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Do Independent Commissioners, Fixed Asset Intensity, And Institutional Ownership Have Impact of Tax Evasion?

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ABSTRACT: Government funding heavily relies on state revenue generated through taxation, and it is crucial for the government to enhance tax revenue. However, despite the government's efforts to maximize tax income, the desired tax revenue goal remains unmet dueto instances of tax evasion. This research evaluates tax evasion through the assessment of the effective tax rate (ETR). This study investigates the impact of independent commissioners, fixed asset intensity, and institutional ownership on the practice of tax evasion. The research aims to assess the significance of these factors, which are believed to be associated with a company's motivation to circumvent tax obligations. The study sample comprises 24 observations of manufacturing companies in the consumer subsector, all of which were listed on the Indonesia Stock Exchange between 2017 and 2021. Inclusion criteria for the sample encompass the availability of accessible annual reports, profitability without losses, and a positive Effective Tax Rate (ETR) for the companies. Multiple linear regression analysis was employed to test the hypotheses. The findings of this investigation reveal that independent commissioners exert a negative influence on tax evasion, while fixed asset intensity demonstrates a positive impact on tax evasion. However, institutional ownership does not appear to affect tax evasion.

KEYWORDS: independent commissioner, fixed asset intensity, institutional ownership, tax evasion.

I. INTRODUCTION

Taxes play a pivotal role in shaping corporate decision-making and financial strategies. Consequently, companies employ various strategies to minimize their tax liabilities, given that taxes are considered a mandatory financial burden that can significantly impact a company's net profits. Tax evasion is one of the approaches companies utilize to effectively reduce their tax burdens, and from a corporate perspective, it is often regarded as a strategic managerial decision with potential benefits. For company owners and shareholders focused on maximizing profitability, engaging in tax evasion is considered a rational choice, as emphasized by Dyreng, Jacob, Jiang, and Müller (2019), who argues that profit-maximizing firms will choose tax avoidance if the benefits outweigh the associated costs.

The role of an independent Board of Commissioners is primarily centered on experience, knowledge, and personal qualities, with a specific focus on not being directly involved in the daily operational aspects of the company. This setup is designed to safeguard the interests of shareholders (Egbunike, Gunardi, Ugochukwu, Hermawan, 2021). The independent board of commissioners has the function of supervising, assisting the management of the company properly, and making the company's financial reports more objective (Wiratmoko, 2018).

The independent Board of Commissioners holds the responsibility of ensuring that the management conductsits activities in compliance with legal requirements, including monitoring the management's involvement in tax evasion. Research by Wiratmoko's research (2018) indicates a negative impact of independent commissioners on tax evasion. However, contrasting results are found in Turyatini's research (2017), which suggests that independent commissioners do not significantly affect tax evasion.

The theory of resource dependence posits that companies can mitigate environmental uncertainty by leveraging existing connections (Salancik & Pfeffer, 1978). This perspective also provides a theoretical basis for examining changes in the Board of Commissioners under external or internal circumstances. During periods of deregulation, the selection of the Board of Commissioners tends to be driven by profit-oriented considerations. Salancik & Pfeffer (1978) predict that the experience and relationships of the board of directors can fulfill a range of resource needs.

Fixed asset intensity pertains to a company's investment in fixed assets, which are assets with a useful life exceeding one

accounting period and experience depreciation over their useful lifespan (Amalia, 2019; Putra, Yuliusman & Wisra, 2020). The fixed asset intensity ratio measures the efficiency of using assets to generate sales and reflects the proportion of fixed assets to total assets. A rise in fixed assets typically boosts a company'sproductivity and income, although it can also lead to higher depreciation expenses, thereby reducing the company's tax burden. Ownership of high fixed assets will result in high depreciation expenses so that the company's tax burden will bereduced (Maulana, Marwa & Wahyudi, 2018; Amalia, 2019; Dewi & Yasa 2020; Yuliusman & Wisra, 2020). The resultsof Darsani & Sukartha's research (2021) state that fixed asset intensity has a positive effect on tax evasion. However, it is inversely proportional to the results of Dewi & Yasa's research (2020) which states that fixed asset intensity has anegative effect on tax evasion.

Institutional ownership takes on an influential function in overseeing and curbing managerial self-interest, promoting information efficiency, and streamlining capital market activities (Tijjani & Peter, 2020; Rustiarini & Sudiartana, 2021). Institutional investors, who often hold significant stakes in companies, are motivated to monitor managerial actions, prioritize long-term performance, and minimize tax evasion by company managers (Wahab et al, 2021). Institutional ownership is generally believed to result in lower levels of tax evasion compared to individual ownership, as it fosters enhanced oversight of company operations, further reducing the likelihood of tax evasion.

While there is a substantial body of research examining the influence of independent commissioners on tax evasion, the majority of these studies have predominantly used the ratio of independent commissioners as the primary metric. In this study, we take a distinctive approach by evaluating the Board of Commissioners' performance criteria. This decision is motivated by several factors: 1) The underutilization of this specific measurement in previous research; 2) The necessity to offer a comprehensive analysis of the performance of independent commissioners, encompassing factors like the frequency of board meetings per year, the percentage of independent commissioners, and the duration of their tenure.

The research aims to achieve the following objectives:

1. To examine the effect of independent commissioners on tax avoidance
2. To test the effect of fixed asset intensity on tax avoidance.
3. To examine the effect of ownership structure on tax avoidance.

II. LITERATURE REVIEW

A. Agency Theory

Agency conflicts in companies are not only related to problems between owners as principals and managers as agents but can be defined more broadly. There are three types of agency conflicts that can occur in a company (Armour et al., 2009). The first type of agency conflict occurs between company owners who hire managers. This conflict occurs because there is an assumption that managers will act in their interests and not in the interests of owners.

The second category of agency conflict arises when a disparity in influence exists between the majority shareholder (acting as the principal) and the minority shareholder (acting as the agent). This conflict is a result of the majority shareholder's greater ability to sway decision-making compared to the minority shareholder. This same kindof agency conflict can also manifest between common and preferred stockholders, as well as senior and junior creditors. The third type of agency conflict emerges between internal entities within a company (agents) and external entities engaged in contractual relationships with the company (principals), such as creditors, employees, and consumers. This conflict illustrates the challenges associated with preventing companies from engaging in opportunistic behavior that could harm external stakeholders, including deceiving creditors, exploiting employees, ormisleading consumers (Armour et al., 2009).

The third type of agency conflict within a company can also occur between a company and the government(tax authorities) in the field of taxation. Tax is a company contribution in the form of transferring company profits to the government which will be used to provide services and goods to the public (Richardson et al., 2014). The transferof profits from companies to the government is considered a burden on companies so companies will make aggressive tax evasion efforts (Frank, Lynch, & Rego, 2009).

The manager's decision to take tax evasion is one of the type III agency problems. The agency relationship between the tax authorities and the company occurs due to differences in objectives between the tax authorities and the company. The tax authorities want companies to pay as much tax as possible, while the company wants to pay as little tax as possible (Adams & Balogun, 2020). The existence of information asymmetry between tax authorities and companies is also one of the causes of this agency conflict. Tax authorities as external parties do not have full control over actions taken by companies such as tax evasion (Armstrong et al., 2013). However, aggressive tax evasion can have a negative effect on the company in the form of fines or a decrease in the company'sreputation.

B. Resource Dependence Theory

Emerson was a pioneer of resource dependence theory in 1962. Emerson (1962) highlighted the exploration of this theory, focusing on the cause-and-effect connection between the notions of power and dependence within the context of A and B. The impact of A on B is contingent on the dependence on resources and power. B's reliance iscounterbalanced by B's alignment with A's objectives indirectly, and vice versa, which is also proportional to the value of those objectives to B beyond their relationship with AB. Dependence is a major part of power.

Collaborative strategies can be used to manage organizational interdependence (Thompson, 1967) or inter-organizational relationships (Salancik & Pfeffer, 1978). According to Thompson (1967), to obtain a meaningful level of self-control, the organization must manage its dependence. According to Salancik & Pfeffer (1978), as well Thompson (1967), organizations endeavor to diminish the influence of elements within their task environment by preserving multiple options. In the competition for support, organizations aim to acquire prestige, which serves as a means to enhance their influence without escalating reliance on inter-organizational relationships. Salancik & Pfeffer (1978) contend that the dynamics of inter-organizational relationships will ultimately shape the various aspects of organizational performance.

According to Salancik & Pfeffer (1978), company management can minimize environmental uncertainty by using the connections they have. The resource dependency perspective can also be used as a theoretical basis for research that examines changes in the Board of Commissioners when external or internal circumstances require a change. The selection of the Board of Commissioners at the company was more oriented towards the profitability sector when deregulation took effect. Salancik & Pfeffer (1978) predict that the experience and relationships of the board of directors can meet the needs of a variety of resources.

C. Independent Commissioner

From the perspective of Sarra (2017) , the Board of Commissioners serves as a representative of the shareholders and is entrusted with the responsibility of supervising the company's management conducted by the executive team. An independent commissioner is characterized as an individual who lacks any connections with the controlling shareholder, holds no affiliations with the board of directors or fellow commissioners, and does not holda directorship position in a company associated with the owner's firm, as specified in the regulations issued by the IDX.

The quantity of independent commissioners corresponds to the shares held by non-controlling shareholders, with the stipulation that the number of independent commissioners must make up at least thirty percent (30%) of the total commissioner members. Additionally, independent commissioners are expected to possess a comprehensive understanding of capital market laws and regulations and are nominated by non-controlling shareholders during a general shareholders' meeting (Yuliawati & Sutrisno, 2021).

Independent commissioners are selected based on their extensive experience, knowledge, and personal qualities; and may not be involved in the daily operations of the Company so that it is possible to safeguard the interests of shareholders (Egbunike, Gunardi, Ugochukwu, Hermawan, 2021). According to Wiratmoko (2018), independent commissioners have the function of supervising, assisting in the proper management of the company, and making the company's financial reports more objective.

D. Fixed Asset Intensity

Fixed asset intensity is a company investment activity associated with an investment in fixed assets (Maulana et al, 2018). Fixed assets are assets that have a useful life of more than one period and experience depreciation over the useful life of the fixed assets (Amalia, 2019; Putra et al, 2020). Fixed asset intensity can be measured using the fixed asset intensity ratio.

The fixed asset intensity ratio serves as an indicator of the effective utilization of assets in generating sales. It characterizes how a company allocates resources toward both operating activities and asset financing in order to achieve profitability. This ratio is calculated by dividing the total fixed assets by the overall assets of the company, thereby illustrating the proportion of a company's fixed assets in relation to its entire asset base (Susilowati et al, 2018; Darsani & Sukartha, 2021).

E. Institutional Ownership

Institutional ownership of shares exerts a positive influence on overall corporate governance practices by actively engaging in monitoring and curbing managerial opportunism, while simultaneously enhancing information efficiency through disclosures to the capital market (Tijjani & Peter, 2020; Rustiarini & Sudiartana, 2021, Wahab et al, 2017). Institutional shareholders typically hold substantial stakes in a company, which encourages them to closely oversee management decisions, emphasizing the pursuit of long-term performance objectives. These investors are recognized for effectively controlling management actions, particularly with regard to tax evasion. Institutional investors with significant shareholdings wield the authority to deter tax planning activities, as noted by Rustiarini & Sudiartana (2021).

F. Tax evasion

Tax evasion is defined as a strategic scheme aimed at minimizing the tax burden by exploiting the weaknesses of a country's tax regulations (Darussalam, Septriadi & Kristiaji, 2013). Tax evasion can be grouped into acceptable tax evasion and unacceptable tax evasion. Tax evasion through defensive motives is allowed to carry out taxplanning, while tax evasion is not allowed to be carried out through aggressive tax planning (Darussalam et al, 2013).

The goal of tax evasion is first, to minimize the company's tax burden. This is because companies considertaxes to be a burden on companies that can reduce profits. After all, there is a transfer of wealth from companies to the government which can reduce company profits so managers develop strategies to implement tax evasion(Wahab et al, 2017).

Second, owners/shareholders enjoy greater income as a result of reduced tax payments. Not only that,shareholders will distribute compensation directly or indirectly to managers for their tax evasion actions. Third, companies engage in tax evasion because they perceive that the taxes paid have a detrimental effect on the company's financial standing, financial performance, liquidity, operational outcomes, and cash flow.

In addition to providing benefits, tax evasion has a negative impact on companies. tax evasion can create costs for companies (Onyali and Okafor, 2018). One of these costs is sanctions from the tax authorities based on the tax audit process carried out and the company's bad reputation as a result of the disclosure of tax aggressive practicesby the company.

Tax evasion is considered to provide benefits to shareholders, but sometimes shareholders feel that tax evasion is rent extraction. Rent extraction is an act of a manager who does not maximize the interests of the owner through aggressive preparation of financial reports, taking company assets for personal gain, and conducting transactions with special parties that will harm shareholders. A decrease in shareholder confidence in the company will ultimately impact a decrease in the company's share price (Desai & Dharmapala, 2006).

G. Research Hypothesis

H1: Independent commissioners have a negative effect on tax evasion.H2: Fixed asset intensity has a positive effect on tax evasion H3: Institutional ownership has a negative effect on tax evasion.

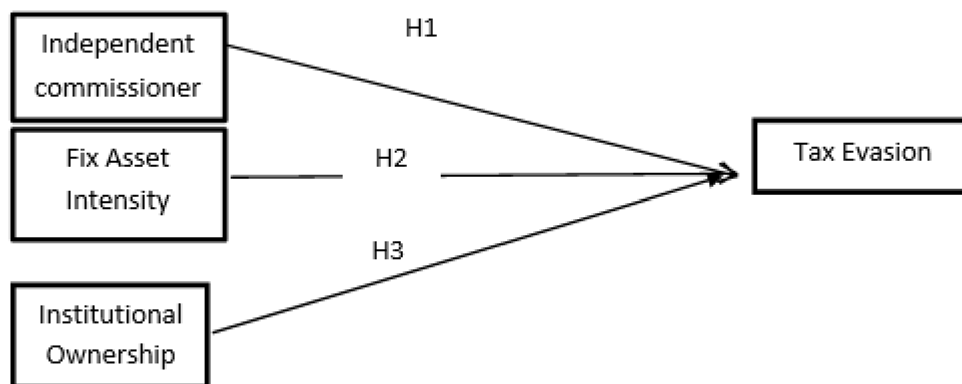

Figure 1. Conceptual Framework

III. RESEARCH METHODS

A. Research design

This study uses a positive approach (positive approach) as a basis for solving research problems. The positive approach is used to get the truth (reality) in the world and see things happen because of the law of cause and effect. Positive research uses deductive reasoning, namely putting forward a theory which is then tested in a research design (Sekaran & Bougie, 2019).

The purpose of this research is to examine the relationship of the independent variable to the dependent and the influence of the moderating variable on the relationship. The steps taken in this study were to collect research samples, collect data related to research variables, and then analyze the data through statistical tests that aim to test the hypotheses that have been set so that empirical evidence will be obtained for this research.

B. Research Variable Measurement

1. Tax avoidance

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Tax evasion is defined by Ajili and Khlif (2019) as activities that reduce a company's explicit tax obligations. In this study, the Effective Tax Ratio (ETR) is used to measure tax evasion for three reasons. First, the effective tax rate reflects variations in tax evasion across firms (Tsai, Liu & Liu, 2021; Ajili & Khlif, 2019). Second, it has been widely used in previous studies and understood by various users of financial reports (Wahab et al . 2017; Gaaya et al.,2017).

$$\mathrm{ETR} = \frac{Total\ Tax\ Expense}{Pre\ Tax\ income}$$

2. Independent Commissioner

This study adopted the performance effectiveness criteria of the independent commissioners conducted by Saputra & Wardhani (2017) as a reference in measuring independent commissioners. The criteria are as follows: The number of meetings held by the Board of Commissioners in one year, the proportion of independent commissioners in a company, and the length of time the Board of Commissioners has served.

3. Fixed Asset Intensity

Fixed asset intensity is proxied by the fixed asset intensity ratio. The fixed asset intensity ratio is the ratio of fixed assets divided by the company's total assets. The fixed asset intensity ratio describes the proportion of a company's fixed assets to all assets owned by a company (Susilowati et al., 2018; Darsani & Sukartha, 2021).

$$\text{Fix Asset Intensity} = \frac{\text{Total Fix Assets}}{\text{Total Assets}}$$

4. Institutional Ownership

Measurement of institutional ownership can be measured by the formula for the number of shares owned by institutional investors divided by the total outstanding shares (Darsani & Sukartha, 2021; Rustiarini & Sudiartana, 2021; Tijjani & Peter, 2020).

$$\text{Institutional Ownership} = \frac{\text{Total shares owned by institutional investors}}{\text{Total Outstanding Share}}$$

C. Population and Sample

The population in this study is the consumer sector manufacturing companies listed on the Indonesia Stock Exchange. The sample in this study was determined from the population using a purposive sampling method. The sample in this study was 24 companies which were determined based on the following criteria:

a. The company's annual report that can be accessed during the period 2017 - 2021.

b. The company has no losses in 2017-2021. If the company suffers a loss, the Effective Tax Rate (ETR) will be negative.

c. *Effective Tax Rate* (ETR) and Equity in 2017-2021 are not negative. This is because *the Effective Tax Rate* (ETR) and negative Equity can cause distortion of the data obtained.

D. Data Analysis Methods

The analysis used in this research is multiple linear regression method. The regression equation model to be tested is as follows:

$ETR = \alpha + \beta_1 KI + \beta_2 IAT + \beta_3 KpI + \varepsilon$

Information:

ETR : *Effective Tax Ratio* (Tax Avoidance) ,
KI : Independent Commissioner,
IAT : fixed asset intensity ;
KPI : Institutional Ownership ,
α : Constant,
β : Coefficient,
ε : *Error* .

IV. RESEARCH RESULT

The initial step of linear regression testing is to test the effect of independent commissioners, and capital intensitywith tax avoidance variables.

Table 1. Results of linear regression analysis

Variable	Beta Coefficient	T stat	Significance

(Constant)	-0.241	-4,908	0.000
CI	0.212	3,569	0.032
FAI	0.257	3,622	0.030
KI	0.070	1.032	0.238
FValue = 4.215		Adjusted R^2 = 0.167	
F Sig. = 0.000			

Source : Author (2023)

CI, FAI, KI are intended to test the hypothesis of independent commissioner, fixed assets intensity, and institutional ownership on tax evasion. Hypothesis testing is carried out using multiple linear regression. approach bylooking at the significance value of each variable.

The value of the coefficient of determination or R-square (R2) is intended to calculate the magnitude of the influence of the independent variable on the dependent. The adjusted R2 value is 0.167. This value indicates that theindependent commissioner variables, fixed asset intensity, and moderation of institutional ownership can explainthe dependent variable, namely tax evasion of 16.7%, while the remaining 83.3% is explained by other factors outside this model. A significance value of 0.000 indicates that the model is feasible to use to test the hypothesis.

The tax evasion variable uses the ETR proxy. The ETR value is inversely proportional to the tax evasion action, soit can be concluded that the more aggressive the tax evasion action, the lower the ETR value. The ETR value which has a positive coefficient direction indicates the higher the value of the independent variable in the study the higher the ETR value which indicates a lower level of tax evasion.

The independent commissioner's coefficient in a positive direction indicates that the independent commissioner has a positive effect on ETR so there is a negative effect on tax evasion. The significance value is 0.032,indicating hypothesis 1 which states that the independent commissioner has a negative effect on tax evasion received.

The coefficient of fixed asset intensity in a negative direction indicates that fixed asset intensity has a negative effect on ETR so there is a positive effect on tax evasion. A significance value of 0.030 indicates hypothesis 2 which states that fixed asset intensity has an effect on tax evasion received.

The positive direction of the institutional ownership coefficient indicates that institutional ownership has a positive effect on ETR so there is a negative effect on tax evasion. The significance value is 0.238, indicatinghypothesis 3 which states that institutional ownership has a negative effect on tax evasion is not accepted.

V. DISCUSSION

1. The Influence of Independent Commissioners on Tax Evasion

Based on the research results prove that the independent commissioner has a negative effect on tax evasion. This shows that independent commissioners can minimize agency conflicts between managers and shareholders. Independent commissioners are tasked with overseeing the actions of managers. The high level of supervision by independent commissioners on the actions of managers can reduce agency problems that arise between managers and owners (Asitalia & Trisnawati, 2017).

Not only overseeing, however, the independent commissioner is also tasked with providing input and business strategy advice. The high performance of independent commissioners can produce better corporate governance so that financial reporting becomes more objective. This can minimize the possibility of fraud due to the opportunistic nature of managers. Managers tend to avoid taxes to get intensive bonuses from company owners. The strong efficacy of independent commissioners' performance can serve to reduce tax evasion by company managers.

The findings of this study support Wiratmoko's research (2018) which stated proof of a negative impact on tax evasion, the study indicates that independent commissioners, acting as shareholders' representatives, play a pivotal role in overseeing the company's management conducted by the management. Effective commissioner supervision can prevent companies from committing tax evasion. On the other hand, the results of this study contradict the results of research conducted by Turyatini (2017) which states that an independent Board of Commissioners is not a factor in the occurrence of tax evasion in a company. The agency relationship between the tax authorities and the company occurs because of the different objectives between the tax authorities and the company. The tax authorities want companies to pay as much tax as possible, while the company wants to pay as little tax as possible (Adams & Balogun, 2020). The existence of information asymmetry between tax authorities and companies is also one of the causes of this agency conflict. Tax authorities as external parties do not have full control over actions taken by companies such as tax evasion (Armstrong et al., 2013).

Companies take advantage of information asymmetry, often by inflating the reported value of fixed assets beyond their actual worth. Fixed asset intensity, in this context, indicates the proportion of fixed assets in relation to the total assets owned by the company (Adams & Balogun, 2020). Companies that have high fixed asset ownership will result in high depreciation expenses, so the company's tax burden will be reduced (Adams & Bolagun, 2020; Maulana et al, 2018; Dewi & Yasa 2020; Putra et al, 2020).

The findings of this study align with the outcomes of Darsani & Sukartha's research (2021) which indicate a positive correlation between fixed asset intensity and tax evasion.

2. Effect of Institutional Ownership on Tax Evasion

Shareholders, as emphasized by Tijjani & Peter (2020), Rustiarini & Sudiartana (2021), and Wahab et al. (2017), actively engage in monitoring and preventing managerial opportunism, simultaneously improving information efficiency by disclosing relevant data to the capital market. Notably, institutional shareholders, inparticular, are driven not only by the supervision of company management but also by the protection of their own corporate reputation. Rigorous oversight by institutional shareholders can serve to reduce instances of corporate taxevasion (Wahab et al, 2017). However, although this study suggests a potential link between institutional ownership and tax evasion, the relationship does not reach statistical significance. Thus, it cannot be conclusively demonstratedthat institutional ownership has a significant impact on tax evasion.

IV. CONCLUSIONS AND RECOMMENDATIONS

This study succeeded in providing evidence that the Board of Commissioners and fixed asset intensity influence tax evasion. Institutional ownership is not considered to be a solution for minimizing action because The findings from this research show that the presence of institutional ownership does not have a statistically significant impact on a company's tax evasion activities.

Tax evasion is a form of type III agency conflict that occurs between internal companies and the government as an external party. Independent commissioners and audit committees are components of internal governance. High- performance independent commissioners can monitor management so that agency conflicts can be minimized and minimize the possibility of tax evasion. The results of this study add to the empirical evidence literature that thereare ways to reduce the occurrence of tax evasion in a company. This can be done by improving the performance of independent commissioners so that they can implement better governance. The outcomes of this study can serve as a point of reference for future researchers exploring related subjects.

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