Li Falah-Jurnal Studi Ekonomi Dan Bisnis Islam
Volume 7 (No.1 2022) 73-87
P-ISSN: 2541-6545, E-ISSN: 2549-6085

Li Falah
Journal of Islamic Economics and Business Studies
journal homepage: http://ejournal.iainkendari.ac.id/lifalah

Corporate Governance and Tax Avoidance: A Study on Indonesian Listed Companies (2016-2020)

Mar'atul 'Ainish Sholikhah[1], Fajar Nurdin[2]
[1,2] *Universitas Islam Negeri Maulana Malik Ibrahim Malang*
e-mail: [1]18520055@student.uin-malang.ac.id [2]nurdin.fajar@uin-malang.ac.id

ARTICLE INFO

Article History:
Received April 08, 2022
1st Received in revised form 19 May 2022
Available online on June 30, 2022

Keywords:
Independent commissioners, institutional ownership, managerial ownership, audit committees, tax avoidance

ABSTRACT

This research objective is to find out the effect of independent commissioners, institutional ownership, managerial ownership, and audit committees on tax avoidance of service companies listed on the IDX in 2016-2020. This quantitative study uses multiple linear regression analysis as a hypothesis test. This study used secondary data from the financial statements of service companies listed on the IDX in 2016-2020. There are 28 samples of service companies listed on the IDX with a research period of 2016-2020, which were selected using the purposive sampling method used in this research. The results showed that the independent board of commissioners, institutional ownership, managerial ownership, and the audit committee had a significant positive effect on tax avoidance with a coefficient of determination of 40.1%. Thus, independent commissioners, institutional ownership, managerial ownership, and audit committees have an important role in tax planning, namely tax avoidance.

I. Introduction

Tax is one of the essential things for the government because it is the largest source of income for the state. The company will try as little as possible to pay taxes because it is a burden. Companies to minimize the tax burden do tax planning. One of the efforts in tax planning is to do tax avoidance. Tax avoidance is unique because, on the one hand, the company is allowed to do tax avoidance, but on the other hand, it can reduce state revenue.

Tax avoidance is an activity to reduce the tax burden by making tax savings legally by tax provisions. Tax planning that violates tax provisions is a tax evasion activity. The average company prefers tax avoidance rather than tax evasion to avoid conflict with the law;

the tax authorities have created a boundary between tax avoidance and tax evasion To carry out tax planning to avoid ambiguity.

The existence of tax avoidance has a significant impact on the state. The state's income from taxes is reduced. Until the end of October 2021, tax revenues reached IDR 953.6 trillion, which means it has reached 77.56 per cent of the 2021 APBN target. Meanwhile, the realization of 2021 tax revenues grew by 15.3 per cent. Sri Mulyani revealed this as Minister of Finance at the 2021 State Budget Press Conference.

Table 1

Progress of State Tax Revenue Realization (Trillion Rupiah)

Year	Target of State Tax Revenue	Realization of State Tax Revenue	Acceptance Percentage
2016	Rp 1.539	Rp 1.283	83%
2017	Rp 1.283	Rp 1.147	89%
2018	Rp 1.424	Rp 1.315,9	92%
2019	Rp 1.577,6	Rp 1.332,1	84%
2020	Rp 1.198,82	Rp 1.069,98	89%

Source: CNBC Indonesia

Corporate governance aims to realize good corporate governance, one of which is in the realm of taxation. In 1998, the phenomenon of corporate governance became known when Indonesia was experiencing a prolonged crisis. The weak implementation of corporate governance in Indonesia has made the recovery process for Indonesia from the crisis quite long, so the government and investors have begun to pay special attention to corporate governance practices (Kusmayadi et al., 2015). The corporate governance mechanism includes an independent board of commissioners, institutional ownership, managerial ownership, and an audit committee (Ginting, 2016).

An independent board of commissioners is needed to improve management supervision and the board of directors' performance (Sari, 2014). Institutional ownership affects the amount of pressure the management receives on tax avoidance to maximize company profits (Zahirah, 2017). The relevant research stated that the proportion of managerial ownership owned is much smaller than institutional ownership. Thus, the managerial side needs to have the right to determine company policy.

In previous research, some indicators influence tax avoidance involving institutional ownership, managerial ownership, the percentage of independent commissioners, and audit committees. Based on the four indicators, they still have different results in each research. The board of commissioners is tasked with supervising the company's management and ensuring the implementation of the company's strategy, which is the core of corporate governance. Ownership of shares by other institutions is called institutional ownership. The high level of supervision of management performance is affected by institutional ownership. Meanwhile, the ownership of share ownership by the management is referred to as managerial ownership. In this case, the management has the right to participate in making company decisions.

Institutional ownership can influence, discipline, and monitor managers and impact tax avoidance practices (Zahirah, 2017). Meanwhile, the number of shares of managerial ownership does not affect the practice of tax avoidance. Putri & Lawita (2019) argue that the higher the managerial and institutional ownership level, the less likely the practice of tax avoidance is. Because the level of supervision is also getting tighter, as well as the high share ownership by managers, it will make managers consider the continuity of their company. T. B. Santoso & Muid (2014)stated that the lack of an independent board of commissioners' role in controlling and overseeing the actions of the tax avoidance executive, thus making the independent board of commissioners not affect the practice. The management works more effectively in managing the company because of demands from independent commissioners outside the company. Therefore it does not affect tax avoidance (Saputra et al., 2015). The research results conducted by Nugraheni & Pratomo (2018)stated that the audit committee significantly influences tax avoidance. To create an excellent operational performance, including corporate governance and financial report preparation, the audit committee has a supervisory role.

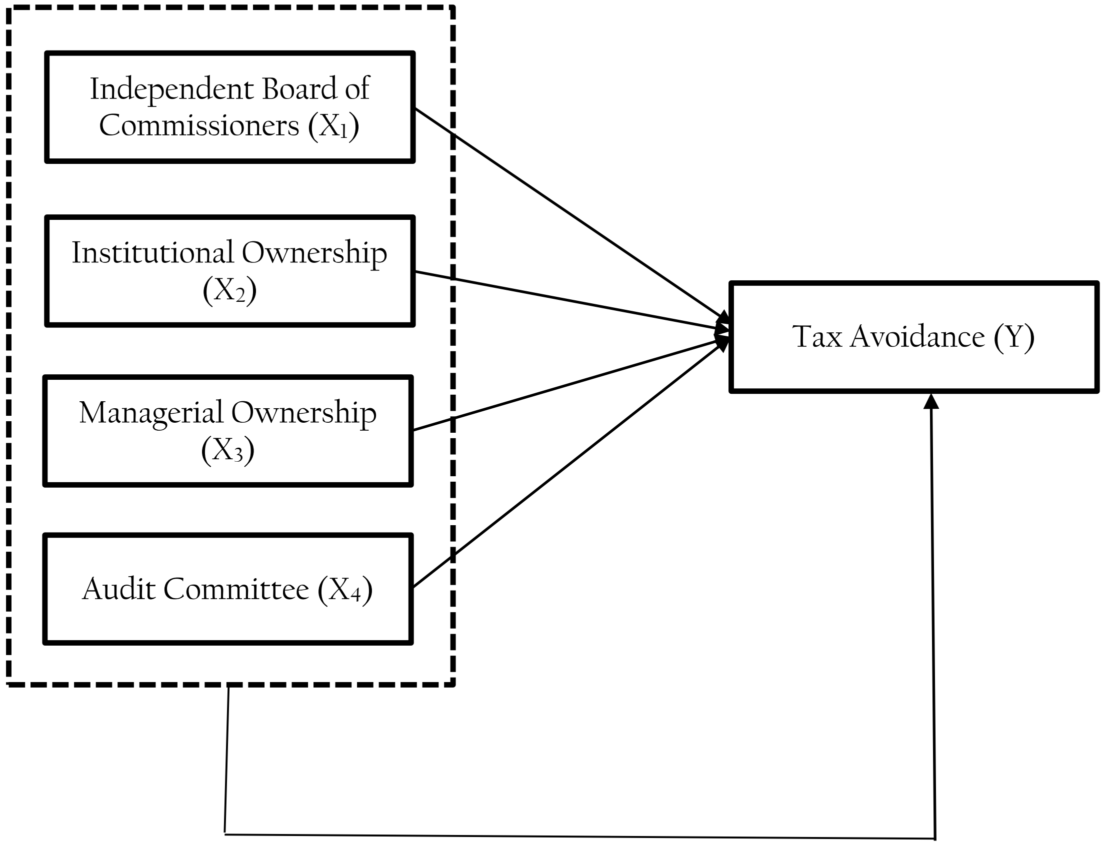
Due to the lack of research on tax avoidance that uses service companies as objects to be studied and at the same time as a differentiator from previous research, service companies are used in this research object. Service companies are an industry that dominates the pace of business growth in Indonesia and is highly knowledge-based. Tax avoidance is calculated using the cash tax rate (CASH ETR) formula, which is the tax burden divided by the profit before tax (Multi & Limarjani, 2020).

2. Research Methods

This quantitative research uses secondary data from financial statements of service companies listed on the Indonesia Stock Exchange during the 2016-2020 period. This research uses multiple linear regression analysis as a hypothesis-testing tool. The population of this study is all service companies listed on the IDX in 2016-2020. Determination of the sample randomly through target random sampling from a population of 206 companies with the following criteria:

1. Service companies listed on the IDX for the 2016-2020 period
2. The company publishes its financial statements in the rupiah currency
3. Service companies that issue financial statements in rupiah and expire on December 31
4. Service companies have data suitable for this research

Conceptual Framework



The proposed hypothesis is based on the conceptual framework as follows:

H1: The independent board of commissioners has a partial effect on tax avoidance

H2: Institutional ownership has a partial effect on tax avoidance.

H3: Managerial ownership has a partial effect on tax avoidance.

H4: Audit committees have a partial effect on tax avoidance.

H5: Independent board of commissioners, institutional ownership, managerial ownership, and audit committee have a simultaneous effect on tax avoidance.

3. Results and Discussion

The study objectives are to know the effect of an independent board of commissioners, institutional ownership, managerial ownership, and audit committees on tax avoidance. The population of this research uses service companies listed on the IDX, with a total of 206 companies. The sampling technique in this study used purposive sampling, with a total number of samples obtained by 28 service companies for the 2016-2020 period.

Table 2

List of Research Sample Companies for the 2016-2020 Period

Company name	Code	Company name	Code
Bayu Buana Tbk.	BAYU	Ramayana Lestari Sentosa Tbk.	RALS
MNC Investama Tbk.	BHIT	Midi Utama Indonesia Tbk.	MIDI
Global Mediacom Tbk.	BMTR	Erajaya Swasembada Tbk.	ERAA
Bakrie & Brothers Tbk.	BNBR	Catur Sentosa Adiprana Tbk.	CSAP
Saraswati Griya Lestari Tbk.	HOTL	AKR Corporindo Tbk.	AKRA
Mitra Keluarga Karyasehat Tbk.	MIKA	Arita Prima Indonesia Tbk.	APII
Saratoga Investama Sedaya Tbk.	SRTG	Colorpak Indonesia Tbk.	CLPI
Island Concepts Indonesia Tbk.	ICON	Inter Delta Tbk.	INTD
MNC Land Tbk.	KPIG	Jaya Konstruksi Manggala Pratama Tbk.	JKON
Panorama Sentrawisata Tbk.	PANR	Lautan Luas Tbk.	LTLS
Metrodata Electronics Tbk.	MTDL	Mitra Pinasthika Mustika Tbk.	MPMX
Jasuindo Tiga Perkasa Tbk.	JTPE	Multi Indocitra Tbk.	MICE
Intermedia Capital Tbk.	MDIA	Tigaraksa Satria Tbk.	TGKA
Supra Boga Lestari Tbk.	RANC	United Tractors Tbk.	UNTR

Source: www.idnfinancials.com (data processed by researchers, 2022)

Normality test

The normality test was used to determine whether the data used in this research were normally distributed. Testing the normality of the data in this research used the One-Sample Kolmogorov-Smirnov technique. This research assumes that the data is normally distributed if the significance value exceeds 0.05.

Table 3

Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		140
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,20585820
Most Extreme Differences	Absolute	,087
	Positive	,078
	Negative	-,087
Test Statistic		,087
Asymp. Sig. (2-tailed)		,121[c]

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

Source: processed by researchers, 2022

The One-Sample Kolmogorov-Smirnov Test indicated a lack of normality and the Asymp Sig. The value obtained was 0.121. Since this value is greater than 0.05, the data in this study are normally distributed, as required by the normality test.

Multicollinearity Test

The multicollinearity test was used to determine whether there was a correlation between the independent variables in this research. The multicollinearity test in this research used VIF and tolerance values. This research assumes that the data does not occur in multicollinearity if the VIF value is <10 and the tolerance value is >0.10.

Table 4. Multicollinearity Test Results

Coefficients[a]

Model		B	Collinearity Statistics	
			Tolerance	VIF
1	(Constant)	,633		
	Institutional Ownership	,051	,847	1,181
	Independent Board of Commissioners	,044	,974	1,027
	Management Ownership	,068	,808	1,237
	Audit Committee	,024	,939	1,065

a. Dependent Variable: Tax Avoidance

Source: processed by researchers, 2022

According to the findings of the multicollinearity test, the VIF value for each variable is less than ten, and the tolerance value for each variable is greater than 0.10. Thus, this value has met the requirements in the multicollinearity test, and the data in this research did not have multicollinearity.

Autocorrelation Test

The autocorrelation test is used to determine whether there is a correlation between sample data sorted by time or to detect a confounding error in period t with a confounding error in period t-1 in this research. The autocorrelation test in this research used the Durbin-Watson value. This research assumes the data is not autocorrelated if the dU value $<d<4$-dU.

Table 5. Autocorrelation Test Results

Model Summary[b]

Model	Std. Error of the Estimate	Durbin-Watson
1	,20889	1,967

a. Predictors: (Constant), Audit Committee, Independent Board of Commissioners, Institutional Ownership, Management Ownership

b. Dependent Variable: Tax Avoidance

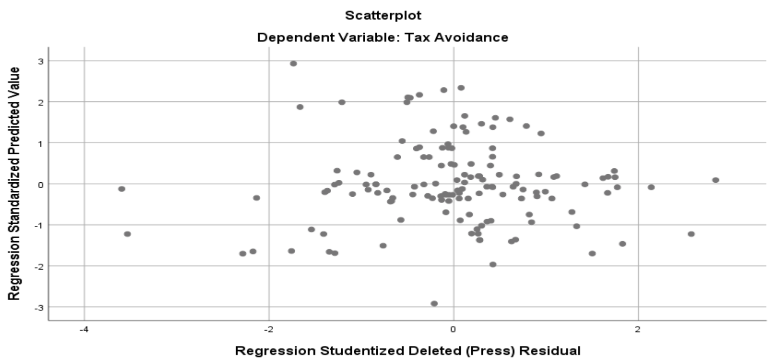
Source: processed by researchers, 2022

Based on the results of the autocorrelation test, the Durbin-Watson value is 1.967. The basis for decision-making in this Test is if dU<d<4-dU, there is no autocorrelation. Meanwhile, the dU value, when viewed from the Durbin-Watson table, is 1.7708 and dL 1.3345. Then, the result is 1.7708<1.967<2.2292 (4-1.7708). So, there is no autocorrelation in the data in this research.

Heteroscedasticity Test

The heteroscedasticity test is used to determine whether there is an inequality of variance in the regression model from the residuals of one observation to another. Heteroscedasticity testing in this research uses a Scatter Plot graph between the predicted value of the dependent variable, namely ZPRED and the residual SRESID. This research assumes no heteroscedasticity if the points do not form a pattern and spread above and below zero.

Figure 1. Heteroscedasticity Test Results



Source: processed by researchers, 2022

According to the findings of the heteroscedasticity test, it shows a scatterplot graph. The basis for decision-making in this research is if the points above are evenly distributed above and below the number 0 and do not form a certain pattern. The graph above shows that the number of points is evenly distributed above and below the number 0, and the distribution pattern is random, so it does not form a certain pattern. Based on these results, it can be concluded that there is no heteroscedasticity in the data in this research.

Multiple Linear Regression Test

Table 6. Multiple Linear Regression Test Results

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta
1	(Constant)	,633	,140	
	Institutional Ownership	,051	,088	,053
	Independent Board of Commissioners	,044	,078	,000
	Management Ownership	,068	,090	,072
	Audit Committee	,024	,025	,083

a. Dependent Variable: Tax Avoidance

Source: processed by researchers, 2022

Based on the results of multiple linear regression, the equations obtained from this research are as follows:

$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$

Y = 0,633 + + 0,044X2 +0,051X1 + 0,068X3 + 0,024X4 + e

Description:

Y = Tax Avoidance (Cash ETR)

X_1 = Independent Board of Commissioners

X_2 = Institutional Ownership

X_3 = Managerial ownership

X_4 = Audit Committee

E = Error of Estimation

Obtained a constant value of 0.633. This data means that if the value of the independent variable in this research is equal to zero, then the value of the dependent variable is 0.633. The regression coefficient value of b1 is 0.051. This finding means that for every increase of one independent commissioner variable, the tax avoidance variable increases by 0.051, assuming other independent variables remain. The regression coefficient value of b2 is

0.044. This data means that for every increase in one institutional ownership variable, the tax avoidance variable increases by 0.044, assuming that the other independent variables remain. The regression coefficient value of b3 is 0.068. This data means that for every increase in the managerial ownership variable, the tax avoidance variable increases by 0.068, assuming the other independent variables remain. The regression coefficient value of b4 is 0.024. This data means that for every increase in the audit committee variable, the tax avoidance variable increases by 0.024, assuming the other independent variables remain.

Coefficient of Determination Test

The coefficient of determination is used to measure the ability of the independent variable to reveal the dependent variable. This research uses the adjusted R square value as a regression tool. The adjusted R square value can increase or decrease if one independent variable is added.

Table 6. Coefficient of Determination Test Results
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,438[a]	,419	,401	,20889	1,967

a. Predictors: (Constant), Audit Committee, Independent Board of Commissioners, Institutional Ownership, Management Ownership

b. Dependent Variable: Tax Avoidance

Source: processed by researchers, 2022

The adjusted R square value is 0.401, or 40.1%, Based on the coefficient of determination. According to this study's independent variable, tax avoidance is 40.1%. Factors outside the scope of this study can account for the remaining 60.1%.

Partial Test (t)

A partial Test determines individual independent variables' effect on the dependent variable. The t-test measurement compares t-table and t-count, showing a probability number with a significance level 0.05. This research assumes that it has an effect if Sig ‹0.05 or F-count › F-table.

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	,633	,140		4,524	,000
	Institutional Ownership	,051	,088	,053	2,573	,046
	Independent Board of Commissioners	,044	,078	,000	1,901	,020
	Managerial Ownership	,068	,090	,072	2,759	,045
	Audit Committee	,024	,025	,083	2,948	,003

a. Dependent Variable: Tax Avoidance

Source: processed by researchers, 2022

Based on the partial Test results, the significance value for the independent board of commissioners' variable is 0.020, and the t-count value is 1.901 > t-table 1.6838. The significance value for the institutional ownership variable is 0.046, and the t-count value is 2.573 > t-table 1.6838. The significance value for the managerial ownership variable is 0.045, and the t-count value is 2.759 > t-table 1.6838. the significance value for the audit committee variable is 0.003, and the t-count value is 2.948 > t-table 1.6838. Thus, it can be summed up that the four independent variables significantly affect tax avoidance.

Simultaneous Test (f)

A simultaneous Test was used to measure the effect of independent variables consisting of an independent board of commissioners, institutional ownership, managerial ownership, and audit committee on the dependent variable, namely tax avoidance. The f-test measurement compares the F-table and the F-count, which shows a probability number with a significance level of 0.05. This study assumes that it has an effect if Sig <0.05 or F-count > F-table.

Table 7. Simultaneous Test Results

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,114	4	,029	8,654	,025[b]
	Residual	5,890	135	,044		
	Total	6,005	139			

a. Dependent Variable: Tax Avoidance
b. Predictors: (Constant), Audit Committee, Independent Board of Commissioners, Institutional Ownership, Managerial Ownership

Source: processed by researchers, 2022

Based on the simultaneous Test results, a significance value of 0.025 was obtained, which means this value is smaller than 0.05. Thus, it can be concluded that the independent variables significantly affect the dependent variable. This conclusion is also supported by the results of F-count and F-table, namely the F-count value of 8.654 > F-table 2.61.

Based on the F-test output, it can be summed up that H5 is accepted. The independent board of commissioners, institutional ownership, managerial ownership, and the audit committee simultaneously affect tax avoidance.

Influence of the Independent Board of Commissioners on Tax Avoidance

Testing the first hypothesis to formulate an independent board of commissioners significantly affects tax avoidance. The Partial Test (t) results obtained a significance value of 0.020 <0.05 and the t-count value 1.901> t table 1.6838. Thus, it can be concluded that the independent board of commissioners (X1) affects tax avoidance (Y). When viewed from the positive t-count value, it indicates that the independent board of commissioners has a positive effect on tax avoidance. If the percentage of the independent board of commissioners is high, the higher the level of company supervision in carrying out tax avoidance. Therefore, the first hypothesis is accepted, which states that independent commissioners affect tax avoidance in service companies listed on the IDX in 2016-2020.

The independent board of commissioners is a commission board member who comes from outside the company and is not affiliated with a securities company. The higher the percentage on the independent board of commissioners in a company, the higher the level of supervision on the performance of the company's directors, thereby reducing tax avoidance.

Effect of Institutional Ownership on Tax Avoidance

Testing the second hypothesis to formulate institutional ownership significantly affects tax avoidance. The Partial Test (t) results obtained a significance value of 0.046 <0.05 and a t-count value of 2.573> t Table 1.6838. Thus, it can be summed up that institutional ownership (X2) affects tax avoidance (Y). When viewed from the positive t-count value, it indicates that institutional ownership positively affects tax avoidance. If institutional ownership increases, the company's tax avoidance will be higher. Therefore, the second hypothesis is accepted, which states that institutional ownership affects tax avoidance in service companies listed on the IDX in 2016-2020.

Institutional ownership is share ownership by other institutions that have a role in monitoring the company's management. Institutional parties are responsible to the public to help supervise the company's management and not to carry out activities that can harm the company in the long term in tax avoidance.

Effect of Managerial Ownership on Tax Avoidance

Testing the third hypothesis to formulate managerial ownership significantly affects tax avoidance. The Partial Test (t) results obtained a significance value of 0.045 <0.05 and the value of t count 2.759 > t table 1.6838. Thus, it can be summed up that managerial ownership (X3) affects tax avoidance (Y). When viewed from the positive t-count value, it indicates that institutional ownership positively affects tax avoidance. The company's tax avoidance will increase if the number of managerial owners increases. Therefore, the third hypothesis is accepted, which states that managerial ownership affects tax avoidance in service companies listed on the IDX in 2016-2020.

Managerial ownership is share ownership by the company's management. The existence of share ownership by managerial parties will push the management to be more thorough in making company decisions. Therefore, they will also feel the impact directly from their tax avoidance decisions.

Effect of the Audit Committee on Tax Avoidance

Testing the fourth hypothesis to formulate the audit committee significantly affects tax avoidance. The Partial Test (t) results obtained a significance value of 0.003 <0.05 and a t-count value of 2.948 > t-table 1.6838. Thus, it can be summed up that the audit committee (X4) affects tax avoidance (Y). Also, if viewed from the positive t value, it indicates that institutional ownership positively affects tax avoidance. The company's tax avoidance will increase if the number of audit committee owners increases. Therefore, the fourth hypothesis is accepted, which states that the audit committee affects tax avoidance in service companies listed on the IDX in 2016-2020.

The audit committee is the committee that is responsible for overseeing the process of preparing financial reports and conducting audits within the company. The audit committee plays a role in setting tax burden policies related to tax avoidance activities.

4. Conclusion

Independent commissioners influence tax avoidance. This finding is because the higher the percentage of independent commissioners, the higher the supervision of management performance in tax avoidance. Institutional ownership influences tax avoidance. This behaviour is due to the existence of share ownership by external institutions, encouraging them to supervise management to ensure their sustainable investment and to achieve maximum profit; institutional parties will encourage management to minimize the tax burden through tax planning. Managerial ownership influences tax avoidance. Ownership of shares by the management will make the company's management feel the direct impact of their decisions. Thus, they must be careful in optimizing the company's profits so as not to cause losses. The audit committee influences tax avoidance. This behaviour is because the audit committee is a committee that supervises financial performance policies and plays a role in determining corporate tax burden policies that have a relationship with tax avoidance activities.

References

Ginting, Y. L. (2016). Mekanisme Tata Kelola Dan Pengungkapan Tanggung Jawab Sosial Perusahaan. 13, 10.

Kusmayadi, D., Rudiana, D., & Badruzaman, J. (2015). Good Corporate Governance. LPPM Universitas Siliwangi.

Multi, S. S., & Limarjani, S. (2020). Faktor—Faktor Yang Mempengaruhi Penghindaran Pajak Pada PERUSAHAAN Pertambangan Yang Go Public. Festival Riset Akuntansi (FRA) II 2020; Webinar Dan Call for Paper Online.

Nugraheni, A. S., & Pratomo, D. (2018). The Influence Of Audit Committee, Audit Quality, And Company Size On Tax Avoidance (Research On Manufacturing Companies Of Automotive Subsectors Listed On Indonesian Stock Exchange Year 2012-2016). 8.

Putri, A. A., & Lawita, N. F. (2019). Pengaruh Kepemilikan Institusional dan Kepemilikan Manajerial Terhadap Penghindaran Pajak. 8.

Santoso, T. B., & Muid, D. (2014). Pengaruh Corporate Governance Terhadap Penghindaran Pajak Perusahaan. Diponegoro Journal of Accounting, 148–159.

Saputra, M. F., Rifa, D., & Rahmawati, N. (2015). Pengaruh corporate governance, profitabilitas dan karakter eksekutif terhadap tax avoidance pada perusahaan yang terdaftar di BEI. Jurnal Akuntansi & Auditing Indonesia, 19(1), 1–12.

Sari, G. M. (2014). Pengaruh Corporate Governance, Ukuran Perusahaan, Kompensasi Rugi Fiskal dan Struktur Kepemilikan Terhadap Tax Avoidance (Studi Empiris Pada Perusahaan Manufaktur yang Terdaftar di BEI). Jurnal WRS, 2, 491–512.

Zahirah, A. (2017). Pengaruh Leverage, Kepemilikan Institusional, Kepemilikan Manajerial Dan Ukuran Perusahaan Terhadap Penghindaran Pajak (Studi Pada Perusahaan Manufaktur Yang Terdaftar Di BEI Periode 2013-2015). 4, 3543–3556.