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The Effect of Good Corporate Governance and Profitability on Tax Avoidance

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ABSTRACT

This study aims to determine the magnitude of the influence of Good Corporate Governance and Profitability on Tax Avoidance. The method used in this research is quantitative with secondary data in the form of annual financial reports. The sampling technique used purposive sampling technique, obtained a total sample of 65 financial report data. The data analysis technique used in this research is multiple linear regression analysis technique. The results of this study indicate that independent commissioners have no effect on tax avoidance, audit committees have no effect on tax avoidance, and profitability has an effect on tax avoidance. This research can be used high influence or lecturers know the habits and characteristics of students.

Keywords: Good Corporate Governance, Profitability, Tax avoidance

1. INTRODUCTION

Taxes are one of the sources of state revenue that will be used to finance state expenditure, both routine expenditure and development expenditure (Erly Suandy, 2017: 1). Therefore, tax is one of the important phenomena that is always developing in Indonesia and must be managed properly and correctly. In its implementation, there are differences in interests between taxpayers and the government.

The Ministry of Finance recorded that all state tax revenues this year reached Rp. 1,231.87 trillion as of December 26 2021 or exceeding the target of the 2021 expenditure revenue budget (APBN), the figure is also above last year's realization of Rp. 1,069.98 trillion. This amount is equal to 100.19 percent of the target mandated in the 2021 APBN of Rp. 1,229.6 trillion. In the midst of the Covid-19 pandemic, when the economic recovery was still ongoing, it was able to reach the 100 percent target even before the year was closed, at least 138 tax service offices were recorded throughout the country that could melebihi target set in each office, meanwhile there are 7 DGT regional offices (kanwil) that can achieve the tax revenue target (CCN Indonesia, 2021).

Tax avoidance itself is a legal reduction effort that is carried out by optimally utilizing the provisions in the field of taxation such as exceptions and permitted deductions as well as the benefits of matters that have not been regulated and the weaknesses in the applicable tax regulations. (Syuhada et al., 2019). The company's motive for this practice is to seek to increase the profits expected by shareholders, and the implementation is carried out by the company's managers. The practice of tax avoidance opens opportunities for managers to act opportunistically (interested in their own gain) for the purpose of short-term gain which is likely to be detrimental to shareholders in the long term (Syuhada et al., 2019).

A company is expected not to practice tax avoidance is also required to implement corporate governance. By implementing this, it can minimize tax avoidance practices. Companies that

implement this mechanism are well structured and followed by the level of company compliance to fulfill tax obligations (Janrosl & Efriyenti, 2021). Another factor that influences the practice of tax avoidance is profitability. Profitability is a performance measure in describing the ability to generate profits during a certain period in a company (Janrosl & Efriyenti, 2021).

Profitability is proxied using the Return On Assets (ROA) proxy, which is able to reflect the ability to operate in earning profits. Apart from corporate governance and profitability, another factor that is predicted to influence the practice of tax avoidance is political connections. In today's era, the business world has a lot to do with politics, companies that have certain ways to connect politically and establish relationships with politicians. Under these conditions it is expected to be able to provide equal and mutually beneficial benefits for both parties. This phenomenon of different interests (agency problem) causes taxpayers to tend to minimize the amount of tax payments. Minimizing the amount of tax can be done in various ways, both for fulfilling tax purposes (lawful) and for violating tax regulations (unlawful).

Efforts to legally minimize tax payments are called Tax Avoidance. Phenomena related to tax collection in Indonesia show that revenue from the tax sector is very large. This revenue is used to increase the rate of growth and development of the country, so that it must be managed properly by the government or increased optimally so that growth and development of the country can run well. Thus the government hopes that the taxpayer community can comply in carrying out their tax obligations voluntarily and in accordance with applicable tax regulations. Evidence of the problems above reinforces the fact that tax avoidance will continue to occur because taxpayers who are experts in the field of taxation can take advantage of the loopholes in implementing a tax collection system based on a self-assessment system. Actually the actions of a tax avoidance can be influenced by the implementation of corporate governance (corporate governance) which can form a good and healthy performance system within the company, so that it can produce good output and comply with regulations (compliance theory). From the events above, it can be interpreted that company leaders or executives play an important role in decision making, one of which is related to maintaining management performance (profitability) which can influence tax avoidance or tax evasion actions.

Good Corporate Governance is a mechanism used to ensure that financial suppliers, for example shareholders and bondholders, from companies get returns from activities carried out by managers, or in other words how company financial suppliers exercise control over managers (Rahmawati, 2012; 175).

This research is important because of the phenomenon of tax avoidance practices that occur in banking companies. The rapid development of existing banking companies and the circulation of money in the world has made banking sector companies used as research samples. Based on these reviews, researchers are interested in conducting research entitled "The Effect of Good Corporate and Profitability on Tax Avoidance".

2. METHOD

This research is a research that uses a quantitative approach. Quantitative research is research that produces discoveries that can be achieved using statistical procedures or other methods of measurement (Sujarweni, 2016:06). The sampling technique used in this study was using Nonprobability Sampling, which is a data collection technique by not giving every element of the population an opportunity to be selected and sampled (Sugiyono, 2015). The nonprobability sampling technique used in this study is Incidental Sampling because it determines the sample based on coincidence (Sugiyono, 2015).

Population and Sample

In this study, the population used in this study is all banking companies listed on the Indonesia Stock Exchange from 2017-2021, totaling 43 banking companies. The sampling technique in this study was to use a purposive sampling technique with the aim of obtaining a sample according to certain criteria. In this study, the sample used in this research is a banking company listed on the Indonesia Stock Exchange, and the data used in this study is secondary data.

Data Types and Data Sources

In this study the type of data used is documentary data. Documentary data from this study are in the form of documents or archives of banking companies listed on the Indonesia Stock Exchange. The data source used is the secondary data source. Sources of data collected by researchers through other parties related to this research and can also be collected through existing archives at the research site.

Data analysis technique

The data analysis method used in this study is SPSS (Software Statistics Product For The Social Science). While the data analysis techniques in this study used descriptive statistical analysis.

Operational Definition and Variable Measurement

The following will explain the operational definitions of the variables that will be used in this study, namely:

a. Independent Board of Commissioners

The board of independent commissioners is measured using the percentage of independent commissioners to the total number of members of the board of commissioners in the company, as for the proportion of independent commissioners (Ningtiyas, 2014; 4), where the measurement is the number of independent commissioners divided by the number of members of the board of commissioners multiplied by one hundred percent.

$$KI = \frac{\text{Number of Independent Commissioners}}{\text{Number of Members of the Board of Commissioners}} \times 100\%$$

b. Audit Committee

The audit committee is a committee that works independently and professionally formed by the board of commissioners. As for the proportion of independent commissioners in (Ningtiyas, 2014; 4), where the measurement is seen from the number of audit committee meetings in one year.

$$KA = \text{Number of Audit Committee Meetings in One Year}$$

c. Profitability

Profitability is a ratio that describes a company's ability to generate finance (Werner R. Murhadi, 2015: 63), in which the measurement is profit before tax divided by total assets multiplied by one hundred percent.

d. Tax Avoidance

Tax avoidance (tax avoidance) is an attempt to reduce or even eliminate tax debts that must be paid by not violating existing tax laws (Erly Suandy, 2017; 8), where the measurement is tax payment divided by pre-tax profit.

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

3. RESULT AND DISCUSSION

a. Descriptive Statistics Test

Descriptive Statistics is a description of the characteristics of data originating from two samples of mean, median, mode, percentile, decile, quartile in the form of numbers or pictures or diagrams (Ghozali, 2018: 19).

Table 1. Descriptive statistical test

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Board of Commissioners (X1)	65	,33	,80	,5217	,11029
Audit Committee (X2)	65	5,00	28,00	11,7385	5,94842
Profitability (X3)	65	,02	,42	,1342	,11693
Tax Avoidance (Y)	65	,02	,64	,2262	,12866
Valid N (listwise)	65				

Source: SPSS Output Results (data processed, 2022)

b. Classic Assumption Test

This study uses multiple linear regression as a data analysis technique. This research is classified as explanatory research which aims to predict phenomena by testing variables. Before carrying out the regression test, it is necessary to carry out the Kalsilk assumption test first (Ghozali, 2018: 107).

c. Normality Test

The normality test is a statistical test performed to determine the normality distribution of data in a regression model. The regression model must be normally distributed. In this study, data normality testing was carried out using the Kolmogorov-Smirnov test (Ghozali, 2018: 30).

Table 2. Normality Test

Value	Description
Asymp. Sig. (2-tailed)	0,545

Source: SPSS Output Results (data processed, 2022)

d. Multinearity Test

The multicollinearity test serves to test whether the regression model found a correlation between independent (independent) variables (Ghozali, 2018: 107).

Table 3. Multinearity Test

Variable	Tolerance	VIF	Note
Independent Commissioner(X1)	0,983	1,017	Non-Multikolinearitas
Audit Committee(X2)	0,983	1,017	Non-Multikolinearitas
Profitability(X3)	0,975	1,026	Non-Multikolinearitas

Source: SPSS Output Results (data processed, 2022)

e. Autocorrelation Test

The autocorrelation test functions to test whether in the linear regression model there is a correlation between data. A good regression model is one that is free from autocorrelation symptoms (Ghozali, 2018: 111).

Table 4. Autocorrelation Test

Variable	DL	DU	DW	Note
Independent Commissioner(X1)	1.5035	1.6960	2.090	Non – Autokorelasi
Audit Committee(X2)	1.5035	1.6960	2.090	Non – Autokorelasi
Profitability(X3)	1.5035	1.6960	2.090	Non – Autokorelasi

Source: SPSS Output Results (data processed, 2022)

f. Heteroscedasticity Test

The heteroscedasticity test serves to test whether in a regression model there is an inequality of variance from the residuals of one observation to another. Ghozali (2013; 139).

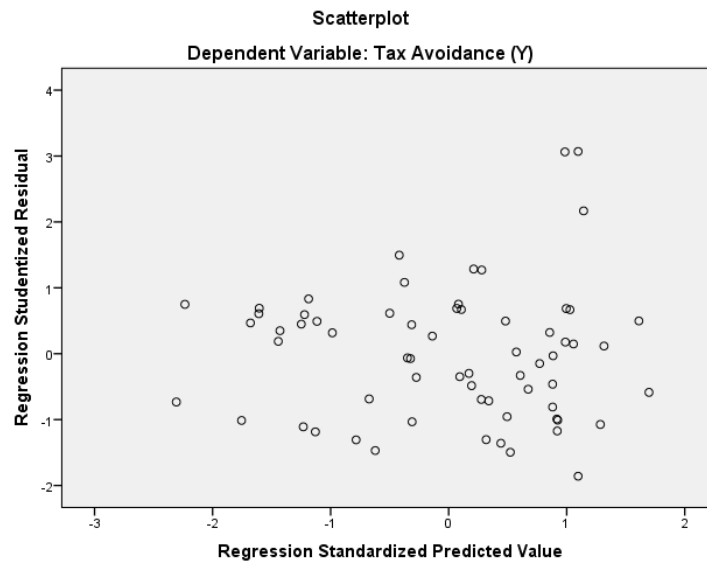


Figure 2. Heteroscedasticity Test

Source: SPSS Output Results (data processed, 2022)

g. Multiple Linear Regression Test

Table 5. Multiple Linear Regression Test

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	,361	,080		4,524	,000		
Board of Commissioners (X1)	-,198	,137	-,170	-1,446	,153	,983	1,017
Audit Committee (X2)	,002	,003	,106	,907	,368	,983	1,017
Profitability (X3)	-,440	,130	-,400	-3,394	,001	,975	1,026

a. Dependent Variable: Tax Avoidance (Y)

Source: SPSS Output Results (data processed, 2022)

h. Hypothesis Test Results

Simultaneous Hypothesis Test (T)

Partial significance test (t test) is used to determine the effect of the independent variable partially on the dependent variable. If the significance value is < 0.05 , it means that there is a significant influence between the independent variable on the dependent variable or vice versa. If the value of $t_{count} > t_{table}$ at $\alpha = 5\%$ means that there is a significant influence between the independent variables on the dependent variable.

Table 6. Multiple Linear Regression Test

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
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a. Dependent Variable: Tax Avoidance (Y)

Source: SPSS Output Results (data processed, 2022)

i. Simultaneous Hypothesis Test (F)

Simultaneous statistical test (F test) is used to determine whether the dependent variable (Tax Avoidance) is jointly or simultaneously affected by the independent variables (Independent Commissioner, Audit Committee, and Profitability). If the significance value is <0.05 , it means that there is a simultaneous significant effect of the independent variables on the dependent variable. If $F_{count} > F_{table}$ at $\alpha = 5\%$, it means that there is a simultaneous significant effect of the independent variable on the dependent variable.

Table 7. Simultaneous Hypothesis Test (F)

Variable	Sig	Fhitung
Independent Commissioner(X1), Audit Committee(X2), Profitability(X3)	0,008	4,281

Source: SPSS Output Results (data processed, 2022)

j. Analysis of the Coefficient of Determination (Adjusted R Square)

Table 8. Analysis of the Coefficient of Determination

Value Description	Value Description
<i>Adjusted R Square</i>	0,133
Persentase (%)	14%

Source: SPSS Output Results (data processed, 2022)

k. The Influence of the Board of Independent Commissioners on Tax Avoidance.

The test results show that the board of commissioners is independent of tax avoidance is not significant. So it can be concluded that basically to find out tax evasion is not only seen in terms of how many independent members of the board of commissioners but in terms of several aspects.

l. The Influence of the Audit Committee on Tax Avoidance

The test results show that the audit committee on tax avoidance is not significant. So it can be concluded that basically to find out tax avoidance is not only seen in terms of how many meetings the audit committee holds in one year.

m. Effect of Profitability on Tax Avoidance

The test results show that the profitability of tax avoidance is significant. So it can be concluded that basically to know the tax evasion can be seen in terms of profits generated by the company and the total assets obtained by the company.

4. CONCLUSION

Based on the results and data analysis that has been carried out in this study, it can be concluded that:

- a. Independent board of commissioners variable has no significant effect on tax avoidance.
- b. The audit committee variable has no significant effect on tax avoidance.
- c. The profitability variable has a significant effect on tax avoidance.

- d. The company should complete the complete financial report data.
- e. Future researchers are expected to look for more recent years, because more and more years the financial reports are incomplete and sometimes they have been written off.

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