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The effect of good corporate governance on tax avoidance

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Abstract

This study aims to determine the effect of corporate governance on tax avoidance of property companies listed on the Indonesia Stock Exchange. This research is a quantitative descriptive study. The population in this study was obtained from the Indonesia Stock Exchange website www.IDX .go.id, amounting to 48 sted companies, the type of data used in this study is secondary data. The data collection technique used in this research is documentation. Data analysis in this study includes multiple linear regression analysis, t-test, and the coefficient of determination. The results showed that: The variable of institutional ownership, the number of commissioners, and the percentage of independent commissioners did not have a significant effect on tax avoidance, with a negative coefficient, and the variable number of audit committees had no significant effect on tax avoidance, with a positive coefficient.

Keywords: Corporate governance; tax avoidance

INTRODUCTION

Indonesia's state revenues are primarily tax-derived. According to data from the Ministry of Finance for August 2020 was 82.5%. However, the level of public awareness in paying taxes is still far from expectations. Indonesia's tax ratio was only 11.5% of total economic activity. This indicates that most companies or individuals still have tax avoidance behavior.

Tax avoidance is an effort carried out legally and parked for taxpayers because it does not conflict with taxation provisions, where the methods and techniques used tend to exploit the weaknesses (gray areas) contained in the tax laws and regulations themselves to reduce the amount of taxes owed (Pohan, 2013). Even though it does not violate any criminal rules, because the company transacts properly, correctly, accompanied by accurate evidence, and does not violate the rules, this results in the state not obtaining the maximum tax.

With the implementation of a good corporate governance system, it is expected that the company can comply with its tax obligations. Companies' that have a good corporate

governance mechanism will be directly proportional to the company's company in fulfilling its tax obligations (Sartori, 2010).

Good corporate governance according to the Regulation of the Minister of SOEs Number PER-01/MBU/2011 article 3 is implemented with five main principles, namely transparency, accountability, responsibility, independence, and fairness. Both good and poor corporate governance is reflected in institutional ownership, the proportion of independent boards of commissioners, audit committees, and audit quality (Desai & Dharmapala, 2007).

Good governance indicators include institutional ownership, board of commissioners, audit committees, and audit quality. Institutional ownership is the percentage of shares owned by the institutions and block holder ownership. The higher the institutional ownership, it is expected to be able to create better control. The institutional shareholder mechanism in corporate governance functions as an impediment to tax avoidance behavior decisions. Independent Commissioners are members of the Board of Commissioners who come from outside the Issuer or Public Company and meet the requirements. With the existence of independent commissioners within the company, it is expected to minimize fraud that may occur from tax reporting reported by the company management. An independent board of commissioners with a large percentage in the board of commissioners structure will provide strict supervision to minimize the opportunity to commit fraud from the company's management (Raharo and Dalono, 2014). The audit committee within the company is responsible and open in presenting financial reports because the audit committee will monitor all activities that take place within the company so that it is expected that tax avoidance behavior will decrease. Based on the explanation above, the author researched the effect of good corporate governance on tax avoidance behavior in companies listed on the IDX in 2016-2019.

Literature review

Research on the effect of good corporate governance on tax avoidance has been conducted by several previous researchers, including Fear Dwiki Setyawan. 2018, states that (1) The proportion of independent commissioners has a significant effect on tax avoidance behavior with a positive coefficient, and (2) Profitability has a significant effect on tax avoidance behavior with a negative coefficient value. (3) There is no difference in tax avoidance behavior between before and after the application of tax amnesty; (4) There is no difference in tax avoidance behavior between the sample companies that follow the tax amnesty between

before and after the application of the tax amnesty; (5) There is no difference in tax avoidance behavior between sample companies that do not follow the tax amnesty between before and after the application of tax amnesty.

Another research conducted by (Maharani and Suardana, 2014) stated that institutional ownership, the proportion of independent commissioners, and the audit committee harm tax avoidance behavior. Research by (Waluyo, 2017) stated that the proportion of independent boards of

commissioners harms tax avoidance, while the audit committee, audit quality, and company size have a positive effect on tax avoidance, and institutional ownership has no effect on tax avoidance.

METHOD

This research is a descriptive quantitative study. This research uses quantitative data in the form of financial statements of property companies listed on the IDX in 2017-2019. Secondary data of research in the form of audited financial reports by independent auditors has been obtained through the IDX website at IDX.co.id. The data collection technique used in this research is documentation. Data analysis in this research includes multiple linear regression analysis, f test, t-test, and the coefficient of determination.

RESULTS AND DISCUSSION

Description of the research object

The sample in this study was selected using the purposive sampling method. The results of sampling are as follows:

Table 1. Sample table

Description	Total
Companies have completed financial reports from 2016-2019.	48
Companies with complete data or companies in question carry out economic activities with the information required in this study, namely information on institutional ownership, number of boards of commissioners, percentage of independent commissioners, and number of audit committees.	27
Companies have a positive profit value so as not to distort the Cash Effective Tax Rate (CETR) value	25
Number of samples (2016 -2019) 25 x 4	100

Based on the table above, it can be seen that the number of samples in this study is as much as 4 years of data from 25 companies.

Descriptive analysis

Descriptive analysis is used to determine the value distribution of each variable in property companies listed on the IDX. The measurements used in this study are the average values, minimum values, maximum values, values, and standard deviations. The results of the descriptive statistical analysis in this study can be seen in the following table:

Table 2. Statistics table

Descriptive statistics

N		Minimum	Maximum	Mean	Std. Deviation
Institutional Ownership	100	11.36	99.99	59.6791	17.91810
Number Of Board Of Commisioners	100	2	11	4.36	1.801
Percentage Independent Commisioners	100	16.67	66.67	38.8093	9.15337
Total Audit Committees	100	2	4	2.97	.223
Tax Avoidance	100	.002	.970	.07774	.138195
Vad N (stwise)	100				

Classical assumption test normality test

This test aims to determine whether the variables to be tested are normally distributed or not. Based on the results of calculations using SPSS, the results of the normality test can be seen in the following table:

Table 3. Normality test result

Institutio Nal Ownership		Number Of Board Of Commissioners	Percentage Independent Commissioner	Total Audit Committees	Tax Avoidance
N	100	100	100	100	100
Test Statistic	.298	.215	.215	.514	.292
Asymp. Sig. (2tailed)	.059c	.060c	.200c	.090c	.978c

Based on the table above, the variable institutional ownership, the number of commissioners, percentage of independent commissioners, audit committee, and CETR are normally distributed as indicated by the significance value > 0.05.

Multicollinearity test

This test aims to determine whether there is a correlation between the independent variables (free). The multicollinearity test results in this study are:

Table 4. Multicollinearity Test Result

Model	Collinearity Statistics	
	Tolerance	V1J
Institutional Ownership	.978	1.023
Number Of Board Of Commisioners	.977	1.023
Percentage Independent Commisioners	.967	1.034
Total Audit Committees	.961	1.041

Based on the results of the SPSS calculation above, it can be seen that all independent variables do not show multicollinearity, so the data can be used for multiple linear regression tests.

Heteroscedasticity test

The heteroscedasticity test aims to test the regression model whether variance and residual inequality occur from one observation to another, if the observations of each other are different then called heteroscedasticities. The results of the calculation are shown in the following table:

Table 5. Heteroscedasticity Test Result
Coefficients

Model		tfl	Sig.
1	(Constant)	.070	.944
	Institutional Ownership	-.643	.522
	Number of Board of Commisioners	-1.008	.316
	Percentage Independent Commisioners	-.828	.410
	Total Audit Committees	.991	.324

Based on the results of the calculations in the table above, it can be seen that all variables have a significance > 0.05, it can be concluded that heteroscedasticity doesn't occur that the data can be used for multiple linear regression calculations.

Autocorrelation test

To find out whether the regression model is detected or not autocorrelation, one way is to do the Durbin-Watson test (DW Test). The results of autocorrelation testing using the Durbin-Watson test are as follows:

Table 6. Autocorrelation test result

Model		Square	Adjusted Square	Std. An error of the Estimate	Durbin Watson
1	.244a	.060	.020	.136808	2.070

Based on the number of samples and k, the value of du = 1.7582 and dl = 1.5922 are obtained. Table 6 shows the autocorrelation test using the Durbin Watson test, which is a DW value of 2.070. These results indicate that du < do < 4-du, 1.7582 < 2.070 < 2.2418. Thus, as the basis for decision-

making in the Durbin Watson test, it can be concluded that there are no problems or symptoms of autocorrelation.

Hypothesis test

Multiple near regression test

The regression equation can be arranged based on the coefficient value which can be seen in the following table:

Table 7. Multiple near regression test result

Coefficients

Model B			Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.063	.198		.316	.753
	Institutional Ownership	-.001	.001	-.181	-1.804	.074
	Number of Board of Commisioners	-.007	.008	-.093	-.923	.359
	Percentage Independent Commisioners	-.002	.002	-.103	-1.023	.309
	Total Audit Committees	.064	.103	.103	1.018	.311

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

$$Y = .063 - .001X1 - .007X2 - 002X3 + .064X4 + \varepsilon$$

Constants of 0.063; meaning that if the variables of institutional ownership (X1), the number of commissioners (X2), the percentage of an independent board of commissioners (X3), and the number of audit committees (X4) are constant values, then the tax avoidance (Y) value is 0.063. The regression coefficient of the institutional ownership variable (X1) is -0.001; this means that if other free variables have a fixed value and institutional ownership increases by 1%, then tax avoidance (Y) will decrease by 0.001. The variable regression coefficient of the number of commissioners (X2) is -0.007; this means that other free variables are fixed in value and the number of commissioners increases by 1%, then tax avoidance (Y) will decrease by 0.007. The variable regression coefficient of the independent board of commissioners (X3) is -0.002; this means that other free variables are fixed in value and the percentage of independent commissioners increases by 1%, then tax avoidance (Y) will decrease by 0.002. The variable regression coefficient of audit committee number (X4) of 0.064; meaning that if other free variables are fixed in value and the number of audit committees increases by 1%, then tax avoidance (Y) will increase by 0.064.

T-Test

Based on table 7, it can be conducted that the hypothesis test results are:

Institutional ownership

Obtained the t value of -1.804 and the regression coefficient (β) -0.001 with probability (p) = 0.074. The analysis results show that the probability value (p) ≥ 0.05, it can be concluded that institutional ownership does not have a significant effect on tax avoidance.

Number of the board of commissioners

Obtained t value of -0. 923 and regression coefficient (β) -0.007 with probability (p) = 0.359. The results of the analysis show that the probability value (p) ≥ 0.05, it can be concluded that the number of commissioners does not have a significant effect on tax avoidance.

Percentage independent commissioners

Obtained the value of t count of -1.023 and the regression coefficient (β) -0.027 with probability (p) = 0.309. The results of the analysis show that the probability value (p) ≥ 0.05, it can be concluded that the percentage of independent commissioners does not have a significant effect on tax avoidance.

Total audit committee

Obtained t value is 1.018 and regression coefficient (β) 0.064 with probability (p) = 0.311. The analysis results show that the probability value (p) ≥ 0.05, it can be concluded that the number of audit committees has no significant effect on tax avoidance.

Determination coefficient test

The coefficient of determination is used to determine how much the percentage change in the dependent variable is caused by the independent variable. The coefficient of determination of the calculation results can be seen in the following table:

Table 8. Determination coefficient test

Model Summary[b]

R	Adusted R	Std. Error of the Durbin Watson	- Model R Square	Square	Estimate
1	244a	.060	.020	.136808	2.070

From the calculation results obtained an adjusted R2 of 0.020 or 2.0%. This shows that the effect of institutional ownership (X1), the number of commissioners (X2), the percentage of independent commissioners (X3), and the number of audit committees (X4) is 2% on tax avoidance (Y) and the remaining 98% is influenced by the variable others that were not researched.

Institutional ownership of tax avoidance

Based on the results of hypothesis testing, the count value is -1.804 and the regression coefficient (β) is -0.001 with probability (p) = 0.074. The results of the analysis show that the probability value (p) 0.05, it can be said that institutional ownership does not affect tax

avoidance. The results of this study are in line with research conducted by Mais and Dewi (2017) which states that institutional ownership does not affect tax avoidance as evidenced by the latest ETR

Number of commissioners on tax avoidance

Based on the results of hypothesis testing, the count value is -0.923 and the regression coefficient (β) -0.007 with probability (p) = 0.359. The results of the analysis show that the probability value (p) 0.05, it can be concluded that the number of commissioners does not have a significant effect on tax avoidance. While the coefficient is negative, it means that there is a negative relationship between the number of commissioners and tax avoidance, the higher the number of commissioners, the lower the tax avoidance. The results of this study are in line with research conducted by Jamei (2017) which states that there is no significant relationship between the number of commissioners and tax avoidance.

Percentage of independent commissioners on tax avoidance

Based on the results of hypothesis testing, the count value is -1.023, and the regression coefficient (β) -0. 027 with probability (p) = 0.309. The results of the analysis show that the probability value (p) 0.05, it can be concluded that the percentage of independent commissioners has no significant effect on tax avoidance. The results of this study are following the research conducted by Waluyo. (2017) stated that the proportion of independent commissioners harms tax avoidance

Number of audit committees on tax avoidance

Based on the results of hypothesis testing, the count value is 1. 018 and the regression coefficient (β) is 0.064 with probability (p) = 0.311. The results of the analysis show that the probability value (p) 0.05, it can be concluded that the number of audit committees does not have a significant effect on tax avoidance. The results in this study are following research by Mais and Dewi (2017) which states that the audit committee does not influence tax avoidance. However, for the direction of the coefficient, it is following research by Waluyo (2017) which states that the audit committee has a positive effect on tax avoidance although it is not significant.

CONCLUSIONS

Based on the results of the data analysis that has been carried out, it can be concluded as follows:

Institutional ownership variable does not have a significant effect on tax avoidance, with a negative coefficient direction;

The variable number of commissioners does not have a significant effect on tax avoidance, with a negative coefficient direction;

The variable percentage of independent commissioners does not have a significant effect on tax avoidance, with a negative coefficient direction; and
The variable number of audit committees does not have a significant effect on tax avoidance, with a positive coefficient.

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