

The Effect of Corporate Governance on Tax Avoidance: Evidence from Indonesia

Feren Frisca Tania^{1♦}, Mukhlasin²

¹College Student, Economic and Business Department, Atma Jaya Catholic University of Indonesia, Jakarta (Indonesia)

✉ Ferenfrisca@gmail.com

²Lecturer, Economic and Business Department, Atma Jaya Catholic University of Indonesia, Jakarta (Indonesia)

✉ Mukhlasin_nur@yahoo.com

Received: 16-06-2020

Accepted: 19-08-2020

Published: 22-09-2020

Abstract :

This study aims to analyze the effect of the effectiveness of internal control, independent commissioners, the expertise of the board of commissioners, the number of audit committees, and the expertise of the audit committee on tax avoidance in manufacturing companies listed in Indonesia Stock Exchange period 2016-2018. This research is expected to be a material consideration for companies in making decisions related to taxation. The deductive approach used in this study by developing hypotheses based on relevant theories and findings of previous studies. Agency theory is used to see the effect of corporate governance on tax avoidance. The data collection method uses secondary data from the company's financial statements and annual reports according to specific criteria. Data analysis was performed by descriptive statistics and multiple linear regression. The results of the regression analysis prove that effectiveness of internal control and number of audit committees had a positive effect which means higher effectiveness of internal control and number of audit committees cause more tax avoidance, conversely independent commissioners and expertise of the board of commissioners had a negative effect which shows greater independent commissioners and expertise of the board of commissioners cause less tax avoidance. Another

♦Corresponding author: Atma Jaya Catholic University of Indonesia (Indonesia).

✉ Ferenfrisca@gmail.com

result claim that the expertise of the audit committee did not affect on tax avoidance. In contrast to previous studies, this study is more varied by combining several independent variables.

Keywords: Audit Committees, Board of Commissioners, Internal Control, Tax Avoidance.

JEL Codes: G34, H26.

1. Introduction

Tax compliance is a concerning issue today. Tax compliance is a requirement to increase tax revenue (Puspita, Subroto, & Baridwan, 2016). Based on reports from the Directorate General of Taxes, the ratio of taxpayer compliance levels in Indonesia was 63.15% in 2016 and 72.60% in 2017. The ratio is still below the average target set by the government, which is 72,50% and 75%. Besides, based on official data from the Ministry of Finance, the tax ratio in Indonesia in 2016 was 10.8% and in 2017 it decreased to 10.7%. The low level of the tax ratio illustrates the low amount of tax revenue during this period, which can be influenced by tax avoidance. Tax avoidance is an action taken by a company to manipulate taxes using legal methods through tax planning activities (Frank, Lynch, & Rego, 2009). Desai & Dharmapala (2009) state that tax avoidance is an act that uses legal methods to reduce the obligation to pay taxes. Lanis & Richardson (2013) state that tax avoidance is an irresponsible action taken by a company and consequently can reduce the company's image in public. This action can be influenced by several factors, including effective internal control, independence commissioners, the expertise of the board of commissioners, the number of audit committee members, and the expertise of the audit committee.

Internal controls applied in the company function to ensure that company management does not violate applicable regulations (Rae, Sands, & Subramaniam, 2017). Huang and Chang (2015) state that internal control can reduce the opportunistic behavior of management in tax avoidance. Good internal control can prevent management from acting opportunistically in tax planning and encourage management to understand the regulations that apply to tax planning. Furthermore, the independent commissioner becomes a factor influencing tax avoidance. An independent commissioner should act independently in carrying out the oversight function of the actions taken by the company's management and in making decisions so that the resulting decisions are not biased. Through its independence, the board of commissioners is expected to be able to increase the effectiveness of the performance of the board of commissioners. Related

to the duties and responsibilities of the board of commissioners, the next factor affecting tax avoidance is the expertise of the board of commissioners. The board of commissioners should have sufficient knowledge to be able to evaluate the company's financial statements which are representative of management's performance. That way it is expected to control the tax avoidance actions taken by management. Besides, the duties and responsibilities of the board of commissioners are to supervise the performance of management to ensure that the company has been carried out properly. Another factor that influences tax avoidance is the number of audit committee members in a company. By the regulations of the financial services authority, members of the audit committee are appointed and dismissed by the board of commissioners and consist of at least three people from independent commissioners and parties from outside the company. DeZoort, Hermanson, Archambeault, & Reed (2002) stated that an effective audit committee should have adequate resources, especially regarding the number of members of the audit committee to carry out their duties and responsibilities. The audit committee is responsible to the board of commissioners in helping carry out the supervisory board's duties and functions. The audit committee's expertise in relation to its duties in helping carry out the functions and duties of the board of commissioners is the last factor affecting tax avoidance. Therefore, the audit committee should have expertise in accounting or finance. Regulations issued by the financial services authority require that at least one member of the audit committee has an educational background in accounting and finance. Therefore, the variables of the effectiveness of internal control, independent commissioners, the expertise of the board of commissioners, the number of audit committees, and audit committee expertise are relevant in representing the corporate governance variables.

The results of previous studies conducted by Bimo, Prasetyo, & Susilandari (2019) states that the most effective internal control, the easier to reduce tax avoidance in companies. When compared with other studies, not many researchers have examined the effectiveness of internal control variables so that it becomes a research gap that needs to be developed in this study. Furthermore, previous research conducted by Tandean & Winnie (2016) stated that the proportion of independent commissioners did not affect on tax avoidance. Another study conducted by Pratama (2017) stated that the proportion of independent commissioners had no significant effect on tax avoidance. Subsequent research conducted by Lanis & Richardson (2011) stated that independent commissioners had a negative and significant effect on tax avoidance. The difference in the results of the study became a

research gap from this study that could be developed to prove the results of the influence of independent commissioners on tax avoidance. On the other hand, previous research conducted by Armstrong, Blouin, Jagolinzer, & Larcker (2015) stated that board expertise has a positive (negative) relationship with tax avoidance depending on the level of tax avoidance. So far there have not been many other studies examining the expertise of the board of commissioners on tax avoidance so that it becomes a research gap of the research to be conducted. Then, previous research conducted by Tandean & Winnie (2016) stated that the audit committee produced a negative influence on tax avoidance. This opinion is in line with the results of Pratama (2017) research. Tjondro & Olivia (2018) in their research stated that the number of audit committees had a positive effect on tax avoidance. Subsequent research conducted by Septiya & Novita (2018) stated that the number of audit committee members did not affect on tax avoidance. The difference in the results of these studies is the research gap of this study. Besides, research conducted by Deslandes, Fortin, & Landry (2019) states that audit committee expertise is negatively related to tax aggressiveness. Other research conducted by Indayani (2019) stated that the audit committee competency did not affect on tax avoidance. This opinion is in line with the results of Arismajayanti & Jati (2017) research. The inconsistency of the research becomes the research gap of this research. In contrast to previous studies, this study is more varied by combining several independent variables such as the effectiveness of internal control, independent commissioners, the expertise of the board of commissioners, the number of audit committees, and the expertise of the audit committee on tax avoidance. This research can be a material consideration for companies in making decisions about the factors that influence tax avoidance. Besides, the company is expected to become even more concerned with tax avoidance.

2. Literature Review and Hypotheses

Agency Theory is one of the theories used in several previous studies relating to tax avoidance. Jensen & Meckling (1976) explain that agency relationships occur when one or more people give the work to another person and give the person the authority to make decisions. In these circumstances, no one can ensure that the agent acts to safeguard the interests of the principal. Godfrey, Hodgson, Tarca, Hamilton, & Holmes (2010:362) stated that agency problems arise when agents behave as if they prioritize the principal's interests by maximizing their welfare. Besides, Eisenhardt (1898) stated that this theory assumes three human traits, including human selfishness, humans have a limited ability to think about

future perceptions, and humans always avoid risk. In this case, management is responsible for maximizing the benefits of the owner to get profit while shareholders focus on increasing the value of their shares so that it creates two different interests where each party tries to achieve or maintain the desired level of prosperity so that it triggers the emergence of agency theory. Therefore, the principal as the owner of the company should prepare appropriate incentives to motivate managers to work optimally in making decisions and supervising to avoid undesirable situations.

Agency costs arise due to agency theory. These expenses are used to measure, control, and oversee the actions taken by managers in managing the company. Jensen and Meckling (1976) state that the challenge for the board of commissioners and shareholders is to minimize agency costs in an appropriate manner and with appropriate incentives. Godfrey, Hodgson, Tarca, Hamilton, & Holmes (2010:363) divides agency costs into monitoring costs, bonding costs, and residual loss. Monitoring costs are costs incurred by the owner of the company to oversee management behavior. Bonding costs are costs incurred by company owners so that management complies with applicable rules and acts in accordance with the interests of the company owner. Residual loss is a cost that arises due to differences in decisions taken by management and company owners, thereby reducing the principal's prosperity. Costs arising from agency theory add to the costs that must be incurred by the company so that management must act more effectively in managing the company.

2.1 Tax Avoidance and Effectiveness Internal Control

Tax avoidance is away taken by management to reduce tax payments on income before tax (Dyreg, Hanlon, & Maydew, 2010). Lee & Kao (2018) see tax avoidance as a form of tax planning carried out by management to increase company value. But these goals will not be achieved if management behaves opportunistically (Shin & Park, 2019). In agency theory, management has an incentive to increase compensation and bonuses when tax avoidance (Armstrong, Blouin, Jagolinzer, & Larcker, 2015). The method used by management to increase profits after tax is to reduce the company's tax expense (Gaaya, Lakhal, & Lakhal, 2017).

Internal control is used within the company to ensure that the company's goals have been achieved, financial statements are free from material misstatements, comply with applicable regulations, and protect company assets (Rubino & Vittola, 2014). Huang & Chang (2015) in their research stated that internal control can reduce the opportunistic behavior of management in taking tax avoidance actions. Therefore, more effective internal control can reduce the tax avoidance actions taken by management.

Research conducted by Bimo, Prasetyo, & Susilandari (2019) states that more effective internal control reduces tax avoidance. Based on empirical evidence from the research, internal control can reduce tax avoidance because it can prevent and detect mistakes made by management either intentionally or unintentionally so that management complies with applicable regulations. This is also influenced by the company's internal environment because as a system internal controls are influenced by the environment in which the system is located. Thus, the hypothesis of this study is as follows:

H1: The effectiveness of internal control has a negative effect on tax avoidance.

2.2 Tax Avoidance and Independent Commissioner

Indonesia implements a two-tier system in companies where there are boards of commissioners and boards of directors with their respective functions. The board of commissioners is at the highest level after shareholders and has a leading role in corporate governance. In this case, the company has legal responsibilities related to the company's activities so that the board of commissioners plays an important role in setting objectives, policies, and selecting adequate resources for the top level. Based on financial services authority regulations, an independent commissioner is part of a board of commissioners originating from outside the company and fulfilling the requirements as an independent board of commissioners.

The board of commissioners is responsible for carrying out the oversight function of management performance to ensure that the company has been run properly and the interests of shareholders can be protected. Besides, the board of commissioners can also provide advice and ensure that the company has implemented good corporate governance (Komite Nasional Kebijakan Governance, 2006). Independent commissioners on the board of commissioners help plan the company's strategy, in the long run, monitor the implementation of the strategy and reduce corporate tax avoidance. Therefore, the greater the proportion of independent commissioners within the company, it can reduce tax avoidance. Previous research conducted by Lanis & Richardson (2011) stated that independent commissioners had a negative and significant effect on tax avoidance because the independence of the board of commissioners could increase the effectiveness of supervision of management actions and increase corporate tax compliance. Based on the description, the research hypothesis is as follows:

H2: Independent commissioners has a negative effect on tax avoidance.

2.3 Tax Avoidance and Expertise of The Board of Commissioners

The two-tier system implemented by Indonesia makes the board of commissioners and board of directors in one company. Jungmann (2006) explains that both carry out their respective responsibilities in carrying out the supervision and management of the company as a representation of shareholders and management. Minnick & Noga (2010) argue that good corporate governance will improve corporate tax management. The board of commissioners is part of corporate governance that will determine the company's tax management so that it requires a quality board of commissioners. The quality of the board of commissioners is seen from their expertise based on their educational background.

Research conducted by Armstrong, Blouin, Jagolinzer, & Larcker (2015) states that the board of commissioners who have financial knowledge influences tax avoidance depending on the level of tax avoidance where the board of commissioners will be better able to monitor the company's tax position in tax planning. In his research also stated that the higher expertise of the board of commissioners could inhibit the increase in corporate tax avoidance when tax avoidance was too high because it could pose risks in the form of sanctions and a decline in corporate reputation. Therefore, the hypothesis of this study is as follows:

H3: The expertise of the board of commissioners has a negative effect on tax avoidance.

2.4 Tax Avoidance and The Number of Audit Committee

The audit committee is formed and dismissed by the board of commissioners and is responsible to the board of commissioners in carrying out their duties and responsibilities. Every company is required to have an audit committee consisting of at least three people, an independent commissioner as the chairman of the audit committee and a commissioner who comes from outside the company following regulations issued by the financial services authority. Vafeas (1999) states that the number of audit committees with a larger size can lead to inefficient corporate governance because it causes more frequent audit committee meetings. Raghunandan & Rama (2007) state that the number of audit committee meetings can increase as the number of audit committees increases.

The audit committee is part of corporate governance. Inefficient corporate governance causes several weaknesses, one of which is the lack of a process of supervision of management actions. Gaaya, Lakhal, & Lakhal (2017) stated that management tends to reduce the tax expense to increase profit after tax so that management gets compensation and bonuses. In line with this opinion, Armstrong, Blouin, Jagolinzer, & Larcker (2015)

suggested that management has incentives to avoid tax to increase compensation and bonuses. Tjondro & Olivia (2018) in their research stated that the number of audit committees had a positive effect on tax avoidance because the company looked at tax avoidance in terms of efficiency and consideration of tax risk. In terms of efficiency, tax avoidance is measured using a utilitarian approach based on the value of its use if companies avoid tax, the value and performance of the company increases, but the audit committee in Indonesia considers that corporate tax risk is low so it does not become a major problem that needs to be evaluated. Therefore, tax avoidance actions taken by companies are high. The greater number of audit committee members can increase tax avoidance actions taken by management. Based on the description, the hypothesis of this study is as follows:

H4: The number of audit committee members has a positive effect on tax avoidance.

2.5 Tax Avoidance and Audit Committee Expertise

The audit committee was formed to assist the board of commissioners in overseeing the company's performance. In carrying out their duties, the audit committee consists of at least three people, one of whom has an accounting and financial background. The background is related to the expertise that should be possessed by the audit committee. Dezoort, Hermanson, Archambeault, & Reed (2002) stated that the competence of the audit committee increased the number of material misstatements found in the company's financial statements. Besides, research by Hsu, Moore, & Neubaum (2018) states that the audit committee has financial expertise related to tax avoidance. The audit committee that has accounting and financial expertise are in a position to oversee and provide advice for executive decisions regarding tax planning carried out by the company and the risks arising from such actions. Other research conducted by Robinson, Xue, & Zhang (2012) found a negative relationship between audit committees with special financial expertise in accounting and the tendency to use high-risk tax planning. Deslandes, Fortin, & Landry (2019) in their study stated that audit committee expertise was negatively related to tax aggressiveness. Thus, the hypothesis of this study is as follows:

H5: Audit committee expertise has a negative effect on tax avoidance

3. Research Methodology

3.1 Research Sample and Data

The research sample used in this study was manufacturing

companies listed on the Indonesia Stock Exchange during the period 2016-2018. Manufacturing companies were chosen as research samples in this study because manufacturing companies have the highest number of companies compared to other sectors and consist of various industrial sub-sectors so that the scope is broad. Manufacturing companies are also companies that have experienced significant growth. This is supported by data from the Central Statistics Agency which states that the growth of large and medium manufacturing industry growth in quarter III-2018 increased by 5.04% from quarter III-2017 due to an increase in apparel industry production of 23.13%. Growth in the production of micro and small manufacturing industries in the third quarter of 2018 also experienced an increase of 3.88% from the third quarter of 2017 due to an increase in production of the base metal industry by 18.64%. Data is collected from the company's financial statements and annual reports according to specific criteria. These criteria include companies that have been listed on the Indonesia Stock Exchange, published audited annual financial reports and company annual reports, recorded using Rupiah currency, made a profit or no losses, and paid cash taxes. Company reports are obtained through the official website of the Indonesia Stock Exchange (www.idx.co.id) and the company's official website for data that cannot be found on the official website of the Indonesia Stock Exchange. Thus, observational data obtained were 276 data. Data processing in this study uses descriptive statistics and multiple linear regression models.

3.2 Measurement of Variables

The independent variables in this study are the effectiveness of internal control, independent commissioners, the expertise of the board of commissioners, the number of the audit committee, and audit committee expertise. The measurements of the independent and control variables are displayed in the table below:

Table 1 : Measurement of Variables

Variables	Symbols	Measurement
The effectiveness of internal control	IC	This variable measured using the scoring method. Assessment in this method is done by asking several questions to the company regarding the internal control system, the objectives of internal control, and risk management. If the company gives the information by answering the question given it will be given point 1 and if the company does not answer the question given it will be given point 0. The total score: $\frac{\text{The score obtained from companies}}{\text{The number of questions given to the company}} \times 100\%$
Independent commissioners	BIND	$\frac{\text{Independent commissioners}}{\text{The total members of the board commissioners}} \times 100\%$
The expertise of the board of commissioners	BEXP	$\frac{\text{The number of commissioners with accounting and financial background}}{\text{Total members of the board of commissioners}} \times 100\%$
The number of audit committee	AC	$\sum \text{number of audit committee members}$
Audit committee expertise	ACEXP	$\frac{\text{The number of the audit committee with accounting and financial background}}{\text{Total members of the audit committee}} \times 100\%$
Cash effective tax rate	CETR	$\frac{\text{Cash paid for taxes}}{\text{Income before tax}} \times 100\%$
Total asset	TA	Total current asset + Total non-current asset
Return on asset	ROA	$\frac{\text{Income after tax}}{\text{Total asset}} \times 100\%$
Debt to equity ratio	DER	$\frac{\text{Total debt}}{\text{Total equity}} \times 100\%$

Source: Prepared by the authors based on prior studies

4. Results and Discussion

4.1 Descriptive Statistics

The results and discussion in this study are the assessment of descriptive analysis and multiple linear analysis to test the hypothesis and discuss the results of the research. Descriptive analysis of the study is described in the table below:

Table 2 : Descriptive Statistics Result

	Descriptive Statistics			
	Minimum	Maximum	Mean	Std. Deviation
IC	0.00000	1.00000	0.7234300	0.32967470
BIND	0.20000	1.00000	0.4151988	0.11797139
BEXP	0.00000	1.00000	0.5185213	0.26229032
AC	0	5	3.05	0.423
ACEXP	0.00000	1.00000	0.7246981	0.31665695
CETR	0.01504	2.95551	0.4390721	0.44687443
TA	89327328853	344711000000000	9907144082215.86	33736314931552.066
ROA	-0.00441	0.71602	0.0392655	0.06118473
DER	-3.41581	8.74643	0.8673853	1.00899109
Valid N (listwise)				

Source : Results of data processing with SPSS 23

The descriptive statistics table above was obtained from 276 observational data from 2016-2018. The average value of the effectiveness of internal control in the company is 0.7234300 with a maximum value of 1.00000 indicating 100% disclosure of internal control information. Independent commissioners and expertise of the board of commissioners have an average value of 0.4151988 and 0.5185213 with a maximum value of 1.00000. Then the average value of the number of audit committees and expertise of the audit committee is 3.05 and 0.7246981 with a maximum value of 5 and 1.00000, respectively. The average CETR is 0.4390721 with a standard deviation of 0.44687443 meaning the average tax paid by a company is 43,9%. Total assets that represent the value of the company have an average value of 9907144082215.86 with a maximum value of 344711000000000. The average value of return on assets which represents profitability is 0.0392655 with a maximum value of 0.71602. Leverage represented by debt to equity ratio has an average value of 0.8673853 with a maximum value of 8.74643.

4.2 Multiple Linear Regressions

Moderated regression analysis is performed after the data has been tested with classical assumptions in other words the data are free from problems of normality, multicollinearity, autocorrelation, and heteroscedasticity. Moderation regression analysis results are described in the table below:

Table 3 : Multiple Linear Regressions Result

Model	Unstandardized Coefficients		Coefficients ^a		t	Sig.	Collinearity Statistics	
	B	Std. Error	Standardized Coefficients Beta				Tolerance	VIF
1 (Constant)	-0.290	0.353			-0.821	0.412		
IC	-0.478	0.129	-0.207		-3.714	0.000	0.938	1.066
BIND	0.749	0.353	0.116		2.120	0.035	0.972	1.029
BEXP	0.336	0.178	0.116		1.884	0.061	0.771	1.298
AC	-0.220	0.100	-0.122		-2.195	0.029	0.942	1.062
ACEXP	0.000	0.148	0.000		0.002	0.998	0.771	1.297
TA	-3.711E-16	0.000	-0.016		-0.292	0.771	0.917	1.091
ROA	-4.349	0.690	-0.349		-6.305	0.000	0.948	1.055
DER	-0.172	0.041	-0.228		-4.152	0.000	0.966	1.035

a. Dependent Variable: lnCETR

Source : Results of data processing with SPSS 23

The results of data analysis and hypothesis testing state that the effectiveness of internal control negatively affected the cash effective tax rate so that the first hypothesis stating that the effectiveness of internal control negatively affected tax avoidance by companies was rejected with a confidence level of 5%. These results indicate that the more effective internal controls are applied, the tax payments will decrease thereby increasing tax avoidance actions undertaken by the company. Lee & Kao (2018) see tax avoidance as a form of tax planning carried out by management to increase company value. Lestari & Wardhani (2015) stated that tax planning has a positive effect on the value of the company where tax planning plays a role in increasing profit after tax so that the value of the company increases. Internal control is used within the company to ensure that the company's goals have been achieved, financial statements are free from material misstatements, comply with applicable regulations, and protect company assets (Rubino & Vittola, 2014). In this case, internal control is used to ensure that tax avoidance actions are effective in increasing company value. However, there are tax risks that make tax avoidance ineffective, management opportunistic behavior. Shin & Park (2019) state that the purpose of tax avoidance to increase company value will not be achieved if management behaves opportunistically. Therefore, internal control can reduce the opportunistic behavior of management in taking tax avoidance actions (Huang & Chang, 2015). However, Tjondro & Olivia (2018) in their research stated that tax risk in Indonesia is not the biggest challenge faced by companies because of the low tax risk. In this case, corporate tax risk is management opportunistic behavior in tax avoidance. This is supported by a survey conducted by KPMG (2014) which

states that the biggest risks for companies are economic, regulatory, political uncertainties, and public policies. Thus, when internal control increases, tax avoidance also increases because internal control only focuses on increasing company value. In relation to agency theory, good corporate governance will increase the effectiveness of tax avoidance to increase company value and reduce tax risk. The results of this study are not in line with research conducted by Bimo, Prasetyo, & Susilandari (2019) which states more effective internal control reduces tax avoidance. Based on empirical evidence from the research, internal control can reduce tax avoidance because it can prevent and detect mistakes made by management either intentionally or unintentionally so that management complies with applicable regulations. This is also influenced by the company's internal environment because as a system internal controls are influenced by the environment in which the system is located.

Furthermore, the results of data analysis and hypothesis testing state that the independent commissioner has a positive effect on the cash effective tax rate so that the second hypothesis which states that the independent commissioner has a negative effect on tax avoidance by the company is accepted with a significance level of 5%. These results illustrate that the higher the number of independent commissioners in a company increases the payment of corporate taxes so that tax avoidance decreases. Based on financial services authority regulations, an independent commissioner is part of a board of commissioners originating from outside the company and fulfilling the requirements as an independent board of commissioners. Independent commissioners on the board of commissioners help plan the company's strategy, in the long run, monitor the implementation of the strategy, and reduce corporate tax avoidance. Therefore, the greater the proportion of independent commissioners within the company, it can reduce tax avoidance. In relation to agency theory, the presence of an independent commissioner is expected to reduce the opportunistic behavior of management through the supervisory function of an independent commissioner. This study is consistent with research conducted by Lanis & Richardson (2011) stated that independent commissioners have a negative and significant effect on tax avoidance because independence possessed by the board of commissioners can increase the effectiveness of supervision of actions taken by management and increase corporate tax compliance so that the proportion of commissioners higher independence can suppress tax avoidance measures. However, the results of this study are not in line with the results of research conducted by Tandean & Winnie (2016) state that the proportion of independent commissioners does not affect tax avoidance

because not all independent commissioners show their independent functions well and the difficulty of coordination among the board of commissioners so that the supervision process is hampered.

Based on the results of data analysis and hypothesis testing found the influence of the expertise of the board of commissioners on tax avoidance. The expertise owned by the board of commissioners based on accounting and financial education background has a positive effect on the cash effective tax rate so the third hypothesis which states that the expertise of the board of commissioners has a negative effect on tax avoidance is accepted with a significance level of 10%. These results explain that the higher expertise of the board of commissioners can increase tax payments made by the company thereby reducing tax avoidance. Minnick & Noga (2010) argue that good corporate governance will improve corporate tax management. The board of commissioners is part of corporate governance that will determine the company's tax management so that it requires a quality board of commissioners. The quality of the board of commissioners is seen from their expertise based on their educational background. In relation to agency theory, the more adequate expertise of the board of commissioners, the risk of tax avoidance is increasingly suppressed. The results of this study are in line with the results of research conducted by Armstrong, Blouin, Jagolinzer, & Larcker (2015) state that the expertise of the board of commissioners can inhibit an increase in corporate tax avoidance when tax avoidance is too high because it can lead to risks in the form of sanctions and a decline in corporate reputation. But it is not in line with the results of his research which states that the expertise of the board of commissioners has a positive effect on tax avoidance when tax avoidance is low where the expertise of the board of commissioners can improve corporate tax planning.

Next to the results of data analysis and hypothesis testing state that the number of audit committee members has a negative effect on the cash effective tax rate so that the fourth hypothesis which states that the number of audit committees has a positive effect on tax avoidance is accepted with a significance level of 5%. These results illustrate that the more the number of audit committees in the company, the tax payments made by the company decrease thereby increasing tax avoidance. Every company is required to have an audit committee consisting of at least three people following regulations issued by the financial services authority. Vafeas (1999) states that the number of audit committees with a larger size can lead to inefficient corporate governance because it causes more frequent audit committee meetings. The audit committee is part of corporate governance. Inefficient

corporate governance causes several weaknesses, one of which is the lack of a process of supervision of management actions. Gaaya, Lakhal, & Lakhal (2017) stated that management tends to reduce the tax expense to increase profit after tax so that management gets compensation and bonuses. In relation to agency theory, the more presence of audit committees can reduce the effectiveness of supervision to increase opportunistic management which causes ineffective tax avoidance. The results of this study are consistent with the research of Tjondro & Olivia (2018) states that the number of audit committees has a positive effect on tax avoidance because the audit committee looks at tax avoidance in terms of efficiency and consideration of tax risk. In terms of efficiency, tax avoidance is measured using a utilitarian approach based on the value of its use if companies avoid tax, the value and performance of the company increases, but the audit committee in Indonesia considers that corporate tax risk is low so it does not become a major problem that needs to be evaluated. However, the results of this study are not in line with the results of research conducted by Pratama (2017) which states that the audit committee shows negative results on tax avoidance.

The results of data analysis and hypothesis testing on the last hypothesis in this research model show that audit committee expertise viewed from accounting and financial education background does not affect on tax avoidance so the fifth hypothesis stating that audit committee expertise has a negative effect on tax avoidance is rejected at the level of significance at 5%. These results indicate that more or fewer members of the audit committee who have accounting and financial expertise do not affect the company's tax payments so that it also does not affect the tax avoidance actions undertaken by the company. This study is in line with the results of research conducted by Indayani (2019) regarding the effect of audit committee competence on tax avoidance. The cause of the results of this study is because the audit committee limits its authority in carrying out its duties and responsibilities such as being unable to access the documents, data, and information needed as well as difficulties in communicating with other parties needed in carrying out its duties. Another cause is because companies form audit committees only to comply with applicable regulations so that the competency of the audit committee in managing corporate taxes does not affect on tax avoidance. Therefore, audit committee expertise does not affect the tax avoidance of the company. Besides, research conducted by Arismajayanti & Jati (2017) also found no effect between audit committee competence and tax aggressiveness in line with the results of this study. However, the results of this study are not in line

with the results of research conducted by Deslandes, Fortin, & Landry (2019) which states that audit committee expertise has a negative effect on tax aggressiveness.

5. Conclusion

This study aims to determine the effect of the effectiveness of internal control, independent commissioners, the expertise of the board of commissioners, the number of members of the audit committee, and the expertise of the audit committee on tax avoidance with the variable control of total assets, return on assets, and debt to equity ratio. This study was conducted on manufacturing companies listed on the Indonesia Stock Exchange during 2016-2018. Data analysis was performed by descriptive analysis and the hypothesis was tested by multiple linear regression analysis.

Based on the results of data analysis and the previous discussion, it can be concluded that the internal control effectiveness variable and the number of members of the audit committee have a positive influence on tax avoidance actions undertaken by the company while the independent commissioner variable and the expertise of the board of commissioners have a negative influence on the tax avoidance actions undertaken by the company. Another variable is the expertise of the audit committee does not influence on tax avoidance actions by the company.

The limitation of this study is that it is difficult to find prior studies that are in line with the positive effect of the effectiveness of internal control on tax avoidance. Based on the existing limitations, there are several suggestions submitted for further research including audit committee expertise variables seen based on experience in the field of taxation or tax certification owned by members of the audit committee and using other independent variables that have the potential to influence tax avoidance such as audit quality.

References

- Arismajayanti, N. P. A. & Jati, I. K. (2017). Influence of Audit Committee Competence, Audit Committee Independence, Independent Commissioner and Leverage on Tax Aggressiveness. *Journal of Auditing, Finance, and Forensic Accounting*, 5(2), 109-119.
- Armstrong, C. S., Blouin, J. L., Jagolinzer, A. D. & Larcker, D. F. (2015). Corporate governance, incentives, and tax avoidance. *Journal of Accounting and Economics*, 60(1), 1-17.
- Badan Pusat Statistik. (2018). *Pertumbuhan Produksi Industri Manufaktur*

Triwulan III-2018. Jakarta: Badan Pusat Statistik.

- Bimo, I. D., Prasetyo, C. Y. & Susilandari, C. A. (2019). The effect of internal control on tax avoidance: the case of Indonesia. *Journal of Economics and Development*, 21(2), 131–143.
- Chen, S., Chen, X., Cheng, Q., & Shevlin, T. (2010). Are family firms more tax aggressive than non-family firms?. *Journal of Financial Economics*, 95(1), 41–61.
- Desai, M. A., & Dharmapala, D. (2009). Corporate tax avoidance and firm value. *Review of Economics and Statistics*, 91(3), 537–546.
- Deslandes, M., Fortin, A. & Landry, S. (2019). Audit committee characteristics and tax aggressiveness. *Managerial Auditing Journal*, 35(2), 272–293.
- Dezort, F.T., Hermanson, D.R., Archambeault, D.S. & Reed, S.A. (2002). Audit committee effectiveness: A synthesis of the audit committee literature. *Journal of Accounting Literature*, 21, 38-75.
- Direktorat Jendral Pajak. (2016). *Laporan kinerja 2016*. Jakarta: Direktorat Jendral Pajak.
- Direktorat Jendral Pajak. (2017). *Laporan kinerja 2017*. Jakarta: Direktorat Jendral Pajak.
- Direktorat Jendral Pajak. (2018). *Kepatuhan dan penerimaan pajak 2017 tumbuh pesat, DJP optimis hadapi 2018*. Retrieved from <https://pajak.go.id/kepatuhan-dan-penerimaan-pajak-2017-tumbuh-pesat-djp-optimis-hadapi-2018>
- Dyrenge, S. D., Hanlon, M. & Maydew, E. L. (2010). The effects of executives on corporate tax avoidance. *Accounting Review*, 85(4), 1163–1189.
- Eisenhardt, K.M. (1989). Agency Theory: An Assessment and Review. *Academy of Management Review*, 14(1), 57-74.
- Frank, M. M., Lynch, L. J. & Rego, S. O. (2009). Tax reporting aggressiveness and its relation to aggressive financial reporting. *Accounting Review*, 84(2), 467–496.
- Gaaya, S., Lakhal, N. & Lakhal, F. (2017). Does family ownership reduce corporate tax avoidance? The moderating effect of audit quality. *Managerial Auditing Journal*, 32(7), 731–744.
- Godfrey, J., Hodgson, A., Tarca, A., Hamilton, J. & Holmes, S. (2010). *Accounting Theory* (7th Edition). Australia: John Wiley & Sons Australia, Ltd.
- Hsu, P. H., Moore, J. A. & Neubaum, D. O. (2018). Tax avoidance, financial experts on the audit committee, and business strategy. *Journal of Business Finance and Accounting*, 45(9–10), 1293–1321.

- Huang, D. F. & Chang, M. L. (2015). Do auditor-provided tax services improve the relation between tax-related internal control and book-tax differences?. *Asia-Pacific Journal of Accounting and Economics*, 23(2), 177–199.
- Indayani, L. (2019). Effect of Competence of the Audit Committee and Auditors of the Big Five Public Accounting Firm on Tax Avoidance. *Russian Journal of Agricultural and Socio-Economic Sciences*, 86(2), 12–17.
- Jensen, M.C. & Meckling, W.H. (1976). Theory of The Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3, 305–360.
- Jungmann, C. (2006). The Effectiveness of Corporate Governance in One-Tier and Two-Tier Board Systems – Evidence from the UK and Germany –. *European Company and Financial Law Review*, 3(4), 426–474.
- Kementerian Keuangan Republik Indonesia. (2018). *Penerimaan pajak pusat dan SDA dari LKPP berbagai tahun (pajak daerah dari DJPK)*. Retrieved from <http://www.djpk.kemenkeu.go.id/?p=5412>
- Komite Nasional Kebijakan Governance. (2006). *Pedoman Umum Good Corporate Governance Indonesia*. Jakarta: Komite Nasional Kebijakan Governance.
- KPMG. (2014). *2014 Global Audit Committee Survey*. Retrieved from <https://home.kpmg/content/dam/kpmg/pdf/2016/06/tr-2014-global-audit-committee-survey.pdf>
- Lanis, R. & Richardson, G. (2011). The effect of board of director composition on corporate tax aggressiveness. *Journal of Accounting and Public Policy*, 30(1), 50–70.
- Lanis, R. & Richardson, G. (2013). Corporate social responsibility and tax aggressiveness: A test of legitimacy theory. *Accounting, Auditing and Accountability Journal*, 26(1), 75–100.
- Lee, R.-J. & Kao, H.-S. (2018). The Impacts of IFRSs and Auditor on Tax Avoidance. *Advances in Management & Applied Economics*, 8(6), 1792–7552.
- Lestari, N. & Wardhani, R. (2015). The effect of the tax planning to firm value with moderating board diversity. *International Journal of Economics and Financial Issues*, 5, 315–323.
- Minnick, K. & Noga, T. (2010). Do corporate governance characteristics influence tax management?. *Journal of Corporate Finance*, 16(5), 703–718.
- Organisation for Economic Co-operation and Development. (2019).

- Revenue Statistics in Asian and Pacific Economies*. Paris: Organisation for Economic Co-operation and Development.
- Pratama, A. (2017). Company Characteristics, Corporate Governance and Aggressive Tax Avoidance Practice: A Study of Indonesian Companies. *Review of Integrative Business and Economics Research*, 6(4), 2304–1013.
- Puspita, A. F., Subroto, B. & Baridwan, Z. (2016). The Analysis of Individual Behaviour of Corporate Taxpayers' Obedience: Tax Compliance Model (Study of Hotels in Malang and Batu). *Review of Integrative Business and Economics Research*, 5(3), 135-160.
- Rae, K., Sands, J., & Subramaniam, N. (2017). Associations among the Five Components within COSO Internal Control-Integrated Framework as the Underpinning of Quality Corporate Governance. *Australasian Accounting, Business and Finance Journal*, 11(1), 28–54.
- Raghunandan, K. & Rama, D. V. (2007). Determinants of audit committee diligence. *Accounting Horizons*, 21(3), 265–279.
- Robinson, J. R., Xue, Y., & Zhang, M. H. (2012). Tax Planning and Financial Expertise in the Audit Committee. *SSRN Electronic Journal*, 1–40. doi:10.2139/ssrn.2146003
- Rubino, M. & Vitolla, F. (2014). Internal control over financial reporting: Opportunities using the cobit framework. *Managerial Auditing Journal*, 29(8), 736-771.
- Septiya, L. & Novita, S. (2018). The Impact of Ownership Structure, Independent Commissioners, Audit Committees, and Audit Quality on Tax Avoidance - An Empirical Study of Non-Financial Firms listed on the Indonesia Stock Exchange from 2013-2016. In *Proceedings of the Journal of Contemporary Accounting and Economics Symposium 2018 on Special Session for Indonesian Study*, 1, 515–521. <https://doi.org/10.5220/0007017605150521>
- Shin, I. & Park, S. (2019). The relation between product market competition and corporate tax avoidance: Evidence from Korea. *Investment Management and Financial Innovations*, 16(2), 313–325.
- Tandean, V. A. & Winnie, W. (2016). The Effect of Good Corporate Governance on Tax Avoidance. *Asian Journal of Accounting Research*, 1(1), 28–38. <https://doi.org/10.1108/AJAR-2016-01-01-B004>
- Tjondro, E. & Olivia, V. (2018). Role of Audit Committee in Tax Avoidance of Family and Non-Family Firms: Evidence from Indonesia. *Journal of Economics and Business*, 1(3), 368–380.
- Vafeas, N. (1999). Board meeting frequency and firm performance. *Journal*

of Financial Economics, 53(1), 113–142.

Wu, J., Habib, A., & Weil, S. (2012). Audit committee effectiveness: A synthesis of the audit committee literature. *Corporate Board: role, duties and composition*, 8(1), 15-31.

© 2020 the Author(s). This is an open access article distributed under the terms of [Creative Commons Attribution-Non Commercial license \(CC BY-NC 4.0\)](#) which permits use, distribution and reproduction in any medium, provided the original work is properly cited and is not used for commercial purposes.

Recommended citation:

Frisca Tania, F., & Mukhlisin. (2020). The Effect of Corporate Governance on Tax Avoidance: Evidence from Indonesia . *Management & Economics Research Journal*, 2(4), 66-85. <https://merj.com/merj/index.php/merj/article/view/126>