

## BOARD OF DIRECTORS, AUDIT COMMITTEE, EXECUTIVE COMPENSATION AND TAX AVOIDANCE OF BANKING COMPANIES IN INDONESIA

Utami Nuur Lailatul Idzniah<sup>1</sup>, Yustrida Bernawati<sup>2</sup>

<sup>1,2</sup>Department of Accounting, Faculty of Economic and Business, Universitas Airlangga,  
Jl. Airlangga No.4, Kec. Gubeng, Kota Surabaya, Jawa Timur – Indonesia 60286

DOI: <https://doi.org/10.33005/jasf.v3i2.111>

*Received: July 16, 2020. Revised: October 11, 2020. Accepted: November 17, 2020*

### Abstract

*Tax avoidance is the hottest issue in the last five years. It is reinforced with the Tax Amnesty Program by the Directorate General of Taxation (DJP), which began in June 2016. Therefore, this study aims to obtain empirical evidence of the influence of good corporate governance and executive compensation on corporate tax avoidance. This study used 215 banking companies listed on the Indonesia Stock Exchange (IDX) for 2014-2018. This study using a purposive sampling method that produced 119 suitable samples. The analytical method used is multiple linear regression analysis through IBM SPSS Statistics 25 software. Computation of tax avoidance is proxied by computing of Effective Tax Rates (ETR). Good corporate governance is proxied by the size of the board of directors and the audit committee, and executive compensation is proxied by all director compensations. The size of the audit committee is a total of the audit committee in one period. The size of the board of directors is the total of the board committee in one period. This study used ROA and Leverage as a control variable. In this study, it was found that executive compensation and good corporate governance, which was proxied by the Size of the board of directors and the Size of the audit committee shown a positive effect on tax avoidance. Investors who do not want tax avoidance must pay attention to executive compensation and good corporate governance in the company. In contrast, control variables have not significant effect on tax avoidance.*

**Keywords:** *Good Corporate Governance, Executive Compensation, Tax Avoidance, Size of the Board of Directors, Size of the Audit Committee.*

### How to cite (APA 6<sup>th</sup> style)

Idzniah, U. N. L. & Yustrida B. (2020). Board of Directors, Audit Committee, Executive Compensation and Tax Avoidance of Banking Companies in Indonesia. *Journal of Accounting and Strategic Finance*, 3 (2), 199-213.

## INTRODUCTION

The highest revenue component of the Indonesian government comes from taxes. Therefore, tax revenue must be maximized. The government must ensure the elimination of tax avoidance practices by taxpayers considering the implementation of the self-assessment collection system in

---

<sup>1</sup> Utami Nuur Lailatul Idzniah  
Email: [utami.nuur.lailatul-2016@feb.unair.ac.id](mailto:utami.nuur.lailatul-2016@feb.unair.ac.id)

Indonesia. This system hands over the taxpayer's authority to independently calculate, determine, and deposit their taxes (Rosdiana & Irianto, 2011). This independent calculation indeed allows taxpayers to do whatever they want in terms of paying payable taxes. Taxpayers (WP) certainly want to get maximum profit with minimal tax payments by tax avoidance and tax saving, which is legal in the eyes of the law (Darussalam, 2017).

According to Syanthi, Sudarma, and Saraswati (2017), the tax burden can be minimized with a policy strategy carried out by a company, namely looking at opportunities in tax regulations. This strategy can be called tax avoidance. Tax avoidance is often referred to as tax aggressiveness because companies aggressively reduce corporate taxes on income before tax (Huang, Ying, & Shen, 2018). Companies' tendency to minimize tax payments is based on the same benefits received from the government, both paying large and small amounts of tax (Huda, 2016).

Furthermore, Huda (2016) states that there are differences of opinion between taxpayers and tax authorities. Taxpayers argue that it is acceptable to reduce their tax obligations while no laws are violated, while tax authorities think taxpayers are infringing tax benefits in tax avoidance practices. The budgetary function and the tax redistribution function to maximize tax avoidance practices are failures (IAI, 2018). Nahumury, Utama, & Suryaningrum (2018) proved that taxpayers would be more compliant with their tax obligations if the government performs its functions as a state apparatus properly. Therefore, tax avoidance practices may not be avoided.

The importance of tax revenue on a country encourages the government to immediately decide to implement a tax amnesty policy to increase its income (Damayanti, 2016). As an employee of the Director-General of Taxes, Mukarromah (2016) said that this tax amnesty's primary focus is not ransom but more towards repatriation and asset declaration add a new tax base. The success of adding the tax base to amnesty volume 1 has made the government want to overthrow the volume 2 tax amnesty policy. But on the other hand, some taxpayers do not want amnesty volume 2 because it will impact the erosion of taxpayers' trust in the tax authorities (Asmara, 2019). Seeing this, it is clear that tax avoidance actions still occur in Indonesian taxpayers.

Efforts to minimize corporate tax obligations on profit before tax are known as tax avoidance. The theory is to reduce tax obligations through legal means through tax planning (Zakaria, 2012). This practice is called active resistance by taxpayers (Manurung, 2020).

Tax avoidance will provide significant benefits for companies, but on the other hand, it will have a negative impact on state revenues from taxes (Handayani, 2019). Tax avoidance calculations are usually proxied by calculating Current Effective Tax Rates (Current ETR) and Book Tax Differences (BTD). However, much of the literature and previous research uses the Current ETR calculation as a proxy for tax avoidance. Kovermann and Velte (2019) state that the current ETR's reduced value results in increased tax avoidance being carried out. We can use the Current ETR proxy to find out whether the company is launching tax avoidance activities or not. The calculation of Current ETR is calculated by comparing the current income tax expense to profit before tax.

The act of tax avoidance because the company will reap the benefits of such action. As tax havens have done by forming complex business structures that clash with international human rights to reduce the corporate tax burden or not be subject to a single tax burden (Mukarromah,

2019). State tax havens are countries that facilitate tax avoidance acts because the company put its assets in the country of tax havens to avoid taxes in their home country.

Director General (Dirjen) of Taxes of the Ministry of Finance (Kemenkeu) Suryo Utomo spoke about the findings of tax avoidance which are estimated to cause state losses of up to Rp 68.7 trillion per year (Kontan, 2020). Quoted from the okezone.com page, Kusuma (2014) stated that the case of tax avoidance conducted by Bank Central Asia (BCA) began with BCA's objection to the tax correction made by the DJP. There was an allegation that BCA had made an asset transfer transaction to the Indonesian Bank Restructuring Agency (IBRA). According to Ah Maftuchan, the arrest of Hadi Poernomo (BCA), who has been named a suspect, indicates that there are many cases of tax evasion in the banking sector and financial institutions. Tax avoidance by banks that occurs is the misuse of Bank Indonesia Liquidity Assistance (BLBI). Previously, it was also quoted in Tempo magazine (2001), the tax avoidance incident carried out by banks was providing offshore banking services. This offshore banking service gives depositors privileges to get high yields and is free from taxes if depositors save their money in offshore unit deposits located abroad. Private and foreign banks usually do this. It is necessary to apply Good Corporate Governance (GCG) in each company to avoid this practice.

According to Odoemela, Ironkwe, and Nwaiwu (2016), Good Corporate Governance is a set of managerial controls that aim to improve company performance. Managerial control is intended to protect owners or shareholders from taking over the board and management to increase their trust. Management often reduces the company's tax burden and considers tax planning (a way to do tax avoidance) as a must because taxes are mandatory payments under government regulations. When tax planning activities become increasingly over the line, leading to fraud or illegal actions, the owner will also feel these actions' impact. The most effective way to avoid this is to implement Good Corporate Governance (GCG) in each company.

Handayani (2019) states that there is a link between GCG and tax avoidance. The reason is that the company is a taxpayer, and company regulations that arise from the existence of GCG cause the company to fulfil its tax obligations. But on the other hand, tax avoidance can also occur due to the dynamic Good Corporate Governance in a company.

Good Corporate Governance is included in the company's mechanism to make corporate governance more controlled. This mechanism is designed to reduce the spread of agency problems (Xue & Hong, 2016). Good Corporate Governance is the key to the success and achievement of company performance (Stuebs & Sun, 2015). Corporate governance effectively plays an essential role in facilitating the relationship with shareholders. Corporate governance will assure shareholders of the fulfilment of corporate responsibilities to shareholders.

Good Corporate Governance is a principle in which there is the application of laws and regulations and business ethics in a company (Wikipedia). To maximize the company's performance and long-term economic value for investors and stakeholders, the implementation of GCG is imperative. The implication is that this is done by encouraging the existence of an internal control and supervision system, reporting allegations of irregularities, and making ethical behaviour guidelines.

After reviewing several previous studies related to corporate tax avoidance's good corporate governance, there are different results from one research to another. Odoemela et al. (2016) research states that there is no significant relationship between Board Size and Audit Committee and tax avoidance. Handayani (2019) also indicates that Good Corporate Governance has an irrelevant impact on tax aggressiveness. Different from Odoemela et al. (2016)

and Handayani (2019), Mohd Suffian, Shamsudin, Mohd-Sanusi, and Hermawan (2017) from Malaysia stated that good corporate governance shows a significant impact on tax payment compliance. Likewise, Hariyanto and Utomo (2018) found an influence between the board of directors and tax evaders' size. Waluyo (2018) also found that the audit committee, audit quality, and firm size positively impact tax avoidance. Besides, Prayogo and Darsono (2015) state that there is an influence of the audit committee with a background in accounting education with corporate tax avoidance.

Meanwhile, for research related to executive compensation on corporate tax avoidance, there are differences in each study's results. The study of Huang et al. (2018) revealed that if companies pay higher compensation money to executives, tax avoidance will be lower for companies registered in China. Gorry, Hasset, Hubbard, and Mathur (2015) report their empirical findings that there is a significant impact on taxes due to executive compensation. This statement is reinforced by the results of Hansen, Lopez, and Reitenga (2016), which prove that there is a tax relationship with sufficient compensation. Research by Chee, Choi, and Shin (2017) states that executive compensation and tax avoidance have a positive relationship with low executive compensation but a negative relationship with high levels of executive compensation. Apart from that, Hariyanto and Utomo (2018); Rosidy and Nugroho (2019) state a negative influence between executive compensation and ETR.

Due to differences in findings with the same research concept, the authors conducted another study related to the board of directors' size, the size of the audit committee, executive compensation, and tax avoidance in banks listed on the IDX 2014-2018. Further research in other countries to create international arrangements on this matter need to be conducted, as suggested by Huang et al. (2018). The reason for making banking companies listed on the IDX the target of research is many tax avoidance cases in banks even though they are supervised by several parties such as the DGT, BI, and OJK. In their study, Rosidy and Nugroho (2019) stated that the high tax avoidance rate in financial sector companies was accompanied by a soaring increase in GDP in the financial sector. Growth from the financial industry is almost always above the four main sectors contributing to GDP. This growth may continue to occur in line with the continued positive development of the middle class. OJK has the role of the authority in driving the growth of this sector. Thus, the selection of banking companies listed on the IDX is expected to provide a more comprehensive picture of the GCG mechanism and executive compensation for tax avoidance actions.

Besides, on the advice of several other researchers such as Rosidy and Nugroho (2019), Prayogo and Darsono (2015) to extend the research period, this study examines the sample from 2014-2018 because for the 2019 report, not all companies report annual statements that have been audited due to the covid-19 (corona) virus pandemic in 2020. The following research by Hariyanto and Utomo (2018); Rosidy and Nugroho (2019); Prayogo and Darsono (2015); Fajri and Rusydi (2019), who use ROA and Leverage as control variables, this study also uses these control variables. This research is expected to provide an overview of the government, especially the Directorate General of Taxes (DJP), regarding board size, audit committee size, and executive compensation in banking tax avoidance in Indonesia.

In agency theory, agency problems usually occur between owners and agents. Parker, Dressel, Chevers, and Zeppetella (2018) state that this problem arises because of information asymmetry between the agent and owner, which creates opportunism. This

asymmetry of information will undoubtedly have a negative impact on both parties. It is necessary to have a high level of good corporate governance to overcome information asymmetry (Kanagaretnam, Lobo, & Whalen, 2007).

Good Corporate Governance prioritizes the efficiency of scarce resources as best as possible and the application of accountability for using these resources (Omolaye & RB, 2017). This case illustrates the importance of implementing GCG in every company. Good Corporate Governance focuses on internal and external aspects. Omolaye and RB (2017) stated that the internal elements include the board of directors' structure and controls within the company, while the external factors include relationships with stakeholders.

The proxies for good corporate governance used are the Size of the board of directors and the audit committee's Size. The board of directors will describe the internal aspects of the company. This proxy is in sync with Hariyanto and Utomo (2018) research, which established the board of directors' size as one of the GCG proxies in their study. Hariyanto and Utomo (2018) state that the board of directors' size has a significant negative impact concerning tax avoidance. Based on this description, the hypothesis is obtained that:

**H1: The Size of the board of directors affects tax avoidance**

The size of the audit committee reflects both internal and external aspects. The audit committee describes the internal element. After all, it can control the company's internal activities and represents the external aspect because it is directly responsible to the commissioners who will deal with shareholders and stakeholders. Prayogo and Darsono (2015) use an audit committee's accounting or financial learning considerations to become one of the GCG proxies. Prayogo and Darsono (2015) state that an audit committee's accounting learning considerations show a significant positive effect concerning tax avoidance. Based on this description, the hypothesis can be concluded that:

**H2: The Size of the audit committee affects tax avoidance**

Apart from GCG, other factors are also a consideration for the reasons for tax avoidance. That factor is the compensation of executives or directors. Focke, Maug, and Niessen-Ruenzi (2017) stated that CEOs of companies listed in the top 100 of Fortune's "America's Most Admired Companies" earn less. CEOs are willing to ignore additional compensation if they work for well-known companies. Seeing this, the role of GCG is very influential in executive compensation.

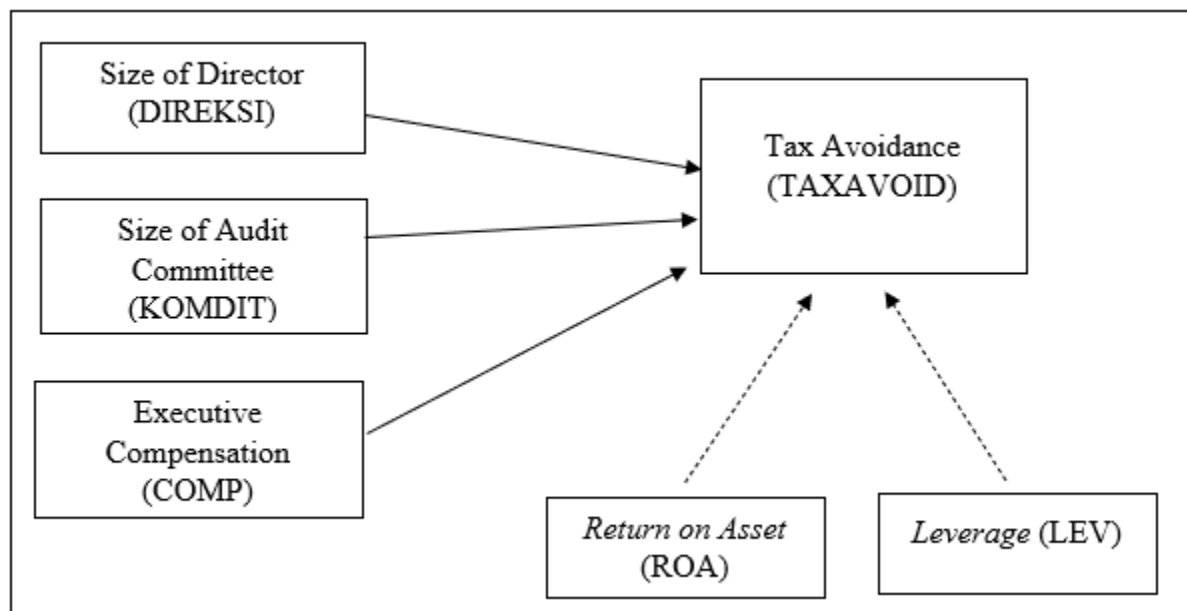
Executive compensation is a form of reimbursement for tasks that have been performed by the board of directors. This compensation can be in the form of salary, allowances, bonuses, or a combination of the three things. Executive compensation can be referred to as executive remuneration. Executive compensation encourages the avoidance of corporate taxes by directors. The agency theory states that agents or directors have an opportunistic nature, so agency problems arise, such as information asymmetry, rationality, and fraud (Panda & Leepsa, 2017). The more compensation the executive or director receives, the less tax avoidance activities are, and conversely, the less compensation the executive receives, the more tax avoidance activities will be (Rosidy & Nugroho, 2019).

Research by Huang et al. (2018) argued that the tax aggressiveness was low if the executive received high compensation. Still, on the contrary, if the executive's compensation was inadequate, the tax aggressiveness was high. This tendency is also consistent with Hansen et

al. (2016) and Gorry et al. (2015), suggesting the relationship between executive compensation and tax avoidance. Based on this description, the hypothesis is raised as follows:

**H3: Executive compensation affects tax avoidance**

Tax avoidance is an effort made by taxpayers to minimize tax payments. Tax avoidance will provide significant benefits for companies, such as increasing profits from the company because the amount of tax paid is reduced. Still, the other will have a negative impact on state revenues from taxes considering the top income-tax country Indonesia (Hand, 2019). Tax avoidance can increase investors' dividends because its profits will increase, but it has risks. Investors are likely to feel happy at the beginning if they get large dividends, but in the long term, investors may be exposed to risks due to these tax avoidance activities. Most investors prefer companies that have a small risk to companies that have a high risk. Investors see the company's prospects in the long term rather than the short-term prospects. Investors prefer companies that have ongoing concerns. This preference shows that every company listed on the IDX must report financial statements that have been audited by an external auditor. Therefore, investors should pay attention to factors that can increase the risk of tax avoidance. Based on each hypothesis of the factors that affect tax evasion, among others, that the size of the audit committee, the size of the board of directors, executive compensation, as well as two control variables, namely ROA and Leverage so that it can be made a conceptual framework as figure 1.



**Figure 1. Conceptual Framework**

**RESEARCH METHODS**

The study has the objective to obtain empirical evidence through testing the hypotheses. Therefore, the method of research used a quantitative approach. The study uses data secondary including data

from annual reports of banks in BEI that include corporate tax burden, net profit of the current year, total assets, total liabilities, total equity, the number of the audit committee, the number of boards of directors, and compensation of directors. Testing hypotheses is using multiple linear regression analysis with IBM SPSS Statistics 25 software tools. The empirical research model that fits the conceptual framework in Figure 1 is as follows:

$$\text{TAXAVOID}_{it} = \alpha + \beta_1 \text{DIRECTORS}_{it} + \beta_2 \text{KOMDIT}_{it} + \beta_3 \text{COMP}_{it} + \beta_4 \text{ROA}_{it} + \beta_5 \text{LEV}_{it}$$

Where:

$\alpha$  = Constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  = Regression coefficient

TAXAVOID = Tax avoidance

BOARD OF DIRECTORS = The Size of the board of directors

KOMDIT = size of the audit committee

COMP = Executive compensation

ROA = Return of Asset

LEV = Leverage

**Table 1. Operational Definition of Variables**

Variable	Proxy
Tax Avoidance	$\text{TAXAVOID} = \text{E. T. R.} \times -1 = \frac{\text{Tax Expenses}}{\text{Income before Tax}} \times -1$
Board of Director Size	DIRECTORS = number of boards of director in one period
Audit Committee Size	KOMDIT = Number of Audit Committees in one period.
Executive Compensation	COMP = Ln Board of Director Compensation
Return on Asset (ROA)	$\text{ROA} = \frac{\text{Net Income current year}}{\text{total asset}} \times 100\%$
Leverage (LEV)	$\text{Leverage} = \frac{\text{Total Liabilities}}{\text{Total Equities}}$

The population of this study is banking companies listed on the IDX during 2014-2018. Based on data from the BEI banking companies that release financial and annual reports, it is obtained details that there were 43 banks in 2014, 43 banks in 2015, 43 banks in 2016, 43 banks in 2017, and 43 banks in 2016 so that the total banking data from 2014 to 2018 amounted to 215 data.

This study used a purposive sampling method with criteria according to table 2 so that the results showed that the banking companies that were at a loss during the study year were three banks in 2014, 4 banks in 2015, 7 banks in 2016, 6 banks in 2017, and 5 banks in 2015. Furthermore, for companies that did not pay the current tax burden, four companies were with two banks in 2017 and 2 banks in 2018. For banking companies with incomplete data for this study, 17 banks in 2014, 14 banks in 2015, 10 banks. In 2016, 9 banks in 2017, and 17 banks in 2018, the number of samples used in this study was 119 samples.

**Table 2. Number of Research Samples**

No.	Sample Selection Criteria	Year					Total
		2014	2015	2016	2017	2018	
1.	Banking companies listed on the IDX and release annual reports	43	43	43	43	43	215
2.	Banking companies that are in a state of loss during the research year	(3)	(4)	(7)	(6)	(5)	(25)
3.	Banking companies whose current tax burden is not negative	-	-	-	(2)	(2)	(4)
4.	Banking companies whose data are not comprehensive for this study	(17)	(14)	(10)	(9)	(17)	(70)
<b>Number of samples</b>		23	25	26	26	19	119

Source: IDX website, compiled

## RESULTS AND DISCUSSION

### Result

#### *Descriptive statistics*

The research data description is described in Table 3 below. The TAXAVOID variable has a Min value of -0.335; The Max value is -0.154, and the Mean value is -0.242. Furthermore, the DIRECTORS variable has a Min value of 2, a max value of 12, and a Mean value of 6.32. The Komdit variable has a Min value of 3, a max value of 7, and a mean value of 3.91. The COMP variable has a mean value of 21.322; Max value of 27.169, and a Mean value is 23,911. The ROA variable has a Min value of 0.067, a Max value of 8,018, a Mean value of 1.385. The LEV variable has a Min value of 1.594, a Max value of 12,190, and the Mean value is 5.897.

From the study results, it can be observed that the value of the standard deviation of board size, audit committee size, executive compensation, ROA, and Leverage is below the mean. It illustrates slight variations in the variables of board size, audit committee size, executive compensation, ROA, and Leverage. As for the tax avoidance variable (TAXAVOID), the standard deviation value exceeds the average value, which means that there are many variations of tax avoidance variables.

**Table 3. Descriptive Statistics**

Variable	N	Min	Max	Mean	Std. Deviation
TAXAVOID	119	-0,335	-0.154	-0,242	0.036
DIRECTORS	119	2	12	6.32	2,613
COMMDITS	119	3	7	3.91	1,066
COMP	119	21,322	27,169	23,911	1,471
ROA	119	0.067	8,018	1,385	1,137
LEV	119	1,594	12,190	5,897	2,362

Source: Processed data, IBM SPSS Statistics 25



### Multiple Linear Regression Analysis

The results of the hypothesis test are shown in table 4 below:

**Table 4. Multiple Linear Regression Test Results**

Variable	Unstandardized Coefficients			Sig.
	B	Standard error	t	
(Constant)	-0.461	0.082	-5,635	0,000
DIRECTORS	0.004	0.002	2,039	0.044
COMMUNITES	0.005	0.003	1,865	0.065
COMP	0.007	0.004	1,774	0.079
ROA	-0.002	0.003	0.727	0.469
LEV	0.001	0.001	-0,762	0.448
R		0.635		
R <sup>2</sup>		0.403		
Adjusted R <sup>2</sup>		0.376		
F		15,232		0,000 <sup>b</sup>

Source: Processed data, IBM SPSS Statistics 25

Table 4 illustrates the test results of multiple linear regression analysis to test independent variables such as board size, audit committee size, executive compensation, and control variables such as ROA and Leverage on the dependent variable, namely tax avoidance. The regression equation design made refers to table 4 below:

$$\text{TAXAVOID} = -0,461 + 0,004 \text{ DIREKSI} + 0,005 \text{ KOMDIT} + 0,007 \text{ COMP} - 0,002 \text{ ROA} + 0,001 \text{ LEV}$$

Test the coefficient of determination ( $R^2$ ), an important test for multiple linear regression test because it reports on the regression pattern projected by the actual data. The coefficient of determination can also describe the percentage of the dependent variable, which is explained using independent variables and control variables.

Based on table 4, it can be observed that the coefficient of determination of the regression pattern in this study is 0.376. These results indicate that the board of directors' variable size, Size of the audit committee, executive compensation, ROA, and Leverage can explain tax avoidance of 37.6%. In comparison, other variables will explain 62.4%. Based on the results obtained, information is received that the board of directors' variable size, Size of the audit committee, executive compensation, ROA, and Leverage influences tax avoidance in banking listed on the IDX.

The model test (F test) was conducted to assess multiple linear regression models' feasibility in explaining the effect of board size, audit committee size, executive compensation, ROA, and Leverage on tax avoidance simultaneously. Suppose the significance value of the F test is below 0.05. In that case, it indicates that the multiple linear regression model used is feasible to explain the independent variable's effect on the dependent variable.

Based on table 4, it is observed that the significance is 0.000, so that the significance value is below 0.05. As a result, it can be said that the regression model used is feasible to explain the influence between the variable size of the board of directors, Size of the audit committee, executive compensation, ROA, and Leverage on the tax avoidance variable.

The significance test of individual parameters or the t-test is used to see the effect per unit variable. If each variable's significance value is below 0.1 and 0.05, it is indicated that each variable has a segmental influence on the dependent variable. Based on table 4, information is drawn that the variables of the board of directors' size, audit committee size, and executive compensation have a segmental effect on tax avoidance. At the same time, ROA and Leverage do not show a significant segmental impact on tax avoidance. The t-test significance of each of these variables is 0.044 for the board of directors; it is 0.065 for the audit committee; 0.079 for executive compensation; it is 0.469 for ROA; and 0.448 for Leverage.

## **Discussion**

### *The Effect of the Board of Directors on Tax Avoidance*

Hypothesis one (H1) in the study suggests an effect of board size on tax avoidance. Based on table 7, it can be concluded that H1 is accepted or not rejected. The tests carried out resulted in a positive effect on the board of directors' size, namely, 0.004 on tax avoidance, meaning that many boards of directors in a bank indicate that tax avoidance continues to increase. This relation is due to the significant value of the director's variable of 0.044 below the 0.05 significance level.

The study results illustrate that the board of directors' total size affects the occurrence of tax avoidance in banking companies. Following agency theory, good corporate governance is characterized by the presence or absence of internal and external corporate control. In this case, the board of directors acts as an agent who manages the company so that the board of directors' size affects whether a company is good or not. An effective company is a company that earns maximum profit so that the size of the board of directors can affect the amount of profit generated by the company. The size of the board of directors can increase tax avoidance as an effort to increase corporate profits.

This result is in line with Prawira (2017), which found that the board of directors positively affects tax avoidance. The large size of the board of directors causes an intensive board of directors to maximize company profits. The amount of profit received by the company makes the company's tax burden bigger so that tax avoidance activities can occur. In contrast, research by Mohd Suffian et al. (2017) states that tax compliance behaviour is influenced by good corporate governance. It is necessary to implement good corporate governance such as the board of directors' role in making company SOPs and disclosing significant transactions carried out by Top 100 Companies Based Market Capitalization companies in December 2014 in Malaysia. SOP or Standard Operating Procedure is a set of written rules governing how to act and ethically carry out work to create smooth company operations.

### *The Effect of the Audit Committee on Tax Avoidance*

Hypothesis two (H2) in the study suggests an effect of audit committee size on tax avoidance. Based on table 4, information is drawn that H2 is accepted or not rejected. The tests conducted reveal that the size of the audit committee shows a positive effect of 0.005 on tax avoidance, meaning that many audit committees in a bank causes an increase in tax avoidance. The reason is that the significance value of the audit committee variable is 0.065, below the significance level of 0.1.

According to agency theory, good corporate governance is characterized by internal and external supervision. The audit committee is a party formed by the board of commissioners to

exercise the authority to monitor the board of directors' work and supervise corporate reporting and finances. This authority means that the audit committee has a role in tax reporting carried out by the company. In the event of tax avoidance, the audit committee will be responsible for it.

Referring to Hsu, Moore, and Neubaum (2018)'s research results, the audit committee's positive effect on tax planning means that the large size of the audit committee causes the company's tax planning to be also considered. The amount of tax planning carried out will promote corporate tax avoidance. Waluyo (2018) also found the audit committee's positive influence on tax evasion. In line with this, Prayogo and Darsono (2015) state that the consideration of accounting education owned by the audit committee increases corporate tax avoidance activities. In contrast to the research of Putro, Amboningtyas, and Gagah (2018), which states that the audit committee shows a significant negative impact in the construction and building sub-sector companies listed on the IDX for the 2013-2017 period.

#### *The Effect of Executive Compensation on Tax Avoidance*

Hypothesis three (H3) in this study suggests an effect of executive compensation on tax avoidance. Based on table 4, information can be drawn that H3 is accepted or not rejected. The test results indicate that executive compensation has a positive effect, namely, 0.007 on tax avoidance, meaning that the more executive compensation in a bank, tax avoidance will increase. The reason is that the significance level of the executive compensation variable is 0.079, below the significance level of 0.1.

It is in line with agency theory that agents or directors have an opportunistic nature, so agency problems emerge, such as information asymmetry, rationality, and fraud (Panda & Leepsa, 2017). Referring to this, directors' executive compensation can increase tax avoidance because large executive compensation encourages directors to improve their performance to carry out tax avoidance or tax planning to increase the profit generated.

This result is supported by Hariyanto and Utomo's (2018) research, which reports that executive compensation has a significant proportional impact concerning corporate tax avoidance because compensation with fantastic value will harmonize managers' and shareholders' thinking. Also, Chee et al. (2017) stated that CEO tax avoidance strategy on high executive compensation is different from CEO tax avoidance strategy on low executive compensation. It is different from the research conducted by Putra, Andreas, and Nasrizal (2018), which states that there is no effect of executive compensation on corporate earnings management practices because executive compensation is only dominated by fixed compensation such as salaries and allowances. In line with this, Prayogo and Darsono (2015) state that the bonus system cannot motivate executives to avoid taxes in manufacturing companies in Indonesia.

#### *The Effect of Control Variables on Tax Avoidance*

Based on table 4, ROA and Leverage do not affect tax avoidance. This result is not following the research results of Yanti and Setiawan (2019), Irianto, Sudibyo, and Wafirli (2017), and Ardana, Yuniarwati, Dewi, and Lin (2017), who reported a positive effect of ROA on tax avoidance. The company's profit will affect the company's income tax, so that an increase in income will affect the income tax, causing companies to do tax avoidance (Ardana et al., 2017). Handayani's research (2019) reports the insignificant effect of Leverage on tax avoidance, while Putra et al. (2018) explain a significant positive impact of the debt-equity ratio on tax avoidance, especially long-term debt interest expense which reduces the tax burden.

## CONCLUSION

This research proved that the board of directors' size, the size of the audit committee, and executive compensation significantly positive effect on tax evasion. The board of directors' positive impact and the audit committee's size indicate the magnitude of good corporate governance in banking tax avoidance.

The results are in line with Prawira's research (2017), which positively influences the board of directors on tax avoidance. The large size of the board of directors causes an intensive board of directors to maximize company profits. The amount of profit received by the company makes the company's tax burden bigger so that tax avoidance activities can occur. The board of directors as an agent can reinforce tax avoidance. Referring to Hsu et al.'s (2018) research results obtained information on the audit committee's positive effect on tax planning, meaning that the audit committee's size is large, causing the tax planning carried out by the company to be extensive. The amount of tax planning that is carried out will promote corporate tax avoidance. Waluyo (2018) also found the audit committee's positive influence on tax evasion. In line with this, Prayogo and Darsono (2015) state that the consideration of accounting education owned by the audit committee increases corporate tax avoidance activities. As an internal controller, the audit committee can control management activities within the company, but the larger the audit committee size will encourage tax avoidance activities. This contradiction is due to differences in thinking in many audit committees. Likewise, executive compensation's positive effect is that the executive's receipt of considerable compensation will encourage executives to commit fraud and strengthen tax avoidance. It is in line with agency theory that agents or directors have an opportunistic nature, so agency problems arise, such as information asymmetry, rationality, and fraud (Panda & Leepsa, 2017). Referring to this, directors' executive compensation can increase tax avoidance because large executive compensation encourages directors to improve their performance to carry out tax avoidance or tax planning to increase the profit generated. With this research, it is expected that investors will consider the appropriate composition, including board size, audit committee size, and executive compensation.

## REFERENCES

- Ardana, I. C., Yuniarwati, Dewi, S. P., & Lin, C. (2017). Factors that Influence Tax Avoidance in the Indonesia Stock Exchange. *Chinese Business Review*, 16 (10), 510-517. doi:10.17265/1537-1506/2017.10.005
- Asmara, C. G. (2019, 02 Agustus 2019 18:43). *Wacana Tax Amnesty Jilid II Timbulkan Pro & Kontra Pengusaha*. Retrieved from <https://www.cnbcindonesia.com/news/20190802183923-4-89509/wacana-tax-amnesty-jilid-ii-timbulkan-pro-kontra-pengusaha>
- Chee, S., Choi, W., & Shin, J. E. (2017). The Non-Linear Relationship Between CEO Compensation Incentives And Corporate Tax Avoidance. *Journal of Applied Business Research (JABR)*, 33, 439. doi:10.19030/jabr.v33i3.9935

- Damayanti, D. (2016). *Mengapa Harus Ikut Amnesti Pajak?* Retrieved from <https://www.pajak.go.id/id/artikel/mengapa-harus-ikut-amnesti-pajak>
- Darussalam (2017). *Ini Beda Tax Planning, Tax Avoidance, dan Tax Evasion*. Retrieved from [https://news.ddtc.co.id/perencanaan-pajak-ini-beda-tax-planning-tax-avoidance-dan-tax-evasion-9750?page\\_y=1733](https://news.ddtc.co.id/perencanaan-pajak-ini-beda-tax-planning-tax-avoidance-dan-tax-evasion-9750?page_y=1733)
- Fajri, A., & Rusydi, M. K. (2019). Pengaruh Koneksi Politik Terhadap Penghindaran Pajak. *Jurnal Ilmiah Mahasiswa FEB Universitas Brawijaya*.
- Focke, F., Maug, E., & Niessen-Ruenzi, A. (2017). The Impact Of Firm Prestige On Executive Compensation. *Journal of Financial Economics*, 123 (2), 313-336. doi:<https://doi.org/10.1016/j.jfineco.2016.09.011>
- Gorry, A., Hassett, K. A., Hubbard, R. G., & Mathur, A. (2015). The Response of Deferred Executive Compensation to Changes in Tax Rates. *Journal of Public Economics*. doi:<http://dx.doi.org/10.1016/j.jpubeco.2015.08.003>
- Handayani, R. (2019). Analysis of Corporate Social Responsibility and Good Corporate Governance to Tax Aggressiveness. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 9 (3), 173-184. doi:10.6007/IJARAFMS/v9-i3/6356
- Hansen, V., Lopez, T. J., & Reitenga, A. (2016). The Executive Compensation Implications of the Tax Component of Earnings. *Rev Quant Finan Acc*. doi:10.1007/s11156-016-0561-5
- Hariyanto, F., & Utomo, D. C. (2018). Pengaruh Corporate Governance Dan Kompensasi Eksekutif Terhadap Agresivitas Pajak. *Diponegoro Journal of Accounting*, 7, 1-14.
- Hsu, P.-H., Moore, J., & Neubaum, D. (2018). Tax avoidance, Financial Experts on The Audit Committee, and Business Strategy. *Journal of Business Finance & Accounting*, 45(1), 1293-1321. doi:10.1111/jbfa.12352
- Huang, W., Ying, T., & Shen, Y. (2018). Executive Cash Compensation And Tax Aggressiveness Of Chinese Firms. *Review of Quantitative Finance and Accounting*, 51. doi:10.1007/s11156-018-0700-2
- Huda, R. (2016). *Perdebatan di Seputar Tax Avoidance*. Retrieved from [https://news.ddtc.co.id/perdebatan-di-seputar-tax-avoidance-6518?page\\_y=25](https://news.ddtc.co.id/perdebatan-di-seputar-tax-avoidance-6518?page_y=25)
- IAI. (2018). *Modul Pelatihan Pajak Terapan Brevet AB Terpadu* (35 ed.). Jakarta: Ikatan Akuntan Indonesia.
- Irianto, B. S., Sudibyoy, Y., A., & Wafirli, A. (2017). The Influence of Profitability, Leverage, Firm Size, and Capital Intensity Towards Tax Avoidance. *International Journal of Accounting and Taxation*, 5 (2), 33-41. doi:10.15640/ijat.v5n2a3
- Kanagaretnam, K., Lobo, G. J., & Whalen, D. J. (2007). Does Good Corporate Governance Reduce Information Asymmetry Around Quarterly Earnings Announcements? *Journal of Accounting and Public Policy*, 26 (4), 497-522. doi:<https://doi.org/10.1016/j.jaccpubpol.2007.05.003>
- Kontan (2020). *Dirjen Pajak angkat bicara soal kerugian Rp 68,7 triliun dari penghindaran pajak*. Retrieved from <https://nasional.kontan.co.id/news/dirjen-pajak-angkat-bicara-soal-kerugian-rp-687-triliun-dari-penghindaran-pajak>
- Kovermann, J., & Velte, P. (2019). The Impact Of Corporate Governance On Corporate Tax Avoidance—A Literature Review. *Journal of International Accounting, Auditing, and Taxation*, 36, 100270. doi:<https://doi.org/10.1016/j.intaccaudtax.2019.100270>

- Kusuma, H. (2014). *Kasus Pajak BCA Gerbang KPK Selidiki Perbankan RI*. Retrieved from <http://www.google.com/amp/s/economy.okezone.com/amp/201404/25/457/975953/kasus-pajak-bca-gerbang-kpk-selidiki-perbankan-ri>
- Manurung, J. T. P. (2020). *Praktik Penghindaran Pajak di Indonesia*. Retrieved from <http://pajak.go.id/id/artikel/praktik-penghindaran-pajak-di-indonesia>
- Mohd Suffian, M. T., Shamsudin, S., Mohd-Sanusi, Z., & Hermawan, A. A. (2017). Malaysian Code Of Corporate Governance And Tax Compliance: Evidence From Malaysia. *Management and Accounting Review (MAR)*, 16, 157. doi:10.24191/mar.v16i2.665
- Mukarromah, A. (2016). *Dirjen Pajak: Fokus Amnesti Pajak Bukan Hanya Uang Tebusan*. Retrieved from [https://news.ddtc.co.id/dirjen-pajak-fokus-amnesti-pajak-bukan-hanya-uang-tebusan-7683?page\\_y=0](https://news.ddtc.co.id/dirjen-pajak-fokus-amnesti-pajak-bukan-hanya-uang-tebusan-7683?page_y=0)
- Mukarromah, A. (2019). *Tax Havens, Mesin Global Pelanggaran HAM Internasional*. Retrieved from <https://news.ddtc.co.id/tax-havens-mesin-global-pelanggaran-ham-internasional-15044>
- Nahumury, J., Utama, IWW, & Suryaningrum, D.H. (2018). The Compliance of Motor Vehicle Taxpayers: An Experimental Research. *Journal of Accounting and Strategic Finance*, 1 (02), 163-176. DOI:<https://doi.org/10.33005/jasf.v1i2.44>
- Odoemela, U., Ironkwe, U. I., & Nwaiwu, J. N. (2016). Corporate Governance Mechanism And Tax Planning In Nigeria. *International Journal of Advanced Academic Research*, 2(9), 45-59.
- Omolaye KE & RB, J. (2017). The Role of Internal Auditing in Enhancing Good Corporate Governance Practice in an Organization. *International Journal of Accounting Research*, 6(1), 174. doi:10.4172/2472-114X.1000174
- Panda, B., & Leepsa, N. (2017). Agency theory: Review of Theory and Evidence on Problems and Perspectives. *Indian Journal of Corporate Governance*, 10, 097468621770146. doi:10.1177/0974686217701467
- Parker, D., Dressel, U., Chevers, D., & Zeppetella, L. (2018). Agency Theory Perspective On Public-Private-Partnerships: International Development Project. *International Journal of Productivity and Performance Management*, 67, 00-00. doi:10.1108/IJPPM-09-2016-0191
- Prawira, I. (2017). Corporate Governance and Tax Aggressiveness, an Evidence on Manufacturing Companies in Indonesia. *International Journal of Accounting and Economics Studies*, 5 (2), 134-140. doi:10.14419/ijaes.v5i2.8132
- Prayogo, K. H., & Darsono. (2015). Faktor-Faktor Yang Berpengaruh Terhadap Penghindaran Pajak Perusahaan. *Diponegoro Journal of Accounting*, 4, 1-12.
- Putra, M. A., Andreas, & Nasrizal. (2018). Pengaruh Karakter Eksekutif, Kompensasi Eksekutif, Gender Diversity, Koneksi Politik, Debt To Equity Terhadap Penghindaran Pajak Dan Manajemen Laba Sebagai Variabel Intervening. *Jurnal Ekonomi*, 26 (4), 52-71.
- Putro, R. H., Amboningtyas, D., & Gagah, E. (2018). The Effect Of Management Compensation And Good Corporate Governance On Tax Avoidance In Property And Real Estate Company By Firm Size As The Moderating Variables (Construction And Building Sub-Sector For The 2013-2017 Period). *Journal of Management*, 4 (4).
- Rosdiana, H., & Irianto, E. S. (2011). *Panduan Lengkap Tata Cara Perpajakan di Indonesia* (Z. Simatur Ed. 1 ed.). Jakarta: VisiMedia.

- Rosidy, D., & Nugroho, R. (2019). Pengaruh Komisaris Independen Dan Kompensasi Eksekutif Terhadap Agresivitas Pajak. *Jurnal Info Artha*, 3, 55-65.
- Stuebs, M., & Sun, L. (2015). Corporate governance and social responsibility. *International Journal of Law and Management*, 57 (1), 38-52. doi:10.1108/IJLMA-04-2014-0034
- Syanthi, N., Sudarma, M., & Saraswati, E. (2017). Dampak Manajemen Laba Terhadap Perencanaan Pajak Dan Persistensi Laba. *EKUITAS (Jurnal Ekonomi dan Keuangan)*, 17, 192. doi:10.24034/j25485024.y2013.v17.i2.2248
- Tempo, M. (2001). *Penggelapan Atau Penghindaran Pajak*.
- Waluyo (2018). The Effect Of Good Corporate Governance On Tax Avoidance: Empirical Study Of The Indonesian Banking Company. *The Accounting Journal of Binaniaga*, 2. doi:10.33062/ajb.v2i02.92
- Wikipedia. Tata Kelola Perusahaan Yang Baik. Retrieved from [http://id.m.wikipedia.org/wiki/Tata\\_kelola\\_perusahaan\\_yang\\_baik](http://id.m.wikipedia.org/wiki/Tata_kelola_perusahaan_yang_baik)
- Xue, S., & Hong, Y. (2016). Earnings management, corporate governance, and expense stickiness. *China Journal of Accounting Research*, 9 (1), 41-58. doi:<https://doi.org/10.1016/j.cjar.2015.02.001>
- Yanti, T. R., & Setiawan, P. E. (2019). Pengaruh Asimetri Informasi, Ukuran Perusahaan, Leverage dan Profitabilitas pada Manajemen Laba. *E-Jurnal Akuntansi*, 27 (1). doi:10.24843/EJA.2019.v27.i01.p26
- Zakaria, J. (2012). *Perjanjian Penghindaran Pajak Berganda: Serta Penerapannya di Indonesia* (e-book ed.). Jakarta: PT Raja Grafindo Persada.