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THE INFLUENCE OF CORPORATE GOVERNANCE MACHANISMS ON TAX AVOIDANCE

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Abstract *– This research aims to empirically examines the influences of corporate governance mechanism on tax avoidance. The research's population of this study are manufacturing Companies listed in the Indonesia Stock Exchange (BEI) in 2014-2017, which is 97 companies. This research samples were to 54 companies or 216 observation data selected by purposive sampling method. The data used is secondary data obtained from the Indonesia Stock Exchange (IDX) and it was analyzed by descriptive statistics, classic assumption test, goodness of fit model. The results of the research shows that independent board of commissioners and audit quality positively affect Tax Avoidance. whereas the institutional ownership and board of directors does not affect Tax Avoidance.*

Keyword *– Independent Board of Commissioners, Audit Quality, Institutional Ownership, Board of Directors, Tax Avoidance.*

1. INTRODUCTION:

Tax avoidance is one form of non-compliance carried out by taxpayers, which is an effort to reduce the tax burden legally by exploiting the weaknesses of tax regulations (Dewi and Jati, 2014). Tax avoidance is everything that the company does and has an impact on reducing corporate taxes (Dyreng et al., 2008). Tax avoidance practices can open opportunities for managers to nature be opportunistic, Where they expect short-term profit which in the long run can be detrimental to shareholders (Minnick dan Noga, 2010). Tax avoidance does not violate taxation regulations, because the practice related to tax avoidance is considered to be more exploiting the loopholes in tax laws that can affect revenue from the tax sector (Mangoting, 2004).

Sutedi (2012) states that the rampant practice of tax avoidance is one of the causes that forces shareholders to surrender the management of the company to professionals who are more understanding in carrying out daily business. According to him, the purpose of separating management from company ownership is so that the owner of the company can get the maximum benefit and cost as efficiently as possible with the management of the company by professionals who have various abilities including practicing tax avoidance. Thus the owner of the company is only tasked with overseeing and monitoring the running of the company managed by management and developing an incentive system for management to ensure that they work in the interests of the shareholders.

According to Rusydi and Martani (2014) differences in interests between principals and agents can affect various things concerning company performance, one of which is company tax-related policies. Managers as agents have the interest to obtain compensation or incentives as much as possible through high profits on their performance and shareholders want to reduce the cost of the company so that the profits they earn are maximized. Therefore, the emphasis in minimizing tax payments such as tax avoidance practices can lead to agency conflict. According to Jensen and Meckling (1976) the occurrence of agency conflict is caused by the parties involved, namely shareholders and agents, having conflicting interests. This agency conflict arises due to differences in interests between owners and management of the company.

The mechanism that can be done to reduce this agency conflict is by implementing good corporate governance, known as Good Corporate Governance (Rachmawati and Triatmoko, 2007).The Corporate Governance mechanism plays an important role in controlling the impact of agency problems in the practice of tax avoidance (Desai and Dharmapala, 2006; Armstrong et al., 2015). Lukviarman (2004) describes Corporate Governance as a mechanism for doing things right the right way (doing the right things right). Meanwhile Corporate Governance has also been identified as an important variable that can explain variations in tax avoidance practices (James and Igbeng, 2014). According to Zarkasyi (2008) there are four important mechanisms of Corporate Governance: independent commissioners, audit quality, institutional ownership and board of directors.

Based on the introduction above, problems can be formulated which will be the focus of research, namely:

1. Do independent commissioners influence tax avoidance?
2. Does audit quality affect tax avoidance?
3. Does institutional ownership affect tax avoidance?
4. Does the board of directors influence tax avoidance?

2. LITERATURE REVIEW:

2.1 Agency Theory

This research is based on angecy theory. Agency theory theory is the basis used to understand corporate governance. According to Jensen and Meckling (1976) agency theory arises due to differences in aim between managers (agents) and the owner (principal). If the agent and principal try to maximize their respective utilities, and have different attitudes and motivations, the agent will not always act according to peincipal's wishes. There are several basic assumptions that form the basis of the agency theory:

1. Agency conflict which is a conflict created as a result of management carrying out actions that are not in harmony with shareholders interests which result in sacrificing the interests of shareholders in order to obtain long-term value and company return.
2. This agency problem arises as a result of the gap that occurs between the interests of shareholders as owners and management as manace.

2.2Tax Avoidance

Pohan (2013) describes tax avoidance as an effort to fight tax costs, namely all efforts and actions that are directly aimed at tax authorities and aim to avoid taxes. The methods and techniques used are by utilizing the gray areas contained in the laws and tax regulations themselves, to reduce the amount of tax that must be paid by the company. Managers can also use existing gaps to minimize profits so that payment of tax obligations becomes low (Hoque et al., 2011).

Measurements related to tax avoidance in this study were carried out using the Book Tax Difference (BTD) proxy as a measurement tool. BTD is the difference in book value based earnings with tax profits. According to Blaylock et al. (2011), BTD occurs because of three earnings management activities, tax management and differences in accounting and taxation provisions (normal BTD). Sedangkan Tang dan Firth (2012) menyebutkan bahwa ada dua jenis sumber BTD, yaitu BTD yang berasal dari perbedaan laba akuntansi dan laba pajak (BTD normal) dan BTD yang berasal dari kegiatan manajemen laba dan manajemen pajak (abnormal BTD). The formula for BTD total according to Siahaan et al. (2012) namely:

$$\text{Book Tax Different (BTD)} = \frac{\text{Accounting Profit} - \text{Fiscal Profit}}{\text{Total Assets}}$$

2.3 Independent Board of Commissioners

According to Tunggal (2014) independent commissioners are members of the board of commissioners appointed by a GMS decision from parties that are not affiliated with the major shareholders, members of the board of directors and / or other board members. Independent Commissioner according to Agoes and Ardana (2014) is someone appointed to represent independent shareholders (minority shareholders) and the party appointed is not in the capacity to represent any party and is solely appointed based on the background of professional knowledge, experience and expertise. it has to fully carry out its duties in the interests of the company.

The Independent Commissioner proportion that helps the performance of a company and increases the effectiveness of the company's control activities is measured by using the percentage of board of commissioners in a company (Siallagan and Machfoedz, 2006). That is the percentage of the number of independent commissioners in a company from the total number of members the board of commissioners of the company.

$$\text{The Independent Commissioner proportion} = \frac{\text{Number of Independent Commissioners}}{\text{Total All Board of Commissioners}}$$

2.4 Audit Quality

According to Rosnidah in Tarigan and Susanti (2013) illustrating that audit quality is the implementation of audits carried out according to standards so that auditors are able to disclose and report when there is a violation that is done by the client, the standards governing the conduct of audits in Indonesia are the *Standar Profesioanal Akuntan Publik*. In addition, according to Basuki (2006) said audit quality is a systematic and independent examination to determine activities, quality and results in accordance with planned regulations whether the arrangement is implemented effectively and fits the purpose.

The audit quality in this study was measured by looking at the size of the Public Accountant Office (KAP) that audits a company. Audit quality is measured using audit proxies, namely KAP reputation, those using Big 4 are given a value of 1, while Non-Big 4 is given a value of 0 (Cai and Liu, 2009).

2.5 Institutional Ownership

According to Yuniati et al. (2016) institutional ownership is the level of share ownership by institutions in the company, measured by the proportion of shares held by institutions at the end of the year expressed in percentages. Institutional ownership has an important meaning in monitoring management because the existence of ownership by the institution will encourage an increase in more optimal supervision. Supervision by institutional investors will guarantee the prosperity of shareholders. The influence of institutional ownership as supervisory agents was suppressed through their investment consider in the capital market.

Institutional ownership in this study is measured by using a percentage of shares held by the institution against the total number of company shares (Khurana and Moser, 2009).

$$\text{Institutional Ownership} = \frac{\text{Shares owned by the Institutions}}{\text{Number of Shares issued}}$$

2.6 Board of Directors

According to Zarkasyi (2008) the definition of a board of directors is a group of individuals chosen to act as representatives of shareholders to develop rules related to company management and make important company decisions. In order to carry out the duties of the board of directors effectively, one of the principles that needs to be fulfilled is the composition of the board of directors in such a way as to enable effective, appropriate, quick and independent decision making (National Governance Policy Committee, 2006).

Board of Directors = Total board of directors members

3. METHOD:

This research aims to empirically examines the influences of corporate governance mechanism on tax avoidance. The research's population of this study are manufacturing Companies listed in the Indonesia Stock Exchange (BEI) in 2014-2017, observation data selected by purposive sampling method. The data used is secondary data obtained from the Indonesia Stock Exchange (IDX) and it was analyzed by descriptive statistics, classic assumption test, goodness of fit model.

4. RESULT AND DISCUSSION:

4.1 Descriptive Statistics

Table 4.1 Descriptive Statistics Table

	N	Minimum	Maximum	Mean	Std. Deviation
Y	216	.00	.26	.0350	.03954
X1	216	.00	.80	.3951	.12371
X2	216	.00	1.00	.4769	.50062
X3	216	.00	.99	.6660	.21561
X4	216	2.00	15.00	5.5694	2.78781
Valid N (listwise)	216				

Table 4.1 shows the results of the descriptive statistical test against:

1. Tax avoidance (Y) has a minimum value of 0.00 and a maximum value of 0.26 with an average value of 0.0350. While the standard deviation has a value of 0.03954 which means that the size of the spread of data from tax avoidance variables is equal to 0.0350 of the 216 samples used.
2. Independent commissioner (X1) has a minimum value of 0.00 and a maximum value of 0.80 with an average value of 0.3951. While the standard deviation has a value of 0.12371 which means that the size of the data distribution from the independent commissioner variable is 0.12371 from 216 samples used.
3. Audit quality (X2) has a minimum value of 0.00 and a maximum value of 1.00 with an average value of 0.4769. While the standard deviation has a value of 0.50062 which means that the size of the data distribution from the audit quality variable is 0.50062 from 216 samples used.
4. Institutional ownership (X3) has a minimum value of 0.00 and a maximum value of 0.99 with an average value of 0.6660. While the standard deviation has a value of 0.21561, which means that the size of the data distribution of institutional ownership variables is 0.21561 of the 216 samples used.

5. The board of directors (X4) has a minimum value of 2.00 and a maximum value of 15.00 with an average value of 5.5694. While the standard deviation has a value of 2.78781 which means that the size of the data distribution from the board of directors variable is 2.78781 from 216 samples used.

4.2 Classic Assumption Test
4.2.1 Multicollinearity Test

Table 4.2 Multicollinearity Test
Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	X1	.744	1.343
	X2	.677	1.477
	X3	.734	1.362
	X4	.695	1.440

Tolerance and VIF values generated in table 4.2 indicate that the independent variables in the regression model do not correlate with each other. The independent commissioner variable (X1) can be seen Tolerance value of 0.744 which means > 0.10 and a VIF value of 1.343, which means < 10. On the audit quality variable (X2) can be seen the Tolarance value of 0.677 which means > 0.10 and VIF value of 1.477 which means < 10. In institutional ownership variables (X3) can be seen Tolerance value of 0.734 which means> 0.10 and value VIF of 1.362 which means < 10. On the board of directors variable (X4) can be seen Tolerance value of 0.695 which means > 0.10 and VIF value of 1.440 which means < 10. Then it can be concluded that there is no correlation between the independent variables contained in the regression model and there is no multicollinearity between fellow independent variables in the regression model.

4.2.2 Autocorrelation Test

Table 4.3 Autocorrelation Test
Model Summary[b]

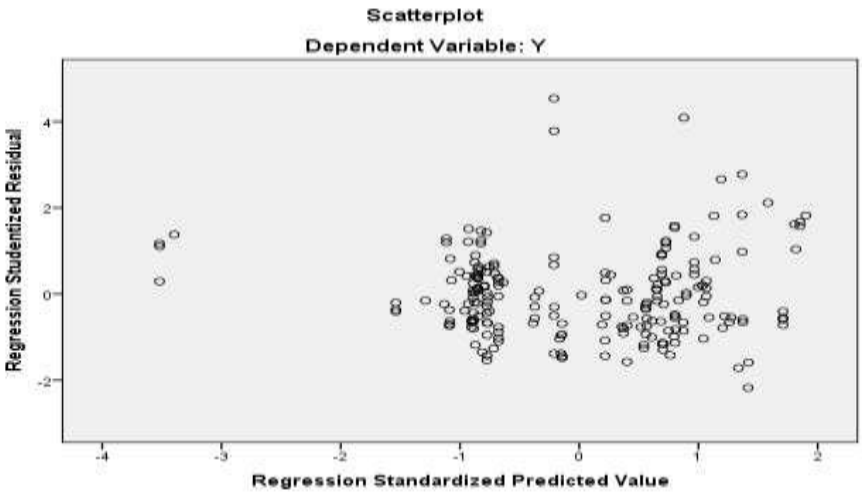
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.447[a]	.200	.185	.07620	1.909

a. Predictors: (Constant), X4, X1, X3, X2
b. Dependent Variable: Y

Based on the results of testing table 4.3, it can be seen that the Durbin Watson (DW) is 1,909. With a total sample of 216 (n) and the number of independent variables as much as 4 (k = 4), the value of dL = 1,728 and dU = 1,810. Then the value of 4-dL = 2.227 and the value of 4-dU = 2.190. It can be seen that the DW value is 1.909> dU and <4-dU, so there is no autocorrelation in this test.

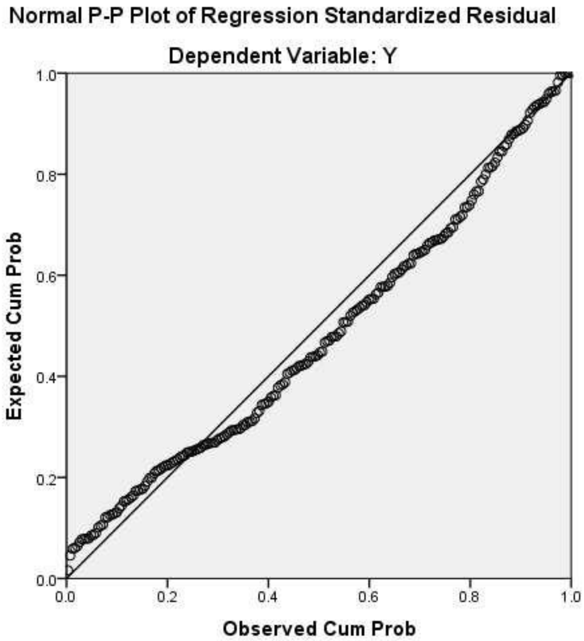
4.2.3 Heteroscedasticity Test

Figure 4.1 Heteroscedacity test



From the picture above, it can be seen that the point distribution does not form a certain pattern, so it can be concluded that heteroscedasticity does not occur or in other words homosexedasticity occurs. The classic assumption about heteroscedasticity in this model is fulfilled, which is free from heteroscedasticity. It can be concluded also that a decent this regression model is used to predict the increase in tax avoidance, based on the input of independent variables namely independent commissioners, audit quality, institutional ownership, and the board of directors.

4.3.4 Normality Test



Based on the graph above, it shows that the plot graph is around the line and not away from the diagonal line. Thus the conclusion that the data used in this study is stated as normal distribution and further research can be done.

4.3 Analysis the Goodness of Fit Model
4.3.1 Coefficient of Determination (R^2)

Based on table 4.13 it can be seen that the amount of R^2 is 0.185, this means that 18.5% of tax avoidance variations can be explained by variations of the four independent variables namely independent commissioners, audit quality, institutional ownership, board of directors. While the remaining 81.5% can be explained by other reasons outside the independent variable. Then the value of the Standard Error of Estimate (SEE) is 0.07620, which means that the smaller the SEE value will make the regression model more precise in predicting the dependent variable.

4.3.2 Simultaneous Significance Test (Statistic test F)

Table 4.4 Statistic test F
ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.306	4	.077	13.190	.000[b]
	Residual	1.225	211	.006		
	Total	1.531	215			

a. Dependent Variable: Y
b. Predictors: (Constant), X4, X1, X3, X2

From the results of the F test in the table above obtained F count of 13,190 and a probability of 0,000. Because sig F count < 5% (0,000 < 0,05), it can be concluded that independent commissioners, audit quality, institutional ownership, and the board of directors simultaneously influence tax avoidane or independent variables can be used to predict the dependent variable.

4.3.3 Individual Parameter Significance Test (Statistic Test t)

Table 4.5 Statistic test t

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.053	.036		1.458	.146
	X1	.167	.051	.232	3.254	.001
	X2	.062	.013	.370	4.942	.000
	X3	.008	.034	.016	.223	.824
	X4	-.011	.011	-.074	-1.008	.315

a. Dependent Variable: Y

4.3.3.1 Hypothesis 1

Based on table 4.5, it can be seen that the results of the significance testing indicate that there is a probability value of 0.001 (0.001 < 0.05). This value can prove that H_1 is rejected, which means that independent commissioners have a positive effect on tax avoidance. From these results according to (Sihaloho and Pratomo, 2015) it can be seen that the performance of independent commissioners who should be able to reduce the number of tax avoidances within the company does not work effectively. Adequate constraints hampered the performance of independent commissioners because some independent commissioners were still weak in their competence and integrity. This happens because the appointment of independent commissioners is partly based solely on awards, family relationships or close acquaintances (nepotism). Therefore, the requirements for being appointed as an independent commissioner should be very strict, including having adequate integrity and competence so that the performance of the commissioner can be further enhanced and tax avoidance within the company can be minimized.

4.3.3.2 Hypothesis 2

Based on table 4.5, it can be seen that the results of the significance testing indicate that there is a probability value of 0,000 (0,000 < 0,05). This value can prove that H_2 is rejected, which means that audit quality has a positive effect on tax avoidance. This means that big 4 auditors have failed to display quality financial reports that are free of manipulation. The company audited by KAP big 4 is indeed more likely to be trusted by the tax authorities as KAP that has high work integrity by always applying existing and quality regulations, however, if the company's management can provide a lot and better benefits and welfare to the KAP it is possible for KAPs that have a good reputation to commit fraudulent actions to maximize their welfare as in the case of Enron in 2004 (Fadhilah, 2014).

4.3.3.3 Hypothesis 3

Based on table 4.5, it can be seen that the results of the significance testing indicate that there is a probability value of 0.824 (0.824 > 0.05). This value can prove that H_3 is rejected, which means that institutional ownership does not affect tax avoidance. This result is in accordance with the research conducted by Fadhilah (2014) that institutional ownership has no effect on tax avoidance because institutional ownership is the ownership of shares by institutions outside the company and they have given their decision to the board of directors, where the board of directors also gives decisions to management decisions . It can be said that, with the presence or absence of institutional ownership the possibility of doing tax avoidance will still occur. In addition, because institutional owners do not care about the company's image. So whatever management decisions provided that it can maximize their welfare will be supported. Even the decision to do tax avoidance.

4.3.3.4 Hypothesis 4

Based on table 4.15, it can be seen that the results of the significance testing indicate that there is a probability value of 0.315 (0.315 > 0.05). This value can prove that H4 is rejected, which means that the board of directors does not affect tax avoidance. The results of this study are in line with Hartoto (2018) study which revealed that the size of the board of directors does not affect tax avoidance, this is because the company or in this case the board of directors considers factors related to administrative sanctions or worse for later decide on tax avoidance. In addition, directors usually tend to support all actions taken by management in terms of being able to benefit the company, including in terms of tax avoidance actions.

5. CONCLUSION:

This study aims to empirically examine the effect of corporate governance mechanisms consisting of independent commissioners, audit quality, institutional ownership, and board of directors on tax avoidance. Analysis was carried out using descriptive statistical analysis methods, classic assumption tests, and analysis of goodness of fit models through Statistical Pacage for Social Science (SPSS) program Ver. 21. With the sample data of this study, there were 54 manufacturing companies listed on the BEI during the 2014-2017 period.

Based on the analysis and discussion of the results of hypothesis testing that has been done, then the conclusions of the results of this study are also a problem solving from a number of questions raised in this study. The conclusions of the results of this study are as follows:

1. Independent Commissioners have a positive effect on tax avoidance in manufacturing companies for the 2014-2017 period.
2. Audit quality has a positive effect on tax avoidance in manufacturing companies for the 2014-2017 period.
3. Institutional ownership does not affect tax avoidance in manufacturing companies for the 2014-2017 period.
4. The board of directors does not affect tax avoidance in manufacturing companies for the 2014-2017 period.

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