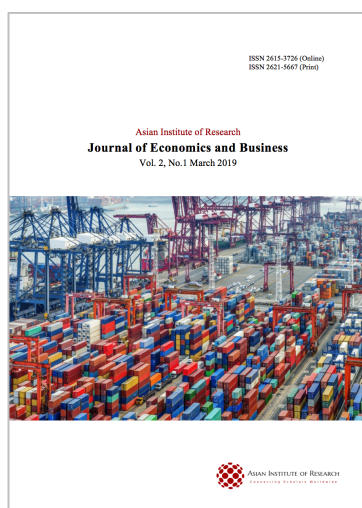




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The Effect of Good Corporate Governance on Tax Avoidance of Listed Companies in Indonesian Stock Exchange in 2015-2017

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Abstract

The purpose of this research was to find out the effect of mechanism good corporate governance on tax avoidance. The mechanism of good corporate governance was proxied in executive compensation, executive character, company size, institutional ownership, the proportion of board of commissioners, audit committee and audit quality. The sample in this study were 238 companies listed on the Indonesia Stock Exchange and obtained 714 research data. In this study, tax avoidance was measured by using the current effective tax rate (CETR). The results of this study concluded that executive compensation, executive character, institutional ownership, audit committee, and audit quality had an effect on tax avoidance. In addition, the size of the company and independent board of commissioners didn't affect on tax avoidance.

Keywords: Good Corporate Governance, Tax Avoidance, CETR

1. Introduction

Indonesia is a developing country that is advancing the country's growth and development to improve people's welfare. The biggest income source for Indonesia is tax. Tax is a mandatory contribution to the state owed by an individual or a coercive institution under the Law, by not getting direct feedback and used for state needs and society prosperity (Law Number 28 in 2007). This understanding provides an understanding that tax has a forceful nature so that it can provide a burden to the guarantor. One of the main obstacles in tax revenue is tax avoidance. Tax avoidance is an activity or action that can have an impact on taxpayers, both activities that can be allowed by taxes or certain activities to be able to reduce taxes (Dyren, 2008). In addition, tax avoidance is also a legal strategy or technique and safe for taxpayers because it does not conflict with the provisions of tax law (Pohan, 2015).

The company wants a large profit by minimizing the expenses incurred, especially tax expense. Companies assume that paid taxes are one of big enough burden for companies, so companies must take action in the form of a strategy or effort to minimize tax payments. One way to reduce the tax is by implementing tax avoidance. Therefore, in some accounting literature are stated that tax avoidance cannot be eliminated from the business world, but it can be minimized or monitored in order that companies do not carry out tax avoidance. To minimize tax avoidance it needs the existence of good corporate governance.

Winarsihet al (2014) defines that good corporate governance as a structure, system, and process used by corporate organs as an effort to provide sustainable value added for the company in the long term by watching out the interests of norms that based on other stakeholder, ethics, culture, and rules. The role of corporate governance as

a management mechanism in paying taxes, so companies that implement corporate governance are expected to have good corporate performance. By implementing corporate governance, corporate can also reduce the existence of different interests between shareholders and company managers which is called with agency theory.

Therefore, based on the explanation above, research on the effect of good corporate governance on tax avoidance, especially in Indonesia, needs to be studied further and deeply. This study used the variable of executive compensation, executive characteristics, company size, institutional ownership, the proportion of independent commissioners, audit committees and audit quality. In addition, this study also used a population of companies listed on the Indonesia Stock Exchange in period 2015-2017.

2. Hypothesis

1. Effects of Executive Compensation on Tax Avoidance

Company owners provide high compensation with the aim that management is motivated in increasing productivity to achieve a high level of performance. In addition, giving compensation is also one of the ways which are implemented by the owner of the company to overcome agency conflicts that often occur within the company caused by information asymmetry. Prihatiningtyas (2012), revealed that the interests of company owners and management could be harmonized by providing compensation to one or more measures of performance achievement in the company.

H₁: Executive compensation affects tax avoidance

2. Effect of Executive Character on Tax Avoidance

Companies, where want to implement tax avoidance, must require a decision from the heads of companies. In making decisions leaders have different characters. The leadership character can be divided into a risk taker and risk-averse. Leaders who have risk taker nature will make cash ETR getting lower, thus spurring companies to carry out tax avoidance. Budiman and Setiyono's (2012) research proved that a risk taker executive would have higher tax avoidance as indicated by a declining CETR. Large risk level indicated that the leaders of companies who have risk taker nature would be more willing to take risks. Conversely, if the level of risk is small, it will indicate that the leader is more risk-averse nature, which is more likely to avoid risk. Based on the explanation above, a hypothesis could be drawn:

H₂: Executive characters have an influence on tax avoidance

3. Effect of Company Size on Tax Avoidance

Basically, large companies tend to have greater profits than smaller companies. Large profits will also have a large tax burden. Therefore, large companies are trying more to minimize the tax costs paid every year. Large companies will have more transaction complexes so that companies will increasingly take advantage of loopholes to carry out tax avoidance actions (Rego, 2003). Then the hypothesis can be concluded as follows:

H₃: Company size affects tax avoidance

4. Effects of Institutional Ownership on Tax Avoidance

Institutional ownership has functioned as a management policy supervisor so that institutional ownership plays a role in monitoring the policies taken by managers in making such decisions. That decision will give effectiveness to the company. Companies that have high institutional ownership will be more aggressive in tax reporting. The higher institutional ownership, the implementation of corporate governance will be more effective, and the system in tax avoidance will be carried out according to planning (Fadhilah, 2014). Based on the explanation above, a hypothesis can be concluded as follows:

H₄: Institutional ownership has an influence on tax avoidance

5. Effect of Independent Commissioner Proportion on Tax Avoidance

Raharjo and Daljono (2014) explained that the proportion of large independent commissioners in the structure of the board of commissioners will provide better supervision and can limit opportunities for fraud by management. Hanum and Zulaikha (2013) in their study stated that there was a positive relationship between independent commissioners and Effective Tax Rates (ETR) by showing that the supervision carried out by independent

commissioners was carried out, so that information asymmetry didn't occur between company management and stakeholders. If the percentage of independent commissioners was above 30% then this was an indicator that the implementation of corporate governance (CG) had been going well so that it could control and control the desire of the company management to make tax savings, and reduce agency costs so that the practice of tax avoidance decreases (Annisa and Kurniasih, 2012). In Prakosa's (2014) study, which said that independent commissioners could have a negative influence because if independent commissioners experienced an increase, tax avoidance activities would decline so that an increase in the proportion of independent commissioners could prevent the occurrence of tax avoidance activities. Based on the explanation above, a hypothesis can be concluded as follows:
H₅: Proportion of independent commissioners has an influence on tax avoidance

6. Effect of the Audit Committee on Tax Avoidance

The audit committee is a committee that is responsible for overseeing the company's external audit and is the main contact between the auditor and the company. The audit committee is an important component that must exist in the structure of corporate governance in public companies. Therefore, Indonesia Stock Exchange obliges every issuer to form and have an audit committee known by independent commissioners. Fadhillah (2014) found that audit committees influenced on tax avoidance. The reason that the audit committee had an effect on tax avoidance was first, if the audit committee owned by the company was a little, it would increase the opportunity for management to carry out tax avoidance. Likewise, if the number of audit committees was large, then, of course, the supervision carried out was getting tougher, so management did not have the opportunity to take tax avoidance measures. Therefore the proper hypothesis based on the explanation is:

H₆: Audit committee has effects on tax avoidance

7. Effect of Audit Quality on Tax Avoidance

An audit is the activity of collecting and examining information in the form of financial statements that can be used to prove whether the information is in accordance with the set criteria or not so that later there will be no errors in auditing. Audits are usually carried out by public accountants to assess how fair financial statements are made by companies with accounting principles. Public companies increasingly demand every company for transparency, because transparency is the disclosure of financial statements as they are without any manipulation of information. Good audit quality can minimize the practice of tax avoidance (Dewi dan Jati, 2014).

The audited companies by KAP were proven not to do tax avoidance, because auditors included in the Big Four were more competent and professional compared to auditors included in Non The Big Four, so the Big Four had more knowledge about how to detect and manipulate financial reports what might be done by the company (Asfiyati, 2012). Based on the explanation above, a hypothesis can be concluded as follows:

H₇: Audit quality has an effect on tax avoidance

2. Method

2.1 Identify Subsections

This study used a quantitative approach using a ratio scale. Quantitative data was a type of data that could be measured directly as a variable number or number to produce a conclusion. This type of research used secondary data obtained from the Indonesia Stock Exchange (IDX), through *website* www.idx.co.id. The source of the data obtained was the financial statements of listed companies in Indonesia Stock Exchange. In addition to getting more accurate and complete data, data was also taken from www.sahamok.com.

2.2 Participant (Subject) Characteristics

The population used in this study were listed companies on Indonesia Stock Exchange (IDX) for period 2015-2017. The main reason for using companies that were listed on the Stock Exchange in addition to accurate data but also to determine the level of tax avoidance in these companies.

2.3 Sampling Procedures

Sampling in this study used judgment sampling method, namely by obtaining a representative sample based on certain criteria. The criteria considered in the selection of samples in this study were as follows:

- a. All companies that had been listed on Indonesia Stock Exchange (IDX) in 2015-2017

- b. These companies published financial statements in full from the year 2015-2017
- c. The company had needed data in this study, namely, compensation costs (salary, allowances, and bonuses), a total of assets, the proportion of shares held by the institution, number of shares issued, number of board of commissioners, and KAP / company that audits the company's information.
- d. The company had an audit committee and independent commissioner in 2015-2017.
- e. The company in its financial statements used Rupiah.
- f. The company had profits before and after positive tax in 2015-2017.
- g. The company had a current ETR above 0

2.3.1 Sample Size, Power, and Precision

Determination of population came from listed companies on all sectors on Indonesia Stock Exchange. This study used purposive sampling. Listed companies on Indonesia Stock Exchange in 2015-2017 amounted to 238 companies which were used as research data properly and obtained 714 research data.

Table 2.3 Sample Determination Results

Sample Criteria	Total	Unit
All listed companies on the Indonesia Stock Exchange in 2015-2017	527	Company
Newly registered company over the year 2015	(79)	Company
Companies that didn't have complete variables for research	(134)	Company
Companies that had profit after tax and as well as for experiencing loss before tax	(86)	Company
The amount of used data as the object of research	(238/ 714)	Company / Data

Source: Research Data

2.3.2 Measures and Covariates

The method of data collection in this study was the documentation method. Data collection began with the level of conducting library studies. Next, collecting all the needed data to answer the research problems.

2.3.3 Research Design

This study used data analysis performed with classic assumption test, multiple determination coefficient analysis, simple regression analysis, multiple linear regression analysis, and hypothesis testing.

2.3.4 Experimental Manipulations or Interventions

The analysis model used in this study uses a research model that is in the study of Vivian and Winnie (2016). This analysis model used independent corporate governance variables with seven measurement tools and dependent variable tax avoidance

The analysis model formulation was as follows:

$$\text{ETR} = b_0 + b_1\text{KOMP} + b_2\text{RES} + b_3\text{SIZE} + b_4\text{INST} + b_5\text{INDP} + b_6\text{KOM} + b_7\text{KA} + \varepsilon$$

Where :

- ETR = Current ETR
- b_0 = Constant
- $b_{1,2,3,4}$ = Koefisien
- KOMP = Executive Compensation (X_1)
- RES = Risk (X_2)
- SIZE = Size (X_3)
- INST = Institutional Ownership (X_4)
- INDP = Proportion of Independent Board of Commissioners (X_5)
- KOM = Audit Committee (X_6)
- KA = Audit Quality (X_7)
- ε = Residual error domain analysis and taxonomy analysis

3. Results

Simultaneous tests were used to determine the compatibility of linear regression models between the dependent variables namely tax avoidance, executive variable independent compensation, executive character, company size, institutional ownership, independent board of commissioners, audit committee and audit quality. The results of the F test were as follows:

Table 1. Table of F Test
ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	8,180	7	1,169	3,538	,001 ^b
Residual	233,228	706	,330		
Total	241,408	713			

Source: Authorized Results Based on SPSS Output

Authorized Results Based on SPS Output The used regression model showed a significance value of F test was smaller than 5% ($P < 0.05$). The regression model was declared feasible to be used to test the hypothesis because it had a significance of less than 0.05. When a regression model was feasible to use, determination coefficient value (R^2) could be believed.

The significance of the effect in the results of research in a test could be determined by looking at the significance of T test, if T test was smaller or equal to 0.05, it could be concluded that the independent variables and control variables partially tested had a significant effect on tax avoidance. The results of the significance of the T test were greater than 0.05, and the independent variables partially didn't significantly influence tax avoidance.

Table 2. Table of the significance of T Test

Model	t	Sig.	Explanation
(Constant)	-1,441	,150	Constanta
1 KEKS_X1	-1,980	,048	Effect
KREKS_X2	2,008	,045	Effect
UK_X3	,998	,318	Not Effect
1 KPINS_X4	2,088	,037	Effect
DKI_X5	-,098	,922	Not Effect
KAD_X6	-1,970	,049	Effect
KLAD_X7	-2,055	,040	Effect

Source: Authorized Results Based on SPSS Output

Executive compensation on the results of the T test showed a significance level less than 0.05, and this proved that executive compensation affected tax avoidance so that H1 was accepted. So it could be said that by giving large compensation to management would minimize management for doing tax avoidance.

The executive character of the T test results showed a significance level less than 0.05, and this proved true if the increase of executive character would increase tax avoidance. In accordance with the results obtained, H2 was accepted. Based on the results of data that had been processed, the more an executive dares to take risks in making decisions so that leaders would tend to do tax avoidance,

The size of the company on the results of the T test showed a significance level of more than 0.05, and this proved true if the increase of company size didn't affect tax avoidance. In accordance with the results of the tested data, H3 was rejected. The size of large and small companies didn't affect tax avoidance. Large companies would maintain their reputation and reputation by providing relevant information, having effective risk management and having a strong internal control system and conducting social activities to get a good name for the company. While small companies couldn't manage the tax burden maximally because experts in the field of taxation tend to be minimal.

Institutional ownership of the results of the T test showed a significance level less than 0.05, and this indicated true if increasing institutional ownership will increase tax avoidance. Based on the results tested, H4 was accepted. Because the bigger the shares owned by an institution it would encourage increased supervision more optimally so that it could avoid actions that could harm shareholders or other actions such as tax avoidance.

The proportion of the board of commissioners on the results of the T test showed a significance level more than 0.05, indicating that H5 was rejected. This was because if the percentage of independent commissioners was above 30%, this was an indicator that the implementation of corporate governance (CG) had been running well so that it could control and controlled the desire of the company management to make tax savings, and reduce agency costs. (Annisa and Kurniasih, 2012). Prakorsa Research (2014) which said that independent commissioners could have a negative effect because if independent commissioners experience an increase, tax avoidance activities will decline so that an increase in the proportion of independent commissioners could prevent tax avoidance activities. Therefore, the proportion or absence of an independent board of commissioners didn't affect tax avoidance.

The audit committee on the results of the T test shows a significance level less than 0.05, and according to H6 was accepted. If the number of members of the audit committee in a company was small, the company would increase the opportunity for management to carry out tax avoidance. In contrast, if the company had a large number of committee members, the supervision carried out on management was increasingly stringent and reduced tax avoidance. It could be concluded that the audit committee affected tax avoidance in the company.

The quality of the audit on the results of the T test showed a significance level of less than 0.05, and H7 received. Companies whose financial reports were audited by the Big Four KAP would be more independent because they could withstand the pressure of managers and had a lower fraud rate compared to companies whose financial reports were audited by Non The Big Four Public Accountants.

4. Conclusions

The main objective of this study examined the effect of good corporate governance on tax avoidance by using seven indicators. Good corporate governance should provide supervision of the company not to do tax avoidance. But according to the results of this study that there were two variables that had no effect on tax avoidance. These variables included company size and the proportion of independent commissioners.

In general of the study, it was concluded that executive compensation, the executive character had a positive impact on tax avoidance. The higher the compensation and executive character, the higher the chance for tax avoidance. While the audit quality if audited by the Big Four, tax avoidance also decreased. For audit committees, if the number of audit committee members was high, tax avoidance falld due to strict supervision toward management. Limitations in this study were found in the selection of variables that not all companies had the seven variables used in this study. This could be seen from the sample obtained from 527 samples contained in the Indonesia Stock Exchange only 238 companies per year that could be used in this study. On the basis of these limitations, further research was suggested to use different variables from this study so that it could show more accurate and varied results from this study. In addition, further researchers could also use different methods of calculation from this study.

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