



The role of good corporate governance in moderating factors affecting tax avoidance

Widitha Puteri Wadana¹, Atma Hayat², Monica Rahardian Ary Helmina³

^{1,2,3}Accounting, Lambung Mangkurat University, Banjarmasin, Indonesia

ARTICLE INFO

Article history:

Received Jun 05, 2023

Revised Jun 08, 2023

Accepted Jun 13, 2023

Keywords:

Firm Size;
Good Corporate Governance;
Leverage;
MRA;
Tax Avoidance.

ABSTRACT

This study aims to determine the effect of firm size, leverage, and good corporate governance on tax avoidance in manufacturing companies listed on the IDX. This research seeks to utilise firm size, leverage, and GCG to prevent corporate tax fraud since incidents of tax avoidance are on the increase, particularly for businesses listed on the IDX. This type of research is quantitative causal comparative. The sample in this study are 62 companies listed on the IDX in 2016-2021. The analytical method used is Moderate Regression Analysis (MRA). The results of the study conclude that: (1) firm size has a significant effect on tax avoidance (Janrosl & Efriyenti, 2018), (2) leverage has no significant effect on tax avoidance (Rahmadani et al., 2020), (3) firm size has a significant effect on tax avoidance moderated by good corporate governance, (4) leverage has no effect significant effect on tax avoidance moderated by good corporate governance.

This is an open access article under the CC BY-NC license.



Corresponding Author:

Widitha Puteri Wadana

Accounting,

Lambung Mangkurat University,

Jl. Brigjen Hasan Basri, Banjarmasin Utara, Kota Banjarmasin, Kalimantan Selatan 70123.

Email: puteri.widitha@gmail.com

INTRODUCTION

Taxes are a suitable source of money for the state since they have the advantage of being one of the possible revenue sources. Even though taxpayers cannot directly feel the benefits and use them for government purposes in state development, taxes are still paid from taxpayers who are individuals, institutions, or business entities that are required to comply with legal norms or applicable rules (Maulana & Abbas, 2021). The government never stops trying to increase tax income. Although the Corona virus is putting strain on numerous sorts of taxation, governments still anticipate tax income from businesses, particularly the manufacturing sector (Santoso, 2022).

The arranging of transactions to get tax advantages, benefits, or reductions in the manner intended by tax legislation is one definition of tax avoidance (Brown, 2012). Tax avoidance is done "legally" and still complies with tax laws by taking advantage of loopholes in current tax laws to avoid paying taxes or by engaging in transactions with no other intention than to avoid taxes. Tax

evasion, on the other hand, is related to the use of illegal methods to lessen or eliminate the tax burden (Ezejiolor & Ezenwafor, 2021)

The Indonesian state tax ratio (Handayani, 2018) reveals the phenomenon of tax evasion in that country. The tax to gross domestic product (GDP) ratio or tax ratio has dropped during the last five years, according to the Ministry of Finance (Sri Utaminingsih et al., 2022). In order to hasten national development, the Directorate General of Taxes (DGT) must maximize tax income. The occurrence of tax avoidance activities, often known as tax evasion, is one of the many challenges that initiatives to maximize tax income have faced (Swingly & Sukartha, 2015).

Tax avoidance refers to a taxpayer's attempt to lower the amount of tax owed by finding regulatory loopholes in order to lawfully avoid paying taxes that do not break tax laws (Fatoni, 2020). According to (Mohd Suffian et al., 2017) tax avoidance is an effort to reduce legal obligations that is carried out by effectively utilizing taxation-related provisions like allowed exceptions and deductions as well as the advantages of things that are not subject to regulation and holes in the relevant tax laws. There are several approaches to assess tax evasion, including using ETR. ETR is one metric used by Siegfried (1972) to assess tax evasion. By dividing the amount of taxes due by the income before taxes, ETR is computed. ETR wants the current year's taxes to be paid.

ETR-Cash ETR swings, which demonstrates the extent to which the business is able to pay taxes to the state. Companies are advised not to engage in tax evasion if their ETR-Cash ETR value is less than zero, and tax avoidance if the value is greater than zero (Oktavianie, 2021). Additionally, IKEA is home to the global practice known as tax dodging. IKEA is a Swedish manufacturer of furniture for the home. IKEA moves money from its stores all throughout Europe to its Dutch subsidiaries on purpose so that they can be tax-free in Luxembourg or Liechtenstein (Pitoko, 2016).

Another occurrence is Apple, which benefits from Jersey's negligibly low tax laws. Jersey is a little island in the English Channel. To free up an estimated \$252 billion in profits, Apple established subsidiaries in countries with no income taxes (Muthahhari, 2017). Additionally, ADARO Indonesia created a transfer pricing scheme to avoid paying taxes. It all began with the corporation's attempts to evade Indonesian corporate income tax through its Singapore-based affiliate company, Coaltrade Service International Ltd Singapore, which was also owned by the same shareholder as PT ADARO Indonesia (Pohan, 2018). Another incident included PT. RNI, a Singapore-based business providing related healthcare services. The DGT believes that this company has engaged in tax fraud. This corporation relies on the life of the company coming from affiliate debt as its method of tax evasion (Suryowati, 2016).

Global financial activities also bring up problems with tax avoidance and attempts at evasion. This problem partially resulted from the absence of thorough and reliable data covering financial transactions made by taxpayers outside of their home country. Due to these circumstances, the G20 and the OECD have joined forces to launch the Automatic Exchange of Information (AEOI) initiative, a worldwide initiative to automate the transfer of information between nations. According to the IBFD International Tax Glossary (2015) in (Asmarani, 2020) AEOI is an information exchange that involves the systematic and regular transmission of taxpayer information from the country of origin to the country where the taxpayer is registered as a tax resident. This transmission is done in a "mass" manner. In order to lessen attempts at tax evasion, Indonesia has decided to establish the Automatic Exchange of Information (AEOI). According to PMK No.39/PMK.03/2017, which is a modification to PMK No.125/PMK.10/2015 regarding Procedures for Exchange of Information, this is the case.

Companies can maximize their tax management in a number of ways, the first of which is by taking advantage of firm size, according to (Lanis & Richardson, 2012). They noted that while study (Lanis & Richardson, 2012) revealed that firm size had a detrimental influence on effective tax rates, large-scale corporations pay lesser taxes than small-scale enterprises. However, some studies have shown that large businesses pay greater taxes than small businesses do. These findings are attributed to political costs that make the tax burden paid by big businesses larger than it should be

(Noor et al., 2020). Due to interest expenses resulting from debt held by businesses that may be deducted from revenue, debt can result in a decrease in taxes. By using loan interest as a tax deductible, research by (Putri, 2016) demonstrates how business debt may lower the tax burden paid.

According to the author's review, there are a number of research pertaining to the issue of how effective corporate governance affects corporate tax avoidance, although the outcomes vary from study to study. According to (Uchendu et al., 2016), there is no correlation between board size and the audit committee, two GCG factors, and tax avoidance. Good corporate governance has a considerable impact on tax payment compliance, according to research on Malaysian corporations. (Hariyanto & Utomo, 2018) discover that tax avoidance and the effect of the board of directors' size on GCG are both present. The audit committee, audit quality, and firm size all had a favorable effect on tax evasion, according to (Waluyo, 2017).

Additionally, it was mentioned in (Prayogo & Darsono, 2015) that the audit committee's influence on company tax avoidance was enhanced by a background in accounting. As a result, the goal of this study is to ascertain how each firm's leverage and size affect tax evasion through sound corporate governance. In addition discovered that when examining the connection between corporate governance and tax avoidance, external monitoring regimes are crucial to take into account. In response to more stringent external monitoring, businesses with poor governance during low-regulatory eras (1997-2000) showed lower levels of tax evasion during high-regulatory periods (years 2003-2005). Foreign and government ownership can be linked to corporate tax avoidance among companies registered in Malaysia based on cost-benefit analyses of tax avoidance.

There is a connection between tax evasion and good corporate governance. The rationale is that since the corporation is a taxpayer, it is required to pay taxes in accordance with corporate laws brought about by GCG. On the other side, the dynamics of excellent corporate governance within a corporation may also lead to tax evasion. The corporation uses good corporate governance as one of its control tools for corporate governance. According to (Chen et al., 2013), this method aims to stop the proliferation of agency issues. The secret to success and attaining firm performance is good corporate governance (Stuebs & Sun, 2015). Relationships with shareholders are facilitated by effective strong company governance. Shareholders will have assurances from sound corporate governance that the company will fulfill its obligations to them.

RESEARCH METHOD

This research is a comparative causal quantitative research. The population used as the object of research is Manufacturing Companies listed on the Indonesia Stock Exchange (IDX). The number of companies listed on the IDX in 2016-2021 is 218 companies (BEI, 2022). The sampling technique in this study used purposive sampling method as many as 62 companies. Researchers used SPSS version 26 to analyse the data, then make findings. In order to determine the effects of Firm Size (X1), Leverage Ratio (X2), and Good Corporate Governance (Z) as moderators on Tax Avoidance (Y) in manufacturing businesses listed on the Stock Exchange of Indonesia (IDX) from 2016 to 2021, this research was conducted.

Table 1. Sample selection criteria

| Criteria | Total |
|---------------------------------------------------------------------------------------------------------------------|-------|
| The population of manufacturing companies listed on the Indonesia Stock Exchange (IDX) until 2021 | 218 |
| Manufacturing companies that are not listed on the Indonesia Stock Exchange (IDX) in a row for the 2016-2021 period | (76) |
| Companies that do not report financial statements for the 2016-2021 period | (15) |
| Companies that do not carry out their tax obligations | (4) |
| Companies that experience losses for the 2016-2021 period | (61) |
| Final Sample | 62 |
| Total (nx study period) | 372 |

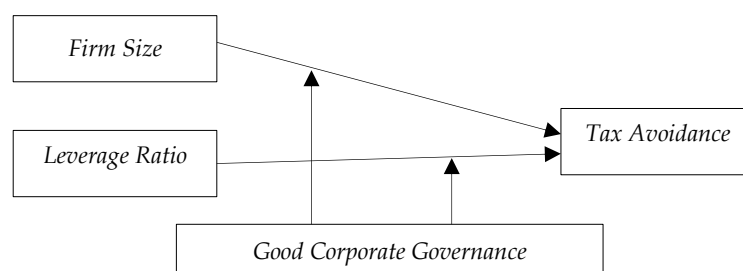


Figure 1. Hypotesis model

RESULTS AND DISCUSSIONS

Descriptive Statistical Analysis

The lowest Firm Size was recorded by PT Pan Brothers Tbk in 2020 at 20,357, while the greatest Firm Size was recorded by PT Indofood Sukses Makmur Tbk in 2021 at 32,820. Additionally, the company PT Impack Pratama Industri Tbk will have a leverage value of 0.857 in 2021, while PT Industri Jamu Dan Pharmacy Sido Muncul Tbk will have a leverage value of 0.003 in 2016. The company PT Industri Jamu Dan Pharmacy Sido Muncul Tbk had the highest Good Corporate Governance in 2016, with a score of 0.810, while 148 other companies had the lowest, with a score of 0.000.

Classic Assumption Test

The Kolmogorov-Smirnov Test was utilized in this study's normalcy assessment. Value of asymptotics. The normality test's sig (2-tailed) value is 0.096. The number is higher than 0.050. We can draw the conclusion that the study's data is regularly distributed.

Data Analysis

The significant values for the X1 and X2 variables were 0.000 and 0.428, respectively, according to the analysis' results with the moderating variable. It can be deduced that through Good Corporate Governance (Z), the Firm Size variable (X1) and partially has a significant effect on Tax Avoidance (Y), whereas Leverage (X2) has no significant effect. This is because only the X1 variable has a significance value of 0.05. important in terms of Tax Avoidance (Y). Additionally, it can be deduced that Tax Avoidance (Y) is significantly impacted by the relationship of Firm Size*Good Corporate Governance. Leverage*Good Corporate Governance relationship, meanwhile, has no discernible impact on Tax Avoidance (Y).

Based on the aforementioned test results, a computed F value of 32,356 was achieved, with a significance level of 0.000 or 0.05. The variables Firm Size (X1), Leverage (X2), Good Corporate Governance (Z), Firm Size* Good Corporate Governance (X1*Z), and Leverage* Good Corporate Governance (X2*Z) together have a significant effect on Tax Avoidance (Y), according to the significance value of 0.05. The Adjusted R Square value is 0.420 according to the coefficient of determination test with the addition of the aforementioned moderating variable. This indicates that 42.1% of the variation in Tax Avoidance (Y) can be predicted by the variable, whereas the remaining 57.9% is impacted by other variables not included in the study.

Effect of Firm Size on Tax Avoidance

A regression coefficient of 0.261 was found through statistical testing on the impact of firm size on tax evasion. This demonstrates that there is a one-way relationship between firm size and tax evasion. The t-count value for the Firm Size variable is 8.322 and its significance level is 0.000. The firm size variable has a positive and significant impact on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange for the 2016–2021 period, as indicated by the significance value being less than the predetermined significance level, which is 0.000–0.05. The size of a corporation is determined by its total assets or by its assets when the logarithmic value of its total assets is calculated. The more complicated the transactions are, the more opportunities there are for firms to use existing loopholes to take tax avoidance measures from each transaction. This is true regardless of how big a company is. According to agency theory, agency costs rise as the amount of external capital increases.

Effect of Leverage on Tax Avoidance

According to statistical analyses, leverage has a negative regression coefficient (-0.012) on tax evasion. This demonstrates that leverage does not have a one-way impact on tax evasion. T-count for the leverage variable is -0.793, and significance is 0.428. The Leverage variable has a negative and insignificant effect on Tax Avoidance in manufacturing companies listed on the Indonesia Stock Exchange for the period of 2016–2021, according to the significance value, which is more than the predetermined significance level, which is $0.428 > 0.05$. The quantity of a company's financial commitments that result from previous transactions and must be repaid in the future in cash, goods, and services is known as its level of debt. In this situation, the relationship between debt and profit is inverse, meaning that if the debt is higher, the profit will be lower after accounting for interest costs. In terms of taxes, the tax obligation increases in direct proportion to profit. The tax payment is inversely correlated to the amount of the company's debt. This is due to the fact that if interest payments are tax deductible charges, a high level of leverage will result in a low tax burden.

Effect of Firm Size on Tax Avoidance through Good Corporate Governance

The regression coefficient value is 0.093 and is based on the findings of statistical tests on the impact of firm size on tax avoidance through good corporate governance. This demonstrates that there is a one-way relationship between firm size and tax avoidance through good corporate governance. With a significance level of 0.030, the Firm Size Variable's t value is 2.187. The firm size variable has a positive and significant impact on tax avoidance through good corporate governance, as shown by the significance value being less than the specified significance level of 0.030 0.05. The number of parties overseeing the company both internally and internationally increases as it grows in size.

The Effect of Leverage on Tax Avoidance through Good Corporate Governance

The regression coefficient value is -0.045 based on the findings of statistical tests on the impact of leverage on tax avoidance through good corporate governance. This demonstrates that leverage does not have a one-way impact on tax evasion through good corporate governance. T-count for the Leverage variable is -1.150, and significance is 0.251. The significance level, which is $0.251 > 0.05$, is exceeded by the significance value, showing that the leverage variable has an insignificantly negative impact on tax avoidance through good corporate governance. The corporation will have to pay more in interest expenses and will make less money as a result of having more loans and receiving more finance from other sources. Agency theory predicts a conflict between management ownership and investors who desire the highest rate of return on the capital they invest in dividends. A high degree of leverage will increase the company's interest expenses, which will lower the earnings that should be given to shareholders.

CONCLUSION

This study demonstrates that for manufacturing companies listed on the Indonesia Stock Exchange between 2016 and 2021, firm size has a considerable impact on tax evasion. According to this study, leverage has little to no impact on tax evasion. Additionally, effective corporate governance can control business size due to its large impact on tax evasion in manufacturing firms listed on the Indonesia Stock Exchange between 2016 and 2021. Leverage cannot moderate because it has little impact on tax evasion in manufacturing firms listed on the Indonesia Stock Exchange between 2016 and 2021.

The findings of the research that can illustrate how business size and profitability can partially effect tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange for the period of 2016–2021 constitute the theoretical implication of this study. In the meantime, for the years 2016 to 2021, the amount of debt (leverage) does not significantly affect tax evasion in manufacturing companies listed on the Indonesia Stock Exchange.

As a result of this study's application of agency theory, it can be predicted that businesses will be better equipped to choose tax strategies that benefit the State and will be required to pay taxes in accordance with the General Provisions of Taxation and Tax Procedures. If tax evasion is not managed properly, it will eventually result in a conflict of interest because there is knowledge asymmetry, especially when it comes to profit interests.

The practical ramifications of this research for businesses are anticipated to be able to provide awareness that the existence of tax avoidance practices employed by businesses will result in a decrease in state revenues, so businesses are anticipated to be able to be more shrewd in choosing tax planning strategies that are not detrimental. Additionally, management can strengthen the task force charged with overseeing the existence of tax deductions made by the company in order to properly carry out tax planning so that it is anticipated to lower the level of tax deviations in the company. This will help management foresee deviations in tax avoidance practices.

There are still a number of limitations to this study, including the fact that only manufacturing enterprises listed on the Indonesia Stock Exchange were included in the sample of companies. The only variables used in this study's variables are those related to firm size, profitability, leverage, and good corporate governance. In reality, there are a lot of things that can influence tax avoidance.

ACKNOWLEDGEMENTS

The writer extends special thanks to the God for the blessing and grace for the writer, so she can finish this paper at the right time. Thanks to all of writer's lectures for helping and give many knowledges. And also thanks to all who support the writer for completing this paper.

References

- Asmarani, N. G. C. (2020). Apa Itu Automatic Exchange of Information? *DDTC News*. <https://news.ddtc.co.id/apa-itu-automatic-exchange-of-information-25209>
- BEI. (2022). *No Title*. www.idx.co.id. <https://www.idx.co.id/data-pasar/data-saham/daftar-saham/>
- Brown, K. B. (2012). Germany. In *Comparative Regulation of Corporate Tax Avoidance: An Overview*. <https://doi.org/10.1007/978-94-007-2342-9>
- Chen, H., Wang, H., & Zhou, H. (2013). Stock Return Volatility and Capital Structure Decisions. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.2346642>
- Ezejiofor, R. A., & Ezenwafor, E. C. (2021). Corporate Governance and Tax Avoidance: Evidence from Nigerian Quoted Food and Beverage Companies. *Macro Management & Public Policies*, 2(4), 40–47. <https://doi.org/10.30564/mmpp.v2i4.2632>
- Fatoni, H. A. F. (2020). Pengaruh Good Corporate Governance Terhadap Nilai Perusahaan Dengan Profitabilitas Sebagai Variabel Mediasi (Studi Pada Perusahaan BUMN yang terdaftar di Bursa Efek Indonesia Periode

- Tahun 2016-2018). *Ekspansi: Jurnal Ekonomi, Keuangan, Perbankan Dan Akuntansi*, 12(1), 77-94. <https://doi.org/10.35313/ekspansi.v12i1.1888>
- Handayani, R. (2018). Pengaruh Return on Assets (ROA), Leverage dan Ukuran Perusahaan Terhadap Tax Avoidance Pada Perusahaan Perbankan yang Listing di BEI Periode Tahun 2012-2015. *Jurnal Akuntansi Maranatha*, 10(1), 72-84. <https://doi.org/10.28932/jam.v10i1.930>
- Hariyanto, F., & Utomo, D. C. (2018). Pengaruh Corporate Governance Dan Kompensasi Eksekutif Terhadap Agresivitas Pajak (Studi Empiris Perusahaan Jasa Sektor Keuangan yang Terdaftar di BEI Tahun 2014 - 2016). *Diponegoro Journal of Accounting*, 7(4), 1-14.
- Janrosl, S. E. V., & Efriyenti, D. (2018). Analisis Pengaruh Ukuran Perusahaan, Leverage Dan Profitabilitas Terhadap Tax Evoidance Pada Bank Riau Kepri Tbk. *SNISTEK (1): Seminar Nasional Ilmu Sosial Dan Teknologi 1*, 1, 169-174. www.idx.co.id.
- Lanis, R., & Richardson, G. (2012). Corporate social responsibility and tax aggressiveness: An empirical analysis. *Journal of Accounting and Public Policy*, 31(1), 86-108. <https://doi.org/10.1016/j.jaccpubpol.2011.10.006>
- Maulana, A., & Abbas, Y. (2021). Keterterapan Konsep Cooperative Compliance Pada Aktivitas Pengawasan Wajib Pajak. *Journal of Applied Business and Economic (JABE)*, 8(2), 208-227.
- Mohd Suffian, M. T., Shamsudin, S. M., Mohd Sanusi, Z., & Hermawan, A. A. (2017). Malaysian Code of Corporate Governance and Tax Compliance: Evidence From Malaysia. *Management and Accounting Review (MAR)*, 16(2), 157. <https://doi.org/10.24191/mar.v16i2.665>
- Muthahhari, T. (2017). Paradise Papers Mengungkapkan Kecurangan Pajak Apple. *Tirto.Id*. <https://tirto.id/paradise-papers-mengungkapkan-kecurangan-pajak-apple-czUd>
- Noor, R., Fadzillah, N. S. M., & Mastuki, N. A. (2020). *Corporate Tax Planning: A Study On Corporate Effective Tax Rates of Malaysian Listed Companies*. *International Journal of Trade, Economics and Finance*.
- Oktavianie, R. (2021). Dampak Perubahan Tarif Pajak Badan Terhadap Tax Avoidance Di Indonesia. *Jurnal Fairness*, 9(1), 1-20. <https://doi.org/10.33369/fairness.v9i1.15218>
- Pitoko, R. A. (2016). Ikea Dituduh Hindari Pajak hingga Rp 14.900 Triliun. *Kompas.Com*.
- Pohan, E. S. (2018). Pengaruh Intellectual Capital Terhadap Kinerja Keuangan (Studi Empiris Pada Sektor Teknologi Informasi Dan Jasa). 6(2), 103-116. <https://doi.org/10.24964/ja.v6i2.643>
- Prayogo, K. H., & Darsono. (2015). Faktor-Faktor Yang Berpengaruh Terhadap Penghindaran Pajak Perusahaan. *Jurnal Ilmiah Kebidanan Indonesia*, 4(3), 1-12. <https://ejournal.undiksha.ac.id/index.php/S1ak/article/view/4389>
- Putri, S. E. (2016). Pengaruh Ukuran Perusahaan, Return on Asset (ROA), Leverage Dan Intensitas Modal Terhadap Tarif Pajak Efektif. *Jurnal Online Mahasiswa (JOM) Fakultas Ekonomi*, 3(1), 1506-1519.
- Rahmadani, Muda, I., & Abubakar, E. (2020). Pengaruh Ukuran Perusahaan, Profitabilitas, Leverage, dan Manajemen Laba terhadap Penghindaran Pajak Dimoderasi oleh Political Connection. *Jurnal Riset Akuntansi Dan Keuangan*, 8(2), 375-392.
- Santoso, Y. I. (2022). Tax Ratio 2021 Melonjak Hingga 9,11% PDB, Ini Catatan Kemenkeu. *DDTC News*.
- Sri Utaminingsih, N., Kurniasih, D., Pramono Sari, M., & Rahardian Ary Helmina, M. (2022). The role of internal control in the relationship of board gender diversity, audit committee, and independent commissioner on tax aggressiveness. *Cogent Business and Management*, 9(1). <https://doi.org/10.1080/23311975.2022.2122333>
- Stuebs, M., & Sun, L. (2015). Corporate governance and social responsibility. *International Journal of Law and Management*, 57(1), 38-52. <https://doi.org/10.1108/IJLMA-04-2014-0034>
- Suryowati, E. (2016). Terkuak, Modus Penghindaran Pajak Perusahaan Jasa Kesehatan Asal Singapura. *Kompas.Com*.
- Swingly, C., & Sukartha, I. M. (2015). Pengaruh Karakter Eksekutif, Komite Audit, Ukuran Perusahaan, Leverage, dan Sales Growth pada Tax Avoidance. *E-Jurnal Akuntansi Universitas Udayana*, 1, 47-62.
- Uchendu, O., Ironkwe, D. U. I., & Nwaiwu, D. J. . (2016). Corporate Governance Mechanism and Tax Planning in Nigeria. *International Journal of Advanced Academic Research | Social & Management Sciences |*, 2(9), 2488-9849.
- Waluyo, W. (2017). the Effect of Good Corporate Governance on Tax Avoidance: Empirical Study of the Indonesian Banking Company. *The Accounting Journal of Binaniaga*, 2(02), 1-10. <https://doi.org/10.33062/ajb.v2i02.92>