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The Effect of Executive Character and Implementation of Good Corporate Governance to Tax Avoidance (Empirical Study on Companies Moving Consumer Goods Sector Industry Listed in Indonesian Stock Exchange in 2013-2017)

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Abstract

The purpose of this study was to examine the effect of executive character, the implementation of Good Corporate Governance principles to tax avoidance. This research is a quantitative research with a causal approach, using secondary data where multiple regression analysis method used for testing. Independent variables in this study are an executive character, as measured by the risk of the company, which will determine whether the executive character risk taker or risk averse. Principles of Good Corporate Governance (GCG) is proxied by an independent commissioner, institutional ownership and audit committee. Tax avoidance while the dependent variable was measured by Effective Tax Rate (ETR). The results showed that the character of executive branch significant effect on tax avoidance. While the independent commissioner, institutional ownership, and audit committee have no significant effect on tax avoidance.

Keywords: executive character, GCG, tax avoidance.

INTRODUCTION

Tax becomes very important for country revenue other than the management of natural resources and revenues from other tax sources. The authority to collect taxes from the government and in Indonesia taxation provided for in Article 23A of the Amendment Act of Constitution 1945 those taxes and other levies coercive for the purposes of the state governed by law [29].

Implementation of the government's tax collection is not always welcomed by the company. Companies tend to try would pay taxes as low as possible because of the tax will reduce income or net income of the company. While the government of course will try to collect taxes as high as possible in order to finance the implementation of government [2]. The interest of this difference causes the company will seek ways to reduce their tax payments either by legal or illegal means.

The Company considers the tax is a burden which will reduce the company's profits or revenues [1, 12, 17, 21]. Taxes are a significant cost factor for companies as to minimize the tax would increase profits, and the ability to pay taxes is a manageable cost that can be reduced as well as other operational costs [8]. Tax minimization refers to any activity that can reduce taxes explicit. In this case, including tax concessions such as capital allowances, accelerated depreciation, and research and development tax cuts designed to encourage investment and economic growth.

Tax avoidance refers to companies (and individuals) who enters a transaction that does not have a significant economic factor, by itself or dominant purpose to reduce taxes [14]. It can be stated that tax avoidance involves setting a transaction with a view to obtaining tax advantages, benefits and reductions in a way that was not expected by law [3]. It clearly reflects the concept of tax avoidance described legally offer some opportunity for taxpayers to reduce or eliminate their tax liabilities by modifying behavior, or the behavior of the characteristics of the tax in several ways [15].

Tax avoidance is tax engineered affair that is still in the frame tax laws (lawfull) [25]. Tax avoidance is a genius method adopted to reduce the responsibility according to the law, but none the less beat intention the legal basis [2].

Individually the executive plays a significant role both statistically and economically in determining a company's level of tax avoidance [5]. This is consistent with agency theory emphasizes the importance of the owner of the company handed over to a professional management company (agent) who understand and understand how to run a business [11]. For the owners of the company will hire an agent to provide services and then delegate authority to the agent making desperation. As the executive agent has a moral responsibility to optimize the benefits the owners or shareholders of the company (principal). It is very interesting to research does executive character has significant effect on tax avoidance.

In measuring the extent to which the executive character affects the *tax avoidance* the use of corporate risks [4,11,17]. The risk of companies is a reflection of the measures taken by the company so that it can provide an indication of risk taker or risk averse. Research on the factors affecting a company doing tax avoidance indicated that high tax rates make tax planning more profitable for the principal, whom the principal profit increase can increase the bonuses for managers [7]. This is consistent with research that bonuses for executives increased by a tax reduction [23]. Increased profits from tax savings much appreciated strongly than the increase in profits from other sources.

From the results of previous studies found that executive character influence on tax avoidance [5, 17, 26]. In this research executive character divided into two risk taker and risk averse. An executive can be said to be risk taker when he dared to take risks and confidence. Meanwhile, an executive said risk-averse when it is more cautious in taking decisions and avoid risk.

To ensure that companies do not engage in tax avoidance practices that lead to aggressive tax planning that can break the rules then the need for supervision and control over the behavior of the executives in the management of taxes. For that GCG implementation is expected to improve the transparency and accountability of corporate managers. Corporate Governance with regard to direct and manage the business and affairs of the company, in order to enhance business prosperity and corporate accountability [10].

The implementation of GCG in this research is associated with control mechanism on management performance and adherence of the rule on corporate tax governance. The extent to which the existence of independent commissioners, institutional ownership, and audit committee has significant effect on tax avoidance. The control mechanism is expected to encourage transparency, accountability, and responsibility of the company so that can be to restrain the behavior from the executives on aggressive tax planning.

Results of other studies say that there is a significant impact of the adoption of internal controls to prevent actions that violate the rules in the company [13]. Results were also consistent with other studies that stated that the company managers' commitment to the organization and implementation of internal control systems at the same positive effect on the quality of financial reporting [24].

The existence of independent board and audit committee is an implementation of GCG implementation. The position of independent board serves as a watchdog and provides advice to the board of directors. To assist in the task of commissioners in the weight control function it is assisted by the audit committee. In addition to further tighten controls can also be reached by driving increased institutional ownership which can represent a source of power that can be to support or otherwise of the presence of management. The greater the percentage of institutional ownership will lead to more effective oversight conducted because they can control the opportunistic behavior of managers and reduce agency cost.

THEORY AND HYPOTHESIS

The effect of Executive Character against Tax Avoidance

Business decisions in companies largely influenced by taxes. If the tax associated with a sound business decisions can be a poor business decision. Taxes can be said to be a factor that can reduce corporate profits. Various attempts to find loopholes in the law related to tax rules was sought. Often involve manipulation of financial statements of companies when it comes to taxes, this action would be harmful to the reputation of the company. But demand for the prosperity of the shareholders makes managers perform actions that deviate related tax management.

The ability of corporate tax management must be planned with the best. How do tax planning can reduce the corporate tax burden as low as possible by using existing regulations. Companies must ensure that tax planning is still in an acceptable area.

H1: Executive Character has significant effect on tax avoidance.

The Effect of Independent Commissioner against Tax Avoidance

The existence of independent board one of which is regulated by the financial services authority (OJK) regulation No.33 / POJK.04 / 2014 dated December 8, 2014 on the Board of Directors and Board of Commissioners of the Issuer or Public Company. In one of these regulations require that the number of independent board at least 30% of all the number of commissioners [6].

Independent commissioner should not have a conflict of interest in the company, so they can maximize oversight function and the application of the principles of corporate governance practices are adhered to and implemented, including financial reports to ensure transparency, fair treatment of minority shareholders and other stakeholders, as well as the unveiling of a conflict of interest transactions are reasonable and fair.

The existence of an independent commissioner is expected also able to reduce fraudulent practices and actions that do not abide by the rules that do company executives related to planning and reporting of corporate taxes.

H2: independent commissioner has significant effect on tax avoidance

The Effect of Institutional Ownership against Tax Avoidance

Monitoring carried out by institutional investors is very dependent on the amount of investments made. Share ownership represents a power source that can be used to support or otherwise to management [27]. With the institutional ownership, stakeholders will have more confidence in the company and can be added value for the company.

Shareholders parties are assumed to be those who do not want to take risks that affect managers to act in accordance with shareholders wish with no tax avoidance activity that leads to aggressive tax planning because it feared could affect the business because of their violation of government regulations related to taxes.

H3: Institutional ownership has significant effect on tax avoidance.

The Effect of Audit Committee against Tax Avoidance

The purpose of the audit committee formation in general is to maintain public confidence in the mechanisms of accounting, auditing, and other control systems [6]. The audit committee assists the board of commissioner in carrying out oversight functions. Members of the audit committee comprising at least three (3) persons under the rules of the OJK No. 55 /POJK 04/2015 Chapter II, Article 4 of the establishment and implementation guidelines for audit committee works.

The audit committee is expected to keep an eye on irregularities relating to financial reporting primarily related to taxes. Independency of the audit committee is expected to create a state where a professionally managed company with no conflict of interest and influence or pressure from management that does not comply with the regulations and applicable law on the principles of a healthy corporation. Thus it is expected that the existence of an audit committee can reduce the tendency of executives of companies doing tax avoidance.

H4: The audit committee has significant effect against tax avoidance.

METHODOLOGY

This research is a quantitative research design causal. Causal design is useful for testing hypotheses about the influence of one or more independent variables on the dependent variable. The independent variables in this study are executive character (RISK) as X1, Independent Commissioner (IND) as X2, Institutional Ownership (OWN) as the X3, the Audit Committee (AUD) as X4. While the dependent variable or Y is Tax Avoidance (ETR).

The analytical method used in this research is multiple regressions, with the classical assumption, as well as descriptive statistics. For testing the suitability of the model testing the hypothesis that the t test and statistical simultaneous test F and the coefficient of determination to assess the feasibility of the regression model. For the entire test used SPSS 22 software.

Executive characters

Executive character in this study was divided into two risk taker and risk averse. According to Rael [19] the executive said a risk taker when he tends to the emotional, confident and impulsive. He failed to recognize that the error is an option, which can be a risk of miscalculation or not recognized (tends to be bold in making decisions). While risk-averse are more rational, anxious and completely avoid risk.

The notion of the executive character can be measured by the level of risk the company owned. Munisamy [16] defines risk as a situation where there is uncertainty or the possibility of the spread of the yield return zero, or less, which is simply the possibility of loss. In the field of management, people involved in the decision-making will make a decision based on attitude towards risk.

To measure the risk of the company then used the formula of Paligorova [18] which is the standard deviation of corporate earnings derived from EBITDA (Earnings Before Income Tax, Depreciation and Amortization) divided by total assets of the company.

Corporate risk reflects a deviation from the corporate earning both deviations less than planned or perhaps more than planned. The larger the standard deviation indicates the greater the risk of the company, so that shows executives in companies tend to be risk-taker.

Independent Commissioner

Commissioner of the independent are board members who do not have a financial relationship, relationship management, shareholding relationship and/or family relationship with commissioners others, directors and/or a controlling shareholder or a relationship with a bank that can affect the ability to act independently [6]. Independent commissioner is formulated with a percentage of the presence of independent commissioners in the board of commissioner; the independent commissioner must be able to become a counterweight in terms of board of commissioners' decision making and supervision of management performance.

Institutional Ownership

Institutional ownership is the percentage of ownership of shares owned by legal entities and financial institutions such as insurance companies, pension funds, mutual funds, banks, and other institutions [9].

The Audit Committee

The audit committee (AUD) role to give a view on issues relating to financial policy, accounting and internal control. The audit committee is measured by the number of audit committee members in a company.

Tax Avoidance

The dependent variable in this research is tax avoidance, where the measurement using the ETR (Effective Tax Rate). The measurements were carried out by the formula from Dyreng [5] that is with GAAP ETR.

$$\text{GAAP ETR} = \frac{\text{Tax Expense i, t}}{\text{Income pretax i, t}}$$

Tax expenseis the corporate income tax burden on the company i in year t based on the financial statements of the company. While pretax income is income before tax in the firm i in year t based on the company's financial statements.

Population and Sample Research

The population used in this research is companies engaged in the consumer goods industry listed in Indonesia Stock Exchange (BEI). Sampling using purposive sampling, which must meet predetermined criteria that the companies engaged in the consumer goods industry is listed on the Stock Exchange five (5) consecutive years from 2013 to 2017, as well as presenting the audited financial statements for five (5) years and the necessary financial data in units of Indonesian Rupiah (IDR). The result obtained 32 manufacturing company engaged in the consumer goods industry.

RESULTS AND DISCUSSION

Multiple Regression Analysis

Multiple regression analysis measures the strength of relationship between two or more variables, and shows the direction of the relationship between the dependent variable and independent variables. This research multiple regression models can be written in the form of the following equation:

$$\text{ETR} = \beta 0 + \beta 1\text{RISK} + \beta 2\text{IND} + \beta 3\text{OWN} + \beta 4\text{AUD} + \varepsilon$$

Analysis Descriptive Statistics

This analysis is used to describe the research variables, without generalize. The data have been collected are then tabulated in the table and be discussed descriptively. Deskriptive size is the provision of a number, a good number of respondents as well as the average value of respondents as well as in the form of percentage [30].

Table-1: Descriptive Statistics

	N	Min	Max	mean	Std. dev
X1 (RISK)	133	2.43	128.70	79.0623	25.89211
X2 (IND)	133	, 20	, 83	, 4067	, 11643
X3 (OWN)	133	03	, 98	, 7392	, 20 988
X4 (AUD)	133	2.00	4.00	3.0179	, 40 659
LOG_Y (ETR)	133	-, 92	-, 29	-, 6043	, 08 485
Valid N (listwise)	133				

According to the table-1 executive character descriptive statistics measured by the risks the company has an average value of 79.0623, the lowest value of 2.43 and 128.70 highs. As for the percentage of the number of independent commissioner on average 0.4067 to the lowest value of 0.20 and the highest 0.83. This means that the average percentage of independent commissioner by 40%, that all companies have to follow the rules of the research sample of at least 30% of the independent commissioner. Institutional ownership average value 0.7392, the lowest value of 0.03 and the highest 0.98. The audit committee has an average value of 3.0179, the lowest value of 2.00 and the highest 4.00. This also shows that audit committee members an average of 3 (three) in accordance with the rules of a minimum number of audit committee members as required.

Table-2: Results Output

Model	**Unstadardized Coefficients**		**Stadardized Coefficients**	**t**	**Sig.**
	B	Std Error	beta		
(Constant)	-, 471	, 071		-6.594	, 000
X1 (RISK)	-, 001	, 000	-, 270	-3.139	.002
X2 (IND)	, 075	, 062	, 103	1,209	, 229
X3 (OWN)	-, 041	, 035	-, 102	-1.186	, 238
X4 (AUD)	-, 021	, 018	-, 101	-1.163	, 247
Adj R-squared: 0.061			Prob (F-statistic): 0.016		
Durbin-Watson (dw): 1.848 α = 5% dl = 1592 du = 1,758 4-dl = 2408 4-du = 2,242 du <dw<4du 1,758 <1,848 <2,242			Kolmogorov-Smirnov Z Asymp. Sig (2-tailed) = 0.657 > 0.05		

collinearity statistics

	tolerance	VIF
X1 (RISK)	, 959	1,042
X2 (IND)	, 984	1,016
X3 (OWN)	, 968	1,033
X4 (AUD)	, 940	1,064

tolerance ≥ 0:10
VIF ≤ 10

Source: SPSS output 22: 2019

From the results if the data then we got the result that the regression model used have passed the test classic assumptions. Marked with normally distributed data based on the results of Kolmogorov-Smirnov test, and freed from multikoleniaritas, the absence of positive or negative autocorrelation, and there is no heterokedastisitas.

To test the suitability of the model can be seen from koefien test of determination (R2) where the value of Adjusted R Square 0,061or 6.1% means that the independent variables in this research that executive character (RISK), an independent commissioner (IND), institutional ownership (OWN), and audit

Committee (AUD) were only able to explain the dependent variable tax avoidance (ETR) of 6.1%, and the remaining 93.9% is explained by other variables not included in the regression.

Furthermore, F-test to determine whether a regression model was fit. From the F test obtained significant value of 0.016 is less than 0.05, which means the model used is suitable for measuring the accuracy of the sample regression function (Goodness of Fit).

The results of multiple linear regression analysis in this study can be seen in Table-2 The multiple linear regression equation as follows:

$$ETR = - 0.471 - 0{,}001RISK + 0{,}075IND - 0{,}041OWN - 0{,}021AUD + \varepsilon$$

T statistic test result obtained significant values showed that the only variable that significantly executive character to tax avoidance, where the significant value of 0.002 < 0.05. As for the variable independent commissioner, institutional ownership, and the audit committee no significant effect on tax avoidance. Significant value of these three variables is greater than 0.05 is 0.229, 0.238, and 0.247.

The Effect of executive character on tax avoidance

Hypothesis test results showed that the executive proxied character premises *corporate risk* (RISK) has a significant effect on tax avoidance. H1 hypothesis is accepted that executive character has significant effect on tax avoidance. The results are consistent with research conducted by the Dewi and Sari [4], Dyreng [5], Novita [16], that the character executive has significant effect against tax avoidance.

The smaller the enterprise risk indicates that executives are risk adverse character where executives would prefer to stay away from risky decision, especially in terms of tax avoidance. Although the assumption of a tax as an expense that can reduce corporate profits, but for companies that have gone public to be more careful to maintain the company's reputation. These companies generally tend to be high profile, the manager will try to maintain business continuity, the company's reputation in order to maintain existing investments and avoid being hit by sanctions from the tax authorities.

The effect of independent commisioners on tax avoidance

Independent commissioner has no significant effect on tax avoidance. This is due to the presence of independent board only as a provider of regulatory compliance, and just be a complement to comply with the commissioner under stock exchange rules that item 1-A of the Securities Listing Regulations No. 1-a the Indonesia Stock Exchange on the general provisions of the listing of equity securities on the exchange regulates the ratio of independent commisioners. In the item number of independent commisioners at least 30% (thirty percent) of the total number of commissioners [6].

The results of this study are consistent with the results of research Dewi and Sari [4] and Rizal [20] which states that an independent commissioner has no significant effect on tax avoidance.

The effect of institutional ownership on tax avoidance

Institutional ownership has no significant effect on tax avoidance, which means the H3 hypothesis is rejected. This can be due to the interest of shareholders to prosper themselves. Supposedly other institutional ownership will encourage more optimal supervision of management performance of companies against acts that could endanger the continuity of operations of the company, but because of business interests to gain as much as possible of the share capital they have made investors more concerned about their own prosperity. So it could have obtained power misused to actually support the actions of the executives who violate the rules associated with the optimization of the company's profit by the omission of tax avoidance activities.

This is in line with research Sandy & Lukviarman [22], Tandean [28], that institutional ownership has no significant effect on tax avoidance.

The effect of the audit committee on tax avoidance

The audit committee has no significant effect on tax avoidance, and then the results of the hypothesis H4 are rejected. Conflicts of interest make audit committee should be independent but engaged favor of the interests of shareholders both majority shareholders and minority shareholders. Their business interests thus eliminating factors functions to maintain the level of compliance of the company with the policies or regulations.

This is in line with the results of Sukarta & Swingly [26], Wijayanti & Somratun [31] which states that the audit committee has no significant effect on tax avoidance.

CONCLUSION

Based on the results of data processing that has been done, it can be deduced about the influence of the executive character and the application of good corporate governance principles against tax avoidance is as follows:

- Executive character has significant negative effect on tax avoidance, where the lower value reflects the company's risk that executives have a tendency to risk-averse nature (people who choose to stay away from risk).
- The number of independent commissioners has no significant positive effect on tax avoidance; the more the number of independent directors in companies unable to reduce the practice of tax avoidance occurred at the company. This is because the tax burden is considered as a company that can reduce profits.
- Institutional ownership has no significant negative effect on tax avoidance. The shareholders of both majority and minority have an interest in the prosperity of their wealth so that they have a supervisory function no working out, any omission against the practice of tax*avoidance* conducted by executives at the company.
- The audit committee has no significant negative effect on tax avoidance. Audit committee members are supposed to be independent but it could have involved a conflict of interest with the management company, which business interests of factors could be the cause so that the oversight role performed are not optimal. The existence of an audit committee is not able to lower or reduce tax avoidance practices.

SUGGESTION

The results of this study are expected to reinforce the results of previous studies that have been done. As we know, the tax issue will always be an interesting research topic to do because there are two sides of the interests involved, the government authority taxation authority holders either individual or entity, and taxpayer as objects that are taxed especially the business sector (industry).

Researchers realized there are still shortcomings in the research results are presented. Some limitations include the measurement of executive character in this study only uses risk company from companies that have only one type of industry. The next suggestion so that future researchers can use the multi-industry so that there is no comparison does the executive behavior on one type of industry will be different from other industries related to tax avoidance.

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