The Effect Of Institutional Ownership, Independent Board Of Commissioners, Audit Committee, Audit Quality, And Corporate Social Responsibility On Tax Avoidance

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A B S T R A C T

The problem in this study is caused by fluctuations in the tax ratio, which tends to decrease due to differences in interests between the government and corporate taxpayers so that indications of tax avoidance appear. This study aims to find empirical evidence of factors affecting tax avoidance, such as institutional ownership, independent board of commissioners, audit committee, audit quality, and CSR. The measurement used in tax avoidance uses ETR. The study population used manufacturing companies listed on the IDX in 2019-2021. Sample determination using purposive sampling method and secondary data. The study results of variables of institutional ownership, independent board of commissioners, audit quality, and CSR do not affect tax avoidance, while the audit committee can affect tax avoidance.

1. Introduction

The company has become an industry player in the economic activity of the Indonesian state. As an actor of economic activity, the development of companies in Indonesia is very rapid, especially in the manufacturing sector. Airlangga Hartanto said that manufacturing companies are vital to the Indonesian economy. In addition, manufacturing companies are the most significant contributor to state revenue through taxes (taxes). The tax has a different meaning from the government and corporate taxpayer sides. According Darmawan & Sukartha (2014) to the stated difference in interests between the government and the need for significant tax revenues, on the contrary, institutional taxpayers want the smallest payment in taxes to be paid. In the end, the company tried to streamline and streamlinethe tax burden.

The efficiency efforts of corporate taxpayers cause tax ratio revenue to fluctuate and tend to decrease in 2019-2021. According to the Central Statistics Agency (BPS), the tax ratio decreased by 0.48 in 2019, with a value of 9.77%. In 2020, the tax ratio experienced a drastic decline, where the tax ratio was 8.33%. This value was relatively small when viewed from previous years. In 2021 it was 9.11%, although the tax ratio increase in 2021 was still relatively below the target of earlier years. The occurrence of this phenomenon raises an allegation that companies reduce the amount of tax by doing tax avoidance both legally and illegally (Ferdiawan & Firmansyah, 2017). Some efforts that can be practised in tax avoidance for corporate taxpayers include financing efforts to finance social responsibility and by using corporate governance (institutional ownership, independent board of commissioners, audit committee, and quality audit).

Research using variables (institutional ownership, independent board of commissioners, audit committee, audit quality, and corporate social responsibility) has been widely conducted. However, researchers still need to find the phenomenon of Indonesia's tax ratio revenue fluctuating and tending to decline in the last three years with the results of research with inconsistent conclusions. Previous research on the same variables has been conducted by Ilham, Hendayani, and Dwiharyadi (2022), who researched the influence of corporate governance and corporate social responsibility on tax avoidance, in research conducted by Ilham, Hendayani, and Dwiharyadi (2022) using variables a bel corporate governance (institutional ownership, board of commissioners, audit committee, audit quality) and CSR with research samples of mining companies on the IDX in 2017-2020. This study obtained the results of institutional ownership, and the audit committee influences tax avoidance. Meanwhile, the board of commissioners, audit quality, and CSR do not affect tax avoidance.

2. Theoretical Framework and Hypothesis

Theoretical Framework

Compliance Theory

Obedience theory is a picture of a system with a person's condition influenced by a rule, so there are limitations in doing something (Ilham et al., 2022). Compliance is a condition where someone responds to the applicable rules (Ilham et al., 2022). Compliance arises from within and outside influences, one of which is government officials providing support in disciplining tax payments.

Agency Theory

Agency theory is a correlation picture of 2 actors with opposite goals, namely *principles* and *agents.* Agency theory *is* a method to describe agency problems that arise between owners and company managers due to conflicts of interest (Walidayni & Fidiana, 2022).

Legitimacy Theory

Theory of legitimacy related to an organization and society. Legitimacy theory states a theory with elements in the relationship between companies and society (Hendi & Wulandari, 2021). Legitimacy theory explains that institutions prolongedly look for alternatives to opportunities as a guarantee that their operational activities are within the limits and norms found in the surrounding community.

Hypothesis Development

The Effect of Institutional Ownership on Tax Avoidance

Maharani & Suardana (2014) said that institutional ownership is a party that impacts the company when making decisions and has the responsibility to oversee the course of the company's operational activities. The monitoring carried out by the institution to the management n directly will cause agency conflicts between the two parties. In line with agency theory, which explains how two parties have different interests. These differences require checks and balances to minimize the occurrence of ignition by authorized parties (Ilham et al., 2022). Hamdani (2016) said checks and balances are needed because both parties, in status as recipients of information, want to obtain information that is by the actual existence of a company.

The amount of tax causes tighter supervision by institutions to prevent management from carrying out tax avoidance. This research is in tandem with research that has been done(Maharani & Suardana, 2014; Krishna, 2019). Disclosing institutional ownership has a negative influence on tax avoidance. Based on explanations and research results; (Maharani & Suardana, 2014; Rahmawati et al., 2016; Krishna, 2019) hence the hypothesis proposed by the author:

$\mathbf{H_1} =$ **Institutional ownership negatively affects tax avoidance.**

The Effect of Independent Commissioner on Tax Avoidance

According to the Board, the independent commissioner has the objective of being an overall supervisor by the draft articles of association and providing opinions to the board of directors. Amaliyah & Rachmawati (2019) Agency theory states that independent commissioners from outside act as supervisors of other executive roles. Other executives can commit fraud more concerned with personal interests to cause shareholders losses. Therefore, independent commissioners' supervision must be done to improve compliance with tax avoidance (Rani, 2017). Along with the research conducted by (Hendi & Wulandari, 2021; Rani, 2017; Diantari & Agung Ulupui, 2016), then the author's hypothesis proposes:

$\mathbf{H_2} =$ **The independent board of commissioners negatively affects tax avoidance.**

The Effect of the Audit Committee on Tax Avoidance

The audit committee is a corporate organization aiming to assist independent commissioners and oversee the implementation of corporate governance (Tahar & Rachmawati, 2020). Compliance theory is the audit committee responsible for monitoring reports submitted that have followed applicable standards and conducting audit supervision internally and externally.

Supervision is carried out by the audit committee on an agency basis to ensure that managing the company and making financial statements comply with applicable rules and regulations (Tahar & Rachmawati, 2020). More audit committees can make it difficult for companies to carry out tax avoidance practices and vice versa. In companies with few audit committees, the opportunities for tax avoidance practices can be realized (Hendi & Wulandari, 2021). Based on these descriptions and research results from (Maharani & Suardana, 2014; Rahmawati et al., 2016), the hypothesis proposed by the author:

$\mathbf{H_3}$ = **The audit committee negatively affects tax avoidance.**

The Effect of Audit Quality on Tax Avoidance

Maraya & Yendrawati (2016) said that audit quality is a possibility that arises when the auditor examines the company's financial statements where the auditor obtains evidence of fraud violating applicable rules in accounting and taxation. Then the auditor reports the results of the audit that has been carried out. Agency and fracture, company management supervision and control need to be carried out to ensure that the management that has been managed has complied with applicable regulations or not. Big Four companies usually carry out the results of a good audit with a relatively high credibility value (Sherly & John, 2022). The higher the audit quality value, the company does not do tax avoidance(Hendi &; Wulandari, 2021). Based on explanations and research results from (Maraya & Yendrawati, 2016;Rahmawati et al., 2016; Amaliyah & Rachmawati, 2019; Sutistiono, 2018) hypothesis proposed by the author:

$\mathbf{H_4}$ =**Audit quality negatively affects tax avoidance.**

The Effect of Corporate Social Responsibility (CSR) on Tax Avoidance

Corporate Social Responsibility (CSR) is a systematics of the company's actions in reducing adverse impacts that arise and increasing the potential as a positive impact on the company's interests and creating sustainable development (Ilham et al., 2022). Legitimacy theory is a relationship between the community and the company, where the company operates and uses resources around the community (Tahar &; Rachmawati, 2020). CSR is revealed the smaller the company does tax avoidance. On the other hand, if the company does not disclose correctly, the company practices tax avoidance (Maraya & Yendrawati, 2016). Based on explanations and research from; (Ilham et al., 2022; Setyawan, 2021; Rahmawati et al., 2016), then the hypothesis proposed by the Author:

$\mathbf{H_5}$ = **Corporate social responsibility negatively affects tax avoidance.**

The research framework described the influence of independent variables and dependent variables, which can be described as follows;

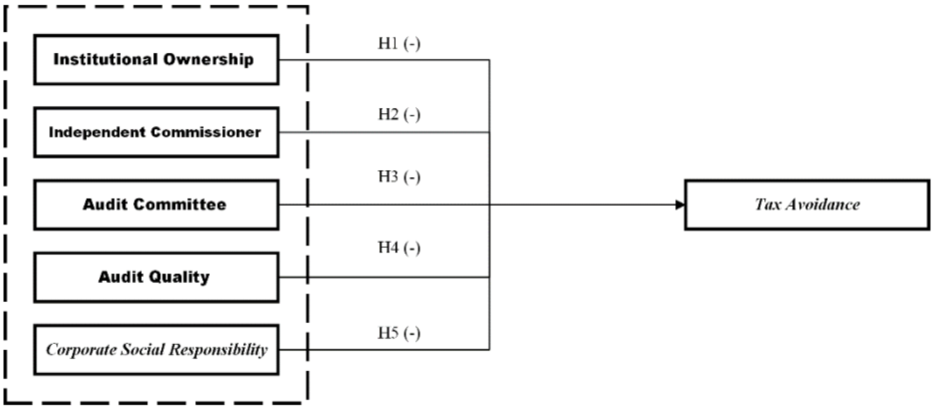

Figure 1. Research Framework

3. Research Methodology

Dependent Variable

Tax avoidance is an activity by companies legally allowed to minimize the tax burden by utilizing opportunities not listed in tax regulation's dependent variable(Tahar & Rachmawati, 2020). is measured using the ETR value as a tax avoidance measure. ETR is formulated as follows:

$$\mathrm{ETR} = \frac{\text{Total income tax burden}}{\text{Profit befor tax}}$$

Independent variable

Institutional Ownership

Institutional ownership is the party that acquires the right to supervise, control and monitor the activities of the rational op of the company. Institutional ownership in measurement uses a comparative score of only purchased by the institution and the amount traded in the community (Ngadiman & Puspitasari, 2014). Institutional ownership is measured using the value ratio:

$$\mathrm{KI} = \frac{\text{Institution ownership shares}}{\text{Number of shares outstanding}}$$

Independent Board of Commissioners

An independent board of commissioners is a composition of the board that is neutral by not having any ties with the company. The independent board of commissioners is measured by the proportion of independent commissioners, which is the ratio of the number of independent commissioners to the composition of the number of independent commissioners (Maraya & Yendrawati, 2016). Here is the formula:

$$\mathrm{DKI} = \frac{\text{Total independent commissioners}}{\text{Total board of commissioners}}$$

Committee Audit

The audit committee is specially prepared to provide an overview of financial problems and controls that the company can carry out internally. The audit committee has the trust to monitor audits from external parties of the company and as the first liaison between auditors and the company (Feranika et al., 2017). The measures that the audit committee can take are as follows:

$$\text{KA} = \text{Total committee audit}$$

Audit Quality

Audit quality is an assessment of the company's external auditors checking the company's financial statements and clients, and the auditor is used to assess the results of the audit that has been carried out. If they get the opportunity, the auditor provides the information to the management. Measurements can be done through a proxy of the size of big four public accounts or non big four public accounts in measuring audit quality using Dummy measurements. The determination is made if the auditor is carried out by the big four, then obtaining a value of 1 for the number 0 indicates the results of the audit carried out by non-big four public accountants.

Corporate Social Responsibility (CSR)

According to Rusmana (2019) Corporate Social Responsibility (CSR) is a manifestation of the company's commitment to stakeholders in a direct or representative way with a decent level of environmental quality and community welfare by thinking about the negative impacts arising from the company's activities. CSR is measured using an ESG disclosure score obtained from the Bloomberg terminal with a coverage of 93 point raters resulting in a score of 0-100.

This study uses the population of manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021. The determination of the sample of this study uses the purposive sampling method, with the following research criteria: 1) Manufacturing companies listed on the IDX (Indonesia Stock Exchange) from 2019 to 2021; 2) Financial statements of manufacturing companies in condition profit; and 3) The company presents all data related to this study's independent and dependent variables. The final sample consist of 54 observations.

This study uses secondary data, with data sources obtained from the Bloomberg terminal and the company's annual report 2019-202. This study's method uses questions to illustrate testing the research hypothesis. Here's an illustration:

$$Y = \alpha + \beta_1 . K_I + \beta_2 . D_K + \beta_3 . K_A + \beta_4 . Q_A + \beta_5 . CS_R + \epsilon$$

Where:

Y	: tax avoidance	DKI	Independent Board of Commissioners
α	: constant	KA	: Audit Committee
β1.......β2	: regression coefficient	QA	: Audit Quality
KI	: Institutional ownership	CSR	*: Corporate Social Responsibility*
		α	*: error*

4. Results and Discussion

The classical assumption test in this study consists of a normality test, multicollinearity, autocorrelation test, and heteroskedasticity test. Test normality using a non-parametric Kolmogorov-Smirnov (K-S) test with asymp gain. Sig (2-tailed) shows the number 0.156 or >0.05, implying the data has a normal distribution. The multichoice test of the VIF's tail showing a >0.10 disiconcluded the data did not have symptoms of multicollinearity. The heteroskedasticity test using the white test method obtained the results of Chi R square count< square table, (7.722<16.9190) so that it was concluded that there were no symptoms of heteroscedasticity. Autocorrelation test by using a run test with an asymp value. Sig. 2-taile d of 0.410 > 0.05 concluded that there were no symptoms of autocorrelation.

Table 1. Summary of Research Results

Type	t	Sig.	Conclusion
Institutional Ownership	-0.622	0.537	Rejected, no effect
Independent Commissioners	-0.878	0.384	Rejected, no effect
Audit Committee	2.905	0.006	Rejected, positive effect
Audit Quality	1.475	0.147	Rejected, no effect
CSR	-1.095	0.279	Rejected, no effect

Source: Secondary Data, processed (2023)

This study tested the effect of institutional ownership for tax avoidance, where the measurement uses institutions' ownership percentages**.** The result obtained is that institutional ownership does not affect tax avoidance. Suppose it is concluded that many institutional ownership members cannot influence tax avoidance. In that case, this is because the performance of institutional ownership could have been better, and there are other goals for self-welfare (Nurhidayah et al., 2021). The research results align with those from (Nurhidayah et al., 2021; Sherly & John, 2022; Tahar & Rachmawati, 2020).

This study conducted tests on independent commissioners that can influence tax avoidance and used the number of independent commissioners divided by the number of commissioners to measure this test. This study concluded that the independent commissioner did not affect tax avoidance. The following statement concluded that if there are many independent commissioner members who will not influence the management of e men in carrying out tax avoidance, this is due to differences in interests between agents and owners to create conflicts between 2 parties. In addition, the role of the independent board of commissioners has yet to be optimal with the intervention of the leadership in influencing the decision-making of the independent board of commissioners(Ilham et al., 2022). This shows that the results of this study are the same as the research conducted by (Maraya &; Yendrawati, 2016; Tahar &; Rachmawati, 2020 and.Hendi &; Wulandari, 2021).

This study tested whether the audit committee can influence tax avoidance. The measurement used in the study is the number of audit committees and ETR to measure tax avoidance. Researchers check by getting results namely, the audit committee has a positive effect on tax avoidance. Companies with a large number of audit committees can influence management to take tax action actions because the audit committee has run properly with qualified capabilities in accounting and finance. In line with the results of previous research researched (Ilham et al., 2022; Hutasoit & Anggraeni, 2022) which obtained results if the auditor committee could influence tax avoidance activities. The optimal role given by the audit committee is efficient and effective supervision with rules on the company's rational op e activities.

Audit quality will influence tax avoidance, which researchers will test. The study is projected using company score values obtained from auditors using big four or nonbig four with audit quality using ETR as a tax avoidance measure. This study obtained the result that audit quality does not affect tax avoidance. Audits conducted by the big four do not necessarily affect tax avoidance practices, this is because all public accounting firms are subject to applicable regulations. The use of the big four in conducting audits is because it has a good reputation and uses API professional standard guidelines, and uses rules from the Indonesian Institute of Public Accountants (IAPI). Results in line with research tested by (Tahar &; Rachmawati, 2020; Nurhidayah et al., 2021; Ilham et al., 2022) With the results of the research tested obtained results that stated that the auditors appointed by the company, both big four and non big four, did not influence tax avoidance actions.

This study tested the effect of corporate social responsibility on tax avoidance, with measurements used being ESG for corporate social responsibility and measurements using ETR for tax avoidance. The research results show that corporate social responsibility (CSR) does not influence tax avoidance. It is concluded that if CSR or high or low social responsibility does not affect tax avoidance practices, this is because CSR has another purpose, which is to make the company's image better in the eyes of the public. Consistent with the results of the study (Tahar & Rachmawati, 2020; Hendi & Wulandari, 2021; Hutasoit & Anggraeni, 2022; Citrajaya &

Ghozali, 2020) where previous researchers concluded that greater CSR disclosure could not affect tax avoidance measures. The legitimacy theory says that a social contract exists within society with companies. The company has a great responsibility to the community for operational activities that cause problems that arise in the community (Hutasoit & Anggraeni, 2022).

5. Conclusion

This study conclude that institutional ownership does not affect tax avoidance. Second, the independent board of commissioners does not affect tax avoidance. Third, there is a significant positive influence between the audit committee and tax avoidance. Fourth, audit quality has no significant effect on tax avoidance. Fifth, corporate social responsibility does not affect tax avoidance. The future studies suggest to use another sector, hoping the variance error data will be small. In addition, researchers are expected to re-examine related independent variants in this study because there are still different results from the results of previous studies.

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