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Corporate Governance Mechanisms, Profitability, Company Size and Tax Avoidance (Empirical Studies on Manufacturing Companies in Indonesia and Malaysia from 2015-2018)

Novia Andriani[1], Slamet Haryono[2]
[1,2]*Department of Islamic Accounting, Faculty of Islamic Economics and Business,*
UIN Sunan Kalijaga Yogyakarta
Corresponding author**:** noviaandriani129@gmail.com[1]

Abstract

Purpose: This research examines the impact of corporate governance mechanisms, profitability, and company size on tax avoidance.
Methodology: This research uses multiple regression analysis and an independent sample t-test. Based on a sample of 380 firm-year observations from 95 manufacturing companies listed on the List of Sharia-Compliant Securities in Indonesia and Malaysia in 2015-2018.
Findings: The results of this research concludes that independent of the boards, audit committees, audit quality, institutional ownership and managerial compensation had negative influences on tax avoidance. Profitability and company size had positive influences on tax avoidance. This research also finds differences in the level of tax avoidance in Indonesia and Malaysia.
Novelty: This study uses manufacturing companies in Indonesia and Malaysia from 2015-2018

Keywords: Corporate Governance Mechanism, Profitability, Company Size, Tax Avoidance

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Introduction

Taxes are contributions to the state from parties who are obliged to pay them according to law and can be forced and do not get achievements directly. Taxes are the most important component of state revenue because taxes are the largest contributor to the state budget. In 2018 revenue from taxes contributed at least 98% of total state revenue consisting of 95% domestic tax revenue and 3% international trade tax revenue (RAPBN 2018). The large role of taxes in the country's economy makes the government make efforts to maximize revenue in the taxation sector, one of which is to prevent tax avoidance. Indonesia has taken various ways to reduce tax evasion, one of which is by becoming a member of the G20 and the Global Forum on Transparency and Exchange of Information for Tax purposes (Global Forum) to exchange information through the Automatic Exchange of Information starting in 2018 (Direktorat Jendral Pajak, 2018).

The tax ratio is one tool to measure the performance of a country's tax collection. The tax ratio measures the government's ability to collect taxes from the total economy. Therefore, the calculation of the tax ratio is a comparison of the value of the total tax collected with the Gross Domestic Product (GDP). Ideally, a country's economic growth is accompanied by an increase in tax collection performance. That is, economic growth (GDP) should have a positive correlation with the tax ratio. Unfortunately, this concept does not apply in Indonesia. In the 2019 OECD Revenue Statistics in Asian and Pacific Economies report, Indonesia is a country with the lowest tax ratio compared to countries in

the Asia-Pacific region in 2017. The tax ratio of 11.5% of GDP according to the OECD definition is very low compared to other countries. -other countries at the same income level, including Malaysia, Singapore and the Philippines.

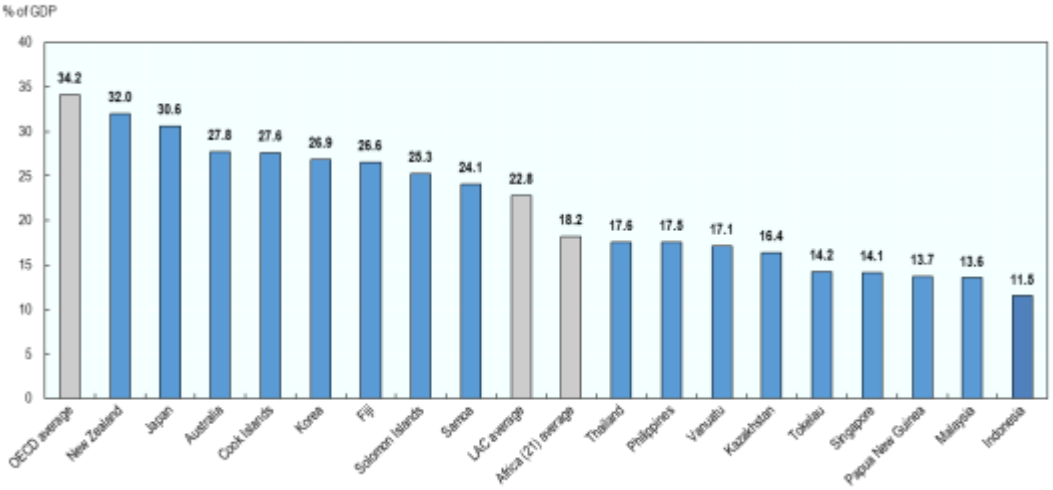

Figure 1. Tax-to-GDP ratios in Asian and Pacific Economies, 2017

The phenomenon of the low tax ratio in Indonesia is something that is not in line with the concept. One of the reasons for the low tax ratio in Indonesia is that the level of tax compliance is still not optimal. This can be seen from the percentage of taxpayer compliance which is still at 71.10% in 2018 (Direktorat Jendral Pajak, 2018).

In contrast to the government, taxpayers tend to reduce costs which can reduce their profits. Tax avoidance is an example of reducing the tax burden. Tax evasion is carried out by looking for weaknesses in tax regulations to "eliminate" income or transfer this income to countries with low tax rates or even tax-free, taking advantage of exceptions and deductions allowed in the provisions, or taking advantage of things that have not been regulated. (loopholes) in the applicable tax regulations.

This study uses good corporate governance mechanisms to encourage companies to carry out business activities properly without violating applicable regulations and maximizing shareholder value. Good corporate governance mechanisms in this study include the composition of the independent board, audit committee, audit quality, institutional ownership and managerial compensation. Previous research states that a higher proportion of independent members on the board reduces the likelihood of tax evasion including Minnick and Noga (2010); Lanis & Richardson (2011); Armstrong et al., (2015); and Lanis & Richardson, 2018. Mannick and Noga (2010) find that corporate governance (including independent boards) is not significantly related to GAAP ETR and Cash ETR. Research by Lanis and Richardson (2011) found that a higher proportion of outside directors on the board of directors reduced the level of tax aggressiveness. A more independent board will also reduce over-investment and under-investment in tax evasion (Armstrong et al., 2015). Meanwhile, the results of Lanis & Richardson (2018) show that outside directors exacerbate the negative relationship between CSR performance and tax aggressiveness.

This study also examines the effect of the mechanism of providing compensation to company management, especially key management including the board of commissioners and directors on corporate tax avoidance. Previous studies have also yielded mixed findings. One of them is research that says there is a positive effect between equity-based compensation and stock options on corporate tax avoidance (Mannick and Noga, 2010; Rego & Wilson, 2012). Whereas in Armstrong et al., (2012) and

Huang et al., (2018) state that executive compensation has a negative effect on tax evasion, whereas Armstrong, et al. (2012) use a measure of total compensation, which consists of the amount of salary, bonuses, long-term incentive payments, shares and stock options, and other amounts given to executives and Huang et al., (2018) uses cash compensation paid to executives.

This study seeks to incorporate corporate governance mechanisms which in previous research only focused on individuals in making tax policies within companies, for example, independent boards, and audit committees (Armstrong et al., 2015; Richardson et al., 2013a; Lanis & Richardson, 2018) and external influences such as audit quality and institutional ownership (Khurana & Moser, 2013; Kanagaretnam et al., 2016; Gaaya et al., 2017).

Literature Review

Stakeholder and Legitimacy Theory

Based on the perspective of agency theory, the board of directors represents a monitoring mechanism that is carried out to reduce any shareholder losses to control agency problems (Fama & Jensen, 1983). In particular, agency theory focuses only on the relationship between management and shareholders, whereas corporate governance focuses on the relationship between the corporation and the many other stakeholders in society (Lanis & Richardson, 2011).

Legitimacy theory proposes that companies seek to legitimize and maintain their relationships within the wider social and political environment in which they operate, without legitimizing them so they cannot survive regardless of how well off they are financially (Gray et al., 1995).

Positive Accounting Theory

Positive accounting theory attempts to explain a process by using accounting abilities, understanding and knowledge and the use of accounting policies that are more appropriate to explain and predict future accounting practices. This theory was developed by Watts & Zimmerman (1986). This theory was developed due to dissatisfaction with a normative theory which was said to be too simple and did not provide a strong theoretical basis.

Definition of Tax

Taxes are mandatory contributions that are collected and regulated by law and are addressed to every citizen either to individual or corporate taxpayers without receiving direct reciprocity which is used to finance the expenditure of a country to improve the welfare of the general public.

Tax Avoidance

Tax avoidance is one form of tax planning efforts (tax planning). Tax planning itself is classified as legal because it is carried out in a way that does not violate applicable tax provisions (Frank et al., 2009). The main purpose of tax avoidance is to minimize the tax obligations that must be paid by companies by exploiting the weaknesses contained in tax regulations.

Good Corporate Governance

The definition of corporate governance according to the Organization for Economic Co-operation Development (OECD) is a set of relationships between company management, boards, shareholders and other parties who have an interest in the company. Corporate governance is also defined as an internal control system that encourages the board and management to increase shareholder value by using company resources more efficiently.

Profitability

Profitability is the company's ability to earn profits with sales, assets and investments. Profitability ratios are used to measure the extent to which a company can generate profits at an acceptable level. The profitability ratio used in this study is the return on assets ratio. Return on Assets (ROA) is the ability to generate profits available to shareholders with their assets. The higher the ROA value, the better the company's performance.

Company Size

Company size is a scale for classifying the size of the company in various ways, including total assets, stock market value, level of sales and so on. Firm size is generally divided into three categories, namely small firms, medium firms and large firms. In this study, company size is measured by total company assets. Firm size is denoted by SIZE which is measured by the natural logarithm of total assets which is used to control for the size effect (Richardson et al., 2013).

Methodology

Data

This research is included in the quantitative and explanative descriptive research to measure the research results. Research data was obtained from the company's annual financial report. Secondary data is the type of data used in this study. The type of data collected is in the form of shari'ah compliance reports, financial reports, fiscal reports and company annual reports. Furthermore, the data is documented, calculated by the formula for each variable using Microsoft Excel and processed using SPSS software.

The source of this research data comes from the websites of the Indonesia Stock Exchange (www.idx.co.id) and the Malaysia Stock Exchange (www.sc.com) or from the official website of each company that is the object of research. The data needed is in the form of consistent financial reports and annual reports of Sharia companies. The consistency of Sharia companies can be seen in the Decree regarding the List of Sharia Securities which is issued periodically by the Financial Services Authority and the Sharia Advisory Council (MPS) Suruhanjaya Sekuriti Malaysia. Then the data analysis method in this study uses Descriptive Statistical Analysis, Classical Assumption Test (normality test, multicollinearity test, heteroscedasticity test, autocorrelation test), hypothesis testing (coefficient of determination, simultaneous test (F-Test), individual parameter test (t-test), multiple linear regression analysis models) and different test t-test to compare the averages of two unrelated or unpaired data groups, whether they have similarities or significant differences.

Multiple linear regression methods can be performed using SPSS to determine the relationship between the independent variables and the dependent variable. Based on the formulation of the problem, theoretical review and framework that has been described previously, the regression model formed in this study is as follows:

$$TA_{it} = \alpha_{it} + \beta_1 \text{Ind\_BOC}_{it} + \beta_2 \text{Aud\_Com}_{it} + \beta_3 AQ_{it} + \beta_4 IO_{it} + \beta_5 MC_{it} + \beta_6 ROA_{it} + \beta_7 SIZE_{it} + \varepsilon_{it} \quad (1)$$

Where:

TA : Tax Avoidance

Ind_BOC : Independent Board of Commissioners Proportion

Aud_Com : Audit Committee

AQ : Audit Quality

IO : Institutional Ownership

MC : Management Compensation

ROA : Profitability

SIZE : Company Size

α : Constant

β : Coefficient

ε : Error

it : Firm-years

Table 1. Variables Explanations

Variable	Explanation
TA	$BDT = \frac{Profit\ before\ tax - Taxable\ Income}{Total\ Assets}$
Ind_BOC	$\frac{Total\ Independent\ Board}{Total\ Board\ Members}$
Aud_Com	Σ Audit Committee
AQ	Dummy, one (1) if the company is audited by KAP The Big Four, and zero (0) otherwise
IO	$\frac{Total\ Institutional\ Share\ Ownership}{Number\ of\ Outstanding\ Shares}$
MC	Σ Compensation
ROA	$\frac{Profit\ After\ Tax}{Total\ Assets}$
SIZE	LN Total Assets

Results and Discussion

Descriptive Statistical Analysis

The following is a table of descriptive statistics from the research sample:

Table 2. Indonesian Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation	Skewness	Kurtosis
TA	180	-.037	.127	.01555	.031936	1.150	1.187
Ind_BOC	180	0.000	.667	.31021	.103963	.695	1.154
Aud_Com	180	3	4	3.18	.383	1.700	.899
AQ	180	0	1	.42	.494	.341	-1.905
IO	180	.121	.989	.69860	.183310	-.759	.674
MC	180	30313	7944570	1897048.6	2181213.6	1.502	1.084
ROA	180	0.000	.262	.06481	.047261	.939	1.010
SIZE	180	10.270	13.709	12.16213	.746060	-.133	-.068

Table 3. Malaysia Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation	Skewness	Kurtosis
BDT	200	-.094	.082	.00588	.024359	-.062	1.286
Dew_Ind	200	.286	.800	.52680	.108788	.037	.053
Kom_Aud	200	2	5	3.45	.574	.681	-.341
KA	200	0	1	.39	.489	.454	-1.812
KI	200	.032	0.932	.5035	.239357	-.016	.505
Komp	200	43336	3802859	912238.98	654142.31	1.626	3.463
ROA	200	.003	.180	.05382	.035052	1.083	1.268
SIZE	200	7.569	10.254	8.50249	.468265	.829	2.365

The table above shows the descriptive statistics for each variable as follows:

1. **Tax Avoidance**

   Table 2 shows that the tax avoidance variable (Indonesia) has the lowest value of -0.037 at PT Kabelindo Murni Tbk and the highest value is 0.127 at PT Trisula International Tbk. The average value is 0.01555 and the standard deviation is 0.031936.

   Table 3 shows that the tax avoidance variable (Malaysia) obtains a minimum value of -0.094 which is owned by Success Transformer Corporation Bhd and a maximum value of 0.082 by Sam Engineering & Equipment Bhd. The average value is 0.00588 and the standard deviation is 0.024359.

2. **Independent Council Proportion**

   Table 2 shows the independent board variable (Indonesia) obtaining the lowest value of 0.000 at PT Champion Pacific Indonesia Tbk and the highest value of 0.6667 at PT Pyridam Farma Tbk, then the average value is 0.31021 and the standard deviation is 0.103963. Table 3 shows the independent board variable (Malaysia) obtaining a minimum value of 0.286 which is owned by CSC Steel Holdings Bhd and a maximum value of 0.800 by Woodland Holdings Bhd, then an average value of 0.5268 and a standard deviation of 0.108788.

3. **Audit Committee**

   Table 2 shows the audit committee variable (Indonesia) obtaining a minimum value of 3 and the highest value of 4. The average value is 3.178 and the standard deviation is 0.103963. Table 3 shows the audit committee variable (Malaysia) obtaining the lowest score of 2 and the

highest score of 5 with a mean value of 3.45 and a standard deviation of 0.5737. This shows that the average number of audit committee members in Malaysia is higher than in Indonesia.

4. **Audit Quality**

   The audit quality variable uses a dummy variable to measure the use of the big four KAPs. Table 2 shows the audit quality variable (Indonesia) obtaining an average value of 0.4167 and a standard deviation of 0.49438. Table 3 shows the audit quality variable (Malaysia) obtaining a value of 0.390 and a standard deviation of 0.48897.

5. **Institutional Ownership**

   Table 2 shows the variable institutional ownership (Indonesia) obtaining the lowest value of 0.121 at PT Intanwijaya Internasional Tbk and the highest value of 0.989 at PT Chandra Asri Petrochemical Tbk, then the mean value is 0.6986 and the standard deviation is 0.183310. Table 3 shows that the institutional ownership variable (Malaysia) obtains a minimum value of 0.032 which is owned by OKA Corporation Bhd and a maximum value of 0.932 by Thong Guan Industries Bhd, then an average value of 0.5035 and a standard deviation of 0.239357.

6. **Management Compensation**

   Table 2 shows that the compensation variable (Indonesia) obtains a minimum value of $30,313 owned by PT Alkindo Naratama Tbk and a maximum value of $7,944,570 by PT Ricky Putra Globalindo Tbk, then an average value of $1,897,048 and a standard deviation of 2,181,213. Table 3 shows that the compensation variable (Malaysia) has the lowest value of $43,336 at Mercury Industries Bhd and the highest value of $3,802,859 at Success Transformer Corporation Bhd, then the mean value is $912,238 and the standard deviation is 654,142. Based on the average value, it can be seen that the average compensation value for Indonesia is greater than that for Malaysia.

7. **Profitability**

   Profitability variable (Indonesia) Table 2 shows the lowest value of 0.000 owned by PT Star Petrochem Tbk and the highest value of 0.262 is for PT Mandom Indonesia Tbk, then the mean value is 0.06481 and the standard deviation is 0.047261. Meanwhile, the kurtosis value is 1.010 (< 3) meaning that the data is platykurtic or the curve is flatter.

   Table 3 shows the variable profitability (Malaysia) obtaining the lowest value of 0.003 in Woodland Holdings Bhd and the highest value of 0.180 in the H & L High-Tech Bhd Group, then the average value is 0.053815 and the standard deviation is 0.035052.

8. **Company Size**

   Company size variable (Indonesia) Table 2 shows the lowest value of 10.270 in PT Chandra Asri Petrochemical Tbk and the highest value of 13.709 in PT Semen Indonesia Tbk, then the mean value is 12.16213 and the standard deviation is 0.74606. Table 3 shows the variable profitability (Malaysia) obtaining a minimum value of 7.569 owned by Advanced Packaging Technology (M) Bhd and a maximum value of 10.254 by Boustead Heavy Industries Corporation Bhd, then an average value of 8.50249 and a standard deviation of 0.468265.

Classic assumption test

Normality test

Following are the results of the normality test using SPSS 23 software on Table 4 shows that the regression model for Indonesia and Malaysia has a Monte Carlo Sig value. respectively 0.144 and 0.538 greater than $\alpha = 0.05$, then H0 is accepted, meaning that it can be concluded that the data in this study are normally distributed.

Table 4. Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual Malaysia	Unstandardized Residual Indonesia
N		200	180
Test Statistic		.056	.089
Asymp. Sig. (2-tailed)		0.200	0.001
Monte Carlo Sig. (2-tailed)	Sig. 99%	0.538	0.114
	Lower Bound	.525	.105
	Upper Bound	.551	.122

Multicollinearity Test

The following is a table showing the results of the multicollinearity test:

Table 5. Multicollinearity Test Results

	Collinearity Statistics			
	Malaysia		Indonesia	
	Tolerance	VIF	Tolerance	VIF
Independent Council Proportion	.877	1.140	.880	1.137
Audit Committee	.946	1.057	.896	1.116
Audit Quality	.874	1.144	.815	1.227
Institutional Ownership	.764	1.308	.952	1.051
Management Compensation	.656	1.524	.680	1.470
ROA	.892	1.122	.882	1.133
SIZE	.554	1.805	.719	1.391

Heteroscedasticity Test

The white test was carried out to detect heteroscedasticity in this study. The basis for decision-making in the white test is that there is no heteroscedasticity if the Chi-square (c2) count < Chi-square (c2) table. Table 6 shows the Malaysian and Indonesian regression models, the calculated c2 value is 6,200 and 10,800 respectively <c2 table = 12.59159. So that H0 is accepted, meaning that the Indonesian and Malaysian regression models have no symptoms of heteroscedasticity.

Autocorrelation Test

The method used to detect the presence or absence of autocorrelation is using the Durbin-Watson test. Decision-making shows that there is no positive and negative autocorrelation if the Durbin Watson value is between dU and (4-dU) or dU > d < (4-dU). The following are the results of the autocorrelation test using SPSS 23 software on table 7.

Table 6. Heteroscedasticity Test Results

	Malaysia	**Indonesia**
DF = k-1	7-1 = 6	7-1 = 6
α	5%	5%
Chi-Square Table	12.59159	12.59159
n	200	180
Adjusted R Square	0.031	0.060
Chi-Square Hitung (n x Adj. R^2)	6.200	10.800
Decision	H_0 Accepted	H_0 Accepted
	Chi-Square Count < Chi-Square Table	

Table 7. Autocorrelation Test Results

	Malaysia	Indonesia
N	200	180
K	7	7
A	5%	5%
dL	1.6966	1.6761
dU	1.8413	1.8374
Durbin Warson	2.0060	1.9120
Decision	H_0 Accepted dU< d < 4-dU	H_0 Accepted dU< d < 4-dU

Table 7 shows that the regression model for Malaysia and Indonesia has a Durbin Watson value of 2.0060 and 1.9120, respectively, where the value is between the dU values of 1.8413 and 1.8374 and the value (4-dU) of 2.1587 and 2.1626, meaning that H0 is accepted so that the regression model for Malaysia and Indonesia shows no positive and negative autocorrelation.

Hypothesis test

Coefficient of Determination (R2)

The coefficient of determination describes how much the model's ability to explain the variation in the dependent variable. The followings are the results and explanations from testing the coefficient of determination for the regression model for Indonesia and Malaysia:

Table 8. Coefficient of Determination

Model Summary

Regression Model 1	R	R Square	Adjusted R Square	Std. An error in the Estimate
Indonesia	.450[a]	.202	.170	.029098
Malaysia	.582[a]	.339	.315	.020167

a. Predictors: (Constant), Independent Board, Audit Committee, Audit Quality, Kep. Institutional, Compensation, ROA, SIZE.

b. Dependent Variable: BTD

From Table 8 for the Indonesian regression model, the Adjusted R Square value is 0.170 or 17%, this shows that all independent variables in the Indonesian regression model, namely the independent board, audit committee, audit quality, institutional ownership, compensation, profitability and company size can explain 17% of the research dependent variable, tax avoidance proxied by book-tax difference (BTD), while the remaining 83% was influenced or explained by other factors outside of this study.

The Adjusted R Square value in the Malaysian regression model is 0.315 or 31.5% which indicates that all independent variables in the regression model for Malaysia can explain 31.5% of the research dependent variable, namely tax avoidance proxied by the book-tax difference (BTD), while the remaining 68.5% influenced or explained by other factors outside of this study.

Simultaneous Test (F-Test)

The F test is a simultaneous test that is useful for jointly testing the independent variables on the dependent variable and seeing whether there is an effect or not. The following is a table showing the results of the ANOVA test as follows:

Table 9. F-test

ANOVA[a]

Model Regresi 1		Sum of Squares	df	Mean Square	F	Sig.
Indonesia	Regression	.037	7	.005	6.233	.000[b]
	Residual	.146	172	.001		
	Total	.183	179			
Malaysia	Regression	.040	7	.006	14.048	.000[b]
	Residual	.078	192	.000		
	Total	.118	199			

a. Dependent Variable: BTD

b. Predictors: (Constant), Independent Board, Audit Committee, Audit Quality, Institutional Ownership, Compensation, ROA, SIZE.

Based on Table 9, the calculated F value is 6,233 with a significance of 0,000 for Indonesia. The distribution of F table values at a significance of 0.05 where the F table formula = (k; n-k), then the F table value = (7; 180-7) = 2.06, so it can be concluded that the calculated F value is 6.233 (> F table = 2.06) and Sig value. of 0.000 (< α = 0.05) indicating the variable independent board, audit committee, audit quality, institutional ownership, compensation, profitability and firm size simultaneously (simultaneously) influence tax evasion for the Indonesian 1st regression model.

Table 9 also obtained a calculated F value of 14,048 with a significance of 0,000 for Malaysia. The distribution of F table values at a significance of 0.05 where the F table formula = (k; n-k), then the F table value = (7; 200-7) = 2.06, so it can be concluded that the calculated F value is 14,048 (> F table = 2.06) and Sig value. of 0.000 (< α = 0.05), then the regression model 1 for Malaysia shows the variables of an independent board, audit committee, audit quality, institutional ownership, compensation, profitability and company size simultaneously (simultaneously) influence tax evasion.

Individual Parameter Test (t-test)

The following are the results of the partial test (t-test) in this study as follows:

Table 10. Partial Test

Coefficients

Indonesia		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.101	.043		2.337	.021
	Independent Council Proportion	-.051	.022	-.165	-2.279	.024
	Audit Committee	-.018	.006	-.218	-3.029	.003
	Audit Quality	-.011	.005	-.168	-2.234	.027
	Institutional Ownership	-.037	.012	-.210	-3.009	.003
	Management Compensation	8.757E-10	.000	.060	.724	.470
	ROA	.147	.049	.217	2.995	.003
	SIZE	.001	.003	.014	.177	.860

a. Dependent Variable: BTD

Coefficients

Malaysia		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.077	.036		-2.166	.032
	Independent Council Proportion	-.032	.014	-.141	-2.254	.025
	Audit Committee	-.006	.003	-.131	-2.166	.032
	Audit Quality	.007	.003	.148	2.356	.019
	Institutional Ownership	.006	.007	.058	.870	.385
	Management Compensation	-1.316E-08	.000	-.353	-4.879	.000
	ROA	.261	.043	.376	6.051	.000
	SIZE	.013	.004	.251	3.177	.002

a. Dependent Variable: BTD

Based on Table 10 which shows the results of the (partial) t-test for the Indonesian and Malaysian regression models, the regression formula and interpretation are obtained as follows:

TA = 0.101 – 0.051 Dew_Ind – 0.018 Kom_Aud – 0.011 KA – 0.037 KI + 8.757 KM + 0.147 ROA + 0.001 SIZE + ε.....(Indonesia)

TA = (-0.077) – 0.032 Dew_Ind – 0.006 Kom_Aud + 0.007 KA + 0.006 KI – 1.316 KM + .261 ROA + 0.013 SIZE + ε.....(Malaysia)

The Influence of the Independent Council on Tax Avoidance

The independent board variable (Indonesia) obtains a value of Sig. of 0.024 (< α = 0.05) and the calculated t value of -2.279. The formula for finding the value of t table = α/2; n-k-1 = 0.05/2; 180-7-1 = 0.025; 172 then the t table value is 1.97385. This shows that the t count is 2.279 > 1.97385 t table, so H1a is accepted. The negative t value indicates that the independent board variable has the opposite direction or negative effect on the tax avoidance variable. The beta coefficient value (β) of the independent board variable is -0.051 indicating that each increase of one independent board unit (Indonesia) will reduce the tax avoidance variable by 0.051 with the assumption that the other independent variables from the regression model are fixed.

The independent board variable (Malaysia) obtained a value of Sig. of 0.025 (< α = 0.05) and the calculated t value of -2.254. The formula for finding the value of t table = α/2; n-k-1 = 0.05/2; 200-7-1 = 0.025; 192, the t table value is 1.97240. This shows that the t count is 2.254 > 1.9724 t table, so H1b is accepted. The negative t value indicates that the independent board variable has the opposite direction or negative effect on the tax avoidance variable. The beta coefficient (β) value of the independent board variable is -0.032 indicating that each increase by one unit of the independent board (Malaysia) will reduce BTD by 0.032 assuming that the other independent variables from the regression model are constant.

Line with research by Armstrong et al. (2015) states that a more independent board tends to reduce excessive investment and less tax evasion. Whereas in Lanis and Richardson (2018) the percentage of outside directors magnifies the negative relationship between CSR performance and tax evasion. Based on the legitimacy theory, companies are required to comply with the regulations in force where the company operates to be able to maintain their relations in the social and political environment, so an independent board act as an internal control mechanism that must increase its effectiveness in advising management regarding more optimal policies in all fields, One of them is related to the company's tax strategy.

The Influence of the Audit Committee on Tax Avoidance

The audit committee variable (Indonesia) obtains a Sig. of 0.003 (< α = 0.05) and the calculated t value of 3.029 (> t table = 1.97385), so H2a is accepted. Negative t-count values show the opposite direction or negative influence on the tax avoidance variable. The beta coefficient (β) value of the audit committee variable (Indonesia) is -0.018 indicating that each increase by one audit committee unit will reduce the BTD level by 0.018 assuming that the other independent variables from the regression model are fixed.

The audit committee variable (Malaysia) obtained a value of Sig. of 0.032 (< α = 0.05) and the calculated t value of 2.166 > (t table = 1.9724) so H2b is accepted. Negative t-count values show the opposite direction or negative influence on the tax avoidance variable. The beta coefficient (β) of the audit committee variable (Malaysia) is -0.006 indicating that each increase of one audit committee unit will reduce the level of BTD by 0.006 assuming that the other independent variables from the regression model are fixed.

These findings are consistent with the research of Robinson et al., (2012) and Richardson et al., (2013b) which state that the independent audit committee plays an important role in reducing the possibility of tax evasion within a company. Research by Hsu et al., (2018) also found a negative

relationship between audit committees and tax evasion for prospector-type companies. This finding also supports the legitimacy theory which states that the existence of an audit committee is a monitoring mechanism that encourages companies to comply with applicable laws, including tax regulations.

Effect of Audit Quality on Tax Avoidance

The audit quality variable (Indonesia) obtains Sig. of 0.027 (< α = 0.05) and the calculated t value of 2.234 (> t table = 1.97385), so that H3a is accepted. Negative t-count values show the opposite direction or negative influence on the tax avoidance variable. The beta coefficient (β) of the audit quality variable (Indonesia) is -0.011, indicating that every one-unit increase in audit quality will reduce the BTD level by 0.011, assuming that the other independent variables from the regression model are fixed.

The audit quality variable (Malaysia) obtained Sig. of 0.016 (< α = 0.05) and the calculated t value of 2.356 (> t table = 1.9724). A positive t count value indicates a unidirectional relationship or positive influence on the tax avoidance variable, so H3b is rejected. The beta coefficient (β) of the audit quality variable (Malaysia) is 0.007 indicating that each increase of one unit of audit quality will increase the BTD level by 0.007 assuming that the other independent variables from the regression model are fixed.

In line with research Richardson et al. (2013b) and Kanagaretna (2016), which states that auditor quality is negatively related to tax evasion, Gayaa et al. (2017) found that family firms using the Big Four KAP audits show less tax evasion. These findings support the legitimacy theory, where public and government trust increases with the use of The Big Four Public Accountants because it can help reduce corporate tax avoidance activities through increased monitoring and higher audit quality. While H3b shows unsupported results. Positive t-count values indicate a unidirectional relationship or positive influence on the tax avoidance variable. This shows that the use of KAP, the Big Four, in Islamic manufacturing companies in Malaysia actually increases the value of BTD, which indicates an increase in tax evasion. This might happen because the company uses the services of a tax consultant from an external audit company, as in the research of McGuire et al. (2012), who found that external audit firms with tax-specific industry expertise are associated with greater tax evasion.

Effect of Institutional Ownership on Tax Avoidance

The institutional ownership variable (Indonesia) obtains a value of Sig. of 0.003 (< α = 0.05) and the calculated t value of 3.009 (> t table = 1.97385), so H4a is accepted. Negative t-count values show the opposite direction or negative influence on the tax avoidance variable. The beta coefficient (β) of the institutional ownership variable (Indonesia) is -0.037 indicating that each increase of one unit of institutional ownership will decrease the level of BTD by 0.037 assuming that the other independent variables from the regression model are fixed.

The institutional ownership variable (Malaysia) obtains a value of Sig. of 0.385 (> α = 0.05) and the calculated t value of 0.870 (<t table = 1.9724), so H4b is rejected. Positive t-count values indicate a unidirectional relationship or positive influence on the tax avoidance variable. The beta coefficient (β) of the institutional ownership variable (Malaysia) is 0.006 indicating that each increase of one unit of institutional ownership will increase the level of BTD by 0.006 assuming that the other independent variables from the regression model are constant.

This study is in accordance with the findings of Khurana & Moser (2013), which state that institutional shareholders reduce the value of BTD, which reflects a decrease in the level of tax evasion, as well as the findings of Hasan et al. (2016), which show that foreign institutional ownership has a negative effect on corporate tax evasion. This finding also supports the theory of legitimacy: the larger

institutional investors provide tighter oversight to deter managers' opportunistic behavior such as tax evasion and maintain the company's reputation. While the institutional ownership hypothesis for Malaysia is supported, H4b is not. This shows that institutional ownership has no negative effect on tax avoidance in Islamic manufacturing companies in Malaysia. The legitimacy theory is not supported by these findings.

Effect of Compensation on Tax Avoidance

The compensation variable (Indonesia) obtains a value of Sig. of 0.470 (> α = 0.05) and the calculated t value of 0.724 (<t table = 1.97385), so that H5a is rejected. Positive t-count values indicate a unidirectional relationship or positive influence on the tax avoidance variable. The value of the beta coefficient (β) of the compensation variable (Indonesia) is 8,757 indicating that each increase of one unit of compensation will increase the level of BTD by 8,757 with the assumption that the other independent variables from the regression model are fixed.

The compensation variable (Malaysia) obtained a Sig. value of 0.000 (< α = 0.05) and a calculated t value of 4.879 (> t table = 1.9724). A negative t-value indicates a relationship in the opposite direction or a negative effect on the tax avoidance variable so that H5b is accepted. The beta coefficient (β) of the compensation variable (Malaysia) is -1.316 indicating that each increase of one unit of compensation will decrease the level of BTD by 1.316 assuming that the other independent variables from the regression model are constant.

Thus, it can be assumed that the number of incentives, which include bonuses, salaries, allowances, and other payments received by management, does not motivate them to reduce tax evasion in Indonesia. This finding is in line with the research of Hadi Prayogo & Darsono (2015), which states that executive compensation has no effect on tax evasion. The insignificant effect is likely to occur due to the condition of the distribution of managerial compensation data in Indonesian manufacturing companies, which is not said to be good. This can be seen from the standard deviation value, which is greater than the mean value, which means that the average value of managerial compensation (Indonesia) has a high level of deviation. While the H5b hypothesis shows supported results. Thus, managerial compensation has a negative effect on tax avoidance in manufacturing companies in Malaysia. This finding is in line with research by Xian et al. (2015), Seidman & Stomberg, (2017) and Huang et al. (2018) found that companies that pay higher executive compensation are associated with lower tax evasion.

Effect of Profitability on Tax Avoidance

The profitability variable (Indonesia) obtains a Sig. of 0.003 (< α = 0.05) and the calculated t value of 2.995 (> t table = 1.97385), so that H6a is accepted. Positive t-count values indicate a unidirectional relationship or positive influence on the tax avoidance variable. The value of the beta coefficient (β) of the profitability variable (Indonesia) is 0.147 indicating that every increase of one unit of profitability will increase the level of BTD by 0.147 with the assumption that the other independent variables from the regression model are fixed.

The profitability variable (Malaysia) obtains a Sig. of 0.000 (< α = 0.05) and the calculated t value of 6.051 (> t table = 1.9724), so that H6b is accepted. Positive t-count values indicate a unidirectional relationship or positive influence on the tax avoidance variable. The value of the beta coefficient (β) of the profitability variable (Malaysia) is 0.261 indicating that each increase in one unit of profitability will increase the level of BTD by 0.261 assuming that the other independent variables from the regression model are fixed.

In line with the research of Frank et al. (2009), Richardson et al. (2013), Richardson et al. (2016), and Lanis & Richardson (2018), who found that profitability is positively related to tax evasion. These findings support positive accounting theory related to the political cost hypothesis: companies that have large profits tend to get a lot of attention from the government, causing political costs. Such as the imposition of high taxes and demands for great responsibility for the environment. Thus, companies with higher profits will try to avoid taxes.

Effect of Company Size on Tax Avoidance

The company size variable (Indonesia) obtains a Sig. of 0.860 (> α = 0.05) and the calculated t value of 0.177 (<t table = 1.97385), so H7a is rejected. Positive t-count values indicate a unidirectional relationship or positive influence on the tax avoidance variable. The value of the beta coefficient (β) of the firm size variable (Indonesia) is 0.001 indicating that every one-unit increase in firm size will increase the BTD level by 0.001 assuming that the other independent variables from the regression model are fixed.

The company size variable (Malaysia) obtains a value of Sig. of 0.002 (< α = 0.05) and the calculated t value of 3.177 (> t table = 1.9724), so that H7b is accepted. Positive t-count values indicate a unidirectional relationship or positive influence on the tax avoidance variable. The value of the beta coefficient (β) of the firm size variable (Malaysia) is 0.013 indicating that every one-unit increase in firm size will increase the BTD level by 0.013 assuming that the other independent variables from the regression model are fixed.

Previous research also revealed that company size has a weak or insignificant effect on tax evasion, including Xian et al. (2015) and Huang et al. (2018). So, the findings on company size in Indonesia do not support the legitimacy theory. This indicates that the size of the company does not affect tax avoidance activities in manufacturing companies in Indonesia. The phenomenon of tax avoidance is not only carried out by large companies; even medium- and small-scale companies can commit acts of tax avoidance (Rusydi, 2013).

Difference Test

The comparative test in this study aims to see differences in the level of tax avoidance and firm value in Indonesia and Malaysia by using an independent sample t-test. The following are the results of the independent sample t-test conducted with SPSS 23 software, including:

Table 11. Group Test Results

Group Statistics

Country	N	Mean	Std. Deviation	Std. Error Mean
Indonesia	180	.01555	.031936	.002380
Malaysia	200	.00588	.024359	.001722

Table 11 shows that the number of observations in this study is 180 firm years for Indonesia and 200 firm years for Malaysia. It is known that the average book tax different (BTD) values for Indonesia and Malaysia are 0.01555 and 0.00588 respectively. This shows that the level of tax avoidance in Indonesia is greater than in Malaysia. So, it can be concluded that there is a difference in the average value of the book tax different (BTD) for Indonesia and Malaysia. To prove whether the difference is significant or not, it can be seen in the following table of independent sample t-test results.

Table 12. Independent Samples t Test Results

Independent Samples Test

BTD	Levene's Test		t-test for Equality of Means				
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Equal var ass.	9.521	.002	3.337	378	.001	.009670	.002898
Equal var, not an ass.			3.291	333.325	.001	.009670	.002938

Based on Table 12, it is known that the tax avoidance variable has an F value as a result of Levene's test for equality of variance assumed of 9,521 with a significance of 0.002 (<0.05), which means that the variances of Indonesian and Malaysian data are not the same. So that the interpretation of the results of the independent sample t-test above is guided by the Sig. (2-tailed) in the Equal variances not assumed table. Based on Table 12, the value of Sig. (2-tailed) Equal variances not assumed is 0.001 (< 0.05), then H0 is rejected and HA is accepted. Thus, it can be concluded that there is a significant difference between the average book value tax difference (BTD) of Indonesia and Malaysia.

Analysis

The summary of the results of testing the research hypothesis is presented in the following table:

Table 13. Summary of Hypothesis Testing Results

	Hypothesis test	**Results**
H_{1a}	Independent board has a negative effect on tax avoidance in manufacturing companies in Indonesia	Accepted
H_{1b}	Independent board has a negative effect on tax avoidance in manufacturing companies in Malaysia	Accepted
H_{2a}	The audit committee has a negative effect on tax avoidance in manufacturing companies in Indonesia	Accepted
H_{2b}	The audit committee has a negative effect on tax avoidance in manufacturing companies in Malaysia	Accepted
H_{3a}	Audit quality has a negative effect on tax avoidance in manufacturing companies in Indonesia	Accepted
H_{3b}	Audit quality has a negative effect on tax avoidance in manufacturing companies in Malaysia	Rejected
H_{4a}	Institutional ownership has a negative effect on tax avoidance in manufacturing companies in Indonesia	Accepted
H_{4b}	Institutional ownership has a negative effect on tax avoidance in manufacturing companies in Malaysia	Rejected
H_{5a}	Managerial compensation has a negative effect on tax avoidance in manufacturing companies in Indonesia	Rejected
H_{5b}	Managerial compensation has a negative effect on tax avoidance in manufacturing companies in Malaysia	Accepted

H_{6a}	Profitability has a positive effect on tax avoidance in manufacturing companies in Indonesia	Accepted
H_{6b}	Profitability has a positive effect on tax avoidance in manufacturing companies in Malaysia	Accepted
H_{7a}	Firm size has a positive effect on tax avoidance in manufacturing companies in Indonesia	Rejected
H_{7b}	Firm size has a positive effect on tax avoidance in manufacturing firms in Malaysia	Accepted

Conclusions

The regression results of this study show that a higher proportion of independent boards and audit committees establish oversight, risk management systems and internal controls that can reduce tax evasion in manufacturing companies in both Indonesia and Malaysia. High audit quality involves the use of the big four KAPs and institutional ownership of Indonesian companies is negatively related to tax evasion. In contrast, companies in Malaysia found a weak or insignificant influence from institutional ownership. This study also finds evidence that providing compensation motivates management to reduce the level of tax evasion in firms in Malaysia, but finds a weak or insignificant effect for firms in Indonesia. This study also provides evidence that profitability and firm size increase tax evasion.

This research expands the insights related to corporate governance and tax avoidance literature. In addition, expanding the literature on the use of book tax different as a proxy for tax avoidance. Findings regarding the composition of independent boards, audit committees, audit characteristics, institutional ownership and the provision of managerial compensation can be useful to policymakers and regulators. In particular, the findings of this study can help develop policies on effective corporate governance practices to the extent that these practices can assist tax authorities in dealing with corporate tax avoidance.

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