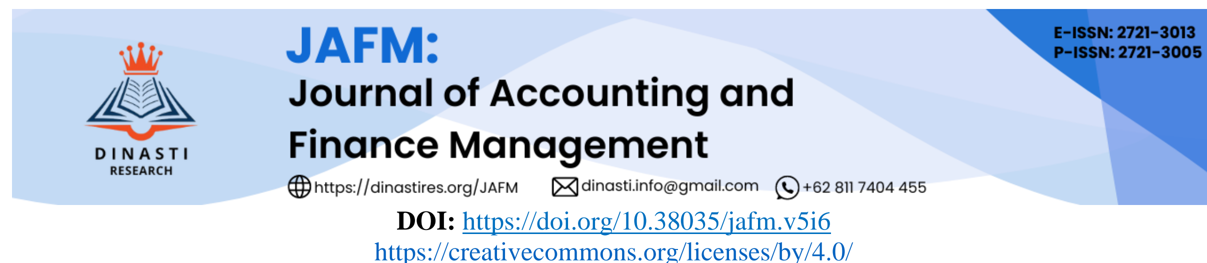


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# The Effect of Good Corporate Governance on Tax Avoidance

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**Abstract:** This study seeks to examine the impact of Good Corporate Governance, represented by Institutional Ownership, Board of Commissioners, Audit Committee, and Audit Quality, on tax avoidance in Miscellaneous Industry Manufacturing firms listed on the Indonesia Stock Exchange from 2019 to 2021. This research employs quantitative methodologies utilizing statistical analysis techniques within descriptive models and regression analysis including moderate variables. The sampling method use purposive sampling to select the sample based on certain considerations and criteria aligned with the research objectives. This research aims to furnish policymakers within the organization with insights about the significance of adopting Good Corporate Governance to facilitate Tax Avoidance.

**Keyword:** Good Corporate Governance, Tax Avoidance

## INTRODUCTION

Government activities in order to support the revenue budget cannot be separated from the attention of the tax sector. The attention is realized through the intensification and extensification of tax revenue, as an effort to optimize tax revenue (Waluyo, 2017). Nonetheless, endeavors to enhance revenue from this area are fraught with challenges. A significant impediment to maximizing tax income is tax avoidance, with numerous corporations engaging in this practice. (Budiman and Setiyono, 2012). Tax avoidance is a strategy employed by a taxpayer or corporation to diminish their tax liability by capitalizing on the deficiencies in legislation. (Ngadimanet al., 2014; Prasetyo, 2017). Good Corporate Governance (GCG) plays an important role in controlling the effects of agency problems in tax avoidance practices (Desai and Dharmapala, 2006; Armstronget al. 2013). Good Corporate Governance (GCG) comprises a framework of regulations and initiatives aimed at enhancing organizational management systems and platirocesses by delineating and elucidating the relationships, authorities, rights, and responsibilities of all stakeholders, including the General Meeting of Shareholders (GMS), the Board of Commissioners, and the Board of Directors (Hendro, 2017:98). Good Corporate Governance has been identified as an important variable explaining variation Tax Avoidance (James and Igbeng 2014; Armstronget al. 2013). Inconclusive results were found from empirical research, namely, the correlation

between Effective Corporate Governance and tax avoidance. Previous research also found the variable Good Corporate Governance has no effect on Tax Avoidance (Khoala 2013; Rego and Wilson 2008; Sabli and Noor 2012; Kurniasih and Sari 2013; Maharani and Suardana 2014; Dewi and Jati 2014; Prakosa 2014), while other researchers found that Good Corporate Governance has a negative and significant impact on Tax Avoidance (Armstrong et al. 2013; Desai and Dharmapala 2006; Minnick and Noga 2010; James and Igbeng 2014; Darmawan and Sukartha 2014; Fernandes, Martinez, and Nossa 2013). Empirical research is interesting to understand, that the relationship between Good Corporate Governance and Tax Avoidance is dominated by developed countries (James and Igbeng 2014; Fernandes, Martinez, and Nossa 2013; Armstronget al. 2013; Khoala 2013; Sabli and Noor 2012), this is different from developing countries, especially in Indonesia which is still limited. Therefore, the purpose of this study is to empirically test the effect of Good Corporate Governance on Tax Avoidance in Miscellaneous Industry Sector manufacturing companies listed on the Indonesia Stock Exchange from 2019-2021.

Tax avoidance is a legal and safe endeavor that is conducted in compliance with tax provisions. The methods and techniques employed are designed to exploit the weaknesses in the tax laws and regulations to reduce the amount of tax that is owed (Anwar, 2016). Tax avoidance can contain the provisions of the legislation invitation and regulatory spirit. Or included in law but not in accordance with the intent of the rule (Setyaningsih, 2018). The distinction between tax avoidance and tax evasion lies in the legality of the company's tax strategy. Policies that are actions of tax evasion have legal consequences, while those include tax avoidance.

Winarsih et al. (2014) Definition of Good Corporate Governance: A structure, system, and process that corporate entities implement as a strategy to produce sustainable added value in the long term for the company, while also considering the interests of other stakeholders, in compliance with norms, ethics, culture, and regulations. Effective Corporate Governance can address managers' opportunistic behaviors related to Tax Avoidance. Measurement of Good Corporate Governance in a company in research is proxied by several dimensions as an illustration of institutional ownership, independent commissioners, audit committees, and audit quality (Waluyo, 2017; Sandy and Lukviarman, 2015).

The term "institutional ownership" refers to a portion of the shares that are owned by an organization, such as a bank, an insurance company, or another educational establishment. (Simarmata and Cahyonowati, 2014). Institutional ownership significantly impacts corporate governance oversight by facilitating the management of better activities on Tax Avoidance. The greater the institutional ownership of the founders, the less aggressive the taxation of the institutional owner (Zemzem and Ftouhi, 2013).

The commissioner is a party that plays a vital role in overseeing the performance of the Board of Directors. Management supervision is believed to be better because it is free from various interests in the company (Sari, 2016). A good board of commissioners minimizes fraud in tax reporting reported by management and adds value to the integrity of financial information presented by management. Therefore, the higher the percentage of independent boards, the lower Tax Avoidance companies' practices (Meiza, 2015).

The audit committee is a committee formed by and responsible to the committee for the implementation of the committee's duties and responsibilities. The audit committee is chaired by an independent commissioner. Its members may consist of Commissioners and/or professionals from outside the company. Members of the Audit Committee are appointed and dismissed by the Board of Commissioners (BAPEPAMLK, 2012). The formation of an audit committee makes the performance more independent for auditors. Collusion between management and auditors becomes more difficult to do which will reduce Tax Avoidance (Watts and Zimmerman; Tandean and Winnie, 2016).

Audit quality is a market assessment where auditors can provide findings regarding violations of the client's accounting system and detect violations in financial statement records (De Angelo; Dewi et al, 2021). Audit quality can be measured by the scale of a public accounting firm, whether a public accounting firm is included in The Big Four of public accounting firms or not (Setiana and Setyowati 2014). The Big Four are more reliable in showing the true value of a company and can reduce Tax Avoidance company (Tandean and Winnie, 2016).

**Research Hypothesis**

**1. Relationship between Institutional Ownership and Tax Avoidance**

Ownership structure can be defined, namely the proportion of ownership of a company between the number of shares owned by insiders and the number of shares owned by outsiders (investors). Institutional ownership controls administration through an effective supervisory process and reduces administrative actions for tax evasion (Yuono, 2016). Several previous research findings found that institutional ownership has a negative effect on Tax Avoidance (Waluyo, 2017; Purbowati, 2021). It was identified that Institutional Ownership can reduce Tax Avoidance by companies, but the effect is not significant (Waluyo, 2017). Based on the description above, the hypothesis obtained is as follows:

**H1: Institutional Ownership has a negative effect on Tax Avoidance**

**2. Relationship between Independent Commissioners with Tax Avoidance**

Independent Commissioners can carry out the supervisory function to support Good Corporate Governance and make financial reports more objective (Kurniasih and Sari, 2013). Several previous studies found that the Independent Commissioner had a negative and significant effect on Tax Avoidance (Waluyo, 2017; Sandy and Lukviarman, 2015). The findings of research conducted by Sandy and Lukviarmann (2015) showed that the high or low variation of Tax Avoidance is determined by the variation of the Independent Commissioner's Proportion variable. In other words, the bigger the proportion of independent commissioners, the lower will be Tax Avoidance. On the other hand, if the proportion of independent commissioners is smaller, it will be higher Tax Avoidance. Based on the description above, the hypothesis obtained is as follows:

**H2: Independent Commissioner has a negative effect on Tax Avoidance**

**3. Relationship between the Audit Committee and Tax Avoidance**

The audit committee is a committee formed by the company's board of commissioners whose members are appointed and dismissed by the board of commissioners. The audit committee in this study is measured by the number of audit committees in an organization, because the audit committee helps companies in the financial sector, of course, the committee also helps companies with their income statements. It also has to do with taxes. With the help of the audit committee, annual bookkeeping can be more accurate. Previous research found that the Audit Committee had a negative effect on Tax Avoidance (Sandy and Lukviarman, 2015). This shows that the more members of the audit committee, the more Tax Avoidance happens to the company (Waluyo, 2017). Based on the description above, the hypothesis obtained is as follows:

**H3: The Audit Committee has a negative effect on Tax Avoidance**

**4. Relationship between Audit Quality and Tax Avoidance**

Audit quality is measured by the size of the audit firm (KAP) that audits the company. If a company is audited by KAP, the Big Four are more independent because they can withstand pressure from managers to report violations (Kurniasih and Sari 2013). Previous research found

that audit quality had a negative effect on Tax Avoidance (Dewi and Jati, 2014; Sandy and Lukviarman, 2015). The more samples of companies audited by The Big Four (KAP), the lower the level of Tax Avoidance. Based on the description above, the hypothesis obtained is as follows:

**H4: Audit quality has a negative effect on Tax Avoidance**

## METHOD

This research was conducted with a quantitative approach using statistical analysis methods in quantitative descriptive models and regression analysis with moderating variables. The variables of this study consisted of two variables, namely: 1) Good Corporate Governance as an independent variable (X); dan 2) Tax Avoidance as the dependent variable (Y).

The population in this study are all Miscellaneous Industry manufacturing companies listed on the Indonesia Stock Exchange from 2019-2021. The sampling technique used in this study is to use the desired criteria method (purposive sampling), which is a technique to determine the sample with certain considerations and criteria that are in accordance with the research objectives, with the following criteria:

The initial sample obtained was a sample of 57 companies and after selecting based on the specified criteria, a final sample of 13 companies was obtained with a total sample of 13 x 3 years = 39 research samples.

**Table 1. Sample Selection Criteria**

| | | | |
|---|---|---|---|
| Population: Companies listed on the IDX | | 58 Companies | |
| Sampling based on criteria (purposive sampling): | | | |
| a. | Companies that do not implement Good Corporate Governance | 6 | Companies |
| b. | Companies that do not report 2019-2021 financial statements | 4 | Companies |
| c. | Companies that do not use Rupiah currency | 12 | Companies |
| d. | Companies that do not make a profit in the period 2019-2021 | 23 | Companies |
| e. | Sample Companies | 13 Companies | |
| Total Sample (12x3 years) | | 39 Samples | |

Before testing the hypothesis, the regression model was tested first using regression analysis techniques with the classical assumption test. The purpose of using the classical assumption test is to meet the requirements in conducting a regression analysis consisting of:

1. The Normality Test aims to test whether in the regression model the variables studied are normally distributed or not.
2. The Linearity Test aims to see whether the specifications of the model used are correct or not.
3. The Multicollinearity Test aims to test whether the regression model found a strong correlation between independent variables.
4. The Autocorrelation Test aims to determine whether or not there is a correlation between data based on the time sequence.

### Hypothesis Testing

Multiple Regression Multiple regression analysis was performed on the model proposed by the researcher using SPSS version 28 software to predict the relationship between the independent variable and the dependent variable. Multiple linear regression analysis can explain the effect of the dependent variable with several independent variables. The equation for the hypothesis to be tested is as follows.

$$ETR = \alpha + \beta 1\, KI + \beta 2\, DKI + \beta 3\, KA + \beta 4\, QA + e$$

Information:

ETR = Tax Avoidance (proxy)

KI = Institutional Ownership
DKI = Independent Board of Commissioners
KA = Audit Committee
QA = Quality Audit
α = Constant
β = Regression Coefficient
e = Standard Error

## RESULTS AND DISCUSSION

### Descriptive Analysis

The following table has indicated the result of the descriptiveminu statistical output of the processing data using SPSS.

**Table 2. Descriptive Analysis**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| **KI** | 34 | ,320 | ,920 | ,73853 | ,155488 |
| **DKI** | 34 | ,280 | ,600 | ,42294 | ,107239 |
| **KA** | 34 | 3,000 | 4,000 | 3,02941 | ,171499 |
| **QA** | 34 | ,000 | 2,000 | ,94118 | 1,013281 |
| **TA** | 34 | ,000 | ,410 | ,19088 | ,105353 |
| **Valid N (listwise)** | 34 | | | | |

Based on table 2, there are 34 total frequencies, the effective tax rate (KI) identifies a minimum of 0.320, a maximum of 0.920, a mean of 0.73853, and a standard deviation of 0.155488. DKI obtained a minimum of 0.280, a maximum of 0.600, a mean of 0.42294, and a standard deviation of 0.107239. KA obtained a minimum of 3, a maximum of 4, a mean of 3.02941, and a standard deviation of 0.171499. QA obtained a minimum of 0, a maximum of 2, a mean of 0.94118, and a standard deviation of 1.013281. TA obtained a minimum of 0, a maximum of 0.410, a mean of 0.19088, and a standard deviation of 0.105353.

### Classic Assumption Analysis

**1. Normality Analysis**

**Table 3. One-Sample Kolmogorov-Smirnov Test**

| | | Unstandardized Residual |
|---|---|---|
| N | | 34 |
| Normal Parameters[a,b] | Mean | ,0000000 |
| | Std. Deviation | ,09361150 |
| Most Extreme Differences | Absolute | ,107 |
| | Positive | ,105 |
| | Negative | -,107 |
| Test Statistic | | ,107 |
| Asymp. Sig. (2-tailed) | | ,209[c,d] |

a. Test distribution is Normal
b. Calculated from data
c. Lilliefors Significance Correction
d. This is a lower bound of the true significance

Asymp sig > 0.05 means that the data is normally distributed. Based on table 4.2 one-sample Kolmogorov-Smirnov test, the value of Asymp.sig > 0.05 is 0.209 and it shows that the data is normally distributed.

## 2. Linearity Analysis

**Table 4. Linearity Analysis**

| Arah Hubungan | Sign | Dev. Linearity | Keterangan |
|---|---|---|---|
| KI terhadap TA | 0,05 | 0,021 | Tidak Linier |
| DKI terhadap TA | 0,05 | 0,721 | Linier |
| KA terhadap TA | 0,05 | 0,904 | Linier |
| QA terahdap TA | 0,05 | 0,828 | Linier |

Based on table 4.3, the linearity of KI to TA identifies the sign of 0.05, Dev.Linearity of 0.021 with non-linear description. DKI to TA identifies a sign of 0.05, Dev.Linearity 0.721 with a linear description. KA to TA identify the sign 0.05, Dev.Linearity 0.904 with a linear description. QA to TA identified a sign of 0.05, Dev.Linearity 0.828 with a linear description.

## 3. Multicorrelation Analysis

**Table 5. Multicorrelation Analysis**

| Coefficients[a] | | |
|---|---|---|
| Model | Collinearity Statistic | |
| | Tolerance | VIF |
| KI | ,907 | 1,103 |
| DKI | ,917 | 1,090 |
| KA | ,855 | 1,170 |
| QA | ,921 | 1,086 |

a. Dependent Variable: TA

The table above shows that the overall tolerance value produced in this study is between 0.1-1.0, and the VIF value is between 1.0-10. Thus, it can be justified that all of the independent variables used in the study are free from the assumption of multicollinearity.

## 4. Autocorrelation Analysis

**Table 6. Autocorrelation Analysis**

| Model Summary[b] | | | | | |
|---|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin- Watson |
| 1 | ,459[a] | ,210 | ,102 | ,099859 | 1,350 |

a. Predictors: (Constant), QA, KI, DKI, KA

b. Dependent Variable: TA

Based on the results of the autocorrelation test, the Durbin Watson value lies between -2 and 2 = -2 <1.350 < 2. It can be concluded that there is no autocorrelation in the regression model.

## Multiple Regression Analysis

**Table 7. Multiple Regression Analysis**

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | ,842 | ,386 | | 2,182 | ,037 |
| | KI | ,104 | ,117 | ,153 | ,883 | ,385 |
| | DKI | -,292 | ,169 | -,298 | -1,728 | ,095 |
| | KA | -,200 | ,110 | -,325 | -1,823 | ,079 |

| QA | ,002 | ,018 | ,016 | ,094 | ,926 |
|---|---|---|---|---|---|
| a. Dependent Variable: TA | | | | | |

Based on the table, the multiple regression equation is as follows:
$Y = 0.842 + 0.104 + (-0.292) + (-0.200) + 0.002$

## 1. Coefficient of Determination

**Table 8. Coefficient of Determination**

| Model Summary[b] | | | | | |
|---|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin- Watson |
| 1 | ,459[a] | ,210 | ,102 | ,099859 | 1,350 |
| a. Predictors: (Constant), QA, KI, DKI, KA | | | | | |
| b. Dependent Variable: TA | | | | | |

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

Column Adjusted R Square = 0.102 Conclusion: 10.2% of the variation in tax avoidance can be explained by the good corporate variable governance, while the remaining 89.8% is explained by other causes outside the model.

## 2. T Analysis

**Table 9. T Analysis**

| Coefficients | | | | | | |
|---|---|---|---|---|---|---|
| | | Unstandardized Coefficients | | Standardi zed Coefficien ts | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | ,842 | ,386 | | 2,182 | ,037 |
| | KI | ,104 | ,117 | ,153 | ,883 | ,385 |
| | DKI | -,292 | ,169 | -,298 | -1,728 | ,095 |
| | KA | -,200 | ,110 | -,325 | -1,823 | ,079 |
| | QA | ,002 | ,018 | ,016 | ,049 | ,926 |
| a. Dependent Variable: TA | | | | | | |

## CONCLUSION

Based on the results of the analysis and discussion, institutional ownership, independent board of commissioners, audit committee and quality audit have positive effects on tax avoidance.

For further research is expected to extend the research year and increase the research sample. Besides, researchers are expected to develop research by not removing companies that have experienced losses. The sector used can also be developed to be outside the manufacturing industry by adding variables that are considered to have an influence on tax avoidance such as corporate social responsibility, company size, sales growth, independent commissioners, audit committees, political connections or other independent variables.

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