The Effect of Good Corporate Governance on Tax Avoidance: An Empirical Study on Manufacturing Companies Listed in IDX period 2010-2013

Vivi Adeyani Tandean*, Winnie*

*Institute Bussiness and Informatics Kwik Kian Gie

A B S T R A C T

This study aims to obtain an empirical evidence about the effect of good corporate governance on tax avoidance which becomes a proxy of current ETR (Effective Tax Rate). The samples of this study were 120 manufacturing companies listed in Indonesian Stock Exchange in 2010 – 2013. The hypothesis testing used multiple regression analysis. The result of this study show that audit committee has a positive effect on tax avoidance in partial but the executive compensation, executive character, company size, institutional ownership, boards of commisioners' proportion, audit committee and audit quality have simultaneous effect to define tax avoidance.

1. Introduction

Taxes are an important element to shore up the country's budget revenues. In Indonesia, revenue from tax sector is the highest percentage compared to other sources of revenues. Therefore, tax revenues are the main source in Indonesia. Tax is coercive where each person or party is required to settle debt and penalties if they do not meet their tax obligations, without direct benefits. According Allingham and Sandmo in Simanjuntak & Imam (2012) no taxpayer is willing to pay taxes, but there is no other way than to obey.

Higher tax payments make the taxpayers do some efforts in efficiency payment of taxes such as the adverse tax avoidance which consequently reduces the revenue for the country. Tax avoidance attitude can be divided into acceptable tax avoidance and unacceptable tax avoidance (Fadhilah, 2014).

The government is expecting tax obedience attitude of society or entity. This includes a tax-abiding taxpayer's attitude showing that the taxpayers always pay tax in accordance with the actual conditions which will increase the state revenue. In contrast a company as a taxpayer puts tax as an expense and has a goal in maximizing a profit and paying a minimum tax without violating laws by tax avoidance. Corporate Governance has been established by the demand in the management of tax covering transparency, accountability, responsibility, independency, and fairness (Winarsih et al., 2014).

The description above shows the relationship between good corporate governance (proxied through executive compensation, executive character, company size, institutional ownership, the proportion of board commissioners, the audit committee and quality audit) against tax avoidance actions undertaken by the company.

Executive compensation is a financial compensation which consists of stock, stock options, salary, allowances and bonuses which are awarded based on performance. The previous studies found the diverse influences of executive compensation against tax avoidance. Rego and Wilson (2012) suggested a positive relationship between compensation and corporate tax avoidance. The study measured the components of compensation through shares and stock options which lead the manager to have a similar motivation to shareholders. Managers will use time and effort to make tax avoidance, in order to increase the wealth of the company.

Tax avoidance is usually done through the policies taken by the leaders of a company. Corporate leaders tend to risk more in taking decisions in their business. Executive character has a significant impact on corporate tax avoidance. Executive character has a significant impact on corporate tax avoidance (Budiman & Setiyono, 2012).

The company size also determines the level of investor confidence in the company. The bigger the company is the more possibility for the company to get known by the public which makes the public easier to obtain information about the company. Company size, debt structure and asset mix which are used as a proxy for measuring the characteristics of the company can also detect tax avoidance. Company size (total assets) owned by the company can also affect company's opportunities in committing tax avoidance (Sartori, 2008).

Institutional ownership is a proportion of share ownership held by institutions such as insurance, banks, or other institution at the end of the year (Simarmata & Cahyonowati, 2014). Institutional ownership has a significant influence in monitoring management as it will encourage an optimal control of managerial which thereby can reduce conflicts of interest. Institutional investors can lower the cost of debt by reducing agency problems which can cut down the chances of tax avoidance (Fadhilah, 2014).

Indonesia adopted two-board systems in management of limited company i.e. Board of Commissioners and Board of Directors who own authority and responsibility based on fiduciary. However both have responsibility to maintain the company sustainability in a long run. Thus Board of Commissioners and Board of Directors must have the same perception in the vision, mission, and values of the company (KNKG, 2006).

Board of Commissioners consists of Independent Commissioners and non-independent Commissioners. Independent Commissioners is not derived from affiliates, while non-independent Commissioners is derived from affiliates (Fadhilah, 2014). Affiliates are parties who have business relationship and kinship to control shareholders, directors and members of commissioners as well as the company itself (KNKG, 2006).

Audit Committee is a committee established by and responsible to the Board of Commissioners. Public company must have an Audit Committee that acts independently in implementing duties and responsibility. Audit Committee members are appointed and dismissed by Board of Commissioners (BAPEPAM-LK, 2012). The committees are responsible ensuring that the company has been run according to laws and regulations, it has been doing business with ethics, implementing control against conflict of interest and fraud conducted by employees of company.

One of the important elements in corporate governance is transparency which is information that is open all interested parties. Transparency can be measured by audit quality which is a proxy of a public accounting firm because The Big Four of public accounting firms are more reliable in generating the actual performance of company.

The research problem of this study is "Does Good Corporate Governance effect on tax avoidance which becomes a proxy of current ETR (Effective Tax Rate)" which aims to examine the empirical research whether executive compensation, executive character, company size, institutional ownership, boards of commissioners' proportion, audit committee, audit quality in partial or simultaneously have some impacts on tax avoidance which is a proxy of current ETR.

2. Related Literature

2.1. Agency Theory

Jensen and Meckling (1976) describe the agency relationship occurs when one or more persons (the principal) employs another person (the agent) to provide a service and delegate the authority for decision-making. Agency theory assumes that every human being is selfish and self centered on his/her individual basis. Agency theory also implies that there is asymmetry of information between managers as agents and as principal owner. Company manager should be more aware of internal information so that there will be information space between the management and the owner. Management is morally responsible to optimize the benefit of the owners (principals) and to satisfy the personal interest in order to maximize the economic and psychological fulfillment. Shareholders on the other hand, will focus on increasing the value of its shares. Thus there are two different interests in the company in which each party seeks to achieve or maintain a desired level of prosperity. The existence of a conflict of interest between the two is what triggers the emergence of agency theory (Rusydi and Martani, 2014).

Therefore, in order to the objectives of management owners, the principal must provide appropriate incentives for motivating the agents to do surveillance to prevent unwanted situations (Jensen and Meckling, 1976). Therefore agency cost occurs due to these situations. Agency cost arise from agency theory (Rusydi and Martani, 2014). Minimizing the agency cost is a challenge for the board of directors and shareholders to think of ways and provide the right incentives to make a minimum cost for the agency (Jensen and Meckling in Hanlon and Heitzman, 2010).

Agency conflict could affect aggressive tax treatment (Zemzem and Ftouhi, 2013). Agency problems might happen when there are differences in the interests of the agent and when the principal has an aggressive tax avoidance behavior. This condition occurs because the, management wants to increase compensation through higher profits, while the other shareholders want to reduce the cost of the tax through lower profits.

2.2. Tax Avoidance

Tax avoidance is a situation when companies perform certain tax policy and there is a possibility that the

tax measures will not be audited or questioned from the legal standpoint, but the action is risky, if the tax measures are considered to violate the law (Hite and McGill in Sari and Martani 2010). The owner of a company tends to prefer the companies to act aggressively in tax avoidance because of the tax cost (Chen et al., 2010). Fiscal affairs committee of the Organization for Economic Cooperation and Development (OECD) in Suandy (2008) states that there are three characteristics in tax avoidance, namely:

- Many regulations that ignore tax factor.
- Taking advantage of loopholes of legal regulations for personal purposes but it is not desired by regulators.
- The tax consultant shows how to tax avoidance and asks the taxpayer to keep it confidentiality.

2.3. Good Corporate Governance

The Indonesian Institute for Corporate Governance (IICG) in Winarsih et al. (2014) defines as a good corporate governance as a structure, systems, and processes used by the organs of the company as an effort to provide value-added enterprise sustainable in the long term by taking into account the interests of other stakeholders based norms, ethics, culture, and the rules. Good corporate governance is good governance in a business based on professional ethics in business. Understanding of good corporate governance is a form of acceptance in a set of rules or good governance to regulate relations, functions, and the interests of the various parties in the business.

2.4. Good Corporate Governance Mechanism

2.4.1. Executive Compensation

Executive compensation is an agency contract between the company and its managers to bring together the interests with the bases of action and effort. Executive compensation an additional salary or bonuses for the manager besides the basic salary. Executive compensation can be a component stock, stock options, salary, allowances and bonuses which are awarded based on performance. Most Indonesian companies use compensation system without base stocks , which consist of salaries , allowances and bonuses awarded based on performance. If salaries and allowances are fixed component , the bonuses system can create motivation for the manager to improve the performance, without giving more efforts to tax avoidance. The improved performance also shows that the company increases profits and raises taxes (Puspita and Harto,2014). Some previous research in Indonesia found negative effect of executive compensation to corporate tax avoidance (Irawan and Aria, 2012).

2.4.2. Executive Character

Leaders arethe ones who set goals of the organization, while managers focus on the way how the organization can achieve these goals. According to the duties of the company leader, the executive has two characteristics i.e. risk takers and risk averse. Risk taker is company executives who are strongly brave in making decisions in business and eager to have income, position, wealth, and higher authority (Maccrimon and Wehrung in Budiman & Setiyono, 2012). Compared to the risk takers, the executive risk averse has characteristics which focus more on decisions that do not result in a greater risk. Leaders who are risk takers will have a greater possibility to act in tax avoidance.

2.4.3. Company Size

Company size is a scale which can be classified according to the company size e.g total assets, net sales and market capitalization (Fitriani in Andhika, 2010. Company size generally has two categories: large and small companies. Companies that have large total assets indicates that they have reached a stage of maturity where the company has a positive cash flow and is considered to have good prospects in a relatively long period of time. The larger company size, the greater possibility to act in tax avoidance.

2.4.4. Institutional Ownership

Institutional ownership is the proportion of ownership of the shares owned by institutional owners and blockholders at the end of the year (Wahyudi & Pawestri in Simarmata & Cahyonowati, 2014). Stock institutional ownership is the proportion of shares held by institutions, such as insurance, banks, or other institutions (Simarmata and Cahyonowati, 2014). Institutional ownership has a significant influence for the company to monitor management since it will encourage more optimal control to the actions of tax avoidance. The greater the institutional holdings owned by the founder of the company, the less aggressive tax policy for institutional owners is (Zemzem and Ftouhi, 2013).

2.4.5. The Proportion of BOC (Board of Commisioners)

Commissioners in the order management are the highest level after the shareholders. Board of Commissioners hold a central role in corporate governance since the company has a legal responsibility to focus on the affairs of the company on the board of commissioners as the company sets goals, develops a comprehensive policy, and chooses the top-level personnel to implement the goals and policies. BOC as the board in charge of the company are collectively responsible for overseeing and reviewing the performance of management to ensure that the company is well run and the interests of shareholders are protected. BOC are also providing advice to the Board and ensuring that the Company implements Good Corporate Governance (KNKG, 2006). Independent commissioner helped plan the company's long-term strategy and periodically review the implementation of the strategy and reduce of tax avoidance action.

2.4.6. The Audit Committee

The Audit Committee is a committee established by and responsible to the Board of Commissioners to execute the duties and functions of the Board of Commissioners. The Audit Committee is chaired by an Independent Commissioner. Its members may consist of Commissioners and or professionals from outside the company. Audit Committee members are appointed and dismissed by the Board of Commissioners (BAPEPAM-LK, 2012). Public Company shall have an Audit Committee to act independently in carrying out its duties and responsibilities. The Audit Committee should consists of at least three people one of whom are Independent companies and acting as a chairman of the Audit Committee (BAPEPAM-LK, 2012). The committee responsibility in the field of corporate governance is to ensure that the company has been run according to laws and regulations. The formation of an audit committee makes the performance become more independent for the auditors. Collusion between management and auditors become more difficult to do which will reduce of tax avoidance action (Watts and Zimmerman, 1983).

2.4.7. Quality Audit

The larger the company, the accounts contained in the financial statements of the company becomes increasingly more complex so it takes a qualified independent auditor to audit (Watts and Zimmerman, 1983). Audit quality can be measured by a proxy measure for Public Accounting Firm. The Big Four of Public Accounting Firm are more reliable in showing the actual value of the company and can control the company tax avoidance. Transparencies in presenting the financial statements are an essential element of good corporate governance related to taxation which are accountable to shareholders.

The hypotheses made in this study are as follows:

- Ha1: Executive compensation has a positive effect on tax avoidance proxied with current ETR.
- Ha2 :Executive character has a positive effect on tax avoidance proxied with current ETR.
- Ha3 : Company size has a positive effect on tax avoidance proxied with current ETR.
- Ha4 :Institutional ownership has a positive effect on tax avoidance proxied with current ETR.
- Ha5: Proportion of BOC has a positive effect on tax avoidance proxied with current ETR.
- Ha6: Audit Committee has a positive effect on tax avoidance proxied with current ETR.
- Ha7: Audit quality has a positive effect on tax avoidance proxied with current ETR.

Figure 1
Framework

Independent Variable: *Good Corporate Governance:*

Dependent Variable:
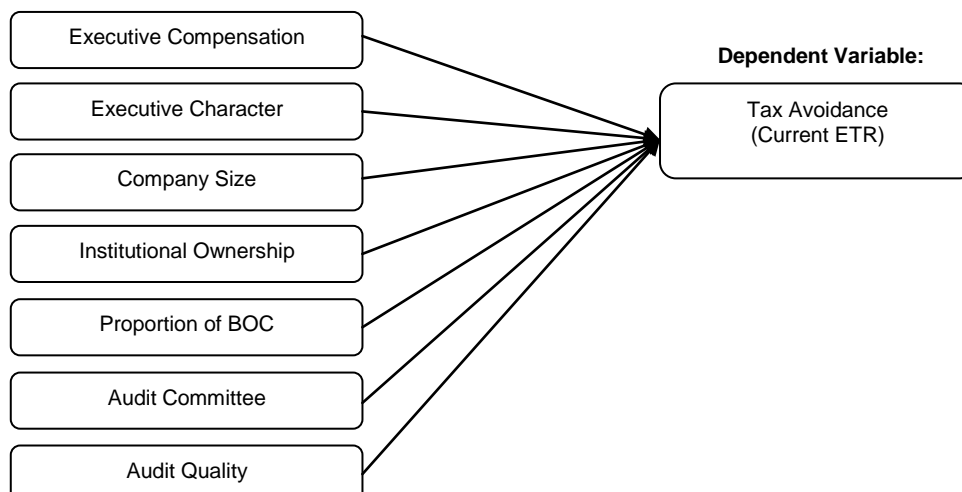
3. Research Method

The population in this study covers all publicly traded manufacturing companies in Indonesia listed in Indonesia Stock Exchange in 2010-2013 and based on the Indonesian Capital Market Directory (ICMD) 2010-2013. These companies must issue the audited annual report completely of 2010-2013 consisting of the statements of financial position, statements of comprehensive income, statements of changes in equity, statements of cash flows, notes to financial statements. The dependent variable used in this study was measured using the tax avoidance called current ETR, where ETR is a tool to measure how big companies tax avoidance does. Current ETR is measured by current tax paid by the company in accordance with the laws of taxation on taxable income. Current ETR is calculated by comparing the current tax profit before income tax (pretax income).

Hanlon and Heitzman (2010) measure Current ETR as follows:

$$Current\ ETR = \frac{current\ tax\ expense}{pre - tax\ income}$$

Whereas the independent variables are executive compensation, executive character, size, institutional ownership, proportion of BOC, audit committee, and audit quality. Executive compensation is measured on the salary and benefits received by the executive during the year.

Character executive is measured by using the risk of owned by a company (Paligrova in Budiman & Setiyono,2012). For measuring risks by using standard deviations, EBITDA (Earning Before Interest, Tax, Depreciation and Amortization) are divided by total assets of the company. Character executive is a dummy variable, if a company having a standard deviation value exceeds the average standard deviation of the entire company, it will be given a value of 1 which has a risk taker leader who risk taker. Companies that have a standard deviation of less than average standard deviation of the entire company will be given a value of 0, representing the leader who is risk averse (Hanafi and Harto, 2014).

Company size was measured using the natural logarithm of total assets. The larger of company's assets then the manager will make even greater tax avoidance action.

Institutional ownership is the proportion of shares owned by institutional owners and blockholders at the end of the year as measured by percentage. In this study a variable proportion of commissioners is proxied by the percentage of independent directors on the board of commissioners of the total amount contained in the composition of the board of commissioners of the sample companies.

The number of audit committee members in the company is used as a measuring tool for good corporate governance. Audit quality is a dummy variable. If the sample firms audited by Public Accounting Firm, The Big Four will be given a value of 1, and if the sample companies are not audited by the Firm of The Big Four they will be given the value 0.

In this research, data collection techniques used were observation of secondary data on annual reports, also the audited financial statements of companies listed in Indonesia Stock Exchange 2010-2013. The data related to the company information were obtained from the official website of the Stock Exchange at www.idx.co.id, Indonesian Capital Market Directory (ICMD). The selection of the sample was done by using judgment sampling method which is to obtain a representative sample based on certain criteria. The criteria for consideration and selection of samples in this study are:

- The company has been listed in the Indonesia Stock Exchange before December 31, 2010 and not delisted during the period December 31, 2010 until December 31, 2013;
- A manufacturing company that publishes financial statements for the period December 31, 2010 - 2013;
- The company has a sample of more complete data required for this study, namely compensation expenses (salary, allowances and bonuses), EBITDA (earnings before interest, tax, depreciation and amortization), total assets, proportion of shares owned by institutions, the number of shares issued, the number of commissioners, and the firm that audits the company information;
- The company has independent board and audit committee for the period 2010 - 2013;
- The company shall keep books using Rupiahs;
- The company has a profit before and after tax is positive for the period 2010 - 2013;
- The company has a current value ETR above 0.

4. Multiple Regression Analysis

Multiple regression analysis was used to test the effect of two or more independent variables on the dependent variable. As a descriptive tool, multiple regressions are used as a tool to draw conclusions to test hypotheses and estimate population values (Cooper and Schindler, 2006). The equation to test the overall hypothesis in this study is as follows:

$$ETR = b0 + b1Komp + b2Res + b3Size + b4INST + b5INDP + b6KOM + b7KA + ε$$

- ETR : Current ETR
- b0 : constants
- b1,2,3,4,5,6,7 : coefficient
- Komp : executive compensation (X1)
- Res : risk   (X2)
- Size : company size (X3)
- INST : institutional ownership (X4)
- INDP : proportion of BOC (X5)
- KOM : audit committee   (X6)
- KA : audit quality   (X7)
- ε : residual of error*Domain Analysis and Taxonomy Analysis*

5. Result Analysis and Discussion

Table 1 shows the descriptive statistics in this study.

Table 1. Descriptive statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Komp_EX1	120	0.001	0.082	0.01	0.01
Res_X2	120	0	1	0.31	0.46
Size_X3	120	25.221	30.362	27.636	1.212
INST_X4	120	0.297	0.962	0.71	0.17
INDP_X5	120	0.250	1	0.40	0.14
KOM_X6	120	2	4	3.07	0.28
KA_X7	120	0	1	0.47	0.50
ETR_Y	120	0.004	0.452	0.24	0.07

5.1. Pooling Test

This research is a time series in which researchers studied a sample in a given period of time. The study period was in 2010, 2011, 2012, and 2013. The result of pooling test has significant value of the dummy variable and all dummy variables are multiplied by the independent variable which has a value above 0.05 then pass the test the research model pooling so that the data can be coupled to test the data.

5.2. Classical Assumption Test

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		120
Normal Parameters	Mean	0.241691
	Std. Deviation	0.07478271
Most Extreme Differences	Absolute	0.099
	Positive	0.067
	Negative	-0.099
Kolmogorov-Smirnov Z		1
Asymp. Sig. (2-tailed)		0.191

5.2.1. Normality Test

The results of the normality test by looking at the residual value of the probability of significance of data on one sample Kolmogorov-Smirnov test of 0.191 where the number probability > α = 0.05 then do not reject H0, which means the value of the residuals were normally distributed variables in Table 2.

5.2.2. Autocorrelation Test

Durbin-Watson value in Table 3 shows that the 1,848 figure du < d < 4-du so it can be stated that the regression model is free from the problem of autocorrelation (not reject H0).

Table 3. Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.453a	0.205	0.155	0.06872319	2

Predictors: (Constant), KA_X7, INST_X4, INDP_X5, KOM_X6, Size_X3, Komp_X1, Res_X2

Dependent Variable: ETR_Y

5.2.3. Multicollinearity Test

The test results in Table 4 shows the entire VIF < 10 and the value of tolerance entirely ≥ 0.10. It is claimed that there is no correlation between the independent variables (not multicollinearity).

Table 4. Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
Komp_X1	,855	1,169
Res_X2	,823	1,216
Size_X3	,828	1,207
INST_X4	,856	1,168
INDP_X5	,922	1,084
KOM_X6	,963	1,039
KA_X7	,879	1,137

Dependent Variable: ETR_Y

Table 5. Heteroscedasticity Test (Park Method)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	,344	,120		2,870	,005
Komp_X1	-,061	,327	-,018	-,186	,853
Res_X2	-,007	,010	-,069	-,683	,496
Size_X3	-,008	,004	-,220	-2,185	,031
INST_X4	-,047	,026	-,183	-1,850	,067
INDP_X5	-,012	,032	-,036	-,380	,704
KOM_X6	-,010	,015	-,060	-,639	,524
KA_X7	,001	,009	,008	,087	,931

Dependent Variable: ARES_1

5.2.4. Heteroscedasticity Test

In this study, researchers used a Park test method which is done by calculating the logarithm of the squared residuals then regressed with independent variables. The test results in Table 5 shows the beta coefficients are not statistically significant it does not reject H0, which means the empirical models homoscedasticity.

5.3. Multiple Regression Analysis

In this research, the regression equation as follows:

ETR = -0.175 - 0.723Komp + 0.042Res + 0.007Size + 0.037INST – 0.055INDP + 0.070Kom + 0.018KA

The regression equation has a constant value of 0.175 which indicates that the magnitude of the current ETR is at 17.5% if all of the independent variables is worth 0. The equation shows great strength in the independent variables effecting the dependent variable which indicates a large coefficient of each independent variable in Table 6.

Table 6. Multiple Linear Regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-,175	,184		-,955	,342
Komp_X1	-,723	,501	-,131	-1,443	,152
Res_X2	,042	,015	,257	2,771	,007
Size_X3	,007	,006	,109	1,177	,242
INST_X4	,037	,039	,085	,930	,354
INDP_X5	-,055	,048	-,100	-1,135	,259
KOM_X6	,070	,023	,265	3,087	,003
KA_X7	,018	,013	,119	1,325	,188

Dependent Variable: ETR_Y

5.4. Coefficient of Determination Test (R^2)

R Square value in Table 7 obtained in this study was 0.205, which means 20.5% tax avoidance proxied by the current ETR can be explained by the variables of executive compensation, executive character, size, institutional ownership, the proportion of board of directors, audit committee, and audit quality. The remaining 79.5% is influenced by other variables outside of this research.

Table 7. Coefficient of Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.453a	0.205	0.155	0.068723	2

Dependent Variable: ETR_Y

5.5. Statistic F Test

Significant value in Table 8 indicates the number of significance of 0.000 < 0.05. Significant F test results show that overall the independent variables in our model significantly influence the dependent variable so that H0 is rejected.

5.6. Statistic t Test and Hypothesis

t test in Table 6 tableresults indicate the level of significance of each independent variable constants used in this study. To interpret the coefficients of independent variables using unstandardized coefficients. The description of the statistical test t for the effect of each independent variable on the dependent variable is presented as follows:

Table 8. Statistic F-Test

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	0.137	7	0.02	4	0
Residual	0.529	112	0.005		
Total	0.666	119			

Dependent Variable: ETR_Y

Predictors: (Constant), KA_X7, INST_X4, INDP_X5, KOM_X6, Size_X3, KomP_Eks_X1, Res_X2

Constant obtained is 0.175 which means the current value of 0.175 if the condition of all the independent variables is zero.

To sum up, the research hypothesis is presented as follows:

Hypothesis 1: Executive compensation has a positive effect on tax avoidance proxied with current ETR.

The results of the statistical t test indicates a regression coefficient of -0.723 with a significance value of 0.152 > α = 0.05. These results indicate that executive compensation does not have enough evidence against tax avoidance effect. Executive compensation has negative effect on tax avoidance proxied with current ETR.
Executive compensation effect ETR negatively which indicates that high executive compensation will increase the corporate tax avoidance. It means that the higher executive compensation, the greater of tax avoidance through minimizing tax paid (ETR). As mentioned earlier, the theoretical basis used namely tax compliance states that basically no taxpayer who voluntarily pays taxes. Thus, taxpayers will always be unopposed to tax avoidance.
According to the theory of compliance an individual will commit an action only if it benefits to his action. The policy concerning to the company tax efficiency is controlled by the management in the company. The management of this research objective is the executives. The provision of appropriate compensation for executives is considered how they achieve effective and efficiency of tax corporate. These results are consistent with the research conducted by Armstrong et al. (2012) which states that the compensation executive negatively affects the effective tax rates and found that high compensation aimed at reducing the tax burden that should be paid by the company.

Hypothesis 2 : Executive character has a positive effect on tax avoidance proxied with current ETR.

The results of the statistical t test indicates a regression coefficient of 0.042 which means the executive character is a risk taker. This has affected as 4,2% higher on tax avoidance compared with a risk averse. These results show the significance value of 0.007 > α = 0.05 which indicate that the executive character does not have enough evidence against tax avoidance effect. The executive character has a negative effect on tax avoidance proxied with current ETR. If the executives are risk takers, the greater tax avoidance will be measured to pay the minimum taxes. The size of the company risk indicates tendencies of executive character. As the executive decision makers will consider various aspects before acting, the impact of an action will also be analyzed in order to get the best decisions, including the company tax avoidance decision making.

Hypothesis 3: Company size has a positive effect on tax avoidance proxied with current ETR.

The results of the statistical t test indicates a regression coefficient of 0.007 with a significance value of 0.242 > α = 5%. These results indicate that the company size does not have enough evidence against tax avoidance effect. The larger of the company size, the more straight supervision will be done for reducing tax avoidance actions by the regulator and the public. It means that the companies have to pay more taxes than if they do tax avoidance. Besides, the size of the company does not effect the company's decision to undertake tax avoidance. It is because of large or small companies have similiar obligation to pay taxes.

Hypothesis 4 : Institutional ownership has a positive effect on tax avoidance proxied with current ETR.

The results of the statistical t test indicates a regression coefficient of 0.037 with a significance value of 0.354 > α = 5%. These results indicate that institutional ownership does not have enough evidence against tax avoidance and has a negative effect on tax avoidance. The greater institutional ownership in the company, the more tax avoidance action will be possibly conducted because the company has the responsibility to its shareholders and they want to pay less taxes. The institutional ownership does not significantly influence the alleged tax avoidance as the institutional owners do not participate in monitoring, discipline, and influence the managers' actions. Another reason is because the institutional owners are more concerned with their welfare in maximizing their future profit so percentage of institutional ownership does not affect tax avoidance.

Hypothesis 5: Proportion of BOC has a positive effect on tax avoidance proxied with the current ETR.

The results of the statistical t test indicates a regression coefficient of -0.055 with a significance value 0.259 > α = 5%. These results show that the proportion of the commissioners does not reject H0, the proportion of commissioners has no significant effect on tax avoidance and has a negative effect on tax avoidance. This happen because not all independent directors show the independence function or the function of supervision is not going well. Another reason is the difficulty of coordination among the commissioners which thus inhibits the process of supervision. Moreover the independent directors are less responsive in regard tax avoidance measures in the company.

Hypothesis 6: Audit Committee has a positive effect effect on tax avoidance proxied with the current ETR.

The results of the statistical t test indicates a regression coefficient of 0.070 with a significance value 0.003 < α = 5%. These results indicate that the audit committee rejects H0, meaning audit committee has a positive effect on tax avoidance. The audit committee shall include at least three people, one of whom is an independent commissioner and a chairman of the audit committee (BAPEPAM-LK, 2012). If the number of audit committee is less than three people, it will improve the management actions in minimizing the income for tax purposes (Pohan in Fadhilah, 2014). The more number of audit committees in the company who invlove in the financial policy control, the more difficult it is to do tax avoidance.

Hypothesis 7: Audit quality has a positive effect on tax avoidance proxied with the current ETR.

The results of the statistical t test indicates a regression coefficient of 0.018 with a significance value 0.188 < α = 5%. These results indicate that the quality of audit does not reject H0, audit quality has a negative effect on tax avoidance which is sufficient enough effect on tax avoidance. Audit quality is measured by the size of the firm that conducted an audit on the company, which is the dummy variable Big - Non Big. Public Accountant Firm is more trusted by the tax authorities and public as the firm that has a high integrity in presenting the financial statements in accordance with the actual value and conducting the activities based on the right regulations, including tax laws. When the company is audited by a public accountant firm, the tax avoidance measures will be difficult to do. Public accountant firm will maintain its reputation and the trust given by the stakeholders In addition the sanctions provided by the code of ethics of public accountant become a major consideration for auditor.

6.   Conclusions and Recommendations

After testing, this study lead to the conclusion that the audit committee has a positive effect on tax avoidance so that the more the number of audit committee, the more probability to reduce tax avoidance measures. These results were consistent with the hypothesis put forward by the author. Further, executive compensation, executive character, company size, the proportion of institutional ownership and board of commissioners and audit quality are not proven to affect the tax avoidance reduction: which is not consistent with the hypothesis.

For further research, the author reveals some suggestions that can be considered as follows:
1. For investors
   Investors should pay attention on the practice of tax avoidance in order to see more carefully in assessing the risks of the investment. Investors should emphasize more to do good corporate governance to get a report from the actual investment.
2. For the government
   To formulate the tax regulations narrower in order to minimize tax loopholes that becomes increasingly difficult to do.
3. For further research
   - To increase the period of study with a longer span of time, e.g. 5 years.
   - To review other variables that can be used as a proxy for tax avoidance, e.g. cash ETR and Book Tax Difference.
   - To add the measurement criteria of good corporate governance such as the size of the board of directors, managerial ownership, frequency of meetings, and Public Accounting Firm rotation.
   - To perform test with a sample of non-manufacturing firms.

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