on cooperatives are still being carried out, through various negotiations with related parties. The reasons often cited relate to the goals, principles, and characteristics of cooperatives as business entities. On the other hand, the government has not been able to optimally absorb tax revenue from corporate taxes, including cooperatives, and

indicates that tax avoidance activities by business entities are still high [5].

Tax compliance or avoidance is influenced by the knowledge of cooperatives, this is in line with research conducted by Subandi and Fadhil [16] the results of their research indicate that there is an influence of tax knowledge, tax services and tax sanctions on tax compliance. In psychological theory, it states that taxpayers' attitude may be influenced by the following factors which eventually influence taxpayer's behavior, such as rewards motivation [7], peer attitude/subject norm [19]. But according to the other research from Suyanto and Pratama [18] it appears that taxpayer's knowledge does not affect their tax compliance, taxpayers' awareness exhibits a positive effect on taxpayers' compliance, and tax officials' service quality does not affect taxpayers' compliance.

Tax avoidance is a tool for doing tax saving by diverting resources that should be used for countries or given to owners so that the value of earnings before tax decreases, then corporate tax decreases and earnings after tax increases. When the value of earnings after tax increases, the cooperative can provide a larger distribution of residual of operating income for members. Profit-sharing can later increase loyalty to the company so that it can be indicated that the company's value will increase [12].

Practitioners, including managers and members of cooperatives, have an understanding that cooperatives do not need to pay corporate taxes because the cooperative's business orientation is to serve members and not profit-oriented. The surplus obtained is not profit but operational cost efficiency which is called residual of operating income, because cooperatives are operated based on costs incurred,

not profit-oriented, Cooperative operated at cost [15]. However, if the cooperative has excess capacity and used to transact with non-members, the profit can be taxed. This understanding has been attached for a long time, especially senior practitioners and managers of cooperatives, and has always been debated at various events when discussing cooperative tax. The cooperative manager also does not fully understand the impact of corporate tax payments on capital interest expenses, especially debt that can be leveraged against the owner's share of the return. Thus, the cooperative managers hope to avoid corporate taxes with the assumptions as above, not because they are not compliant.

Research on cooperative's tax avoidance in Indonesia is still very rarely found due to limited data on business entity tax, mostly the object research on tax avoidance conducted on non-cooperative entity. The measurement of tax avoidance often still uses several indirect approaches. Based on the above background, the purpose of this study is to examine various regulations and implementations related to tax payment obligations for cooperatives, and practitioners' expectations in an effort to manage their taxes by making legal tax avoidance.

According to Republic of Indonesia Law No 16/2009, About General Provisions and Tax Procedures, it is stated that taxpayers are individuals and entities. Entity is a group of people and / or capital that constitutes a unit whether they do business or not. Cooperative is a collection of people who do business. The orientation of a cooperative is as a service provider to its members, rather than it having a for-profit orientation, with the aim of improving the welfare of its members [17]. So, cooperatives are operated at cost [15]. Members function as an owner and at the same time as a user of cooperative service [1]. In addition to these characteristics, cooperative activities are based on universally accepted cooperative values and principles [8]. Cooperatives are required to be able to create economic benefits for their members' both direct and indirect economic benefits. Economic benefits can be generated by cooperatives by setting better prices on various types of cooperatives [1]. Increasing economic benefits in an effort to make legal tax avoidance. This is consistent with research conducted by Nugraha and Setiawan [19] showing that tax avoidance has a positive effect on firm value. The value of a cooperative company is the economic benefits produced. Yee *et al* [21], this study added more evidence to the stream of literature that investigates the role of tax avoidance strategies, as moderated by the level of corporate governance, in determining the firm value in this era of technology.

Cooperatives as taxpayers must comply with applicable regulations, by doing good administration. The purpose of tax administration is to encourage tax compliance voluntarily. In addition, cooperatives as taxpayers must also manage their tax obligations so that the tax paid is not too large, by avoiding the tax legally. According to Chen *et al* [20], it states that tax management is related to the means to fulfill tax obligations properly but the amount of tax to be paid can be reduced as low as possible to increase the expected profit and liquidity. The criteria of tax compliance are as follows: 1) in submitting tax returns on time; 2) do not have any tax arrears, except arrears that have permission

to postpone or pay taxes; 3) financial reports obtain a Fair Opinion without Exception for 3 consecutive years from the results of audits of government financial oversight institutions or Public Accountants; 4) During the last 5 years, he has never been convicted in the tax sector based on a court decision that has permanent legal force Suyanto and Pratama [18].

Many factors affect tax avoidance, especially corporate tax, firm size, profitability, leverage, operating cash flow, capital intensity, R&D intensity and sales growth rate influence the corporate tax avoidance [11]. The level of corporate profits affects the effective tax rate because the more efficient, the company pays less taxes [6]. Companies with a high level of efficiency and have a high income tend to face a low tax expense, because they can take advantage of the benefits of tax incentives and other deductions [4]. Armstrong *et al.* [2], Richardson *et al.* [13], Babajani and Abdi [3] examined the impact of governance on tax avoidance. They found a positive relationship between governance on tax avoidance, but Jamei [9] found the other results from his research, there is no significant relationship between governance on tax avoidance.

2. METHOD

This research was designed with a descriptive survey method for cooperatives in West Java, which are grouped into cooperatives with a turnover of up to IDR 4.8 billion, between IDR 4.8 billion to IDR 50 billion and above IDR 50 billion in accordance with the provisions of corporate taxation in Indonesia. Samples determined purposively. This study utilizes secondary data in the form of cooperative financial statements that are equipped with open surveys to determine the perception of cooperative practitioners about the reasons and management of taxes through legal tax avoidance. The data collected was analyzed descriptively.

3. RESULTS AND DISCUSSION

The results of this study indicate that the regulations governing cooperative taxation have no difference with other business entities. The cooperative functions as (1) corporate tax payer, land and building tax, regional seal and levy. (2) Withholding taxes on employee salaries, and (3) collecting value added and interest on saving taxes. Specifically, for corporate tax, the tax rate is determined based on turnover, which is grouped with turnover up to IDR 4.8 billion is subject to a final tax of 0.5% of turnover, a turnover of between IDR 4.8 billion to IDR 50 billion is taxed rate of 25% of earning before tax, with a facility (50% x 25%) of taxable income from the gross distribution portion of the facility and taxable income from the gross circulation portion that does not obtain facilities, and for turnover more than IDR 50 billion is subject tax rate to 25% of earning before tax. In practice, the turnover of cooperatives is still very varied, and most with turnover below IDR 4.8 billion.

Table 1 The Calculation of Corporate Tax Based on Corporate Turnovers

Description	Turnover		
	< 4,8 Billion	4,8 Billion – 50 Billion	> 50 Billion
Legal Basis	PP No. 23 Tahun 2018	Pajak badan Pasal 17	Pajak badan Pasal 17
		Undang-Undang No. 36 Tahun 2008	Undang-Undang No. 36 Tahun 2008
Basis of Tax Calculation	Gross circulation of business (Omzet)	Taxable income	Taxable income
Tax Rate	0,50%	25%	25%
Facilities		Taxable income from the gross circulation portion of the facility that obtains the facility	
		Taxable income from the gross part of circulation which does not obtain facilities	
Calculation of Tax Due	0,5% x Gross circulation of business (Omzet)	(50% x 25%) x a	25% x taxable income
		25% x b	

Source: Indonesia Taxation Regulations

The implementation of taxation on cooperative business entities related to compliance in paying, cutting and collecting various taxes, based on the results of studies on 97 samples of cooperatives shows that there are still many cooperatives that have not fulfilled tax obligations for various reasons. The following are data on the level of compliance and avoidance of cooperatives sample in carrying out tax obligations:

Table 2 Tax Compliance of Cooperatives Sample

		Taxes				
		Corporate Tax	Withholding tax on employee salaries	Land & Building Tax etc	Value Added Tax	Interest Tax
< 4,8 Milyar	n	60	60	60	60	60
	TC	27	20	40	0	0
	%	45,0	33,3	66,7	-	-
	TA	33	40	20	60	60
	%	55,0	66,7	33,3	100,0	100,0
4,8 Milyar - 50 Milyar	n	30	30	30	30	30
	TC	23	21	15	1	0
	%	76,7	70,0	50,0	3,3	-
	TA	7	9	15	29	30
	%	23,3	30,0	50,0	96,7	100,0
> 50 Milyar	n	7	7	7	7	7
	TC	7	7	5	0	2
	%	100,0	100,0	71,4	0	28,6
	TA	0	0	2	7	5
	%	0,0	0,0	28,6	100,0	71,4
Total	n	97	97	97	97	97
	TC	57	48	60	1	2
	%	58,8	49,5	61,9	1,0	2,1
	TA	40	49	37	96	95
	%	41,2	50,5	38,1	99,0	97,9

Description:

n = Sample

TC = Tax Coplient

TA = Tax Avoidance

Source: The Result of Study

A total of 97 cooperatives sample, 58.8% have complied to pay corporate taxes and the remaining 41.2% are still avoiding taxes, 49.5% have made tax cuts on employee salaries and 50.5% have not implemented, 61.9% have paid land and building tax and 38.1% do not pay, 1.0% have levied value added tax and 99.0% have not implemented it and 2.1% have collected tax on saving interest, the remaining 97.9% has not implemented it.

The reason, there are still many cooperatives that avoid taxes, can be explained based on the type of tax that should be paid by cooperatives: (1) Corporate Tax, many cooperatives have not fulfilled the obligation to pay corporate tax, because cooperative practitioners still have perceptions related to understanding: Cooperative goals are not profit oriented but service-oriented, members of the cooperative as owners and users (the principle of multiple identities), cooperative operated at cost, so that the remainder of the results operation income only as a service efficiency of members cannot be categorized as profit and its value is relatively small because it is only an operational cost efficiency, this perception which encourages cooperative managers to avoid paying corporate taxes. (2) Withholding tax on employee salaries, not all cooperatives have made tax deductions on employee salaries, with the reason that employee salaries, especially for cooperatives with turnover less than IDR 4.8 billion is still much below the non-taxable income, and part of the salary of the management of functional cooperatives is still borne by the company or agency where the cooperative is located. (3) Land and Building Tax, cooperatives that do not pay this tax because the land and buildings used are not their property, but belong to the institution or agency where the cooperative operates. (4) Collection of value added and saving interest taxes, not many cooperatives have transactions with other parties with consequences for value added tax as well as taxes on savings interest, many cooperatives provide savings interest is still relatively small or the value of savings of each member is still limited so interest has not exceeded IDR 240,000 per month. In addition to the above reasons based on the results of interviews with several cooperative practitioners, the low level of cooperatives complying with their tax obligations, is due to the low tax knowledge from cooperative managers, there is an assumption in making tax payments not easy and the still low sanctions to be received by individuals and or entities if they haven't paid taxes

The results of this study are in accordance with previous research which shows that tax compliance or avoidance is determined by personal or agency understanding, which begins with tax knowledge, tax services and tax sanctions. This condition psychologically encourages taxpayers' attitude, motivation such as rewards and peer attitude / subject norm.

The reality in the field during interviews with several cooperative actors shows that there are still many managers who do not understand cooperatives as business entities,

have an obligation to pay corporate taxes. This misunderstanding is due to the still low level of socialization about taxation of business entities by related parties, while managers who relatively understand about corporate taxation try to avoid tax payments, with the reason to follow most cooperatives that do not pay taxes. Cooperative managers consider it is still difficult to complete tax requirements, other than that other factors are used as reasons to avoid taxes due to unclear and inconsistent implementation of sanctions. Psychologically, the above conditions will motivate cooperative managers to avoidance taxes.

Many cooperatives as entities try to disobey or avoid the obligation to pay corporate tax. Cooperatives that avoid a lot of corporate tax are cooperatives with a turnover of under IDR 4.8 billion (55.0 %%), then cooperatives with a turnover of between IDR 4.8 to IDR 50 billion (23.3%) and cooperatives with turnover more than IDR 50 billion (0%). Thus, cooperatives with a smaller turnover tendency to avoid greater corporate tax, or cooperatives with greater turnover more compliance to corporate tax payments. This happens because the attention of taxation authorities tends to cooperatives with large turnover because with a large tax, it is also compared to cooperatives that are still relatively small. Relatively large cooperatives with increasingly large debts are more efficient in managing their businesses, thereby saving corporate tax payments.

The results of this study are consistent with previous research which states that company size and profitability have a significant effect on avoiding tax payments. Cooperatives with relatively small turnover tend to avoid paying corporate tax, meaning that the greater the turnover, tend not to want to avoid paying corporate tax. The behavior of cooperatives to avoid corporate tax is inversely proportional to the turnover obtained. The level of efficiency in cooperatives with relatively large turnover tends to be more efficient, so profitability will also increase. Cooperatives with the obligation to pay large taxes will be the concern of tax recipient bodies, so the level of compliance is higher or lower efforts to avoid corporate tax. Another interesting study to discuss is that there are still many cooperative practitioners who expect that cooperatives can get relief in paying corporate taxes. In addition to continuing efforts through hearings with various parties at various events, the cooperative also made various efforts so that the cooperative could legally reduce or avoid corporate tax. Efforts to manage taxation to reduce corporate tax payments by: (1) Reducing gross income (turnover) and profits by setting better prices for members. This is in accordance with the objective of establishing a cooperative, which is to promote member economies, one of which is by providing services at a better price. Better prices can be explained on various types of cooperatives. Better prices on consumer and input supply cooperatives procurement can be done by pressing the lowest possible service prices, on marketing cooperatives, buying prices from members are set higher, as well as on types of service cooperatives including savings and loan businesses, interest and fee of loan administration is set lower and vice versa for deposit interest. The consequences of business management such as this is an attraction for members to transact with cooperatives, because they will get immediate economic

benefits when utilizing services even though the remaining cooperative results of operation income will be reduced.

The further impact of corporate tax payments is getting smaller. In accordance with previous research shows that the success of cooperatives must be measured not only from the business efficiency (cooperative efficiency), but also the efficiency of the members' business (member efficiency) and the impact on the development of the work area. In managing taxation, tax can be legally avoided by reducing earnings before tax. Better pricing for members results in smaller turnover and cooperative margins, so that the residual income before taxes is also smaller.

Cooperative practitioners also realize if cooperatives have excess capacity can transact with non-members, so the profits derived must be subject to corporate tax. Consequently, there must be a separation between transactions with members and non-members including the calculation of results of operations income.

Maintain the habit in accordance with accounting principles that the recording of savings and loan business turnover is only as much as the interest received so that the amount of turnover is very small, so that the turnover used as the basis for determining the tax rate is also relatively small. This principle is very beneficial for cooperatives that run savings and loan businesses to reduce corporate tax payment. Corporate tax avoidance in the above manner can be recognized as a legal method in accordance with various opinions of experts, that good tax management if the agency can legally reduce the amount of tax payments.

4. CONCLUSION

Cooperative obligations in taxation are treated the same as other business entities. Based on the results of this study, not all of cooperatives sample have done their obligations in tax payments for various reasons and there is a tendency to avoid tax payments, especially for cooperatives with omzet less than IDR 4,8 Billion. The greater the cooperative turnover, the smaller the effort to avoid taxes. The large number of cooperatives that carry out tax avoidance is caused by the lack of knowledge about tax obligations and management for cooperatives as business entities. Cooperative managers assume it is still difficult to take care of tax requirements and inconsistencies in sanctions for tax avoidance actors. Thus, encouraging cooperative managers to avoid taxes. Most practitioners hope that cooperatives can manage their taxes to avoid paying taxes legally by providing better prices, consistently implementing various cooperative principles, and implementing accounting principles for savings and loan businesses consistently.

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