Corporate Governance, Audit Committee and Corporate Tax Management

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ABSTRACT

This study aims to determine the effect of Corporate Governance and the Audit Committee on Corporate Tax Management. Corporate governance is the number of commissioners, the percentage of independent commissioners, and compensation for the commissioners and the board of directors. GAAP ETR ETR measures corporate tax management (Generally Accepted Accounting Principle Effective Tax Rate). The sample of this research is companies listed in the IDX30 Index period 2016-2020 using the purposing sampling method. The study's total sample was 55 companies that met the criteria as the sample of this study. The method of analysis of this research is using the multiple linear regression analysis methods. The results of this study indicate that the number of commissioners significantly affects corporate tax management. Meanwhile, the percentage of independent commissioners, compensation for the board of commissioners and directors, and the audit committee has no significant effect on corporate tax management.

Keywords: Corporate Governance, Audit Committee, Corporate Tax Management,

1. Introduction

Tax is one component of the many contributions in a country on a relatively large scale to support government revenues in financing the expenditure activities of a nation. It can run its objectives to develop on a national scale in facilities and infrastructure in terms of quantity and quality of needs needed, exclusively in Indonesia (Damanik & Mu'id, 2019).

Table 1. Percentage of Realized Tax Revenue

Year	%
2014	91,86
2015	81,97
2016	81,60
2017	89,68
2018	92,24

Sourced in Table 1 from 2014 to 2018, the percentage of natural tax revenues fluctuated. The Directorate General of Taxes at the Ministry of Finance recorded that 2018 tax revenues as of August 31 reached Rp. 799.47 trillion is proportional to 51.14% of the total object of tax revenue in the 2018 State Budget. The realization of this tax revenue is still very low, with the official target of Rp. 1.424 trillion. The completion of this tax revenue is that there are still individual and corporate taxpayers who are reluctant to notify and pay taxes correctly. The incident can affect by looking at two different perspectives. Based on the government's attitude, taxpayers who do not pay taxes will cause state revenues to decline from the tax zone. Based on the taxpayer's point of view, exclusively for corporate taxpayers, if the number of industrial tax dependents has a large nominal, it can reduce the profits obtained for the industry. This comparison of points of view raises a dilemma for both parties, especially for the industry sector (Damanik & Mu'id, 2019). The industry has tried many efforts to minimize the amount of taxes paid to the state, one of which is by practicing tax management (Minnick & Noga, 2010). Tax management is a facility to fulfill tax obligations with a suitable method. Still, tax management (Kovermann & Velte, 2019) expects profit and liquidity by reducing the tax burden as low as possible.

(Minnick & Noga, 2010) found that the governance of companies (corporate governance) has an essential role in the activity of tax management. Each company's strategy is different when carrying out its tax management. Each company's process is due to the characteristics of corporate governance owned by each company. Of course, the aspects of a company's corporate governance determine how the company implements tax management (Huseynov & Klamm, 2012). The characteristics of corporate governance in question are the number of commissioners, the percentage of independent commissioners, and the compensation of the commissioners and directors. These three variables will be used as determinants of whether corporate governance has a significant effect on corporate tax management in reviewing how the impact of management executives on tax management activities.

In the research of (Minnick & Noga, 2010), the stock-based compensation package, as a component of corporate governance, encourages managers to carry out tax management for the efficiency of corporate tax payments. It can add value to the company and provide benefits to shareholders because it relates positively to the high level of return. (Pratama, 2017) found that corporate governance variables positively and significantly affect tax management. (Arismajayanti & Jati, 2017) stated that the number of commissioners affects tax management. (Armstrong et al., 2015) also found that independent commissioners and compensation positively impact Cash ETR, but on GAAP ETR, independent commissioners have a negative effect. (Armstrong et al., 2015) researched the relationship of compensation received by company executives, especially the compensation received by the tax director, to the company's tax planning. This study proved a robust negative relationship between the compensation received by the director of corporate tax and tax planning through GAAP ETR. This study is reinforced by (Damanik & Mu'id, 2019) research that the number of commissioners, the percentage of independent commissioners, and directors' compensation do not affect tax management.

As for research conducted by (Armstrong et al., 2015) that the provision of incentives influences corporate tax planning, but the amount of compensation given cannot be traced using only the book-tax gap, effective tax rate, and aggressive measurements. Tax. For the tax director who was given dividends, the tax burden paid by the company decreased, although the final decision was made by tax management. The results of the effect of compensation on tax management can be seen clearly by using GAAP ETR.

One form of supervision for managerial actions in the tax sector is to establish good corporate governance, including oversight carried out by the audit committee. In principle, the main task of the audit committee is to assist the board of commissioners in carrying out the supervisory function of the company's performance. The main task of the audit committee is mainly related to reviewing the company's internal control system, ensuring the quality of financial reports, and increasing the effectiveness of the audit function. While on the other hand, financial statements are a product of management that external auditors then verify. The audit committee is a liaison between the company and the external auditor, where the external auditor is an independent party. The audit committee is also seen as a supervisory mechanism that minimizes information asymmetry between managers and board members outside of (Al Lawati & Hussainey, 2021).

1.1 Objectives

The purpose of this study was to determine how much influence corporate governance and audit committees have on corporate tax management about agency theory. D ith the use of samples in companies listed on the Stock Exchange in the index IDX30 years 2016 -2020 so that not only focus on a single industry.

2. Literature Review

Agency theory explains the relationship between agents who manage the company and the principal as the owner, both related to a contract. The owner or principal is the party who evaluates the information, and the agent is the party that carries out management activities and makes decisions, (Jensen & Meckling, 1976).

Tax management is the management of tax obligations by using a strategy to minimize the amount of the tax burden. Tax management is one element of company management (Kovermann & Velte, 2019). To avoid tax sanctions in the future, the company can use a strategy to streamline the tax burden (tax savings) carried out by the company and must be legal (Luhgiatno & Novius, 2019).

The board of commissioners is the core of corporate governance to supervise the company's management policies and provide advice to the board of directors, including supervision of the long-term implementation of the company). (Coles et al., 2008) suggest that the optimal number of commissioners varies depending on its. Companies that are large and have a complex structure will maximize their performance if the number of commissioners increases. A complex system happens because the bigger a company is, the more it will need advisors, and vice versa.

An independent commissioner is a member of the board of commissioners who is not an employee or person dealing directly with the organization and does not represent the shareholders. Independent commissioners are commissioners who do not come from affiliated parties. Based on agency theory, the larger the number of independent commissioners on the board, the better they will fulfill their role in supervising and controlling the actions of the executive directors. (Jensen & Meckling, 1976) say that the premise of agency theory is that independent commissioners are needed on the board of commissioners to oversee and control directors' actions concerning their opportunistic behavior. (Tandean & Winnie, 2016) reveal that enhancing the management's independence required the existence of an independent commissioner. The role of the independent commissioner will be evident if there is a conflict of opinion and interest between the board of directors and other committees of commissioners. Independent commissioners who are neutral can become third parties in overcoming these differences of opinion and ensure that existing ideas comply with applicable regulations.

Compensation is a function of human resource management that shows the type of reward individuals receive to reward their performance (Armstrong et al., 2015). Compensation is a tool to motivate both the board of directors and the board of commissioners to increase work motivation in a better direction to improve the company's performance. Compensation can provide long-term incentives by using stock option incentives or provide short-term incentives by using payment in the form of money. For the version that has been done, companies with good corporate governance will compensate the directors, not because of luck alone (Hasiholan, 2013). If the management compensation provided by the company is getting bigger, then management will be encouraged to carry out tax management to obtain maximum tax burden savings.

The audit committee is formed by the company's board of commissioners, whose members are appointed and dismissed by the commissioners. Whose task is to assist in conducting inspections or research deemed necessary on implementing the board of directors' functions in the management of the company (Richardson et al., 2013). An audit committee function that runs effectively supports good corporate governance and provides better control over the company's financial statements (Deslandes et al., 2019). The audit committee is one of the factors in supporting good corporate governance concerning (Hanum & Zulaikha, 2013)

3. Methods

The independent variables (independent) in this study are Corporate Governance (number of commissioners, percentage of independent commissioners, compensation for the board of commissioners and the board of directors) and the Audit Committee. The variable number of commissioners d nature of this study the number of commissioners by the symbol COM and measured by finding the number of commissioners—a varying percentage of independent directors. The rate of commissioners is symbolized by INDEP and calculated according to the formula number of independent commissioners divided by the number of commissioners multiplied by 100 percent. Variable compensation for the board of commissioners and board of directors d nature of this investigation compensate symbolized by the COMP and measured by finding the amount of payment the board of commissioners and board of directors for one year. The audit committee variable in this study is symbolized by AC and is measured by finding the number of audit committees. The dependent variable (dependent) in this study is corporate tax management. In this study, corporate tax management is given the symbol GAAP ETR. The population in this study were all companies listed on the IDX30 index on the Indonesia Stock Exchange (IDX) in 2016-2020. The samples taken in this study are companies listed on the IDX30 index on the Indonesia Stock Exchange, which was selected using a sampling method based on specific considerations following the research objectives or the so-called purposive sampling method. The data used in this study comes from the financial statements and annual reports of companies listed on the Indonesia Stock Exchange (IDX), so this type of data is secondary data. This research data was obtained from: The financial statements of companies sampled in 2016-2020 and annual reports of companies tested in 2016 -2020 received through the official website www.IDX.co.id owned IDX (Indonesia Stock Exchange). The data analysis method used in this research is descriptive statistics, classical assumption test, and multiple linear regression.

4. Data Collection

This research data from the financial statements of companies sampled in 2016-2020 and annual reports of companies tested in 2016-2020 received through the official website www.IDX.co.id owned IDX (Indonesia Stock Exchange).

5. Results and Discussion

5.1 Results

The population in this study are companies listed on the IDX official website in the IDX30 Index 2016-2020. The sample selection in this study used the purposing sampling method (samples selected according to predetermined data). This study has a sample of as many as 11 companies period of 5 years. So that there were 55 companies in the 2016-2020 period. There are 30 companies listed in the IDX30 index. There are only 16 companies that have in a row in the 2016-2020 period. Two companies use currencies other than rupiah, and three companies do not have complete data. From the 16 companies listed in a row, there are only 11 companies that can be used in the sample, so that in the 2016-2020 period, there are 55 companies.

Table 2. Descriptive statistic

	N	Minimum	Maximum	Mean	Std. Deviation
GAAP ETR	55	.11	.35	.2396	.04513
COM	55	4	12	7.22	1.931
INDEP	55	.29	.71	.4660	.11265
COMP	55	54.188	1332.000	402.37309	325.860829
AC	55	3	6	3.96	1.154
Valid N (listwise)	55				

This study uses multiple linear regression analysis. The classical assumption test is the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. From all the classical assumption has been executed can be concluded 1). Normality test in this study normality test using the analysis of One-Sample Kolomogrov-Smirnov. Normality test results above Asymp Sig value of 0.200, which means greater than 0.05, so the normality test is normal. 2). The multicollinearity test shows all tolerance values ; there is no multicollinearity in the regression model. 3). Heteroscedasticity test results show that there is no heteroscedasticity in the regression model. 4). The Autocorrelation test based on the table above shows that the d value is 1.866. This value compared with the value of the Durbin Watson table at a significance of 5%. The number of variables is 5 or k = 5, n = 55 and the dL value is 1.41362, du is 1.72399. The d value of 1.866 is greater than the upper limit (du), which is 1.724 and less than (4-du) = 4-1.724 = 2.276, so there are no problems or symptoms autocorrelation.

Table 3. T-Statistic

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,365	0,035		10,336	0,000
	COM	-0,009	0,004	-0,393	-2,063	0,044
	INDEP	-0,109	0,055	-0,273	-1,979	0,053
	COMP	0,000037	0,000	0,265	1,592	0,118
	AC	-0,006	0,006	-0,145	-0,939	0,352

ETR = 0.365 – 0.009 COM – 0.109INDEP + 0.000037COMP – 0.006AC

That t arithmetic – 2.063 > - t table – 2.009 and Sig value of 0.044 < 0.05 then H_1 or the first hypothesis is accepted. That the value of t arithmetic - 1.979 < - t table - 2.009 and the Sig value of 0.053 > 0.05, then H_2 or the second hypothesis is rejected. The t arithmetic is 1.592 < t table 2.009, and the Sig value is 0.118 > 0.05, so H_3 or the third hypothesis is rejected. That the value of t arithmetic - 0.939 < - t table - 2.009 and the value of Sig audit committee (AC) of 0.352 > 0.05, then H_4 or the fourth hypothesis is rejected.

Table 4. F-Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0,027	4	0,007	4,143	.006[b]
	Residual	0,083	50	0,002		
	Total	0,110	54			

The calculated F value is 4.143 > F table 2.55, and the sig value is 0.006, so by the basis of decision making in the F test.

Table 5. Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.499[a]	0,249	0,189	0,04065

Adjusted R Square value of 0.189 indicates that the number of commissioners (COM), the percentage of independent commissioners (INDEP), the amount of compensation for the board of commissioners and the board of directors (COMP), the number of audit committees (AC) can explain the tax management variable (GAAP ETR) of 18.9%. At the same time, other factors explain 81.1%.

5.2 Discussion

According to (Coles et al., 2008), the optimal number of commissioners varies depending on the company's characteristics. Companies that are large and have a complex structure will maximize their performance if there are more commissioners. More commissioners happen because the bigger the company, the more advisors will need. Providing advice to the board of directors and supervising the board of directors' policies in running the company are the main tasks of the board of commissioners (Richardson et al., 2013). The board of commissioners has the responsibility and obligation to the shareholders (principals) to supervise and control the company's performance so that the company's objectives remain in line with the goals of the shareholders (principals), which means that the interests of shareholders will be protected to the fullest by the board of commissioners. For these interests to be maximized, companies need to improve their performance. In this case, the board of commissioners will carry out management on corporate taxes, which is also the main task of the board of commissioners.

(Meilinda & Cahyonowati, 2013) states that independent commissioners do not affect the effective tax rate, which means more independent commissioners will not affect corporate tax payments. Milinda (2013) argues that the placement or addition of independent commissioners is possible only to fulfill formal requirements. Namely, 30% of the commissioners are independent commissioners who have no internal relationship with the company. While the majority shareholder (controlling) still plays a vital role so that the board's performance does not increase or even decline.

Following the research of (Minnick & Noga, 2010), which states that although compensation generally affects tax management effectively, the board of directors will improve performance in managing taxes by maximizing tax management in the company. This study is in line with (Armstrong et al., 2015) research, which states that increasing the amount of compensation to the board of commissioners and the board of directors is not an effective way to carry out tax management makes the company's tax burden smaller. The greater the compensation was given to the board of commissioners and directors, it will only make the board of commissioners and board of directors use compensation as a tool to enrich themselves and reduce the company's profits.

(Deslandes et al., 2019) explains that an audit committee whose function is to improve the integrity and credibility of financial reporting cannot run well if there is no support from all elements from within the company. Based on these results, the audit committee indicated that its implementation was not supported by other factors, causing the audit committee to fail to carry out good supervision and tend to be neutral. (Hanum & Zulaikha, 2013) explain that the number of audit committee members in companies does not provide guarantees that they can intervene in determining the policy of the company's effective tax rate. In this case, it is following (Robinson et al., 2012) which says that the selection and formation of the audit committee structure is the responsibility of the board of commissioners if the board of commissioners abuses the authority it has. The minimum arrangement or the increasing number of audit committees will further exacerbate tax avoidance related to tax management. This study aligns with (Damanik & Mu'id, 2019) that the audit committee is one factor that can provide direct supervision and a bridge in reporting from management to the owner.

6. Conclusion

Based on the results of this study, total commissioners (COM) significantly influence the management of corporate tax (GAAP ETR). The percentage of independent commissioners (INDEP), compensation for the board of commissioners, the board of directors (COMP), audit committee (AC) has no significant effect on corporate tax management (GAAP ETR). The number of the board of commissioners (COM), the percentage of independent commissioners (INDEP), the compensation of the board of commissioners and the board of directors (COMP), and the audit committee (AC) simultaneously affect corporate tax management (GAAP ETR). Future research can use different methods such as Cash ETR. In this study, only the number of boards of commissioners, the percentage of independent commissioners, compensation of the board of commissioners, and the board of directors in the study corporate governance component. It is better to use broader corporate governance variables such as corporate social responsibility, institutional investors, audit quality, and others for further research. The study can examine other variables that affect corporate tax management, considering that the independent variables only explained 18.9% of the total in this study.

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