

## The Use of financial derivatives in tax avoidance and earnings management: empirical evidence from ASEAN. (40th European Accounting Association Annual Congress 2017, 10-12 May 2017)

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### Abstrak

#### **ABSTRACT**

This study aims to determine the effects of the use of financial derivatives in tax avoidance and earnings management. This study uses a cross-country analysis with the scope of ASEAN countries, consisting of Philippines, Indonesia, Malaysia and Singapore. The findings show that the level of financial derivatives usage positively affects corporate tax avoidance. We also find that the effect of financial derivatives usage level on the level of tax avoidance is higher on companies using financial derivatives for speculation purpose as compared to companies using financial derivatives for hedging purpose. In addition, the level of financial derivatives usage for speculation purpose positively affects the degree of earnings management. This study expects to provide useful information for tax authorities regarding the possibility of companies using derivative financial instruments to facilitate tax avoidance practices. Improvements in tax regulations on derivatives transactions are expected to minimize the loopholes for companies who want to use financial derivatives as a means of tax avoidance; minimize the difficulties faced by tax authorities in understanding, detecting, and enforcing law on tax avoidance involving financial derivatives; minimize the potential loss of state revenue from the tax sector; and minimize conflict or dispute between tax authorities and tax payers.