



## Islamic Corporate Governance, Islamic Social Reporting, Financial Performance and Tax Avoidance: Women BOD and Leverage as Moderating Variables

Nur Aisyah Indarningsih<sup>1</sup>, Muhammad Agus Futuhul Ma'wa<sup>2</sup>, Muh. Irnandas<sup>3</sup>

<sup>1,2,3</sup> Magister Economic Syariah, UIN Sunan Kalijaga Yogyakarta, Indonesia  
e-mail: [muhammadagusfutuhulmawa@gmail.com](mailto:muhammadagusfutuhulmawa@gmail.com)

---

### ARTICLE INFO

---

#### *Article History:*

Received February 21, 2023

1<sup>st</sup> Received in revised form 09 April 2023

Acceptance on May 05, 2023

Available online on June 30, 2023

#### *Keywords:*

Islamic Corporate Governance;  
Islamic Social Reporting; Financial Performance; Tax Avoidance

---

### ABSTRACT

---

The impact of Islamic Corporate Governance (ICG), Islamic Social Reporting (ISR), and financial performance on tax avoidance is investigated in this study. Islamic Corporate Governance is represented by the Sharia Supervisory Board (DPS), institutional ownership, the audit committee, and independent commissioners (ICG). The effective tax rate is used to measure tax avoidance, while ROA is used to measure financial performance (ETR). Twelve Indonesian Sharia Commercial Banks that were registered with OJK between 2016 and 2021 make up the study's sample. Panel data regression is the data analysis method used. MRA analysis is additionally utilized to observe the impact of moderating variables. The study's findings indicate that tax avoidance is unaffected by DPS, institutional ownership, the audit committee, and the percentage of independent commissioners.

Meanwhile, tax avoidance is negatively impacted by Islamic Social Reporting (ISR) and ROA. The moderating variable in this study cannot moderate the association between the audit committee and tax avoidance, specifically BOD women. The relationship between Islamic corporate governance (ICG) and tax compliance also cannot be moderated by leverage. This research is anticipated to be taken into account by the government when drafting tax legislation to reduce tax avoidance strategies used by businesses, particularly Islamic banks. In addition, it is hoped that it will become a consideration for both financial institutions and companies to improve ISR performance and reporting as a social responsibility so that tax avoidance practices can be minimized.

---

## **I. Introduction**

Over the last few decades, many tax authorities around the world have discussed their fairness regarding the lack of taxes paid by corporations and how it can affect a company's financial health, risk-taking, and the economic stability of society in general (Boussaidi and Hamed-Shidom, 2021). The taxes mentioned in UU No. 16 of 2009 are coercive mandatory payments to the government from individuals or business entities by not receiving payments directly and using them for state needs, which are used as much as possible for the prosperity of the people (Kemenkeu.go.id, 2022). Government programs won't operate effectively without enough funds.

The importance of taxes for the state and people's welfare has encouraged the government to try to increase state tax collections. In 2021, tax revenue will be Rp 1,375,832.70 trillion, compared to non-tax revenue of Rp 357,210.10 billion (BPS Indonesia, 2022). This proves that taxes play a very large role in increasing the welfare of the state. However, the tax collection never exceeded the desired level. Only Rp. 1,069.98 trillion, or 89.25 percent of the target set at Rp. 1,198.8 trillion in PP 72 of 2020 was collected in 2020 tax revenue. Even in 2021, tax revenue will only reach Rp. 1,142.5 trillion, still far from the APBN target of Rp. 1,229.6 trillion in the amount of Rp. 87.1 trillion. (Liyana, 2019). In this way, the government continues to work towards fulfilling its goals for tax revenue.

To continue to support the country's growth and development, the government hopes that taxpayers can participate, but in reality, there are still a number of challenges faced in efforts to increase tax revenues. Phenomena that arise from conflicts between the interests of taxpayers and the interests of the government and an average tax ratio that has not reached the desired level can result in tax avoidance activities. Tax avoidance is an effort to reduce illegal activities by making effective use of tax laws. Consequently, these activities expose the company to risks such as fines and negative public perception (Arinta and Salatiga, 2018). A survey conducted by the Women Corporate Directors Foundation in 2016 of 4,000 board members worldwide showed that around 22% of respondents acknowledged concerns about issues of tax practices (Boussaidi dan Hamed-Shidom, 2021).

One of the financial institutions in Indonesia has committed tax evasion, especially Bank BNI Syariah's arrears, which include tax arrears on murabahah transaction transactions in 2007 amounting to Rp. 182.8 billion and Rp. 108.2 billion, plus an administrative fine of Rp. 20 billion (Yusvita Nena Arinta, 2018). The tax case involving BNI Syariah violated a number of Sharia principles, such as tyranny towards other parties; in this case, the state suffered losses due to unpaid taxes. BNI Syariah should run a business in accordance with Sharia principles. Various factors, such as corporate governance, influence the practice of tax avoidance by this company. (Boussaidi and Hamed-Shidom, 2021), (Choi and Park, 2022), *Islamic Social Reporting (ISR)* (Khan et al., 2022a) and financial performance (Muhammad Taufik, 2022).

A number of previous studies examining tax avoidance have become a concern, but there is still a lack of research on tax avoidance in Islamic banks (Muhammad Taufik, 2022). According to research (Choi dan Park, 2022), which examines the impact of corporate governance on tax avoidance, good corporate governance contributes to the management of corporate tax risk in the future. An effective corporate governance mechanism directs tax avoidance practices at a company-specific, optimal level. Corporate governance also has the potential to limit tax evasion to the point where the risks do not outweigh the benefits, which will increase tax evasion while increasing corporate profitability (Kovermann & Velte, 2019). In addition, DPS has a strong role; the greater the DPS, the more likely it is that tax avoidance occurs in Islamic banks. This study discusses two possible reasons for this phenomenon. First, DPS only focuses on transactions that are constitutional under fatwas. Second, given the limited level of tax avoidance literacy among Islamic banks, they do not understand the principles underlying tax avoidance.

Simply put, empirical research on Islamic banks usually focuses on linking DPS characteristics with financial performance (Muhammad Taufik, 2022). However, contrary to

research by (Apriliani Preti et al., 2021), The substantial portion of the Sharia Supervisory Board that has little influence on tax evasion is said to be caused by several factors. This shows that the DPS has no impact on the tax evasion strategy. First, not all members of the Sharia Supervisory Board can demonstrate their independence, which has an impact on how well the supervisory function is running and how good management supervision is when using tax avoidance schemes. Second, suppose affiliated parties within the company dominate and have control over the Shariah supervisory board as a whole. In that case, its ability to oversee disclosure and the provision of information will be constrained. Third, the Sharia supervisory board pays little attention to tax avoidance or aggressive tax practices within the company, causing the company to neglect its obligations to the state, especially those related to taxes.

Independent commissioners affect tax avoidance. (Armstrong et al., 2015), The board of commissioners, representing the interests of shareholders, can maximize profit, which allows for tax evasion (Mappadang et al., 2018); however, in contrast to the research conducted by (Yusuf et al., 2021), which states that the Independent Commissioner does not affect tax avoidance. In addition, institutional ownership has a negative impact on tax avoidance (Darsani and Sukartha, 2021) dan (Yusuf et al., 2021); this means that institutions are motivated to oversee compliance management in the implementation of tax regulations to reduce tax evasion. They would rather receive attention than receive the company's future long-term benefits (Mappadang et al., 2018). However, in contrast to, the research conducted by (Salaudeen dan Abdulwahab, 2022), which shows that institutional ownership and board size have a positive relationship with tax avoidance. Independent commissioners can only monitor management activities; management has the power to make decisions (Purbowati, 2021). In addition, according to research (Moeljono, 2020), Institutional ownership has no impact on tax evasion. Company management can use institutional shareholder ownership to carry out tax planning by using institutional shareholder shares.

Paying taxes is an important step for businesses to engage effectively with society. Companies will pay a fair amount of tax to be socially responsible citizens. Companies with higher Corporate Social Responsibility (CSR) scores appear to be more likely to reduce tax evasion, suggesting that businesses using corporate social responsibility can reduce the likelihood of significant consequences from severe tax evasion (Abdullah Alsaadi, 2020). This shows a negative relationship between corporate social responsibility and tax avoidance. However, in Pakistan, the effect of corporate social responsibility on tax avoidance is positive but not significant. (Khan et al., 2022).

Besides ICG and CSR, or corporate social responsibility, Financial performance, with tax avoidance indicators, is negatively affected by profitability. With higher profitability followed by a high ROA value, the cash flow will be sufficient to pay (Sriyono and Andesto Ronny, 2022); besides that, the supervision of shareholders by managers is able to minimize tax avoidance activities that may be carried out by managers in order to maximize profits and (Pangaribuan et al., 2021). According to Reg (2003), tax evasion is more common among firms that record higher profits than among those that have difficulty generating profits. However, the greater the value of ROA, the more efforts are made to increase corporate tax avoidance (which is reflected in a decrease in ETR). According to Islamic law, Islamic banks are prohibited from manipulating transaction records. It is not appropriate for sharia banks to carelessly take advantage of fiscal and temporary differences and ignore the meaning of tax reduction. For example, in some jurisdictions, scholarship fees and social charges are deductible from income tax. However, Islamic banks are not allowed to do so because these fees are the main reason for their existence, i.e., eradicating poverty (Muhammad Taufik, 2022). Different from research (Urrahman and Mukti, 2021), which states that profitability has no impact on tax avoidance. Companies that have a high profitability value show the company's ability to earn excellent profits as well as be effective and efficient in utilizing its assets so that the company is able to meet company expenses, including paying the company's tax burden.

From some of the background descriptions above, some show research gaps, given that there has not been much research on tax avoidance in Islamic banks. (Muhammad Taufik, 2022), So, researchers are interested in studying the influence of Islamic Corporate Governance (ICG), financial performance and Islamic Social Responsibility (ISR) on tax avoidance in Indonesian Sharia Commercial Banks. In addition, this study utilizes moderating factors in the form of leverage and women's BOD. The rate of tax evasion decreased as the percentage of women on the board increased (Jarboui et al., 2020), and female directors could effectively monitor and oversee the matter. A woman is also more risk-averse, has higher moral and ethical standards, shows more intellectual flexibility, and assists the board in making better judgments, increasing board openness and trust. Given this, it is reasonable to assume that having more women on company boards would greatly reduce the likelihood of tax evasion (Hoseini and Gerayli, 2018).

This research can give us knowledge by researching tax avoidance in Indonesia. The findings of this study are important input, especially for government tax revenues to pay more attention to companies as part of the taxpayer. In addition, there has not been much research on tax avoidance, especially in Islamic banks, which is still a challenge in itself. The motivation for this research is to find out whether the tax environment in the United States has the same effect as other countries regarding tax avoidance.

## 2. Literature Review

### 2.1 Agency Theory

According to Jensen and Meckling (1976), Agency theory in the company identifies the existence of parties in the company who have various interests in achieving a goal in the company's activities. This agency theory arises because of the relationship between the principal and the agent. Agency theory assumes that humans are selfish; shareholders will always focus on increasing the value of the shares they own, while managers focus on fulfilling the personal interests of society by maximizing the fulfillment of economic and psychological needs. (Purbowati, 2021). The existence of different interests between the two parties gave rise to agency theory. (Wiratmoko, 2018). The difference in interests in this study occurs with the theory of corporate profit interests between tax collectors and taxpayers (companies).

### 2.2 Tax Avoidance

*Tax avoidance, or tax evasion, is an act of tax avoidance carried out by taxpayers to legally relieve or reduce their tax burden by exploiting weaknesses in the applicable tax law.* (Hama, 2020) Various factors, such as corporate governance, influence the practice of tax avoidance by this company. (Boussaidi dan Hamed-Shidom, 2021), (Choi and Park, 2022), *Islamic Social Responsibility (ISR)* (Khan et al., 2022) dan kinerja keuangan (Muhammad Taufik, 2022).

## The Effect of the Sharia Supervisory Board (DPS) on Tax Avoidance

The Sharia Supervisory Board is the director responsible for monitoring the bank's operations to comply with Sharia principles. (Peraturan Bank Indonesia, 2009). Suppose the DPS has a greater number of members. In that case, their responsibilities and functions increase as they are expected to have more experience, fiqh knowledge and expertise, which will lead to a better interpretation of Sharia compliance. The SSB (Shariah Supervisory Board), which has more expertise, plays a role in investigating the complexities of tax evasion, and the reputation of SSB, which is a member of the Islamic banking regulator, understands immorality, which results in reduced tax evasion. In addition, the recruitment system has been effective, as SSBs with more expertise have become more common. Research result (Muhammad Taufik, 2022) claims that the possibility of tax evasion in Islamic banks increases with the increase in the SSB (Shariah Supervisor Board). This study discusses two possible reasons for this phenomenon. First, DPS only focuses on transactions that are constitutional under fatwas.

Second, considering the limited literacy level of Islamic bank tax avoidance, they do not understand the principles underlying tax avoidance. Simply put, empirical research on Islamic banks usually focuses on linking DPS characteristics with financial performance.

One indicator often used to explain risk-taking is the number of DPS members. DPS will certify (*ex-ante*) and monitor (*ex-post*) all financial contracts, transactions, and further activities of the bank on behalf of shareholders, stakeholders, and clients to ensure that they comply with Islamic law. In addition, the more DPS members, the greater the authority they have to regulate transactions in Sharia banking, which in turn affects the level of disclosure. Tax avoidance will be utilized effectively in disclosing high-quality financial reports. (Mukhibad et al., 2022)

Contrary to the study by (Apriliani Preti et al., 2021), There are a number of factors that are considered responsible for the large percentage of Sharia supervisory boards that do not have a major impact on tax avoidance practices, indicating that DPS influences tax evasion. First, all members of the Sharia Supervisory Board have not been able to prove their independence, which affects how well the supervisory function functions and how well management is supervised when implementing a tax avoidance strategy. Second, suppose affiliated parties within the company dominate and have control over the Shariah supervisory board as a whole. In that case, its ability to oversee disclosure and the provision of information will be constrained. Third, companies neglect their obligations to the state, especially their tax obligations, because the Sharia Supervisory Board is still minimal in paying attention to whether there is tax evasion or aggressive tax practices within the company.

H1: The Sharia Supervisory Board has a significant positive effect on institutional ownership tax avoidance.

### **Effect of Institutional Ownership (IC) on Tax Avoidance**

Recent studies conducted by Huseynov et al. (2017), Khan et al. (2017), and Chen et al. (2019) quoted in (Kovermann & Velte, 2019) found that an increase in institutional ownership led to an increase in tax evasion. However, for a small proportion of firms where tax avoidance was already at a high level prior to the involvement of institutional investors, tax avoidance decreases after the investor acquires shares in the firm.

According to research from (Mappadang et al., 2018), (Darsani and Sukartha, 2021), Institutional ownership has a negative effect on tax avoidance, meaning that institutional incentives to oversee compliance management in carrying out tax regulations reduce tax avoidance. They pay attention to the company's long-term future benefits. In addition, if a company has less institutional ownership, there is a higher probability of tax evasion. Conversely, the possibility of lower tax evasion is reflected by the increasing number of institutional owners (Yusuf et al., 2021). At the same time, research conducted by (Salaudeen dan Abdulwahab, 2022) found that institutional ownership has little to no impact on tax avoidance. This allows corporate management to exploit institutional shareholdings while engaging in tax planning by leveraging institutionally owned shares (Moeljono, 2020).

H2: Institutional Ownership has a significant negative effect on the Audit Committee's Tax Avoidance

### **The Influence of the Audit Committee (KA) on Tax Avoidance**

The obligations of the audit committee are comparable to those of the Sharia supervisory board. According to Winata (2014), quoted in (Fatikhatur and Pramuka, 2021), The board of commissioners of a company whose members are elected and dismissed by the board of commissioners forms an audit committee, which is tasked with assisting in examining and inspecting the implementation of the functions of the directors in managing the company.

A central role in the monitoring process is played by the audit committee, which selects the auditors and is responsible for reviewing the financial statements. This places the audit committee at the crossroads of internal and external monitoring. Companies with more independent audit committees show less tax evasion (Kovermann and Velte, 2019). According

to research, (Yusuf et al., 2021), Audit committees have a negative effect on tax avoidance; the more audit committees there are in the sample companies, the less likely the company is to engage in tax avoidance, and the more likely the company is to do so. Different from (Saprudin et al., 2022) and (Purbowati, 2021), which state that the audit committee has no significant effect on tax avoidance practices. In this case, very few members of the audit committee are also commissioners or independent commissioners and only serve 1-2 years of the specified research period. So, the hypothesis proposed is:

H3: The Audit Committee has a significant negative effect on Tax Avoidance

### **The Effect of Independent Commissioners (KI) on Tax Avoidance**

Independent commissioners function as checks and balances in making decisions for the board of commissioners. In deciding on good corporate governance, an impartial board of commissioners is essential for effective implementation (Yusuf et al., 2021). According to research results (Saprudin et al., 2022), states that the composition of the board of commissioners does not affect tax avoidance. Meanwhile, a study by (Armstrong et al., 2015) states that the board of independent commissioners has a negative effect on tax avoidance. The number of independent commissioners at the company's level of independence will increase with the increase in the number of independent commissioners, thereby reducing the possibility of tax evasion activities (Fatikhatur dan Pramuka, 2021).

Contrary to research by (Mappadang et al., 2018), the commissioner shows that institutional incentives to oversee compliance management in carrying out tax regulations so that acts of tax evasion are reduced; they prefer attention to get the company's long-term benefits. While the research was conducted by (Saprudin et al., 2022), The number of commissioners has no impact on the tax avoidance method. The current number of commissioners will not have a major impact on tax evasion actions. This gives managers the opportunity to engage in profit manipulation activities, which will benefit the business in terms of taxation.

H4: Independent commissioners have a significant negative effect on tax avoidance.

### **Effect of Islamic Social Reporting (ISR) on Tax Avoidance**

In recent years, corporate social responsibility has increased. Gain a lot of awareness, and quite a lot of research has investigated the relationship between corporate social responsibility (CSR) and tax avoidance. Tax avoidance has a good relationship with CSR. In addition, it has been found that businesses with higher CSR scores avoid taxes less in countries with poor state-level governance, suggesting that CSR and state-level governance are interchangeable (Tao Zeng, 2019). However, in Pakistan, the effect of corporate social responsibility on tax avoidance is positive but not significant (Khan et al., 2022).

Paying taxes is an important step for businesses to engage effectively with society. Companies will pay a fair amount of tax to be socially responsible citizens. Companies with higher Corporate Social Responsibility (CSR) scores appear to be more likely to reduce tax evasion, suggesting that businesses using corporate social responsibility can reduce the likelihood of significant consequences from severe tax evasion (Abdullah Alsaadi, 2020). This shows a negative relationship between social responsibility and tax avoidance. Then, the hypothesis proposed is:

H5: ISR has a significant negative effect on tax avoidance.

### **Effect of Financial Performance on Tax Avoidance**

According to Reg (2003), tax evasion is more common among firms that record higher profits than among those that have difficulty generating profits. However, the greater the value of ROA, the more efforts are made to increase corporate tax avoidance (which is reflected in a decrease in ETR). According to Islamic law, Islamic banks are prohibited from manipulating transaction records. It is not appropriate for sharia banks to carelessly take advantage of fiscal and temporary differences and ignore the meaning of tax reduction. For example, in some jurisdictions, scholarship fees and social charges are deductible from income tax. However,

Islamic banks should not do so because these costs are the main reason for their existence, namely eradicating poverty (Muhammad Taufik, 2022). However, research conducted by (Urrahman dan Mukti, 2021) and (Moeljono, 2020) states that profitability with the ROA indicator does not affect tax avoidance.

Companies that have a high profitability value show the company's ability to earn excellent profits as well as be effective and efficient in utilizing its assets so that the company is able to meet company expenses, including paying the company's tax burden. Financial performance and indicators of profitability have a negative effect on tax avoidance. With higher profitability followed by a high ROA value, the cash flow will be sufficient to pay (Sriyono and Andesto, 2022); besides that, the supervision of shareholders by managers can minimize tax avoidance actions that might be carried out by managers in order to maximize profits (Pangaribuan et al., 2021). Companies are more likely to engage in tax evasion, which is beneficial for increasing profits when after-tax profits are low. This is done with the intention of complying with the wishes of the shareholders, which will also affect the director's salary (Sunarsih et al., 2019). For this reason, the hypothesis proposed in this study, namely:

H6: ROA has a significant negative effect on Tax Avoidance.

### 3. Research Method

The type of research used is quantitative, with the data source in the form of secondary data taken from the annual financial reports provided by Islamic commercial banks registered with the Financial Services Authority and taken through the website of each bank. This study uses independent variables, dependent variables, and moderating variables. This study uses the Sharia Supervisory Board (DPS), Institutional Ownership (KI), Audit Committee (KA), and the Proportion of Independent Commissioners as a proxy for Sharia corporate governance (PKI). Return on assets (ROA) is used as a proxy for financial performance for the independent variables. For the dependent variable, tax avoidance is proxied using the effective tax rate (ETR). Meanwhile, the moderating variables used are the presence of women in the BOD and leverage, which are proxied using the debt-to-equity ratio (DER).

The following is a list of BUS names used as the population in this analysis, which includes all Indonesian Sharia Commercial Banks from 2016 to 2021:

**Table 1. List of Population Names**

No.	Name of Sharia Commercial Bank
1.	Bank Aceh Syariah
2.	Bank NTB Syariah
3.	Bank Victoria Syariah
4.	Bank Syariah Indonesia
5.	Bank Jabar Banten (BJB) Syariah
6.	Bank Mega Syariah
7.	Bank Panin Dubai Syariah
8.	Bank Syariah Bukopin
9.	BCA Syariah
10.	Bank Muamalat Indonesia
11.	Bank Tabungan Pensiun Nasional (BTPN) Syariah
12.	Bank Aladin Syariah

Source: data processed, 2022

72 samples were obtained from 12 BUS using the purposive sampling method and met the following requirements:

Table 2. Sampling Criteria

No.	Criteria	Amount
1.	Sharia Commercial Banks registered with OJK in 2016-2021.	12
2.	Sharia Commercial Banks that issue annual reports for the 2016-2021 period.	12
3.	The data required for the research are fully available.	12
<b>Number of samples (12 × 6 (2016-2021))</b>		<b>72</b>

Source: OJK, data processed, 2022

A total of 72 samples of Indonesian Islamic commercial banks met the requirements based on the sampling criteria in Table 2 of this study for six years. Besides that, the author has summarized the variables and measurements used in this study, as will be discussed in Table 3 :

Table 3. Variable Operational Definition

Variable	Definition	Measurement Formulas	Sumber
<i>Tax Avoidance</i>	<i>Effective Tax Rate (ETR)</i> means comparing the amount of tax paid with profit before tax so that it can be used as a tool to avoid taxes (Muhammad Taufik, 2022)	$ETR = \frac{\text{Cash Tax Paid}}{\text{Pre-tax Income}}$	Annual Report 2016-2021
Sharia Supervisory Board (DPS)	Number of DPS meetings at the bank at the end of the year	JDPS = $\Sigma$ Sharia Supervisory Board	Annual Report 2016-2021
Institutional Ownership	The percentage of shares owned by the institution, as determined by ownership, can be estimated at the end of the financial reporting year.	$KI = \frac{\text{The number of shares owned by institutional investors}}{\text{total outstanding share capital of the company}} \times 100\%$	Annual Report 2016-2021
Audit Committee	Audit Committee who has experience in finance or banking	KA= $\Sigma$ Sharia Audit Committee	Annual Report 2016-2021
Independent Commissioner	Members of the board of commissioners who are not management and do not own a majority of the company's shares	Proporsi KI = $\frac{\Sigma \text{Independent Commissioner}}{\Sigma \text{Commissioner Member}} \times 100\%$	Annual Report 2016-2021
Islamic Social Reporting (ISR)	The Islamic Social Reporting (ISR) variable, measured by the ISR value, is obtained through the content analysis method, namely by giving a value of 1 for	$ISR = \frac{\text{Disclousure}}{\text{Total Disclousure}} \times 100\%$	Annual Report 2016-2021



	items that are disclosed and a value of 0 for items that are not disclosed. In the annual report, ISR is given a symbol with a total of 48 disclosure items.		
<b>Return On Asset (ROA)</b>	Tingkat profitabilitas atas pemanfaatan aset perbankan	ROA = $\frac{\text{Net profit after tax}}{\text{Total Assets}} \times 100\%$	Annual Report 2016-2021
<b>Women BOD</b>	Presence of a Women's Board of Directors at the bank during the end of the year.	Dummy variable (If there is at least one woman on the board of directors, it is scored 1 and 0 otherwise)	Annual Report 2016-2021
<b>Leverage</b>	The capacity of a company to pay its debts to third parties both long-term and fast	$\frac{\text{DER}}{\text{Total Equity}} \times 100\%$	Annual Report 2016-2021

Source: Processed Data, 2022

In this study, the panel data regression analysis model was used to test the hypothesis to determine the relationship between variables because this type of data is a combination of time series and cross-section. This model uses Eviews-12 software. Women's BOD and leverage were also examined in this study using MRA to determine whether they moderate the relationship between ICG, ISR and financial performance on tax avoidance. The following is the panel data regression equation model in this study:

$$Y = \alpha + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \beta_4x_4 + \beta_5x_5 + \beta_6x_6 + e \quad (1)$$

As for the Moderated Regression Analysis, namely:

$$Y = \alpha + \beta_3x_3 * Z_1 + e \quad (2)$$

$$Y = \alpha + \beta_1x_1 * Z_2 + \beta_2x_2 * Z_2 + \beta_3x_3 * Z_2 + \beta_4x_4 * Z_2 + \beta_6x_6 * Z_2 + e \quad (3)$$

Keterangan :

Y = Tax Avoidance

α = coefisient

β1 = Sharia Supervisory Board

β2x2 = Institutional Ownership

β2x3 = Number of Sharia Audit Committee

β4x4 = Proportion of Independent Commissioners

β5x5 = Islamic Social Reporting (ISR)

β6x6 = ROA

e = error

Z1 = Women BOD

Z2 = Leverage (DER)

## 4. Result

### 4.1 Descriptive Analysis

There are a total of 72 banking observation data from 2016 to 2021. In this study, twelve Islamic commercial banks that met the sample requirements were examined. The following is a descriptive statistical analysis before entering the regression equation analysis:

Table 4. Descriptive Analysis

	Y	X1	X2	X3	X4	X5	X6
Mean	0.305833	2.263889	0.980278	3.666667	1.390972	73.47139	1.675417
Median	0.260000	2.000000	1.000000	3.000000	0.670000	72.91000	0.910000
Maximum	1.470000	4.000000	1.000000	8.000000	55.50000	85.41000	75.14000
Minimum	-2.590000	2.000000	0.820000	2.000000	0.500000	58.33000	-58.64000
Std. Dev.	0.464336	0.474507	0.042822	1.150628	6.469695	7.854137	11.99997
Observation	72	72	72	72	72	72	72

Source: Eviews-12, data processed, 2022

The results of the descriptive statistical test based on the 2014 PBI (Table 4) show that the average value of the Sharia Supervisory Board is 2.26; the minimum number of DPS consists of two to four people. Institutional ownership has an average value of 0.98, a maximum value of 1, and the lowest value of 0.28, respectively.

The audit committee consists of a minimum of 2, a maximum of 8, and an average value (mean) of 3.6. The Sharia Audit Committee has an average rating of 3.66 and can consist of a maximum of 8 members. A minimum of three people must be part of the audit committee, which must be formed by the Board of Commissioners so that the audit committee in Indonesian Islamic banking has the least number of members. In Indonesian Islamic banking, the percentage of independent commissioners ranges from 0.5 to 55.5, with an average value of 1.39. This indicates that the requirements PBI Number: 11/3/PBI/2009, which states that the number of members of the board of commissioners must be at least 50% (fifty percent) of the total members, has been fulfilled with respect to the number of independent commissioners. And must consist of at least three people or, at most, a number of directors. The average, minimum and maximum scores for Islamic Social Reporting (ISR) are 1.67, -58.64 and 75.14, respectively. The dependent variable, tax avoidance, has an average (mean) value of 0.30, a range of -2.59 to 1.47, and a standard deviation of 0.46. That is, the lowest ETR value in Islamic banking is -2.59.

#### Classic Assumption Test

Ghazali (2013), quoted in (Melati and Suryowati, 2018), confirms that classical assumption testing is needed in panel data regression analysis. The test results show that all independent variables, including the Sharia Supervisory Board (DPS), Institutional Ownership, Audit Committee, Proportion of Independent Commissioners, Islamic Social Reporting (ISR), and ROA, have a tolerance value of  $> 1$  and a VIF value (-0.086837, -0.086837, 0.318160)

All variables pass the heteroscedasticity test with a significance level greater than 0.05, indicating that there is no heteroscedasticity in this regression model.

#### Panel Data Regression Analysis

##### Model Selection

Table 5. Chow test, Hausman test and LM test

	Prob.	Information	Result
Chow Test	0.0054	$< 0.05$ H0 rejected	FEM
Hausman Test	0.4814	$> 0.05$ H0 accepted	REM
LM Test	0.2303	$> 0.05$ H0 accepted	CEM

Source: Eviews-12 data processed, 2022

Before looking at the interactions between variables, a model selection test was first carried out. The Lagrange Multiplier (LM) test, Hausman test, and Chow test are all used to evaluate model estimates. Chow's test determines the best way to use CEM or FEM. The LM test is used to determine whether the REM or CEM model is used in this study, after the Hausman test determines whether the FEM or REM method should be used.

The final results show that in Table 5, if the value of both in the LM (Lagrange Multiplier) test is greater than the alpha value of 0.05, then the CEM model is chosen for this study because H0 is accepted and H1 is rejected. Because the value of both in the LM (Lagrange Multiplier) test is greater than the alpha (0.05) of 0.2303, the H1 decision is rejected. Therefore, the CEM model is more appropriate to use.

#### *F Test*

Table 6. F Test

Prob. (F-Statistic)	0.117771
R <sup>2</sup>	0.21

Sumber: Eviews-12, data diolah, 2022

It can be concluded from the results of the Common Effect Model (CEM) panel data regression that the influence of independent variables, including the Sharia Supervisory Board (DPS), Institutional Ownership, Audit Committee, Proportion of Independent Commissioners, Islamic Social Reporting (ISR), and ROA together, does not have a significant impact on tax avoidance.

#### *T Test*

Table 7. T Test

Variable	Prob.	Coefficient	Information
DPS (X1)	0.6164	0.058749	H1 rejected
KI(X2)	0.2020	-1.649968	H2 rejected
KA(X3)	0.4434	0.037021	H3 rejected
PKI (X4)	0.8507	-0.001620	H4 rejected
ISR (X5)	0.0494	-0.013747	H5 accepted
ROA (X6)	0.0501	-0.013747	H6 accepted

Sumber: Eviews-12, data diolah, 2022

Common Effect Model (CEM) results for panel data regression show that DPS (X1), KI (X2), KA (X3), and PKI (X4) variables do not affect tax avoidance. A probability value higher than an alpha value of 0.05 serves as proof. Meanwhile, seeing that variable X5 has a probability value of 0.0494 out of 0.05 in the findings of the Common Effect Model (CEM) panel data regression, it can be concluded that Islamic Social Reporting (ISR) has a significant negative effect on tax evasion. In addition, ROA (X6) has a significant negative effect on tax avoidance, according to the findings of panel data regression using the Common Effect Model (CEM), where the variable X6 has a probability value of 0.0501.

#### *Coefficient of Determination (R<sup>2</sup>)*

The results showed that the R<sup>2</sup> value (adjusted R squared) for the Common Effect Model (CEM) panel data regression was 0.21 (21%). In other words, the variables of the Sharia Supervisory Board (DPS), Institutional Ownership, Audit Committee, Proportion of Independent Commissioners, Islamic Social Reporting (ISR), and ROA can explain the variable Y (tax avoidance), with other factors outside the research variables contributing 79% of the rest of the explanation.

## MRA (Moderated Regression Analysis)

Table 8. Moderated Regression Analysis (MRA) Test

Model	Prob	Information
Women BOD (Z) did not moderate the Audit Committee on Tax Avoidance (ETR)	0.7579	Not Moderating
Leverage (DER (Z) does not moderate the Sharia Supervisory Board (DPS) on Tax Avoidance (ETR)	0.6528	Not Moderating
Leverage (DER (Z) does not moderate Institutional Ownership of Tax Avoidance (ETR)	0.9443	Not Moderating
Leverage (DER (Z) does not moderate the Audit Committee on Tax Avoidance (ETR))	0.7188	Not Moderating
Leverage (DER (Z) does not moderate the Proportion of Independent Commissioners to Tax Avoidance (ETR)	0.1773	Not Moderating
<i>Leverage (DER (Z) does not moderate ROA on Tax Avoidance (ETR)</i>	0.0775	Not Moderating

Source: Eviews-12, data processed, 2022

Based on the results of the tests that have been carried out in Table 5 to test the ability of the moderating variables, namely the women's variables BOD and leverage (DER), Then, the Variable Women BOD also cannot moderate the Audit Committee on Tax Avoidance (ETR). Then, the leverage variable (DER) cannot moderate the relationship between the Sharia Supervisory Board (DPS), institutional ownership, the audit committee, the proportion of independent commissioners, and the ROA on the disclosure of tax avoidance (ETR). This is evidenced by the value of prob. on each variable that exceeds the alpha value of 0.05.

## 5. Discussion

### The Effect of the Sharia Supervisory Board (DPS) on Tax Avoidance

Based on the findings of the Common Effect Model (CEM) panel data regression, which shows that the XI variable has a probability value of 0.6164 > of 0.05, DPS does not affect tax avoidance. Thus, hypothesis 1 is refuted, which is in line with the research (Apriliani Preti et al., 2021), which shows that the existence of a sharia supervisory board has no significant effect on tax avoidance activities. First, not all members of the Shariah supervisory board are able to establish their independence, which impacts how well the oversight role operates and how well management oversight is when implementing tax avoidance tactics, which is one of the many reasons why the DPS has no influence. Second, the ability of the Sharia supervisory board to monitor the disclosure and disclosure process will be limited if related parties within the

company dominate and control the board as a whole. Third, because the Sharia supervisory board does not think about whether there is tax avoidance or aggressive tax procedures within the company, the company ignores its responsibilities to the state, especially its tax commitments.

#### **Effect of Institutional Ownership (IC) on Tax Avoidance**

Because variable X2 has a probability value of 0.2020 > of 0.05, the findings of the Common Effect Model (CEM) panel data regression show that institutional ownership does not affect tax evasion. According to a study by (Salaudeen dan Abdulwahab, 2022), Institutional ownership has no discernible impact on tax avoidance, so Hypothesis 2 is refuted. This allows corporate management to use institutional equity ownership while engaging in tax planning. (Moeljono, 2020).

#### **The Influence of the Audit Committee (KA) on Tax Avoidance**

The Audit Committee does not influence tax evasion, according to the results of the Common Effect Model (CEM) panel data regression, which reveals that the variable X3 has a probability value of 0.4434 > of a value of 0.05. As a result, hypothesis 3 is refuted, which is consistent with research by (Saprudin et al., 2022) and (Purbowati, 2021), which states that the audit committee does not influence tax avoidance. In this case, very few members of the audit committee are also commissioners or independent commissioners and only serve 1-2 years of the specified research period.

#### **The Effect of Independent Commissioners (KI) on Tax Avoidance**

Because variable X4 has a probability value of 0.8507 > 0.05, the findings of the Common Effect Model (CEM) panel data regression show that independent commissioners do not affect tax avoidance. Thus, Hypothesis 4 is refuted, which is in line with the research (Saprudin et al., 2022). The current number of commissioners will not have a large impact on tax evasion actions. This gives management an opportunity to engage in profit manipulation activities, which will benefit the business in terms of taxation.

#### **Effect of Islamic Social Reporting (ISR) on Tax Avoidance**

It is clear from the results of the panel data regression Common Effect Model (CEM) that Islamic Social Reporting (ISR) has a sizeable adverse impact on tax avoidance because variable X5 has a probability value of 0.0494 < 0.05. These results are in line with research conducted by (Abdullah Alsaadi, 2020). Paying taxes is an important step for businesses to engage effectively with society. Companies will pay a fair amount of tax to be socially responsible citizens. Companies with higher Islamic Social Reporting (ISR) scores appear to be more likely to reduce tax evasion, suggesting that businesses using corporate social responsibility can reduce the likelihood of significant consequences from severe tax evasion. This is in accordance with the Islamic view that Islamic banks must have a good responsibility for the common good, one of which is not committing tax evasion through social reporting.

#### **Effect of Financial Performance on Tax Avoidance**

Based on the results of the Common Effect Model (CEM) panel data regression, which shows that the variable X6 has a probability value of 0.0501 < 0.05, it can be said that ROA has a strong negative effect on tax evasion. That way, if hypothesis 6 is accepted, the greater the value of ROA, the more efforts to increase corporate tax avoidance are reduced (which is reflected in a decrease in ETR). According to Islamic views, Islamic banks are prohibited from manipulating transaction records. It is not appropriate for Sharia banks to carelessly take advantage of financial and temporary differences and ignore the meaning of tax reduction. For example, in some jurisdictions, scholarship fees and social charges are deductible from income tax. However, Islamic banks are not allowed to do so because these fees are the main reason for their existence, i.e., eradicating poverty (Muhammad Taufik, 2022). Companies are more likely to engage in tax avoidance, which is beneficial for increasing profits when the profit after tax is low. This is done with the intention of complying with the wishes of the shareholders, which will also affect the director's salary (Sunarsih et al., 2019).

## 6. Conclusion

This study examines the influence of Islamic Corporate Governance (ICG) proxied by the Sharia Supervisory Board (DPS), Institutional Ownership, Audit Committees, and the Proportion of Independent Commissioners (PKI), Islamic Social Reporting (ISR), and financial performance proxied by ROA on tax avoidance. With 12 samples of Indonesian Sharia Commercial Banks registered with OJK during the 2016–2021 period, it shows that DPS, institutional ownership, the audit committee, and the proportion of independent commissioners do not affect tax avoidance. Meanwhile, Islamic Social Reporting (ISR) and ROA have a significant negative effect on tax avoidance. The moderating variable in this study, namely BOD women, cannot moderate the relationship between the audit committee and tax avoidance. Likewise, leverage cannot moderate the relationship between Islamic Corporate Governance (ICG) and tax compliance.

Companies with higher Islamic Social Reporting (ISR) scores appear to be more likely to reduce tax evasion, suggesting that businesses using corporate social responsibility can reduce the likelihood of significant consequences from severe tax evasion. The greater the value of ROA, the more efforts are made to increase corporate tax avoidance (which is reflected in the decrease in ETR). According to Islamic law, Islamic banks are prohibited from manipulating transaction records. It is not appropriate for Sharia banks to carelessly take advantage of financial and temporary differences and ignore the meaning of tax reduction. For example, in some jurisdictions, scholarship fees and social charges are deductible from income tax. However, Islamic banks should not do so because these costs are the main reason for their existence, namely eradicating poverty.

The government is expected to take the findings of this study into account when developing tax laws to reduce tax evasion by businesses, especially Islamic banks. In addition, it is hoped that it will become a consideration for both financial institutions and companies to improve their CSR reporting and performance as a social responsibility to reduce tax avoidance. It is suggested that future researchers use other research populations, both in comparative exploratory studies, by considering non-financial and financial companies and using other appropriate data analysis.

## References

- Abdullah Alsaadi. (2020). Financial-Tax Reporting Conformity, Tax Avoidance and Corporate Social Responsibility. *Journal of Financial Reporting and Accounting*, 18(3).
- Apriliani Preti, Pattiasina Victor, Sumarno, Entar Sutisman, & Abdul Rasyid. (2021). Investigasi Determinan Faktor Penghindaran Pajak pada Perbankan Syariah Di Indonesia. In *Accounting Journal Universitas Yapis Papua* (Vol. 3, Issue 1). <http://jurnall.uniyap.ac.id/uyp/index.php/accju/article/view/153>
- Armstrong, C. S., Blouin, J. L., & Larcker, D. F. (2015). *Scholarly Commons Corporate Governance, Incentives, and Tax Avoidance*. 60, 1–17.
- Boussaidi Ahmed, & Hamed-Shidom Mounira. (2021). *Board's Characteristics, Ownership's Nature and Corporate Tax Aggressiveness: New Evidence From the Tunisian Context*. 16(4).
- BPS Indonesia. (2022). *Relasi Pendapatan Negara (Milyar Rupiah), 2020-2022*. Badan Pusat Statistik. [bps.go.id](https://bps.go.id)
- Choi, J., & Park, H. (2022). Tax Avoidance, Tax Risk, and Corporate Governance: Evidence from Korea. *Sustainability (Switzerland)*, 14(1). <https://doi.org/10.3390/su14010469>
- Darsani, P. A., & Sukartha, I. M. (2021). The Effect of Institutional Ownership, Profitability, Leverage and Capital Intensity Ratio on Tax Avoidance. *American Journal of Humanities and Social Sciences Research (AJHSSR)*, 5(1), 13–22. <https://www.ajhssr.com/wp-content/uploads/2021/01/C215011322.pdf>
- Hama, A. (2020). *Analisis Kecenderungan Penghindaran Pajak Penghasilan*. Mitra Abisatya.

- Hoseini, M., & Gerayli, M. S. (2018). The Presence of Women on the Board and Tax Avoidance : Evidence from Tehran Stock Exchange. *International Journal of Finance and Managerial Accounting*, 3(9), 53–62.
- Jarboui, A., Saad, M. A. Ben, & Riguen, R. (2020). Tax Avoidance: do Board Gender Diversity and Sustainability Performance Make a Difference? *Journal of Finance Crime*, 27(1359–0790).
- Kemenkeu.go.id. (2022). *Undang-Undang RI No 28 Tahun 2007*. Kemenkeu.Go.Id. <https://jdih.kemenkeu.go.id/fulltext/2007/28tahun2007uu.htm#Dalam%2520Undang%2520Undang%2520ini%2520yang%2520bagi%2520sebesar%2520besarnya%2520kemakmuran%2520rakyat>
- Khan, N., Abraham, O. O., Alex, A., Eluyela, D. F., & Odianonsen, I. F. (2022a). Corporate governance, tax avoidance, and corporate social responsibility: Evidence of emerging market of Nigeria and frontier market of Pakistan. *Cogent Economics and Finance*, 10(1). <https://doi.org/10.1080/23322039.2022.2080898>
- Khan, N., Abraham, O. O., Alex, A., Eluyela, D. F., & Odianonsen, I. F. (2022b). Corporate governance, tax avoidance, and corporate social responsibility: Evidence of emerging market of Nigeria and frontier market of Pakistan. *Cogent Economics and Finance*, 10(1). <https://doi.org/10.1080/23322039.2022.2080898>
- Kovermann, J., & Velte, P. (2019). The Impact of Corporate Governance on Corporate Tax Avoidance-A Literatur Review. *Journal of International Accounting, Auditing And Taxation*, 36(100270).
- Liyana, N. F. (2019). Menakar Masalah Dan Tantangan Administrasi Pajak: Kepatuhan Pajak Di Era Self-Assessment System. *Jurnal Pajak Dan Keuangan Negara (PKN)*, 1(1), 6. <https://doi.org/10.31092/jpkn.v1i1.606>
- Mappadang, A., Widyastuti, T., & Wijaya, A. M. (2018). The Effect of Corporate Governance Mechanism on Tax Avoidance: Evidence from Manufacturing Industries Listed in the Indonesian Stock Exchange. *The International Journal of Social Sciences and Humanities Invention*, 5(10), 5003–5007. <https://doi.org/10.18535/ijsshi/v5i10.02>
- Melati, P. M., & Suryowati, K. (2018). Aplikasi Metode Common Effect, Fixed Effect, Dan Random Effect Untuk Menganalisis Faktor-Faktor Yang Mempengaruhi Tingkat Kemiskinan Kabupaten/Kota Di Jawa Tengah Dan Daerah Istimewa Yogyakarta. *Jurnal Statistika Industri Dan Komputasi*, 3(1), 41–51. <http://ipm.bps.go.id/>
- Moeljono. (2020). Fakor-Faktor yang Mempengaruhi Penghindaran Pajak. *Penelitian Ekonomi Dan Bisnis*, 5028. <https://doi.org/10.33633/jpeb.v5i1.2645>
- Muhammad Taufik. (2022). Can Shari'ah supervisory board and Islamic bank characteristics reduce tax avoidance? Evidence in Indonesia and Malaysia. *Journal of Financial Crime*, 29(4).
- Mukhibad, H., Nurkhin, A., Waluyo Jati, K., & Yudo Jayanto, P. (2022). Corporate governance and Islamic law compliance risk. *Cogent Economics and Finance*, 10(1). <https://doi.org/10.1080/23322039.2022.2111057>
- Pangaribuan, H., Fernando HB, J., Agoes, S., Sihombing, J., & Sunarsi, D. (2021). The Financial Perspective Study on Tax Avoidance. *Budapest International Research and Critics Inditute-Journal (BIRCI-Journal)*, 4(3), 4998–5009. <http://bircu-journal.com/index.php/birci/article/view/2287>
- Peraturan Bank Indonesia. (2009). *Peraturan Bank Tentangpelaksanaan Good Corporate Governancebagi Bank Umum Syariah Dan Unit Usaha Syariah*.
- Purbowati, R. (2021). Pengaruh Good Corporate Governance terhadap Tax Avoidance (Penghindaran Pajak). *Riset Akuntansi & Keuangan*, 4(1), 61–76.
- Riziqiyah Metiya Fatikhatur, & Pramuka Bambang Agus. (2021). Pengaruh Islamic Corporate Governance Terhadap Tax Avoidance Pada Bank Umum Syariah Di Indonesia Bambang Agus Pramuka. *Ekonomi*, 21, 9–18.

- Salaudeen, Y. M., & Abdulwahab, S. S. (2022). Corporate Governance Mechanism and Tax Compliance: The Nigerian Experience. *European Journal of Business and Management Research*, 7(2), 45–54. <https://doi.org/10.24018/ejbmr.2022.7.2.1222>
- Saprudin, Andhityara Revan, & Dameria Ribkha Putri. (2022). The Influence Of Corporate Governance On Tax Avoidance (Study On Basic Industry And Chemicals Companies Listed On The Indonesia Stock Exchange). *International Journal of Economics, Business and Accounting Research (IJEBAR)*, 10(1), 1–52. <https://doi.org/10.21608/pshj.2022.250026>
- Sriyono, & Andesto Ronny. (2022). *The Effect Of Profitability, Leverage And Sales Growth On Tax Avoidance With The Size Of The Company As A Moderation Variable*. 4(1), 112–126.
- Sunarsih, S., Haryono, S., & Yahya, F. (2019). Pengaruh Profitabilitas, Leverage, Corporate Governance, dan Ukuran Perusahaan Terhadap Tax Avoidance (Studi Kasus Pada Perusahaan Yang Tercatat Di Jakarta Islamic Index Tahun 2012-2016). *INFERENSI: Jurnal Penelitian Sosial Keagamaan*, 13(1), 127–148. <https://doi.org/10.18326/infs13.v13i1.127-148>
- Tao Zeng. (2019). Relationship Between Corporate Social Responsibility and Tax Avoidance: International Evidence. *Social Responsibility Journal*, 15(2).
- Urrahman, S., & Mukti, S. H. (2021). The Effect Of Liquidity, Capital Intensity, And Inventory. *International Journal of Reasearch-GRANTHAALAYAH*, 9(December), 1–16. <https://doi.org/10.29121/granthaalayah.v9.i12.2021>
- Wiratmoko, S. (2018). The effect of corporate governance, corporate social responsibility, and financial performance on tax avoidance. *The Indonesian Accounting Review*, 8(2), 241. <https://doi.org/10.14414/tiar.v8i2.1673>
- Yusuf, M., Herawati, H., & Yulianti, D. H. (2021). Pengaruh Corporate Gorvenance Terhadap Tax Avoidance Dengan Profitabilitas Sebagai Pemoderasi (Studi Empiris pada perusahaan tambang yang terdaftar di Bursa Efek Indonesia. *AKRUAL Jurnal Akuntansi Dan Keuangan*, 3(1), 44–57.
- Yusvita Nena Arinta. (2018). Pengaruh Corporate Gorvenance Islam terhadap Tax Avoidance. *BISNIS*, 6(2).