



The Effect of Corporate Governance on Tax Avoidance in Manufacturing Sector Companies on the IDX for the 2015-2019 Period

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ABSTRACT

Keywords:

Institutional Ownership,
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Tax Avoidance

Tax Avoidance is one of the tax planning strategies carried out by the company. The tax avoidance strategy is a way to reduce taxes that are legally recognized. In practice, tax avoidance is carried out based on the provisions of tax law. The purpose of this study was to determine the effect of Institutional Ownership, Independent Commissioner, Audit Committee, and Audit Quality on Tax Avoidance in the annual reports of Manufacturing Industry companies listed on the Indonesia Stock Exchange. The data used in this research is secondary data. To explain the effect of the independent variable on the dependent variable, the data obtained in this study were analyzed using panel data regression model analysis. The results of the study indicate that the independent variables jointly affect the dependent variable. However, individually, institutional ownership, independent commissioners, and audit quality have a significant positive effect on tax avoidance, while the audit committee has no significant effect on tax avoidance.

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1. Introduction

Based on secondary data from the Ministry of Finance of the Republic of Indonesia, the realization of tax revenues until the end of 2019 reached Rp. 1,173.89 trillion or 65.71% of the 2019 State Budget target of Rp. 1,786.38 trillion. This realization decreased by Rp. 1,160.19 trillion or 71.7% of the 2018 State Budget target of Rp. 1,618.1 trillion (www.kemenkeu.go.id). The realization of tax revenue is 70-75% of the target in the 2019 APBN, making the government aware of the potential for a fairly wide tax shortfall at the end of 2019, with an estimated tax shortfall of Rp150 trillion-Rp180 trillion. The estimated value of the 2019 tax shortfall is estimated to be much larger than 2018's Rp108.1 trillion. Based on the data that has been found, it can be said that the important role of taxes is not directly proportional to the realization of tax revenues. The realization of tax revenue has not yet reached the target. This is due to the high number of companies practicing tax avoidance. The decision to evade taxes is usually taken by the company's leadership. The tax management strategy chosen by the company is very important in the existing corporate governance and compensation structure. Managers and owners of companies have different interests to carry out tax measurements related to corporate governance. Corporate governance has a goal to create good corporate governance. In companies that have implemented Good Corporate Governance (GCG) there are parties who supervise and assist company management in making decisions. Companies listed on the Indonesia Stock Exchange (IDX) must implement good corporate governance so that they are successful in managing their taxes.

Seeing the problems above, the authors are interested in conducting research on what factors can influence companies in doing tax avoidance (tax avoidance). In carrying out good corporate governance, of course, there are several components that need to be studied, which are considered as elements in

the assessment of corporate governance. The components used as independent variables in this study include: institutional ownership, independent commissioners, audit committees, and audit quality (Sunarsih, 2016).

Institutional ownership is share ownership by other institutions, namely ownership by other companies or institutions (Abdelfattah and Aboud, 2020). The larger the portion of institutional ownership in the company, the more likely the company to do tax avoidance. This is because investors expect high profits to get large dividends and there is a motivation that prefers spending money on investment rather than spending money on paying taxes (Eskandar and Ebrahimi, 2020). An independent commissioner is an agency within the company which usually consists of an independent board of commissioners who come from outside the company whose function is to assess the company's performance broadly and as a whole (Tania and Mukhlisin, 2020). The existence of an independent commissioner in a company has the power to supervise and make decisions in the company, including those related to taxation activities to avoid tax evasion (Wiratmoko, 2018).

The audit committee is the party in charge of assisting the commissioners in order to improve the quality of financial reports and increase the effectiveness of internal and external audits (Mahrani, 2019). The audit committee in the company has the task of overseeing the performance and actions of management. The more the number of audit committees in the company, the tighter the supervision that will be carried out on management so as to make the company's management to be careful in doing tax avoidance so that the company is not exposed to cases of legal problems (Widuri et al., 2019). Audit quality is related to transparency. Transparency to investors can be achieved by reporting matters related to taxation on the capital market and the general meeting of shareholders (Amalia and Ferdiansyah, 2019). When the company is audited by a Public Accounting Firm, tax evasion will be difficult to carry out. The public accounting firm will maintain its reputation and the trust given by stakeholders. In addition, the sanctions imposed by the code of ethics for public accountants are a major consideration for auditors (Tandean and Winnie, 2016).

Based on the background of the problems, objectives, theoretical basis and literature reviews of previous research, the following framework is formulated:

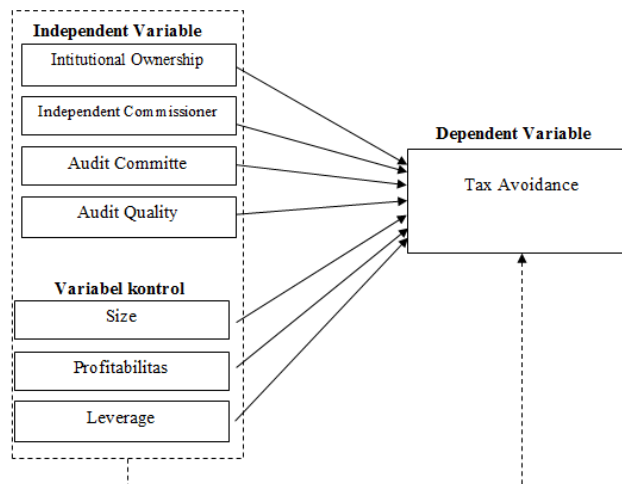


Figure 1. Research Model

2. Method

This research is causal by using a quantitative approach in analyzing one or more variables depending on other variables and the causal relationship between the variables explained by the hypothesis (Sekaran, 2011). The author conducted research on the effect of institutional ownership, independent commissioners, audit committees, and audit quality on tax avoidance. The population used in this study are manufacturing industrial companies listed on the Indonesia Stock Exchange from 2015

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to 2019. Manufacturing industry companies were chosen in this study because the level of profits obtained by companies in this industry is very large so that they have a large contribution in tax expenditures to the public. countries and are considered to be able to represent companies from other industries. Researchers used purposive sampling method to take research samples. This method uses judgment sampling as an assessment technique in which the sample is taken based on the criteria of a predetermined assessment (Jogiyanto, 2004). The test analysis used is multiple linear regression analysis. Multiple linear regression analysis is an analysis used to examine the relationship between corporate governance and tax avoidance in the annual reports of mining industry companies on the Indonesia Stock Exchange. When doing multiple linear regression analysis, the researcher must first test the classical assumption test. It aims to ensure that the regression model used does not cause problems of normality, multicollinearity, heteroscedasticity, and autocorrelation using Stata 14.2 software. If the classical assumption test meets the requirements, then the analytical model is feasible to use.

3. Result and Discussion

3.1 Classical Assumption Test Analysis

a. Normality Test

Normality test is a test that aims to test whether in the regression model used the independent variable and the dependent variable have a normal distribution or not (Suwardi, 2011). The normality test aims to test whether in the regression model, the dependent variable and the independent variable have a normal distribution or not. A good regression model has a normal or close to normal data distribution so as to avoid bias in data analysis. The normality test is carried out on the residual variable, where the residual is the difference between the predicted value and the actual observed value, if the data used is sample data. To test whether the distribution of the data is said to be normal or not, this study used the Kolmogorov Smirnov test and histogram test. This test was chosen because it can directly conclude whether the existing data is normally distributed.

b. Kolmogorov Smirnov Test

The Kolmogorov Smirnov test is a normality test that is widely used because the advantages of this test are that it is simple and does not cause differences in perception between one observer and another. The application in this test is if the significance is below 0.05, it means that there is a significant difference, which means the data is not normal, and if the significance is above 0.05, there is no significant difference, meaning the data is normal. The following are the results of the Kolmogorov Smirnov test:

Table 1

Kolmogorov Smirnov Test

Smaller group	D	P-value
res:	0.0590	0.152
Cumulative:	-0.0484	0.282
Combined K-S:	0.0590	0.304

From table 1, the results of the Kolmogorov Smirnov test have a significance value or p value of 0.152, which is greater than 0.05. Thus the data in this study is normally distributed

c. Histogram Test

The results obtained from testing the histogram graph, show that visually the distribution of data in the study. According to the graph above, it can be concluded that the two data spread to all curves close to normal. In the following histogram graph the curve forms a bell which means that the data is normally distributed, if the data is not normally distributed then the histogram graph will not form a bell (Suwardi, 2011).

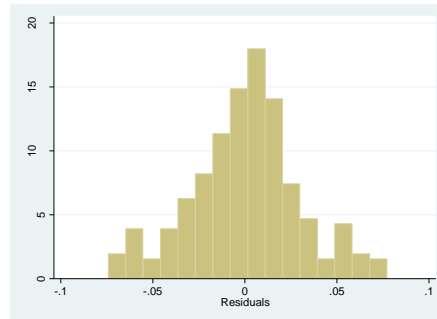


Figure 2. Histogram

In addition to using the Kolmogorov Smirnov test and histogram graph to determine the normal distribution, you can also use the Probability plot. In the probability plot, it can be seen from the spread of data around the diagonal line, where data that is normally distributed will spread around the line and follow the diagonal line. This can be seen from the results of the Probability plot test in this study which shows:

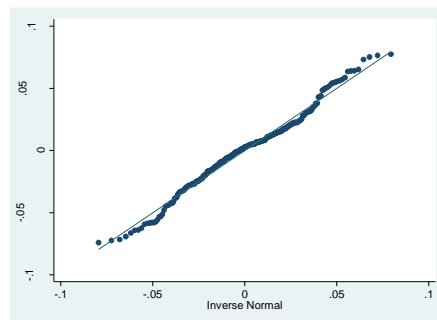


Figure 3. Grafik Probability Plot Financial Constraint

By looking at the graph above, it can be seen that the data are scattered around and follow a diagonal line which shows the same results as the Kolmogorov Smirnov test and the histogram graph, namely the data of this study has been normally distributed.

d. Multicollinearity Test

If $VIF < 10$ and $1/VIF > 0.1$, it can be said that the multiple linear regression model is free from symptoms of multicollinearity and vice versa if $VIF > 10$ and $1/VIF < 0.1$, it can be said that the multiple linear regression model has symptoms of multicollinearity (Suwardi, 2011). From the following data it can be concluded that the variables of institutional ownership (KEPIN), independent commissioners (KOMIN), audit committee (KOMITE), audit quality (AUDIT), firm size (SIZE), profitability (ROA), and leverage (DER) mean VIF value of $1.12 < 10$ and the value of $1/VIF$ is above 0.1, meaning that there is no multicollinearity between each independent variable.

Table. 2

VIF		
Variable	VIF	1/VIF
KEPIN	1.02	0.983089
KOMIN	1.07	0.931711
KOMITE	1.10	0.911044
AUDIT	1.21	0.824627
SIZE	1.11	0.902897
ROA	1.31	0.764534
DER	1.01	0.992140
Mean VIF	1.12	

e. Heterokedastisity Test

From the output table 3.3, the probability value of the variable denoted by Prob> chi2 is 0.9845, which is greater than 0.05, so it can be concluded that the equation from this study is free from

heteroscedasticity symptoms, so it can be concluded that the analysis carried out on the research variables is unbiased and can reflect the real situation.

Table 3
Heteroskedasticity Test

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity	
Ho: Constant variance	
Variables: fitted values of TA	
chi2(1)	0.00
Prob > chi2	0.9845

3.2 Panel Data Regression Model Analysis

a. Chow test

Based on the results of the chow test using STATA 14.2, obtained a probability of 0.0000, where this value $\leq 5\%$, H_0 is rejected or it can be said that the method used is the fixed effect method. Next, compare the fixed effect and random effect models with the Hausman test.

Table 4
Chow Test

F (66 , 196)	3.21
Prob > F	0.0000

b. Hausman Test

Based on the results of the Hausman test using STATA, a random cross section value of 0.1288 was obtained where this value $\geq 5\%$, then H_0 was accepted or the method used was the Random Effect method.

Table 5
Hausman Test

chi2 (7)	11.23
Prob > chisq	0.1288

c. Multiplier Test

Based on the results of the Multiplier Test using STATA 14.2, the Breusch-Pagan (BP) probability value is 0.0000 where this value is $\leq 5\%$, then H_0 is rejected or the method used is the Common Effect method.

Table 6
LM Test

chibar2(01)	33.52
Prob>chibar2	0,0000

d. Panel Regression Model

Linear regression analysis of panel data in this study used the Common Effect method. The selection of the Common Effect method as a panel data analysis method in previous studies was tested through the Chow test, Hausman test, and LM test first, so that in the end the Common Effect method was the most appropriate for testing panel data in this study. By using the STATA 14.2 program, the estimation results are obtained as in table 3.7 as follows:

Table 7
Panel Regression Model with Model Common Effect

Variabel	Koefisien	Standar Error	T	P>t
Constant	0.3059045	0.0224249	13.64	0.000
KEPIN	0.0114757	0.0044198	2.60	0.010
KOMIN	0.0395406	0.0194891	2.03	0.043
KOMITE	-0.0061947	0.0056886	-1.09	0.277
AUDIT	0.0104843	0.0040404	2.59	0.010
SIZE	-0.0049363	0.0013641	-3.62	0.000
ROA	-0.0474419	0.0213199	-2.23	0.027
DER	-0.0000105	0.0000732	-0.14	0.886

Based on the table, the regression equation can be formed as follows:

$$TA = 0.3059045 + 0.0114757KEPIN + 0.0395406KOMIN - 0.0061947KOMITE + 0.0104843AUDIT - 0.0049363SIZE - 0.0474419ROA - 0.0000105DER + e$$

The panel data regression equation can be explained by the constant value indicating if all independent variables are considered constant (zero), then the company's tax avoidance will be worth 0.3059045. Institutional ownership variable (KEPIN) is positive and has a coefficient value of 0.0114757, meaning that for every one unit increase in institutional ownership (KEPIN), tax avoidance will increase by 0.0114757 assuming other independent variables are fixed.

The independent commissioner variable (KOMIN) is positive and has a coefficient of 0.0395406, meaning that if the other independent variables have a fixed value and the independent commissioner (KOMIN) increases by one unit, then tax avoidance will increase by 0.0395406. The audit committee variable (KOMITE) is negative and has a coefficient of -0.0061947 meaning that if the audit committee variable (KOMITE) increases by one unit, then tax avoidance will decrease by -0.0061947 assuming other independent variables have a fixed value. Furthermore, the audit quality variable (AUDIT) has a positive value and has a coefficient of 0.0104843, meaning that if the other independent variables have a fixed value and audit quality (AUDIT) has increased by one unit, then tax avoidance will increase by 0.0104843.

The coefficient of the control variable firm size (SIZE) is negative, which is -0.0049363, meaning that if the firm size variable (SIZE) has increased by one unit, then tax avoidance will decrease by 0.0049363, assuming the other variables are fixed. The coefficient of profitability control variable (ROA) is negative, which is -0.0474419, meaning that for every increase in one unit of profitability (ROA), tax avoidance will decrease by -0.0474419, assuming other variables are fixed. The coefficient of the leverage control variable is negative, namely -0.0000105, meaning that if the leverage (DER) increases by one unit, then tax avoidance will decrease by -0.0000105, assuming the other variables are fixed.

e. Determination Test (R^2)

Based on the test results of the common effect model, the R-Squared result is 0.1197. independent variables include institutional ownership, independent commissioners, audit committees, and audit quality and control variables consisting of firm size, profitability, and leverage are able to explain the dependent variable (tax avoidance) of 11.97% while the remaining 88.03% is explained by other variables outside the model.

Table 8

Determination Test R2

Number of obs	270
F(7, 262)	5.09
Prob > F	0,0000
R-squared	0,1197
Adj R-squared	0,0962
Root MSE	0.03008

f. Simultaneous Significance Test (F Test)

In the results of the table above, the calculated F value is 5.09 with a probability value of 0.00000 < 0.05, meaning that it includes institutional ownership, independent commissioners, audit committees, and audit quality as well as control variables of firm size, profitability, and leverage have a simultaneous effect on tax avoidance.

Table 9

Simultaneous Significance Test (F Test)

Number of obs	270
F(7, 262)	5.09
Prob > F	0,0000
R-squared	0,1197
Adj R-squared	0,0962
Root MSE	0.03008

g. Partial Significance Test (T Test)

Based on the above equation, it can be seen that the constant value indicates that if all independent variables are considered constant (zero), then the company's tax avoidance will be worth 0.3059045. This constant illustrates that due to the influence of independent variables, companies tend to practice tax avoidance from a company and it is difficult to implement policies to avoid tax avoidance.

Table 3.10 shows that the institutional ownership variable has a significance level of $0.010 < 0.05$. then the decision is H_0 is rejected and H_1 is accepted. So it can be concluded that institutional ownership has a significant effect on the tax avoidance of manufacturing sector companies on the Indonesia Stock Exchange for the 2015-2019 period. The independent commissioner variable has a significance level of $0.043 < 0.05$. then the decision is H_0 is rejected and H_2 is accepted. So it can be concluded that the independent commissioner has a significant effect on the tax avoidance of manufacturing sector companies on the Indonesia Stock Exchange for the 2015-2019 period.

Based on the results of the third hypothesis testing, the probability value of the audit committee variable is $0.277 > 0.05$. This indicates that the audit committee has no significant effect on the tax avoidance of manufacturing companies on the Indonesia Stock Exchange for the 2015-2019 period, so it can be said that H_0 is accepted and H_3 is rejected. Furthermore, the audit quality variable has a significance level of $0.010 < 0.05$. then the decision is H_0 is rejected and H_4 is accepted. So it can be concluded that audit quality has a significant effect on tax avoidance of manufacturing sector companies on the Indonesia Stock Exchange for the 2015-2019 period.

Hypothesis testing of the control variables of firm size, profitability, and leverage. In the table, the probability value is $0.000 < 0.05$ for the firm size variable, the probability value for the profitability variable is $0.027 < 0.05$. This indicates that firm size and profitability have a significant effect on the tax avoidance of manufacturing companies on the Indonesia Stock Exchange for the 2015-2019 period. Furthermore, the probability value of the leverage variable is $0.886 > 0.05$, which means that leverage has no significant effect on the tax avoidance of manufacturing companies on the Indonesia Stock Exchange for the 2015-2019 period.

Table 10
Panel Regression Model with Model Common Effect

Variabel	Koefisien	P-Value	Keterangan
Constant	0.3059045	0.000	
KEPIN	0.0114757	0.010	significant
KOMIN	0.0395406	0.043	significant
KOMITE	-0.0061947	0.277	insignificant
AUDIT	0.0104843	0.010	significant
SIZE	-0.0049363	0.000	significant
ROA	-0.0474419	0.027	significant
DER	-0.0000105	0.886	insignificant

3.3 Discussions

The probability value for institutional ownership of 0.010 is smaller than the significance level of 0.05, and has a coefficient (β) of 0.0114757. So it can be said that in manufacturing companies, institutional ownership has a positive and significant influence on tax avoidance. Thus, the results of this study accept hypothesis one (H_1). High institutional ownership in the company will make managers have to obey orders from the owner of the company, so as to minimize the company's practice of tax avoidance. The higher the composition of institutional ownership, the more effective the mechanism for implementing corporate governance will result in tax avoidance being minimized and management paying taxes according to the profits earned.

The results of panel data regression testing show that the independent commissioner variable has a coefficient (β) of 0.0395406 and a significance value of 0.043, this indicates that the independent commissioner variable has a positive and significant effect on tax avoidance. This means that the more independent commissioners, the greater the tax paid by the company. Thus, the results of this study accept hypothesis two (H_2). This is because the existence of an independent commissioner in a company has the power to supervise and make decisions in the company, including those related to taxation activities. This result is in accordance with agency theory where agency conflict occurs in companies

where shareholders want high corporate profits because they want large dividends, but for companies this large profit will make the tax to be paid large. With this situation, companies will look for ways to take tax avoidance measures so that corporate taxes are low. The existence of independent commissioners as an indicator of good corporate governance has succeeded in having a good impact because it increases the company's ETR value.

The results of the regression test show that the audit committee has a coefficient (β) of -0.0061947 and a significant value of 0.277, this means that the audit committee variable has a negative and insignificant effect on tax avoidance. This is because the existence of an audit committee whose function is to improve the integrity and credibility of financial reporting cannot run properly if there is no support from all elements from within the company. Based on these results, it is indicated that the audit committee in its implementation is not supported by other elements within the company, thus causing the audit committee to fail to carry out proper supervision. Thus, the large number of audit committees in the company does not provide a guarantee that the company will not do tax evasion. Because the task of the audit committee is only to assist the independent board of commissioners to ensure that the financial statements are presented fairly according to accounting principles, the rest of the decision rests with the owner of the company or the top management of the company, not by the audit committee.

The results of the regression test show that audit quality has a coefficient (β) of 0.0104843 and a significant value of 0.010, this means that the audit quality variable has a positive and significant effect on tax avoidance. Big 4 Public Accounting Firms are able to examine the company's financial statements in as much detail as possible so that the company will pay taxes according to the profits generated and make tax avoidance activities difficult to carry out. When the company is audited by a Public Accounting Firm, tax evasion will be difficult to carry out. This is because the public accounting firm will maintain its reputation and the trust given by stakeholders. In addition, the sanctions imposed by the code of ethics for public accountants are a major consideration for auditors (Waluyo, 2017). Because KAP Big 4 maintains the quality of its audits, the quality of the audited financial reports will be maintained and can be detected if there are irregularities so as to avoid tax evasion. If the value of audit quality is greater, it will lead to more optimal tax payments so that tax avoidance can be minimized (Pratama, 2017).

4. Conclusions

Based on the results of research conducted on manufacturing companies and the analysis supported by the underlying theories, as well as the results of the discussion in previous chapters, the researchers draw the following conclusions: Testing the first hypothesis found that institutional ownership partially has a positive and significant effect on tax avoidance. It can be seen that high institutional ownership can affect companies in making tax payments so that tax evasion activities can be avoided. The second hypothesis is found that the independent commissioner has a positive and significant effect on tax avoidance. This shows that the company's independent board of commissioners has a role in supervising the actions of company managers in making decisions so that tax avoidance actions can be minimized. The results of testing the third hypothesis found that the audit committee partially has no significant effect on tax avoidance. This is because the task of the audit committee is only to assist the independent board of commissioners to ensure that the financial statements are presented fairly with accounting principles, the rest of the decisions rest with the owner of the company or the top management of the company, not by the audit committee. The results of testing the fourth hypothesis found that audit quality partially has a positive and significant effect on tax avoidance. This shows that when the company is audited by a Public Accounting Firm, tax evasion will be difficult to do. Public accounting firms will maintain their reputation and the trust given by stakeholders so that tax avoidance activities can be avoided. Furthermore, for testing with control variables, firm size and profitability partially have a negative and significant effect on tax avoidance, while leverage partially has no significant effect on tax avoidance.

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