

The Effect of Corporate Governance and Corporate Social Responsibility on Tax Avoidance in Manufacturing Companies Listed on the IDX

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ABSTRACT

This study was conducted with the aim of: (1) examine the effect of the proportion of independent commissioners on tax avoidance; (2) examine the effect of audit quality on tax avoidance; (3) examine the effect of institutional ownership on tax avoidance; (4) examine the effect of managerial ownership on tax avoidance; (5) examine the effect of CSR disclosure on tax avoidance. The type of data used in this study is secondary data taken from manufacturing company reports from 2015-2018. The data is obtained from the Indonesia Stock Exchange which can be accessed on the official website of the Indonesia Stock Exchange (www.idx.co.id) as well as the company website of the related company. The data collection technique used is the documentation method. The data analysis method used is multiple linear regression analysis. The results of this study indicate that: (1) ownership of the proportion of independent commissioners has a negative and significant effect on tax avoidance; (2) audit quality has a negative and significant effect on tax avoidance; (3) institutional ownership has a negative and significant effect on tax avoidance; (4) managerial ownership has a negative and significant effect on tax avoidance; (5) CSR has a negative and significant effect on tax avoidance.

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I. Introduction

The development of airline services from year to year is increasingly becoming a public concern. This can be seen from the intense competition in services, prices and promotions offered from various airlines. The attractiveness of the aviation industry that is in the business. Emphasis on tax burden, some are allowed (in accordance with tax provisions) and some are not allowed (not in accordance with tax provisions). Tax experts argue that tax avoidance is a permissible action in order to reduce the tax burden, while tax evasion is an action that violates tax laws. Tax avoidance is currently an important thing that must be considered by the tax authorities, because this activity may lead to tax evasion. This is because tax avoidance directly impacts the erosion of the tax base, which results in reduced tax revenues needed by the state. From a tax policy point of view, the omission of tax evasion practices can result in injustice and reduced efficiency of a tax system. Tax avoidance is generally done through complex transaction schemes that are systematically designed and generally can only be done by large corporations. This is what creates the perception of injustice, where large corporations seem to pay less tax. This in turn can lead to the reluctance of other taxpayers to pay taxes which results in the ineffectiveness of the tax system (Winarsih and Kusufi, 2014).

One of the main principles for making CG policies is transparency. Transparency is an element to maintain objectivity in running a business. The company must provide information that is easily understood and easily accessible by stakeholders. Transparency can be measured through audit quality. Based on these main problems, the problem formulations in this study are as follows: (1) Does the proportion of independent commissioners affect tax avoidance (2) Does audit quality affect tax avoidance (3) Does institutional ownership affect tax avoidance (4) Does managerial ownership affect tax avoidance (5) Does CSR disclosure affect tax avoidance?.

Freeman (1984) defines stakeholders as any group or individual who can affect or is affected by the achievement of the organization's objectives. The free translation is as a group or individual who can affect and/or be affected by the achievement of certain goals. Stakeholders can also be defined as people with an interest or concern in certain issues. . Yunus Handoko (2014) said that the survival of the company depends on the support of stakeholders so that the company's activity is to seek this support. The more powerful the stakeholder, the greater the company's effort to adapt. Social disclosure is considered as part of the dialog between the company and its stakeholders. One of the theories underlying corporate social responsibility is legitimacy theory. Legitimacy theory and stakeholder theory are theoretical perspectives within the framework of political economy theory. According to Gray et al in Ibnu Dipraja (2014), the influence of the wider community can determine the allocation of financial resources and other economic resources, companies tend to use environmental-based performance and disclosure of environmental information to justify or legitimize corporate activities in the eyes of society. Edoardus Satya Adhiwardana and Daljono (2013) state that legitimacy theory focuses on the company's obligation to ensure that they operate within the appropriate frames and norms in the community environment where the company stands, where the company ensures that the activities carried out are accepted as legitimate. Legitimacy theory in developing countries includes two things, namely: The ability to place the profit maximization motive makes a clearer picture of the company's motivation to enlarge its social responsibility. Organizational legitimacy can include cultural factors that shape different institutional pressures in different contexts.

Sukrisno Agoes (2006) defines good corporate governance as a system that regulates the relationship between the role of the board of commissioners, the role of directors, shareholders, and other stakeholders. Good corporate governance is also referred to as a transparent process for determining company goals, achieving them, and assessing their performance. The Organization for Economic Cooperation and Development (OECD) tries to develop several principles that can be used as a reference by both the government and business people in regulating the relationship mechanism between these stakeholders. The OECD principles (in Sukrisno Agoes, 2006) cover 5 (five) main areas, namely: The rights of stockholders and their protection; the role of employees and other stakeholders; accurate and timely disclosures; transparency related to the structure and operations of the company; and the responsibility of the board (board of commissioners and board of directors) to the company, shareholders, and other interested parties. In summary, these principles can be summarized as follows: Equal treatment between stakeholders (fairness). Transparency. Accountability. Responsibility (responsibility)

In the explanation of Law of the Republic of Indonesia No. 40 of 2007, it is stated that the reason for the revocation of Law No. 1 of 1995 to be replaced by Law No. 40 of 2007. These considerations include rapid changes and developments related to technology, economy, public expectations regarding the need for improved services and legal certainty, social and environmental awareness, as well as demands for business management in accordance with the principles of good corporate governance. Amila Dyan Maraya and Reni Yendrawari (2016) state that at least four organs are needed to complete the implementation of good corporate governance, namely:

- 1) Independent Commissioners. Independent commissioners as parties who do not have business and family relationships with controlling shareholders, members of the board of directors and other commissioners must proactively strive for the board of commissioners to supervise and provide advice to the board of directors to ensure that the principles and practices of good corporate governance are implemented properly, comply with applicable laws and regulations and apply the values set by the company in carrying out its operations (National Committee on Governance Policy 2006).
- 2) Audit Quality. The Limited Liability Company Law Article 121 allows the Board of Commissioners to form certain committees deemed necessary to assist with the necessary supervisory duties. One of the additional committees that have now emerged to assist the functions of the Board of Commissioners is the Audit Committee.
- 3) Institutional Ownership. Jensen and Meckling (1976) state that managerial ownership and institutional ownership are two corporate governance mechanisms that can control agency problems. Institutional ownership is share ownership by the government, financial institutions, incorporated institutions, foreign institutions, and trust funds and other institutions. These

institutions have the authority to supervise management performance (Ngadiman and Puspitasari 2014).

- 4) **Managerial Ownership** Managerial ownership is share ownership by the company (directors, commissioners, managers, and employees) as measured by the total percentage of shares owned by management.

Companies are one of the joints of modern society, because companies are one of the centers of human activity in order to fulfill their lives. In addition, companies are also one of the sources of state income through taxes and labor pools. According to Dwi Tuti Muryati (2007), a company is an institution that is consciously established to carry out continuous activities to utilize natural resources and human resources so that they become economically useful goods and services. According to Sri Rejeki Hartono (2007), the activity of running a company is an activity that is carried out continuously in an uninterrupted sense, the activity is carried out openly in a legal / legal sense, and in order to gain profit, both for oneself and others. Edi Suharto (2010) states that CSR is applied to companies that operate in the context of global, national and local economies. CSR commitments and activities essentially refer to aspects of corporate behavior, including programs and policies that concern two key elements, namely:

- 1) **Good Corporate Governance:** business ethics, human resource management, social security for employees, and occupational health and safety.
- 2) **Good Corporate Social Responsibility:** environmental conservation, community development, human rights protection, consumer protection, supplier relations, and respect for the rights of other stakeholders.

According to Susanto in Busyra Azheri (2012), CSR in terms of implementation can be divided into three stages or categories, namely:

- 1) **Social obligation**, in this category the implementation of CSR is simply to fulfill the minimum requirements set by the government and there is a forced impression.
- 2) **Social reaction**, at this stage there is an awareness by the company of the importance of CSR, but it still has weaknesses because it is done after the community has experienced externalities for a long time without any policy from the company.
- 3) **Social response**, in this category, the community and the company look for opportunities for good in the community. This category is more than an ad hoc approach, charity, or external pressure. It is more of an internal drive and partnership.

Irhram Fahmi (2014) says that the benefits of CSR for companies include: Maintaining and boosting the company's reputation and image; Getting a license to operate socially; Reducing the company's business risk; Widening access to resources for business operations; Opening wider market opportunities; Reducing costs, for example related to the impact of waste disposal; Improving relationships with stakeholders; Improving relationships with regulators; Increase employee morale and productivity; Opportunities to get awards. CSR implementation requires disclosure or reporting that is useful in informing and communicating as well as a form of accountability to stakeholders. For this reason, CSR disclosure is so strategic in initiating stakeholder opinion in order to improve the company's reputation in real terms (Dwi Kartini, 2013) According to Sembiring in Rahmawati (2012), disclosure of corporate social responsibility (CSR), which is often also referred to as social disclosure, corporate social reporting, social accounting, is the process of communicating the social and environmental impacts of the organization's economic activities on special interest groups and on society as a whole. Social disclosure as a reporting or delivery of information to stakeholders about all company activities related to its social environment. The results of research in various countries prove that the annual report is an appropriate medium for conveying corporate social responsibility.

Stakeholder theory says that companies are not entities that only operate for their own interests but must provide benefits to their stakeholders. Thus, the existence of a company is greatly influenced by the support provided by stakeholders to the company. Yunus Handoko (2014) said that the survival of the company depends on the support of stakeholders so that the company's activity is to seek this support. The more powerful stakeholders, the greater the company's efforts to adapt. Social disclosure

is considered part of the dialog between the company and its stakeholders. The variables that researchers want to study regarding their influence on tax avoidance include the proportion of independent commissioners, audit quality, institutional ownership, managerial ownership and corporate social responsibility. The problem that researchers want to study is whether corporate governance proxied by the proportion of independent commissioners, audit quality, institutional ownership and managerial ownership and corporate social responsibility has an effect on tax avoidance. Based on the problems that have been stated, a framework of thought is presented which is outlined in the research model as follows:

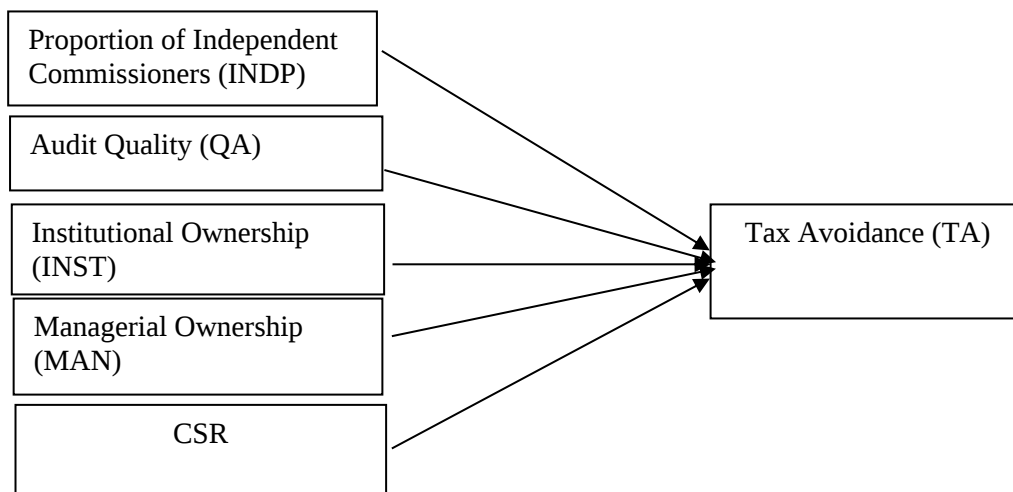


Figure 1. Conceptual Framework

Hipotesis

- H1 :The proportion of independent commissioners has a negative effect on tax avoidance.
- H2 :Audit quality has a negative effect on tax avoidance.
- H3: institutional ownership has a negative effect on tax avoidance.
- H4 :Managerial ownership has a negative effect on tax avoidance.
- H5: Corporate Social Responsibility has a negative effect on tax avoidance.

II. Methods

This study uses explanation research with a quantitative approach, because in this study the method used is an explanatory method. This research was conducted at manufacturing companies in the chemical industry sector listed on the Indonesia Stock Exchange. This research will be conducted for 2 months, namely between July and September 2019. The type of data used in this study is secondary data taken from manufacturing company reports from 2015-2018. Data can be obtained from the Indonesia Stock Exchange which can be accessed on the official website of the Indonesia Stock Exchange (www.idx.co.id) as well as the company website of the related company. The data collection method used in this research is the documentation method. The population used in this study are chemical industry sector manufacturing companies listed on the Indonesia Stock Exchange in the 2015-2018 period. Manufacturing companies were chosen because there are more manufacturing companies in Indonesia and are expected to be able to describe the state of companies in Indonesia and minimize industry effect bias. Sampling was done using purposive random sampling method. The analysis method used in this research is multiple linear regression. Multiple linear regression testing can be done after the model of this study meets the requirements of passing the classical assumption test. These conditions must be normally distributed, not contain multicollinearity, and heteroscedasticity.

III. Result and Discussion

a. Research Results

Based on the results of classical assumptions which include normality test, Multicollinearity test, Heterokedastisiitas test and Autocorrelation test, it shows that the multiple regression estimated has met the requirements of classical assumptions so that the results are expected to be good in analyzing the results.

1) Simultaneous Hypothesis Testing (F-test)

Table 1. Simultaneous Hypothesis Test Results
ANOVA^a

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	24181.261	5	4836.252	6.979	.000 ^b
	Residual	18016.418	26	692.939		
	Total	42197.679	31			

a. Dependent Variable: Tax Avoidance

b. Predictors: (Constant), CSR, Institutional Ownership, LN Audit Quality, Proportion of Independent Commissioners, Managerial Ownership

Table 1 shows that the significance level is smaller than 0.05, so it can be said that the composition of Independent Commissioners, Audit Quality, Institutional Ownership, Managerial Ownership and CSR simultaneously (together) have an influence on Tax Avoidance, with a probability of 0.002. Because the probability is much smaller than the significant value of 0.05, the regression model can be used to predict Tax Avoidance.

2) Partial Hypothesis Testing

Table 2. Partial Hypothesis Test Results
Coefficients^a

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	711.012	204.421		3.478	.002
	Proportion of Independent Commissioners	-1.865	.680	-.393	-2.741	.011
	Ln Audit Quality	-326.738	129.992	-.450	-2.514	.018
	Institutional Ownership	-1.737	.367	-1.324	-4.733	.000
	Managerial Ownership	-2.160	.532	-1.326	-4.062	.000
	CSR	-.790	.353	-.381	-2.237	.034

a. Dependent Variable: Tax Avoidance

Through t-test statistics consisting of the Proportion of Independent Commissioners (X1), Audit Quality (X2), Institutional Ownership (X3), Managerial Ownership (X4) and CSR (X5), it can be seen partially its influence on Tax Avoidance (Y).

- 1) Testing the First Hypothesis (H1), the table above shows that the Proportion of Independent Commissioners has a significant level of 0.011 which is smaller than 0.05. The t value of -2.741 indicates that the effect given is negative on the dependent variable. This means that

- H1 is accepted so that it can be said that the Proportion of Independent Commissioners has a negative and significant effect on Tax Avoidance.
- 2) Second Hypothesis Testing (H2). The table above shows that audit quality has a significant level of 0.018, which is smaller than 0.05. The t value of -2.514 indicates that the effect given is negative on the dependent variable. This means that H2 is accepted so that it can be said that Audit Quality has a negative and significant effect on Tax Avoidance.
 - 3) Third Hypothesis Testing (H3). The table above shows that institutional ownership has a significant level of 0.000 which is smaller than 0.05. The t value of -4.733 indicates that the effect given is negative on the dependent variable. This means that H3 is accepted so that it can be said that Institutional Ownership has a negative and significant effect on Tax Avoidance.
 - 4) Testing the Fourth Hypothesis (H2). The table above shows that Managerial Ownership has a significant level of 0.000 which is smaller than 0.005. The t value of -4.062 indicates that the effect given is negative on the dependent variable. This means that H4 is accepted so that it can be said that Managerial Ownership has a negative and significant effect on Tax Avoidance.
 - 5) Fifth Hypothesis Testing (H5). The table above shows that CSR has a significant level of 0.034, which is smaller than 0.05. The t value of -2.237 indicates that the effect given is negative on the dependent variable. This means that H5 is accepted so that it can be said that CSR has a negative and significant effect on Tax Avoidance.

Table 3. Determination Coefficient Test

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.757 ^a	.573	.491	26.32374	1.433
a. Predictors: (Constant), CSR, Institutional Ownership, LN Audit Quality, Proportion of Independent Commissioners, Managerial Ownership					
b. Dependent Variable: Tax Avoidance					

From the table above there is an R number of 0.757 which indicates that the relationship between Tax Avoidance and the five independent variables is strong, because it is in the strong definition whose numbers are above 0.61 - 0.8. While the R square value of 0.573 or 57.3% indicates that the Tax Avoidance variable can be explained by the variables of the Proportion of Independent Commissioners, Audit Quality, Institutional Ownership, Managerial Ownership and CSR by 57.3% while the remaining 42.7% can be explained by other variables not included in this study.

b. Discussion

1. Effect of Proportion of Independent Commissioners on Tax Avoidance

The results of hypothesis testing show that the proportion of independent commissioners has a negative and significant effect on tax avoidance. This shows that the greater the proportion of independent commissioners, the smaller the tax avoidance carried out by the company. With so many independent commissioners, the role in the monitoring function of managers' actions will run well, so that companies can apply accounting principles that will produce quality corporate financial information. This result means that the size of the proportion of independent commissioners in the board of commissioners will affect tax avoidance activities. This research is in accordance with stakeholder theory (Freeman, 1984) which says that a company is not an entity that only operates for its own interests but must provide benefits to its stakeholders. Thus, the existence of a company is strongly influenced by the support provided by stakeholders to the company. Yunus Handoko (2014) said that the survival of the company depends on the support of stakeholders so that the company's activity is to seek this support. The more powerful the stakeholder, the greater the company's effort to adapt. Social disclosure is considered part of the dialog between the company and its stakeholders. So with the presence of independent commissioners in the company, monitoring of manager actions will run well, so that company actions such as tax avoidance will be avoided. This research is supported

by research by Lanis and Richardson (2011) in Selly Septiani and Dwi Martani (2013) which states that companies that have independent commissioners, a large number of outside board of directors practice lower earnings management and tax management. If the number of independent commissioners on the board of commissioners is increasing, the better because independent commissioners can fulfill their role in the monitoring function of the actions of the directors. This shows that a higher proportion of independent commissioners allows them to ensure that management actions are appropriate and not just fulfill the formal provisions of the company that have no relationship with the internal company.

2. The Effect of Audit Quality on Tax Avoidance

The results of hypothesis testing show that audit quality has a negative and significant effect on tax avoidance. The better the audit quality produced by the company, the lower the tax avoidance carried out by the company. Financial reports that go public must first be audited by an auditor who has competence and a good reputation, the auditor will provide an opinion in accordance with the reports made by the company. So audited financial reports will have a smaller level of fraud than financial reports that have not been audited. This research is in accordance with stakeholder theory which says that companies are not entities that only operate for their own interests but must provide benefits to their stakeholders. Thus, the existence of a company is strongly influenced by the support provided by stakeholders to the company. This support is in the form of using auditor services to assess financial reports prepared by managers, in order to avoid fraud and provide opinions that can be used for decision making by interested parties. This research is supported by research by Annisa and Kurniasih (2012) explaining that audited financial reports have a lower level of fraud in taxation activities. If the audit quality is good, then tax avoidance will be smaller because financial reports that have good audit quality will be free from fraud. This shows that audit quality is one of the company's portraits, thus reflecting the value of the company. Audit quality is able to improve the quality of corporate earnings through monitoring that limits the behavior of selecting aggressive accounting procedures in managing corporate profits. This has a positive effect on improving the quality of accounting information components. Furthermore, improving the quality of earnings information to a reasonable level will encourage companies to reduce tax avoidance through the reporting of reasonable taxable income as well.

3. The Effect of Institutional Ownership on Tax Avoidance

The results of hypothesis testing show that institutional ownership has a negative and significant effect on tax avoidance. The greater the institutional ownership that the company must have, the lower the tax avoidance carried out by the company. The institution will supervise management performance, so that management will carry out company operations without committing fraudulent acts. This research is in accordance with stakeholder theory, which says that a company is not an entity that only operates for its own interests but must provide benefits to its stakeholders. Thus, the existence of a company is strongly influenced by the support provided by stakeholders to the company. This support is in the form of supervision of management so that the preparation of financial reports does not violate accounting principles and there is no fraud in order to sustain the company. This research is supported by Ngadiman and Puspitasari (2014) who found that institutional ownership has a negative effect on tax avoidance.

4. The Effect of Managerial Ownership on Tax Avoidance

The results of hypothesis testing show that managerial ownership has a negative and significant effect on tax avoidance. The greater the managerial ownership that the company must have, the lower the tax avoidance carried out by the company. The management tends to be more careful in making a decision because it will have a direct impact on him as a shareholder. So that the increase in the number of managerial share ownership can reduce the company's tendency to engage in tax avoidance, and vice versa. The reason is that share ownership by managers will tend to make managers consider the continuity of their company so that managers will not want their business to be examined regarding tax issues. This research is in accordance with stakeholder theory, which says that a company is not an entity that only operates for its own interests but must provide benefits to its stakeholders. Thus, the existence of a company is strongly influenced by the support provided by stakeholders to the company. This support is in the form of making financial reports that do not violate accounting principles and there is no fraud in order to sustain the company. This research is supported by Minnick and Noga's (2010) research showing that directors' incentives are an important factor of tax

aggressiveness and earnings management in the American context. Therefore, ownership by company board members creates incentives to protect their financial interests in the company.

5. The Effect of CSR on Tax Avoidance

The results of hypothesis testing show that profitability proxied through CSR has a negative and significant effect on tax avoidance. The higher CSR, the lower tax avoidance will be. With CSR disclosure, it will provide a good reputation to the public or to investors and the government, so that fraudulent acts such as tax avoidance will be avoided. At PT Chandra Asri Petrochemical Tbk, one of the CSR programs that the Company focuses on is environmental responsibility which reflects the awareness of all parties in the Company of the need to protect the environment. The Company always works to socialize and educate the public about the importance of managing the environment wisely. The Company refers to ISO 14001 Environmental Management System, an international standard for Environmental Management System (EMS). As a form of concentration on the environment, the Company also implements policies and conducts activities and programs that can help improve the environmental ecosystem. In carrying out its business operations, the Company always strives to use environmentally friendly and recyclable materials and energy. In this regard, the Company is guided by the Environmental CSR Implementation Guidelines to implement the Environmental CSR program in a systematic, integrated, and sustainable manner. The implementation guidelines include several important points related to the use of environmentally friendly and recyclable materials and energy which are implemented by the Company through the following activities. In managing waste both from production activities and other supporting activities, the Company applies the 3R principles of Reduce, Reuse, and Recycle, and conducts safe disposal. One example of the application of 3R is by implementing the Alternative Fuel Recovery Program. The Company works with partners who help process the Company's waste oil production so that it can be used as alternative fuel. In addition, in social community development, the Company formed and fostered two cooperatives in Mangunreja Village and Gunung Sugih Village. These two cooperatives are run by micro and small entrepreneurs who used to be the Company's partners in the Unsecured Loan Partnership program. In early 2017, the Company collaborated with Yayasan Relawan Kampung Indonesia, a social enterprise, to repair a suspension bridge in Sukajaya Village, Sajira District, Lebak Regency, Banten Province. The bridge, which had been damaged and abandoned for three years, can now be passed and utilized by the community for smooth daily mobility.

Legitimacy theory reveals that companies continuously strive to act in accordance with the boundaries and norms in society, for these efforts the company tries to make its activities acceptable according to the perception of external parties (Deegan, 2000 in Febrina and Suaryana, 2011). Legitimacy is obtained if what is carried out by the company is in line with what is also desired by society. Companies that disclose CSR from the use of capital owned by the company are expected to reduce the level of fraud. This relationship will encourage companies to disclose CSR from the use of some of their capital so as to reduce the occurrence of tax avoidance (fraud). This study is in line with research conducted by Watson (2011) in his research proving that companies that have high CSR disclosure tend to be less aggressive in their tax avoidance practices.

IV. Conclusion

The conclusions of the research on the analysis of the influence of the proportion of independent commissioners, audit quality, institutional ownership, managerial ownership, and CSR on tax avoidance in chemical companies listed on the Indonesia Stock Exchange are as follows: The proportion of independent commissioners has a negative and significant effect on tax avoidance which means that the greater the proportion of independent commissioners, the smaller the tax avoidance; Audit quality has a negative and significant effect on tax avoidance which means that the more qualified the audit of the company, the smaller the tax avoidance; Institutional ownership has a negative and significant effect on tax avoidance. This shows that the greater the institutional ownership, the smaller the tax avoidance; Managerial ownership has a negative and significant effect on tax avoidance. This shows that the greater the managerial ownership, the smaller the tax avoidance; CSR has a negative and significant effect on tax avoidance. This shows that the higher the corporate social responsibility, the smaller the tax avoidance will be.

Based on the research results obtained, the authors provide the following suggestions: For investors, if they want to invest, they try to get information as early as possible so that there is no

asymmetric information in making investment decisions. For the Company, it should provide information disclosure about its financial statements so that investors can easily access the information needed and so as not to cause losses to investors and the company itself. On the other hand, this study only uses chemical sector companies listed on the Indonesia Stock Exchange. It is expected to be able to use companies with different sectors. Then next, in this study, the R² (Determinant) value of 0.573 or 57.3% indicates that the tax avoidance variable can be explained by the variable proportion of independent commissioners, audit quality, institutional ownership, managerial ownership and CSR by 57.3% while the remaining 42.7% can be explained by other variables not contained in this study. It is expected to be able to use other variables or add to existing variables.

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