



## TAX AVOIDANCE IN INDONESIA: CONTEXT OF GOOD CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

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### Abstract

**Purpose of the study:** The objective of the study is to analyze the impact of Corporate Governance and Corporate Social Responsibility Quality on Tax Avoidance.

**Methodology:** The research is based on secondary data and uses the quantitative method for data analysis. The population of this research is the audit report of the Audit Board of the Republic of Indonesia (BPK) in the Regency/City of West Indonesia with a total of 263 financial statements. The purposive sampling method is used, resulting in 186 financial statements as samples. Hypotheses are tested using multiple linear regressions using SPSS V.21.

**Main Findings:** The results of the research show that Institutional Ownership and Corporate Social Responsibility Quality do not have any influence on Tax Avoidance, Executive Compensation has a positive influence on Tax Avoidance, and Audit Committee with Finance or Accounting Background has a negative influence on Tax Avoidance. Thus, it is concluded that the Executive Compensation and Audit Committee with Finance or Accounting Background can significantly influence Tax Avoidance decision making. However; Institutional Ownership and Corporate Social Responsibility Quality do not have any significant influence on Tax Avoidance at manufacturing companies listed on the Indonesia Stock Exchange.

**Applications of this study:** This study indicates that good or bad CSR is not able to influence management actions to minimize the tax expense. This study can be useful for stakeholders analyzing the company's CSR disclosure and GCG effectiveness and its relation to the company's activity of tax avoidance.

**Novelty/Originality of this study:** Tax avoidance, good corporate governance, and corporate social responsibility are included in this study. There are only a few studies that use these variables.

**Keywords:** *Executive Compensation, Institutional Ownership, Audit Committee, Corporate Social Responsibility Quality.*

### INTRODUCTION

The biggest revenue in Indonesia comes from tax. [Darmawan & Sukartha, \(2014\)](#) state that tax is a mandatory contribution to the state from the taxpayers without any expectation of receiving direct reciprocal, coercive, and are collected based on the law. Revenues from taxes are used by the government to create and improve public welfare. Therefore; taxation becomes an important sector which the government considers for achieving higher state revenues. The problem arises since the government wants to optimize tax revenue but the company as the taxpayer wants to minimize the tax payment since it can reduce the profit ([Setyaningrum & Suryarini, 2016](#)).

However, the state's revenue from the tax is not maximal. The Finance Minister, Sri Mulyani admitted that the trend of tax revenue in Indonesia had decreased. The realization of tax revenue is always under the State Budget Target ([Buhori, 2016](#)). Here it is the tax revenue data from 2013 up to 2015:

**Table 1:** Realization of the State Budget (Tax Revenue)

Year	Target of State Budget	Realization of State Budget	Percentage
2013	IDR 1,148,364,681,288	IDR 1,077,309,220,752	93.81%
2014	IDR 1,246,106,955,602	IDR 1,146,863,551,832	92.04%
2015	IDR 1,488,255,488,129	IDR 1,240,372,331,294	83.29%

**Source:** The Ministry of Finance

Based on Table 1, it shows that tax revenue has not been able to reach the target for those three years. The realization of tax revenue reached 93.81% of the budget target in 2013. Then, in 2014 the realization of tax revenue decreased by 1.77% for 92.04%. And, in 2015 the realization of tax revenue declined by 8.75% for 83.29%. The decrease of tax revenue target indicates that tax revenue has not been optimal, it is assumed that the taxpayers do Tax Avoidance.

Based on the above phenomenon, it shows that there is an indication of Tax Avoidance by individual taxpayers and corporate taxpayers. However, the research focuses on corporate taxpayers. According to [Mulyani, et.al. \(2017\)](#) companies in Indonesia are indicated to carry out Tax Avoidance seen from the existence of a tax amnesty policy which came into force on 1 July 2016 until 31 March 2017. Tax Avoidance by companies shows that Corporate Governance

mechanisms do not work effectively and efficiently ([Wahyudi, 2015](#)). Those companies are indicated that they do not implement the principles of Good Corporate Governance.

Corporate Governance is a process and a structure used by the corporate to realize the shareholders' value in the long term while taking into account the stakeholders' interests based on legislation, and ethical values ([Sutedi, 2011](#)). [Larastomo, et.al. \(2016\)](#) state that the weak implementation of Corporate Governance has more opportunities to do deviations; whereas, the good implementation of Corporate Governance can become a boundary for personal interests to break the interests of the company. If the company has a well-structured Corporate Governance, it will be directly proportional to the company's compliance in fulfilling its tax obligations ([Sartori, 2008](#)).

The relationship between tax and Corporate Governance has been studied by several researchers with different research results. First, [Santoso & Muid \(2014\)](#), [Fahreza \(2014\)](#), and [Putri \(2017\)](#) state that compensation of commissioners and directors has a positive influence on Tax Avoidance. Then, [Puspita & Harto \(2014\)](#), and [Azizah & Kusmuriyanto \(2016\)](#) find the different results; tax compensation does not influence Tax Avoidance. Next, the researches are done by Merslythalia dan [Lasmana \(2016\)](#), [Tjondro, et.al. \(2016\)](#), and [Alviyani \(2016\)](#) show that Institutional Ownership has a negative influence and it can minimize Tax Avoidance. Then, [Fadhilah \(2014\)](#) and [Diantari & Ulupui \(2016\)](#) find that the proportion of Institutional Ownership does not influence Tax Avoidance.

[Robinson, et.al. \(2012\)](#) find that the Audit Committee with Finance or Accounting Background has a negative influence on Tax Avoidance. While [Puspita & Harto \(2014\)](#) find that the Audit Committee's Background does not have any influence on Tax Avoidance. Then, the research conducted by [Pradipta & Supriyadi \(2015\)](#), dan [Tjondro, et.al. \(2016\)](#) show that CSR Quality has a negative influence on Tax Avoidance. However, [Wahyudi \(2015\)](#) and [Wijayanti, et.al. \(2017\)](#) find a different result that shows CSR does not have any influence on Tax Avoidance.

The various results of those studies show the research gaps. Therefore; it is interesting to research Corporate Governance, Corporate Social Responsibility Quality, and Tax Avoidance. The objective of the study is to analyze and find the empirical evidence on the influence of Corporate Governance and Corporate Social Responsibility Quality on Tax Avoidance. The variables of Corporate Governance used in this study are Executive Compensation, Institutional Ownership, and Audit Committee with Finance or Accounting Background

## LITERATURE REVIEW

The theory as the basis of this research is agency theory. It is an agency theory's research. [Jensen & Meckling \(1976\)](#) state that an agency relationship is a contract between the manager (agent) and the owner of the company (principal). The authority and responsibility of agents and principals are regulated in the work contract with mutual agreement. In the employment contract, the agent has the power to drive the success of the principal's contracts ([Santoso, 2015](#)). The company is the intersection point for the contract relationship among the management, owners, creditors, and the government ([Harahap, 2012](#)).

Legitimacy theory is one of the theories mentioned in the field of social and environmental accounting. According to legitimacy theory, in carrying out its operational activities, the company must be in line with the prevailing values in the society ([Kiswanto, 2011](#)). The legitimacy theory focuses on the interaction between the company and the community ([Ghozali & Chariri, 2007](#)). This theory refers to a kind of social contract in which the company is responsible for the community's requests.

Decision making on Tax Avoidance is in management's authority. The decision is expected to bring benefits to the management as the makers ([Hanafi & Harto, 2014](#)). Therefore; executives as operational leaders of the company make Tax Avoidance policy because they can also get benefits ([Mayangsari, 2015](#)). Giving compensation to executives under the Republic of Indonesia Law No. 36 of 2008 is included in the deductible cost; it can be used by management to reduce the company's tax expense. The research conducted by [Santoso & Muid \(2014\)](#), and [Mayangsari \(2015\)](#) prove that Executive Compensation has a negative influence on Tax Avoidance. Thus; the first hypothesis of the study is:

**H<sub>1</sub>:** Executive Compensation has a positive influence on Tax Avoidance

Institutional Ownership is to share ownership owned by insurance companies, banks, mutual funds, and other financial institutions ([Tarjo, 2008](#)). Institutional investors own the important role to finance the company ([Dridi & Boubaker, 2016](#)). It is expected to be a good control of the company's performance and activities ([Kiswanto, et.al. 2015](#)). Based on the agency theory, Institutional Ownership can minimize agency problem/ conflict because it encourages better supervision on management's performance ([Sumanto, et.al. 2014](#)).

Institutional investors can limit managers' opportunist behavior to prioritize their personal interests. They have the ability to analyze financial statements better and they are supported by the large resources, so they can get more information ([Wardana, 2014](#)). The higher the number of shares held by the institutional investors; the lower the level of Tax Avoidance carried out by the company. The research of [Merslythalia & Lasmana \(2016\)](#), and [Alviyani \(2016\)](#) show that Institutional Ownership has a negative influence and it can minimize Tax Avoidance. Thus; the second hypothesis of the study is:

**H<sub>2</sub>:** Institutional Ownership has a negative influence on Tax Avoidance

The audit committee is one of the company's organs that assist the board of commissioners in terms of supervision on the implementation of Corporate Governance. The audit committee also has the responsibility to ensure that the reports are in accordance with applicable accounting standards and to supervise the implementation of internal and external audits. Therefore; a member of the audit committee must have an accounting or financial expertise background. The members of the audit committee who has accounting or financial expertise are having a better understanding of tax regulations and how to avoid detection risks ([Puspita & Harto, 2014](#)).

Agency theory states that the audit committee has a supervisory role in company activities to minimize Tax Avoidance. The expertise possessed by the audit committee in the field of finance or accounting can detect management actions that aim to avoid tax avoidance. The more members of the audit committee who have accounting or financial expertise, the lower Tax Avoidance. Then, the researches are done by [Armstrong, et.al. \(2015\)](#), dan [Robinson, et.al. \(2012\)](#) show that the Audit Committee with Finance or Accounting Background negatively influences Tax Avoidance. Thus; the third hypothesis of the study is:

**H<sub>3</sub>:** Audit Committee with Finance or Accounting Background negatively influences Tax Avoidance

[Kuriah & Asyik \(2016\)](#) defines corporate social responsibility in the process of communicating the social and environmental impacts of an organization's economic activities specially, for the certain groups and generally for the community. The assessment of CSR quality is based on the acquisition of CSR awards because it shows that the company is serious in implementing CSR programs. Companies with good CSR quality will receive CSR awards from both national and international levels.

Based on the legitimacy theory, one of the efforts which can be done to get positive legitimacy from the community is to make ethical and socially responsible actions. The company can get a good reputation from the community by paying taxes with full awareness ([Siswianti & Kiswanto, 2016](#)). Companies with good quality of CSR will implement CSR programs voluntarily and it is based on the community's needs around the company. It will create a good harmonious relationship between the company and the surrounding environment. Therefore; a good quality company will think and consider again and again making tax avoidance because it can destroy its reputation which has been built through CSR activities. Then, the research results of [Pradipta & Supriyadi \(2015\)](#), [Lanis & Richardson \(2014\)](#), dan [Tjondro, et.al. \(2016\)](#) show that CSR Quality has a negative influence on Tax Avoidance. Thus; the fourth hypothesis of the study is:

**H<sub>4</sub>:** Corporate Social Responsibility Quality has a negative influence on Tax Avoidance

Agency theory states that there is a contractual relationship that happens between managers (agents) and shareholders (principals). Principals authorize agents to do things in accordance with the principals' interests. So that the principal is only obliged to provide facilities and capital, while the agent is obliged to manage the company. The boundary between the principal and the agent creates the agency problem because the agent has more access to get information about the condition of the company than the principal.

The company's management action, especially in terms of Tax Avoidance, is related to the agency problems. The agency problem can be solved by implementing Corporate Governance. Corporate Governance is presented through the giving of Executive Compensation, doing institutional investors' supervision and selecting audit committees who have accounting or financial expertise. Providing Executive Compensation can motivate management to make Tax Avoidance decisions. Then, the presence of institutional investors and audit committees who have accounting or financial expertise can supervise and control management in making decisions. Those actions can eliminate Tax Avoidance.

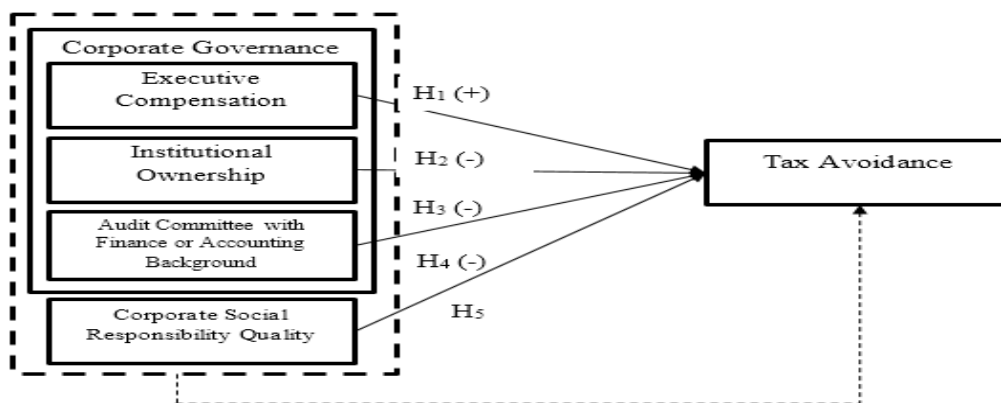
Tax Avoidance can also be influenced by CSR Quality. The implementation of CSR is a socially responsible action but Tax Avoidance is socially irresponsible ([Wahyudi, 2015](#)). The legitimacy theory states that companies try to get positive legitimacy from the community so the sustainability of their business is maintained. It can be implemented with CSR activities and tax payments. Companies with good CSR activities will get awards. Thus; the fifth hypothesis of the study is:

**H<sub>5</sub>:** Executive Compensation, Institutional Ownership, Audit Committee with Finance or Accounting Background, and Corporate Social Responsibility Quality simultaneously have a significant influence on Tax Avoidance

The research framework can be described in figure 1.

## METHODOLOGY

This research used a quantitative approach with secondary data. Multiple regressions were performed using SPSS V.21. The population of this study 150 companies. They are all manufacturing companies listed on Indonesia Stock Exchange (IDX) from 2013 up to 2015. The samples are taken by purposive sampling with the following criteria.



**Figure 1:** Theoretical Framework

**Table 2:** Criteria of sample selection

Criteria	Numbers of Unselected companies	Numbers of Selected companies
The manufacturing companies listed on the Indonesia Stock Exchange		150
1. Companies which publish a full annual report from 2013 up to 2015	(27)	123
2. Companies which do not get losses during the study period	(58)	65
3. Companies with their annual reports consisting of the needed information (data) of the research	(27)	38
Total observations at the annual report from 2013 up to 2015		114
The numbers of outlier data excluded from the samples		(27)
<b>Total analysis units</b>		<b>87</b>

**Source:** The processed secondary data in 2017

Here they are the operational definitions of each variable as presented on table 3 below:

**Table 3:** Operational Descriptions of Research Variables

No.	Variable	Definition	Measurement
1.	Executive Compensation (X <sub>1</sub> )	Executive Compensation is an award in the form of material or non-material given to executives for being better performance achieving the company's goals (Dewi & Sari, 2015).	Natural logarithms of total Executive Compensation (Zulma, 2016).
2.	Institutional Ownership (X <sub>2</sub> )	Institutional Ownership is the ownership of the shares by the institution of all outstanding shares (Zatun & Kiswanto, 2015).	The comparison between the number of institutional shares and the number of outstanding shares (Dewi & Jati, 2014)
3.	Audit committee with finance or accounting background (X <sub>3</sub> )	The audit committee is an additional committee to assist the board of commissioners in carrying out supervision and internal control of the company so information asymmetry does not happen. It can create more effective and efficient company performance (Zatun & Kiswanto, 2015).	The comparison between the number of audit committees who have accounting or financial background and the total audit committee (Robinson, et.al. 2012).

4.	Corporate Social Responsibility Quality (X <sub>4</sub> )	Corporate social responsibility is the company's commitment to participate in sustainable economic development to improve the quality of life and the environment which benefits the company itself, the local community, and the community (Siswianti & Kiswanto, 2016).	If the company receives a CSR award, it is valued at 1 and if it does not receive any award, it is valued at 0 (Tjondro, et.al. 2016).
5.	Tax Avoidance (Y)	Tax Avoidance is any effort made to reduce tax expense (Puspita & Harto, 2014).	Comparison between tax expense and pre-tax profit (Gaaya, et.al. 2017).

Source: Processed secondary data, 2018

To simplify the interpretation of the results, the ETR value of the study is multiplied by negative one (-1) denoted by Y. It means the higher the value of Y, the higher the value of Tax Avoidance made by the company (Francis, et.al. 2013).

The data are collected by documentation on annual reports and audited financial statements of manufacturing companies listed on the Indonesia Stock Exchange for the period of 2013 up to 2015. Then, data are analyzed by descriptive statistics and multiple linear regressions using SPSS version 21. Multiple linear regression analysis is used to know the magnitude influence of the independent variables on the dependent variable. Before hypothesis testing is carried out, the classic assumption tests are done consisting of normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.

## DISCUSSION / ANALYSIS

Descriptive statistics are used to provide an explanation of the minimum value, maximum value, average value and standard deviation. The results of descriptive statistical analysis can be seen in table 4 and table 5 below:

Table 4: The Results of Descriptive Statistics Analysis

Variable	N	Min.	Max.	Mean	Std. Deviation
ETR	87	-0.5456	-0.0028	-0.2799	0.09656
Executive Compensation	87	17.6129	25.9175	23.0194	1.49501
Institutional Ownership	87	0.0037	0.5654	0.1915	0.14793
Audit Committee	87	0.25	1.00	0.7516	0.25943
Valid N (listwise)	87				

Source: Output SPSS of processed secondary data, 2017

Table 5: The Results of the Descriptive Test on CSR Quality

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	77	88.5	88.5
	1	10	11.5	100.0
Total	87	100.0	100.0	

Source: The Output SPSS of the processed secondary data, 2017

Table 4 shows that there are 87 analysis units (N) with the average value of Tax Avoidance is -0.2799. It means that the average tax expense borne by manufacturing companies is 27.99% of pre-tax profit. The average value of the Executive Compensation variable is 23.0194. The average value of Institutional Ownership is 0.1915; it means that the mean of institutional investors own the outstanding shares of manufacturing companies is 19.15%.

The average value of the audit committee is 0.7516 or 75.16%. It indicates that the manufacturing company has fulfilled the rules in the Decree of the Chairman of the Capital Market Supervisory Agency No: KEP-643 / BL / 2012 which requires that one member of the audit committee having accounting or finance background. The results of descriptive statistics in table 5 show that the number of analysis unit which receives a CSR award during the study year is 10 units or 11.5%. It means that manufacturing companies listed on the Indonesia Stock Exchange have low-quality CSR.

Furthermore; before testing the hypotheses, data are analyzed by classic assumption tests consisting of normality, linearity, multicollinearity, autocorrelation, and heteroscedasticity tests as seen in table 6 below:

Table 6: The Results of Classic Assumption Tests

Classic Assumption Tests	Results	Requirements	Notes
Normality	0.062	Sig > 0.05	Normal distributed
Multicollinierity	Tolerance > 0.1 and VIF < 10	Tolerance value > 0.10 and VIF < 10	Free of Multicollinierity



Autocorrelation	0.915	Sig > 0.05	Free of Autocorrelation
Heteroscedasticity	18.53 < 112.40	C count < C table	Free of Heteroscedasticity

**Source:** The Output SPSS of processed secondary data, 2017

Based on the results of the regression test, the regression equation of the study is:

$$Y = -0.509 + 0.014X_1 - 0.121X_2 - 0.097X_3 + 0.009X_4$$

The constant value is 0.509, it means if all independent variables including Executive Compensation ( $X_1$ ), Institutional Ownership ( $X_2$ ), Audit committee with finance or accounting background ( $X_3$ ), and CSR Quality ( $X_4$ ) are 0 as the value or constant, then Tax Avoidance is 0.509. The regression coefficient of Executive Compensation ( $X_1$ ) is 0.014 and positive; it means that if Executive Compensation increases 1%, then Tax Avoidance will increase 0.014. The regression coefficient of the Institutional Ownership variable ( $X_2$ ) is 0.121 and negative. It means that if institutional Ownership increases 1%, Tax Avoidance decreases 0.121.

The regression coefficient of the audit committee's background on accounting or finance ( $X_3$ ) is 0.097 and negative. It means that if  $X_3$  increases 1%, Tax Avoidance decreases 0.097. The regression coefficient of CSR quality variable ( $X_4$ ) is 0.009 and positive. It means if CSR Quality experiences increase 1%, Tax Avoidance increases 0.009.

The value of the adjusted R square is 0.15. It means that 15% of Tax Avoidance is influenced by Executive Compensation, Institutional Ownership, Audit Committee with Finance or Accounting Background, and CSR Quality. Then, 85% of Tax Avoidance is influenced by other variables that are not examined in the study. The error of the Estimate standard is 0.0890197. The smaller the Standard Error of the Estimate standard, the more precise the regression model in predicting the independent variable. The summary of hypotheses tests can be seen in table 7.

**Table 7:** The Results of Regression Test

No.	Hypothesis	B	A	Sig.	Results
1	H <sub>1</sub> : Executive Compensation has a positive influence on Tax Avoidance	0.014	0.05	0.033	Accepted
2	H <sub>2</sub> : Institutional Ownership has a negative influence on Tax Avoidance	-0.121	0.05	0.073	Rejected
3	H <sub>3</sub> : Audit Committee with Finance or Accounting Background has a negative influence on Tax Avoidance	-0.097	0.05	0.013	Accepted
4	H <sub>4</sub> : CSR Quality has a negative influence on Tax Avoidance	0.009	0.05	0.759	Rejected
5	H <sub>6</sub> : Executive Compensation, Institutional Ownership, Audit Committee with Finance or Accounting Background, and CSR Quality simultaneously influence Tax Avoidance		0.05	0.002	Accepted

**Source:** The Output of SPSS 21 in 2017

### The Influence of Executive Compensation on Tax Avoidance

The result shows that Executive Compensation has a positive influence on Tax Avoidance; it is in line with researches done by [Putri \(2017\)](#), [Fahreza \(2014\)](#), [Santoso & Muid \(2014\)](#), and [Mayangsari \(2015\)](#). It means that the compensation system applied by the company can motivate corporate executives to make a Tax Avoidance decision. The higher the level of compensation given to the executive, the higher the level of Tax Avoidance.

The results of descriptive statistics show that providing compensation to executives of manufacturing companies is relatively high. 45 or 51.72% of manufacturing companies have high executive compensation at intervals of 22.62 to 24.28. Then, for the distribution of tax avoidance; 41 analysis units are in the high category with an interval of 0.2557 to 0.1591. Thus; it can be identified that companies with high executive compensation are to do tax avoidance.

The results of the study support agency theory which states that principals delegate authority to agents to manage companies, then principals can get prosperity and profit. It is normal when the agent expects to get compensation for his works. One of the efforts done by the agent to realize the principal expects to minimize the corporate cost; including the tax expense. So, it can be understood that giving high compensation to executives will motivate them to do Tax Avoidance.

### The Influence of Institutional Ownership on Tax Avoidance

Institutional Ownership does not influence Tax Avoidance. It means that the size of the shares owned by the institution is not able to influence the company in carrying out Tax Avoidance. It is because 33 or 37.93% of the analysis units have

low Institutional Ownership at intervals of 0.0037 to 0.1160. Consequently, institutional investors have less contribution to controlling and decision making at the company.

The result of the study is in line with the studies done by [Diantari & Ulupui \(2016\)](#), [Fadhilah \(2014\)](#), and [Dewi & Jati \(2014\)](#) which state that Institutional Ownership does not influence Tax Avoidance. According to [Diantari & Ulupui, \(2016\)](#) institutional investors are not able to provide good control over opportunistic management's actions on Tax Avoidance. It is because institutional investors may entrust the supervision and management of the company to the board of commissioners as one of their jobs. Thus; the existence of institutional investors does not have any influence on tax avoidance.

The result of the study does not support the agency theory of [Jensen & Meckling\(1976\)](#) which state that Institutional Ownership will control agency problem/ conflicts by putting pressure on managers to work better. Institutional investors can encourage more optimal supervision of management's performance. However; the fact shows a different situation; institutional investors do not work optimally to control the management. Based on the findings at manufacturing companies, institutional investors lack the power to regulate policies on companies because the majority of shareholders are controlled by holding companies and managerial ownership.

### **The Influence of Audit Committee with Finance or Accounting Background on Tax Avoidance**

The audit committee is one of the organs at the company assisting independent commissioners to do the supervision and internal control. Based on the Decision of the Chairman of the Capital Market Supervisory Agency No: KEP-643/BL/2012 on competence and professionalism, it requires public companies to have audit committees. An audit committee chaired by an independent commissioner and the members can be the commissioners and/ or professional businessman from outside the company with one member having an accounting or finance background. Audit Committee with Finance or Accounting Background will understand the gap in tax regulations and they can find ways to avoid detection risks ([Puspita & Harto, 2014](#)).

The research is in line with studies done by [Armstrong, et.al. \(2015\)](#) dan [Robinson, et.al. \(2012\)](#) which state that Audit Committee with Finance or Accounting Background negatively influences Tax Avoidance. Audit committees with accounting or financial background will reduce management opportunities to do tax avoidance because they can understand accounting and taxation and they can monitor management activities within the company. It shows that companies that have an audit committee with accounting or financial background will be more responsible in presenting financial statements.

The result of the study is in line with agency theory which states that the supervisory function possessed by the audit committee is able to suppress the opportunist actions of managers in tax avoidance. The existence of an audit committee can protect the shareholders' interests from the management's opportunistic actions ([Dwiharyadi, 2017](#)).

### **The Influence of Quality Corporate Social Responsibility on Tax Avoidance**

CSR Quality does not influence Tax Avoidance in a negative direction. It means that good or bad CSR quality of a company does not guarantee that the company does not carry out Tax Avoidance. It is because the company does not want to lose its reputation. Therefore; companies carry out CSR programs only to fulfill the obligations. Consequently, sometimes CSR programs are not adjusted to the needs of the community and the surrounding environment.

The result of the study is in line with researches done by [Lionita & Kusbandiyah \(2017\)](#), [Wijayanti, et.al.\(2017\)](#), and [Wahyudi \(2015\)](#) who find that Corporate Social Responsibility (CSR) does not influence Tax Avoidance. The researchers suspect that the insignificance of CSR for Tax Avoidance due to measurements of CSR using dummy variables; it is recipients of CSR awards. The company which gets CSR award already have sustainable CSR programs so their routine programs are not influenced by the amount of tax paid for the year ([Tjondro, et.al. 2016](#)). Therefore; it is suggested for the next research to explore it by using a cost approach, it is the cost of CSR issued by the company to reflect the company's efforts to minimize the tax expense.

Legitimacy theory states that companies try to get positive legitimacy from the public to maintain the survival of the company through the implementation of CSR programs, one of the programs is paying taxes according to the provisions. Thus; companies that try to minimize the tax expense are considered as the socially-irresponsible companies. However; the fact shows that good Corporate Social Responsibility Quality does not guarantee that the company does not carry out Tax Avoidance.

### **The Influence of Executive Compensation, Institutional Ownership, Audit Committee with Finance or Accounting Background, and Corporate Social Responsibility Quality on Tax Avoidance**

Based on the result of hypothesis testing, it can be concluded that Executive Compensation, Institutional Ownership, Audit Committee with Finance or Accounting Background, and Corporate Social Responsibility Quality simultaneously influence Tax Avoidance. The fifth hypothesis of the study is accepted. This study comprehensively proves that the high compensation rates, the low proportion of Institutional Ownership, the high number of audit committees with accounting

or financial background, and poor quality of CSR give a contribution to manufacturing companies to avoid tax avoidance.

Executive Compensation is successful in supporting agency theory which states that agents as parties who are authorized to manage the company tend to take action to prioritize their personal interests. Then, the role of the Audit Committee as a supervisor can narrow down the opportunities for management to minimize the tax expense. However; Institutional Ownership does not fit agency theory because as a supervisory tool in Corporate Governance mechanisms; it is unable to work properly to prevent companies from Tax Avoidance.

## CONCLUSION

Based on the results of the study and discussion, it can be concluded that the Executive Compensation and Audit Committee with Finance or Accounting Background influences Tax Avoidance. Whereas; Institutional Ownership and CSR quality do not have any influence on Tax Avoidance. Then, Executive Compensation, Institutional Ownership, Audit Committee with Finance or Accounting Background, and CSR Quality simultaneously influence Tax Avoidance.

The result of the study indicates that good or bad CSR is not able to influence management actions to minimize the tax expense. Therefore; for further research, it can consider measuring CSR using the cost approach. Furthermore; the next researchers can consider the size of the board in the company which can also influence the amount of compensation issued by the company.

## LIMITATION AND STUDY FORWARD

Limitation of this the result of the study indicates that good or bad CSR is not able to influence management actions to minimize the tax expense. Therefore; for further research, it can consider measuring CSR using the cost approach. Furthermore; the next researchers can consider the size of the board in the company which can also influence the amount of compensation issued by the company.

## AUTHORS CONTRIBUTION

Kiswanto contributed to the concepts, theories, and methodology. These concepts were discussed with Atta Putra Harjanto, Trisni Suryarini, Nining Apriliyana, and Abdul Kadir. The Data are gathered by Atta Putra Harjanto and Trisni Suryarini. Furthermore, the data are processed and analyzed by Nining Apriliyana and Abdul Kadir. The results of the study were reviewed by Kiswanto. Then the results of this study are discussed by all authors to improve the quality of this manuscript

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