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The Determinants of Tax Avoidance with Good Corporate Governance as A Moderating Variable

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ABSTRACT

The purpose of this study is to obtain empirical evidence of the impact of earnings management and corporate social responsibility on tax avoidance moderated by good corporate governance (ownership of independent committees, audit committees, and institutions). This study uses secondary data from the population of 49 mining companies listed on the Indonesia Stock Exchange (IDX) from 2016 to 2018. The sample selection method is a purposive sampling of 97 analysis units. The data analysis method moderating regression analysis in IBM SPSS version 17.0. As a result, earnings management has a positive effect on tax avoidance and corporate social responsibility has a negative effect on tax avoidance. Good corporate governance, represented by institutional ownership, can moderate (weaken) the impact of earnings management on tax avoidance. The conclusion of this study is that the application of more advanced earnings management improves tax avoidance practices, and more advanced management oversight by institutional owners reduces management opportunity activities and tax avoidance practices. Companies that have expressed their social responsibility pay taxes fairly and have a lower level of avoidance.

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INTRODUCTION

Tax is a very influential thing for state funding. Tax will be allocated to raise the standard of living and improve the lives of the people. However, in general, business entities tend to take action to reduce taxable income. One of the actions that can be taken is tax avoidance. Tax avoidance according to Pohan (2016) is an action which uses a certain method by taking advantage of the weakness (gray area) in the law.

Based on the statistical data, the number of tax avoidance in Indonesia can be said to be high. A survey from the FITRA agency in 2017 estimated that the tax avoidance rate reached Rp. 110 trillion annually, which is dominated by corporate taxpayers and 80 percent of which is dominated by mining companies in the mineral and coal sector as well as foreign companies (Himawan, 2017). Based on the data from the Ministry of Finance, the contribution of the tax ratio by the mining sector in 2016 was 3.9% with the national tax ratio reaching 10.4% (Katadata.co.id., 2019). This figure indicates that the too-low tax ratio explains the existence of high tax avoidance practices.

Previous research conducted by Armstrong et al. (2019); Kałdoński & Jewartowski (2019) find a negative relationship between earnings management and aggressive tax avoidance. Meanwhile, Pajriyansyah & Firmansyah (2016); Amidu et al. (2017); Darma et al. (2018) get positive results on the relationship between earnings management and tax avoidance. Research conducted by Lanis & Richardson (2013); Davis et al. (2016); Lin et al. (2017); Zeng (2018) prove that there is a positive relationship between corporate social responsibility disclosure and tax avoidance, that in areas with poor supporting institutions, companies that carry out CSR activities do not pay taxes fairly. CSR can be a cosmetic for companies to pursue goals and gain public attention. In contrast to the findings of Lanis & Richardson (2012); Januari & Suardikha (2019) based on the regression result, CSR has a negative relationship with tax avoidance.

The objective of this study is to analyze and describe the effect of earnings management, corporate social responsibility, earnings management moderated by good corporate governance, and CSR moderated by good corporate governance on tax avoidance. The ori-

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ginality of this study is by presenting good corporate governance as a moderating variable. The presence of corporate governance is a solution to overcome agency problems through optimal monitoring organized by independent commissioners, audit committees, and institutional ownership so as to minimize tax avoidance practices. Tandean & Winnie (2016) found that the number of members of the audit committee will affect the level of monitoring so that it will reduce tax avoidance measures. Alfina et al. (2018) found that monitoring from independent commissioners can reduce tax avoidance practices by companies. Mulyani et al. (2018) in their research found a negative relationship between institutional ownership and tax avoidance.

The practice of tax avoidance can be explained by agency theory where there is an agency relationship between principals and agents so that the agent is given the authority to make decisions in managing the company on behalf of the principal (Jensen & Meckling 1976). The delegation of authority creates information asymmetry in which the agent has more adequate information than the principal which makes the agent (management) is able to carry out opportunistic activities for personal interests. One of them is earnings management activities which are based on tax motivation. When the company is experiencing financial difficulties, management uses earnings management practices to increase or decrease company earnings which affects tax avoidance activities.

Another theory that forms the basis of the research theory is legitimacy theory where there is an assumption that the company will carry out its business activities in accordance with the norms and rules that apply to gain legitimacy from the community. Social responsibility disclosure is an effort that can be carried out by the company to build legitimacy from the community. Corporate social responsibility is allegedly used as a mask by the company to cover up fraudulent practices carried out by companies such as tax avoidance and as a transfer of issues so that they are not detected from the inspection which can later damage the good image that has been built.

According to Jensen & Meckling (1976), agency contractual relationships generally allow agency problems to arise. The agency problem arises due to information asymmetry in which the management is considered to have more adequate information than the principal so that the information is used by the manager to carry out opportunistic activities that can harm the principal. One of the opportunistic activities of managers is earnings management which is based on certain motivations, one of which is the motivation to avoid paying taxes. Managers manage their company's income with certain methods in order to report lower profits in order to pay less tax burden. The higher the earnings management carried out, the higher the tax avoidance activities in the company will be. It refers to the research of Pajriyansyah dan Firmansyah (2016); Amidu et. al. (2017); Darma et. al. (2018) which explain the positive effect of earnings management on tax avoidance.

H_1: Earnings management has a positive effect on tax avoidance

Legitimacy theory explains that the behavior carried out by the company is behavior that is in accordance with the norms so that it will affect the formation of community legitimacy. This legitimacy is built to maintain the company's good image in the eyes of the public. Social responsibility disclosure is an effort made by the company to establish legitimacy in society. As a result of CSR disclosure activities, the company's image will increase and the attention of stakeholders will be diverted from issues and fraudulent activities that may occur such as aggressive tax avoidance activities. The greater the company's efforts in disclosing corporate social responsibility, the higher the tax avoidance activities carried out by the company. Referring to research Davis et al. (2016); Lin et al. (2017); Zeng (2018) that there is a positive relationship between CSR disclosure and tax avoidance.

H_2: Corporate social responsibility has a positive effect on tax avoidance

Corporate governance can be explained by agency theory that in order to achieve corporate goals, the principals must carry out supervision. One of the parties capable of carrying out supervision is an independent commissioner who has the task of convincing the principal that the control system and audit system have been running well within the company. Finally, the supervisory activities of the independent commissioner can limit management from behaving opportunistically in terms of earnings management which in turn will minimize the practice of tax avoidance that can be done. Armstrong et al. (2015); Alfina et al. (2018) found a negative relationship between the board of independent commissioners with tax management.

H_3: Independent commissioners weaken the effect of earnings management on tax avoidance

The implementation of the duties and responsibilities of the audit committee is aimed at supporting the effectiveness of the obligations of the board of commissioners. The audit committee has an obligation to carry out supervision in internal control, financial reporting to comply with applicable regulations in order to protect the interests of investors (Rezaee, 2007). Audit committee members as independent parties and have experience and knowledge in the field of auditing are considered capable of detecting fraud in the company, especially opportunistic behavior management such as earnings management. An increasing number of audit committee members will affect the effectiveness of the supervision carried out so as to be able to limit management actions in carrying out opportunistic actions because of the motivation to minimize the tax burden owed. Companies with good audit committee supervision are less aggressive in carrying out tax avoidance practices (Richardson et al., 2013; Tandean & Winnie, 2016).

H_4: Audit committee weakens the effect of earnings management on tax avoidance

The institution that invests its shares in the company has the authority to carry out supervision. Institutional shareholders play an important role in increasing the independence of the board through close monitoring of management and encourage management to focus more on sustainable company performance rather than maximizing short-term profits (Rezaee, 2007). Monitoring management carried out by institutional shareholders will ultimately reduce management's opportunistic actions such as earnings management, where these actions are carried out with the aim of minimizing the tax burden they owe. The greater the monitoring carried out by institutional shareholders, the lower the company's aggressiveness in implementing tax avoidance. Khan et al. (2017); Mulyani et al. (2018) explained that the presence of institutional shareholders can monitor effectively decisions made by management.

H_5: Institutional ownership weakens the effect of earnings management on tax avoidance

The board of commissioners is in the highest position after the principal and is also responsible for the company. Some of the members of the board of commissioners must consist of a committee of independent directors who are involved in the supervisory function and have the responsibility of managing the day-today operations of the company (Rezaee, 2007). One of the supervisory activities carried out is to ensure the implementation of the principles of good corporate governance related to the principles of responsibility that have been implemented by the company and to ensure that the company is obedient to applicable laws. In addition, this supervision is carried out to ensure that managers do not present CSR information as desired. However, the CSR information is presented in accordance with the regulations of Article 74 of Law Number 40 regarding Limited Liability Companies so that no deviant information will be received by stakeholders and Deviant practices such as tax avoidance that utilize CSR information can be avoided. In the end, CSR disclosure activities monitored by independent commissioners will keep the company away from deviant actions such as aggressive tax avoidance. Mulyadi & Anwar (2015); Alfina et al. (2018) found a negative relationship between independent commissioners and tax avoidance.

H_6: Independent commissioners partially weaken the effect of corporate social responsibility on tax avoidance

Social responsibility disclosure will indirectly affect the image and views of stakeholders on the company, where the focus of stakeholders will be diverted from deviant activities that may be carried out by companies such as high tax avoidance activities. Therefore, a supervisory role is needed that can monitor the company's behavior in relation to CSR disclosure in accordance with the real activities carried out. The presence of the audit committee as an element of corporate governance is expected to be able to carry out supervision and evaluate its relation to the disclosure of corporate social responsibility reports.

The number of members of the audit committee will affect the effectiveness of supervision on CSR disclosure so that management will intervene to disclose CSR information in accordance with the real conditions of the company. In the end, the CSR information will show the actual condition of the company so that if the company carries out deviant activities such as aggressive tax avoidance, these activities will be able to be minimized. Referring to Sandy & Lukviarman (2015); Deslandes et al. (2019) that audit committee supervision is able to reduce the level of aggressive tax avoidance.

H_7: Audit committee partially weakens the effect of corporate social responsibility on tax avoidance

The principal's trust in financial reporting is related to the quality and transparency of company information, however, due to different motivations and information asymmetry, it is necessary for the principal to monitor management behavior. Institutional investors can intervene on operational performance to company commitment to environmental, social, and ethical issues (Rezaee, 2007). Therefore, institutional owners have the right to pressure management to present their CSR information in accordance with regulations, not merely for opportunistic management activities that can divert stakeholder views from deviant activities such as aggressive tax avoidance. This refers to the research of Khan et al. (2017); Ying et al. (2017) that supervision from the institution is able to limit the practice of tax avoidance.

H_8: Institutional ownership partially weakens the effect of corporate social responsibility on tax avoidance

RESEARCH METHODS

This study used a quantitative approach and research design of a hypothesis-testing study. The research data were secondary. The population of the research was 49 mining companies, listed on the Indonesia Stock Exchange (IDX) for the period 2016 – 2018. The sampling technique was a purposive sampling method with the number of data analysis units as many as 97 analysis units within 3 years of observation. Sampling criteria are presented in table 1. The operational definition of each research variable is shown in table 2.

The data collection technique was in the form of a documentary technique by downloading financial reports and sustainability reports (for those who publish) in the mining companies listed on the IDX website at www.idx.co.id or the company's official website. The analysis methods used descriptive statistics, classical assumption test, and moderate regression test. The significance level of research was 5% ($\alpha = 0.05$). The equation of the moderation regression line of the research on equation 1.

$$BTD = \alpha_0 + \beta_1 EM + \beta_2 CSR + \beta_3 KI + \beta_4 KA + \beta_5 KPI + \beta_6 |EM\text{-}KI| + \beta_7 |CSR\text{-}KI| + \beta_8 |EM\text{-}KA| + \beta_9 |CSR\text{-}KA| + \beta_{10} |EM\text{-}KPI| + \beta_{11} |CSR\text{-}KPI| + \varepsilon \quad (1)$$

Table 1. Sampling Criteria

No	Sample Criteria	Beyond Criteria	Included Criteria
1	Mining companies listed on the Indonesian Stock Exchange for the period 2016 - 2018		49
2	Mining companies that disclose annual reports during the 2016-2018 period	(7)	42
	Years of Observation		3
	Total data for the period 2016-2018		126
	Outlier	(29)	
	Total analysis units		97

Source: Research Data Processing Results, 2020

RESULTS AND DISCUSSIONS

Descriptive statistics are described by measuring the minimum, maximum, mean, and standard deviation values. Based on the research findings, the values of CSR, independent commissioners, audit committee, and institutional ownership have a mean greater than the standard deviation values (CSR= 0.1717>0.1354; KI= 40.26>9.74; KA= 3.00>0.50; KPI=59.10>22.95) which indicate that the data are well distributed. However, earnings management and tax avoidance have a smaller mean compared to the standard deviation (EM= 0.0795<0.1077; BTD= 0.0003<0.0317) which indicate that the variable data are not well distributed well.

The classical assumption test includes the normality test which aims to show whether the research data have been normally distributed. Based on the value of Kolmogrov Smirnov, it is obtained a significance value of 0.063 > 0.05, indicating that the research data are normally distributed. The multicollinearity test shows that the VIF values of all variables are below 10 and above 0.10 at the tolerance value so that the research model avoids multicollinearity symptoms. The autocorrelation test using Run Test gets sig value. of 0.185 which indicates that the study does not experience autocorrelation symptoms. The heteroscedasticity test using the park test, the value of each variable is more than 0.05 significance so that the research avoids heteroscedasticity symptoms.

Based on the research, it is known that the F count value is 4.166 and the significance value is 0.000, which means that simultaneously, the research variables have a significant effect on tax avoidance. The result of the coefficient of determination shows the R2 value of 0.350 or 35%. Research findings indicate that earnings management, corporate social responsibility, earnings management moderated by good corporate governance and corporate social responsibility moderated by good corporate governance can predict 35% tax avoidance. Meanwhile, 65% can be explained by variables outside the study. Referring to the moderation regression result, we get the research equation in equation 2 and a summary of the hypothesis testing result in table 3.

$$BTD = 0.000 + 0.008EM - 0.012CSR + 0.002KI + 0.007KA - 0.006\,KPI - 0.005\,|EM\text{-}KI| + 0.001\,|CSR\text{-}KI| + 0.001|EM\text{-}KA| + 0.000|CSR\text{-}KA| - 0.012|EM\text{-}KPI| + 0.013\,|CSR\text{-}KPI| \quad (2)$$

The Effect of Earnings Management on Tax Avoidance

The research finding proves that earnings management has a positive and significant effect on tax

Table 2. Operational Definition

Variables	Operational Definition	Measurement
Tax Avoidance (BTD)	Arrangement of a transaction to get a tax deduction (Brown, 2012).	BTD= (Accounting Profit - Taxable Income (Tax)/Total Assets (Frank et al., 2009)
Earnings Management (EM)	Valuation activities as well as certain transaction preparation in order to change financial statements to achieve certain objectives (Sulistyanto, 2008).	*discretionary accruals* (Model John Modified) (Amidu et al., 2017)
Corporate Social Responsibility (CSR)	The company's commitment to contribute to society and the environment (Solihin, 2015).	CSRIj= ∑Xyi/ni (Zeng, 2018)
Independent Commissioner (KI)	Independent Party that performs monitoring function on the obligations of the Board of Directors (Naja, 2007).	KI= (Independent Commissioner / Board of Commissioner) X 100% (Halioui et al., 2016)
Audit Committee (KA)	A committee that organizes audit supervision and evaluation (Naja, 2007) (Naja, 2007)	KA = Number of audit committee members (Tandean & Winnie, 2016)
Institutional Ownership (KPI)	The proportion of shares owned by the institution and affects the control of the company (Tandean & Winnie, 2016)	KPI = The percentage of the total company shares owned by institutions (Mulyani et al., 2018)

Source: Author Summary, 2020

Table 3. Summary of Hypothesis Testing Results

Hypothesis		Coefficient β	Sig.	Results
H_1	Earnings management has a positive effect on tax avoidance.	0.008	0.005	Accepted
H_2	Corporate social responsibility has a positive effect on tax avoidance.	-0.012	0.003	Rejected
H_3	Independent commissioner weakens the effect of earnings management on tax avoidance.	-0.005	0.180	Rejected
H_4	The audit committee weakens the effect of earnings management on tax avoidance.	0.001	0.760	Rejected
H_5	Institutional ownership weakens the effect of earnings management on tax avoidance.	-0.012	0.007	Accepted
H_6	Independent commissioner weakens the effect of corporate social responsibility on tax avoidance.	0.001	0.777	Rejected
H_7	The audit committee weakens the effect of corporate social responsibility on tax avoidance.	0.000	0.888	Rejected
H_8	Institutional ownership weakens the effect of corporate social responsibility on tax avoidance.	0.013	0.004	Rejected

Source: Research Data Processing Results, 2020

avoidance. The mean value of earnings management of 0.0795 shows that the positive value indicates an effort to increase company earnings. However, the value of which is close to 0 indicates that, in general, the practice of earnings management is not too high applied by mining companies. This finding is in line with the view of agency theory that due to the agency conflict that arises between principals and agents can give opportunities for the agent to behave opportunistically. The existence of regulatory motivation causes the management to conduct earnings management in order to minimize the amount of tax payable which is determined. The research result is relevant to the research of Amidu et. al. (2017); Septiadi et. al. (2017); and Pajriyansyah & Firmansyah (2016) which explain the positive relationship between earnings management and tax avoidance.

The Effect of Corporate Social Responsibility on Tax Avoidance

The research finding proves that the implementation of social responsibility disclosure in a company can negatively affect the implementation of tax avoidance practices. Based on the results of descriptive statistical data, it is known that the companies that have implemented corporate social responsibility have a relatively low level of tax avoidance. This is reflected by the low mean BTD which is close to 0. Meanwhile, the mean CSR disclosure is 0.1717, which means that most of the mining companies in Indonesia have disclosed their CSR activities well.

Referring to Article 74 of Law Number 40 concerning Limited Liability Companies, companies are considered to have the awareness to comply with laws and regulations so that the CSR Disclosure of mining companies is a mandatory element in the disclosure of their company information. Finally, the CSR disclosure is no longer carried out for society legitimacy, however, it is the responsibility of the company as a citizen who obeys the regulations. In the end, companies in order to become responsible citizens will comply with applicable laws such as paying their taxes fairly and not taking aggressive tax avoidance actions that are against the law. The research result is in line with the finding of Januari & Suardikha (2019) that the higher the corporate social responsibility, the lower the practice of tax avoidance.

The Effect of Earnings Management on Tax Avoidance moderated by Independent Commissioner

A large number of independent commissioners has no effect on the relationship between earnings management and tax avoidance. This finding is not able to verify Agency Theory in which the presence of independent commissioners in the structure of the board of commissioners has not been able to limit the behavior of managers to be opportunistic so that deviant activities, such as aggressive tax avoidance, can occur. Based on the descriptive statistical data, it is known that the mean value of independent commissioners in the mining companies reaches 40.26% where the presence of independent parties almost fulfills half the proportion of members of the board of commissioners. Therefore, it can be concluded that the size of the independent commissioner is not able to limit the opportunistic behavior of managers because the fulfillment of the number of independent commissioners is possible only a formality to comply with the regulations for the formation of the board of commissioners without considering the effectiveness of the supervision carried out. The research finding is not in accordance with the research result of Alfina et al. (2018); Mulyadi & Anwar (2015) that the implementation of supervision from independent commissioners is able to limit management in implementing tax avoidance practices in companies.

The Effect of Earnings Management on Tax Avoidance moderated by Audit Committee

The research finding proves that the audit committee is not proven to act as a moderating variable in

the relationship between earnings management and tax avoidance. The descriptive statistical data shows the mean number of audit committees is 3 people. This means that almost all mining companies in the object of observations have met the minimum criteria for the number of audit committees. However, this number cannot guarantee whether the audit committee is able to limit the opportunistic activities of managers because the effectiveness of the audit committee's supervision is emphasized on the performance carried out. The occurrence of the PT Timah fraud case on the 2015 financial statements reflects that the performance of the audit committee is less effective in limiting the opportunistic behavior of management. In the end, this opportunistic behavior may still be carried out and will have an impact on the implementation of aggressive tax avoidance. The finding is not in line with the research of Tandean & Winnie (2016); Richardson et al. (2013) that the presence of the audit committee will affect the effectiveness of supervision so as to minimize tax avoidance activities.

The Effect of Earnings Management on Tax Avoidance Moderated by Institutional Ownership

The research finding proves that institutional ownership has the ability to weaken the relationship between earnings management and tax avoidance. The presence of institutional shareholders provides a role for external parties to participate in monitoring the activities of the company and the policies taken by managers. Such monitoring management will ultimately limit opportunistic management actions such as earnings management so that tax avoidance can be minimized.

Based on the descriptive statistical data, the mean value of institutional ownership reaches 59.10% which indicates that the institution has a major role in conducting supervision over management performance. The research result is supported by agency theory that the presence of good corporate governance (institutional ownership) is a bridge to overcome agency problems between principals and agents. The finding of Khan et al. (2017) explains the relationship between institutional ownership and tax avoidance is a negative relationship. Mulyani et al. (2018) stated that the presence of institutional shareholders affects the effectiveness of the monitoring mechanism for management decisions.

The Effect of Corporate Social Responsibility on Tax Avoidance moderated by Independent Commissioner

The research result indicates that the presence of an independent commissioner on the board of commissioners does not have a significant effect on the disclosure of corporate social responsibility in a company. Based on Article 74 of Law Number 40 concerning Limited Liability Companies, CSR disclosure by mining companies is mandatory disclosure. Therefore, mining companies in Indonesia must disclose their CSR activities so that the number of independent commissioners on the board of commissioners does not determine whether the company will disclose its CSR activities which will later affect the implementation of tax avoidance. The research finding is not relevant to the previous research which states that independent commissioners are able to minimize the tax avoidance activities of a company (Mulyadi & Anwar, 2015; Alfina et al., 2018).

The Effect of Corporate Social Responsibility on Tax Avoidance moderated by Audit Committee

A large number of audit committees is not able to influence (weaken) the relationship between CSR and tax avoidance. Based on the result of descriptive statistical data processing, the mean value of audit committee members is 3 people. This means that almost all mining companies in Indonesia have complied with regulations regarding the minimum number of audit committee members. This finding indicates that many members of the audit committee are not able to guarantee the implementation of supervision over the disclosure of corporate social responsibility. This is due to the main task of the audit committee is to carry out evaluations of financial statements and internal control, so it is possible that the implementation of supervision over CSR is less than optimal. In addition, there is a party that also has a supervisory function and provides other considerations compared to the audit committee, namely the board of commissioners. The finding is not in line with the previous research where the audit committee is able to negatively affect the implementation of tax avoidance (Sandy & Lukviarman, 2015; Deslandes et al., 2019).

The Effect of Corporate Social Responsibility on Tax Avoidance moderated by Institutional Ownership

Based on the research result, it is known that the research hypothesis is rejected. However, the regression result shows that the presence of institutional ownership will weaken the negative relationship between CSR and tax avoidance. This means that with the shares owned by the institution, even though the company discloses CSR, there will still be tax avoidance. The possible cause of this is that CSR disclosure for mining companies is mandatory so that institutional shareholders tend to focus on company operations to obtain high returns. As a result, managers will try to provide those returns that come from high profits by doing aggressive tax avoidance. The research finding does not align with the findings of Khan et. al. (2017); Ying et. al. (2017) that the implementation of supervision from the institution is able to minimize the implementation of tax avoidance.

CONCLUSIONS

The research finding shows that the company's manipulative activities through earnings management practices will affect the company's aggressiveness in implementing tax avoidance. This study also obtains evidence that companies that have disclosed their social responsibility activities tend to be less aggressive in carrying out tax avoidance. Then, the implementation of supervision from institutional ownership is able to moderate the effect of earnings management on tax avoidance so that management's opportunistic activities

can be limited and minimize tax avoidance practices. Meanwhile, the audit committee and independent commissioners are unable to moderate the effect of earnings management on tax avoidance. In addition, institutional ownership, audit committees, and independent commissioners cannot moderate the effect of corporate social responsibility on tax avoidance. The moderating effect of the audit committee and the independent commissioner is not found in this study. Therefore, suggestions for further researchers can use the measurement of the effectiveness of the audit committee and independent commissioners such as the frequency of work meetings to determine the moderating effect of the elements of good corporate governance.

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