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The Effect of Good Corporate Governance Mechanism, Leverage, and Profitability on Tax Avoidance

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ABSTRACT: This study aims to examine the effect of good corporate governance (GCG) mechanisms, leverage, and profitability on tax avoidance. The GCG mechanism is measured by several elements, such as the board of directors, independent commissioners and the audit committee. This research was conducted on energy sector companies as many as 19 companies out of 74 companies listed on the Indonesian Stock Exchange. Research data were obtained from financial reports and analyzed using multiple linear regression with the SPSS statistical program. The results of this study indicate that the board of directors and leverage have an effect on tax avoidance, while the independent commissioner, audit committee and profitability variables have no effect on tax avoidance.

KEYWORDS: Board o f Directors, Audit Committee, Independent Commissioner, Leverage, Profitability and TaxAvoidance

INTRODUCTION

Tax for companies is a burden that can reduce profits company, while the tax for the state is income that will be used for development and national financing. The differencebetween the company's interests and the government's causes companies tend to reduce the tax burden, both legallyand illegally (Darmawan & Sukartha, 2014). Efforts to reduce tax payments illegally called tax evasion, while efforts to reduce tax payments legally are called avoidance tax avoidance tax (Suandy, 2011). Tax Avoidance is an effort by taxpayers to be able to minimize the tax burden without violating the law (Anindyka et al, 2018) . However, not all companies commit tax avoidance because there are fines, corporate image and corporate governance that must be maintained, and the assumption that tax avoidance isequivalent to tax evasion. (Rusydi & Martani, 2014) .

The phenomenon of tax evasion cases in Indonesia occurred at PT Adaro Energy Tbk. PT Adaro sells coal mined in Indonesia through its subsidiary in Singapore, Coaltrade Services International at a lower price and then resells it at a higher price. The report released by Global Witness revealed that from 2009-2017 Adaro, using its subsidiary in Singapore, Coaltrade Services International, paid US$ 125 million less than it should have paid to the Indonesian government (Sugianto, 2019). The factors that influence the occurrence of tax avoidance are good corporate governance which is proxied by the board of directors, independent commissioners, audit committees, leverage and profitability. According to Oliviana & Muid (2019) the better the supervision carried out by the board of directors, the less fraud is committed by company management and the less likely the company is to commit tax evasion. Having a board of directors in the company will be able to reduce tax evasion. Arianti (2020) states that thereis a tendency that the higher the ratio of independent commissioners, the lower the tax evasion by company management.

Kurniasis & Sari (2013) stated that the audit committee is tasked with assisting the board of commissioners in the process of preparing company financial reports to avoid fraud in management including taxevasion. If the audit committee functions effectively it allows better control over the company and financial reports and supports good corporate governance. A high leverage ratio indicates a large amount of company funding originating from debt, so that it will generate a high amount of interest expenses which can reduce profits so that it will reduce the company's tax burden (Pasaribu & Mulyani, 2017). The higher the ROA ratio, the higher the profit earned which will result in an increase in the company's tax burden. Increasing the tax burden, companies tend to take tax avoidance actions (Ariawan & Setiawan, 2017).

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1. LITERATURE REVIEWAGENCY THEORY

Jensen & Meckling (1976) stated that theory agency

concerns the contractual relationship between two partiesviz principals and agents, where the company owner or investor appoint agents as management who manage thecompany above name of the owner. The relationship between agency theory and tax avoidance is that there is a conflict of interest between shareholders (principals) andmanagers (agents) and conflicts of interest between tax collectors (tax authorities) and taxpayers (companies) (Maharani & Baroroh, 2019) .

1.1. Stakeholder Theory

Freeman (1984) says stakeholder theory is a theory that describes the which party the company is responsible for. Based on stakeholder theory, companies start to think about business continuity companies in the future, so they tend to avoid tax avoidance decisions can defame the company (Puspita & Harto, 2014).

1.2. Tax Avoidance

Tax avoidance is an effort made by taxpayers to reduce the tax burden that must be borne by exploiting the weaknesses of laws and regulations. (Ngadiman & Puspitasari 2014). Tax avoidance is an effort to streamline the tax burden by avoiding tax imposition through transactions that are not tax objects (Sibarani & Tarigan, 2018). The goal of tax avoidance is to minimize the tax burden to maximize the amount of profit after tax (Jasmineet al, 2017). The measurement of tax avoidance in this study uses the formula

$$Effective\ Tax\ Rate = \frac{\text{Income tax expense}}{\text{Earning Before Tax}}$$

1.3. Good Corporate Governance

According to the Decree of the Minister of BUMN Number KEP-09/MBU/2012 concerning the Implementationof Good Corporate Governance, namely good corporate governance are the principles that underlie a process and mechanism for managing companies based on regulations. legislation and business ethics. The indicators of good corporate governance mechanisms used in this study are the board of directors, independent commissioners and auditcommittee

1.3.1. Board of Directors

The board of directors is a party in a corporate entity whose job is to carry out the operations and management of the company (Fabiyola et al, 2014). The Board of Directors can also function as the person in charge of all mattersrelating to all company activities. The duties of the directorsmust maximize the interests of shareholders by carrying out their duties as best as possible (Hudha & Utomo, 2021).

1.3.2. Independent Commissioner

Independent commissioners from parties not affiliated with major shareholders, members of the board of directors and or other members of the board of commissioners. It can be said that independent commissioners represent the interests of minority shareholders, or public shareholders. Public shareholders tend to comply with tax regulations, because they expect companies to participate in development for society (Puspita&Harto, 2014). The measurement of independent commissioners in this study uses the formula:

1.3.3. Audit Committee

In the field of corporate governance, the auditcommittee is responsible for ensuring that the company isproperly run in accordance with applicable laws and regulations. Forming an audit committee (AC) makes auditor performance more independent (Oliviana & Muid, 2019).If the audit committee functions effectively it allows bettercontrol over the company and financial reports and supports good corporate governance (Kurniasih & Sari, 2013). The measurement of the audit committee in this study is the percentage of audit committees independent.

$$AC\ Ratio = \frac{Number\ of\ Audit\ Committee\ Independent}{Number\ of\ Audit\ Committees\ (AC)}$$

1.4. Leverage

The solvency ratio or leverage ratio is a type of ratio used to determine the extent to which a company finances its assets with debt (Kasmir, 2014: 151). The leverage ratio aims to analyze spending made in the form of thecomposition of debt and capital and the company's ability to pay interest and other fixed expenses (Sugiono & Untung, 2016:59). Leverage measurement uses the formula:

$$\text{Dedt to Assets Ratio} = \frac{\text{Total Liability}}{Total\ Assets}$$

1.5. Profitability

According to Fahmi (2020: 81), profitability is a ratio that measures management effectiveness. It can be seen from the profit generated on company sales and investment. The profitability ratio is the ratio used to assess a company's ability to make a profit. The point is that the use of this ratio shows the efficiency of the company (Kasmir, 2014: 196). Determination of return on assets can be measured using the formula:

$$\text{ROA} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

1.6. Hypothesis Development

1.6.1. Effect of the Bord of Directors on Tax Avoidance

In a company there is a board of directors who manage the company's operations. The duties of the directors must maximize the interests of shareholders by carrying out their duties as best as possible (Hudha and Utomo, 2021). The board of directors is someone who is appointed to run the company and determines policies to be taken by the company, including decisions on tax avoidance (Arfanny, 2020). According to stakeholder theory, t he board of directors is in charge of making efforts for the company to be able to carry out responsibilities through the payment of taxes and also have to pay attention to various stakeholder interests for business continuity in the future. According to agency theory, the small size of the board of directors can guarantee good oversight thereby reducing the occurrence of tax evasion while the large size of the board of directors results in large tax evasion (Jensen and Meckling, 1978). This research is in line with that conducted by Krisnadayu et. al. (2021) and Zemzem & Ftouhi (2013) that the board of directors has an effect on tax evasion.

H1: The board of directors has an effect on tax avoidance

1.6.2. Effect of the Independent Board of Commissioners on Tax Avoidance

Commissioners represent the interests of minority shareholders, or public shareholders. Public shareholders tend to comply with tax regulations, because they expect companies to participate in development for society (Puspita and Harto, 2014). Agency theory assesses that the greater the number of independent commissioners, the higher their influence in monitoring management performance (Arianti, 2020). Meanwhile, from the stakeholder theory, the existence of an independent board of commissioners will supporting GCG principles and the functioning of an independent board of commissioners will safeguard the interests of parties with an interest in the company (Napitupulu et al, 2020). This research is supported by Wijayanti and Merkusiwati (2017) and Honggo and Marlinah (2019) showing that independent commissioners have a negative effect on tax evasion.

H2: The independent board of commissioners has an effect on tax avoidance

1.6.3. Effect of Audit Committee on Tax Avoidance

Tax avoidance actions taken by management can be reduced by having audit committee members at the company as a component in implementing good corporate governance (Praditasari and Setiawan, 2017). The existence of an audit committee is expected to improve the quality of internal supervision which is ultimately aimed at providing protection to shareholders and other stakeholders (Ardianti, 2020). Agency theory states that corporate governance is an effective mechanism aimed at minimizing agency conflicts. One common component in the corporate governance structure is the audit committee. It is necessary to have an independent external party with a supervisory function to oversee companies taking tax avoidance actions (Antari and Setiawan, 2020). The linkages of corporate governance mechanisms such as audit committees and tax avoidance support the stakeholder theory, namely efforts to balance all parts of the company's stakeholders . Research conducted by Ayunanta et al (2020) and Fauzan et al (2019) audit committees have a significant effect on tax evasion.

H 3: Audit Committee influences tax avoidance

1.6.4. Effect of Leverage on Tax Avoidance

Leverage is the level of debt used by the company in financing. A high leverage ratio indicates a large amount of company funding originating from debt, so that it will generate a high amount of interest expenses which can reduce profits so that it will reduce the company's tax burden (Pasaribu and Mulyani, 2017). Debt that is too large will also lead to agency conflicts between shareholders and debtholders (Indahningrum and Handayani, 2009). In stakeholder theory, companies that use leverage in their operations will try to maintain their profits for the sake of sustainability with creditors as stakeholders. Companies with high levels of leverage are bound by the interests of creditors to pay attention to company profits in stable conditions so they do not practice tax evasion (Windaswari and Merkusiwati, 2018). This is in line with research conducted by jasmine et al (2017), Praditasari and Setiawan (2017) and Suciarti et al (2020) showing that leverage hasan effect on tax avoidance.

H4: Leverage has an effect on tax avoidance

1.6.5. Effect of Profitability on Tax Avoidance

Profitability is proxied by return on assets (ROA). The higher this ratio indicates effective asset management togenerate optimal profits (Bandaro and Ariyanto, 2020). The higher the ROA, the higher the company's profit so that the tax charged will be higher. Agency theory explains thatwhen a company wants to maximize its profits, there will be a conflict of interest between the tax authority (principal)and the company or taxpayer (agent). Based on stakeholder theory, there are other interests, namely the government which expects large tax revenues, so that it can finance national development (Firmanhansyah, 2021). Research conducted by Darsani and Sukartha (2021), Pangaribuan et al (2021) Andhari and Sukartha (2017), Dewinta and Setiawan (2016) shows that profitability affects tax avoidance.

H5: Profitability affects tax avoidance

2. RESEARCH METHODS

This study uses an associative quantitative approach because it aims to determine the relationship between the independent variable and the dependent variable. The location of this research was conducted at mining sector companies listed on the Indonesia Stock Exchange in 2016- 2021 which can be accessed on the official website of the Indonesia Stock Exchange (www.idx.co.id). This study uses secondary data. Secondary data in this study are the financial reports and annual reports of energy companies listed on the IDX 2016-2021 obtained through the IDX website. The sample in this study were all energy companies listed on the Indonesia Stock Exchange for the 2016-2021 period which were selected using a purposive sampling technique. The data analysis technique in this study uses Multiple Linear Regression analysis.

3 RESEARCH RESULTS AND DISCUSSION

3.1. Research Result

This study found that the board of directors and leverage have an effect on tax avoidance, while independent commissioners, audit committees and profitability have no effect on tax avoidance.

Table 1. Statistical Test Result

Variabel	Adj R Square	B Value	Signification Value	Signification Standard (alpha)	Decission
Board of Directors	0,429	-0,198	0,038	0,05	Effect
Independent Commissioner		-0,208	0,302	0,05	No Effect
Audit Committee		-0,157	0,348	0,05	No Effect
Leverage		0,612	0,000	0,05	Effect
Profitability		0,087	0,328	0,05	No Effect

The test results for the board of directors variable (X1) have a significance value of 0.038, which means it is smaller than 0.05, so H1 is accepted. Thus it can be concluded that the board of directors has an effect on tax avoidance. The interpretation of the regression equation canbe seen from the coefficient value of the board of directors which is -0.198 which indicates that each variable of the board of directors (X1) has decreased by one unit, so tax avoidance (Y) decreased by 0.198.

Independent commissioner variable test results (X2) has a significance value of 0.302 which means it is greater than 0.05, then H2 is rejected. Thus it can be concluded that the commissioners are independent no effect on tax avoidance. The interpretation of the regression equation canbe seen from the independent commissioners' coefficientvalues which has a value of –0.208 which indicates that eachcommissioner variable is independent (X2) has decreased byone unit, so tax avoidance (Y) fell by 0.208.

Audit committee variable test results (X3) has a significance value of 0.348 which means it is greater than 0.05, then H3 is rejected. Thus it can be concluded that the audit committee no effect on tax avoidance. The interpretation of the regression equation can be seen fromthe value of the audit committee coefficient which has a value of –0.157 which indicates that each audit committee variable (X3) has decreased by one unit, so tax avoidance (Y) fell by 0.157.

leverage variable test (X4) have a significance value of 0.000, which means it is less than 0.05, so H4 is accepted. Thus it can be concluded that leverage affects tax avoidance. The interpretation of the regression equation canbe seen from the value of the leverage coefficient which is worth 0.612 which indicates that each leverage variable (X4) has increased by one unit, so tax avoidance (Y) increased by 0.612.

Variable test results profitability (X5) has a significance value of 0.328 which means it is smaller than 0.05, so H5 is rejected. Thus it can be concluded that profitability has no effect on tax avoidance. The interpretation of the regression equation can be seen fromthe profitability coefficient value which is 0.087 which indicates that each profitability variable (X5) has increased by one unit, so tax avoidance (Y) increased by 0.087.

3.2. Discussion of Research Results

3.2.1. Influence of the Board of Directors on Tax Avoidance

Testing the first hypothesis in this study showed a significant value of the board of directors variable of 0.038 <0.05, which means that the board of directors has an effect on the tax avoidance of energy sector companies listed onthe IDX. Score a negative coefficient indicates that the board of directors variable has a positive relationship opposite to the ETR variable. It can be concluded that the board of directors has negative significant effect on tax avoidance by proxy ETR. In this case it is in accordance with the stated agency theory by Jensen & Meckling (1976), a large number of boards of directors can assist companies in making useful policies for the company so thatit can benefit the company and provide added value to the company (Fuad, 2013). With the existence of a board of directors in the company, it will be able to reduce tax avoidance actions. The greater the number of directors owned by a company then it is likely that the company will do tax avoidance will be smaller (Wulandari, 2019). These results confirm the stakeholder theory which states that the directors are in charge of ensuring that the company carries out its responsibilities to stakeholders for future business continuity including tax avoidance. The results of this study are in line with previous research by Oliviana & Muid(2019); Zemzem & Ftouhi (2013) which state that the board of directors has an effect on tax avoidance and is in accordance with the theoretical concept.

3.2.2. The Influence of Independent Commissioners on Tax Avoidance

Testing the second hypothesis in this study showed a significant value of the independent commissioner variable of 0.302 > 0.05, which means that the independentcommissioner has no effect on the tax avoidance of energy sector companies listed on the IDX. This is caused by several things. First, not all independent commissioners are able to demonstrate their independence, so that the supervisory function is not optimal. This causes supervision of management in carrying out tax avoidance practices to be less. Second, the ability of independent commissioners to monitor the process of disclosure and availability ofinformation will be limited if there are affiliated parties who dominate and have control over the independent commissioners as a whole. It is possible that the role of the independent commissioner does not carry out proper oversight in making tax decisions at companies so that it does not necessarily affect tax evasion activities (Oliviana & Muid, 2019). In agency theory, the more the number of independent commissioners, the higher the influence in supervising management performance and in stakeholdertheory, the existence of independent commissioners will support the principles of GCG and the functioning of an independent board of commissioners will safeguard the interests of parties with an interest in the company. In this study these results do not support agency theory and stakeholder theory. This research is in line with previous studies by Honggo & Marlinah (2019), Hudha & Utomo (2021) and Oliviana & Muid (2019) which state that independent commissioners have no effect on tax avoidance.

3.2.3 The Influence of the Audit Committee on Tax Avoidance

Testing the third hypothesis in this study shows a significant value of the audit committee variable of 0.581 >0.05, which means that the audit committee has no effect ontax avoidance of energy sector companies listed on the IDX.This shows that the value of the audit committee owned bythe sample in the study does not affect tax avoidance,whether the value has increased or decreased. The role ofthe audit committee is to supervise and control the processof internal control and financial reporting. This indicatesthat the performance of the audit committee is not inaccordance with expectations even though the members ofthe audit committee are in accordance with IDXrequirements, namely a minimum of 3 people cannotprovide absolute guarantees that tax evasion in a companycan be avoided. The provisions of the audit committee structure are only intended to meet the requirements of alimited liability company (Yuniarwati et. al., 2017). Inagency theory, corporate governance is defined as aneffective mechanism aimed at minimizing agency conflicts.The linkages of corporate governance mechanisms such asaudit committees and tax avoidance support the stakeholdertheory, namely efforts to balance all parts of the company'sstakeholders. The insignificant results are due to the factthat the audit committee does not play an active role indetermining policies related to corporate tax, includinginfluencing tax avoidance (Antari & Setiawan, 2020). Inthis study these results do not support agency theory andstakeholder theory. The results of this study

are in line withprevious studies by Antari & Setiawan (2020), Yuniarwatiet al, (2017) and Suryani (2020) which state that the audit
committee has no effect on tax avoidance.

3.2.4 Effect of Leverage on Tax Avoidance

Testing the fourth hypothesis in this study shows a significant value of the leverage variable of 0.000 <0.05, which means that leverage affects the tax avoidance of energy sector companies listed on the IDX. Score coefficient indicating that the DAR variable has a positive relationship in the direction of the ETR variable. It can be concluded thatDAR has significant effect on tax avoidance by proxy ETR.This result is in line with agency theory which explains the interests between principals and agents who both want self- property which can be realized by maximizing profits. One way to achieve maximum profit is to take advantage of interest expenses arising from debt to minimize the tax burden (Maharani & Baroroh, 2019). Companies that have high leverage will get tax incentives for interest expenses which can be used to reduce the tax burden. So that increasing the leverage of the company can be said that the company tends to practice tax avoidance as a result of tax incentives on interest expenses earned by the company to minimize the company's tax burden (Wijayanti & Merkusiwati, 2017). The results of this study are in line with previous studies by Antari & Setiawan (2020), Pangaribuan et. al. (2021), Fauzan et. al. (2019), Praditasari & Setiawan (2017) and Arianandini & Ramantha (2018) which state that leverage affects tax avoidance.

3.2.5 Effect of Profitability on Tax Avoidance

Testing the fifth hypothesis in this study showed a significance value of the profitability variable of 0.328 > 0.05, which means that profitability has no effect on tax avoidance of energy sector companies listed on the IDX. The ROA value indicates that the sample companies have used their assets effectively to gain profit from using all of their assets. In agency theory and stakeholder theory when a company wants to maximize its profits, there will be a conflict of interest between the tax authority and the company or taxpayer. The government wants to get more income from taxes, but managers or companies want the maximum profit so they will try to minimize the tax burden.According to Napitupulu et. al. (2020) to practice tax avoidance will also require other costs that must be incurred,such as tax consulting fees for carrying out tax avoidance, loss of reputation, legal threats and fines paid to the tax authorities. The results of this study are in line with previous studies by Antari & Setiawan (2020), Ardianti (2019), and Napitupulu et al (2020) which state that profitability has no effect on tax avoidance.

4. CONCLUSION

Based on the results of the analysis and discussion that has been carried out in the previous chapter, it can be concluded that: (1) the board of directors has an effect on tax avoidance. The greater the number of directors owned by a company then it is likely that the company will do tax avoidance will be smaller. (2) Independent commissioners have no effect on tax avoidance. Not all independent commissioners are able to demonstrate their independenceso that they do not carry out proper oversight in making tax decisions at companies, resulting in less supervision of management in carrying out tax avoidance practices and the availability of information will be limited if there are affiliated parties who dominate and have more control. to the independent commissioners as a whole. (3) The audit committee has no effect on tax avoidance. An audit committee that has a larger number of members can improve the oversight function. However, the audit committee, which is included in the good corporate governance component, has not played an active role in setting policies related to corporate tax. (4) Leverage has a positive effect on tax avoidance. The higher the use of debt by companies, the higher the tax avoidance. (5) Profitability has no effect ontax avoidance. This means that companies that generate profits are able to optimize their tax payments and have good performance.

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