The Effect of Commercial Governance on Tax Avoidance

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Abstract. This study aims to explain how important commercial governance is proxied by using institutional power, independent officers and inspection panels on duty avoidance. This study is a quantitative study with a unproductive approach. The slice system used was intentional slice as numerous as 47 companies that passed as the sample. This study uses secondary data from the Indonesia Stock Exchange in 2016-2020. The data is reused by using. The system used is a quantitative system with panel data regression analysis with a fixed effect model approach. Grouded on the results of the analysis, it can be seen that institutional power has no effect on duty avoidance, meaning that institutional power doesn't affect the company's geste in tax avoidance, but on the contrary independent officers and inspection panels have a positive and significant effect on duty avoidance, meaning that adding the number of independent officers will reduce operations avoidance. Levies and the actuality existence of an inspection commision which is responsible for covering all company conditioning so that tax avoidance isn't carried out by the company.

Keywords: Tax Avoidance,Corporate Governance, Institutional Ownership, Independent Commissioners, Audit Committee.

1. Introduction

We often hear cases of tax evasion both from within the country and abroad. Tax evasion is still mostly done by companies, this is done because of a tax loophole, where this tax evasion is carried out illegally with a scheme to pay smaller taxes by fictitious marking costs [1]. This is expressed similarly by [2] where tax avoidance is an activity that takes advantage by taking advantage of legal weaknesses in order to be able to pay taxes as little as possible. According to [3] one of the steps taken by taxpayers is tax avoidance in terms of being a company to avoid corporate taxes. Reducing the amount of taxes in the context of tax avoidance through tax planning [4], argues that tax avoidance can be used as an option as a tool to minimize the tax burden listed in the financial statements in a way that is still within the corridor of the applicable tax regulations,, but most people do not accept tax evasion measures. Paying less taxes tends to be done by some taxpayers in tax avoidance [5]. Taxes are considered as a company is a burden so that companies do tax avoidance,

Corporate governance is needed by companies in suppressing the high opportunity for companies to take advantage of tax avoidance practices. A system of controlling and directing is part of corporate governance that is carried out to manage the company for the better. With the perpetration of commercial governance, agency problems can be reduced. Commercial

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governance has the end of making directors act in the interests of shareholders. Besides that, it can force directors to expose information so as to minimize information asymmetry between directors and shareholders [6].

Someone who has a lot of assets is included in institutional ownership and has more resources in gathering information for the sustainability of the company. If the company has large institutional ownership, all activities related to corporate governance will be supervised by institutional investors [7], [8]. Several previous studies on institutional ownership have been carried out where the results are variable. According to research [9], [10], and [11] that institutional power has no effect on tax avoidance. Still, grounded on that institutional power has a positive effect on tax avoidance, this is in line with the results of [12].

Part of the board of officers is an independent manager where in the perpetration of commercial governance has an important part in managing the company. The supervisory function is carried out by an independent commissioner with full responsibility [13]. With the supervisory function, the agent (management) cannot arbitrarily carry out self-enrichment actions, which the shareholders do not know about. Independent manager according to [7], [14] and [15] that tax avoidance is influenced by the percentage of independent manager.

The last part of commercial governance is the inspection committee.According to [16] the fiscal statements that have been passed in the inspection process with integrity and ideal are carried out by the adjudicator to produce acceptable fiscal reports. The inspection commision is a aiding the board of officers with regards to fiscal statement. The results of former studies that the inspection commision has a positive effect on tax avoidance according to [17], [18] and [19]. This is contrary to the results of exploration from [20], [21] which state that tax avoidance isn't told by the inspection commision.

Based on the above research that has been done, it can be concluded that the conclusions are varied. In addition, the object of observation is still lacking, where most studies choose companies in the food and beverage industry sector as research objects. Research with various objects of observation needs to be done to focus on understanding the topic of tax avoidance. This research aims to examine the effect of corporate governance (institution ownership, independent commissioners, and audit committee) on tax avoidance in companies.

2. Literature Review

2.1 Agency Theory

Agency relationship according to [22] sometimes causes problems between managers and shareholders or is usually called a conflict of interest (agency conflict), a conflict that arises as a result of the desire of operation (agent) to take conduct that are in agreement with their interests which can immolate the interests of shareholders. shares (principal) in order to obtain a return and the value of the company in the future. The manager's decision to do tax avoidance is one of the agency problems. Tax savings from tax avoidance are a cheap source of funding for companies and the economic benefits of tax avoidance are quite large.

In this study, agency theory explains that there are differences in interests that arise between the main owner of the company, namely the government which also acts as a regulator in terms of taxation and the company management who acts as a tax payer. The difference in point of view will certainly result in a conflict between the government as the owner of the company and the company's management [23].

2.2 *Tax Avoidance*

Tax avoidance is an attempt to relieve taxes without breaking the law. [4] stated that there is no universally accepted definition of tax avoidance, each person or every researcher has a different understanding. Tax evasion is defined largely as an attempt to reduce taxes and reflects all transactions that affect the company's explicit tax payable. Taxpayers always want small tax payments. According to research by[3] and [4] tax avoidance is any activity to influence taxpayers, both specific activities for tax reduction. Legal tax evasion is usually inseparable from illegal tax evasion because most behaviors surrounding transactions are technically legal. The legality of tax evasion transactions often does not match the facts. Tax evasion usually exploits weaknesses in tax laws and does not violate tax laws.

2.3 *Corporate Governance*

Commercial governance is an obligation for companies now. The background of the significant of enforcing commercial governance since 1998 when Indonesia endured a extremity, commercial Governance began to come a general consideration.. Eventually, investors really pay special attention to corporate governance. The perpetration of corporate governance is anticipated to impact the reality to bear specifically in corporate governance. Corporate governance is a form of investor confidence in the company's operations that the finnces invested will be managed duly and earn gain in the form of dividends [24], [25]. Dimension of commercial governance in companies can be proxied by several ponters of institutional power, independent commissioners, audit committees and audit quality.

2.4 Institutional Ownership

In developing countries, the role of institutional power in commercial governance greatly influences decision timber [26], [27]. Institutional power variable has a significant effect on tax avoidance [28]. The advanced the institutional power, the advanced the quantum of tax burden that must be paid by the company. This means that the company's tax avoidance is likely to be lower. Voting right held by institutional possessors can force directors to concentrate on protabilitas performance and the occasion that is avoided is tone-serving geste.

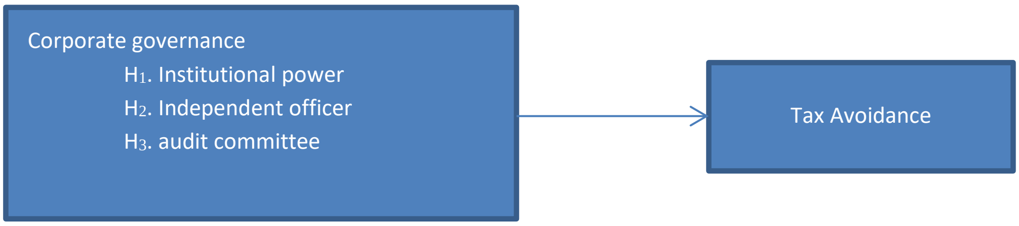
2.5 Independent Commissioner

The characteristics of commercial governance that must be possessed by companies are independent officers whose functions are to carry out supervision, support good company operation and make financial reports more objective [29]. The opinions taken by the company's operations will be told by the presence of independent officers in the company, including opinions related to tax payments which are antipated to minimize fraud that can do. An independent board of officers is a board of officers that comes from external to a certain commensurable quantum can insure that the administrative medium runs effectively on the performance of business realities in agreement with the laws and regulations [30].

2.6 Audit Committee

The Board of Commissioners is assisted by the audit committee to supervise the management in compiling the company's financial statements to minimize the tendency to emphasize the costs to be incurred by managers, especially the costs incurred to carry out tax obligations. The audit committee with its authority will prevent companies from practicing tax avoidance. The audit committee acts as a supervisor for the financial reporting process which aims to realize financial statements that are prepared through an examination process with the integrity and objectivity of the auditors [16].

2.7 Framework



H_1 : Institutional power positive effect on tax avoidance
H_2 : Independent officers have a negative effect on tax avoidance
H_3 : The audit committee has a negative effect on tax avoidance

3. Research Methods

This exploration is a quantitative research, using a unproductive exploration design (Nazir, 2005).Secondary data used by experimenters from the Indonesia Stock Exchange. The data used by the experimenter is fiscal report data for 2016-2020. The population studied were all manufacturing companies listed on the Jakarta Stock Exchange for the 2016-2020 period.

Table 1. Sample Selection Criteria

Criteria	**Amount**
IDX-listed manufacturing company	143
Manufacturing companies that are not listed in a row for the period 2016-2020	(25)
Manufacturing companies experiencing delisted	(28)
Companies with incomplete annual reports	(21)
Companies that use currencies other than rupiah	(22)
Number of companies that meet the criteria	**47**
Total sample size	**235**

Table 2. Research variable

Variable	Variable Concept	Dimension	Variable Indicator
Commercial governance	Is a system or process and a set of rules that rule the	1. Institutional Ownership	$KI = \frac{Number\ of\ shares\ owned\ by\ investorrsitusi}{total\ share\ capital\ of\ the\ company\ outstanding}$

relationship between interested parties between shareholders, the board of commissioners and the board of managers to achieve one goal.	2.	Proportion of independent commissioners	$BOARD = \frac{J.\text{ independent commissioners}}{J.\text{ board of commissioners}}$
	3.	audit committee	$Audit = \sum \text{audit committee}$

Source: Gayatri & Saputra (2013); Marselawati et.al., (2018); Wati (2017), Laily (2017); Sari & Devi (2018), Wati (2017)

4. Result and Discussion

The exploration used logical styles, videlicet descriptive statistical analysis, panel data regression and hypothesis testing. Descriptive statistical analysis serves to explain the nature of the sample and describe the minimal value, maximum value, average value (mean), standard devagation value. Panel data is data that has a cross-sectional nature. While the data is only one company but has a long period of time or further than one period is called a time series. The exploration time is acclimated to the will of the experimenter [31]. The exploration model is:

$$CETR = \alpha 1 + \beta 2KI + \beta 3BOARD + \beta 4AUDIT + e$$

Descriptive statistical analysis serves to explain the nature of the sample and describe variousexplorations variables. In this descriptive statistic attained the minimal value, maximum value, mean value and standard deviation value. The exploration variables consist of tax avoidance, institutional power, independent officers and audit committees.

Table 3. minimum, maximum, mean and standard deviation

Variable	N = 235			
	Min	Max	mean	St. Dev
TA	-0.4997	0.8767	0.2224	0,1566
KI	0.0067	0.9876	0.6912	0.2699
BOARD	0.2	0.8321	0.4032	0.1132
KA	2	4	3.1422	0.2442

The minimum TA value is -0.4997 and the maximum value is 0.8767, while the standard deviation value is 0.1566 with a mean value of 0.2224. It can be concluded that companies in the manufacturing sector do tax avoidance.

The minimal institutional power value is 0.00 and the max is 0.98. Meanwhile, the standard deviation value is 0.26 and the average value is 0.69. Based on descriptive statistical values, most of all companies in the manufacturing sector are financed by institutions, seen from the average institutional ownership.

The minimal value of independent commissioners is 0.2 and the max is 0.83. Meanwhile, the standard deviation value is 0.11 and the average value is 0.40.

The minimal value of the Audit Committee is 0.2 and the max is 4 with a standard deviation of 0.264 and an average value of 3.14. The existence of an audit committee can minimize violations committed by the company, one of which is tax avoidance.

Research Model test results

CETR = α1+ β2KI + β3BOARD + β3AUDIT + e

Variable	Prediction Hypothesis	Play Model	Significant
Constant		-0.524356	
KI	β+ Rejected	-0.0385921	Not significant ***
		(-2.376441)	
BOARD	β+ Received	0,236757	Significant ***
		(5,45526)	
AUDIT	β+ Received	0,039865	Significant ***
		(2,66502)	
R2		0.225634	
Adjusted R2		0.223796	
Fstat		13.51233	

Data source processed in 2021

Description *** Significance 1%, ** Significance 5% * Significance 10%

The research method in the table above can be interpreted as follows:

CETR = 0.524356 +- 0.0385921 + 0.236757 + 0.039865 + e

-0.524356 is a constant value which means that there is no independent variable, then 0.524356 will reduce tax avoidance. The value of determination (adjusted R Square) of 0.223796 means that institutional ownership, independent commissioners and audit committees affect tax avoidance by 22.3796 and the remaining 77.6204 is influenced by other factors outside the study.

1. The effect of institutional power on tax avoidance

   The results of the test where institutional power does not impact the amount of tax avoidance, this means that the institutional power structure in the company has no relationship to tax avoidance. The quantum of institutional power, both large and small, does not affect the company's geste in tax avoidance, where the lack of supervision of the operation who has the occasion to commit fraud in tax avoidance practices. The results of this study are supported by exploration from[10], [9] and [11], but differ from the results of exploration that institutional power has an effect on tax avoidance from the results of the study [12].

2. The test results show that the effect of the commissioner
   Independent officers on tax avoidance have a positive and significant effect on tax avoidance. Independent officers can cover the company's operation in terms of formulating strategies, including tax issues. The adding number of independent officers can help companies from doing tax elusion. Supervision by independent officers can reduce agency problems due tooperations opportunistic station towards lagniappes. In making opinions, the operation will be more thorough and open in managing the company so that tax avoidance is minimized. This is supported by the test results from [32], [25]. Contrary to the explorations results research conducted by[20], [25] [33] and [34] that independent officers have no effect on tax avoidance, meaning that the larger the board of officers who come from outside the company, the lower effective their performance in supervising and controlling the director's performance. or directors in company operation, suspected of having difficulty coordinating among board members besides that another cause of the board of officers being less effective is the lack of knowledge of the applicable tax laws that havn't been suitable to reduce the position of corporate tax avoidance.
3. The influence of the audit committee on tax avoidance
   From the results of testing the influence of the audit committee on tax avoidance, the audit committee has a negative and significant influence on tax avoidance. With the actuality of an audit committee which is responsible for covering all company conditioning as well as fiscall reports carried out by the adjudicator whether its applicable or not. This is supported by exploration from [35], [36] which explains that the audit committee has a positive impact on tax avoidance. This is different from exploration from [37], [38] that the audit committee has no effect on tax avoidance.

4. Conclusion

The results showed that commercial governance as measured by institutional power, independent officers and audit committees showed different results. Institutional power in empirical subtantion explains that institutional power has no effect on tax avoidance so that it can't limit the compass or help tax avoidance. Monitoring carried out by independent officers is veritable effective and can reduce the circumtance of fraud in tax avoidance. The large number of audit members was suitable to help the operation from doing tax evasion.

For the next experimenter, its hoped that there will be fresh variables, videlicet directorial power and audit quality so that it anticipated to gain more accurate and precise exploration results. This study has limitations where it only examines manufacturing companies so that other sectors cannot be used. Next, there are only three independent variables in commercial governance, videlicet institutional power, independent commissioners and audit committees, so its possible that numerous other variables are also significant to tax avoidance.

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