RESEARCH THESIS

THE EFFECT OF GOOD CORPORATE GOVERNANCE AND FIRM SIZE ON TAX AVOIDANCE

(Case Study of Automotive Companies and Its Components Listed in the Indonesia Stock Exchange Period 2015-2019)

HASRAWATI

DEPARTMENT OF ACCOUNTING
FACULTY OF ECONOMICS AND BUSINESS
UNIVERSITAS HASANUDDIN
MAKASSAR
2020

RESEARCH THESIS

THE EFFECT OF GOOD CORPORATE GOVERNANCE AND FIRM SIZE ON TAX AVOIDANCE

(Case Study of Automotive Companies and Its Components Listed in the Indonesia Stock Exchange Period 2015-2019)

as one of the requirements to obtain
Bachelor of Economics Degree

compiled and submitted by

HASRAWATI
A31116804

submitted to

DEPARTMENT OF ACCOUNTING
FACULTY OF ECONOMICS AND BUSINESS
UNIVERSITAS HASANUDDIN
MAKASSAR
2020

RESEARCH THESIS

THE EFFECT OF GOOD CORPORATE GOVERNANCE AND FIRM SIZE ON TAX AVOIDANCE

(Case Study of Automotive Companies and Its Components Listed in the Indonesia Stock Exchange Period 2015-2019)

Compiled and submitted by

HASRAWATI
A31116804

Has been examined and approved for testing
Makassar, 3rd August 2020

Supervisor I	Supervisor II
Prof. Dr. Syarifuddin, S.E., Ak., M.Soc., Sc, CA	Dr. Asri Usman, S.E, M.Sc., Ak., CA
NIP 196302101990021001	NIP 196510181994121001

Head of Accounting Department
Faculty of Economics and Business
Universitas Hasanuddin

Dr. Hj. Andi Kusumawati, S.E., M.Si., Ak., CA, CRA, CRP
NIP 196604051992032003

RESEARCH THESIS

THE EFFECT OF GOOD CORPORATE GOVERNANCE AND FIRM SIZE ON TAX AVOIDANCE

(Case Study of Automotive Companies and Its Components Listed in the Indonesia Stock Exchange Period 2015-2019)

Compiled and submitted by

HASRAWATI
A31116804

Has been maintained in the thesis examination
on 19th November 2020 and
declared to have met the graduation requirements

Approve,
Examining Committee

No.	Examiner Name	Position	Signature
1.	Prof. Dr. Syarifuddin, S.E., Ak., M.Soc, Sc, CA	Chairman	1.....
2.	Dr. Asri Usman, S.E,. Ak., M. Si., CA	Secretary	2.....
3.	Dr. Hj. Andi Kusumawati, S.E, M.Sc., Ak., CA, CRA, CRP	Member	3.....
4.	Dr. Yohanis Rura, S.E., Ak., M.SA., CA	Member	4.....

Head of Accounting Department
Faculty of Economics and Business
Universitas Hasanuddin

Dr. Hj. Andi Kusumawati, S.E., M.Si., Ak., CA, CRA, CRP
NIP 196604051992032003

AUTHENTICITY STATEMENT

I am, undersigned below,

name	: Hasrawati
NIM	: A31116804
department	: Accounting

HEREBY, states that the thesis titled:

THE EFFECT OF GOOD CORPORATE GOVERNANCE AND FIRM SIZE ON TAX AVOIDANCE

(Case Study of Automotive Companies and Its Components Listed in the Indonesia Stock Exchange Period 2015-2019)

I am declaring in fact that this study or thesis is a result of my own work, it is not a takeover of the writings or thoughts of others that I confess as my own thesis.

If later in the day this thesis proved to be a duplication, imitation, plagiarism or made by another person in another university or in large part, then this thesis and title will receive sanctions for the act and proceed according to the applicable laws and regulations (Law No. 20 of 2003, article 25 paragraph 2 and article 70).

Makassar, 19th November 2020

Who made the statement,

METERAI TEMPEL
TGL. 20
27387AHF115638241
6000
ENAM RIBU RUPIAH

Hasrawati

PREFACE

Praise and sincere gratitude to Allah SWT, the Almighty God, for His everlasting blessings, grace, guidance, given to the writer that made this thesis completed properly. Greetings and salawat may always be devoted to the Prophet Muhammad. For the grace of God, the author finally able to complete the thesis titled "THE EFFECT OF GOOD CORPORATE GOVERNANCE AND FIRM SIZE ON TAX AVOIDANCE".

This thesis is prepared in order to fulfill an academic requirement in achieving a Bachelor of Economics degree in Accounting study program at the Faculty of Economics and Business, Universitas Hasanuddin.

During the process of preparing this thesis, the researcher received guidance, direction, and assistance from various parties. Therefore, on this occasion the researcher would like to thank the various parties who contributed to the completion of this thesis.

1. My respected father H. Hasanuddin, my beloved mother Hj. Sahara and my little talk active sister Devi Aprillia Azzahra who have prayed, motivated, encouraged, reminded the writer to finish the paper as soon as possible.
2. Prof. Dr. Abdul Rahman Kadir, M.Sc. as Dean of the Faculty of Economics and Business, Hasanuddin University.
3. Head of the Accounting Department, Dr. Hj. Andi Kusumawati, S.E, M.Sc., Ak., CA and Department Secretary, Dr. H. Syarifuddin Rasyid, SE, M.Sc.
4. Prof. Dr. Syarifuddin, SE, Ak., M.Soc, Sc, CA and Dr. Asri Usman, S.E, Ak., M. Si., CA as Supervisor I and Supervisor II who have taken the time and energy patiently provided guidance and knowledge during the thesis preparation process from the beginning to the end.
5. The examiners Dr. Hj. Andi Kusumawati, S.E, M.Sc., Ak., CA and Dr. Yohanis Rura, SE, Ak., M.SA., CA who has provided advices and suggestions for the improvement of this thesis.
6. All lecturers of the Faculty of Economics and Business for their sincerity in sharing knowledge with the researcher as well as the rest of the students of the Faculty of Economics and Business.

7. The entire staff and employees of the Faculty of Economics and Business, Hasanuddin University, for their willingness to help the researchers throughout this journey of campus life.
8. Special thanks to Ainun, Wisnu, Ami, and Nabila whose encouraged me and always by side to finish this paper and also Alifia for giving me the notebook that becomes my platform to write all the questions.
9. Special thanks to Kak Dion, Kak Indira, and Kak Dita who always ready to answer all my question regarding research thesis and comprehensive examination.
10. NYET, a group of loved people and a comfortable home to talk anything once when college becomes tough and boring, besides barely meet each other but these people still want to accompany me during i stucked on the traffic because of the boredom.
11. INTERACTION, a group of full talented friends who have been fighting with the researcher in this journey together from the beginning.
12. Senat Mahasiswa, Ikatan Mahasiswa Akuntansi (IMA), AIESEC LC UNHAS for the all good experiences in the organization.
13. Mama Aji and Kak Mia, for the kindness and generosity allow writes to always eat and pay later.

May all assistance and guidance from those who have been given to the researcher be rewarded with the kindness and merits of Allah SWT. Finally, the researchers hope this thesis can provide benefits to readers. However, the researcher is aware that this thesis is far from perfect.

Makassar, November 19th 2020

Hasrawati

ABSTRACT

THE EFFECT OF GOOD CORPORATE GOVERNANCE AND FIRM SIZE FOR TAX AVOIDANCE

(Case Study of Automotive Companies and Its Components Listed in the Indonesia Stock Exchange for the 2015-2019)

Hasrawati
Syarifuddin
Asri Usman

This study aims to analyze the effect of good corporate governance (independent commissioners and audit committees) and the firm size on tax avoidance on automotive companies and automotive components listed in the Indonesia Stock Exchange for the period 2015-2019. This study uses the purposive sampling method. Source of data in this study are secondary data in the form of the firm's financial statements. The data analysis method used in this study is multiple regression analysis and processed with the SPSS application program. Based on the result of patial testing, the results of this study indicate that: (1) independent commissioners have a negative and significant effect on tax avoidance (2) audit committee has a negative and significant effect (3) the firm size has no effect on tax avoidance.

Keywords: Independent Commissioner, Audit Committee, Firm Size, Tax Avoidance

TABLE OF CONTENTS

COVER PAGE i
TITLE PAGE ii
APPROVAL PAGE iii
VALIDATION PAGE iv
AUTHENTICITY STATEMENT v
PREFACE vi
ABSTRACT viii
TABLE OF CONTENTS ix
LIST OF TABLES xi
LIST OF FIGURES xii

CHAPTER I INTRODUCTION **1**
1.1 Background 1
1.2 Research Problem 8
1.3 Research Objectives 9
1.4 Research Use 9
1.4.1 Theoretical Uses 9
1.4.2 Practical Uses 9
1.5 Writing Systematics 10

CHAPTER II LITERATURE REVIEW **12**
2.1 Grand Theory 12
2.1.1 Agency Theory 12
2.1.2 Taxation 13
2.1.2.1 Definition of Taxation 13
2.1.2.2 Tax Function 14
2.1.2.3 Tax Type 14
2.1.3 Tax Avoidance 15
2.1.4 Good Corporate Governance 17
2.1.4.1 Definition of Good *Corporate Governance* 17
2.1.4.2 Benefits of Good Implementation *Corporate Governance* 18
2.1.4.3 Elements of Good Corporate Governance 19
2.1.5 Independent Commissioner 20
2.1.6 Audit Committee 21
2.1.7 Firm Size 22
2.2 Preliminary Study 23
2.3 Conceptual Framework 25
2.4 Research Hypothesis 26
2.4.1 The Effect of Independent Commissioner on Tax Avoidance 26
2.4.2 The Effect of the Audit Committee on Tax Avoidance 27
2.4.3 The Effect of Firm Size on Tax Avoidance 28

CHAPTER III RESEARCH METHOD **29**
3.1 Research Design 29
3.2 Place and Date 29

3.3 Population and Samples of Research 29
3.3.1 Population of Research 29
3.3.2 Samples of Research 30
3.4 Types and Sources of Data 30
3.4.1 Types of Data 30
3.4.2 Sources of Data 30
3.5 Data Collection Technique 31
3.6 Research Variables and Operational Definition 31
3.6.1 Dependent Variable 31
3.6.2 Independent Variables 32
3.7 Research Instruments 33
3.8 Data Analysis 33
3.8.1 Descriptive Statistics Analysis 33
3.8.2 Classical Assumption Test 34
3.8.2.1 Normality Test 34
3.8.2.2 Multicollinearity Test 34
3.8.2.3 Heteroscedasticity Test 35
3.8.3 Multiple Linear Regression Analysis 35
3.8.4 Hypothesis Test 36
3.8.4.1 Determination Coefficient Test (R2) 36
3.8.4.2 Hypothesis Test Partial Analysis 36

CHAPTER IV RESULTS AND DISCUSSION 38
4.1 General Description of the Sample 38
4.2 Data Analysis 39
4.2.1 Descriptive Statistical Analysis 39
4.2.2 Classical Assumption Test 40
4.2.2.1 Normality Test 41
4.2.2.2 Multicollinearity Test 42
4.2.2.3 Heteroscedasticity Test 43
4.2.3 Multiple Linear Regression Analysis 44
4.2.4 Hypothesis Test 45
4.2.4.1 Determination Coefficient Test (R2) 45
4.2.4.2 Hypothesis Test Partial Analysis 46
4.3 Research Discussion 47
4.3.1 The Effect of Independent Commissioner on Tax Avoidance 47
4.3.2 The Effect of the Audit Committee on Tax Avoidance 48
4.3.3 The Effect of Firm Size on Tax Avoidance 49

CHAPTER V CONCLUSION 50
5.1 Conclusions 50
5.2 Suggestions 50
5.3 Limitations Research 51

REFERENCES 52
APPENDIX 58

LIST OF TABLES

Table		Page
1.1	Target and Realization of Tax Revenue in the 2015 -2019.....	1
2.1	Firm Size Criteria	23
2.2	Preliminary Study.....	23
3.1.	Sample Criteria.....	30
4.1	The Stages of Research Sample Selection by Criteria	41
4.2	List of Firm	39
4.3	Descriptive Statistics Analysis.....	40
4.4	Kolmogorov-Smirnov One-Sample Test.....	42
4.5	Multicollinearity Test.....	42
4.6	Multiple Linear Regression Analysis.....	44
4.7	Coefficient of Determination (R2)	45
4.8	Partial Analysis Test (t test).....	46

LIST OF FIGURES

Figure	Page
2.1 Conceptual Framework	26
4.1 Normality Test	41
4.2 Heteroscedasticity Test	43

LIST OF APPENDIX

Appendix		Page
1	Biography	59
2	List of Companies	60
3	The Value of each Research Variable	61
4	SPSS Output	62

CHAPTER I

INTRODUCTION

1.1 Background

For developing countries like Indonesia, tax is an important element because it has become the main source of state revenue. Taxes are mandatory contributions by the state without expecting direct reciprocity for the needs of the State. Not surprisingly, taxes are now considered a powerful fiscal tool to guide the national economy towards achieving socioeconomic goals (JS Uppal, 1986: 1). As the country's main contributor, tax revenue in Indonesia has been planned in such a way as to achieve the desired target of the revenue budget in the APBN. Table 1.1 shows the development of the realization of tax revenues and targetstax revenue.

Table. 1.1 Target and Realization of Tax Revenues in the 2015 - 2019 Budget Year (In Trillions IDR)

Year	Total Realization of State Revenue	Realization of Tax Revenue	Tax Revenue Target	Percentage of Tax Revenue
2015	1,504,5	1,240.4	1,489.3	83.3%
2016	1,546,9	1,285.0	1,539.2	83.5%
2017	1,648,1	1,147.5	1,238,6	89.4%
2018	1942.34	1,315.19	1,424.0	92.41%
2019	1957.17	1,332.06	1,577,56	84.4%

Source:www.kemekeu.go.id (accessed 25 April 2020)

From the table above it can be seen the development of tax revenue targets along with the realization of income from the tax sector. Seen the role of tax revenue is so large in state revenue. In 4 years, revenues were also steadily increasing followed by its realisations. However, this increase has not yet reached the targets planned by the government. This indicates that there are still

many taxpayers or companies that are not yet compliant in fulfilling their obligations.

There is a difference in interest between governments and companies in the tax sector. If viewed from the government accounting side, taxes are recorded as revenues that add to the country's revenue. This makes the country strive to maximize the potential for tax revenues, but what happens in a whirlwind of business is the higher the profit generated by the firm, the higher the tax will be paid. Taxes from the accounting side of the firm will be recorded as expenses that will reduce net profit. This is what makes the firm as taxpayers continue to do the cost of tax efficiency so that the profit of the firm remains maximally through tax avoidance (Suandy, 2011:1).

Tax avoidance is a method carried out by taxpayers safely and legally because the procedure to avoid this tax is to use methods and techniques that follow the provisions of the prevailing taxation and efforts made to make use of unclear regulations or weaknesses in-laws and taxation regulations to obtain profitable tax outcomes (Pohan, 2013:23). Therefore, tax avoidance is the most common way for companies to reduce the tax burden due to legal procedures and does not contradict the prevailing taxation laws. This is what makes tax evasion a complicated and unique problem because on the one hand the tax evasion does not violate the law (legal).

Tax avoidance is a serious problem in Indonesia. It is estimated that every year there is Rp 100 trillion which is tax evasion number and there are about 80 percent of business ventures in tax avoidance (www.suara.com). Until now, tax avoidance is still a common case among companies. The Directorate General of Taxes of the Ministry of Finance stated that as many as 2,000 multinational companies operating in Indonesia do not pay article 25 and article 29 of the

Agency's income tax with the reason of loss, tax avoidance is done by means of transfer price, i.e. transferring taxable income or profit from Indonesia to another country's profit reduction also occurred due to royalty payments and purchases of unreasonable raw (www. liputan6.com).

Indonesia Stock Exchange divides manufacturing companies into three sectors: basic and chemical industry sectors, various industries, and consumer goods. Various industrial sectors include manufacturing industries because they process raw materials into finished goods (products) or semi-finished goods (components). The various industrial sectors are also divided into six sub-sectors: machinery and heavy equipment, automotive and its components, textiles and garments, footwear, cables, and electronics. Imanul Hakim as the head of the special transaction Subdirectorate of the Directorate General of Taxation said that four industrial sectors in Indonesia are driven vulnerable to tax avoidance through transfer pricing. The four sectors are mining, plantation, electronics, and automotive (investigations.tempo.co).

The related case in tax avoidance has been done by well-known companies such as PT Toyota Motor Manufacturing Indonesia which is a subsidiary of Astra International TBK (ASII) which is engaged in automotive and components. Based on the exploration by the Directorate General of Taxation, Toyota Motor Manufacturing Indonesia sold its production car to the Toyota Asia Pacific office in Singapore before departing and sold to the Philippines and Thailand. During the year, Toyota Motor Manufacturing in Indonesia exported 17,181 units of Fortuner to Singapore. The tax officer found that the cost of goods sold in Fortuner was Rp 161 million per unit. Toyota's internal documents show that all Fortuners sold were 3.49 percent cheaper than this value. That is to say, Toyota Indonesia bears the loss of the sale of these cars to Singapore. Tax

officers found that the firm avoided the tax payment of Rp 1.2 trillion through transfer pricing. The firm transfers the excess profit burden from one country to another that applies a lower tax rate or is referred to as a tax haven. The cost transfer is done by unprecise manipulating the price (investigations.tempo.co).

In addition to the above case, there is PT Garuda Metalindo which is demonstrated by the practice of tax avoidance. The modes carried out by PT Garuda Metalindo ranging from administrative costs to an increase in total corporate debt of Rp48 billion. As much as Rp 200 billion in funding for operational activities comes from loans from financial institutions while the rest is from internal companies. The firm is listed as a limited liability firm but relies on firm financing from affiliated loans which results in a high corporate debt burden. Capital is included as a tax that reduces debt. Therefore, an increase in debt burden on firms also causes the amount of interest to be paid to third parties to make the amount of tax owed lower than it should (www.investor.id).

Based on the case above, prove that the practice of tax avoidance is a unique and complicated problem because it has two different sides. For firms that have a goal to continue to optimize profits and see taxes as a burden and want to reduce these costs without breaking the law by avoiding taxes. Conversely, the government does not expect the practice of tax avoidance because it can reduce state revenue and even cause state losses. Unreasonable tax avoidance practices will also threaten the firm’s reputation so as to reduce investor confidence in the firm. Therefore, governance in the corporate sector is needed.

In carrying out corporate tax obligations, it is influenced by the culture and dynamics of the Corporate governance system (Friese *et al*, 2006). Corporate governance is the relationship between various participants in the firm that determines the firm's performance direction. Good corporate governance can not

only provide good benefits for the country in reducing the country's risk level to restore and stabilize the national economy (Dwiridotjahjono, 2009). However, the implementation of GCG can create added value for shareholders. This will make the value of the firm even more useful if implementing corporate governance (Annisa and Kurniasih, 2012). This is reinforced by the results of the survey conducted by McKinsey and Company (2002) which suggests that good corporate governance is the main concern for investors to meet their financial performance and potential growth. In this case, they tend to avoid bad companies in carrying out corporate governance. This can be seen from how companies act in managing their taxes. According to Winarsih *et al* (2014), corporate governance has been formed by the demand for tax management which includes transparency, accountability, responsibility, independence, and fairness. The establishment of corporate governance aims to provide oversight of the firm's management performance including tax management. Therefore, with the presence of GCG, the firm is expected to minimize the aggressive tax avoidance action that only benefits one party.

According to Sutedi (2012: 41), the GCG mechanism is divided into two, namely the firm's internal and external mechanisms. Internal mechanisms include an independent board of commissioners and an audit committee. From this basis, the proxy of GCG in this study was determined. So that in this research, good corporate governance is proxy with independent commissioners and audit committees.

The independent commissioner's function is to handle the conflict between shareholder and stakeholder, as the independent commissioner's primary duty is to connect both parties' communication and resolve any problems between them. The independent Board of Commissioners is the core of corporate

governance because it has an important role as a controlling manager, running a corporate strategy, and being responsible for conducting corporate accountability (Purwaningtyas, 2011). Accordingly, the independent Board of Commissioners has an important role in determining the fulfillment of tax obligations and conducting corporate activities, not contrary to applicable laws and regulations. Research conducted by Fadhilah (2014), Feranika (2017), and Prakosa (2014) found different results. The results of Fadhilah's research (2014) proved that no influence was given by the Board of Commissioners independent of tax evasion. Feranika's (2017) research proves that the proportion of independent Commissioners has a positive effect on tax avoidance.

The creation of good corporate governance in practice requires the role of an audit committee. The audit committee has an important role that performs supervisory functions and must maintain independence. The audit committee may not be affected by other parties in Indonesia to perform its functions. The audit committee is tasked with controlling and supervising the depreciation process of the firm’s financial statements to avoid fraud by management. In supervising the financial statements, the audit committee has an influence in determining the measures to be taken by the firm related to tax management, especially tax avoidance (Chrisdianto, 2013). Previous research conducted by Tandean and Winnie (2016) found that the Audit Committee had a negative effect on tax avoidance.

In addition, good corporate governance on the deciding factor in the firm’s decision-making against tax avoidance is the size of the firm. Hormati (2009) defines the size of the firm as a scale or value that can classify a firm into large or small categories based on, total assets, log, and so on. The larger the total asset indicates the larger the size of the firm. Hartadinata and Tjaraka (2013) revealed

that the size of the firm is a characteristic of the firm which also affects the income tax paid. This is because the larger the size of the firm, the more complex the firm deals thus allowing the firm to take advantage of the gaps to perform tax avoidance practices. The theory of political power also explains that the relationship between large companies and resources they have manipulated the political process in conducting tax planning to reduce corporate taxes (Richardson and Lanis, 2007). Research conducted by Dharma and Ardiana (2016) indicates that the size of the firm has a positive effect on tax avoidance. Unlike the research conducted by Dewi and Jati (2014) who found that the firm's size has no significant effect on tax avoidance.

This research is interesting to study because the results of previous research have not been consistent. The research uses a sample of companies engaged in automotive companies and components listed on the Indonesia Stock Exchange (IDX) during the period from 2015 to 2019.

This research is a replication of research conducted by Saputra and engrossed (2017) The difference of this research with previous research that first lies in the research object where the object is researched is the IDX registered automotive company, while previously conducted at the IDX-listed 100 Index company and the second located on independent variables in previous research using profitability variables, laverage and corporate governance , while in the study this time removed the leverage variable and added two new variables those are independent commissioners and firm size as well as the third difference lies in the period studied. The reason researchers did replicate previous research because researchers added another three variables and removed one variable to gauge the extent to which such variables influenced tax avoidance and researchers were interested in replicating previous studies on different objects.

Based on this background, researchers are interested in examining **"The Effect of Good Corporate Governance and Firm Size on Tax Avoidance (Case Study of Automotive and Its Components Companies Listed in the Indonesia Stock Exchange Period 2015-2019)".**

1.2 Research Problem

Based on the background that has been explained before, the formulation of the problem in this study is as follows.

1. Does the independent commissioner affect tax avoidance on Automotive Companies and Its Components Listed in the Indonesia Stock Exchange in 2015-2019?
2. Does audit committee affect tax avoidance on on Automotive Companies and Its Components Listed in the Indonesia Stock Exchange in 2015-2019?
3. Does the size of firm affect tax avoidance on Automotive Companies and Its Components Listed in the Indonesia Stock Exchange in 2015-2019?

1.3 Research Objectives

The purpose of this study is to follow the problem formulation described above, namely:

1. The effect of independent commissioners on Automotive Companies and Its Components Listed on the Indonesia Stock Exchange in 2015-2019.
2. The effect of audit committee on Automotive Companies and Its Components Listed on the Indonesia Stock Exchange in 2015-2019.
3. The effect of firm size on Automotive Companies and Its Components Listed on the Indonesia Stock Exchange in 2015-2019.

1.4 Research Use

This section will show the usefulness and importance of research, especially in the development of science.

1.4.1 Theoretical Uses

This research is expected to contribute and benefit for the development of knowledge in the field of tax accounting, especially those related to tax avoidance issues and as a reference for further research.

1.4.2 Practical Uses

From the research conducted, as for the practical use of this research on the following parties.

1. For writers

   This research is expected to increase the author's insight and knowledge about the effect of good corporate governance and firm size on tax avoidance. As well as a means for researchers to develop the knowledge they have gained during college.

2. For the company

   This research is expected to provide information as a material consideration in conducting tax calculations, especially in tax avoidance.

3. For investors

   This research is expected to provide useful information to add insight, as well as knowledge in the field of taxation so that they can pay more attention to tax avoidance practices so that they are more careful in measuring the investment risks they want to carry. outside.

4. For the government

   This research is expected to provide useful information for making regulations to minimize gaps that can be used for tax avoidance.

5. For readers

   The results of this study are expected references that can enhance the reader's knowledge related to tax avoidance issues and can be a reference for further research.

1.5 Writing Systematics

The systematics used are as follows:

CHAPTER I INTRODUCTION

This chapter consists of background, problem formulation, research objectives, research use, and systematic writing.

CHAPTER II LITERATURE REVIEW

This chapter consists of theoretical foundation, previous research, research framework, and research hypotheses.

CHAPTER III RESEARCH METHOD

This chapter consists of research design, location and time of research, population and sample, types and sources of data, data collection techniques, research variables and operational definitions, and data analysis.

CHAPTER IV RESULTS AND DISCUSSION

Description of the research object in the form of a description of the variables used, a general description of the study area, and a general description of the research sample. Data analysis focuses on the results of processed data in accordance with the tools and analysis techniques used. Interpretation of the results of the analysis in accordance with the analysis techniques used, including the provision of arguments or justification.

CHAPTER V CONCLUSIONS AND SUGGESTIONS

Conclusions, limitations and suggestions which include a brief presentation of what has been obtained from the discussion, then outlines the weaknesses and shortcomings found after an analysis and interpretation of the results, to then submit suggestions to interested parties to the research.

CHAPTER II

LITERATURE REVIEW

2.1 Grand Theory

In the general understanding section, it will explain the definitions that support in the formulation of this research hypothesis, and help in analyzing the results of research contained in research. As for the literature review derived from previous research, it will be explained about the results of research obtained by previous researchers relating to good corporate governance and firm size whether it has an effect on tax avoidance. The following are basic theories and previous research related to this research.

2.1.1 Agency Theory

The basic perspective of agency theory can be used in understanding corporate governance issues. Jensen and Meckling (1976) state that agency relationships are about contractual relationships between shareholders as principals and management as agents. In this case, the principle gives authority to agents to manage the company. Managers as morally contracted parties must be responsible for managing the company to optimize shareholder profits.

Agency theory assumes that every human being is selfish and selfish (Tandean and Winnie, 2016). So when there are two different roles put together, problems will arise because of differences in interests. Meissier et al, in Madiantini and Erawati (2016), stated that the agency relationship caused two problems, namely:

1. Asymmetric Information

   A condition where management knows information more than the owner as the management is directly related to its operations.

This can be used to manipulate and provide incorrect information to shareholders.

2. Conflict of interest

   Differences in interests or goals between owners and management. Management and owners do not always have the same goals.

These issues raised need to be addressed and lead to agency costs, that is costs incurred by the principal to monitor the manager's activities to be consistent with the principal's goals. According to Jansen and Meckling (1976), agency costs are divided into three namely:

1. Monitoring costs

   Costs of monitoring agents or management behavior, that is, observing and controlling agent behavior.

2. Bond fee

   Costs to ensure management actions for the benefit of the owner by establishing and complying with the mechanism.

3. Residual costs

   Reduction in owner's prosperity due to differences in decisions between management and owner

2.1.2. Taxation

2.1.2.1 Understanding Taxation

The definition of Tax according to Law Number 16 of 2009 concerning General Provisions and Tax Procedures in Article 1 paragraph 1 is a mandatory contribution to the state owed by individuals or entities that are forced under the Act by not getting direct compensation and used for the state's needs for the greatest prosperity of the people .

Mardiasmo (2016: 1) defines that taxes are people's contribution to the country's treasury based on laws that can be enforced by not getting reciprocal services that can be directly shown and used to finance public expenditure. Some of the definitions above can be concluded that taxation is a mandatory contribution to the state and public contributions to the state treasury whose benefits will not be directly enjoyed by taxpayers as individual interests but are used for public purposes.

2.1.2.2 Tax Function

According to Mardiasmo (2016: 4), there are two tax functions, namely:

1. **The Budget** namely tax as a source of funds for the government to finance its expenditure.
2. **Regulered** namely tax as a tool to regulate or carry out government profits in the social and economic fields.

2.1.2.3 Tax Type

Mardiasmo (2016: 7) grouping types taxes into three categories, namely:

1. According to the group
   a. Direct Tax, which is a tax that must be borne by the Taxpayer himself and cannot be charged or delegated to others. Example: Income Tax.
   b. Non-taxation is tax that can eventually be charged or passed on to other people. Example: Value Added Tax.
2. In accordance with its nature
   a. Subjective tax, namely tax originating from or based on the subject matter, in the sense of paying attention to the condition of the Taxpayer. Example: Income Tax.

b. Objective tax, which is a tax derived from the object, without regard to the condition of the taxpayer. Example: Value Added Tax and Sales Tax on Luxury Goods.

3. According to the Collecting Institution

a. Market tax, which is a tax collected by the central government and used to finance state households. Examples: Income Tax, Value Added Tax, and Sales Tax for Luxury Goods.

b. Regional Tax, which is a tax collected by the regional government and used to finance regional households. Local taxes consist of:

- Provincial taxes, for example, Motor Vehicle Tax and Motor Vehicle Fuel Tax
- Regency / City Tax, for example, Hotel Tax, Restaurant Tax and Entertainment Tax.

2.1.3 Tax Avoidance

According to Dyreng *et al.* (2010) related to the definition of Tax Avoidance as follows:

> "Tax avoidance is any form of activity that impacts on tax obligations, whether activities are permitted by tax or special activities that reduce taxes. Tax avoidance is usually done by exploiting tax law weaknesses and not violating tax laws."

So tax avoidance can be measured through the firm's CASH ETR (effective cash tax rate), that is a cash spent on tax costs divided by profit before tax. Cash tax payments are included in the cash flow statement on the income tax payment post of operating activities and pre-tax corporate profits contained in the income tax statement before income tax. The greater the CASH ETR shows the smaller corporate tax avoidance (Budiman and Setiyono, 2012). Lim (2011) defines tax avoidance as an effort to save tax arising by utilizing legal provisions that are carried out legally to minimize tax obligations. Pohan (2016) explains that

tax avoidance is a tax avoidance effort that is carried out legally and safely for taxpayers because it does not conflict with taxation provisions, where the methods and techniques used tend to exploit the weaknesses (gray area) contained in the law. and taxation self-regulating to minimize the amount of tax payable. The benefit of tax avoidance is to increase tax savings so that it has the potential to reduce tax payments and hence cash flow will increase (Mc Guire *et al,* 2011).

Suandy (2011: 7) the fiscal affairs committee of the Organization for Economic Cooperation and Development (OECD) mentions three characteristics tax avoidance, as follows:

a. Elements of artificial arrangements such as various arrangements as if they were in it but not, and this is done because of the lack of tax factors.
b. Utilizing legal loopholes or applying legal provisions for various purposes that contradict the actual contents of the law
c. Confidentiality, where consultants generally show tools or ways to avoid taxes on the condition that taxpayers maintain confidentiality as possible.

According to Merks (2007), there are various ways you can do to avoid taxes as follows:

a. Transfer tax subjects and / or tax objects to countries that offer tax places (tax haven countries) or special tax treatments for types of income (substantive tax planning).
b. Maintaining the economic substance of the transaction through formal elections which gives the lowest tax burden (formal tax planning).
c. Provisions for anti-avoidance of transfer prices, thin capitalization, treaty transactions and controlled foreign corporate transactions (Special Anti-

Avoidance Rules), and transactions that do not have business substance (General Anti-Avoidance Rules).

From some of the explanations above, it can be concluded that tax avoidance is a practice carried out by taxpayers in reducing the tax burden without having to violate applicable tax laws and regulations by exploiting loopholes and weaknesses of law and taxation provisions.

2.1.4 Good Corporate Governance

2.1.4.1 Definition of Good Corporate Governance

Cadbury Report (1992) suggested that corporate governance is defined as a system that functions to direct and control the firm. Next revealed by FCGI (2013) good corporate governance is a set of regulations governing the relationship between shareholders, managers, creditors, government, employees, and also other internal and external stakeholders with their rights and obligations or can be called a system that regulates and controlling the firm so as to create added value for all stakeholders (stakeholders).

The main purpose of Good Corporate Governance is to create a system of check and balance to prevent misuse of resources and still encourage the firm's growth (Nur'ainy *et al*, 2013). Good Corporate Governance must provide appropriate incentives for boards and management to pursue goals for the interests of the firm and its shareholders and also facilitate effective oversight (OECD, 2004).

There are five pillars Good Corporate Governance according to the National Committee on Governance Policy commonly known as the concept of TARIF (Transparency, Accountability, Responsibility, Independence, and Fairness), namely:

1. **Transparency** namely openness in carrying out the decision-making process and openness in presenting material and relevant information about the firm.
2. **Accountability** namely the clarity of functions, implementation and accountability of the organization so that firm management is carried out effectively.
3. **Responsibility** namely compliance in firm management with the applicable laws and regulations and sound corporate principles.
4. **Independece** that is a situation where the firm is professionally organized without conflict of interest and influence from any party that is not in accordance with the laws and regulations and healthy corporate principles
5. **Fairness** namely fairness and equality in fulfilling the rights of stakeholders arising based on agreements and applicable laws.

2.1.4.2 Benefits of Implementing Good Corporate Governance

According to the Forum of Corporate Governance for Indonesia, some of the benefits that can be obtained through the implementation of corporate governance are as follows:

1. Good corporate governance can improve the firm's performance through the creation of a better decision-making process, improve the operational efficiency of the firm, and further improve services to stakeholders.
2. Good corporate governance can facilitate the acquisition of financing funds that are cheaper so that it can improve the corporate value.
3. Good corporate governance can increase investor confidence to invest in in the firm.
4. Shareholders will feel satisfied with the firm's performance because it will simultaneously increase shareholder value and dividends.

Meanwhile according to the Indonesia Institute for Corporate Governance (2010), the benefits of implementing the concept of Good Corporate Governance are as follows:

1. Minimize agency costs
2. Minimize cost capital
3. Increase the value of firm shares
4. Raise the firm 's image.

2.1.4.3 Elements of Good Corporate Governance

According to Sutedi (2012: 41-42) there are several elements in corporate governance that can guarantee the functioning of Good Corporate Governance:

1. Corporate Governance - internal firm

   Internal companies are elements that come from within the firm and are elements that are always needed in the firm. The firm 's internal elements include: shareholders, directors, commissioners, managers, system employees / labor unions, performance-based remuneration, and audit committees.

2. Corporate Governance - external firm

   External companies are elements that come from outside the firm and elements that are always needed outside the firm. Elements that come from outside the firm include: the adequacy of laws and legal instruments, investors, information providers, institutions that favor non-group public interests, lenders, public accountants and institutions that legalize legality.

In this research, we will focus on Independent Commissioners as the independent commissioners and audit committee.

2.1.4.4 Independent Commissioners

The definition of an Independent Commissioner according to the National Governance Policy Committee (KKNG) (2006) is as follows "Independent commissioners are members of the board of commissioners who are not affiliated with management, other members of the board of commissioners and controlling shareholders, and are free from business relationships or other relationships that can affect their ability to act independently or act solely for the benefit of the firm".

Based on Financial Services Authority Regulation No. 33 / POJK 04/2014 states that the number of independent commissioners in each firm must have at least 30% of all members of the board of commissioners. Financial Services Authority Regulation No. 33 / POJK 04/2014 stipulates that independent commissioners must meet the following requirements:

a. Has no affiliation with the firm, members of the board of commissioners, members of the board of directors or major shareholders of the firm;
b. An independent commissioner is not a person who works or has the authority and responsibility to plan, lead, control or supervise firm activities in the last 6 (six) months, except for reappointment as an independent commissioner in the following period;
c. Do not have shares either directly or indirectly in the company concerned;
d. Do not have a business relationship directly or indirectly related to company activities.

Independent commissioners in carrying out monitoring functions to ensure that the company complies with applicable laws and values set in the firm, so that the firm has good corporate governance (Dwiputra, 2015). Thus the more

monitors the better the conflict because the lower the occurrence of conflict and ultimately reduce agency costs (Jensen and Meckling, 1976).

2.1.4.5 Audit Committee

Audit Committee according Kep. 29 / PM / 2004 is a committee formed by the board of commissioners of the firm whose members are appointed and dismissed by the board of commissioners. Based on the Guidelines for Establishing an Effective Audit Committee (2002) on audit committees, it is explained that the purpose of the audit committee is to assist the board of commissioners to:

a. Improve the quality of financial statements.
b. Creating a climate of discipline and control that can reduce opportunities for irregularities in firm management.
c. Improve the effectiveness of internal and external audit functions.
d. Identify matters that require the attention of the board of commissioners.
e. Increase public confidence in the feasibility and objectivity of the firm 's financial statements.

Based on a circular from the Board of Directors of PT. Jakarta Stock Exchange No. SE008 / BEJ / 12-2001 dated 7 December 2011 concerning the membership of the Audit Committee stated that:

a. There are at least three members of the audit committee, including the chair of the audit committee.
b. There is only one member of the audit committee from the board of commissioners. Audit committee members who are also boards of commissioners must be independent commissioners from public companies who are also chair of the audit committee.

c. Other members of the audit committee are independent external parties. External parties are parties outside registered companies that are not commissioners, directors and employees of listed companies, while independent parties are parties outside registered companies that do not have business relationships and affiliations with public companies, commissioners, directors and major shareholders of registered companies, and can give professional opinions freely following their professional ethics, not in favor of anyone's interests.

Based on this explanation it can be concluded that the audit committee is a member formed by the board of commissioners responsible for assisting the board of commissioners in managing the firm in order to create a good supervision system so that the quality of financial statements and public trust in the firm increases. Most audit committees have at least three members from independent commissioners and parties outside the firm.

2.1.5 Firm Size

The definition of firm size according to Hartono (2008: 14) is as follows " firm size can be measured by total assets / firm size using the logarithm calculation of total assets".

According to Law Number 20 of 2008 concerning criteria for firm size are classified into four categories as follows:

Table 2.1 Firm Size Criteria

Firm Size	Criteria	
	Assets (excluding land and place of business)	Annual sales
Micro business	Maximum Rp. 50,000,000	Maximum Rp. 300,000,000
Small business	More than Rp. 50,000,000 to Rp. 500,000,000	More than Rp. 300,000,000 to Rp. 2,500,000,000
Medium Business	More than Rp. 500,000,000 to Rp. 10,000,000,000	More than Rp. 2,500,000,000 to Rp. 50,000,000,000
Big business	More than Rp. 10,000,000,000	More than Rp. 50,000,000,000

Source: Law Number 20 Year 2008

Based on the explanation above, it can be concluded that related to the size of the firm, namely the company can be said big or small, which can be measured, one of them is through the assets owned by the firm. According to Sudarmadji and Sularto (2007) the larger the assets, the more capital is invested, and the greater the turnover of money.

2.2 Preliminary Study

This research refers to some research that can be seen in table 2.2 as follows:

Table 2.2 Preliminary Study

Researcher (year)	Research Title	Research variable	Research result
Moses Dicky Refa Saputra (2017)	Pengaruh Profitabilitas, *Leverage*, dan *Corporate Governance* terhadap *Tax Avoidance*	**Independent:** *Return on Assets (ROA), Debt to Equity Ratio* (DER), audit committees, and independent commissioners. **Dependent:** *Tax avoidance*	*Debt to Equity (DER)* and independent commissioners have an influence on tax avoidance. *Return on Assets (ROA)* and Audit committee has no effect on Tax Avoidance.
Silvia Ratih Puspita and Puji Harto (2014)	Pengaruh Tata Kelola Perusahaan terhadap Penghindaran Pajak	**Independent:** Background in accounting expertise, proportion of independent directors, executive compensation, share ownership structure and firm size **Dependent:** Tax Avoidance	The audit committee's accounting expertise background, and company performance influence tax avoidance actions. The proportion of independent directors, executive compensation, ownership structure, firm size does not affect tax avoidance.

Kesit Bambang, Prakosa(2014)	Pengaruh Profitabilitas, Kepemilikan Keluarga dan Corporate Governance Terhadap Penghindaran Pajak Di Indonesia	**Independent:** Profitability, Family Ownership and Corporate Governance **Dependent:** Tax Avoidance	Audit committee, leverage, firm size and compensation for tax losses have no significant effect on tax avoidance. Profitability, family ownership, and independent commissioners have a significant effect on tax avoidance.
Ni Putu Deiya Suprimarini and Bambang Suprasto H (2017)	Pengaruh *Corporate Social Responsibility*, Kualitas Audit, dan Kepemilikan Institusional pada Agresivitas Pajak	**Independent:** *Corporate Social Responsibility*, audit quality, and institutional ownership **Dependent:** Tax Aggressiveness	*Corporate Social Responsibility* significant negative effect on tax aggressiveness. Audit quality has a positive effect towards tax aggressiveness Institutional ownership has no effect towards tax aggressiveness
Ratika Hanna Alfia, Noval Adib (2016)	Pengaruh Corporate Governance, Karakter Perusahaan, dan Koneksi Politik terhadap Upaya Penghindaran Pajak (Studi pada Perusahaan Properti dan Real Estate yang Listing di BEI Tahun 2012 -2014)	**Independent:** Audit quality, audit committee, return on assets, leverage, and political connections **Dependent:** Tax Avoidance	*Return on assets* positive effect on tax avoidance. *Leverage* negative and significant effect on tax avoidance The number of audit committees, audit quality and political connections do not affect tax avoidance

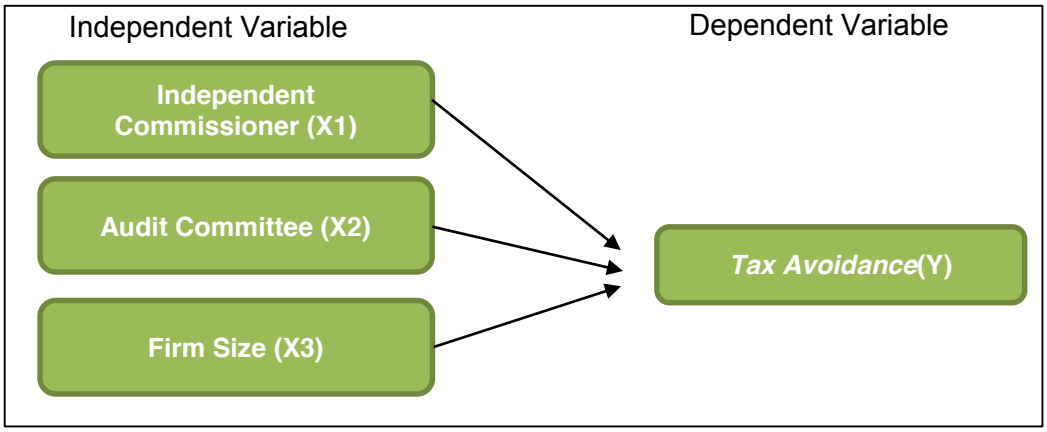
I Made Surya Dharma, Putu Agus Ardiana (2016)	Pengaruh Leverage, Intesitas Aset Tetap, Ukuran Perusahaan, dan Koneksi Politik terhadap *Tax Avoidance*	**Independent:** Leverage, Fixed Asset Intensity, Firm Size, and Political Connections **Dependent:** Tax avoidance	Firm size has a positive effect on tax avoidance. Leverage and asset intensity continue to negatively affect tax avoidance. Political connections do not affect tax avoidance.
Calvin Swingly I Made Sukaratha	Pengaruh Karakter Eksekutif, Komite Audit, Ukuran Perusahaan, *Leverage* dan *Sales Growth* pada *Tax Avoidance*	**Independent:** Executive Character, Audit Committee, Firm Size, Leverage and Sales Growth **Dependent:** Tax avoidance	Executive character and firm size have a positive effect on tax avoidance. Leverage has a negative effect on tax avoidance. The audit committee and sales growth have no effect on tax avoidance.

Source: data processed, 2020.

2.3 Conceptual Framework

The mindset as an overview of the mindset built between independent variables is the variable that is the cause of this research, namely good corporate governance which is proxyed to the size of the independent commissioners, audit committees, and firm size while the dependent, namely tax avoidance. The research framework is as follows:

Figure 2.1 Conceptual Framework



2.4 Research Hypothesis

The research hypothesis is a temporary conclusion to the formulation of the research problem, which will still be further tested through analysis of data that is relevant to the problem that occur. Based on the problem formulation and theoretical description, the following hypotheses are formulated:

2.4.1 The Effect of the Independent Commissioner on Tax Avoidance

Independent commissioners are members of the board of commissioners who are not affiliated in all respects with shareholders with directors or boards of commissioners and do not act as directors of the firm (Pohan, 2008). With the existence of an independent party involved in the executive firm, is expected to be able to resolve agency conflicts in the firm. From the perspective of agency theory, board members who come from outside the firm have a role to oversee the implementation of other executive roles (Solomon, 2007).

The influence of an independent board of commissioners in a firm is one form of mechanism to improve corporate governance. If the percentage of independent directors is above 30%, then this is an indicator that the implementation of corporate governance has been running well so that it can control and control the firm's management to save taxes and reduce agency costs to avoid tax. hereditary practices (Annisa and Kurniasih, 2012). Prakosa's

research (2014) states that independent commissioners negatively affect tax avoidance. If the number of independent directors increases, tax avoidance activities in the firm will decrease. Tighter supervision conducted by an independent commissioner (agent) will make management more careful in making decisions so that the firm is not involved in scandals that have an impact on corporate credibility such as avoiding tax avoidance practices and will form a good corporate image which also has an impact on the level of trust investor (principal). So the research hypothesis is formed as follows:

H1: Independent Commissioner has a negative effect on Tax Avoidance.

2.4.2 The Effect of the Audit Committee on Tax Avoidance

The audit committee is a component of the firm that assists the board of commissioners in conducting oversight. Strict supervision conducted on firm management will produce quality information and effective performance (Hanum and Zulaikha, 2013). With that authorityowned by the audit committee will be able to prevent deviant actions related to the financial statements. Pohan (2008) in his research found that if the number of audit committees in a firm is not in accordance with IDX regulations, namely at least 3 members, there will be an increase in earnings management for tax purposes. Research from Annisa and Kurniasih (2012) and Dewi and Jati (2014) concluded that the existence of an audit committee affects tax avoidance.

H2: The Audit Committee has a negative effect on Tax Avoidance.

2.4.3 The Effect of Firm Size on Tax Avoidance

The size of the firm describes the size of the assets owned by the firm. The greater the assets, the more capital is invested and the greater the velocity of money (Sudarmadji and Sularto, 2007). Richardson and Lanis (2007) state that large firms have lower ETR because they have considerable resources available

to manipulate the political process as desired by the firm, carry out tax planning and carry out activities to achieve optimal tax savings. This statement is known as political power theory. It can be said that large companies have excellent resources for doing good tax planning. Firms that can make good tax planning can reduce the amount of tax that must be paid by the firm. Rego (2003) states that large firms will have complex transactions so that firms will utilize the gap to avoid tax. Research by Mayasari (2014) found that firm size has a positive effect on tax avoidance. The bigger the firm, the lower the CETR it has. That's because firms are better able to use their resources in tax planning. So the research hypothesis is formed as follows: That's because firms are better able to use their resources in tax planning. So the research hypothesis is formed as follows: That's because firms are better able to use their resources in tax planning. So the research hypothesis is formed as follows:

H3: The Firm size has a positive effect on Tax Avoidance.