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THE EFFECT OF GOOD CORPORATE GOVERNANCE AND COMPANY CHARACTERISTICS ON TAX AVOIDANCE

Wayan Widya Desiana[1*], Tri Darma Rosmala[2], Dwi Tirta Kencana[3]
[123]Universitas Teknokrat Indonesia
E-mail: widyadesi0606@gmail.com,[1], tridarma_rosmalasari@teknokrat.ac.id[2], dwitirtakencana@teknokrat.ac.id [3]*

ABSTRACT
This study was conducted to obtain empirical evidence on the effect of good corporate governance and company characteristics on tax avoidance. Tax avoidance is an effort made by the company to reduce the amount of tax legally payable. This tax avoidance is done by utilizing the loopholes contained in the applicable tax regulations. The components of good corporate governance used in this study are the Proportion of Independent Commissioners and the Audit Committee. At the same time, the components of company characteristics used are Company Size and Leverage. This research is focused on manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2021 period. After deducting outlier data, the number of observations in this study the analysis technique used in this research is panel data regression analysis. The analysis results show that the proportion of independent commissioners, audit committees, and company size does not affect tax avoidance, while leverage positively affects tax avoidance.

Keywords: Audit committee, GCG, Tax avoidance

1. INTRODUCTION

Taxes are one of the most important and coercive forms of state revenue for all Indonesian citizens. Based on data from the Indonesian Central Bureau of Statistics, the realization of state revenue in 2019-2021 shows that almost 80% of Indonesia's state revenue is obtained from tax revenue, while according to the Indonesian Ministry of Finance report, tax revenue to Indonesia's Gross Domestic Product (GDP) or Indonesia's Tax Ratio in 2019 was 9.77%, in 2020 it was 8.33% and in 2021 it was 9.11% (Dihni, 2022). The low tax ratio indicates that taxpayer awareness in paying taxes is still low. Tax avoidance can be one of the causes of Indonesia's low tax ratio (Dewi & Oktaviani, 2021).

Tax avoidance can occur due to differences in interests between the government and the company, the government tries to continue to optimize tax revenue while the company tries to increase company profits, with the collection of taxes will reduce company profits, therefore the company tries to minimize its tax burden by doing tax avoidance. (Kusufiyah & Anggraini, 2019).

One of the tax avoidance cases that occurred in Indonesia was carried out by PT Bantoel Internasional Investama. Through the tax justice network institution, the company owned by British American Tobacco (BAT) has avoided taxes in Indonesia by

diverting some of its income out of Indonesia in two ways, first by intra-company loans from 2013 to 2015, second by paying royalties, fees, and services from the UK. As a result of this tax evasion, the government suffered losses of up to US$14 million per year (Prima & Dewi, 2019).

The opportunity for companies to take advantage of tax avoidance practices makes the role of good corporate governance very much needed in overseeing the actions taken by company management to remain in compliance with applicable law. Good corporate governance has a role in the company's decision-making process, including company decisions related to taxation (Jefri & Khoiriyah 2019). Independent commissioners and audit committees are components of good corporate governance used in this study and function to oversee deviant actions taken by the company, especially deviations related to tax avoidance (Kusufiyah & Anggraini, 2019). There are several researchers have examined the effect of independent commissioners on tax avoidance. Research from Yuni & Setiawan (2019) explains that independent commissioners have a negative effect on tax avoidance, the results of this study contradict the results of research conducted by Fitria (2018) which explains that independent commissioners have no effect on tax avoidance. While research related to the audit committee conducted by Sumantri et al, (2018) explains that the audit committee has a negative effect on tax avoidance, these results contradict the results of research conducted by Purbowati (2021) which explain that the audit committee has no effect on tax avoidance.

Company characteristics are the characteristics of an entity that can be seen from various aspects, including the type of business or industry and company size (Kartana & Wulandari, 2018). In this study, the company characteristics used are company size and leverage. The larger the size of the company and the higher the level of company leverage, the higher the possibility of the company doing tax avoidance. Research from Wulandari & Purnomo (2021) explains that company size has a positive effect on tax avoidance, these results contradict the results of research conducted by Rahmadani et al (2020) which explains that company size has no effect on tax avoidance. While research from Rahmadani et al (2020) also explains that leverage has a positive effect on tax avoidance, this result contradicts the results of research from Nibras & Hadinata (2020) which explains leverage has no effect on tax avoidance.

Based on the inconsistencies in the results of previous research, the authors are motivated to conduct retesting related to tax avoidance and this research is a replication of Pratomo and Rana's research (2021) with the object of research on manufacturing companies in the consumer goods sector, while the object in this study uses all manufacturing companies listed on the Indonesia Stock Exchange.

2. LITERATURE REVIEW

In this study, we employed stewardship, accounting positive, and trade-off theories to develop the hypotheses. Stewardship theory is designed to examine situations where executives who act as stewards are motivated to act according to the interests of their principals. Stewards feel the common interest and behave following the principal's goals is a rational consideration for achieving the organization's goals (Davis et al., 1997).

Meanwhile, positive accounting theory is a theory that aims to explain and predict the accounting practices that companies want to choose under certain conditions (Edeline & Sandra, 2018). Watts and Zimmerman (1990) divide positive accounting theory into

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three hypotheses, one of which is the political cost hypothesis which predicts that companies with high profits tend to have high political costs. At the same time, trade-off theory is a theory that balances the benefits and sacrifices arising from the use of debt. Trade-off theory is referred to as leverage exchange theory, in which companies exchange the tax benefits of debt financing for problems caused by potential bankruptcy (Umdiana & Claudia, 2020).

Based on the theories above, we intend to examine the determinants of tax avoidance based on good corporate governance (GCG) and company characteristics. In this study, tax avoidance was defined as an effort by taxpayers to take advantage of opportunities that exist in tax law so that taxpayers can pay lower taxes than they should. Tax avoidance is a legal action because the process is still following the provisions of taxation or applicable laws (Hidayat & Mulda, 2019).

Furthermore, we define corporate governance as a system that directs and controls the company to achieve a balance between company management, shareholders, and other parties with an interest in the company. The concept of GCG is definitively a system that regulates and controls the company to create added value for all stakeholders (Sudarmanto et al, 2021: 06). The proportion of independent commissioners is a member of the board of commissioners who comes from outside the issuer or public company whose job is to supervise and be responsible for supervising management policies (Ayuningtiyas & Sujana, 2018). The audit committee is a committee formed by and responsible to the board of commissioners, the task of the audit committee is to ensure that the financial statements are presented fairly in accordance with generally accepted accounting principles (Sudarmanto et al 2021: 44).

On the other side, company characteristics was described as the specific characteristics of the company and can be seen from various aspects such as business fields, ownership composition, liquidity ratios, profitability, leverage, and company size (Suprasto & Haryanti, 2019). Company size is the size of a company which can be seen from the level of sales, total equity, and total assets owned by the company. The larger the size of the company, the easier it is for the company to obtain funding sources, both internal and external (Yanti & Darmayanti, 2019). Leverage is a comparison that reflects the amount of debt used by the company to finance its operational activities, from this debt will incur loan interest costs where the loan interest can be deducted in calculating taxable income. (Octavia & Sari, 2022).

3. DATA AND RESEARCH TECHNIQUE ANALYSIS

The population used in this study is the publication of financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 2019- 2021. The sample selection for this study used the purposive sampling method. This study uses the independent variables of good corporate governance and company characteristics. The independent variable of good corporate governance in this study is divided into variables of the proportion of the Independent Board of Commissioners and the Audit Committee. The company characteristics variable is divided into two: the company size and leverage variables. There are 213 manufacturing companies listed on the Indonesia Stock

Exchange in 2019-2021 which became the population of this study, with 75 companies selected as samples.

We employ the panel regression analysis to examine the effect of good corporate governance and company characteristics on tax avoidance. In selecting the panel data regression model, it is necessary to conduct the Chow, Hausman, and Lagrange multiplier tests. The Chow test determines which model is chosen between the common and fixed effect models. The Hausman test determines which model is used between the fixed and random effect models. The Lagrange Multiplier test determines whether the random effect model is better than the common effect model.

4. RESULT AND DISCUSSION

To determine the simultaneous effect of the independent variables on the dependent variable, it is necessary to conduct an F statistical test and to determine the partial effect,it is necessary to conduct a t statistical test.

$$Yit = \alpha + \beta 1PKIit + \beta 2KAit + \beta 3SIZEit + \beta 4DERit + eit$$

Where, Y = Tax Avoidance, PKI = Proportion of Independent Commissioners, KA = Audit Committee, SIZE = Company Size, DER = Leverage, α = Constant, β = Coefficient, e = Error Term, i = Object, and t = Time (Year)

Descriptive Statistics Test

Descriptive statistical analysis was carried out by grouping all data related to the research and then analyzing it. To fulfill the assumption of data normality, the outlier datain this study needs to be removed.

Table 1. Descriptive Statistical Test Results

	CETR	PKI	KA	SIZE	DER
Mean	0.219	0.410	0.670	28.729	0.801
Median	0.208	0.400	0.667	28.515	0.600
Maximum	0.597	0.667	0.750	33.537	4.384
Minimum	0.003	0.200	0.667	25.049	0.067
Std. Dev.	0.103	0.093	0.016	1.687	0.710
Observations	193	193	193	193	193

After the outlier data was removed, the remaining research samples were 193 samples. The dependent variable of tax avoidance (CETR) has a minimum value of 0.003071 and a maximum value of 0.596801. The average CETR value is 0.218748 with a standard deviation value of 0.102941 indicating that the average CETR value is lower but close tothe corporate income tax rate of 25%. This means that the level of tax avoidance carried out by the companies that are the research sample is still relatively low.

After conducting several tests to determine the best panel data regression model for this study, the best model chosen is the random effect model. Based on the results of the random effect model (REM) estimation, it can be seen that the F statistical value has a significant value indicated by a probability value of 0.010640 which is smaller

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than 0.05. This shows that simultaneously the variables of the proportion of independent commissioners, audit committee, company size, and leverage affect tax avoidance.

Table 2. Panel Regression Results (Random Effect Model)

Variable	Coefficient
C	0.461 (0.349)
PKI	-0.048 (0.089)
KA	0.045 (0.522)
SIZE	-0.01 *(0.006)
DER	0.041**(0.012)
Root MSE	0.087
Mean dependent var	0.161
S.D. dependent var	0.090
Sum squared resid	1.448
Durbin-Watson stat	2.067
R-squared	0.067
Adjusted R-squared	0.047
S.E. of regression	0.088
F-statistic	3.382
Prob(F-statistic)	0.011
Cross-sections included	73
Obs	193

Notes:*significant at 0.10, **significant at 0.05, ***significant at 0.001. Standard error are in parthenses. Dependent variable = CETR

Effect of Proportion of Independent Board of Commissioners on Tax Avoidanc

This result has a coefficient of -0.047182 and t count of -0.532563 which is negative. Thus, H0 is accepted and H1 is rejected or it can be interpreted that the proportion of theindependent board of commissioners has no effect on tax avoidance. The results of this study failed to prove the truth of the stewardship theory underlying this study. Based on stewardship theory, independent commissioners are parties that can be trusted to serve well the interests of their principals, including the interest to prevent tax avoidance by the company (Sudarmanto et al, 2021: 14). The rationalization of the results of this studyis that independent commissioners in public companies only exist as a complement to meet applicable regulations. This may indicate that independent commissioners do not carry out their duties effectively (Kusufiyah and Anggraini, 2019).

Effect of Audit Committee on Tax Avoidance

This result has a coefficient of 0.044180 and a t count of 0.084755 which is positive. Thus, H0 is accepted and H2 is rejected or it can be interpreted that the audit committee has no significant effect on tax avoidance. Based on the results of this study, it cannot prove the stewardship theory that underlies this study. In stewardship theory, the

most important part is prioritizing common goals over individual goals, therefore the balance problem in stewardship theory is the most important part, there must be mutual trust and encouragement between the audit committee and the principal so that common goals canbe achieved (Sudarmanto et al., 2019).

The Effect of Company Size on Tax Avoidance

This result has a coefficient of -0.009940 and t count of -1.853387 which is negative. Thus, H0 is accepted and H3 is rejected or it can be interpreted that company size has no significant effect on tax avoidance. The results of this study are not in line with the political cost hypothesis in positive accounting theory which explains that large companies are sensitive to political aspects so they tend to choose to reduce reported profits so as not to appear to have high profits (Edeline & Sandra, 2018).

Effect of Leverage on Tax Avoidance

This result has a coefficient of 0.040375 and a t count of 0.0008 which is positive. Thus, H0 is rejected and H4 is accepted or it can be interpreted that leverage affects tax avoidance. This result is supported by trade-off theory which states that financial funding by companies derived from the use of debt can provide benefits such as a reduction in tax burden (Arianandini & Ramantha, 2018).

5. CONCLUSION

This study was conducted to determine the effect of good corporate governance, which is proxied by the variable proportion of independent commissioners and audit committees, as well as company characteristics which are proxied by the variables of company size and leverage on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2019 - 2021. This study concluded that the proportion of independent commissioners does not affect tax avoidance. This result is in line with the research conducted by Fitria (2018), which shows that the proportion of independent commissioners does not affect tax avoidance. Meanwhile, the audit committee does not affect tax evasion, which aligns with the results of research conducted by Purbowati (2021), which shows that the audit committee does not affect tax avoidance.

This study also determined that company size does not affect tax avoidance, which aligns with the results of research conducted by Rahmadani et al. (2020), which shows that company size does not affect tax avoidance. At the same time, leverage has a positive effect on tax evasion. This result is in line with the research conducted by Rahmadani et al. (2020), which shows that leverage positively affects tax avoidance. Lastly, this study has several limitations. Further studies hopefully could fill that weakness.

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