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ANALYSIS OF AGGRESSIVE TAX IN TERMS OF GOOD CORPORATE GOVERNANCE COMPANY LISTED ON THE INDONESIA STOCK EXCHANGE (IDX)

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Abstract: This study aims to analyze the effect of good corporate governance on tax aggressiveness among companies listed in the Indonesia Stock Exchange. Good Corporate Governance variables studied in this research was a council of commissioners, institutional ownership, audit-committee and audit quality are projected on tax aggresiveness. This research was analyzed using quantitative analysis, using secondary data of companies listed on the Indonesia Stock Exchange viz., the company's financial statements from 2010-2014. Sampling method followed is simple random sampling and the number of manufacturing companies from the sample was 10 (the company) for 5 years, so the number of samples analyzed were 50 samples. The results showed that (1) independent commissioners towards tax aggressiveness has positive significant effect (2) institutional ownership has positive significant effect but insignificantly to tax aggresiveness (3) The Companies haven't an audit committee more has positive significant effect on the tax aggressiveness in comparison with the companies have an audit committee (4) the companies have audit quality more influential but insignificant effect to tax aggresiveness that companies have a quality audit. The implications of this research have provided input to the investors and shareholders that the audit committee is very much important in a company to control of the activities which will be carried out by the management. This study also provided input to the government and policy makers in the capital market to be more selective in terms of tax aggressiveness, undertaken by the companies listed in the Stock Exchange.

Keywords: Effective tax ratio, independent commissioners, institutional ownership, audit committee and audit quality.

INTRODUCTION

Since the HSBC scandals, it has helped 106,000 clients from 203 countries to avoid tax. These customers have accounts amounted until US $ 118 billion, or more than Rp. 1,400 trillion. According to a confidential document (by Falciani) which is by hacked (HSBC) there are four things that arises in this context include (1) HSBC routinely allow clients to make money through credit abroad, usually with foreign currency, that are rarely used, (2) by aggressive marketing scheme, that sustain wealthy clients to evade taxes in Europe. (3) Hiding 'black' accounts from the tax authorities and (4) make an account for criminals, corrupt businessmen, and people at risk (detikfinance. 02/23/2015). This indicates that it is very important to investigate the amount of corporate taxes get away from the State by following aggressive tax planning practices.

Tax aggressiveness is a "plan or arrangement established for the sole or dominant purpose of avoiding tax" (Braithwaite, 2005). It leads also, to significant costs and benefits for management and a reduction in cash flows available to the

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company and shareholders (Desai & Dharmapala, 2008). Aggressive tax action is an action aimed to reduce taxable income through tax planning, both in a manner that classified or not classified as *tax evasion* (Frank, *et al.* 2009). The nature of the aggressive tax measures that do not violate government regulations, cannot impose legal sanctions on companies, although such behavior reduces states revenues from taxes (Mangoting, 1999). Aggressive tax measures the company gave a bad impression because the public perceives that this activity will limit the transfer of income to the general public (Fuest & Riedel, 2009).

In general, there is a separation between business owners with management that will affect the growth of a company's business. Such situation will add to the conflict between shareholders with a management team that brings harm to the company, gives rise to *agency problems* (Kim, *et al,* 2010; Hidayanti 2013). Jensen and Meckling (1976) explain that the agency relationship occurs when one or more persons *(the principal)* employ another person *(the agent)*. The conflict of interest that occurs between the *principal* and the *agent* can be addressed through corporate governance is good *(good corporate governance),* (Shleifer & Vishny, 1997). GCG is a system that regulates and controls the company to create added value for all *stakeholders,* (Annisa & Kurniasih, 2012).

The GCG must play an important role in monitoring different actors and harnessing on planning procedures. It must have a global vision of the activities of management, but the question of its performance had been several debates and disputes in time and in space, as a way to rehabilitate the informational efficiency. In this context, several studies (Desai & Dharmapala, 2006; Hanlon & Slemrod, 2009; Lanis & Richardson, 2011; Chen *et al.,* 2010) have shown that some governance mechanisms affect negatively tax aggressiveness. In Indonesia research on the relationship between aggressive tax and corporate governance is still limited in number. For that, this study aims to examine the impact of good corporate governance on tax aggressiveness of Indonesian Stock Exchange listed-companies.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Several studies were detecting different definitions of tax aggressiveness. According to Chen *et al.* (2010), tax aggressiveness is defined as the effort of the company to minimize tax payments using aggressive tax planning activities and tax avoidance. It seems to Frank *et al.* (2009) that the aggressive tax returns is the manipulation to lower tax income due to a kind of tax planning that can be considered as tax management. This concept may have multiple conceptualizations, references and even different ways to measure. Nevertheless most of them have the same meaning and the same purpose but differs in their repercussions on the companies' health. Tax aggressiveness can be seen as simple trigger tax management activities that are used for tax planning and have an arrival point for tax evasion.

Bruce *et al.* (2007) report that the tax aggressiveness seen by their fervent as a set of actions taken by companies to reduce their public debts from shaping and affecting only their scheme on financial strategy. Aggressive tax represents different handling activities to lower taxable income that can be legal or illegal. At this stage, we can consider that tax aggressiveness is a strategy deployed by managers, a set of processes, practices, resources and choices whose objective is to maximize income, after all company's liabilities owed to the state and other stakeholders.

Friese, *et al.* (2008) states that the tax and *corporate governance* can interact in various aspects and these interactions can be either one or both directions. In Indonesia, for example tax laws that may affect the *governance* of the company is the Minister of Finance of the Republic of Indonesia Number 43 / PMK.03 / 2008 (DJP - 2008). The regulation states that the taxpayer can use the book value of the business expansion if taxpayers or business entities of the division will conduct an initial public offering. From this rule seen their government encouragement for companies to do more transparency by being a public company. Principles *of corporate governance* can influence decision making in corporate taxation includes principle of openness, accountability and transparency. This study uses a proxy board of directors, institutional ownership, audit committee, and the quality of audit to measure of GCG.

COUNCIL OF INDEPENDENT COMMISSIONER AGAINST AGGRESSIVE TAX

Greater the number of board size, greater the possible aggressive tax measures undertaken by the company (Anissa & Kurniasih, 2012). Nasution & Setiawan (2007) explained that this condition may be due to the complexity of coordination between members of the council that would impede the process of monitoring which intern should be the responsibility of the board of commissioners. According Winarsih, *et al,* (2014) the larger the size/number of commissioners, the greater aggressive tax measures undertaken by the company. There is a possibility that caused this to happen for example due to the low quality of coordination among the commissioners. So, the first hypothesis is as follows:

H1: *Size of Commissioners will have positive and significant effect on the company's aggressive tax.*

INSTITUTIONAL OWNERSHIP AGAINST AGGRESSIVE TAX

Research conducted by Shleifer & Vishney (1986) suggests that institutional owners play an important role in monitoring, disciplining and influencing managers. They argue that the supposed owner, by large, having the institutional and voting rights held, can force managers to focus on economic performance and avoid opportunities

for self-interested behavior. Their fiduciary responsibility to the company will be an incentive to the institutional owners, in order to ensure the company's management to make decisions that maximizes shareholder wealth. Results of research conducted by Khurana & Moser (2009) indicates that the size of concentration of institutional ownership will influence aggressively of tax policy of the company, and a greater concentration of *short-term shareholder* institutional will aggressively improve tax policy. However greater the concentration of ownership *of long-term shareholder,* it will reduce the aggressive tax measures. Based on this argument, the second hypothesis is posed as follows;

H2: *Institutional ownership will have significant negative effect on company's aggressive tax.*

THE AUDIT COMMITTEE AGAINST AGGRESSIVE TAX

The existence of the audit committee can be perceived as an indication of high quality monitoring and have high significance in providing more information to the users of financial statements (Sinaga 2011). If linked between behavior management in preparing the financial statements with the tax, the company will tend to put pressure on the indebted tax they must pay. According to regulations issued by BAPEPAM is minimal audit committee consists of 3 persons (with chaired by an independent commissioner who served as chairman of the audit committee). Therefore, the size of the audit committee should be able to minimize their aggressive tax measures of company. Based on this argument, the second hypothesis is posed as follows;

H3: *The audit committee will have a significant negative effect on the company's aggressive tax.*

QUALITY OF EXTERNAL AUDIT AGAINST AGGRESSIVE TAX

One important element in *corporate governance* is transparency. Transparency of shareholders can be achieved by the reported tax-related matters on the market capital and shareholders meetings. Transparency regarding the shareholders in the case of taxes is increasingly in demand by the public, assuming that the implications of the tax behavior will be aggressive and the shareholders do not want the company to take an aggressive position in terms of tax, which would prevent such actions, if they knew earlier. Research by Francis and Wilson (1988), (Jama'an, 2008), on audit quality proxy for reputation *(brand name)* and the number of client-owned public accounting firms as well as Richardson *et al.* (2013) show that, if the company uses a BIG4 auditor and the services of the external auditor have a low proportion of non-audit services, it is less likely to be aggressive tax purposes. According to Mitton, (Hasan *et al,* 2008) states the audit quality as one of the major aspect of

corporate governance; where companies audited by one of the *KAP* Big4 will produce better performance with higher transparency. The financial statements were audited by KAP *The Big Four* with more quality consciousness so that it displays the actual value of the company. Therefore, companies audited by KAP *The Big Four* (PricewaterhouseCoopers - PWC, Deloitte Touche Tohmatsu, KPMG, Ernst & Young-E & Y) have a lower level of frauds compared with the company being audited by KAP non *Big Four.* Based on this argument, the second hypothesis is posed as follows;

H4: *The quality of audit negative and significant effect on aggressive tax measures.*

RESEARCH METHODOLOGY

Population and Sample

This study uses secondary data that the company's annual financial report obtained from the Indonesia Stock Exchange (*website* www.idx.co.id) population used in this study are all manufacturing companies listed in Indonesia Stock Exchange in the period 2010-2014. That is ten (10) companies with 5 years of observation. The reason for choosing a manufacturing company as a sample of the company is due to: (a) The problems in manufacturing more complex and expect to be able to describe the state of the company in Indonesia, (b) To avoid bias caused by the effects of industry, and (c) the manufacturing sector has the largest number compared with other sectors.

The sample in this study was conducted using *a random* method. Data analysis tool used the method of statistical analysis calculations are performed using IBM SPSS 21. Classic assumption test was done so that the regression model used to be a model that is termed as BLUE *(Best Linear Unbiased Estimator).* Classic assumption test performed include normality, heteroscedasticity, multicollinearity, and autocorrelation.

RESEARCH MODEL

Operational Definition

Aggressive Tax Measures

The dependent variable used in this study is an aggressive tax *measures,* where the action is aggressive tax, which is done by a company to minimize the burden of the tax, will be paid by legal and illegal ways. As for the main proxy in this study is the *Effective Tax rates* (ETR), to determine the aggressiveness of tax Lanis & Richardson (2013) and Noor, *et al,* (2010).

Independent Commissioner Board

Independent commissioner is defined as a person who is not affiliated in any way with the controlling shareholder, who has no affiliation with the board of directors or board of commissioners or not served as a director of a company associated with the company owner. Sabli & Noor (2012) using a percentage of the total number of independent directors of the board, in assessing the independence of board of directors of the company.

Institutional ownership

Institutional ownership is the number of ownership of shares held by the financial institutions. It indicates the percentage of institutional ownership of shares owned by the owner of an institution owned by the company divided by the total number of shares outstanding.

The Audit Committee

The board of directors shall establish an audit committee consisting of at least three members, appointed and responsible to the board of commissioners. The audit committee, tend to act more efficiently, should have an adequate understanding of the financial reporting and internal control principles, (Pohan 2008; Annisa & Kurniasih 2012). The most important qualification of a member of the audit committee lies in *common sense,* intelligence and an independent view.

The Quality of Audit

One important element in *corporate governance* is transparency of shareholders with the reported tax-related matters on the market capital and shareholders meetings. The financial statements were audited by auditor *The Big Four* accounting firm more quality so that it displays the actual value of the company, therefore, suspected of companies audited by *the Big Four* accounting firm (PricewaterhouseCoopers - PWC, Deloitte Touche Tohmatsu, KPMG, Ernst & Young - E&Y) have a lower level of fraud compared with the company being audited by non *Big Four* accounting *firm.*

TABLE 1: OPERATING TABLE CAN BE PRESENTED WITH THE FOLLOWING CONDITIONS

Variables	*Indicators*	*Scale*	*Resources*
Tax Aggresiveness	$ETR = \frac{\text{Income Tax Expences}}{\text{Income Before Taxes}}$	Ratio	Annual Report
Independent Commission Board	$PJKI = \frac{KI}{DK}$	Ratio	Annual Report

Variables	*Indicators*	*Scale*	*Resources*
Institutional ownership	$KEPINST = \frac{SI}{TKS}$	Rasio	Annual Report
The Audit Committee	The measurement of audit committee is account with *dummy variable*, If the audit committee of the company have background accountant, we give scort 1 but if the audit committee not from accountant we give scort 0.	1 and 0	Annual Report
The Quality of audit	The Quality of audit use dummy variable, if the company was audit by big four we give scort 1, but not big four we give scort 0	1 and 0	Annual Report

ANALYSIS, RESULT AND DISCUSSION

Multiple Regression Analysis

Multiple regression analysis is used to obtain the regression coefficients that will determine whether the hypothesis is made will be accepted or rejected as follows:

$$\mathbf{ETR_{it} = 0.207 + 0.007PJKI_{it} + 0.000KI_{it} + 0.055DKOA_{it} - 0.026DKUA_{it}} + \varepsilon_{it}$$

(a) Constant = 0.207, meaning that without the influence of variable Independent Commission Board, Institutional Ownership, Audit Committees and the Quality of Audit, the action will happen Aggressive Tax of 20.7%

(b) PJKI regression coefficient (X1) = 0.007 it means that if an independent commission increase of 1% then the act of Aggressive Tax also increased by 0.7%

(c) The regression coefficient KI (X2) = 0.000 it means that if Institutional Ownership increased by 1% then the act of Aggressive Tax will also increase by 0%

(d) DKOA coefficient (X3) = 0.055 it means that the companies do not have an audit committee more positive and significant effect on aggressive tax measures than company have an Audit Committee.

(e) Koefisin DKUA (X4) = -0026 it means that the companies have no audit guality more effect but not significant on Aggressive Tax than companies have a Quality of Audit.

The coefficient of determination shown by the value of R Square in table 4.1 for 0208. It means that only 20.8% ETR can be explained in the model, while the remaining 79.2% is explained by variables outside the model.

TABLE 2: THE COEFFICIENT OF DETERMINATION (R^2)

Model Summary					
Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*	*Durbin-Watson*
1	.456[a]	.208	.138	.0654856	1.890

a. Predictors: (Constant), DKUA, KI, DKOA, PJKI
a. Dependent Variable: ETR

Significant Individual Test Parameter (*t*-Test)

The *t*-test is performed to determine whether the hypothesis is accepted or rejected.

TABLE 3: PARTIAL TEST (T TEST)

Coefficients								
Model		*Unstandardized Coefficients*		*Standardized Coefficients*	*t*	*Sig.*	*Collinearity Statistics*	
		B	*Std. Error*	*Beta*			*Tolerance*	*VIF*
1	(Constant)	.207	.051		4.082	.000		
	PJKI	.007	.092	.011	.074	.941	.855	1.170
	KI	.000	.001	.101	.758	.452	.983	1.017
	DKOA	.055	.020	.383	2.742	.009	.904	1.107
	DKUA	–.026	.022	–.169	–1.176	.246	.849	1.178

a. Dependent Variable: ETR

From the table above, it can be seen that the *t* value on the relationship between (1) the variables PJKI has coefficient B 0.007 and a level of significance of 0.941. This means that the independent commissioners has positive effect, but insignificant on aggressive tax. (2) Variables KI has coefficient B 0.000 and level significant 0.452. This means that the institutional ownership has insignificant on aggressive tax. (3) The audit committee has coefficient B 0.055 and level significant value of 0.009. This means that the companies which do not have an audit committee, has more positive and significant effect on aggressive tax, than with companies have an audit committee. (4) The quality of audit has coefficient B -0.26 and the level of significance value is 0.246. This means that the companies who do not have audit quality have more effect, but not significant on aggressive tax than companies have audit quality.

DISCUSSION

The Effect of Independent Commissioner on Aggressive Tax

The result indicates that the independent commission has positive effect but insignificant on aggressive tax by the companies. This result proves that the more independent commissioner owned manufacturing company, the greater on the aggressive tax undertaken by the company in Indonesian Stock Exchange, but this effect is very small. This research was supported by Meilinda & Cahyonowati (2013) who found that the percentage of independent directors does not have a significant effect on tax management, both measured by GETR and CETR. The reasons underlying the results of this test is that the placement or additions member independent board is possible only meets the formal provisions, while the majority shareholder (controlling / *founders)* still plays an important role so that the performance of the board does not increase or decreased, Boediono, 2005 (Meilinda & Cahyonowati, 2013). However, this study findings was not supported by Annisa & Kurniasih (2012) states that the greater the number of board size, the greater the possible aggressive tax undertaken by the company. This can be due to the difficulty in the coordination between members of the council. This inhibits the supervisory process, and will be the responsibility of commissioners. Finally, there are also aggressive tax measures undertaken by the management.

However, from the results it is showed that the independent board has violated the rules concerning the application of good corporate governance by taking action aggressive tax. This is in line with research conducted by Sabli & Noor, (2012) explains that the lack of knowledge about the background of the company's business activities may affect independent performance board, oversight of the management of the company and resulted in the failure of an effective corporate strategy formulation included in the tax-related strategies.

Effect of Institutional Ownership against Aggressive Tax

The results showed that institutional ownership does not effect and it influence insignificantly on aggressive tax in Indonesia Stock Exchange. The positive effects indicate that institutional investors who have large stocks have a strong incentive to ensure that the decisions to be taken by the management will have an impact on the improvement of their welfare. This further encourages the management to undertake aggressive tax measures in order to obtain large profits.

These results are supported by research of Hanum & Zulaikha, (2013) which shows that institutional *investors* proved to be statistically insignificant to the *effective tax rate* (ETR). These results indicate that institutional *investors* on manufacturing companies have *a listing* on the Indonesian Stock Exchange are less able to control the company directly for the achievement of the company's performance, is less effective and efficient for *stakeholders* of the company,

especially in terms of policies relating to the effective tax rate. This result is supported also by Sabli & Noor, (2012). In their study showed that insignificant relationship between institutional ownership variable with the *effective tax rate* (ETR), where institutional ownership cannot press management to implement good planning activities, which resulted in *effective tax rate* (ETR) of the company are not good.

Effect of Audit Committee against Aggressive Tax

The results showed that companies haven't an audit committee more positive and significant effect on aggressive tax measures those have audit committee. It means that the audit committee has a significant negative effect on aggressive tax. These results indicate that an increase in the number of audit committee members whose background accountant in a company will raise higher performance of a company. It will be further more effective and will control company. The audit committee based results of the study explained that the increase in the number of audit committee will lead the company to work more effectively as well as the establishment of policies related to the amount of the effective tax rate. The audit committee, which is instrumental in selecting accounting methods, is effective and appropriate for the company in Indonesian Stock Exchange.

These results indicate that the audit committee, which is part of the company has the task of overseeing and evaluating the company's operational performance is doing well. Sriwedari (2009) explains that the existence of an audit committee whose function is improving the integrity and credibility of financial reporting may not work properly, if there are no supportive elements in the company. Based on the results of the audit committee indicated its execution is lacking in the other elements that are within the company led to the audit committee, that fails to make good observation and are more likely to be neutral. The result meant that the audit committee members were able to reduce aggressive tax undertaken by management.

These results are supported by research Annisa & Kurniasih (2012), who found that the audit committee has positive and significant impact on *tax avoidance.* Indonesian Stock Exchange requires at least an audit committee where there should be three people and less than three people it does not comply with the rules IDX. Accordingly if the number of audit committee in a company does not comply with the rules BEI will enhance the action of management to minimize income for tax purposes, (Pohan, 2008; Annisa & Kurniasih 2012)

Effect of Audit Quality Against Aggressive Tax

The results showed that the companies haven't audit quality will have more influence on aggressive tax, but insignificantly, (the effect is very small) on companies, than that of companies have a quality audit. The existence of audit quality prevents aggressive tax. Based on the results it can be explained that the companies audited by KAP *big* four can be reduced on possible aggressive tax. The result showed that

audit quality variables are statistically negative effect on aggressive tax. These results suggest are accounting firm audited by is able to limit the *big* four tax of aggressive behavior because of *the big* four, have more knowledge about 'how to detect and reduce' the amount of manipulation of financial statements and aggressive tax. This study is consistent with research conducted by Annisa & Kurniasih (2012), who found that the quality of the audit has significant effect on *tax avoidance.* This means that if a company is audited by Public Accounting Firm (KAP) *The Big Four* will be more difficult to make tax policy aggressively.

CONCLUSION AND LIMITATION

This study analyzes the influence of *Good Corporate Governance* on aggressive tax; manufacturing companies, which undertake aggressive tax, in order to respond to changes in corporate tax rate in Indonesia. This indicates that manufacturing companies are trying to minimize their tax to increase its profits so that interested investors invest their shares. Based on test results, the value of R Square of 0.208, meaning that 20.8% ETR can be explained by the studied variables in the model and the balance of 79.2% is explained by other variables outside the model. The results showed that (1) independent commissioner has effect but insignificant on aggressive tax on companies, which are listed in Indonesia Stock Exchange in 2010-2014. (2) The institutional ownership has effect but insignificant on aggressive tax which do with companies listed on Indonesia Stock Exchange in 2010-2014. (3) Companies have not an audit committee have more positive and significant effect on aggressive tax than companies have audit committees on Indonesian Stock Exchange in 2010-2014. (4) Companies have not an audit quality more positif but insignificantly on aggressive tax than companies have quality of audits on Indonesia Stock Exchange in 2010-2014.

LIMITATIONS

Some limited in this study were: (1) this research used relatively short observation period, on aggressive tax, which are in 2010-2014 and all of them are manufacturing company. For future studies the researchers should use long observation period inclusive of all categories of companies. (2) The study did not use a variable type of industry, as a control variable, so it can not identify the influence of each industry on aggressive tax.

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