

# **EFFECT OF GOOD CORPORATE GOVERNANCE ON TAX AVOIDANCE OF THE COMPANY IN LISTED OF THE INDONESIA STOCK EXCHANGE (BEI)**

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**Abstract** - This study aimed to examine the effect of corporate governance on *the extent of tax avoidance with proxy current ETR*. Elements of corporate governance that are used to test are institutional ownership, managerial ownership, independent commissary proportion, audit committee, and audit quality. This research uses descriptive quantitative approach, which is measured using a method based on panel data PLS. The population in this research is food and beverage manufacturing companies listed on the Stock Exchange in 2014 until 2016. The sample was determined by the purposive sampling method and obtain 12 companies with the result that, this study obtain 36 sample. Type of data used was secondary data obtained from [www.idx.co.id](http://www.idx.co.id) and [www.sahamok.com](http://www.sahamok.com). Based on the results of multiple regression analysis with significance level of 5%, then the results of this study concluded: (1) Institutional ownership does not effect tax avoidance as proxied with current ETR. (2) Managerial ownership has a significant effect on tax avoidance which is proxied with current ETR. (3) The proportion of the Independent Board of Commissioners shall have no effect on the tax avoidance proxied by current ETR. (4) The audit committee shall have no effect on tax avoidance proxied with current ETR. (5) Audit quality has a significant effect on tax avoidance which is proxied with current ETR.

**Keywords:** Corporate Governance, Tax Avoidance, Current ETR, Indonesia Stock Exchange

## **I. PRELIMINARY**

### **Background**

For the countries in this world taxes are an important and even most important element in order to sustain the state budget. Therefore the governments of the countries of the world are so greatly concerned about the tax sector. Tax is one of the largest sources of state revenues. Every taxpayer is required to participate so that the growth rate and implementation of national development can work well for the welfare of the state. But for the people, taxes are a burden because they reduce their income, moreover not get a direct reward when paying taxes. This is what causes a lot of people and even companies that do tax avoidance (tax avoidance). Tax avoidance is a transaction scheme aimed at minimizing the tax burden by utilizing the loophole of taxation provisions (taking advantage of legal loopholes). The feature is to attempt to minimize the tax burden by not explicitly violating the taxation provisions, and tend to interpret the tax provisions not in accordance with the maxims and goals of lawmakers.

Tax evasion is now an important issue for fiskus, because this activity may lead to tax evasion. This is certainly a negative impact for the country, because if left unchecked countries will lose revenue from the tax sector with a significant amount. With reduced tax revenues, increased

education, people's welfare, public infrastructure development, and regional development are not maximized. People also see this tax evasion as an act that harms the public at large. The public considers that companies should participate in promoting the welfare of the wider community through the payment of taxes (Puspita, 2014). The number of tax evasion companies proves that corporate governance has not been fully implemented by public companies in Indonesia (Suardana& Maharani, 2014)

The implementation of corporate governance is based on several issues, one of which is the ownership structure. In this study, the company's ownership structure will focus on institutional ownership structures and managerial ownership. This is because companies that have high institutional ownership will be more aggressive in minimizing tax reporting. Likewise with managerial ownership, managers will get equal positions with shareholders, so increasing managerial ownership will motivate them to improve performance and be responsible for shareholder wealth. In addition to the ownership structure of the company, the board of commissioners also has an important role in corporate governance. The Board of Commissioners is the core of corporate governance assigned to supervise the management policy, the general management of the company and the company's business conducted by the Board of Directors and provide advice to the Board of Directors including supervision on the implementation of the Company's long term plan, work plan and budget as well as the provisions of the articles of association and resolutions of the general meeting of shareholders, as well as the prevailing laws and regulations, for the benefit of the company and in accordance with the purposes and objectives of the company (KNKG, 2006). The Board of Commissioners in performing one of its duties is the supervisory function may request advice or advice from third parties by forming a special committee one of them by establishing an audit committee. With the existence of an audit committee and an independent commissioner in a company is expected to improve the integrity of financial statements (Fadhilah, 2014). The main principles to make good corporate governance policy one of them is transparency. Transparency is an element to maintain objectivity in running a business, companies must provide information that is easily understood and easily accessible to stakeholders. Transparency can be measured through audit quality.

## **II. LITERATURE REVIEW**

### ***Good Corporate Governance***

Good Corporate Governance is a problem that will not end and will continue to be the subject of discussion for business, academic, policy-making and so forth. Understanding of corporate governance practices continues to evolve over time. Attention to Good Corporate Governance is increasing as many emerging financial scandal problems in the business environment. This triggered the question of corporate governance ability applied by the company. Similarly, the credibility of the process of preparing the company's financial statements is also questionable.

Measurement of Good Corporate Governance in a company can be proxied with several indicators such as institutional ownership, managerial ownership, independent board of commissioners, audit committee and audit quality.

#### **1. Institutional Ownership**

The institutional ownership is the proportion of share ownership by the founding institution of the company, not the public shareholder institution as measured by the percentage of total shares owned by the investor of the internal institution (Fadhilah, 2014). Institutional ownership is an institution that has a great interest in investments made including stock investments. So the institution usually assigns responsibility to a certain division to manage the company's investment. The existence of an institution that professionally monitors the development of its investment

causes the level of control over management actions so high that the potential of tax avoidance can be suppressed (Fadhilah, 2014).

## 2. Managerial Ownership

Managerial ownership is a share of the company's common shareholdings by management (insider) Hartadinata&Tjaraka (2013). Managerial Ownership Shares included in shareholders owned by executives or directors are thus included in the category of individual shareholders. Ownership by large management will be effective in monitoring the activities of the company. With a fairly high proportion of ownership, managers will feel they have a company, so that they will do their utmost to maximize their prosperity.

## 3. Independent Board of Commissioners

The management of a limited liability company in Indonesia follows a two-board system of BoC and BoD with clear powers and responsibilities in accordance with their respective functions as mandated in the articles of association and fiduciary responsibility. However, both have a responsibility to maintain the company's long-term sustainability. The Board of Commissioners as a corporate organ is tasked and collectively responsible for supervising and providing advice to the Board of Directors and ensuring that the Company executes GCG. However, the Board of Commissioners shall not participate in making operational decisions.

## 4. Audit Committee

According to BAPEPAM-LK audit committee is a committee established by and responsible to the board of commissioners in assisting the duties and functions of the board of commissioners. The Association of Indonesian Audit Committee (IKAI) defines the audit committee as follows: A professional and independent working committee that is assisted by the board of commissioners and, therefore, its duty is to assist and strengthen the functioning of the board of commissioners (or supervisory board) in carrying out oversight functions ) on financial reporting, risk management, implementation of audits and implementation of corporate governance in companies.

## 5. Quality Audit

One of the key elements of corporate governance is transparency. Transparency requires accurate disclosure of financial statements audited by the Firm. Transparency to shareholders can be achieved by reporting matters relating to taxation on capital markets and shareholder meetings. Increased transparency of shareholders in the case of taxes is increasingly demanded by public authorities. The reason is the assumption that the implications of aggressive tax behavior, shareholders do not want their companies to take an aggressive position in terms of taxes and will prevent such actions if they know in advance.

## **Tax Avoidance**

Tax evasion or resistance to tax is the obstacles that occur in tax collection resulting in reduced state cash receipts. Resistance to tax consists of active resistance and passive resistance. In Indonesian tax books, tax avoidance is always interpreted as legal activity (eg minimizing tax burden without resisting taxation provisions) and tax evasion / tax fraud is defined as illegal activities (eg minimizing the tax burden by manipulating bookkeeping). The purpose of tax avoidance is to minimize or minimize the amount of tax payable.

## **Relationship between Variables and Development of Hypotheses**

### **Relationship between Institutional Ownership and Tax Avoidance**

Annisa & Kurniasih (2012) argue that institutional owners play an important role in monitoring, disciplining and influencing managers so that institutional ownership can force managers to minimize tax avoidance measures. In addition, in another study Fadhillah (2014) also stated that with the high level of institutional ownership, the greater the level of supervision to managerial, thus reducing conflicts of management interest and reducing the opportunity of tax evasion.

Pohan (2008) in his research found that institutional ownership has a negative effect on tax evasion. This study proves the greater the ownership of the institution the better the quality of corporate governance and the less likely the existence of tax avoidance because the existence of the institution can be an effective monitoring tool for the company.

**H1: Institutional ownership has effects on tax avoidance.**

**Relationship between Managerial Ownership and Tax Avoidance**

With managerial ownership, this will involve management in the role of supervisor and controller. Based on agency theory with the existence of managerial ownership will reduce agency cost. Stakeholder management will act cautiously in taking decisions to make decisions that do not have an adverse effect on their shares, including decisions in applying future tax avoidance at risk in the future. So with the existence of managerial ownership is expected to minimize tax avoidance.

Pohan (2008) in his research found that managerial ownership negatively affects tax evasion. This study proves that the greater the concentration of stock ownership by the executives the less likely tax avoidance.

**H2: Managerial ownership has an effect on tax avoidance.**

**Relationship between Independent Board of Commissioners and Tax Avoidance**

Good corporate governance will improve the tax management of Minnick & Noga (2010) companies. Board of commissioners as part of corporate governance will determine how the tax management of the company will work. Good corporate governance should consist of a qualified board of commissioners. A good board of commissioners must have knowledge of applicable tax laws so as to suppress corporate tax rates but not violate the tax laws themselves. Companies that have more boards of commissioners have more opportunity to push tax rates than firms with firms with fewer boards of commissioners.

Sari (2014) stated that the presence of independent commissioners in the board of commissioners can improve supervision of the performance of the board of directors. Where with the increasing number of independent commissioners the management control will be more stringent. Management is often opportunistic in that they have the motive to maximize net profit in order to increase bonuses. Profit has been used as a major indicator of the success of managers. One way to increase net income is to reduce costs including taxes so management will seek to minimize the tax payable. It is expected that the greater the proportion of independent commissioners can increase supervision so as to prevent tax evasion of companies by management.

One of the characteristics of corporate governance that is good proportion of board of commissioner hence will minimize fraud in reporting of taxation which reported by management thereby increasing integrity value of financial information submitted by management. Therefore, the better the proportion of independent board of commissioners, the declining tax avoidance practices by companies (Meiza, 2015).

**H3: Independent Board of Commissioners has an effect on tax avoidance.**

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

Sriwedari (2009) states that the credibility of financial reporting can not work properly if there is no support from all elements of the company including audit committee in charge of controlling financial policy, especially in terms of taxes in the company. The audit committee

serves to provide an overview of the issues related to financial policy, accounting and internal control. A good financial policy will promote a good profit growth for the company as well.

**H4: Audit Committee has an effect on tax avoidance.**

### **Relationship between Audit Quality and Tax Avoidance**

Audit is an important element in corporate governance that is closely related to one of the principles of corporate governance that is transparency. Public companies are increasingly demanding transparency in financial statements. Audit quality measurement can use the proxy ie the size of Public Accounting Firm (KAP) (Winata, 2014).

The financial statements audited by KAP The Big Four (Price Water Cooper, Deloitte Touche Tohmatsu, KPMG, Ernst & Young) have a lower fraud rate than firms audited by KAP non The Big Four, in that case possible financial statements audited by KAP The Big Four can reduce the occurrence of tax evasion (Annisa & Kurniasih, 2012).

Research conducted by Annisa & Kurniasih (2012) found that audit quality negatively affects tax avoidance. If a company is audited by KAP the big four it will be increasingly difficult to avoid taxes. If the nominal tax is too high to be paid will usually force the company to tax evasion, the more qualified the audit of a company, then the company tends not to manipulate earnings for the benefit of taxation.

**H5: Audit quality negatively affects tax avoidance.**

## **III. RESEARCH METHOD**

### **Hypotheses Testing Model**

Multiple regression method conducted on the model proposed by researchers using SPSS version 21 software to predict the relationship between independent variables with the dependent variable. Data analysis technique used is multiple linear regression analysis with PANEL DATA pooling method (pooling data) is a model obtained by combining or collecting all cross section data time series data. This data model is then estimated using Ordinary Least Square (OLS). Multiple linear regression analysis can explain the influence of dependent variable with some independent variables. Pooling data or panel data is done by summing companies that meet the criteria during the collection period.

The regression equation is as follows:

$$\text{Current ETR} = \alpha + \beta_1 \text{ KI} + \beta_2 \text{ KM} + \beta_3 \text{ DKI} + \beta_4 \text{ KA} + \beta_5 \text{ AUDIT} + \varepsilon \dots\dots\dots (3.1)$$

Information:

Current ETR	= Current ETR (tax avoidance proxy)
KI	= Institutional Ownership
KM	= Managerial Ownership
DKI	= Independent Board of Commissioners
KA	= Audit Committee
AUDIT	= Audit Quality
$\beta_1$ - $\beta_6$	= Regression Coefficient Dependent Variable
$\varepsilon$	= Interrupt variable (error)

### **Dependent Variables**

The dependent variable is a variable that is explained or influenced by an independent variable. The dependent variable used in this study is tax avoidance measured using Current ETR (Effective Tax Rate). Current ETR is calculated by comparing the current tax with pre-tax income.

The tax is now included in the Income Statement on "income tax" (benefit) tax expense "whereas pre-tax profit is included in" profit before income tax "item.

### **Independent Variables**

The independent variable (free) is the variable that influences the dependent variable (bound). The independent variables used in this research are good corporate governance mechanism consisting of institutional ownership, managerial ownership, independent board of commissioner, audit committee, and audit quality.

### **Institutional ownership**

Institutional ownership (KI) is the amount of share ownership by the institution. The indicator used to measure institutional ownership is the percentage of the number of shares owned by the institution of the total number of shares outstanding.

### **Managerial ownership**

Managerial Ownership (KM) is the level of ownership of shares owned by the management who actively participate in corporate decisions (directors and commissioners). The indicator used to measure managerial ownership is the percentage of total shares owned by the managerial of the total number of shares outstanding.

### **Independent Board of Commissioners**

The Independent Board of Commissioners (DKI) is defined as an unaffiliated party in all respects with the controlling shareholder, has no affiliation relationship with the board of directors or the board of commissioners and does not serve as a director of a related company. In this study, the commissioner board structure is proxied by the percentage of independent board of commissioners within a company.

### **Audit Committee**

The Audit Committee (KA) serves to provide an overview of issues related to financial, accounting and internal control policies. Audit committees can be measured by the number of audit committees.

### **Quality Audit**

Audit quality is usually measured by the size of the Public Accounting Firm (KAP) that audits a company, if the company is audited by the Big Four Public Accounting Firm, it will be more independent as it can withstand managerial pressure to report a violation . For this study the companies audited by the Public Accounting Firm (KAP) The Big Four ie Price Waterhouse Cooper (PWC), Deloitte Touche Tohmatsu, KPMG, Ernst & Young (E & Y) will be rated 1, and if unaudited by the four Public Accounting Firm (KAP) under the Big Four KAP license will be assigned a value of 0. The audit quality in the linear equation is denoted by AUDIT.

<b>Variabel</b>	<b>Variabel Penelitian</b>	<b>Skala</b>
Current ETR	<b>Pengukuran</b> $Current\ ETR = \frac{current\ tax\ expense}{pre - tax\ income}$	Rasio
KepemilikanInstitusional	$KI = \frac{\sum saham\ yang\ dimiliki\ institusional}{\sum saham\ yang\ beredar}$	Rasio
KepemilikanManajerial	$KM = \frac{\sum saham\ yang\ dimiliki\ manajemen}{\sum saham\ yang\ beredar}$	Rasio



Dewan Komisaris Independen	$DKI = \frac{\text{jumlah anggota komisaris independen}}{\text{jumlah seluruh anggota dewan komisaris}}$	Rasio
Komite Audit	KA = Jumlah Komite Audit dalam sebuah perusahaan setiaptahunnya	Nominal
Kualitas Audit	KUAD = Jika diaudit oleh Kantor Akuntan Publik (KAP) The Big Four akan diberi nilai 1, dan apabila tidak akan diberi nilai 0.	Nominal

### Sample Research

The sample is the part or number and characteristic that the population possesses. When large populations, and researchers are not possible to learn everything in the population, for example because of the funding, energy and time, the researchers will take samples from that population. What is learned from the sample, the conclusion will be applied to the population. For that sample taken from population must be really representative (Sugiyono, 2013).

The sample in this research is obtained by using purposive sampling method. Purposive sampling is sampling based on the judgment of the researcher about who is appropriate (eligible) to be sampled. In order to get a representative sample the researcher has some sample criterion to be used, that is:

1. Food and beverage manufacturing company in Indonesia Stock Exchange used as main sample for period 2014-2016.
2. Manufacturing companies that publish a full yearly report consistently audited in 2014-2016.
3. The financial statements use the Rupiah currency. The selection of these criteria is that the use of different currencies may cause a different exchange rate even after conversion has been made.
4. The manufacturing company in the year 2014-2016 did not experience a loss before tax.
5. Current ETR value must be positive and should not be more than one.

### Data analysis method

Data processing is a process to obtain data and summary figures based on raw data in the amount, percentage and average. The purpose of data processing is to obtain results that can be used to view and answer problems in groups and not individuals. The data used in this statistic analysis are institutional ownership, managerial ownership, independent board of commissioner, audit committee, audit quality, and executive compensation as independent variable, and tax avoidance as a variable dependent.

## IV. RESEARCH RESULT

### A. Normality Test

#### Kolmogorov Smirnov Results One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		36
Normal Parameters <sup>a,b</sup>	Mean	,0000000
	Std. Deviation	1,02291530
Most Extreme Differences	Absolute	,143

	Positive	,143
	Negative	-,078
Test Statistic		,859
Asymp. Sig. (2-tailed)		,454
a. Test distribution is Normal.		
b. Calculated from data.		

Source: SPSS 21, data processed 2017

Can be seen from the test results above obtained value significance  $0.454 > 0.05$ , then the assumption of normality in this test can be met.

## B. Multikolinearitas Test

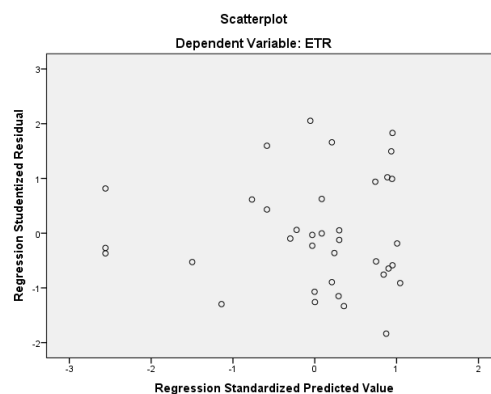
Model	Coefficients <sup>a</sup>	
	Tolerance	VIF
KEPEMILIKANINSTITUSIONAL	,705	1,418
KEPEMILIKANMANAJERIAL	,967	1,034
DEWAN	,952	1,051
KOMISARISINDEPENDEN		
KOMITE AUDIT	,743	1,345
KUALITAS AUDIT	,897	1,115

a. Dependent Variable: CURENT ETR

Source: SPSS 21, data processed 2017

From the results of multicollinearity test above, shows that the regression model used for independent variables of research there is no problem multicollinearity. The model is free from multicollinearity problem because all variables are obtained tolerance value not less than 0,1 ( $> 0,1$ ) and have VIF value not more than 10 ( $< 10$ ).

## C. Heteroskedastisitas Test



Source: SPSS 21, data processed 2017

The result of heteroskedasticity test from figure 4.4 scatterplot chart shows spreading dots randomly and spread both above and below number 0 on Y axis. It can be concluded that there is no heteroskedasticity in the regression model.

## D. Autokorelasi Test

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson



1	,565 <sup>a</sup>	,319	,205	1,10487	1,807
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a. Predictors: (Constant), KOMITEAUDIT, KEPEMILIKANMANAJERIAL, KEPEMILIKANINSTITUSIONAL, DEWAN KOMISARISINDEPENDEN, KUALITASAUDIT

b. Dependent Variable: CURRENT ETR

Source: SPSS 21, data processed 2017

To get the conclusions of data freed from Autocorrelation is to find the value of du and dl which can be seen in Durbin Watson statistics table. Based on the Durbin-Watson table for k = 5 (Number of free variables) at n = 36 (amount of data), the value of du = 1.7987 and the result 4 - du = 2,2013. Thus it can be deduced then the model is free from autocorrelation because it is in the interval that is  $1.7987 < 1.807 < 2.2013$ .

### Hypothesis testing

#### • Multiple Linear Regression

MODEL	Beta Value	T value	Sig value	Conclusion
(Constant)	5,154	2,871	0,000	
INSTITUTIONAL OWNERSHIP	-,140	-,779	,442	hypothesis rejected
MANAGERIAL OWNERSHIP	-,450	-2,935	,006	hypothesis accepted
INDEPENDENT COMMISSIONERS BOARD	,196	1,270	,214	hypothesis rejected
AUDIT COMMITTEE	,172	,985	,332	hypothesis rejected
AUDIT QUALITY	,269	-2,197	,038	hypothesis rejected

Source: SPSS 21, data processed 2017

Based on the output in the table above, can be formulated multiple linear regression equation as follows:

$$\text{CURRENT ETR} = 5,154 - 0,199\text{KI} + 0,000\text{KM} + 0,336\text{DKI} + 0,371\text{KA} - 1,512\text{KUAD}$$

#### • Coefficient of Determination

Model Summary <sup>b</sup>					
Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,565 <sup>a</sup>	,319	,205	1,10487	1,807

a. Predictors: (Constant), INSTITUTIONAL OWNERSHIP, MANAGERIAL OWNERSHIP, DEPENDENT COMMISSIONERS BOARD, AUDIT COMMITTEE, AUDIT QUALITY

b. Dependent Variable: CURRENT ETR

Source: SPSS 21, data processed 2017

Based on the SPSS output from Table 4.6 it is known that the adjusted R-Square value is 0.205. This means that 20.5% of the tax avoidance variation can be explained by institutional ownership, managerial ownership, independent board of commissioners, audit committee, and audit quality while the remaining 79.5% (100% - 20.5%) is explained by factors other factors not included in the regression model.

• **Test F**

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	17,151	5	3,430	2,810	,034 <sup>b</sup>
	Residual	36,622	30	1,221		
	Total	53,773	35			

a. Dependent Variable: CURRENT ETR

b. Predictors: (Constant), INSTITUTIONAL OWNERSHIP, MANAGERIAL OWNERSHIP, DEPENDENT COMMISSIONERS BOARD, AUDIT COMMITTEE, AUDIT QUALITY

Source: SPSS 21, data processed 2017

Based on result of F-test in ANOVA table above shows that F arithmetic equal to 2,810 with significant level 0,034, while F table equal to 2,53 with significant 0,05. Because F count > F table (2,810 > 2,53) and its significance level less than 0,05 (0,034 < 0,05), it can be concluded that good corporate governance in this research simultaneously have a significant effect on tax avoidance.

• **Test T**

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1	(Constant)	5,154		2,871	,007
	KEPEMILIKANINSTITUSI ONAL	-,199	-,140	-,779	,442
	KEPEMILIKANMANAJERIAL	,000	-,450	-2,935	,006
	DEWAN KOMISARISINDEPENDEN	,336	,196	1,270	,214
	KOMITEAUDIT	,371	,172	,985	,332
	KUALITASAUDIT	-,151	-,269	-2,197	,038
		,2			

a. Dependent Variable: CURRENT ETR

Source: SPSS 21, data processed 2017

**Discussion of Research Results**

- a) The first hypothesis (H1) states that institutional ownership affects tax avoidance. The test results showed that the regression coefficient for institutional ownership of -0.199 and the

value of t arithmetic equal to -0.779 with significant 0.442. While the value of t table 2.04227 with significant value 0.05. This indicates that the value of t arithmetic is smaller than t table ( $0.779 < 2.04227$ ) and a significant level greater than 0.05 ( $0.442 > 0.05$ ). Thus the results indicate that institutional ownership has no effect on tax avoidance. These results indicate that the size of institutional ownership makes tax avoidance practices undertaken by firms can not be reduced. This is assumed because the existence of the institution has not been able to become an effective monitoring tool for the company. So as not to reduce conflicts of management interest and reduce the chances of tax evasion. In addition, institutional owners only think to maximize their welfare alone without concern for the image of the company so that they support all activities that can improve their welfare even though the activity is detrimental to the company.

- b) The second hypothesis (H2) states that managerial ownership affects tax avoidance. The test results show that the regression coefficient for managerial ownership is 0,000 and the value of t arithmetic is -2.935 with significant 0,006. The value of t arithmetic is greater than t table ( $2.935 > 2.04227$ ) and significant value smaller than 0.05 ( $0.006 < 0.05$ ). Then the results indicate that **managerial ownership variable has influence to tax avoidance**. These results indicate that the ownership of shares by management has been effective in monitoring the activities of the company and may affect management to avoid tax evasion. This may occur because the management has a stake in the company he will act cautiously in making decisions in order that the decision taken does not adversely affect his share, including the decision in applying tax avoidance that contains risks in the future.
- c) The third hypothesis (H3) states that the independent board of commissioners influence tax avoidance. The test results show that the regression coefficient for independent board of directors amounted to 0.336 and the value of t arithmetic of 1.270 with significant 0.214. The value of t arithmetic is smaller than t table ( $1.270 < 2.04227$ ) and significant value greater than 0.05 ( $0.214 > 0.05$ ). Then the result indicates that **independent board of commissioner variable has no significant effect on tax avoidance**. These results indicate that the greater the board of commissioners coming from outside the company the less effective their performance in supervision and control of the performance of directors or managers in the management of the company, it is suspected because of difficulty to coordinate among members of the board other than that other causes of the board of commissioners to be less effective is lack of knowledge of applicable tax laws that have not been able to reduce the level of corporate tax evasion.
- d) Fourth hypothesis (H4) states that audit committee influence tax avoidance. The test results show that the regression coefficient for the audit committee of 0.371 and the value of t arithmetic of 0.985 with significant 0.332. The value of t arithmetic is smaller than t table ( $0.985 < 2.04227$ ) and significant value greater than 0.05 ( $0.371 > 0.05$ ). Then the results indicate that **audit committee variable is not significant influence to tax avoidance**. These results indicate that the audit committee is unable to improve supervision on management, this is likely due to the authority of the audit committee that is still limited by the board of commissioners to enable the audit committee to assist management in tax evasion.
- e) The fifth hypothesis (H5) states that audit quality affects tax avoidance. The test results showed that the regression coefficient for audit quality of -1.512 and t value of -2.197 with significant 0.038. The value of t arithmetic is greater than t table ( $2.197 > 2.04227$ ) and significant value smaller than 0.05 ( $0.038 < 0.05$ ). This shows that **audit quality variable has significant influence to tax avoidance**. These results show that firms audited by KAP The Big Four financial statements will be more trusted by the tax authorities because the Big Four KAP has high integrity of work and always applies the rules. In addition, the

financial statements audited by KAP The Big Four are believed to be more qualified because it displays actual company value so as to have a lower fraud rate.

## **V. CONCLUSION**

Based on the results of data processing and analysis that has been done in the previous chapter, it can be concluded as follows:

1. Institutional ownership does not affect tax avoidance. These results indicate that there is an unidirectional relationship between institutional ownership to tax avoidance. This explains that the size of institutional ownership makes tax avoidance practices undertaken by the company can not be reduced. This is assumed because the existence of the institution has not been able to become an effective monitoring tool for the company. So as not to reduce conflicts of management interest and reduce the chances of tax evasion.
2. Managerial ownership has a significant influence on tax avoidance. This explains that the ownership of shares by management has been effective in monitoring the activities of the company and may affect the management to avoid tax avoidance.
3. Independent board of commissioners have no effect on tax avoidance. These results indicate that the larger the independent board of commissioners coming from outside the company, the less effectiveness of their performance in the supervision and control of the performance of directors or managers within the company. This is allegedly due to the difficulty of coordinating among members of the council and the lack of knowledge of applicable tax laws.
4. Audit Committee has no effect on tax avoidance. This can happen because the communication with the management company, board of commissioner and related parties do not go well so that the effectiveness of the audit committee is still lacking. In addition, it is also suspected that the audit committee's authority is also limited by the board of commissioners.
5. Audit quality has a significant effect on tax avoidance. Companies that are audited by the Big Four KAP will indeed be more likely to be trusted by the tax authorities because the KAP has a good reputation, and has high integrity. In addition, the financial statements audited by KAP The Big Four are believed to be more qualified because it displays actual company value so as to have a lower fraud rate.

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