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Original Research Article

The Impact of External Control on Tax Avoidance

Deden Tarmidi[1*], Pratiwi Nila Sari[2], Feber Sormin[1]

[1]Universitas Mercu Buana, Jakarta, Indonesia
[2]Universitas Bhayangkara Jakarta Raya, Jakarta, Indonesia

***Corresponding Author**
Deden Tarmidi

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Abstract: This study aims to analyze the influence of external control factors on management taxation policy, especially tax avoidance. The fact that many cases of tax avoidance occur in Indonesia as well as in other ASEAN countries encourage researchers to try to analyze the level of entity tax avoidance from external control factors consisting of independent commissioners and audit quality. Using a multiple regression approach with a random effect model and STATA software, this study found that audit quality has a negative effect on tax avoidance, while independent commissioners do not. These results explain that the supervisory role of the external auditor in assessing the procedures for preparing the company's financial statements has a good impact, namely that it can affect management in reducing tax avoidance.

Keywords: Tax Acoidance, Commissioners Independent, Audit Quality.

INTRODUCTION

Tax is one of the state revenues which has an important role in helping the Government carry out its work properly and is indirectly used by the general public. So that various innovations and policies are taken so that tax revenue can be received according to the specified target.

On the other hand, taxes are a burden on companies that reduce corporate profits and other benefits for management and investors. So that management does various things to be able to reduce these tax costs. One of the ways to minimize the tax burden is by way of tax avoidance which is an active resistance of taxpayers to tax authorities in avoiding taxes by taking advantage of existing gaps or opportunities or gray areas. Although in plain view, tax avoidance activities do not violate the rules, with in-depth tax audits these activities can be subject to sanctions and future tax burdens that are detrimental to the company.

Several cases of tax avoidance in Indonesia and other ASEAN countries such as the case of PT. Bentoel Internasional Investama, a subsidiary of British American Tobaco (BAT), which avoids taxes by paying loan interest, royalties, fees and IT fees to group companies. Although these costs are reasonable in business activities, because they are carried out on companies in the same group, the tax audit process is carried out in a fairness analysis of the transaction value and causes the value of underpayment of taxes, including fines to be paid by the company.

Tax avoidance can be caused by several factors and is also controlled by several factors, both internal and external. On external factors, independent commissioners are thought to have a good function in suppressing tax avoidance. The function of the independent commissioner as an external party is to supervise management in running the business, how management is performing and how policies are taken in achieving company goals, one of which is how management takes taxation policies so that the company's image is not tarnished and there is no tax penalty in the future.

The more the number of independent commissioners in a company, the more parties oversee internal actions, so that management will be wiser in taking tax avoidance actions and even avoid them or have a negative impact [1-5] although the other found the opposite [6] and did not find it [7].

Audit quality is a series of audit processes performed by external auditors on the procedures for preparing financial statements performed by management. The procedure for preparing the financial statements is not just a journal posting process but goes further to the validity of transactions and supporting documents, including transactions related to taxation. Some studies found a negative effect of audit quality on tax avoidance or positive impact [8, 9].

Based on this background and research gap, researchers are interested in re-conducting research to confirm the influence of external controls, namely independent commissioners and audit quality on tax avoidance. In addition, the use of consumer goods industries population in ASEAN countries and comparative analysis in each country is the uniqueness of this study.

LITERATURE

Stakeholders Theory

Stakeholder theory is a theory which states that a company is not an entity that only operates for its own interests, but must provide benefits to all its stakeholders including shareholders, creditors, consumers, suppliers, government, society, analysts, and other parties. This study analyzes the effect of external control consisting of independent commissioners and audit quality on the company's management taxation policy, namely tax avoidance. As an external party, independent commissioners are company stakeholders whose job is to supervise every company's actions so as not to harm the company in the future, one of which is tax avoidance which allows to increase the tax burden in the form of fines. Likewise with the quality of audits conducted by external auditors in assessing the company so that an opinion is issued that will influence the decisions of other stakeholders.

Tax Avoidance

Tax avoidance is an effort to reduce tax legally which is carried out by optimally utilizing provisions in the field of taxation, such as exceptions and allowable deductions and benefits or gaps in other matters that have not been regulated and weaknesses that have not been clearly regulated. by applicable tax regulations. The other defines tax avoidance as an effort to avoid tax that is carried out legally and safely for taxpayers because it does not conflict with taxation provisions, where the methods and techniques used tend to take advantage of the weaknesses (gray area) contained in tax laws and regulations themselves, to minimize the amount of tax owed..

Commissioners Independent

Based on the decision of the Financial Services Authority Regulation Number 33 / OJK.04 / 2014, an independent commissioner is a member of the board of commissioners from outside the issuer or public company who meets the requirements and is not a person who works or has the authority and responsibility to plan, lead, control or supervise. activities of the issuer or public company within the last 6 months, does not have direct or indirect shares, has no affiliation relationship and has no direct or indirect business relationship with the public company. In addition, independent commissioners are required to understand the laws and regulations in the capital market.

Audit Quality

Audit quality is a systematic and independent examination to determine activities, quality and results in accordance with the planned arrangements and whether these arrangements are implemented effectively and in accordance with the objectives.

Conceptual Frameworks and Development of Hypothesis

Independent commissioners have an important role in the supervision and control of the company so as not to take policies that are not in line with the company's goals and applicable regulations so as not to harm the company. Although tax avoidance measures do not violate tax regulations, the risk of tax penalties in the future due to detrimental to the state encourages independent commissioners to control companies in minimizing tax avoidance actions. However, it is possible that independent commissioners are more inclined to focus on company profits, thus encouraging management to take tax avoidance. In line with research by [4, 2, 1, 10] who found the effect of independent commissioners on tax avoidance, the hypothesis of this study is:

H1. The Independent Commissioner has an effect on tax avoidance

In line with independent commissioners, external auditors are also outsiders who are suspected of influencing management in making internal company policies including tax avoidance. Opinions issued by external parties will have an impact on stakeholders including company management so that the higher the quality of the audit process, the management will think a lot about carrying out transactions or activities that will harm the company, including tax avoidance which has a chance of incurring tax fines in the future. In line with the study of [11] who found the effect of audit quality on tax avoidance, the hypothesis of this study is:

H2. Audit quality affects tax avoidance

METHODS

Population and Sample

The population of this research is consumer goods industries listed in Indonesia Stock Exchange, Bursa Malaysia, Singapore Exchange, and Stock Exchange of Thailand from 2016 to 2018. Sampling of companies in this study used a purposive sampling method. There are 291 sample data which were analyzed after purposive sampling was carried out from 162 consumer goods populations.

Variables

Independent variable

Adopting previous studies, the independent variable in this study consisted of several variables, namely commissioners independent, and audit quality variable. Independent commissioner is a member of the board of commissioners who comes from outside the issuer or public company who meets the requirements and is not a person who works or has the authority and responsibility to plan, lead, control or supervise the activities of the issuer or public company within the last 6 months, does not have shares. Either directly or indirectly, has no affiliation relationship and has no direct or indirect business relationship with the said public company. Independent commissioners in this study is measured using independent commissioners / total commissioners [8]. Audit quality is a result that has been achieved by the subject / object to obtain a level of satisfaction, so that it will cause the subject / object's desire to assess an activity. Audit quality in this study was measured using AQMS which consisted of 3 proxies, namely Big4, KAP Specialization, and Tenure.

Dependent Variable

Tax avoidance is the dependent variable in this study. Tax avoidance is an effort for taxpayers to legally minimize the tax burden. Adopting [12] research, tax avoidance in this study was measured by reducing the Statutory Rate Tax with Actual Rate Tax, and Actual Tax Rate was measured using the cash effective tax rate.

Model and Analysis Techniques

The analytical method used is a quantitative method, which is a data processing approach collected from secondary data. It is expected that the conclusions obtained in a study are more measurable and comprehensive. The data were analyzed using the random effect model by STATA software.

Hypothesis Test

Table-1: Regression Test Results

Variable	All		IDX		BMY		SGX		SET	
	Coef.	Sig.	Coef.	Sig.	Coef.	Sig.	Coef.	Sig.	Coef.	Sig.
IND -> TA	-0.141	0.221	-0.138	0.436	-0.087	0.317	-0.401	0.271	-0.267	0.164
AQ -> TA	-0.118	0.086*	-0.019	0.817	-0.033	0.691	-0.418	0.189	-0.043	0.533
N	291		93		60		66		72	
R-Square	0.0367		0.0274		0.0623		0.1107		0.0849	
Prob-F	0.1259		0.6969		0.5521		0.2502		0.3776	

TA = Tax Avoidance, IND = Independent Commissioners, AQ = Audit Quality, IDX = Indonesia Stock Exchange, BMY = Bursa Malaysia, SGX = Singapore Exchange, SET = Stock Exchange of Thailand

* Significant 10%, ** Significant 5%, *** Significant 1%

In Table-2 it is known that independent commissioners do not have a significant effect on tax avoidance, with this result, hypothesis 1 is rejected. Different results are known from audit quality which has a significant negative effect on tax avoidance, with these results, hypothesis 2 is accepted.

ANALYSIS RESULT

The Impact of Independent Commissioners on Tax Avoidance

This study did not find the effect of independent commissioners on tax avoidance. The small or large number of independent commissioners has no effect on management policy in tax avoidance. This result is presumably because the independent commissioners are more focused on monitoring management policies in relation to company profits or performance, and tax avoidance policies are not overlooked by the supervisory board. This result is in line with [13-17] who did not find the effect of independent commissioners on tax avoidance.

The Impact of Audit Quality on Tax Avoidance

This study found that audit quality has a significant negative effect on tax avoidance. The role of external auditors in assessing the entity's financial reporting procedures is proven to have an influence on management in making internal policies, in this case tax avoidance. As it is known that the audit procedure is carried out by analyzing all forms of financial reporting, including the calculation, payment and reporting of the entity's taxes during the audit period. With the results of this study, it is evident that the higher the quality of audits performed by external auditors, the more management reduces tax evasion, this is presumably due to management fears regarding the auditor's opinion on management policies and procedures in the process of preparing financial statements, including taxation. The results of this study are in line with research by [11] who found the effect of audit quality on tax avoidance.

Sensitivity Test

The sensitivity test is carried out by the expansion test, which compares the regression results for each unit of analysis in each country / stock exchange. In Table-2 it is known that the results of the regression test in each country do not find the effect of independent commissioners and partially audit quality on tax avoidance. Meanwhile, from Prob-F and the r-square value, it is found that the regression model with the Singapore unit of analysis has a stronger effect on tax avoidance than the analysis unit for other countries. This result explains that although the effect is equally insignificant, external factors, in this case the independent commissioner and audit quality in Singapore, have stronger functions in supervising management, especially in tax avoidance policies.

CONCLUSIONS AND SUGGEST

This study found that independent commissioners have no impact on tax avoidance, while audit quality has a negative impact on tax avoidance. These results can be a reference for investors who are interested in analyzing the level of corporate tax avoidance in avoiding future tax penalties to measure it by the level of the entity's audit quality.

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