

Research Article

The Influence Corporate Governance and Financial Distress on Tax Avoidance

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Abstract

This study aims to test the effect of corporate governance proxied by institutional ownership, independent board of commissioner, and audit committee and the effect of financial distress on tax avoidance in infrastructure, transportation, and logistics companies. This research uses a descriptive quantitative approach, which is analyzed using linear regression analysis of panel data such as the Chow test, Hausman test, classic assumption test, and hypothesis testing using EViews version 12 software. The population in this study is infrastructure, transportation, and logistic companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022. The sample of this study is 24 companies that were determined by purposive sampling method so that 120 observations were obtained. The results of this study partially show that Corporate Governance, which is proxied by Institutional Ownership, Independent Board of Commissioners, and Audit Committee, has no significant effect on Tax Avoidance, and Financial Distress has a significantly negative effect on Tax Avoidance in infrastructure, transportation, and logistic.

Keywords: institutional ownership, independent board of commissioners, audit committee, financial distress, tax avoidance

JEL Classification: G34, H25, G33

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1. Introduction

Taxes are the main source of income for developing a country, including Indonesia. Tax is a contribution to the state owed by an individual or entity that is coercive based on the law, without receiving direct compensation, and is used for state needs for the greatest prosperity of the people (UU KUP No. 28 of 2007). The role of taxes in Indonesia is very important to finance almost all state spending, including implementing development and regulating the country's economic growth.

As one of the most important sources of income that plays a major role in the country's development, the realization of tax revenues is expected to increase yearly. However, in its implementation, based on data submitted by the Directorate General of Taxes, tax revenue in Indonesia has never again reached the target figure since 2008. The tax revenue ratio gradually decreased yearly until 2020, the lowest realization of tax revenue compared to previous years. Namely only 6.9%. The low tax revenue that year was partly due to the COVID-19 pandemic, which began to enter Indonesia in March 2020. The pandemic caused conditions to be stressed in various aspects, including the country's economy.

Based on a report submitted by the Tax Justice Network entitled *The State of Tax Justice 2020: Tax Justice in the time of COVID-19* in November 2020, Indonesia is predicted to face losses of around IDR 68.7 trillion per year due to widespread tax avoidance practices. Some of which are carried out by corporate taxpayers. Apart from that, Indonesia is in the top 5 countries with the highest loss rates in Asia, occupying fourth position after China, India, and Japan. The report supports allegations of tax avoidance practices, which are the cause of not achieving annual tax revenue targets. Apart from that, the tax avoidance phenomenon that occurs in Indonesia is not new because several cases occurred in large companies such as PT Asian Agri Tbk, PT Coca Cola Indonesia, PT Kaltim Prima Coal, PT Bumi Resources, and PT Arutmin Indonesia (Kepramareni et al., 2020). Furthermore, according to research conducted by the ActionAid agency in October 2020, 20 developing countries have the potential to lose tax revenues of as much as \$2.8 billion from Big-Tech Companies such as Facebook, Alphabet Inc, and Google due to unfair tax policies resulting in This creates policy gaps that can be exploited for tax avoidance. In this research, it was stated that Indonesia is one of the countries with the highest tax gap (ActionAid, 2020).

The large role of taxes in realizing state development makes it important to research the causes of tax avoidance. The inconsistency in the results of previous research is the reason for conducting new research with variables that have yet to be studied to find out what factors influence tax avoidance. According to research conducted by Mulyani et al. (2018) and Hikmah and Sulistyowati (2020), institutional ownership affects tax avoidance. Meanwhile, according to Andini et al. (2022), institutional ownership does not significantly affect tax avoidance. Sunarsih et al. (2019) and Andini et al. (2022) state that the proportion of independent commissioners does not significantly affect tax avoidance. Meanwhile, Mulyani et al. (2018) and Sholikhah and Nurdin (2022) stated that independent commissioners influence tax avoidance. Mulyani et al. (2018) stated that the audit committee significantly influences tax avoidance. Contrary to research conducted by Sunarsih et al. (2019), which states that audit committees do not significantly affect tax avoidance. Furthermore, research conducted by Meilia and Adnan (2017) proves that financial distress significantly influences tax avoidance. Meanwhile, other research states that financial distress does not affect tax avoidance (Santosa et al., 2022; Rafi et al., 2022).

Minister of Finance Sri Mulyani said that tax revenues experienced growth of 41.93% (yoy), with the realization of tax revenues reaching 110.06% of the target. Sectorally, tax revenues until the end of 2022 experienced an extraordinary recovery in almost every sector. However, the transportation and warehousing company services sector was still in the lowest position in contributing to taxation (Santosa et al., 2023; Kurniati, 2022). Meanwhile, transportation and warehousing are sectors that play a role in the movement of the economy, supported by adequate infrastructure. Infrastructure development is the main foundation for economic movement to be carried out throughout Indonesia and even abroad. However, unfortunately, based on the World Economic Forum (WEF) report in *The Global Competitiveness Report 2019*, Indonesia is in 72nd position out of 141 in the level of infrastructure development, proving that Infrastructure development in Indonesia still needs to be improved. This condition attracts researchers to research infrastructure, transportation, and warehousing sectors.

Based on the description of the background, problems, and research gaps from previous research, this research was conducted to find out whether institutional ownership, independent board of commissioners, audit committee, and financial distress affect tax avoidance in infrastructure,

transportation, and warehousing companies registered in Indonesian Stock Exchange (BEI) 2018-2022. This research is expected to provide additional benefits of information, insight, and reference sources in the academic field.

2. Literature Review and Hypothesis

Tax policy is prepared to obtain the highest possible realization of tax revenue to be used as capital for state development. In contrast, for business actors, tax is a burden they want to avoid. This opinion indicates an agency problem between the government and business actors. In a tight economic situation, business actors try to minimize their burden, including efforts to avoid taxes (Santosa et al., 2021). Tax avoidance efforts are supported by the tax collection system implemented in Indonesia, namely the self-assessment system, which gives full authority to taxpayers. This allows business actors to seek ways to minimize their tax burden freely. Therefore, it is necessary to implement corporate governance in companies that run effectively to monitor every activity and management decision to reduce the occurrence of tax avoidance. Apart from the implementation of corporate governance, financial difficulties can also be a factor in the occurrence of tax avoidance in a company. Healthy financial conditions are the main foundation for running a business. In conditions of financial difficulties, management will develop a strategy to emphasize every cost that must be incurred, including, in this case, the amount of tax owed that the company have to pay (Santosa, Rahayu, et al., 2022).

Institutional ownership is the core of implementing the corporate governance concept, which effectively monitors management decisions and is considered capable of minimizing agency conflicts related to tax avoidance (Santosa et al., 2023). In addition, the supervisory function of institutional ownership with a higher share percentage allows for avoiding agency conflicts to minimize tax avoidance (Santosa, Rahayu, et al., 2022).

Lastyanto & Setiawan (2022) The results of their research stated that institutional ownership has a significant negative effect on tax avoidance, meaning that the large amount of institutional ownership is in line with the high possibility of tax avoidance behavior. Based on the theory and previous research that has been described, the following hypothesis is proposed:

H₁: Institutional ownership influences tax avoidance.

As an independent party not affiliated with other stakeholders, the independent board of commissioners is responsible for carrying out the supervisory function to control management actions in presenting quality financial information (Annisa, 2012). With its supervisory function, the board of commissioners can prevent legal violations that are detrimental to the company and its stakeholders (Khairandy, 2008).

Rejeki et al. (2019) research proves that the proportion of independent commissioners affects tax avoidance. The results of this research align with research conducted by Dewi (2019), which proves that the board of commissioners has a positive and significant influence on tax avoidance. Based on the theory and previous research that has been described, the hypothesis proposed is as follows:

H₂: The independent board of commissioners influences tax avoidance.

The audit committee assists the board of commissioners in carrying out its supervisory function over the process of preparing financial reports to prevent management fraud. Therefore, the greater the number of audit committees in a company, the greater the gap for tax avoidance.

Nugraheni and Pratomo (2018) and Wijayanti and Ayem (2022) prove in their observations that the audit committee has a negative effect on tax avoidance. Based on this explanation, the following hypothesis is proposed:

H₃: The audit committee influences tax avoidance.

Financial distress is a condition described by the inability of a company's operating cash flow to pay off the company's short-term obligations (Masdupi et al., 2018). Low management ability in a company can result in financial distress and even total bankruptcy. Companies under pressure,

especially in financial terms, are likely to carry out tax avoidance practices to reduce the tax burden they have to pay to the state.

In their research, Meilia and Adnan (2017) prove that financial distress affects tax avoidance. The results of this research are strengthened by research conducted by Riantami and Triyanto (2018) and Hartoto (2018), which shows that financial distress has a negative effect on tax avoidance, which means that the higher the level of financial distress, the company's tax avoidance actions will decrease. Based on theoretical explanations and previous research references, the following hypothesis is proposed:

H₄: Financial distress influences tax avoidance.

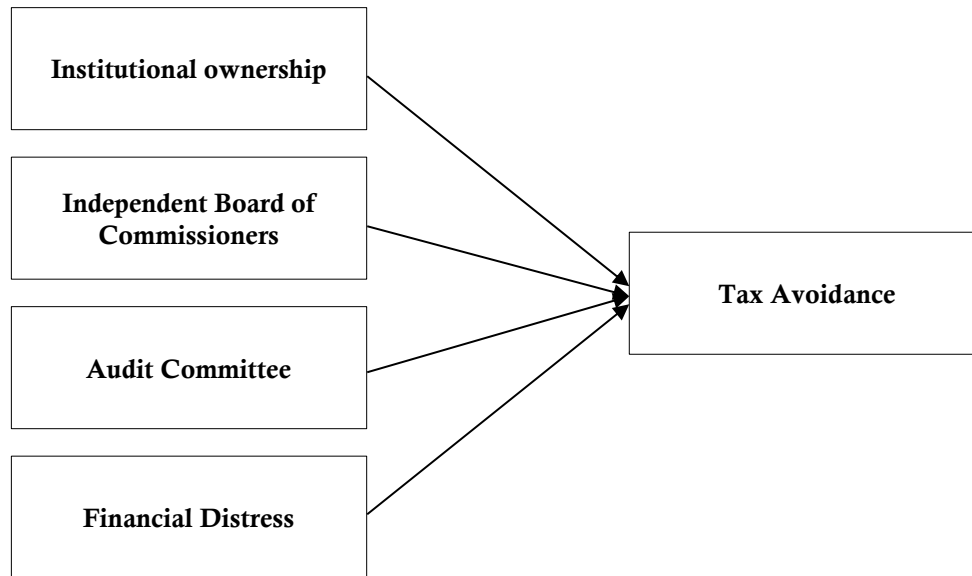


Figure 1. Research Framework

3. Data and Method

This study uses a quantitative approach. The type of data used in this research is secondary data. The secondary data in question is in the form of financial reports and annual reports of infrastructure, transportation, and warehousing companies registered on the IDX for 2018-2022, which were obtained from the website www.idx.co.id and the websites of each company. The population in this research is infrastructure, transportation, and warehousing companies registered on the IDX in 2018-2022. The sampling technique used in this research is a purposive sampling technique, namely a sampling method with certain criteria (Santosa & Hidayat, 2014)(Chandrarin, 2021). The data analysis used in this research is descriptive quantitative data analysis with time series data type. Hence, data processing in this research uses Eviews version 12 to obtain more accurate results.

Dependent variable

Tax avoidance is an effort to minimize the tax burden owed by exploiting gaps or gray areas in tax policy and directing transactions that are not tax objects. Tax avoidance is measured using the Cash Effective Tax Rate (CETR) formula, namely dividing cash paid for taxes by profit before tax (Monika & Noviani, 2021), as follows:

$$CETR = \frac{\text{Cash Tax Paid}}{\text{Pretax Income}} \quad (1)$$

CETR is good for detecting tax avoidance because CETR does not affect the estimated allowance or tax protection (Dyrenge et al., 2008). In addition, CETR can assess tax payments from cash flow

reports to find out the actual amount spent by the company to pay its taxes. The higher the CETR percentage approaching the 25% corporate income tax rate, the lower the company's tax avoidance level (Ritonga, 2019).

Independent Variable

Institutional Ownership

Institutional ownership is the number of shares owned by institutions or institutions. Institutional ownership is measured based on the number of institutional shareholders or by the percentage proportion of total institutional share ownership of the total shares outstanding. This research uses the proportion of institutional share ownership of all outstanding shares (Santosa et al., 2022) (Mulyani et al., 2018) with the following formula:

$$KI = \frac{\text{Jumlah saham yang dimiliki institusi}}{\text{Jumlah saham beredar}} \quad (2)$$

Independent Board of Commissioners

The independent board of commissioners is a company organ that is not affiliated with other stakeholders and is responsible for improving supervision of management performance. The greater the number of boards of commissioners, the tighter the supervision of management (Santosa et al., 2022). The independent board of commissioners is measured by calculating the percentage of the number of independent commissioners from the entire board of commissioners (Sunarsih et al., 2019) with the following formula:

$$DKI = \frac{\text{Jumlah anggota dewan komisaris independen}}{\text{Jumlah seluruh anggota dewan komisaris}} \quad (3)$$

Audit Committee

The audit committee is a committee that works professionally and independently in assisting the board of commissioners to strengthen its supervisory function over all processes for managing financial reports, risk management, audit implementation, and implementation of corporate governance in the company. Audit committees are measured based on the total number of audit committees in the company (Budiantoro et al., 2022; Sunarsih et al., 2019).

Financial Distress

Financial distress is a condition of financial decline that occurs continuously, resulting in liquidation. Financial distress is described by the company's inability to pay the company's obligations to creditors or the occurrence of insolvency. In this research, financial distress is measured using the Altman Z score model. This model involves several important ratios in calculating financial distress. The Altman z score model was chosen based on reference research conducted by Antoniawati & Purwohandoko (2022) with the following formula:

$$Z' = 6,56Z_1 + 3,26Z_2 + 6,72Z_3 + 1,05Z_4 \quad (4)$$

Information:

Z' : Overall index of bankruptcy

Z_1 : Working Capital to Total Assets

Z_2 : Retained Earnings to Total Assets

Z_3 : EBIT to Total Assets

Z_4 : Book Value Equity to Book Value of Total Debt

Value category:

$Z' < 1,1$: Perusahaan dalam kondisi bangkrut

$1,1 < Z < 2,6$: Perusahaan berada di grey area

$Z > 2,6$: Perusahaan tergolong sehat

4. Results

Descriptive Statistical Test

Table 1. Descriptive Statistical Test

	CETR	KI	DKI	KOA	ZSCORE
Mean	0.798027	0.680327	0.408968	3.291667	1.108439
Median	0.318412	0.673808	0.400000	3.000000	1.041173
Maximum	9.070162	0.995151	0.666667	7.000000	3.576597
Minimum	0.016848	0.421532	0.166667	3.000000	0.157138
Observations	120	120	120	120	120

Source: Data processed (2023)

Institutional ownership, which is measured by comparing the number of share ownership with the number of outstanding shares, has a mean value of 0.680327 and a median of 0.673808, with the lowest value of 0.421532 owned by PT Adi Sarana Armada Tbk in 2022 and the highest value of 0.995151 owned by PT Link Net Tbk in 2022 and a standard deviation value of 0.156158.

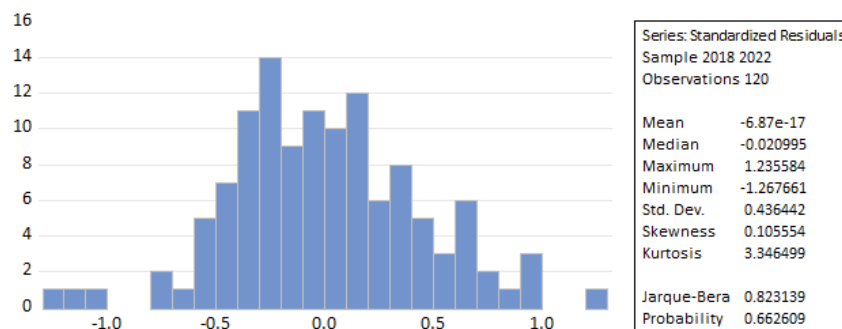
The Independent Board of Commissioners is measured by comparing the number of independent commissioners with the number of board of commissioners with a mean value of -0.408968 and a median of 0.400000 with the lowest value of 0.166667 owned by PT Jasa Marga (Persero) Tbk in 2018 and the highest value of 0.666667 owned by PT Temas Tbk and PP Presisi Tbk and a standard deviation value of 0.099769.

The number of audit committees measures the Audit Committee has a mean value of 3.291667 and a median of 3.000000 with the lowest value of 3.000000 and the highest value of 7.000000 owned by PT Telkom Indonesia (Persero) Tbk and a standard deviation value of 0,749183.

Financial Distress is measured using the Altman Z Score calculation, which has a mean value of 1.108439 and a median of 1.041173, with the lowest value of 0.157138 owned by PT Batavia Prosperindo Trans Tbk in 2020 and the highest value of 3.576597 owned by PT Temas Tbk and a standard deviation value of 0.157138.

Classic assumption test

Normality test



Gambar 1. Uji Normalitas Data

Based on the illustration above, it is known that the probability value is 0.662609, which means it is greater than $\alpha=0.05$, so it can be concluded that the regression model in this study is normally distributed.

Multicollinearity Test**Tabel 2. Multicollinearity Test**

	KI	DKI	KOA	ZSCORE
KI	1.000000	0.207910	-0.064984	0.129901
DKI	0.207910	1.000000	0.023779	0.224399
KOA	-0.064984	0.023779	1.000000	-0.009147
ZSCORE	0.129901	0.224399	-0.009147	1.000000

Source: Data processed (2023)

Based on the table above, it is known that each independent variable has a correlation value below 0.8, so it can be concluded that there is no multicollinearity in the regression model used in this research.

Autocorrelation Test**Tabel 3. Autocorrelation Test**

R-squared	0.086495	Mean dependent var	-4.73E-17
Adjusted R-squared	0.037990	S.D. dependent var	0.431338
S.E. of regression	0.423066	Akaike info criterion	1.173984
Sum squared resid	20.22525	Schwarz criterion	1.336588
Log-likelihood	-63.43903	Hannan-Quinn criteria	1.240018
F-statistic	1.783232	Durbin-Watson stat	1.968490
Prob(F-statistic)	0.108740		

Source: Data processed (2023)

Berdasarkan tabel diatas, diperoleh nilai Durbin Watson (DW) adalah sebesar 1,968490. Penelitian ini menggunakan 120 sampel dengan 4 variabel independen atau variabel bebas sehingga berdasarkan tabel durbin watson dapat diketahui nilai Durbin Upper (DU) adalah sebesar 1,7715 dan Durbin Lower (DL) sebesar 1,1,6339. Sehingga dapat ditarik kesimpulan bahwa model regresi linier dalam penelitian ini terbebas dari masalah autokorelasi dengan nilai $DW > DU$ yaitu sebesar $1,968490 > 1,7715$ dan nilai $(4-DW) > DU$ atau $(4-1,968490) > 1,7715$.

Uji Heterokedastisitas**Tabel 4. Ringkasan Hasil Uji Heterokedastisitas**

Heteroskedasticity Test: Breusch-Pagan-Godfrey

Null hypothesis: Homoskedasticity

F-statistic	1.791665	Prob. F(4,115)	0.1353
Obs*R-squared	7.039556	Prob. Chi-Square(4)	0.1338
Scaled explained SS	8.189086	Prob. Chi-Square(4)	0.0849

Source: Data processed (2023)

Based on the table above, it is known that the Obs*R-squared chi-square probability value is 0.1338 or more than 0.05, so it can be concluded that the regression model in this research is homoscedastic or free from heteroscedasticity problems.

Panel Data Regression test – Random Effect Model (REM)**Table 5. Panel Data Regression test – Random Effect Model (REM)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.314871	0.419348	-0.750858	0.4543
KI	-0.453823	0.603935	-0.751443	0.4539
DKI	-0.077187	0.421051	-0.183320	0.8549
KOA	-0.562532	0.708169	-0.794347	0.4286
ZSCORE	-0.903441	0.166157	-5.437278	0.0000

Source: Data processed (2023)

Based on the results of panel data regression with the Random Effect Model (REM), a constant value of -0.314671 was obtained.

Hypothesis testing

t-test

Tabel 6. t Test

Variables	coefficient	std. Error	t-Statistics	Prob.
C	-0.314871	0.419348	-0.750858	0.4543
KI	-0.453823	0.603935	-0.751443	0.4539
DKI	-0.077187	0.421051	-0.183320	0.8549
KOA	-0.562532	0.708169	-0.794347	0.4286
ZSCORE	-0.903441	0.166157	-5.437278	0.0000

Source: Data processed (2023)

The t-test was carried out to determine the influence of each independent variable, namely institutional ownership, independent board of commissioners, audit committee, and financial distress, on the dependent variable, namely tax avoidance. The decision to accept or reject the hypothesis is made by comparing the count value with the stable value with a significance value of 5% or 0.05.

Coefficient of Determination Test (R2)

Tabel 7. Coefficient of Determination Test (R2)

Weighted Statistics	
R-squared	0.206350
Adjusted R-squared	0.178744

The coefficient of determination test (R2) is intended to measure how much the independent variable is able to explain the dependent variable in the research conducted. The value of the coefficient of determination (R2) is between 0 and 1. The closer the value of the coefficient of determination (R2) is to 1, the greater the ability of the independent variable to explain the dependent variable.

Based on the panel data regression results shown in Table 7, it is known that the adjusted R-squared value obtained is 0.178744 or 17.87%. This result means that the independent variables in this research include Institutional Ownership, Independent Board of Commissioners, Audit Committee, and Financial Distress. It is only able to explain Tax Avoidance of 17.87%, while the remaining 82.13% were explained through other variables not used in this research.

5. Discussion

The Influence of Institutional Ownership on Tax Avoidance

The first hypothesis is the influence of institutional ownership on tax avoidance. The t-test results show that the institutional ownership variable has a t value of -0.751443, smaller than the t-table value of 1.97993 and the prob value of 0.4539 > 0.05, it can be concluded that institutional ownership has no effect on tax avoidance, and H1 is rejected. Institutional ownership does not affect tax avoidance because institutional shareholders do not have a supervisory function that can directly influence every management decision and action to prevent tax avoidance practices. The results of this study differ from those of Rejeki et al. (2019) and Dewi (2019), who state that institutional ownership influences tax avoidance.

The Influence of the Independent Board of Commissioners on Tax Avoidance

The second hypothesis is the influence of an independent board of commissioners on tax avoidance. The t-test results show that the t value for the independent board of commissioners variable is -0.183320, smaller than the t table of 2.06390 and the prob value. Equal to 0.2576 >

0.05. So, H2 is rejected, and it is concluded that the independent board of commissioners does not affect tax avoidance. This result indicates that the independence of the independent board of commissioners is disturbed so that the supervisory function is not carried out optimally in supervising management actions. This study's results differ from research conducted by Rejeki et al. (2019) and Dewi (2019), who prove that the board of commissioners has a positive and significant influence on tax avoidance.

The Influence of the Audit Committee on Tax Avoidance

The third hypothesis is the influence of the audit committee on tax avoidance. Based on the results of the t-test, it can be seen that the value of $t\text{-count} < t\text{-table}$ ($-0.794347 < 1.97933$) and the value of probability amounting to $0.4268 > 0.05$, so it is concluded that the audit committee has no effect on tax avoidance and H3 is rejected. The audit committee does not affect tax avoidance because in monitoring management actions, an audit committee is needed, and the quality of the audit committee in carrying out its duties and the level of information disclosure within the company for audits to be carried out. This study's results differ from research conducted by Nugraheni and Pratomo (2018) and Wijayanti and Ayem (2022), who prove in their observations that the audit committee has a negative effect on tax avoidance.

The Effect of Financial Distress on Tax Avoidance

The fourth hypothesis is the influence of financial distress on tax avoidance. Based on the results of the t-test, it can be seen that the value of $t\text{-count} > t\text{-table}$ ($2.264695 > 2.06390$) and the value of probability amounting to $0.0348 < 0.05$, so it is concluded that financial distress has an effect on tax avoidance and H4 is accepted. Financial distress influences tax avoidance, which means that the higher the company's financial distress, the greater the level of tax avoidance. This result is because, in stressful situations, companies try everything they can to minimize the tax burden that must be paid. The results of this research are strengthened by research conducted by Riantami and Triyanto (2018) and Hartoto (2018), which shows that financial distress has a negative effect on tax avoidance, which means that the higher the level of financial distress, the company's tax avoidance actions will decrease.

6. Conclusion

Based on the discussion of research results, it can be concluded that:

Institutional ownership does not affect tax avoidance because institutional shareholders do not have a supervisory function that can directly influence every management decision and action to prevent tax avoidance practices.

The independent board of commissioners does not affect tax avoidance; this indicates that the independence of the independent board of commissioners is disturbed so that the supervisory function is not carried out optimally in supervising management actions.

The audit committee does not affect tax avoidance because in monitoring management actions, an audit committee is needed, and the quality of the audit committee in carrying out its duties and the level of information disclosure within the company for audits to be carried out.

Furthermore, financial distress affects tax avoidance, which means that the higher the company's financial distress, the greater the level of tax avoidance. This finding is because companies try everything they can in stressful situations to minimize the tax burden that must be paid.

Suggestions that can be given to future researchers are to conduct research using other variables that have not been explained in this research, such as transfer pricing, political connections, and changes in tax rate policies, because multinational companies usually carry out tax avoidance practices to be able to take advantage of existing policies. In each country in the context of tax avoidance. Apart from that, further research can use samples from other sectors besides infrastructure, transportation, and warehousing companies, which are large and multinational, because these companies tend to have the potential to practice tax avoidance.

Recommendations

Investors are advised to be more careful in considering companies for investment purposes because even though tax avoidance is still legal, this action still causes losses for the country, impacting economic growth.

The government is expected to be more assertive in formulating legal policies so that there are no loopholes that can be exploited for the interests of certain parties.

Companies are expected to be careful in making decisions and remain responsible for their obligations as taxpayers.

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