The Effect of Corporate Governance on Tax Avoidance (Empirical Study of the Consumer Goods Industry Companies Listed On Indonesia Stock Exchange Period 2013-2016)

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Abstract: Tax avoidance is the steps taken by a person to avoid taxes but in legal ways. This tax evasion can be said to be a complicated and unique issue because on the one hand it is permissible, but not desirable. This study aims to examine and analyze the effect of Corporate Governance on Tax Avoidance. Corporate Governance is proxied with institutional ownership, independent board of commissioners, audit committee, and audit quality, while Tax Avoidance is proxied by Cash Effective Tax Rate. Population in this research is all of Consumer Goods Industry Company which listed in Indonesia Stock Exchange Year 2013-2016. The sampling technique used Purposive Sampling method. Purposive Sampling method obtained by the sample of 19 companies. Data analysis method used in this research is using multiple linear regression analysis. Based on the results of model feasibility testing (F test) shows that the independent variables (institutional ownership, independent board of commissioner, audit committee, and audit quality) have a significant effect on the tax avoidance variable. Hypothesis testing (t test) shows that the institutional ownership and audit committee have an effect on Tax Avoidance, whereas independent board and audit quality have no effect on Tax Avoidance.

keywords: Corporate Governance, Tax Avoidance.

1. INTRODUCTION

Taxes are the largest source of income that contributes to improving the education and welfare of the people, building infrastructure for economic growth, supporting resilience and security, as well as for regional development. But the public as much as possible to avoid the obligation to pay taxes, all because people feel not get kontraprestasi (reward benefits) directly. All this is reasonable in the midst of a self-assessment system, compliance becomes one of the tax officers' attention in performing their duties. Therefore various ways of avoidance are done by the Taxpayer, from the simple way to the most complex. The goal is one, minimizing the tax burden that should be deposited into the country.

Tax evasion is a practice that is generally agreed upon as unacceptable and must be prevented and resisted. However, the fact that tax evasion is done by exploiting loopholes in tax laws so literally does not violate the law makes the issue an issue of unfinished discussion (Wijaya, 2014). One tax evasion by taxpayers is tax avoidance. Tax avoidance is the steps taken by a person to avoid tax however in legal ways. This tax evasion can be said to be a complicated and unique issue because on the one hand it is permissible, but not desirable.

Based on previous empirical results that are still contradictory and varied in this research will re-examine the effect of Corporate Governance on Tax Avoidance. Tax Avoidance is measured

using the Cast Effective Tax Rate (CETR), which is the ratio of tax payments in cash to the income tax company's income. Cash tax payments are included in the statements of cash flows of the following year on income tax payment post in cash flows for operating activities, while income before income tax is included in the current year statement of income. From the measurement is expected Tax Avoidance action can be identified, and can be known whether a company take measures to minimize tax or not. There are several factors that affect a company in performing tax obligations, one of which is Corporate Governance.

Corporate Governance is a system or mechanism that regulates and controls the company to create value added for all stockholders. The Company is one of the taxpayers while Corporate Governance describes the relationships among various participants in the company that determine the direction of company performance.

Corporate Governance (CG) is measured by four proxies, namely the proxy of institutional ownership, independent board of commissioner, audit committee and quality audit. The condition of corporate governance affects the decisions taken by the company, so companies with good governance have higher tax avoidance rates.

The characteristics of the corporate tax system affect the value of profitability by managers, and the increase in tax compliance will increase the value of the firm and reduce the gain of control over the firm, the controlling shareholder. While on the other hand, the quality of corporate governance plays an important role in determining the sensitivity of tax revenues on changes in tax rates.

Research on the direct relationship between Corporate Governance and Tax Avoidance has been widely encountered. Armstrong, et al (2015) examines the relationship between corporate governance, managerial incentives, and corporate tax evasion. The result found no relationship between various Corporate Governance mechanisms with Tax Avoidance on the average and median conditions of Tax Avoidance. However, using quartile regression, there was found a positive relationship between independent councils and financial conditions for low Tax Avoidance levels, but a negative relationship for high Tax Avoidance rates. This is consistent with Sandy & Lukviarman's (2015) study which found no relationship between institutional ownership and tax evasion.

Annuar, Salihu, & Obid (2014) examine the interactive effects of board composition on the relationship between company ownership and corporate tax evasion. The results showed that family, government and foreign ownership proved significantly as a potential determinant of corporate tax avoidance with the interactive effects of board composition.

Salihu, Obid, & Annuar (2013) provide empirical evidence of significant differences between various tax avoidance measures. Measures of the proposed tax evasion are ETR accounting, Cash ETR tax expense for operating cash flows, and cash taxes paid to cash flow operations.

Dyreng, Hanlon, & Maydew (2010) examine whether Top Executive individuals have an influence on corporate tax evasion. From this research obtained the result that the leadership of the company (Executive) individually has a significant role to the level of tax evasion company.

Sunarsih & Oktaviani (2016) examines the effect of good corporate governance on tax evasion. The results

show that managerial board ownership variables, independent directors, audit committees, and audit quality effects have an effect on tax evasion, while institutional ownership variables have no effect on tax evasion.

Wilopo & Abdillah (2016) conducted a study on a company indexed on Sri Kehati Exchange. Simultaneously corporate governance significantly affects tax avoidance, but partially corporate governance has no significant effect on tax evasion.

Subagiastra, Arizonab, & Mahaputra (2016) found significant influence between independent board of commissioner against tax evasion. This is inversely proportional to the research (Cahyono, Andini, & Raharjo (2016) and annisa & Kurniasih (2012) which found no significant influence between independent board of commissioners against tax evasion.

Based on the previous empirical results that are still contradictory and varied in the analysis of Corporate Governance influence on Tax Avoidance, the researcher is interested in conducting research with the title: "EFFECT OF CORPORATE GOVERNANCE TO TAX AVOIDANCE (Empirical Study on Consumer Goods Industry Sector Listed on BEI Year 2013-2016) ".

2. THEORITICAL FRAMEWORK

Theoritical framework of this research is illustrated as follow:
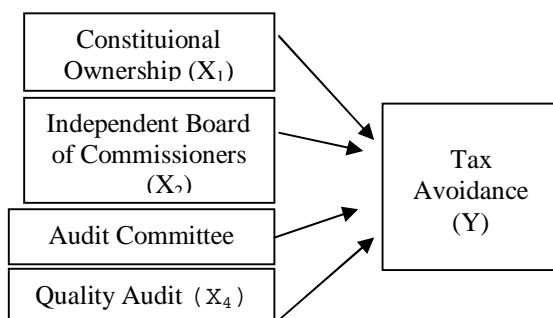

Figure 1 Theoritical Framework

3. RESEARCH METHODS

The research method used data analysis method. The type of data used is quantitative data. The source data used is secondary data. Data collection method used is documentation. Data analysis technique used is multiple linear regression analysis. The population in this study are All Companies of the Consumer Material Industry Sector listed on Indonesia Stock Exchange Indonesia period 2013-2016. Sample selection is done by using purposive sampling method.

Data Analysis Technique

Data analysis techniques used in this research are as follows:
a. Descriptive statistics, used to provide descriptions or research variables.
b. A classic assumption test
   1) Normality test, aims to test whether in the normal variables distributed research model normal or not.
   2) Multicollinearity test, aimed to know whether or not the same relationship between the independent variables used.
   3) The heteroskedasticity test, aims to analyze the occurrence of inequalities between the residual
   4) Autocorrelation test, was conduct to find out the residual in a single observation
c. Hypothesis Testing
   1) Multiple Linear Regression Analysis is the technique through a coefficient parameter to know the magnitude of the influence of variables is independent of the dependent variable. the regresion model in this research are as follow:

   $$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Information:
Y = Tax avoidance
α = Constant
β = Regression coefficient
X_1 = Constituional Ownership
X_2 = Independent Board of Commissioners
X_3 = Audit Committee
X_4 = Quality Audit
e = Error

2) F test is done to see the influence between independent variable to dependent variable simultaneously
3) T test is done to know the influence of dependent variable to independent variable partially
4) The coefficient of determination test is done to measure the proportion of variation on the independent variable in explaining zero regression.

4. RESEARCH RESULT

Results Of Data Collection

The data in this research are all companies of Consumer Goods Industry Sector listed in Indonesia Stock Exchange period 2013-2016. The total number of listed consumer goods industry companies is 37 companies. This research uses purposive sampling method and 19 companies meet criteria as research sample. Tax Avoidance is calculated using Cast Effective Tax Rate (CETR).

$$CETR = \frac{\text{Income Tax Expense}}{\text{Revenue Before Tax}}$$

Figure 2. CETR

The Descriptive Statistics Analysis

The results of descriptive analysis of institutional ownership, independent board of commissioners, audit committee and audit quality.

Table 1 Summary of Descriptive Statistic

	N	Min	Max	Mean	Std. Dev
Institutional ownership	76	0,33	0,98	0,7214	0,17117
Independent board of commissioners	76	0,20	0,80	0,4262	0,12705
Audit committee	76	3	5	3,22	0,479
Audit quality	76	0	1	0,63	0,486
Tax Avoidance	76	0,06	0,37	0,2514	0,04678
Valid N	72				

Source of Data Processed 2017

Based on table 1 it is known that the institutional ownership variable is a minimum value of 0.33, a maximum of 0.98, with mean (mean) of 0.7214 and std level. deviation of 0.17117. Independent board variable of minimum value equal to 0,20, maximum value equal to 0,80, with mean (mean) equal to 0,4262 and std level. deviation of 0.12705. Variable audit committee minimum value of 3, the maximum value of 5, with a mean (mean) of 3.22 and level std. deviation of 0.479. The audit quality variable is a minimum value of 0, a maximum value of 1, with an average of 0.63 and a std level. deviation of 0.486. Variable tax avoidance minimum value of 0,06, maximum value equal to 0,37, with mean (mean) equal to 0,2514 and std level. deviation of 0.04678.

Classic assumption test

A classic assumption test result that includes tests of Normality, Multicollinearity, Heteroscedasticity and Autocorrelation are shown in the table as follows:

Table 2 Summary of Normality Test

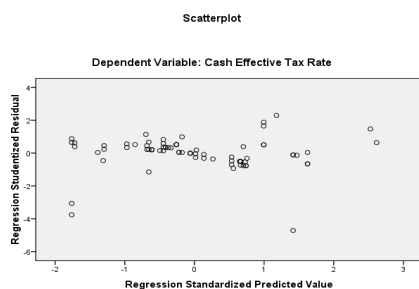| Variable	Sig	Standard	Description
Unstandardized Residual	0,053	0,05	Normal

Sources of Data Processed 2017

Based on table 2 it is known that the significance value of unstandardized residual has a value> 0.05 is 0.053. It can be concluded that the variable data is normally distributed.

Table 3 Summary of Multicollinearity

Variable	Tolerance	VIF	Description
Institutional ownership	0,909	1,100	There is no multicolinearity
Independent board of commissioners	0,873	1,145	There is no multicolinearity
Audit committee	0,968	1,033	There is no multicolinearity
Audit quality	0,873	1,146	There is no multicolinearity

Sources of Data Processed 2017

Based on table 3 it is known that all independent variables have a tolerance value> 0.10 and VIF value <10. It can be concluded that not multinolinearity of tick on the variable under research.

Figure 2 Summary of Heteroscedasticity

Based on Figure 2 it is known that there is a clear pattern, as well as the points spread above and below the number 0 on the Y axis. It can be concluded that there is no heteroscedasticity in the regression model.

Table 4 Summary of Autocorrelation

Variable	Sig	Standard	Description
Unstandardized Residual	0,488	0,05	There is no autocorrelation

Sources of Data Processed 2017

Based on table 4 above with the method of test runs known that the value of unstandardized residual variable has a significance value> 0.05 is 0.488, it can be concluded that there is no autocorrelation in the regression model.

Hypothesis Testing

The results of Hypothesis Testing include multiple linear regression analysis, F Test, t Test and Test Coefficient of Determination shown in the table as follows:

Table 5 Summary of Multiple Linear Regression Analysis

Variable	ß	Sig
Constant	0,214	0,000
Institutional ownership	-0,066	0,043
Independent Board of Commissioners	-0,009	0,844
Audit Committee	0,024	0,034
Quality Audit	0,019	0,110

Sources of Data Processed 2017

Based on table 5 using SPSS program, then obtained the regression equation as follows:

$$Y = 0{,}214 - 0{,}066X_1 - 0{,}009X_2 + 0{,}024X_3 + 0{,}019X_4$$

Table 6 Summary of F test

Model	F_{count}	F_{table}	Sig	Std	Conclusion
1	2,551	2,50	0,046	< 0,05	Significant Model

Sources of Data Processed 2017

Based on table 6 obtained F_{count} of 2.551. It turns out that the amount of F_{count} is located in the area of acceptance H_a that is $F_{count} > F_{table}$ (2.551> 2.50) and the value of probability significance of 0.046 which means smaller than 0.05 (0.046 <0.05). So it can be concluded that simultaneously or simultaneously independent variables (institutional ownership, independent board of commissioners, audit committee, and audit quality) affect the tax avoidance variable.

Table 7 Summary of t Test

Variable	T_{count}	t_{table}	Sig	Std	Description
Institutional ownership	-2,061	1,994	0,043	< 0,05	H_1 be accepted
Independent board of commissioners	-0,198	1,994	0,844	< 0,05	H_2 rejected
Audit committee	2,163	1,994	0,034	< 0,05	H_3 be accepted
Audit quality	1,620	1,994	0,110	< 0,05	H_4 rejected

Sources of Data Processed 2017

Based on table 7 obtained t_{count} of -2.061. It turns out that t_{count} is less than t_{table} (-2.061 <-1,994) and significance value of 0.043 which means smaller than 0.05 (0.043 <0.05). So this means H_o is rejected and H_a accepted or in other words the institutional ownership variable partially affect the tax avoidance. These results indicate that Hypothesis 1 is accepted.

The calculation results obtained t_{count} -0198 ,. It turns out that t_{count} is bigger than t_{table} (-0,198> 1,994) and significance value is 0,002 which means bigger than 0,05 (0,844> 0,05). Then this means H_o accepted and H_a rejected or in other words independent board of commissioner variable partially no effect on tax avoidance. The results of this study indicate that Hypothesis 2 is rejected.

The calculation results obtained t_{count} of 2.163. It turns out that t_{count} is bigger than t_{table} (2,163> 1,994) and significance value equal to 0,034 meaning less than 0,05 (0,034 <0,05). So this means H_o is rejected and H_a accepted or in other words the audit committee variable partially affect the tax avoidance. The results of this study indicate that Hypothesis 3 is accepted.

The calculation results obtained t_{count} of 1.620. Apparently t_{count} smaller than t_{table} (1,620 <1,994) and significance value equal to 0,110 which mean bigger

than 0,05 (0,110> 0,05). Then this means H_o accepted and H_a rejected or in other words variable quality audit partially no effect on tax avoidance. The results of this study indicate that Hypothesis 4 is rejected.

Table 8 Summary of Test Coefficient of Determination

Model	Adjusted R Square	Conclusion
1	0,076	The dependent variable can be explained by the independent variable

Sources of Data Processed 2017

Based on table 8 it can be seen that the dependent variable in this case the company value can be explained by 7.6% by the independent variable. It can be seen from Adjusted R Square value of 0.076. While 92.4% of tax avoidance dependent variable is influenced by other variables outside the research model.

5. DISCUSSION

a. The Effect of Institutional Ownership on Tax Avoidance

Based on the test results can be concluded that the variable of institutional ownership affect tax avoidance, then this H1 accepted. The results of this study indicate that institutional ownership of a higher proportion of institutional ownership in a company, the lower tax avoidance. It is reflected that a company with high institutional ownership will easily prevent the management of the company from practicing tax avoidance. High institutional ownership in a company will make the company must obey orders from the owner of the company, so as to minimize the company in the practice of tax avoidance. The results of this study are in line with research conducted by

Subagiastra, Arizonab & Mahaputra (2016), Marfirah & BZ (2016), Cahyono, Andini & Raharjo (2016) and annisa & Kurniasih (2012) which stated that institutional ownership affects the tax avoidance supported by empirical evidence.

b. The Effect of Independent Commissioner on Tax Avoidance

Based on the test results can be concluded that the independent board of commissioner variables do not affect the tax avoidance, then this H2 rejected. The results of this study indicate that the lower the board of independent commissioners within a company will be the higher tax avoidance. This is because the board of independent commissioners is not involved in decision-making related to corporate taxation obligations and in carrying out the supervisory function of the board of independent commissioners is not maximal in supervising, so the company can practice tax avoidance. The results of this study are in line with research conducted by Cahyono, Andini, & Raharjo (2016) which states that the board of independent commissioners has no effect on tax avoidance which is not supported by empirical evidence.

c. The Effect of the Audit Committee on Tax Avoidance

Based on the test results can be concluded that audit committee variables affect tax avoidance, then H3 accepted. The results of this study indicate that the more audit committees in the company will be lower tax avoidance. This is because the large number of audit committees that exist within a company can prevent the occurrence of tax avoidance practices because the audit committee with knowledge in the field of accounting can avoid tax avoidance practices so that the company will not make tax avoidance. The establishment of the audit committee is to conduct supervision to the management of companies, especially in the field of accounting. The results of this study are in line with research conducted by Sunarsih & Oktaviani (2016) and Sandy & Lukviarman (2015) which stated that audit committee influence tax avoidance supported by empirical evidence.

d. The Effect of Audit Quality on Tax Avoidance

Based on the test results can be concluded that audit quality variables do not affect the tax avoidance, then this H4 rejected. The results of this study indicate that the lower the quality of audit the higher tax avoidance. This is because the audit quality generated by the public accountant good or bad will not affect the company in tax avoidance practices, because the audit quality generated by Big 4 KAP and KAP non Big 4 will not be able to prevent companies in tax avoidance. The company tax avoidance is likely due to high profit generated so that the company does not want to carry out its tax obligations. The results of this study are in line with research conducted by Hidayati & Fidiana (2017) which states that audit quality does not affect tax avoidance which is not supported by empirical evidence.

6. CONCLUSION

This study aims to examine and analyze the effect of disclosure of institutional ownership, independent board of commissioners, audit committee, and audit quality to tax avoidance. This type of research is

quantitative research. This study uses sample of annual financial statements amounting to 19 companies of consumer goods industry listed in Indonesia Stock Exchange year 2013-2016, sampling method used is to use purposive sampling method.

The test results show that hypothesis 1 and hypothesis 3 which states that the institutional ownership variable and audit committee influence tax avoidance supported by empirical evidence from this research sample, whereas hypothesis 2 and hypothesis 4 which states that independent board of commissioner and audit quality have no effect against tax avoidance is not supported by empirical evidence at the 5% level of significance.

The results of this study indicate that (1) high institutional ownership in the firm can prevent tax avoidance, (2) independent board of commissioners does not affect within the company to prevent tax avoidance, (3) high audit committee within the company can prevent tax avoidance, (4) audit quality generated by public accountants does not affect the company to prevent tax avoidance. This result is in line with some previous research, including Cahyono, Andini, & Raharjo (2016) and annisa & Kurniasih (2012) which found no significant relationship between independent board and Tax Avoidance, also Hidayati & Fidiana (2017) a significant relationship between audit quality and Tax Avoidance, but not in line with Marfirah & BZ (2016) research that found a significant relationship between all the variables used in this study with Tax Avoidance.

Tax avoidance is done by companies related to taxes to be paid by high companies because the company gets high income. Tax avoidance can be avoided if management and related parties can oversee the process within the company and behave well on taxes established by the tax office.

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