

The Influence of Institutional Ownership and the Proportion of the Independent Board of Commissioners on Tax Avoidance with Moderation Size for the 2019–2021 Period

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ABSTRACT

This study discuss the effect of Institutional Ownership and Proportion of Independent Commissioners by using size as the moderating variable. The Independent variables in this study are Institutional Ownership and The Proportion of Independent Commissioners, the moderating variable is Size or company size, and the control variables are Gross Profit Margin, Return on Sales, and Debt-to-Equity Ratio. This study uses secondary data from manufacturing companies listed on the IDX for the period 2019-2021. The result of this study prove that Institutional Ownership has a negative and significant effect on Tax Avoidance (1), the proportion of the Board of Commissioners has a significant positive effect on Tax Avoidance (2), Size strengthens the relationship between Institutional Ownership and Tax Avoidance (3), Size weakens the relationship between Proportion of Independence Commissioners on Tax Avoidance (4).

Keywords: Institutional Ownership; Independent Commissioners; Size; Tax Avoidance

INTRODUCTION

Taxpayers in Indonesia are responsible for planning, preparing, paying, and reporting their own taxes under the self-assessment system. Both for individuals and companies agree that taxes are considered a burden that must be met. There are many people who see no value in paying taxes because they believe it will decrease their income, and this is especially true for companies whose net income can be affected by paying taxes. During the pandemic of COVID-19, Indonesia experienced a decline in tax revenue especially in 2019. The existence of contradictions in government policies in tax revenues caused state revenues to decline further, whereas in 2019 itself it was clear that this was due to the Covid-19 pandemic which caused business activities in Indonesia and throughout the world to stop. Tax revenues increased in 2020 and 2021 as a result of increased taxpayer compliance and rising commodity prices which will encourage an increase in international trade, and increase in public consumption due to the recovery in economic growth. In 2020 there will be an increase, namely 89.30% of the tax revenue target has been received. Until 2021, the figure reached 103.90% of the tax revenue target. Many entrepreneurs in Indonesia have experienced a decline in income. It is not uncommon for some of them to practice Tax Avoidance so as not to pay too much tax. Pajakku website claims that IDR 67.6 trillion was lost due to tax evasion by companies in Indonesia. Tax avoidance is one of the company's schemes for utilizing gray areas in tax laws and regulations. In contrast to tax evasion, tax avoidance is still legal to carry out because the actions taken are still within the scope of tax law. This tax avoidance practice is widespread, not only in Indonesia but globally. The Australian tax office reported transparently that 782 of the 2,370 largest companies in Australia did not pay their taxes during 2019-2020 because they experienced losses and did not pay taxes from the previous year (Butler, 2021). Apart from

that, the IMF estimates that world economic growth will also decline by -4.9% in 2020. There are three categories of countries created by the IMF, including Emerging Market and Middle Income Economies (developing countries), Low Income Developing Countries (poor countries), and Advance Economies (developed countries). According to IMF calculations, the economic decline in developed countries is capable of reaching -10%. Developing countries experienced an average decline of -9.1% and poor countries experienced an economic decline of -5.7% (Junaedi & Salistia, 2020), therefore the importance of knowledge about tax avoidance is very important to understand and study both for the benefit of companies as well as the state's interests so as not to experience a massive decline in state revenues.

LITERATURE REVIEW

Compliance Theory

One of the many theories related to public compliance with rules and laws is Compliance Theory. There are two perspectives that explain how human compliance with applicable laws, the first is instrumental. The Instrumental Perspective explains that human compliance arises because of the interests and responses to any changes related to behavior. The second perspective is the normative perspective. The normative perspective explains that human obedience arises when the regulations are in accordance with morals and are contrary to personal interests. In short, humans will comply with regulations and laws if these legal regulations are appropriate and consistent with internal norms (Rafiq, 2020).

Tax Avoidance

Depends on (Ayo! pajak, 2021) Tax Avoidance is a method used by taxpayers to reduce their taxable income but still within legal limits. The clear aim of this tax avoidance strategy is to reduce the income tax payments that companies are required to pay to the government. Even though tax avoidance is legal, this action can be detrimental to the state, because it can reduce state income. There are two types of tax avoidance in Indonesia:

1. **Acceptable Tax Avoidance** - Tax evasion carried out by taxpayers does not involve fraudulent transactions and is of course still within the limits of applicable law in Indonesia. There are characteristics that describe acceptable tax avoidance, including:
 - a. Do not have bad intentions and business goals.
 - b. Have no intention to deliberately commit tax evasion
 - c. In line with the Spirit of Intention of Parliament and having fraudulent transactions (Ikatan Akuntansi Indonesia, 2015)
2. **Unacceptable Tax Avoidance** - Tax evasion is carried out by deliberately making false transactions to avoid paying large taxes. Of course, this action is not in accordance with applicable law, so companies that commit unacceptable tax avoidance must receive legal sanctions.

Institutional Ownership

Institutional ownership refers to share ownership owned by non-bank financial institutions. Non-bank institutions usually process funds on behalf of individuals, examples of non-bank institutions are insurance companies, investments, and pension funds as well as foundations that are not managed by the state, waqfs, and other companies that process funds for individuals. With greater institutional ownership, there is more reason to improve the management and regulation of financial institutions (Kayo, 2020). Institutional ownership

functions to reduce agency conflict by controlling management through effective monitoring. Large ownership will also strengthen greater supervision, thereby reducing opportunities for companies to commit fraud. In other words, the lower the probability of tax avoidance, the higher the proportion of institutional ownership in a company.

Proportion of Independent Board of Commissioners

The company has independent commissioners who serve as the company's board of commissioners. The job of independent commissioners is to advocate and supervise minority interests in the company. According to POJK No.33/POJK.04.2014, the following qualifications are required to serve as an independent commissioner:

- a. During the last 6 (six) months, strategy, leadership, supervision and control within the company were completely absent;
- b. Either directly or indirectly holding share ownership;
- c. Has no personal or professional ties to the Company, other members of the Board of Directors, or the main shareholders of the Company;
- d. It has nothing to do with company operations, either directly or indirectly (PT Indocement, 2021).

Profitability

Profitability is a measurement to determine how effective a company is in making a profit in one period of company activity. The purpose of calculating profitability is calculated for:

1. Ensure net profit for the current period
2. Find current profit development compared to previous time periods
3. Knowing the company's ability to manage the capital it has.

Gross Profit Margin

A common profitability ratio used to measure an organization's operational effectiveness is Gross Profit Margin. This ratio also shows how efficient the company's sales are in terms of the efficiency of the production process. GPM helps investors and managers to consider whether the company is able to process investment funds well or not (Gie, Gross Profit Margin: Pengertian, Rumus, Fungsi, dan Contohnya, 2021).

Return on Sales

The financial ratio known as Return on Sales can be used to describe the extent of a company's profits from its sales activities over a certain period of time (Harmony, 2021).

Leverage

According to (Martono & Harjito, 2022) Leverage is the ratio which calculate the uses of assets and equities that the company has and it uses to determine whether it is mandatory to incur fixed expenses or fixed costs. Generally, leverage is calculated to determine whether the company is able to fulfill all its obligations using assets through company activities during one period.

Debt-to-Equity Ratio

This ratio provides an explanation of the relationship between a company's total liabilities and its total equity. The Debt-to-Equity ratio is calculated to help companies optimize their use

of equity more efficiently and optimally. The smaller the DER, the better the company's finances (Martono & Harjito, 2022).

Size

Company size plays an important role in reducing the risk of tax avoidance. The size of a company can be determined from the total amount of assets it owns. The more assets owned, the more a company is classified as a large company (Ibrahim, Ukuran Perusahaan (Pengertian, Jenis, Kriteria, dan Indikator), 2013)

Hypothesis

H1: The Institutional Ownership variable has a negative influence on Tax Avoidance

H2: The Proportion of Independent Commissioners variable has a negative influence on tax avoidance.

H3: The Size variable weakens the relationship between Institutional Ownership and Tax Avoidance

H4: The Size variable weakens the relationship between the Proportion of Independent Board of Commissioners and Tax Avoidance

METHODOLOGY

Population and Sample

A Population is a statistical term that refers to the number of people or things that are the focus of a study. Author uses the financial reports of manufacturing companies listed on the IDX. The sample represents a portion of the total population to be analyzed (Sugiyono, Populasi Adalah Seluruh Subjek Penelitian Dan Sampel Adalah Sebagian, 2008). The sample criteria that the author needs:

1. Manufacturing Company listed on the Indonesian Stock Exchange (BEI) in 2019, 2020 and 2021
2. Three-Year Financial Reports of Manufacturing Companies covering 2019–2021.
3. Audited financial reports of manufacturing companies.
4. Data is available on S&P Capital IQ and the Indonesian Stock Exchange website (www.idx.co.id)

Throughout 2019–2021, data about companies listed on the Indonesia Stock Exchange (BEI) was collected from various sources, including direct observation, scientific journals and website articles, as well as financial reports. This research uses quantitative secondary data. Data collection was taken via the S&P Capital IQ Platform website.

Empirical Research Model

Multiple linear regression analysis using the OLS model was used to test the research hypothesis in this study. Research involving many independent variables should be carried out using multiple linear regression analysis. Because it is impossible for there to be only one independent variable in this research, the author must use multiple linear regression analysis. The strength of the relationship between independent and dependent variables can be determined through the use of multiple linear regression analysis.

$$CETR = \alpha + \beta_1 INST_{i,t} + \beta_2 BDOUT_{i,t} + \beta_3 SIZE_{i,t} + \beta_4 (BDOUT * SIZE)_{i,t} + \beta_5 (INST * SIZE)_{i,t} + \beta_6 GPM_{i,t} + \beta_7 ROS_{i,t} + \beta_8 DER_{i,t} + e$$

Description

CETR = Tax Avoidance

α = Constant

$\beta_1, 2, 3, 4, 5, 6, 7$ = Regression Coefficient ($\beta_1, 2, 3, 4, 5, 6, 7 > 0$)

SIZE = Company's Size

GPM = Gross Profit Margin

ROS = Return on Sales

INST = Institutional Ownership

BDOUT = Proportion of Independent BoC

DER = Debt-to-Equity Ratio

e = error

Operational Variables

Operational Variables according to (Sugiono, Definisi Operasional : Tujuan, Manfaat dan Cara Membuat, 2015) is an instrument or value of something with many possible variations that has been chosen for research so that researchers can draw conclusions about those variations.

This research has 4 (four) Operational Variables. Cash Effective Tax Rate (CETR) is used as a proxy for the dependent variable Tax Avoidance. The second variable is the independent variable, namely Institutional Ownership and the Proportion of Independent Commissioners. The third variable is the control variable, namely Return on Sales, Gross Profit Margin, and Det-to-Equity Ratio. The fourth variable is the moderating variable, namely Size.

Dependent Variable (Y)

Tax avoidance, as measured by the Cash Effective Tax Rate, serves as the dependent variable here. CETR is determined by dividing a company's total tax burden by pre-tax income. In general, the level of corporate tax avoidance decreases when the CETR percentage value is closer to the corporate tax rate. Based on the previous explanation, the result is that CETR can be calculated using a formula (Ritonga, 2018):

$$CETR = \frac{\text{Tax Expense}}{\text{Income Before Tax}}$$

Independent Variable (X)

The output of this studied is the dependent variable, and the independent variable is the variable that influences it (Sugiono, 2015). Institutional Ownership and Proportion of Independent Commissioners are independent variables here.

Institutional Ownership

Institutional Ownership is able to increase supervision in company management and company activities. This can improve the prosperity of share owners and can attract potential shareholders or investors interested in buying shares or investing in the company. Based on this description, Institutional Ownership is formulated in the form (Fransiska & Purwanto, 2015):

$$INST = \frac{\text{Institutional Shares}}{\text{Total Outstanding Shares}}$$

Proportion of Independent Commissioner

The proportion of the Board of Commissioners that is independent and capable of maintaining corporate governance is in line with the principles of Good Corporate Governance, thereby reducing internal conflict. The formation of an independent board of commissioners will also improve corporate governance and tax compliance. The proportion of Independent Commissioners is calculated in the form:

$$BDOUT = \frac{\text{Total of Independent Commissioners}}{\text{Total of Board of Commissioners}}$$

Moderating Variable

The relationship between the independent variable and the dependent variable can be strengthened or weakened by the introduction of a moderating variable. In this analysis, company size functions as a moderating variable. As a general rule, the size of a company is proportional to the value of its assets. Size is determined by the following formula (Ibrahim, 2013):

$$\text{Size} = \ln(\text{Total Asset})$$

Control Variable

According to (Sugiyono, 2017), Control variables are variables that are held constant so that the relationship between the dependent and independent variables is not affected by any extraneous factors. Return on Sales, Gross Profit Margin, and Debt-to-Equity Ratio are control variables in this analysis.

Profitability

Profitability analysis helps businesses determine how much money they can make in a certain time period. Gross profit margin and return on sales are the profitability ratios analyzed here (Ahmad, 2021).

a. Gross Profit Margin

The company's benchmark for determining the extent to which sales translate into net profit is Gross Profit Margin. The formula for determining GPM is provided below (Gie, GPM, 2021):

$$GPM = \frac{\text{Total Sales} - \text{COGS}}{\text{Revenue}} \times 100\%$$

b. Return on Sale

Return on Sales is a ratio that shows how much net sales a company has in one period. The formula for determining ROS is (Harmony, 2021):

$$ROS = \frac{\text{Profit Before Tax and Interest}}{\text{Revenue}} \times 100\%$$

Leverage

The term leverage refers to the ratio of a company's equity to its total debt and earnings. In this analysis, we focus on the Debt-to-Equity ratio (DER) as a leverage ratio. DER is a ratio that describes the health of a company, specifically the extent to which it can meet its financial obligations outside of its equity. The following is the formula used to determine DER:

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$$

RESULTS

Coefficient of Determination (R^2)

How much the independent variable can influence the dependent variable is measured by calculating the coefficient of determination. To find out the coefficient of determination, researchers used research data regression. The following are the results of the regression test to determine the coefficient of determination:

Table 1. Coefficient of Determination

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.291 ^a	.085	.055	.2113408	2.055
a. Predictors: (Constant), INST, BDOUT, SIZE, INSTSIZE, BDOUTSIZE, GPM, ROS, DER					
b. Dependent Variable: CETR					

Source: SPSS ver 26

Table 1, which is the result of research data regression, shows that the R-squared value which reflects the coefficient of determination is 8.5% and Adj R-Squared = 5.5%, which shows that the independent variable has a 5.5% chance of influencing the dependent variable, while the remaining 94.50% is explained by other variables.

F-Test

To check whether the model can be used to analyze the independent and dependent variables, an F test or ANOVA test is carried out. The F-test findings of this research are:

Table 2. Anova Test Result

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.887	7	.127	2.838	.008 ^b
	Residual	9.603	215	.045		
	Total	10.490	222			
a. Dependent Variable: CETR						
b. Predictors: (Constant), INST*SIZE, BDOUT*SIZE, SIZE, ROS, DER, BDOUT, INST, BDOUT, GPM						

Source: SPSS ver 26

The result of the Anova test is depicted in table 2 which shows the figure 0.008 < 1%. Model 1 is valid if and only if the relationship between the independent variable and the

dependent variable can be analyzed using the model; once this is done, the hypothesis can be tested.

T-Test

By using the t-test, we see how much influence the independent variable has on the dependent variable. Following are the results of the T-Test.

Table 3. T-Test Result

Coefficients ^a						
Model		Unstandardized Coefficient		Standardized Coefficient	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.262	.088		2.974	.003
	INST	-.031	.072	-.035	-.437	.663
	BDOUT	.274	.031	.018	1.473	.142
	SIZE	.005	.003	.122	1.809	.072
	INSTSIZE	.007	.005	.116	1.499	.135
	BDOUTSIZE	-.001	.009	-.010	-.146	.884
	GPM	-.169	.081	-.292	-2.093	.038
	ROS	.208	.066	.439	3.152	.002
	DER	.001	.008	.005	.074	.941

a. Dependent Variable: CETR

Source: SPSS ver 26

$$CETR = \alpha + \beta_1INST_{i,t} + \beta_2BDOUT_{i,t} + \beta_3SIZE_{i,t} + \beta_4(BDOUT * SIZE)_{i,t} + \beta_5(INST * SIZE)_{i,t} + \beta_6GPM_{i,t} + \beta_7ROS_{i,t} + \beta_8DER_{i,t} + e$$

Persamaan Regresi

DISCUSSION

The Effect of Institutional Ownership on Tax Avoidance

Table 3 shows the results of the t-test where the unstandardized coefficients result with a beta value of -.031 which reflects that Institutional Ownership is able to reduce the possibility of Tax Avoidance, but has a significance value of 0.3315 (.663/2) or 33.15% to be obtained in this research, it can be concluded that Institutional Ownership has an effect on Tax Avoidance but is not significant (>10%). The research results also show that there is a negative and insignificant influence, which means that Institutional Ownership has no effect on preventing Tax Avoidance. The t-test results reject Hypothesis 1 (H1).

The Influence of the Proportion of the Board of Commissioners on Tax Avoidance

Table 3 shows the t-test of the Proportion of Independent Commissioners which shows beta unstandardized coefficients of .274 which reflects that the Proportion of Independent Commissioners has a positive impact with a significance value of .071 (.142/2=7.1%) where

the figure is smaller than the limit. significant 10%. Positive and statistically significant effects were also found; In particular, the proportion of Independent Commissioners has a positive and statistically significant effect on preventing tax avoidance. Thus, H2 is a hypothesis that is worthy of being rejected.

The Effect of Size on Institutional Ownership on Tax Avoidance

Table 3 shows the results of the t-test where the effect of Size on Institutional Ownership with Tax Avoidance has a beta unstandardized coefficients value of .007. The significance of this research is 0.0675 (0.135/2) or 6.75%, which is still below the significance limit of 10%, which means the results of this research are positive with a significant value. These findings indicate that the impact of institutional ownership in preventing tax avoidance can be strengthened by company size. The t-test results of this beta value have concluded that Hypothesis 3 (H3) is rejected.

The Effect of Size on the Proportion of the Board of Commissioners on Tax Avoidance

In table 3, the results of the t-test for Moderation of Size with the Proportion of the Board of Commissioners are obtained, namely the beta unstandardized coefficients value of -.001 with a significance of 0.442 (0.884/2= 0.442) or 44.2%, where this significance figure is greater than the significance limit of 10 %. The results of this research show that there is a negative but not significant influence for Size to moderate the proportion of Independent Commissioners. This shows that Size weakens the Proportion of the Board of Commissioners variable to prevent tax evasion but is not significant. Evidence accepts Hypothesis 4 (H4).

CONCLUSION

The tests carried out for this research produced the following conclusions:

1. Negatively, there is a direct correlation between Institutional Ownership and tax avoidance but not significant or H1 is rejected,
2. Positively, The Proportion of Independent Board of Commissioners influences Tax Avoidance or H2 is rejected,
3. Size strengthens the relationship between Institutional Ownership and Tax Avoidance or H3 is rejected,
4. Size weakens the relationship between the Proportion of Independent Commissioners and Tax Avoidance or H4 is accepted.

Based on the results of the research T-test, only hypotheses 1 and 2 were accepted. The t-test results that have a positive influence are Institutional Ownership and Size which moderates Institutional Ownership.

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