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Tax Avoidance in Perspective of Institutional Ownership, Independent Commissioners and AuditCommittees

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ABSTRACT : This study aims to obtain empirical evidence regarding the effect of institutional ownership, independent commissioners, and audit committees on tax avoidance. This research is focused on the Property and Real Estate Industry listed on the Indonesia Stock Exchange in 2019-2021. The observations in this study were 141 samples. Research obtained by purposive sampling technique method. The technique used in this research is multiple linear regression analysis. The results of this analysis show that the proportion of independent commissioners has an effect on tax avoidance, but institutional ownership, and the audit committee have no effect on tax avoidance.

KEYWORDS : *Institutional Ownership, Independence Commissioner, Audit Committee, Tax Avoidance*

I. INTRODUCTION

Based on data from the Directorate General of Taxes (DGT) performance report, it can be seen related to the target data and realization of state tax revenue throughout 2016-2020. This tax revenue is obtained from various sources of revenue, such as income tax, value added tax, land and building tax, and many other sourcesof tax revenue.

TABLE 1.1

Indonesia's Tax Revenue Realization

Year	Target	Realization	Performance
2016	1.355,20	1.105,73	81,59%
2017	1.283,57	1.151,03	89,67%
2018	1.424,00	1.315,51	92,38%
2019	1.577,56	1.332,06	84,44%
2020	1.198,82	1.069,98	89,25%

Source: Directorate General of Taxes Performance Report (in billion rupiah).

Tax revenue from 2016-2020 has increased and decreased. However, the realization of revenue is still not in accordance with the predetermined target. This illustrates that the level of public compliance is still low in paying taxes, which is proven by the existence of tax evasion and tax avoidance practices. Tax avoidance is a legal activity carried out by taxpayers (WP) to minimize the tax burden by taking advantage of weaknesses in tax provisions (Kirana & Sundari, 2022). In recent years, cases regarding tax avoidance have become a hot issue, where several companies have been revealed to the media. Cases that avoid tax avoidance have been carried out by well-known companies such as PT Adaro Energy, PT Bentoel Internasional Investama and other cases.

The government provides facilities in the field of taxation such as a reduction in the corporate tax rate stipulated in Law No. 36 of 2008 article 17 paragraph (1) letter b, where the domestic corporate tax rate and permanent establishment is 28 percent. Subsequently, this rate was revised to 25 percent which came into effect in 2010. Not only through a reduction in tax rates, the government also simplified the tax calculation andis listed in PP No. 46 of 2013 which contains, simplification of tax calculations where entities that have a gross circulation of less than IDR 4.8 billion in one year, a rate of 1 percent is applied, not only that, the government also implemented a tax amnesty system. Although the government has implemented various systems so that the target realization of state tax revenue is achieved, there are still many taxpayers who apply aggressive tax strategies in order to reduce the cost of taxes to be paid, such as one of them is the practice of tax avoidance.

There are several reasons for a company to pay taxes, one of which is the governance of a company or Corporate Governance (Martha & Jati, 2021). Corporate governance can be seen from various aspects, such as institutional ownership, the proportion of independent commissioners, and the audit committee. Corporate governance not only has the potential to increase tax avoidance, making the company more profitable, but also limit tax avoidance to a level where the risks do not outweigh the benefits (Kovermann & Velte, 2019).

II. CONCEPTUAL MODEL AND HYPOTHESIS

Agency Theory

According to Jensen and Meckling (1976) agency theory can explain how the parties involved in the company will act, because basically they have different interests. Differences in interests give rise to agency conflicts that occur due to the separation between ownership and control of the company. Therefore, the owner needs a supervisory mechanism so that the manager as an agent can carry out his duties properly (Arinda & Dwimulyani,2018).

Tax Avoidance

Tax avoidance is a legal activity carried out by taxpayers (WP) to minimize the tax burden by taking advantage of weaknesses in tax provisions (Kirana & Sundari, 2022).

Institutional Ownership

Institutional ownership is share ownership by an industry that can consist of institutions or institutions such as banks, the investment industry, the insurance industry, pension funds and other institutional ownership (Widaryanti, 2022). Institutional institutional ownership is anticipated to strengthen the supervision of agents in carrying out company business activities to reduce the opportunistic behavior of company directors (Novika, 2022). Research conducted by (Novika, 2022) states that institutional ownership has a negative influence on tax avoidance. On the basis of theory and research results by previous researchers, the following hypothesis can be drawn.

H_1 : Institutional ownership has a negative influence on tax avoidance.

Independent Board of Commissioners

The independent board of commissioners as a corporate governance device is tasked with ensuring thatcorporate principles and governance are properly implemented. Independent commissioners also act as mediators between entity management and entity owners when making policies to prevent violations of the law, including in determining tax payment tips. Because independent commissioners have an obligation to the interests of shareholders, independent commissioners strive to be obedient in paying taxes and avoiding tax avoidance (Martha & Jati, 2021). Research by Martha & Jati (2021), Prasetyo, et al. (2021) stated that the proportion of independent commissioners has a negative influence on tax avoidance. In accordance with the theory and results of previous research, the following hypothesis can be drawn.

H_2: The proportion of independent commissioners has a negative influence on tax avoidance.

Audit Committee

The audit committee functions as a supervisor of the process of making financial reports and internal supervision. The role of the audit committee also affects corporate governance, where the existence of the audit committee participates in supporting the performance of the board of commissioners, where the audit committee has the authority to avoid actions that are not in accordance with the rules relating to the financialstatements of a company, one of which is tax avoidance (Martha & Jati, 2021). The IDX requires all issuers to form and have an audit committee chaired by an independent commissioner (Kirana & Sundari, 2022).

Based on Bank Indonesia Regulation No. 8/14/PBI/2006 concerning the implementation of good corporate governance, the number of audit committee members is at least 3 people, who are appointed and dismissed and are responsible to the board of commissioners. Research by Martha & Jati (2021), Eksandy (2017), concluded that the audit committee has a negative influence on tax avoidance. On the basis of theory and the results of previous research, the following hypothesis can be drawn.

H_3: Audit Committee negatively influence on tax avoidance

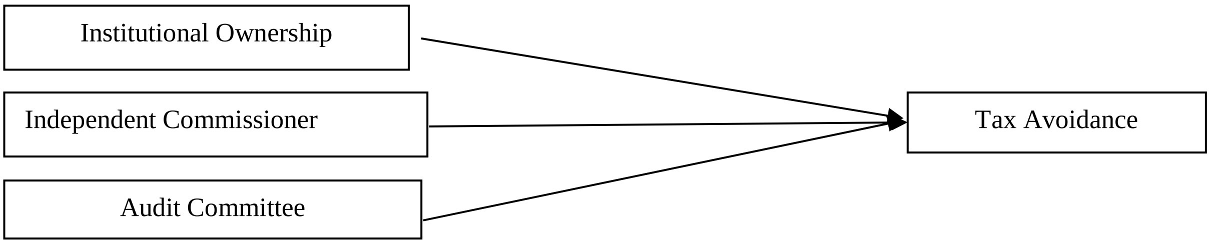


Figure 1. Conceptual Framework

III. RESEARCH METHODES

This study uses secondary data by selecting data sources from Property & Real Estate entities that are listed on the IDX in 2019-2021 and publish financial reports and annual reports, by opening the IDX website (www.idx.co.id). The quantitative data of this study are income tax expense, profit before tax, total institutional shares, total outstanding shares, number of independent commissioners, and number of audit committees in the financial statements or annual reports of Property & Real Estate entities. The objects in this study are listed companies in Indonesia Stock Exchange. The variables are tax avoidance represented by the value of Effective Tax Rates (ETR), Institutional Ownership, Proportion of Independent Commissioners, and Audit Committee. The samples are property & Real Estate entities which are listed on the Indonesia Stock Exchange. Observation period is 2019-2021. All samples should never been delisted during observation period.

Operational Definition

Tax Avoidance (TAX) = Income Tax Expense/Earning Before TaxINST = Institutional Ownership/Outstanding Share

INDP= Independence Commissioners/ Total Commissioner Member ×100%AUDIT = Number of Audit Committee

We usu multiple regression to test the hypothesis. The equation is shown below:

$$TAX = \alpha + \beta 1INST + \beta 2INDP + \beta 3AUDIT + \varepsilon$$

Where :

TAX = Tax Avoidance

OWN = Institutional Ownership

INDP = Independence Commissioners ProportionalAUDIT = Audit Committee

α = Constanta

$\beta 1 - \beta 3$ = Coefficientε = Error

IV. RESULTS AND DISCUSSIONS

The results of descriptive statistics provide an overview or description of data seen from the lowest, highest, mean, and standard deviation values. The results of descriptive statistics are presented in Table 2, below.

Table 2. Descriptive Statistical Test Results

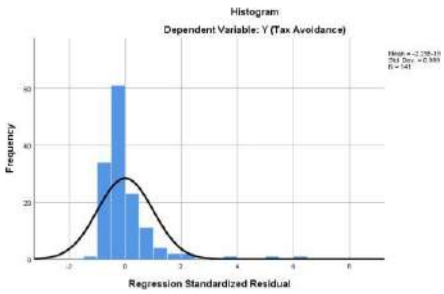
Variables	N	Minimum	Maximum	Mean	Std. Deviation
OWN	141	0.03	1.86	0.6198	0.2507
INDP	141	.00	1.52	.3415	.21249
AUDIT	141	.00	4.00	2.8794	.75095
TAX	141	.00	1.16	.0946	.16608

According to the descriptive statistical test results in Table 2, the tax avoidance variable represented by ETR (Effective Tax Rate) in mining entities listed on the IDX shows that of the 141 observation samples, the lowest value of tax avoidance is 0.000 and the highest value of tax avoidance is 1.16. The standard deviation value of the tax avoidance variable of 0.16608 means that the standard deviation of the data from the mean value is 0.16608.

Institutional Ownership proxied by KI in Table 2, out of 141 observation samples, the lowest value of Institutional ownership is 0.03 and the highest value of Institutional ownership is 1.86. The standard deviation value of the Institutional ownership variable of 0.25017 means that the standard deviation of the data from the

mean value is 0.25017.
The proportion of the independent board of commissioners represented by PDKI in Table 2, out of 141 observation samples, the lowest value of the proportion of the independent board of commissioners is 0.00. Meanwhile, the highest value of the proportion of the board of independent commissioners is 1.52. The standard deviation value of the variable proportion of the independent board of commissioners is 0.21249, meaning that the standard deviation of the data on the average value is 0.21249.
The audit committee proxied by KA in Table 2, out of 141 observation samples, the lowest value of theaudit committee is 0.00 and the highest value of the audit committee is 4. The average value of the audit committee is 2.8794. The standard deviation value of the audit committee variable is 0.75095, meaning that the standard deviation of the data from the mean value is 0.75095.

Normality Test Results



The results in the histogram normality test produce a mountainous curve shape, so it can be said that thepattern is normally distributed.

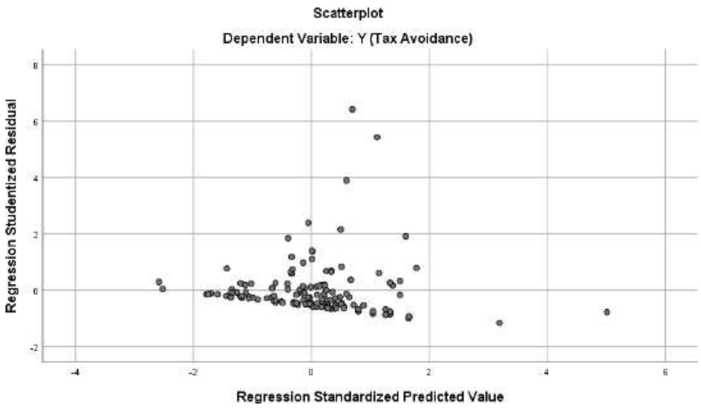
Multicollinearity Test

Table 4. **Multicollinearity Test Results**

Model		Collinearity Statistics	
		Tolerance	VIF
1	Constanta		
	OWN	.980	1.021
	INDP	.950	1.053
	AUDIT	.969	1.032

Based on the multicollinearity test results in Table 4, it shows that the independent variables in this study, namely institutional ownership, the proportion of independent commissioners, and the audit committee,have a tolerance value> 0.10 or a VIF value <10, this means that the independent variables in this study are free from multicollinearity symptoms.

Heteroscedasity Results



The results of the Heteroscedacity Test Scatterplot graph show that the points spread randomly and are spread both above and below the number 0 on the Y axis. This means that there is no heteroscedacity in the regression model so that the regression model is suitable for use.

Auto-correlation Test
Aims to test whether in the linear regression model there is a correlation between confounding error in period1 and confounding error in period t-1 (Prior period).

Table 5. Auto-Correlation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.242[a]	.058	.038	.16291	2.015

a. Predictors: Constanta, OWN, INDP, AUDIT
b. Dependent Variable: Tax Avoidance

Table 6. Results

Variables	Prediction	Coefficients	t-test	p-value	Conclusion
Constanta		0.048	0.711	0.478	
OWN	+	-0.072	-1.304	0.194	H_1 Not significant
INDP	+	0.139	2.086	0.039	H_2 Significant
AUDIT	+	0.015	0.826	0.410	H3 Not significant

Dependent Variable: Tax Avoidance

The first hypothesis of the study reads that institutional ownership has a negative influence on tax avoidance. According to Table 7, the test results obtained the regression coefficient value is -0.072, the significance valueis 0.194. Where institutional ownership in property & real estate companies listed on the IDX for the period 2019 - 2021 has no effect on ETR, which means it has no influence on tax avoidance activities, so the hypothesis is rejected.

The second hypothesis of this study reads, the proportion of independent commissioners has a negative influence on tax avoidance. According to Table 7, the regression coefficient value is 0.139, the significance value is 0.039. The level of the proportion of independent commissioners in property & real estate entities onthe IDX in the 2019-2021 period has a positive effect on ETR which determines the onset of tax avoidance activities by the company. Independent commissioners are able to supervise the management of an entity so that it complies with current regulations, so they are able to minimize the possibility of implementing tax avoidance activities.

The third hypothesis of this study reads, the audit committee has a negative influence on tax avoidance. According to Table 7, the test results obtained a regression coefficient value of 0.015 and a significance value of 0.410. Where the number of audit committees in property & real estate companies listed on the IDX for the period 2019 - 2021 has no effect on tax avoidance (ETR), so the hypothesis is rejected. Other parties have a greater function in making decisions than the audit committee, even though the audit committee comes from external parties. Apart from its insufficient function, the absence of influence between the audit committee and tax avoidance can also be caused by the inability of the independent audit committee to carry out the task of monitoring the internal control structure of an entity and also monitoring the evaluation process carried out by internal auditors properly, as a result, tax avoidance activities by certain parties cannot be tracked by the audit committee.

V. CONCLUSION

According to the results of the study, it can be concluded that the level of institutional ownership has no influence on tax avoidance, this is because Institutional parties do not have sufficient rights in making decisions. The proportion of independent commissioners has a positive effect on tax avoidance, this is due to the presence of independent commissioners in the company can closely monitor a management, as a result it isable to reduce dysfunctional actions that may arise, for example tax avoidance. The number of audit committees has no effect on tax avoidance, this is because other parties have a greater function to make decisions, compared to the company's audit committee even though the audit committee is an external party to the company and the inability of the independent audit committee to carry out its work to oversee the internal control structure. For future researchers who want to prove the influence of managerial ownership, the proportion of independent commissioners, and the audit committee on tax avoidance practices, it is hoped thatthey can use other variables that are thought to influence tax avoidance practices that proxy good corporate governance such as institutional ownership. Then, future researchers are also expected to widen the range of research, namely examining other than mining entities, for example in banking companies, manufacturing companies, and other sectors.

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