Board of Directors Diversity in Tax Avoidance

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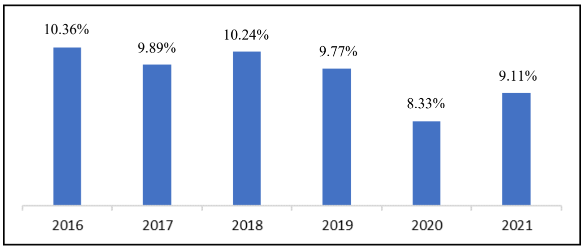
Abstract. The directors' board influences tax avoidance tactics. The board of directors diversity will increase the number of perspectives on alternative solutions to problems because of the diversity of viewpoints among its members. This study intends to investigate the influence of gender, education, and tenure on boards of directors on tax avoidance. The Indonesia Stock Exchange's 102 energy companies that were listed between 2016 and 2021 were chosen as a sample in this study. Based on the study's findings, tax avoidance is positively impacted by education but negatively by gender and board of director experience.

Keywords: diversity; board of directors; tax avoidance

1 Introduction

The majority of the state's income comes from taxes. A nation's tax ratio can be used to assess the effectiveness of its tax collection efforts. One of the elements that contribute to the low tax ratio is the practice of tax avoidance [1]. Reduced taxes that are still within the parameters of tax rules and regulations and that may be accounted for, particularly through tax planning, are referred to as tax avoidance. According to [2], many gaps in tax laws allow and incentivize businesses to pay less in taxes. Because it doesn't break any tax laws, tax avoidance is legal [3].



Source: Ministry of Finance data processed (2022)

Fig 1. Indonesia's Tax Ratio for 2016-2021

According to Figure 1, Indonesia's tax ratio dropped by 1.44% from 2019 to 2020. The Covid-19 epidemic, which restricted people's ability to engage in economic activity, caused this decline in the tax ratio. Meanwhile, in 2021, Indonesia's tax ratio will begin to increase in line with the strengthening of tax performance and the recovery of the national economy from the impact of the pandemic. Indonesia's tax ratio in 2021 is 9.11% of GDP. Even though it has increased compared to 2020, Indonesia's tax ratio in 2021 will still be low in the last six years.

Tax avoidance is inextricably linked to the board of directors' responsibility. The board of directors is the company's highest decision-making level. One of the elements influencing how

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the board of directors carries out its duties is the diversity of the board. Diversity is a difference and variation in attributes possessed by the board of directors that provide a diversity of characteristics, opinions, and knowledge that underlies the decision-making process within the company, including in decisions related to taxation.

[4] said that in carrying out their responsibilities as corporate executives, the board of directors has both risk-taker and risk-averse characteristics. Risk-taker on the board of directors are CEOs who are more adventurous when making company choices and who frequently have a great desire to have more money, power, and status. Risk-takers on the board of directors won't think twice about evading taxes to help the business expand more quickly.

Conversely, a board of directors who has a risk-averse character is a leader who tends to dislike risk, so they are less courageous in making business decisions. A Board of directors with a risk-averse character if they get an opportunity will choose a lower risk [4]. Boards of directors that are risk-averse prioritize actions that don't increase risk more than those who are risk-takers. The level of tax avoidance decreases as the board of directors becomes more risk-averse.

According to [5], the lack of gender diversity is caused by the inherent distinctions between men and women. Women are more cautious and prefer to avoid risks, have strong morals and ethics, have autonomous opinions, present more transparent information, and are more cautious when making judgments than males. [6] decided that the introduction of a women's board of directors had a favorable result for tax avoidance because it made the board of directors' composition more diversified, which increased the degree of tax avoidance.

Another element of board diversity in this study is education. Business and economy boards of directors frequently comprehend tax laws, fiscal policies, and tax avoidance techniques better [7]. [8] demonstrates that tax avoidance is more likely when directors have accounting and tax knowledge.

The diversity of other boards of directors in this study reflects the experience of working on the board. Their prior board membership demonstrates the length of time the board of directors has managed and led a business. Directors who have been with a company for a while have a tendency to be more familiar with its inner workings than directors who have only recently joined. The competence of a director reduces tax avoidance tactics [9]. To gain support and improve its reputation to intensify the term of service, the board of directors doesn't use tax avoidance strategies.

2 Literature Review

Based on the perspective of signal theory, the company uses the diversity of the board of directors as a representative signal to transmit information about the company's quality to shareholders, namely tax savings through tax avoidance that leads to profits for shareholders without violating tax regulations. A risk-averse board of directors will aim to prevent risks that influence the company's reputation, therefore they minimize tax avoidance methods [10], conversely, a board of directors who are risk takers with economic and business education backgrounds or long-term experience will try to find loopholes for tax avoidance because they think tax avoidance is permitted by the state [11] [2].

Women can lower tax avoidance since indicates that women are more careful and have a tendency to avoid risks than males board of directors. They also have high morals and ethical standards, independent thought, present more transparent information, and are more cautious when making choices [5] [12]. The more women on the board of directors, the lower the tax avoidance in that women directors consider tax avoidance a corporate risk that must be avoided.

H_1: Tax avoidance is negatively impacted by the gender diversity of the board of directors.

Directors with a degree in business and economics often comprehend fiscal policies and tax rules better and are more knowledgeable about how to reduce tax liabilities [7]. [8] demonstrates that tax avoidance is more likely when directors have accounting and tax knowledge. The company's opportunity for tax avoidance increases with the number of economists and business professionals on the board of directors.

H_2: Tax avoidance is positively impacted by the board of directors' educational diversity.

The experience shows the experience of a director in managing and leading the company. Directors who have worked for a company for a long time tend to understand more about the ins and outs of the company compared to directors who have just worked for the company. Directors with longer terms of office tend to have the character of risk-takers and try to find loopholes for tax avoidance [13]. The results of research [13] [9] prove that the experience of a director can increase tax avoidance. A company is more inclined to engage in tax avoidance with more directors have been in office because the board of directors uses tax avoidance to build trust, enhance its reputation, and increase the period of office.

H_3: Tax avoidance is positively impacted by the board of directors diversity of experiences.

3 Research Methods

The study's sample includes 72 energy companies that were listed on the Indonesia Stock Exchange between 2016 and 2021. In its sample procedure, the company uses a purposive sampling approach.

Table 1. Number of Samples and Observations

No.	Information	Total
1	Energy companies listed on the IDX from 2016-2021	56
2	Energy companies include taxpayers who are subject to final tax	(1)
3	Energy companies that do not publish annual reports as of December 31 from 2016-2021	(6)
4	Energy companies that have no positive profit from 2016-2021	(32)
	Number of samples	17

Source: Processed data (2022)

Gender diversity is measured by the percentage of women directors on the board [14]. Women‘s boards of directors make a special contribution in terms of experience, perspective, and management style compared to men‘s boards of directors [15]. Education is closely related to the taxpayer's knowledge of tax law [16]. The economic and business educational background is used to measure the educational diversity of the board of directors [17]. The board of directors is expected to manage the company effectively and efficiently if they have a background in economics and business, particularly in terms of tax management. A comparison of the number of directors who have served on the board for more than five years with the total number of board members in the organization to evaluate the variety of experience in the company. Board of directors who have a long tenure have more knowledge about the company, so the board of directors can make better decisions [18]. In the interest of being able to make strategic decisions for the company, the board of directors is thought to have strong insight into their job and the ability to oversee the company's operational operations.

4 Discussion

According to Table 2's Chow test findings, the chi-square value < 0.05. The best option to select is the fixed effect model.

Table 2. Chow Test Results

Effect Test	*Statistic*	*d.f.*	*Prob.*
Cross-section F	5.031301	(16,82)	0.0000
Cross-section Chi-square	69.764308	16	0.0000

Source: Processed data (2022)

Table 3 indicates that the fixed effect model is the most useful one to use because the cross-section is random < 0.05. The fixed effect model that was used to analyze the research model is the most appropriate model, according to the results of the Chow test and the Hausman test. Thus, the Lagrange Multiplier test is not necessary.

Table 3. Hausman Test Results

Test Summary	*Chi-Sq. Statistic*	*Chi-Sq. d.f.*	*Prob.*
Cross-section random	22.525303	3	0.0001

Source: Processed data (2022)

The adjusted R^2 value in Table 4 is 0.448215, which means that while the variables of gender diversity, education, and board experience can explain 44.82% of the tax avoidance variable, the remaining independent variables that were not studied in this study account for 55.18% of the tax avoidance variable. In addition, Table 4 shows that the F-statistic is 0.00 < 0.05, leading one to the conclusion that gender diversity, education, and board experience all affect tax avoidance simultaneously.

$$Y = 5.438297 - 2.942214X1 + 3.702151X2 - 0.258681X3 + \varepsilon \quad (1)$$

Table 4. Regression Test Results

Variable	Coefficient	Probability
Gender Diversity	-2.942214	0.0878
Educational Diversity	3.702151	0.0000
Diversity of Position Experience	-0.258681	0.0476
R^2	0.552016	
Adjusted R^2	0.448215	
F-statistic	5.318020	
Sig.	0.000000	
N	102	

Source: Processed data (2022)

The findings indicated that the board of directors' gender diversity had a coefficient value of -2.942214 and a probability value of 0.0878 < 10%, indicating that the first hypothesis is accepted and that the board's gender diversity has a detrimental impact on tax avoidance. Women are considered professional because they can lead, manage, and communicate well so that they can reduce tax avoidance activities in the sample companies.

Shareholders receive a positive signal from the presence of women on the board of directors. The presence of women which is more democratic by giving their subordinates more flexibility is also required for gender diversity on the board of directors since it balances off the presence of a men's board, which tends to be more rigid owing to its more authoritarian tendency. Women on the board of directors will provide businesses with greater options for implementing corporate tax planning. The participation of a women's board of directors can help enhance corporate governance since women ensure that choices are thoroughly studied for the effect they will have on the organization.

The results of this study have a coefficient value for the board of directors‘ education diversity variable of 3.702151 with a probability value of 0.0000 < 1%. This indicates that educational diversity has a positive effect on tax avoidance and the second hypothesis is accepted. Tax avoidance generally tends to be greater when directors have accounting and tax experience because boards of directors with economics and business education typically know more about tax rules and fiscal policies and know how to execute tax avoidance.

The example company board of directors' educational diversity will increase the board's composition's diversity and provide a favorable message to shareholders. Diverse directors are said to possess superior managerial abilities, which can eventually improve the profitability of the company by reducing the tax burden through tax avoidance. The diversity of the board of directors will enhance business performance and provide shareholders with advantages.

The third hypothesis is disproved because the study's findings indicate that the variable experience of diversity in board service has a coefficient value of -0.258681 and a probability value of 0.0476 < 5%. This indicates that the diversity of experience on the board of directors hurts tax avoidance. Directors who work long enough in the company tend to understand more about the ins and outs of the company. However, this is not used by the directors for tax avoidance.

The signal theory is connected to the diversity of experiences on the board of directors since this information will convey to shareholders that the company has established sound corporate governance. Long-term the board of directors of a company, who can select and take advantage of the finest tax planning prospects for the company, will be more competent directors.

5 Conclusion

According to the findings of the data analysis, tax avoidance is positively impacted by the diversity of educational the board of directors, however, it is negatively impacted by the diversity of board members' backgrounds in terms of experience and gender. One kind of company information that might send signals to outside parties through annual reports is the diversity of the board of directors. The diverse board of directors is one of the non-accounting information that reflects the diversity of the characteristics of the different members of the board of directors in making company policies. Board of directors‘ policies to increase company profits, such as tax avoidance can be a good signal for principals if the company has implemented good corporate governance. The board of directors needs to pay attention to every decision taken to minimize the occurrence of transactions that lead to tax avoidance and stakeholders can strengthen their control and oversight functions of the board of directors in running the company.

The increased diversity on the board of directors such as that brought about by racial or ethnic origin, professional experience, geography, or age needs to be more thoroughly studied. Businesses with varied boards of directors are seen to perform better and exhibit more innovation when each company's decision-making process has been implemented successfully. Also, interested parties think that businesses with diverse boards of directors have a stronger reputation.

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