THE INFLUENCE OF CORPORATE GOVERNANCE MECHANISMS, CORPORATE SOCIAL RESPONSIBILITY, FIRM SIZE AND LEVERAGE TOWARDS TAX AVOIDANCE (Study in Manufacturing Companies Listed On Indonesia Stock Exchange of Years 2015-2017)

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Abstract

This research aimed to test the influence of Gorporate Governance Mechanisms, Corporate Social Responsibility, Firm Size and Leverage towards tax avoidance. The population in this research is manufacturing companies listed on Indonesian Stock Exchange of years 2015-2017. This study used 108 companies as the sample selected by purposive sampling method. The data for this research was collected from several sources such as annual reports and the summary of financial statement of the sample companies, obtained from the database of Indonesian Stock Exchange and *www.idx.co.id*. Multiple regression analysis is employed to test the hypotheses. The result show that institutional ownership, proportion of independent commisioners, audit quality, audit committee, corporate social responsibility, and leverage has positive effect on tax avoidance, while firm size has negative effect on tax avoidance.

Keywords: *Corporate Governance Mechanism, Corporate Social Responsibility, Firm Size, Leverage*

Introduction

In many countries, including Indonesia, tax is one of the main sources of state revenues. The Ministry of Finance of the Republic of Indonesia stated that in 2016 the largest portion of the country state revenue came from taxes, which amounted to 84.96%. Unfortunately, Indonesia's tax revenue is still not optimal, this can be seen from it's average tax ratio for the past five years, which is only around 11% (Organization for Economic Co-operation and Development, 2019), where this figure is below the target set by the government in the State Budget (APBN) which is 13.11%.

The low level of tax revenue is caused by many tax avoidance practices carried out by taxpayers (Badertscher et al, 2019). Tax avoidance is a way to avoid tax legally under the regulation of the Taxation Law. Sari (2014) explains that legal tax avoidance is not prohibited, although it often gets an unfavorable response. With the practice of tax avoidance, the state will lose a significant amount of tax revenue (Lolana & Dwimulyani, 2019). Maharani and Suardana (2014), and Dewi and Jati (2014) found that aspects of corporate governance in the form of institutional ownership has a negative effect on tax avoidance.

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These results were not in line with Alfajri et al. (2016) and Feranika (2016) who found that institutional ownership has a positive effect on tax avoidance. Furthermore, Maharani and Suardana (2014) stated that the proportion of independent board of commissioners has a negative effect on tax avoidance. However, the results of Alfajri's research (2016) and Handayani, Aris and Mujiyati (2015) showed that the proportion of independent commissioners has a positive effect on tax avoidance. Then, Sandy and Lukviarman (2015), Rahmawati and Agusti (2016) showed that audit quality has a negative effect on tax avoidance. This research is contrary to research conducted by Handayani, Aris and Mujiyati (2015), Fadilah (2014) that audit quality has a positive effect on tax avoidance. Finally, in regards of the audit committee, researches conducted by Kurniasih and Sari (2013); Sandy and Lukviarman (2015) shows that the audit committee has a negative effect on tax avoidance. While the result of the research done by Alfajri et al (2016) and Fadilah (2014) shows that audit committee had a positive effect on tax avoidance.

Corporate Social Responsibility might also have an influence on tax avoidance. Stakeholder theory explains the importance of implementing CSR as a form of accountability to stakeholders, which is expected to minimize tax avoidance. This is because if a company that implements CSR is aggressive towards taxes, it can cause a loss of reputation in the eyes of stakeholders. Research on CSR and tax avoidance held by Muzakki and Darsono (2015), showed that CSR has a negative effect on tax avoidance. While Rahmawati et al (2016), Dwilopa and Jatmiko (2016) found that CSR has a positive effect on tax avoidance.

In addition to the issues of corporate governance and CSR, there are several other factors that might influence the practice of tax avoidance, two of them are firm size and leverage. Kurniasih and Sari (2013) and Sukartha (2015) said that firm size has a negative effect on tax avoidance. This result was not in line with research conducted by Saifudin and Yunanda (2016) which stated that firm size has a positive effect on tax avoidance. While research on leverage, the ratio of the amount of debt owned by a company for asset purchases, which was conducted by Saifudin and Yunanda (2016), Rachmitasari (2015), Saputra (2017) states that leverage has a positive effect on tax avoidance. Then there is a contradictory study, one from Kurniasih and Sari (2013) which states that leverage has a negative effect on tax avoidance.

Based on the results of previous studies, it can be seen that factors that influence tax avoidance include aspects of corporate governance, CSR, firm size, and leverage. However, the results of the influence of these factors on tax avoidance are still vastly diverse. Therefore, this study tries to give an empirical evidence about the influence of CG, CSR, firm size, and leverage on tax avoidance which is done by improving the method of previous research and increasing the years of observation.

Research Objectives

This study is conducted to test and empirically prove whether Corporate Governance (which in this study is measured by institutional ownership, proportion of the independent board of commissioners, audit quality and audit committee), corporate social responsibility (CSR), firm size and leverage affect tax avoidance. In order to meet this objective, we formulate the hypothesis as follows:

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

H_2: The proportion of Independent Commissioners has a negative effect on tax avoidance.

H_3: Audit quality has a negative effect on tax avoidance.

H_4: Audit Committee has a negative effect on tax avoidance.

H_5: Corporate Social Responsibility has a negative effect on tax avoidance

H_6: Firm size has a positive effect on tax avoidance

H7: Leverage has a positive effect on tax avoidance.

Research Methodology

The object of this research is Indonesia's manufacturing companies. The sample used is manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2015-2017. The technique used to determine the sample was by purposive sampling, in which we obtained 108 manufacturing companies that fit the criteria. In this study, the data collection technique used was the method of documentation by collecting all secondary data and all information used to solve problems in research. The retrieval of the data was in the form of financial reports on the Indonesia Stock Exchange's website pages, www.idx.co.id, or by downloading the data needed on the company's website that will be used as a research sample.

The independent variables for this study are institutional ownership, proportion of the independent board of commissioners, audit quality, audit committee, corporate social responsibility (CSR), firm size and leverage while the dependent variable is tax avoidance, which in this study, were measured using the company's ETR (effective tax rate), which is cash spent on tax divided by profit before tax (Budiman, 2012). Institutional ownership is the ownership of shares owned by institutions such as insurance, banks, investment companies and other association ownership (Tarjo, 2008). To measure institutional ownership in this study, we used the percentage of the number of shares needed by the total number of shares offered. An Independent Commissioner is someone who does not have a cooperative relationship with the owner of the controlling company, does not have a cooperative relationship with the head of the company or the commissioner and does not have a position as a director of a company concerned with the owner's company according to regulations issued by the IDX (Pohan 2008). Independent commissioners in this study were measured by the ratio of independent commissioners to the total number of commissioners.

Audit quality is any possibility that can occur when the auditor audits the client's financial statements and finds violations or errors, and reports them in the audit financial statements (DeAngelo, 1981). Audit quality in this study was measured using a dummy variable, in which the company audited by The Big Four KAP was given number 1 while the company audited by a non-Big Four KAP was given number 0. Audit committee, according to Pohan (2008), is a group of people of at least three people who have competence in the accounting and financial fields within the company. The audit committee in the company is chosen independently and must be independent in the company. Audit committee in this study was measured

using a dummy variable where companies that have an audit committee was given number 1 and those who don’t was given number 0.

Corporate Social Responsibility (CSR) is a concept and action of a company to minimize the existence of negative impacts and maximize the positive impact of its operations on all stakeholders in the economic, social and environmental sphere in order to achieve goals for sustainable development. CSR measurements use the indicators in the Global Reporting Initiative G.4 (GRI G.4) that uses the checklist method. There are 91 indicators, namely 9 economic indicators, 34 environmental indicators, 16 indicators of labor practices and work comfort, 12 human rights indicators, 11 community indicators, and 9 indicators of product responsibility. Company size is a scale that can classify companies in various ways, for example the size of total assets, the number of sales, the number of workers, and others (Suwito & Herawaty 2012). The size of the company in this study uses the ratio of total assets to the GDP price index. According to Agus (2002) leverage is the use of assets and sources of funds by companies that have fixed costs (fixed costs) with a view to increasing the potential returns of shareholders. Leverage in this study was measured by the total debt to assets ratio.

Hypothesis testing is done using multiple regression analysis to test the effect of corporate governance, corporate social responsibility, company size and leverage to tax avoidance. Before testing the hypothesis, the classic assumption test is first performed consisting of tests of normality, multicollinearity, heteroscedasticity and autocorrelation. The regression equation for this study is :

$$TA = \alpha + \beta_1 CG + \beta_2 CSR + \beta_3 UP + \beta_4 Lev + e$$

Result

Before testing the hypothesis, we performed the classic assumption test consisting of tests of normality, multicollinearity, heteroscedasticity and autocorrelation. The result of the normality test using the Kolmogorov Smirnov test found that the value of sig is equal to 0.201> alpha (0.05) which means that the data is normally distributed. Next, heteroscedasticity test with the Glesjer test showed that the significance value is greater than alpha 0.05 for all variables, this means that the regression model is not affected by heteroscedasticity or the residual variance is homogeneous. Furthermore, the results of multicollinearity test through tolerance values on all independent variables were more than 0.1 and for the VIF value were all less than 10. Thus it can be concluded that there is no multicollinearity between each independent variable. Finally, the results of the autocorrelation test done by using Durbin Watson (DW) test found that the dU value is 1.7637 and the dW value is 1.784 so it meet the principle of dU <dW <4-dU that is 1.7637 <1.784 <2.2363. It can be concluded that the data meets the criteria and no autocorrelation occurs. As all the classical assumption test results were met, the hypothesis testing can be done.

Table 1 Result of Hypothesis Test

Variable	Code	Direction	Coefficient	t value	Sig.
Institutional Ownership	H_1	+	-.005	-.149	.882
The Proportion of Independent Commissioners	H_2	+	-.050	-1.039	.301
Audit quality	H_3	+	.025	.820	.414
Audit Committee	H_4	+	.048	1.564	.121
CSR	H_5	+	.071	1.294	.199
Firm Size	H_6	-	-.005	-1.261	.210
Leverage	H_7	+	.127	3.431	.001

Level of significance 0.05

Dependent Variable: Tax Avoidance

Source: Output SPSS 2018

Table 1 presents the results of hypothesis testing from this research. Based on Table 1 it can be seen that the variable of institutional ownership has a significance value of 0.882> 0.05 with a regression coefficient of -0.005, it means H1 is not supported. Based on the above results it can be concluded that institutional ownership has a positive effect on tax avoidance. The variable proportion of independent board of commissioners has a significance value of 0.301> 0.05 with a regression coefficient of -0.050, then H2 is not supported. Based on the above results it can be concluded that the proportion of independent commissioners has a positive effect on tax avoidance. Audit quality variable has a significance value of 0.414> 0.05 with a regression coefficient of 0.025. H3 is not supported. Based on that results it can be concluded that audit quality has a positive effect on tax avoidance.

The fourth variable, audit committee, has a significance value of 0.121> 0.05 with a regression coefficient of 0.048, H4 is not supported. Based on that results it can be concluded that the audit committee has a positive effect on tax avoidance. The CSR variable has a significance value of 0.199> 0.05 with a regression coefficient of 0.071, H5 is not supported. Based on the above results it can be concluded that CSR has a positive effect on tax avoidance. The firm size variable has a significance value of 0.210> 0.05 with a regression coefficient of -0.005, H6 is not supported. Based on the above results it can be concluded that firm size has a negative effect on tax avoidance. Finally, the leverage variable has a significance value of 0.001 <0.05 with a regression coefficient of 0.127, H7 is supported. Based on the above results it can be concluded that leverage has a positive effect on tax avoidance.

Conclusion and Discussion

The purpose of this research is to find out the effect of Institutional Ownership, Proportion of Independent Board of Commissioners, Audit Quality, Audit Committee, CSR, Firm Size, and Leverage on tax avoidance of manufacturing companies listed on the Indonesia Stock Exchange. The result of this research shows that only one hypothesis is supported, which is leverage has a positive effect on tax avoidance. The results of this study are in line with research by Saifudin and Yunanda (2016), Rachmitasari (2015) and Saputra (2017) which state that leverage has a positive effect on tax avoidance.

Leverage is a ratio that measures how far a company uses debt in financing. Leverage also illustrates the relationship between total assets and ordinary share capital or shows the use of debt to increase profits. The reason leverage has a positive effect on tax avoidance is because when a company has a high leverage value, then the debt financing used by the company is also higher. With the high amount of debt, it will cause an increase to the company's interest expense. Interest expense that arises will reduce the amount of the company's tax burden. Companies that have large debts, the debt burden that must be borne will also increase. The burden of the high debt will have an effect of decreasing the amount of tax that must be paid. Reducing the amount of tax provides a loophole for tax avoidance. Thus, the higher the leverage ratio will increase the practice of tax avoidance.

Recommendation

Based on the results of this research and discussion that has been done, the advice of researchers for further research is that they should use a longer period of time in measuring tax avoidance activities. In addition, this research is only conducted in manufacturing companies. We hoped that further researchers can conduct research on other listed companies that also have high tax avoidance level. Finally, the next researcher is expected to be able to add variables that are not yet included in this study such as ROA, profit and loss compensation, profitability and others.

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