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VARIABLES THAT INFLUENCE TAX AVOIDANCE OF FINANCIAL SECTOR COMPANIES LISTED ON THE IDX

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ABSTRACT

Tax revenue has increased every year, so the government must encourage tax compliance activities so that community welfare and development can be realized. The government must ensure that there are no tax avoidance practices carried out by taxpayers given the application of the self-assessment collection system in Indonesia. This study aims to determine how executive character, executive compensation, institutional ownership, independent commissioners, and accounting conservatism have an impact on the tax avoidance of financial sector companies listed on IDX. The technique that was used in this research is purpose sampling with the results of about 25 financial sector companies listed on the IDX. In this research, multiple linear regression analysis testing was carried out using the SPSS IBM Statistics program. The results obtained from this study confirm that executive character has a significant and positive influence on tax avoidance, on the other hand, executive compensation, institutional ownership, independent commissioners, and accounting conservatism do not have a significant effect on tax avoidance. According to this study, companies should show more attractive environmental performance to attract investors.

Keywords: *executive character. executive compensation, institutional ownership, independent commissioners, accounting conservatism.*

1. INTRODUCTION

Taxes are the highest revenue component of the Indonesian government. Taxes are also established as one of the obligations in the state. Data on the realization of tax revenue over the past three years shows that taxes are the largest source of state revenue. For the state, taxes are a source of income, while for companies taxes are a burden that reduces the company's net profit, so there are differences in interests that the tax authorities expect with the interests of companies that expect the minimum possible payment. The difference in interests between the two based on agency theory will lead to non-compliance by taxpayers or company management which has an impact on the company's efforts to minimize tax liabilities on pre-tax profits by carefully taking loopholes in tax provisions, such as tax imposition through transactions that are not tax objects known as tax avoidance [1]. Tax avoidance will provide significant benefits for the company, but on the other hand, will have a negative impact on state revenue from taxes [2]. In this era of globalization, many companies specifically implement corporate governance practices to minimize business risks that occur and are an important determinant of the assessment for tax savings. The issue of corporate governance (CG) emerged after the 1998 financial crisis which led to various views from many parties that the length of the crisis recovery process was due to the weak corporate governance implemented by the company. To carry out good corporate governance, companies usually do various ways, generally, companies consider implementing/holding independent commissioners, executive compensation, institutional ownership, and executive character. All aspects contained in GCG are expected to be able to make a company better in various sectors, in this case, especially taxation.

The emergence of cases related to how to minimize the tax burden through tax avoidance efforts, one of which is the case of tax avoidance by Bank Central Asia (BCA) raises questions for corporate governance and results in the revelation of the fact that good corporate governance mechanisms have not been implemented by public companies in Indonesia. BCA Bank conducted tax avoidance by using cracks in tax regulations by making expenditure reports beyond reasonable limits or unreasonable, increasing salaries and benefits of employees, and bribing tax officials. The case involved the DGT officer, Hadi Purnomo in 2004-2006. This can also make companies report information that is not reality and encourage companies to manipulate accounting to avoid the amount of tax payable.

This research uses one of the previous studies with the same topic and theory but different research subjects as a reference. Although there are many related studies on tax avoidance, the results are inconsistent. In [3], [4], and [5], Executive Character has a significant positive effect on Tax Avoidance, otherwise in [6] and [7] Executive Character does not affect Tax Avoidance. Other studies say that Executive Character has a negative effect on Tax Avoidance, namely research by [8]. Executive Compensation has a negative effect on Tax Avoidance in research performed by [9] and [10] but has a positive effect on Tax Avoidance in [11], [12], and [13]. In addition, studies conducted by [7] say that Executive Compensation does not affect Tax Avoidance. Institutional Ownership does not affect Tax Avoidance in [14] and [15], but has a positive effect on Tax Avoidance in [16] and [17]. Other studies say that Institutional Ownership has a negative effect on Tax Avoidance, namely research by [18] and [19]. Furthermore, Independent Commissioners do not affect Tax Avoidance in [11] and [12], but have a positive effect on Tax Avoidance conducted by [20], dan [21]. Lastly, the Accounting Conservatism variable had a significant positive effect on Tax Avoidance in [22] and [23], but has a negative effect on Tax Avoidance in [7] and [24]. Based on the phenomena and background above, knowing the tax avoidance of financial sector companies should be valuable for various investors, companies and academics. The variables analyzed can be used by investors as investment signals in the financial sector. Companies can find out about the importance of implementing good corporate governance in making decisions related to tax avoidance actions. Meanwhile, the number of research in certain industries may be a source of additional information and references for academics for further research. The research's unique feature is that this combines part of the GCG in the financial sector company, thus allowing a better understanding of the GCG function in the influence of tax avoidance.

2. RESEARCH METHOD

Agency theory describes an agency relationship where one party delegates work and decision-making authority to another party, who then completes the work on behalf of the principal [25]. In this research, agency theory is used to explain tax avoidance activities themselves, which can occur due to agency caused by differences in information held between the two parties. in these circumstances, the Principal can limit divergent interests by establishing appropriate management incentive mechanisms and implementing appropriate controls aimed at limiting deviant management behavior [26], for example by publishing corporate governance information. In signal theory, Spence emphasizes the importance of information published by the company in the decisions of investors as external parties because investors always need complete, relevant, accurate and timely information to analyze and make decisions. This information is very important for investors and business people because it provides records, information, or an overview of the company's survival [29]. This theory is theory that is the basis for increasing the burden on the executive character which will have an impact on two opposite sides, namely tax protection and agency costs on the other hand.

Good Governance (GCG) is one of the pillars of the market economic system. Good corporate governance is needed to realize company performance. Corporate governance is a mechanism implemented to maintain the principles of justice and control between corporate institutions [30]. With organizational governance, it is hoped that it can create better company results. There are five principles of corporate governance, namely transparency, accountability, responsibility, independence and equality/fairness so that financial reports are of high quality [31].

Tax avoidance is an action that takes advantage of legal loopholes that are believed to allow tax avoidance to be carried out [32]. The ETR approach can explain tax avoidance arising from the effect of temporary differences and because it represents current and deferred taxes, it provides a comprehensive picture of changes in tax burden [33]. ETR and tax avoidance actions are inversely proportional, where the lower the ETR value, the more aggressive the tax avoidance actions of a company.

Executives are people who occupy a very important position in a company because they have the highest authority and power to direct the course of the company. Company managers show two characteristics in carrying out their duties: Risk takers and risk averse [34]. Executives who are more at risk are risk takers because they are more likely to take tax avoidance actions.

Compensation is a factor that can affect the performance of an employee either directly or indirectly [35]. Therefore, executive compensation is a system that can motivate executives to work harder to improve company performance, which is ultimately in line with company goals, especially the results achieved in the company.

The ownership structure is the type of organization or company with the largest investment in the company [36]. According to the agency approach, ownership structure is a mechanism to reduce conflicts of interest between managers and shareholders. Governance and institutional ownership are two GCG mechanisms that can overcome agency problems.

The Board of Commissioners is a legal entity whose function is to carry out general and/or special supervision based on the Articles of Association and provide advice to the Board of Directors. The greater the number of commissioners, the higher the proportion of independent commissioners. The higher the proportion of independent commissioners, the more independent commissioners the company has, so that independence is greater and tax avoidance is lower [37].

Conservatism in accounting is the practice of reducing profits and net worth in response to bad news but not increasing profits and net worth when there is good news [38]. The principle of conservatism will indirectly affect the financial statements issued by the company, where the financial statements prepared will later be used as a basis for decision-making for management in making policies related to the company, including tax avoidance policies.

Risk-taking executives usually want to be able to generate large cash flows to meet the business owner's goal of generating cash flow from company operations. High cash flow results from tax avoidance activities that increase tax savings. Therefore, executives with a risk-taking nature try to increase company income by carrying out tax avoidance [39]. The research found that executive character has a significant positive effect on Tax Avoidance [4], [5], and [6].

H1: Executive character has a significant positive effect on tax avoidance.

The provision of large bonuses allows managers to be more efficient in corporate taxation because executives will feel benefited by getting higher salaries so that they will further develop the company's presentation for the better, one of which is through efforts to increase corporate tax avoidance [12]. The study found that executive compensation has a negative effect on Tax Avoidance [11], [12], and [13].
H2: Executive compensation has a significant positive effect on tax avoidance

The greater the institutional ownership, the greater the voting power and incentive for the institution to control management and thus create a greater impetus for tax compliance. In this way, the company avoids tax avoidance behavior that deviates from the prevailing tax regulations in the country. Research conducted by [18] and [19] found that Institutional Ownership has a negative effect on Tax Avoidance.
H3: Institutional ownership has a significant negative effect on tax avoidance.

The presence of commissioners can increase supervision of manager performance so that when the number of independent commissioners increases, management control becomes tighter. With the increase in the number of independent commissioners, tax avoidance activities decrease, and an increase in the proportion of independent commissioners can prevent tax avoidance [40]. Independent commissioners will have a negative effect on Tax Avoidance [20] and [21].
H4: Independent commissioners have a significant negative effect on tax avoidance.

Conservative accounting principles lead to a reduction in corporate profits that serve as a guide for paying taxes. This means that the lower the company's income, the lower the tax burden that the company must pay. The more conservative the accounting practices in the company, the more careful the balance sheet reporting is, so that tax avoidance activities occur less frequently. The research found that the accounting conservatism variable had a significant positive effect on Tax Avoidance [22] and [23].
H5: Accounting conservatism has a significant positive effect on tax avoidance.

Based on theory, correlations and assumptions between variables described above, the research model in this study can be formed as follows:

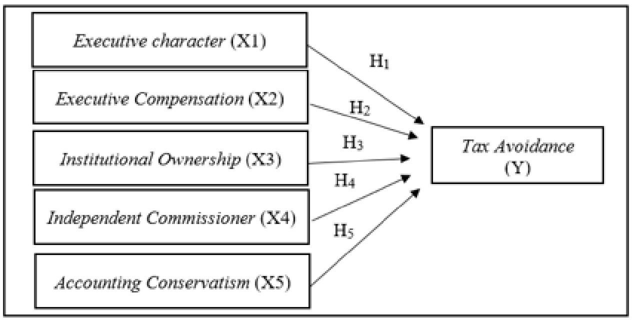

Figure 1. Research Model

This study uses financial sector companies that have been listed on the Indonesia Stock Exchange (IDX) for the period 2022 - 2023. The selected research sample is 25 companies. The data used in this study are secondary data taken from the financial statements of financial sector companies. The data collection technique used for this research is the purposive sampling method, namely by determining the sample with consideration. The criteria used for this research are a) Financial sector companies listed on the IDX in 2020-2022; b) Bank companies; c) Companies that do not conduct an initial public offering in 2020-2022; d) Companies that do not experience losses in 2020-2022. In this research, multiple linear regression analysis testing was carried out using the SPSS IBM Statistics program.

Below is a table of variable operations to get the results of the variables that used from the sample population.

Table 1. Operationalization of Research Variables
Source: Compiled by Author

Variabel	Ukuran	Skala	Sumber
Tax Avoidance (Y)	$ETR = \frac{current\ tax\ expense}{pre-tax\ income}$	Rasio	Hutchens et al., 2020)
Executive Character (X1)	$RISK = \frac{\sqrt{\sum_{T-1}^{T}(E - \frac{1}{T}\sum_{T-1}^{T} E)^2}}{T-1}$	Rasio	Windyasari et al., (2019)
Executive Compensation (X2)	$Executive\ Compensation =$ Ln $(Executive\ compensation)$	Rasio	Noviarty & Donela (2019)
Institutional Ownership (X3)	$Institutional\ Ownership = \frac{proportion\ of\ institutional\ shareholdings}{number\ of\ shares\ outstanding} x100\%$	Rasio	Kao et al., (2019)
Independent Commissioners (X4)	$Independent\ Commissioners = \frac{number\ of\ independent\ commissioners}{the\ number\ of\ members\ of\ the\ BOC} x100\%$	Rasio	Rahandika & Dewayanto (2019)
Accounting Conservatism (X5)	$Accounting\ Conservatism = \frac{(net\ income + depreciation) - cash\ flow}{total\ asset}$	Rasio	Lubis et al., (2022)

Based on the hypothesis above, the multiple linear regression equations formed:
$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$

Description:
Y : Tax avoidance
α : Constant
β_1 - β_5 : Multiple Linear Regression
X1 : Executive character
X2 : Executive compensation
X3 : Institutional ownership
X4 : Independent commissioners
X5 : Accounting conservatism
e : Error

3. RESULT AND DISCUSSION

The first test is to test the classic assumptions of the sample origin. This test includes the normality test, autocorrelation test, heteroscedasticity test, and multicollinearity test. The purpose of the normality test is to see whether the residual variable is regularly distributed. One sample of nonparametric statistical tests Kolmogorov-Smirnov (KS) test is used to do this test. If the asymp value. Sig. (2-tailed)> 0.05, the residual variable is said to be normal. asymp value.

Sig. (2-tailed) in this study is 0.200, based on test findings. As a result, it can be concluded that this research was widely disseminated.

Heteroscedasticity tests come next. The purpose of this study is to determine how many variants exist in residues in a study or observation. The Glejser test is used to check heteroscedasticity, assuming that if the significance value of the test results for each variable is 0.05, the regression model is free of heteroscedasticity. The significance value for the RISK, KE, KI, KOM, and KA variables is 0.224; 0.663; 0.208; 0.517; and 0.974. As a result, the regression model can be determined without heteroscedasticity problems.

Multicollinearity testing is the third test and is used to see whether there is a substantial relationship between the independent variables in this study. If the tolerance value> 0.10 or equivalent to the inflation factor of variance (VIF) 10.00, the regression model does not have a problem from the multicollinearity test. The value of tolerance for the rRISK, KE, KI, KOM, and KA variables is 0.924; 0.894; 0.925; 0.927; 0.962, while the VIF value is 1,082; 1,119; 1,081; 1,078; and 1,039. As a result, it can be said that this research has no multicollinearity problems.

The autocorrelation test which is the last test of the classic assumption, tries to determine whether there is a correlation between a face error in the previous period and the previous period. This test was carried out by conducting a Durbin -Watson (DW) test with the requirement that the DW results between -2 and +2, showed that there were no autocorrelation problems. The DW value obtained from the test results is 1,988 indicating that there are no autocorrelation problems in this study.

Regression between the independent and dependent variables will be the next test. Regression testing gives the following results:

Table 2. t-Test Result
Source: Output of SPSS

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.401	.268		1.496	.141
	RISK	1.611	.725	.279	2.223	.031
	KE	-.030	.013	-.291	-2.274	.027
	KI	.198	.110	.228	1.812	.076
	KOM	.010	.250	.005	.041	.967
	KA	.316	.223	.174	1.414	.163

Based on the test results is shown in table 2, the regression equation used is as follows:

$$0.401 + 1.611RISK - 0.030KE + 0.198KI + 0.010KOMP + 0.316KA$$

Based on the test results above, it can be seen that the coefficient value owned by executive character (RISK) is 1.611, which means that executive character has a positive direction towards tax avoidance. The significance value of executive character (RISK) is also smaller than 0.05, which is 0.031, which means that executive character has a significant effect on tax avoidance. The results of this study are in line with research conducted by [3], [6], [12], [41] and [42]. However, the results of this study are not in line with the research conducted by [5] and [43] which concludes that executive character does not influence tax avoidance. In the table above, it is shown that the coefficient value owned by executive compensation (KE) is -0.030, which means that executive compensation has a negative direction on tax avoidance. The significance value of executive compensation (KE) is also smaller than 0.05, which is 0.027, which means that executive compensation is significant to tax avoidance. From this explanation, it can be concluded that executive compensation has a significant negative effect on tax avoidance. The findings of this investigation agree with those of [9] and [10], but contrary to the findings of [11], [12], and [13] which showed executive compensation positive effect on tax avoidance. In other results in the table presented above, the significance value of Institutional Ownership (KI) is 0.076 which is greater than 0.05. Then the coefficient value obtained in the t-test is 0.198. In conclusion, Institutional Ownership is not significant in tax avoidance. From this explanation, it can be concluded that institutional ownership has no significant effect on tax avoidance. The results of this study are in line with research conducted by [14], but not in line with the research conducted by [17], [19], and [44] which concludes institutional ownership has a positive effect on tax avoidance. The results of the t-test table above also show a significant value of Independent Commissioners of 0.967 which is greater than 0.05. The test also produces a coefficient value of 0.10. This means that independent commissioners are not significant to tax avoidance. From this explanation, it can be concluded that independent commissioners have no significant effect on tax avoidance. The findings of this investigation agree with those of [11] and [12], but contrary to the findings of [43] and [45] which showed independent commissioners have a positive effect on tax avoidance. Based on the table presented above, it can be found that the t-test results show an Accounting Conservatism significance value as big as 0.163 which is greater than 0.05. Then, the coefficient value of Accounting Conservatism in this test is 0.316. It can be said that accounting conservatism does not have a significant effect on tax avoidance. The results of this study are in line with research conducted by [46] and [47]. However, the results of this study are not in line with the research conducted by [48] which concludes that accounting conservatism affects tax avoidance.

Table 3. Determination Test Result
Source: Output of SPSS

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.505[a]	.255	.182	.1211645

The multiple determination coefficient test is used to assess the ability of independent variables, such as executive character (risk), executive compensation (to), institutional ownership (KI), Independent Commissioner (KOM), and accounting conservatism (KA), to explain tax avoidance (ETR). The level of significance for this test is 5%. Below is the result of the determination test. The adjusted R2 value is 0.182, as can be seen in the table above. That might be concluded the independent variable can explain 18.2 percent of the dependent variable, while the remaining 81.8 percent can be explained by factors that are not investigated in this study. The results of this study are in line with research conducted by [3], [6], [12], [41] and [42]. However, the results of this study are not in line with the research conducted by [5] and [43] which concludes that executive character does not influence tax avoidance.

4. CONCLUSIONS AND SUGGESTIONS

The following are some conclusions that can be drawn from the results of research that has been carried out: (1) Executive character has a significant positive effect on tax avoidance; (2) executive compensation has a negative and significant influence on tax avoidance; (3) institutional ownership has a positive but not significant effect on tax avoidance; (4) Independent Commissioners have a significant influence on tax avoidance; (5) Accounting conservatism has no influence on tax avoidance.

This research has several limitations, such as the period used is still relatively short, at only three years. The adjusted R^2 is low at 18.2%. In addition, in this study, the proxy used for tax avoidance (variable Y) is only the Effective Tax Rate (ETR). There was no use of control variables, and the study population only used financial sector companies, so the study population was not broad enough. In closing, it is highly recommended for management to pay attention to the magnitude of the company's risks before establishing a policy. This aims to make it easier for companies to determine the level of risk so that they can produce a policy regarding optimal tax avoidance. It is also hoped that investors and prospective investors will carry out supervision or monitoring of management, to pay attention to the company's level of compliance in paying taxes so that the possibility of companies committing tax avoidance becomes smaller, so that investors can avoid and feel safe from unwanted cases. It is also suggested that future researchers who want to examine the factors that influence financial sector company tax avoidance can add other independent variables such as CSR, transfer pricing, GCG and others. In addition, the research population can be increased so that research results can cover companies in various sectors. Finally, It is hoped that future researchers can use a research period that is longer than three years.

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