

## The Use of Financial Derivatives in Tax Avoidance Activities: Cross Country Analysis in ASEAN (17th Asian Academic Accounting Association Annual Conference, Kuching, Sarawak, Malaysia 20-22 November 2016)

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### Abstrak

This study investigate the association between the level of financial derivatives use and the level of tax avoidance, and whether this association differs between the users of financial derivatives for speculation purposes and the users of financial derivative for hedging purposes. Using a cross-country analysis which covering four countries in the ASEAN region (ie: the Philippines, Indonesia, Malaysia, and Singapore), we find that there is a positive association between the level of financial derivative use and the level of tax avoidance. This finding indicates that financial derivative can be used as a tool of tax avoidance activities. When we classified the users of financial derivatives into two categories (ie, the users of financial derivative for hedging purposes and the users of financial derivatives for speculation purposes), we find that positive association between the level of financial derivative use and the level of tax avoidance is higher in the user of financial derivatives for speculation purposes rather than the user of financial derivatives for hedging purposes. This research is expected to provide suggestion for the tax authorities to determine the direction of future policy, for example, set a clear tax regulation regarding the tax treatment of financial derivatives transactions. Improvement of tax regulations on derivative transactions are expected to: (i) minimize the loophole for companies that want to use financial derivatives as a tool of tax avoidance; (ii) minimize the loss of government revenues from taxes side; and (iii) minimize the disputes between tax authorities and taxpayers.