The Effect of Foreign Stock Ownership, Quality of Internal Information, and CEO Publicity on Tax Avoidance

Annisa*, Ria Nelly Sari, Vince Ratnawati

Faculty of Economics and Business, Universitas Riau, Pekanbaru, Indonesia

*nnnisaaa17@gmail.com

Abstract

This research aims to examine and analyze the effect of foreign stock ownership, the quality of internal information, and CEO publicity towards tax avoidance and independent commissioner and audit committee as moderation variables. The research population were manufacture companies listed in Indonesia Stock Exchange periode 2016 until 2018, the number of samples were 192. The technique of taking the samples was by using purposive sampling method by taking samples determined based on certain criteria. Data analysis was conducted by using multiple linear regression model and moderation regression analysis with the assistance of SPSS 23.0 version software. The research results show that foreign stock ownership, the quality of internal information, and CEO publicity has significant effect towards tax avoidance. The result of regression test on moderation variable shows that independent commissioner and audit committee are not moderation variables.

Keywords: Tax avoidance, foreign stock ownership, the quality of internal information, CEO publicity, independent commissioner, audit committee

Introduction

In business practices, generally employers see that tax payments are a burden, so he will try to minimize the burden in order to optimize profits (Suandy, 2008: 5). Actually, the efficiency or reduction of tax burden can be done through tax avoidance. Tax avoidance can be interpreted as a transaction scheme aimed at minimizing the tax burden by utilizing the weaknesses (*loophole*) of a country's tax provisions (Darussalam and Septriadi, 2009). Tax avoidance is a complex and unique issue. On the one side, tax avoidance is permitted, but on the other side, tax avoidance is not desired by the government. This can be seen by the existence of various rules to prevent tax avoidance, one of which is transfer pricing. Companies in Asia mostly have a concentrated ownership structure, with controlling shareholders having a better position because controlling shareholders can better monitor and have access to information than non-controlling shareholders giving rise to the potential of controlling shareholders to be deeply involved in managing the company. (Dyanty et al., 2011). Controlling shareholders can be owned by individuals, governments or foreign parties. Timothy's research (2010) found that the higher the percentage of the largest shareholders, the greater part of company policy is determined by shareholders who have greater influence and can ensure that the policy can benefit them and choose an aggressive tax policy. This allows foreign ownership to influence tax avoidance efforts that will be carried out by the company.

If foreign ownership in a company is high, it is possible to make profit shifting or transfer pricing with affiliated companies. Thus there is a possibility for companies to carry out tax avoidance. This allows foreign ownership to influence tax avoidance efforts that will be made by the company. The results of the study by Salihu, Annuar, and Obid (2015), found that there was an influence between foreign investor ownership and tax avoidance in companies in Malaysia. These results indicate the possibility of multinational companies utilizing their international scale operations to avoid taxes in both the domicile countries and in the host country.In decision making, a company does not only rely on company leaders, but there are factors that help leaders in making these decisions, one of which is the quality of the company's internal information. To do tax avoidance, companies must develop a strategy by utilizing loopholes in the tax provisions. This scheme can be found if each part of the company that deals with tax exchange information. The quality of internal information in question is so that it fits the purpose of avoiding taxes, that is the quality of internal information in terms of accessibility, usability, reliability, accuracy, quantity, and relevance to the company's need to establish tax strategies. Thus, the quality of internal information of a company plays a very important role in the company to carry out tax avoidance. Signal theory suggests about how a company should provide a signal to users of financial statements. This signal is in the form of information about what has been done by management to realize the wishes of the owner as reflected in the company's financial statements. Financial statements can tell investors what accounts can indicate the company is conducting tax avoidance.

According to Gallemore and Labro (2013) without good information, opportunities for tax planning may not be visible, coordination of tax planning across all business segments or geographies may be very difficult or even impossible, and the risks taken in pursuing an aggressive tax strategy may be very high. The results of research conducted by Ghafoori and Rahmani (2016) which examines the impact of the company's internal information environment on tax avoidance, on companies listed on the Tehran Stock Exchange, is that the impact of the quality of internal information on tax avoidance is higher in companies where information plays a more role important as companies that are spread in various regions and companies with various businesses.The CEO (Chief Executive Officer) is the highest leader in the company who is authorized by the principal to regulate the operations of the company (Putri and Fadhlia, 2017). CEO with high public attention cares more about investor expectations, including when the company experiences difficulties. Research conducted by Malmendier and Tate (2009) shows that investors' expectations of company performance in the future are higher for CEOs who have high publicity. Failure to meet investor expectations can affect the public image and future career of the CEO itself, CEOs with higher publicity use tax avoidance to increase income. The results of the study by Duan, Ding, Hou, and Zhang (2017) show that CEOs with high publicity are more likely to use tax avoidance to increase reported profits and meet market performance expectations.

Another factor that can evaluate the relationship between foreign investor ownership, internal information quality, CEO publicity, and tax avoidance is corporate governance. Good corporate governance will minimize the occurrence of tax avoidance at the company. The implementation of corporate governance in this research is seen by the existence of independent commissioners and audit committees. The independent commissioner supervises and also directs the company based on established regulations, so as not to occur information asymmetry that often occurs between company owners (principals) and company management (agents). Independent commissioners mediate between company management and company owners in making decisions so that they do not breaking the law including determining the taxation strategy, which in this case is tax avoidance by the company. Independent commissioners are believed to be intermediaries between the two parties because they are objective and have little risk in internal conflicts.

With the existence of independent commissioners, it will make the company run in accordance with the rules that should be and the company will avoid tax violations as a result of misuse of internal information. Independent commissioners are not employees or people who deal directly with the organization, and do not represent shareholders, since their duty are to oversee the operations and performance of the company without any pressure from any party, including overseeing information on financial statements. This is important, because of the management's interest to do tax avoidance. When the CEO wants the company to carry out tax avoidance so that the company's performance remains good despite the difficulties, the independent commissioner as supervisor and advisor to the directors, one of whom is the CEO, can advise the CEO not to avoid tax evasion, because tax avoidance is a risky event that will harm the company itself such as payment of fines and sanctions that will later be imposed if it is proven that the company is guilty and worse is the decline in the company's reputation.

The existence of an audit committee will provide viewsabout the issues related to financial policy and company internal control. The role of the audit committee in assessing financial statements to maintain integrity and credibility is expected to be able to prevent tax avoidance actions conducted by the company. With the existence of an audit committee, the companies management is less to be influence by foreign investors who have interests that can disserve the company, such as tax avoidance. Based on agency theory, the higher the existence of an audit committee in a company, the better supervision of company activities and agency conflicts that occur because of management desire to avoid taxation can be minimized.

The audit committees that have the task tosupervise the use of company financial and financial reportarranged, able to restrain information that is not in accordance with the facts that occur. Companies that have an audit committee are able to emphasize the executive action in tax avoidance actions. The audit committees in conducting its functions have the task to review management activities including corporate taxation activities. If there are indications that there will be violations of the provisions of tax regulations such as strategies for tax avoidance, the audit committee can advise the CEO and also provide advice based on the applicable regulations. The functioning of the audit committee effectively enables better and supportive control of the company and financial reports also support good *corporate governance* (Andriyani, 2008).

Based on the background explained above, the problems that will be analyzed in this research are;

1. Is foreign share ownership influence the tax avoidance?
2. Does the quality of internal information increase influence the tax avoidance?
3. Does CEO publicity respect the tax avoidance?
4. Does independent commissioner moderate independent shareholdings towards tax avoidance?
5. Does independent commissioner moderate the influence of internal information quality towards tax avoidance?
6. Does independent commissionermoderate the influence of CEO publicity towards tax avoidance?
7. Does the audit committee moderate the role of foreign ownership towards tax avoidance? 8. Does the audit committee moderate the role of the quality of internal information towards tax avoidance?
9. Does the audit committee moderate the influence of CEO publicity towards tax avoidance?

Our research provides benefits to other researchers, company management, and tax authorities. This research results can add knowledge and ideas about tax avoidance that is viewed from foreign share ownership, the quality of internal information, and CEO publicity for other researchers. This research is expected to be used as consideration in looking at the factors that influence tax avoidance conducted by the company. For tax authorities, to solve tax avoidance problems by companies and able to provide input in making tax regulations or policies so that the potential of state revenue from the tax sector can be maximized.

Methods

The population in this research were all manufacturing companies registered on the Indonesia Stock Exchange for the period 2016-2018. The manufacturing companies selection in this research was because the company conducted complex business activities as a whole started from purchasing raw materials to processing raw materials into semi-finished products and finished products until the products are sold. So that in all business decisions, most are related to taxation aspects. Besides that the manufacturing company is the company with the largest number so that it was expected to be able to describe all companies. Manufacturing companies were also the largest contributors to tax compared to other business sectors (www.liputan6.com).

The sample selection with*purposive sampling* method was by taking a predetermined sample based on the purposes and objectives of the research with the following criteria:

1. Registered as manufacturing company in the IDX (2016-2018)
2. Companies that publish audited *annual report*per –31 December for 3years simultaneously from 2015 until 2018 and still carrying out economic activities until present
3. Companies that getprofit from the research year, which is 2016 until 2018,
4. Companies that have completed and relevant data needed in this research.

In this research the data used were in the form of financial statements and annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX). The data sources used were publication data in the form of annual reports and financial reports made by the Indonesia Stock Exchange (IDX).) through the site www.idx.co.id.

The measurement of each variable will be explained as follows:

Dependent Variables

The dependent variable in this researchwas tax avoidance as measured with *Cash Effective Tax Rate (CETR)*. The CETR formula is:

$$\text{CETR} = \frac{\text{Tax Payment}}{\text{Profit Before Tax}}$$

Independent Variables

The independent variables in this researchwere foreign share ownership, internal information quality, and CEO publicity. The formula for these three variables is:

$$\text{Foreign Ownership} = \frac{\text{Total Shares owned by Foreigners}}{\text{Total Outstanding shares}}$$

$\text{Quality of Internal Information} =$ the total of days from December 31 to the date of company's annual financial report publication on IDX

$$\text{Foreign Ownership} = \text{Using SVI on Google Trends}$$

Moderation Variables

Moderation variables in this researchwere independent commissioners and audit committees. The formulas for these two variables is:

$$\text{Independent Commissioner} = \frac{\Sigma \text{ Independent Commissioner Members}}{\Sigma \text{ Board of Commissioner Members}}$$

$$\text{Audit Committee} = \Sigma \text{ Audit Committee Members in a Company}$$

The data analysis method used for hypothesis testing was multiple linear regression analysis and moderation regression analysis withversion 23 SPSS Statistical tool. To provide an illustration of all the variables studied, it can be seen from descriptive statistics. Next the data normality test was conducted. The F statistic test is basically show whether all the independent variables included in the model have an influence towards the dependent variables (Ghozali, 2013: 98). Determination coefficient aimed to measure how far the ability of the model can explain the dependent variable variation. The t test aimed to show how far the influence of one explanatory variable or individually independent in explaining the dependent variable variations, with the significance level of 5%.

Results and Discussion

Descriptive Statistic Test

Table 1. Descriptive Statistics

	N	Min	Max	Mean	Std. Dev
CETR	192	.00	.97	.2855	.19135
KSA	192	.00	.98	.3373	.32267
KII	192	67.00	160.00	119.943	9.17610
PCEO	192	13.85	92.98	58.7854	17.91990
KA	192	.17	.83	.4132	.11059
KI	192	2.00	4.00	3.0208	.17600
Valid N (listwise)	192				

Data Normality Test Results

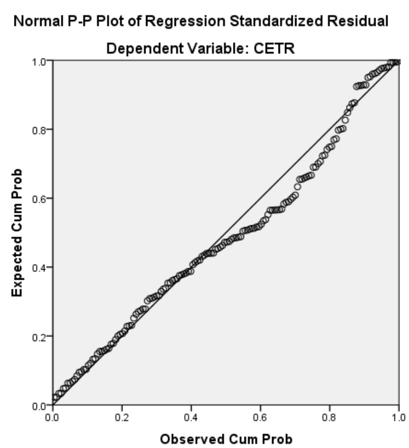


Figure 1. Results Test Normality with normal PP Plot graph

ased on the figure above, it can be seen that the data spread around the diagonal line and follow the direction of diagonal lines on graph P-plot, the conclusion of the regression model to required normality assumptions.

The Multicollinearity Test Result

Table 2 . The Value ofMulticollinearity Tolerance and VIF

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.691	.314		2.197	.029		
	KSA	.094	.043	.159	2.204	.029	.961	1.041
	KII	.003	.001	.150	2.120	.035	.994	1.006
	PCEO	.002	.001	.153	2.163	.032	.997	1.003
	KI	.063	.123	.036	.512	.609	.991	1.009
	KA	-.040	.079	-.036	-.503	.615	.960	1.042

a. Dependent Variable: CETR

Results calculation *tolerance* to show no free variable which shows a *tolerance* value which less than 0.1, which means there is no correlation between independent variables. The calculation of the *Variance Inflation Factor* (VIF) value also shows the same point, with the VIF value for each independent variable value is 1. So there are no independent variables that have a VIF value of more than 10. If the VIF value is <10, it can be concluded that data has no symptoms of multicollinearity.

The Autocorrelation Test Result

Table 3 . Value Durbin-Watson Autocorrelation

Model Summary[b]

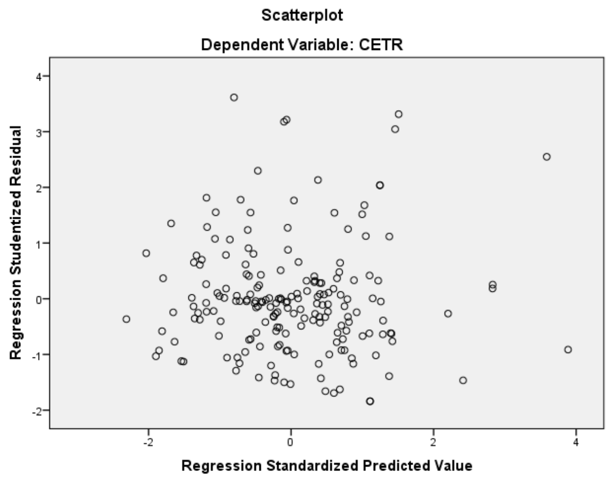
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.263[a]	.069	.044	.187069	2.005

a. Predictors: (Constant), KA, KII, PCEO, KI, KSA
b. Dependent Variable: CETR

Results test of autocorrelation obtained d value (Durbin-Watson) in this regression model of 2.005 and it is located between dU and 4-dU = 1.83 < 2.00 < 2.17. The reason is because the autocorrelation test value is located between dU and (4-dU) means no autocorrelation .

The Heterocedasticity Test Results

The heterocedasticitycould detected with pattern namely *scatterplot* . Result test of heterocedasticity can seen on picture:



It could be seen that dots spread above and below the Y axis , then with thus could concluded that regression modelin research this free from heterocedasticity.

The Significance Simultaneous (Test F) test Results

Table 4. Test Results Fstatistics

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.484	5	.097	2.768	.019[b]
	Residual	6.509	186	.035		
	Total	6.993	191			

a. Dependent Variable: CETR
b. Predictors: (Constant), KA, KII, PCEO, KI, KSA

Based on table above, it could be seen that in testing regression multiple to show F count results as big as 2 , 768 with level 0.0 significance 19atau below 0.05, it can be concluded that foreign share ownership (KSA), internal information quality (KII), publicity CEO (PCEO), independent commissioner (KI), and audit committee (KA) simultaneously influence the tax avoidance.

The Coefficient Determination (R2) Test Results

Table 5 Results Test Coefficient Determination (R2)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.263[a]	.069	.044	.187069	2.005

a. Predictors: (Constant), KA, KII, PCEO, KI, KSA
b. Dependent Variable: CETR

Based on results test of coefficient detemination above , the R2 (R Square) value is 6, 9 % which shows that avoidance taxinfluenced by variable foreign share ownership, internal information quality, CEO publicity, independent commissioners, and audit committees.

The rest at 93.1 % is affected by other variables that haven't been examined inresearch this .

Hypotheses 1,2 and 3

Table 6. Results T test (Test Partial)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.601	.183		3.281	.001
	KSA	.090	.042	.152	2.154	.032
	KII	.003	.001	.152	2.161	.032
	PCEO	.002	.001	.153	2.167	.032

a. Dependent Variable: CETR

Hypotheses 4,5,6,7,8, and 9. Analysis Regression Moderation Results

Table 7. Results AnalysisRegression Moderation

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.691	.314		2.197	.029
	KSA	.094	.043	.159	2.204	.029
	KII	.003	.001	.150	2.120	.035
	PCEO	.002	.001	.153	2.163	.032
	KI	.063	.123	.036	.512	.609
	KA	-.040	.079	-.036	-.503	.615

a. Dependent Variable: CETR

Discussion

The effect of foreign share ownership on tax avoidance (H_1**)**

From the partial test results obtained a significance value of 0.32 <α 0.05, and t_{count} 2.154> 1.973 t_{table} . Thus the hypothesis (H_1) is accepted which means foreign share ownership has an effect on tax avoidance. Foreign investors who have stock in a company in Indonesia are likely to own stocks in companies outside Indonesia, so that it is potentially inter-company to conduct transfer pricing, which is a gap for tax avoidance, this strengthened with results research conducted Salihu, Annuar , and Obid (2015) proves that there is a significant influence between ownership stock foreign and avoidance tax.

The effect of quality of internal information of tax avoidance (H_2)

From the partial test results obtained a significance value of 0.032 <α 0.05 and t_{count} 2.161> 1.973 t_{table} . Thus the hypothesis (H_2) is accepted, which means the quality of internal information has an effect on tax avoidance.

The more quality information that occurs within the company, means that the company's internal information flow has been well integrated, thus a tax avoidance strategy can be implemented. Companies with high internal information quality are more effective in the process of tax documentation, so it is easier to identify transactions that have tax profits, so that the company's strategy to carry out tax avoidance is carried out. This is reinforced by the results of research conducted by Ghafoori and Rahmani (2016), which found that the results of the quality of internal information had an effect on corporate tax avoidance listed on the Teheran Stock Exchange.

The effect of CEO publicity on tax avoidance (H_3)

From the partial test results obtained a significance value of 0.032 <α 0.05 and t_{count} 2.167> 1.973 t_{table} . Thus the hypothesis (H_3) is accepted, which means CEO publicity has an effect on tax avoidance. CEO with high levels of publicity care more about investor expectations. When a company experiences difficulties, such as declining profits or losses, a CEO must be able to overcome this before it occurs if it will not have an impact on the image and future career, one of which is through the company's tax avoidance policy. This is confirmed by the results of research conducted by Duan, Ding, Hou, and Zhang (2017), which shows that CEOs with high publicity are more likely to use tax avoidance to increase reported profits and meet market performance expectations.

The Influence of Independent Commissioners in Moderating Foreign Ownership of Tax Avoidance (H_4)

From the partial test results obtained a significance value of 0.361> α 0.05 and $t_{arithmetic}$ 0.915 <1.973 t_{table} . Thus the hypothesis (H_4) is rejected, which means that the independent commissioners moderated the effect of foreign share ownership on tax avoidance. The results of this test mean that independent commissioners are not variables that are able to strengthen or weaken the influence of foreign share ownership on tax avoidance. This is because not all members of the independent board of commissioners can demonstrate independence so that the oversight function does not work well and has an impact on the lack of supervision of management in conducting *tax avoidance* and the ability of independent commissioners to monitor the disclosure process and the provision of information will be limited if affiliated parties are there ar/e companies that dominate and can control the independent board as a whole, which in turn hinders the supervision process carried out by independent commissioners, such as being less responsive to the presence or absence of tax avoidance or aggressive tax actions in the company (Fadhilah, 2014).

The Effect of Independent Commissioners in Moderating the Quality of Internal Information Against Tax Avoidance(H_5)

From the results of the partial test the significance value is 0.615> α 0.05 and t_{count} 0.504 <1.973 t_{table} Thus the hypothesis (H_5) is rejected, which means that independent commissioners moderate the effect of internal information quality on tax avoidance. This test means that independent commissioners are not variables that can strengthen or weaken the influence of internal information quality on tax avoidance. Large or small proportions independent commissioners do not affect corporate tax avoidance measures. This happens because the independent commissioner is not maximal in carrying out his duties and also oversees the management of the company. The existence of an independent board of commissioners in the company has been required by regulations, but the board of commissioners may not participate in taking operational decisions of the company. Sylvia and Sidharta (2005) in Yulia (2016) stated that the appointment of an independent board of commissioners by the company might only be done to fulfill regulations but it was not intended to uphold *Good Corporate Governance* (GCG) in company.

The Effect of Independent Commissioners in Moderating CEO Publicity to the Tax Avoidance (H_6)

The partial test results a significance value of 0,014 < α 0,05 with $t_{calculated}$ 2,493 > 1,973 t_{table}. It means the hypothesis (H6) is accepted, which means the independent commissioner moderates the effect of foreign ownership on tax avoidance which is received. The result of the test means that the more independent commissioners council in the company, the better the management of a company, thus the tendency to avoid tax is decreasing. The more the attendance of independent commissioners, the more careful the supervision of management will be. The tight supervision will impact the management to be more careful and transparent in managing the company to minimize tax avoidance practices (Diantari and Ulupui, 2016).

The Effect of Audit Committee in Moderating Foreign Ownership to the Tax Avoidance (H_7)

The partial test results a significance value of 0.157 > α 0.05 and $t_{calculated}$ 1.421 < 1.973 t_{table}. Thus the hypothesis (H7) is rejected, which means the audit committee moderates the effect of foreign ownership on tax avoidance is rejected. The result of the test means that the audit committee is not a variable which can strengthens or weakens the relation of foreign ownership to the tax avoidance. The tendency of a company to avoid tax is not from the members of audit committee but by the performance of the audit committee in reviewing the company's financial information, although the role of the audit committee has not been effective in reviewing corporate tax avoidance actions. Beside, the inability of the audit committee to moderate the effect of foreign ownership on tax avoidance is caused by the inability of the audit committee in carrying out the duty in supervising the company's internal control structure and monitoring the oversight process which is done by the internal audit, so the tax avoidance practices which is done by certain parties cannot be detected by the audit committee. The existence of audit committeee in the company cannot detect the company's management in managing transactions which is related to foreign ownership of the company which later will give a low tax burden (Vidiyanti, 2017).

The Effect of the Audit Committee in Moderating the Quality of Internal Information to the Tax Avoidance (H_8)

The partial test results a significance value of 0.979> α 0.05 and $t_{calculated}$ 0.027 <1.973 t_{table}. Thus the hypothesis (H_8) is rejected, which means that the audit committee moderates the effect of the quality of internal information on tax avoidance is rejected.The test result means that the audit committee is not a variable which can strengthen or weaken the effect of the quality of internal information on tax avoidance. This is because the audit committee in the company is only limited to fulfill the regulations of the Financial Services Authority Regulation.The existence of audit committee in a company cannot influence the company's management in utilizing the quality internal information to run tax avoidance strategies. The audit committee in carrying out its duty, such as monitoring and providing ineffective suggestions, cannot influence in the company’s tax avoidance.As it is known, a company is a body with various parts which are expected to cooperate and support each other in order to encourage the audit committee’s perforance as the company's financial supervisor, however the communication of the audit committee with company management, commissioner councils, and the related stakeholders do not run smoothly so the effectiveness of audit committees is still low (Reza, 2012).

The Effect of Audit Committee in Moderating CEO Publicity Towards Tax Avoidance (H9)

From the result of partial test, it obtained significance value in the amount of 0,200 > α 0,05 and t_{count} 1,287 < 1,973 $t_{table.}$ Thus hypothesis (H9) is rejected, which means audit committee moderating the effect of foreign stock ownership towards tax avoidance is rejected. This test result has meaning that audit committee is not a variable which strenghens or weakens the correlation between CEO publicity and tax avoidance. Audit committee is formed to assist the board of commissioners which functions in giving point of view towards financial problem policy, accounting, and internal control which probably just made as consideration and it cannot influence company behavior. Taking decision is still on the hand of company management itself which one of them is the company leader or CEO included in taking tax decision. The management action, one of them is CEO, can be explained in Theory of

Reasoned Action (TRA). TRA explains that company behavior towards taking tax decision is based on the willingness and desire of the menagement to do action which is considered profitable until the decision taken by the management party is not influenced by audit committee point of view towards the problem faced by the company (Utari and Supadmi, 2017).

Conclusions

1. The result of hypothesis test H1 shows that there is effect of foreign stock ownership towards tax avoidance.
2. The result of hypothesis test H2 shows that there is effect of the quality of internal information towards tax avoidance.
3. The result of hypothesis test H3 shows that there is effect of CEO publicity towards tax avoidance.
4. The result of hypothesis test H4 shows that independent commissioner is not capable of strengthening or weakening the effect of foreign stock ownership towards tax avoidance.
5. The result of hypothesis test H5 shows that independent commissioner is not capable of strengthening or weakening the effect of internal information quality towards tax avoidance.
6. The result of hypothesis test H6 shows that independent commissioner is capable of weakening CEO publicity towards tax avoidance.
7. The result of hypothesis test H7 shows that audit committee is not capable of strengthening or weakening the effect of foreign stock ownership towards tax avoidance.
8. The result of hypothesis test H8 shows that audit committee is not capable of strengthening or weakening the quality of internal information towards tax avoidance.
9. The result of hypothesis test H9 shows that audit committee is not capable of strengthening or weakening the effect of CEO publicity towards tax avoidance.

Suggestions

1. Population selection, samples, and year of research need to be increased.
2. Future researcher can add more independent variables.

It is also possible to use another measurement model for tax avoidance.

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