How does Financial Performance Moderate the Effect of Corporate Governance Mechanisms on Tax Avoidance?

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Abstract

The recovery in the economic sector due to the COVID-19 pandemic is challenging for all countries, including Indonesia. This study aims to analyze financial performance before and after the Covid–19 pandemic as a moderating variable to see the effect of corporate governance mechanisms on tax avoidance. Financial performance is represented as Return on Assets (ROA) and became a moderating variable, while corporate governance mechanism is represented as institutional ownership and audit committees that influence tax avoidance. The population in this study was 189 manufacturing companies listed on the Indonesia Stock Exchange over the 2019 – 2021 period. The sampling technique in this study was purposive sampling, namely, companies that were consistent and not delisted on the Indonesia Stock Exchange over the 2019-2021 period, including companies that did not experience losses during the 2019-2021 period. This study used panel data regression analysis with Eviews 12.0 program, which was then analyzed through a quantitative approach. The results of the study indicated that institutional ownership has a significant negative effect on tax avoidance, and ROA as the moderator can strengthen the effect of institutional ownership on tax avoidance. While the audit committee also has a significant negative effect on tax avoidance, ROA as the moderator can strengthen the effect of the audit committee on tax avoidance.

Keywords: institutional ownership, audit committee, Return On Assets, Tax Avoidance

1. Introduction

The ongoing condition of economic recovery due to the Covid-19 pandemic is a challenge for the Indonesian nation, especially in tax revenue, where taxes are the state's most important contribution because it has become one of the country's primary sources (Mulyadi, Anwar, Anwar, & Krisma, 2014). Tax avoidance is an activity or action that impacts taxpayers, both those permitted by taxes and those that can reduce taxes (Dyeng, Hanlon, & Maydew, 2008; Kalbuana, Taqi, Uzliawati, & Ramdhani, 2023). In addition, tax avoidance with a legal strategy or technique is safe for taxpayers because it does not conflict with the provisions of the Tax Law whereby Taxpayers want large profits and minimize costs incurred, especially tax costs. Therefore, tax avoidance cannot be eliminated in the business world but minimized or monitored so that companies do not avoid improper tax avoidance. In this case, good corporate governance is needed in terms of the structure, systems, and processes used by the company as an effort to provide added value for the company's sustainability in the long term by taking into account the interests of the norms based on stakeholders, ethics, culture and rules (Winarsih, Prasetyonko, & Kusufi, 2014).

Tax avoidance involves a fully legal and progressive chain of activities. It also involves a strategic plan for obtaining tax relief, which creates a gray area in providing financial and tax information and reports to external parties (Hanlon & Heitzman, 2010). Findings (Chen, Chen, Cheng, & Shevlin, 2010) indicate that tax avoidance has an adverse effect on the company's information environment; also, tax avoidance requires complex structures that allow managers to manipulate firm performance measures (Chouaibi, Rossi, & Abdessamed, 2022; Zhang et al., 2022). Furthermore, given that firms have the potential to face agency conflicts, the negative effect of tax avoidance on the firm’s information environment allows managers to divert stretched resources in the long run. (Watts & Zimmerman, 1990; Xu, Wang, Cullinan, & Dong, 2022) argue that, according to research, researchers conclude that accounting numbers play an important role in conflicts of interest between managers, shareholders, and other stakeholders. Therefore, in
Institutional ownership is the proportion of share ownership held by institutions such as insurance, banks, or other institutions at the end of the year (Simarmata & Cahyonowati, 2014). Institutional ownership significantly influences management monitoring by encouraging optimal managerial control to reduce conflicts of interest. Institutional investors can reduce the cost of debt by reducing agency problems which can reduce the possibility of tax avoidance (Jaeni, Badjuri, & Fadhila, 2019; Zhang et al., 2022). The Audit Committee is formed by and responsible to the Board of Commissioners. A public company must have an Audit Committee that acts independently in its duties and responsibilities. Audit Committee members are appointed and dismissed by the Board of Commissioners (Capital Market & Financial Institution Supervisory Agency or BAPEPAM & UK, 2012). These committees ensure that the company has been run under laws and regulations, has run a business ethically, and implemented controls against conflicts of interest and fraud committed by company employees (Tandean & Winnie, 2016). (Faizah & Adhivinna, 2017) stated that tax avoidance is a legal and safe action taken by taxpayers without compromising tax law because the technique used is to take advantage of weaknesses in tax laws and regulations. While previous studies (Carcello & Neal, 2003; Ebrahim, 2007; Kalbuana, Kudiyah, et al., 2022; Mohd Sweeney, Mohd Iskandar, & Mohid Rahmat, 2007) explored the role of audit committee monitoring on earnings management and financial reporting quality, we expand on the above literature and confirm the monitoring and supervision of this subcommittee, if significant and diverse, in tax avoidance. The company’s goal in tax avoidance is to minimize tax obligations and maximize profits. There are several ways to avoid taxes, including through ROA (Return on Assets) (Putri & Putra, 2017). ROA is an analytical technique that is widely used in measuring the operational effectiveness of a company as a whole. This ratio can measure the company’s ability with all funds invested in current assets used to achieve objectives, whereas ROE measures the company’s ability with all funds invested in current assets used to achieve objectives. ROA reflects the better the company's asset management practices.

Therefore, research on the relationship between corporate governance, financial performance, and tax avoidance gives different results. Because everyone has different motivational factors, and every country has social and political diversity. Shareholders, as principals, have delegated managers to make business decisions. Agents only sometimes make decisions because of the principal’s goals. Principals have demanded a system for how to run a company so that corporate governance can be formed appropriately. However, studies on the relationship between corporate governance, financial performance, and tax avoidance have yet to be conducted in Indonesia.

Good corporate control also requires good organization, namely good corporate governance management. The corporate governance mechanism has described the relationship of all participants in the company, which has so far directed the company's performance (Haruman, 2008). Profitability is the company's ability to generate profits to increase the value of the company's shareholders. By increasing the company’s profitability, the company has more funds to carry out social activities by paying taxes. (Nasir, Ilham, & Utara, 2014). Based on the phenomenon and suggestions from previous researchers, in this study, additional financial performance was represented by the ROA variable as a moderating variable.

2. Literature Review

2.1. Agency Theory

(Jensen & Meckling, 1976) Explains that an agency relationship occurs when one or more people (principals) employ another person (agent) to provide services and delegate authority for decision-making. Agency theory assumes that every human being is selfish and self-centered based on his individuality and the information asymmetry between managers as agents and as principal owners (Kalbuana et al., 2022). Company managers must know more about internal information to create an information space between management and owners. Management is morally responsible for optimizing the owners’ profits (principals) and fulfilling personal interests to maximize economic and psychological fulfillment. On the other hand, shareholders can focus on increasing the value of their shares (Uzliawati et al., 2023). Thus, the company has two different interests, and each party tries to achieve or maintain the desired level of prosperity. The existence of a conflict of interest between the two is the trigger for the emergence of agency theory (Nurmawan & Nuritomo, 2022).

2.2. Tax avoidance

Tax avoidance is more likely raised about companies with separation of ownership. Individuals are less involved in tax avoidance and avoidance due to detection and penalty risk and risk avoidance or internal motivations such as social obligations (Allingham & Sandmo, 1972). Thus, tax avoidance may reflect agency theory and result in tax decisions that pursue managers’ self-interest. Therefore, one of the challenges faced by shareholders and boards of directors is to find control methods and incentives to minimize agency costs (Jensen & Meckling, 1976). The vision presented and tested in this study regarding tax avoidance, according to the separation of control from ownership, is that if owners test the basic mental and moral health aptitudes (intellectual intelligence and emotional intelligence) of managers, their tendency to ambiguous activities such as tax avoidance can be predicted, because researchers believe that there is a relationship between emotional intelligence, spiritual intelligence, and good temperament, which is important for effective management (Angelidis & Ibrahim, 2011; Bay & Greenberg, 2001; Hollan, 2006; Maak & Pless, 2006; McPhail, 2004). Different spiritual and emotional skills (such as social responsibility, interpersonal relationships, self-esteem, and problem-solving) can guide individual decisions and actions (Cook, Bay, Visser, Myburgh, & Njoroge, 2011). Company owners tend to prefer companies to avoid tax because of tax costs aggressively (Chen et al., 2010).

2.3. Corporate Governance Mechanism

Implementing good corporate governance can overcome the problem of opportunistic behavior of managers related to tax avoidance. The Audit Committee is formed by and
responsible to the Board of Commissioners. A public company must have an audit committee that acts independently in its duties and responsibilities. The Audit Committee is a committee formed by and is responsible to the Board of Commissioners to carry out the duties and functions of the Board of Commissioners. The board of commissioners must form an audit committee consisting of at least three members appointed or dismissed by the board of commissioners, who are also responsible to the board of commissioners (Pohan, 2008).

2.4. Audit Committee

An Independent Commissioner leads Audit Committee. Its members may consist of Commissioners or professionals from outside the company. Audit Committee members are appointed and dismissed by the Board of Commissioners (Capital Market & Financial Institution Supervisory Agency or BAEPAM LK, 2012). The committee's responsibility in the field of good corporate governance is to ensure that the company is run under statutory regulations. Establishing an audit committee makes the auditor's performance more independent. Collusion between management and auditors becomes more difficult to do, which will reduce tax avoidance (Watts & Zimmerman, 1983). To follow the principles of good corporate governance, a company must have an audit committee that implements the principles of responsibility and accountability. The audit committee controls the process of financial reporting and internal control (Kalbuana, Kusiyah, et al., 2022).

2.5. Institutional ownership

Institutional ownership is the proportion of share ownership owned by institutional owners and stockholders at the end of the year (Simarmata, 2014; Victory & Cheisiviyani, 2016). Institutional ownership of shares is the proportion of shares owned by institutions, such as insurance, banks, or other institutions (Simarmata & Cahyonowati, 2014). Institutional ownership significantly influences companies to monitor management because it will encourage more optimal control of tax avoidance. The greater the institutional ownership of company founders, the less aggressive tax policies for institutional owners (Azeez & Ekene, 2017; Lanis & Richardson, 2011; Zemzem & Ftohui, 2013). Institutional ownership is the percentage of shares at the end of the accounting period owned by external parties, such as institutions, companies, insurance, banks, or other institutions (Bukhori, Iqbal, & Raharja, 2012). Institutional ownership can reduce the incentives of self-serving managers through intensive supervision.

2.6. Company performance

Profitability is the company's ability to generate profits to increase the value of the company's shareholders. By increasing the company's profitability, the company has more funds to carry out social activities. (Faizah & Adhivinna, 2017) Return On Assets (ROA) is an indicator that reflects a company's financial performance. The higher the Return On Assets (ROA) value, the better the company's performance. Return On Asset (ROA) is related to the net profit generated by the company and tax liability (Sartono, 2015). (Faizah & Adhivinna, 2017) stated that the profitability/profitability ratio is a company's ability to profit from the relationship between sales, assets, and capital. Return On Assets (ROA) is a method used to calculate profitability. Return On Assets (ROA) is an analytical technique widely used to measure a company's operational effectiveness. This ratio measures a company's ability to generate profits by using funds invested in current assets in its operations. Return On Assets (ROA) measures net profit from how much a company utilizes its assets (Dewinta & Sitiawan, 2016; Henny, 2019; Mastuti, Suhendro, & ..., 2020). The higher the Return On Assets (ROA), the higher the profit the company earns, and the better the management of company assets. As revealed by (Adyani & Drs. R. Djipko Sampurno, 2017; Mandasari, 2021), Return On Assets (ROA) is one of the many profitability ratios used to measure a company's effectiveness in generating profits by utilizing its assets. Based on Bank Indonesia's terms, a good standard of Return On Assets (ROA) is around 1.5%. Return On Assets (ROA) which is greater, indicates good company performance because of greater returns. Companies with high efficiency and high income tend to face a low tax burden. The low tax burden is because companies with high incomes have succeeded in taking advantage of tax incentives and other tax deductions (Darmadi, 2013; Tanujaya & Valentine, 2020).

3. Hypothesis Development

3.1. Effect of Governance Mechanisms on Tax Avoidance

In agency theory, it is stated that there is a relationship between the authorizing party (principal) and the authorized party (agent). Agency problems can influence the level of tax payments made by a company. The meaning of agency problem itself is a conflict of interest that arises between the principal as the owner and the agent (management) or shareholder in the company. Shareholders are usually only interested in the rate of return on the shares they have invested in the company. According to (Jensen & Meckling, 1976), institutional ownership is important in minimizing agency conflicts between shareholders and managers. Because it is assumed that the principal is only interested in the rate of return, thus he will try to direct the company to minimize the investor's tax burden.

Tax avoidance is one of the company's activities associated with high agency costs (Hasan, Hoi, Wu, & Zhang, 2014). (Balakrishnan, Blouin, & Guay, 2018) argue that while tax avoidance can provide the expected tax savings, it simultaneously increases financial and organizational complexity, hindering investors from understanding company operations. In addition, managers are more likely to hide their tax avoidance transactions and provide opaque financial reports to avoid scrutiny by tax authorities (Balakrishnan et al., 2018; Kim, Li, & Zhang, 2011). (Kim et al., 2011) found a positive relationship between tax avoidance and stock price crash risk. (Balakrishnan et al., 2018) found that there is a positive relationship between tax avoidance and information asymmetry. Financial reports are the main source of information for outside investors for their decision-making (Gassen & Schwedler, 2010).

Other corporate institutions or the government own companies with larger shareholdings; thus, the performance of company management to obtain profits as desired will tend to be monitored by these institutional investors (Sandy & Lukviarman, 2015). This encourages management to minimize the value of taxes owed by the company. Institutional Ownership plays an important role in monitoring, disciplining,
and influencing managers in tax management. The above argument is supported by research (Khurana & Moser, 2011; Ngadiman & Puspitasari, 2017) which found that large or small concentrations of Institutional Ownership will affect tax avoidance policies by companies.

Given that we examine the impact of the audit committee on corporate tax avoidance, the audit committee's evaluation is particularly relevant because this committee is responsible for revising the financial statements. They have explicit authority to access financial information and discuss any aspect reflected in this statement with the auditor (Kalbuana, Kusiyah, et al., 2022; Mohd Saleh et al., 2007). (Klein, 2002) argues that the audit committee is designed to act independently and resolve conflicts between outside managers and directors regarding financial information and accounting choices. They are designed to provide management oversight to protect and safeguard shareholder wealth and can limit and prevent discretionary managerial decisions (Xie, Davidson, & Dadalt, 2003). The efficiency of this committee ensures the quality of the audit process by monitoring key accounting choices, thereby reducing discretionary behavior such as earnings management or fraud (Piot & Janin, 2007; Xu et al., 2022).

In addition, (Thiruvadi & Huang, 2011) acknowledges that audit committees have played an important role in avoiding, or at least limiting, accounting scandals and discretionary management behavior. (Richardson, Taylor, & Lanis, 2013) also highlighted the importance of the effectiveness of audit committees in corporate tax planning because of their oversight role.

An audit committee is a person or group of at least three independent people within the company who are also independently selected and have capabilities and competence in accounting and finance; the audit committee is responsible to the board of commissioners (Kalbuana, Kusiyah, et al., 2022). The audit committee's function is to provide views on issues related to the company's financial, accounting, and internal control policies (Setyarno & Januarti, 2012). At the same time, the IDX requires at least three audit committee members. So if there are fewer than three people, it needs to follow IDX regulations. Thus, if the number of audit committees in a company is not following IDX regulations, it will increase management's actions in minimizing profits for tax avoidance purposes. Empirically, previous researchers have proven that audit committees significantly influence tax avoidance (Kurniasi & Sari, 2013; Kurniasih, Ratna, Akuntansi, & Ekonomi, 2013; Sandy & Lukviarm, 2015).

Thus the hypotheses are made as follows:

H1: Institutional Ownership has an effect on Tax Avoidance
H2: Audit Committee has an effect on Tax Avoidance

3.2. Financial Performance in moderating the effect of Governance Mechanisms on Tax Avoidance

Return on Assets (ROA) is used to measure the effectiveness of a company in utilizing all of its resources. ROA describes management's ability to earn profits. The higher the ROA, the higher the company's profit; thus, the company's asset management is better. Companies with high profitability can position themselves in tax planning that reduces the total burden of tax obligations (Chen et al., 2010). Empirically, previous researchers have proven that return on assets has a significant effect on tax avoidance or tax avoidance (Kurniasih et al., 2013). This ratio measures a company's ability to generate profits by using funds invested in current assets in its operations. According to (Rahma Adyani Djoko Sampurno et al., 2015), Return On Assets (ROA) is one of the many profitability ratios used to measure a company's effectiveness in generating profits by utilizing its assets.

Based on Bank Indonesia’s terms, a good standard of Return On Assets (ROA) is around 1.5%. Return On Assets (ROA) which is greater, indicates good company performance because of greater returns.

Thus the hypotheses are made as follows:

H3: ROA moderates Institutional Ownership and has an effect on Tax Avoidance
H4: ROA moderates the Audit Committee's effect on Tax Avoidance
4. Research Methods
4.1. Sample Selection Procedure and Data Source

This study uses a quantitative approach to the research design, namely testing the hypothesis (hypothesis). The population in this study is 189 manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021. Manufacturing companies are used as research objects because manufacturing companies are the largest group of issuers of all companies listed on the Indonesia Stock Exchange (IDX). Therefore, manufacturing companies have a fairly high level of competence. The sampling technique in this study was purposive sampling, namely those selected based on certain criteria so that the sample used in this study was representative of the existing sample population and followed the objectives of the study. The sampling criteria are consistent and not delisted companies on the Indonesia Stock Exchange (IDX) in 2019-2021 and companies without losses during 2019-2021. Companies that experience losses do not do tax avoidance, companies that provide financial report data in rupee and that have been audited by independent auditors during the 2019-2021 period, the research data does not experience outliers, namely data that deviates too far from other data in a data set, so that the data becomes biased or does not reflect the actual phenomenon.

Moderating variables are variables that strengthen or weaken the direct relationship between the independent variables and the dependent variable. This study's moderating variable is ROA and functions as a pure moderating variable. So that ROA does not function as an independent variable (Ghozali, 2018).

4.2. Measurement of Variables
a. Tax avoidance

This paper aims to study tax avoidance that occurs in companies due to the ongoing recovery in the economic sector due to the co-19 pandemic. Thus, tax avoidance, proxied as the effective tax rate (ETR), is the dependent variable, as is common in research (Adhikari, Derasrich, & Zhang, 2006; Chen et al., 2010; Chouaibi et al., 2022). The dependent variable used in this study is measured using a tax avoidance called the current ETR, where the ETR is a tool to measure how much a company commits to tax avoidance. The current ETR is measured by the current tax paid by the company under the law on taxation of taxable income. Current ETR is calculated by comparing current tax profit before pretax income. (Chouaibi et al., 2022) Measure the Current ETR as follows:

\[
\text{Current ETR} = \frac{\text{Current Tax Expense}}{\text{Pre-Tax Income}}
\]

b. Institutional Ownership

In this study, the institutional ownership variable is the number of company shares owned by the institution or institution. Institutional ownership is important in minimizing agency conflicts between shareholders and managers (Jensen & Meckling, 1976). (Irsalina Nur Idzni & Agus Purwanto, 2017) measures institutional share ownership as follows:

\[
\text{INST} = \frac{\text{The total shares owned by institutional investors}}{\text{Outstanding shares}} \times 100\%
\]

Information about shares owned by other institutions is also included in the annual report, stock summary, and notes to financial statements.

c. Audit Committee

Audit committee proxies are measured by a company's number of audit committees (Hashemi & Hanum, 2013). The audit committee, under rules set by BAPEPAM and the Ministry of BUMN, requires that the audit committee consists of at least a chairman who is also an independent commissioner and two independent external members. The audit committee is considered a liaison between shareholders and the board of commissioners, and management in dealing with control issues. The Audit Committee is measured using a ratio scale through the percentage of audit committee members from outside the audit committee to all members of the audit committee (Hashemi & Hanum, 2013; Kalbuana, Kusiyah, et al., 2022).

d. Return on Assets (ROA)

Return on Assets (ROA) illustrates management's ability to gain profit (profit). The higher the ROA, the higher the company's profits, thus the better the management of company assets. According to (Sari, Nurlaela, & Titusari, 2022), the variable ROA (Return on Assets) is measured by comparing the net income to the company's total assets at the end of the period, which is used as an indicator of the company's ability to generate profits.

According to (Astawinetu & Handini, 2020; Atmaja, 2008), Return on Assets (ROA) can be measured using the following formula:

\[
\text{ROA} = \frac{\text{Net profit (loss) after tax}}{\text{Total of Assets}}
\]

4.3. Data Analysis Techniques

The analysis in this study used Eviews 12. Before data analysis, some tests were done: the normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. They were testing the hypothesis using multiple linear regression analysis tests. Then, to determine whether the independent variable affects the dependent variable either partially or simultaneously, a t-test and F-statistical test are carried out to determine how much influence the independent variable has on the dependent variable, and the coefficient of determination is used. The multiple linear analysis models used in this study are formulated as follows:

\[
\text{ETR} = \alpha_0 + \alpha_1\text{IO} + \alpha_2\text{AC} + \epsilon_i
\]

Description:

ETR = Tax Avoidance
5. Results

### 5.1 Descriptive Statistics

The results of descriptive statistics can be given as mean, maximum, minimum, and standard deviation from a sample of companies. The following are the results of the descriptive statistical test, which can be seen in Table 1:

<table>
<thead>
<tr>
<th>Variable</th>
<th>OB</th>
<th>IO</th>
<th>AC</th>
<th>ETR</th>
<th>ROA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Min</td>
<td>189</td>
<td>0.000</td>
<td>0.000</td>
<td>-16.2541</td>
<td>-1.0498</td>
</tr>
<tr>
<td>Max</td>
<td>189</td>
<td>0.9999</td>
<td>1.6094</td>
<td>8.0317</td>
<td>0.6070</td>
</tr>
<tr>
<td>Mean</td>
<td>189</td>
<td>0.7131</td>
<td>1.0926</td>
<td>0.1798</td>
<td>0.0193</td>
</tr>
<tr>
<td>Std.Deviation</td>
<td>189</td>
<td>0.2453</td>
<td>0.1373</td>
<td>1.1039</td>
<td>0.1199</td>
</tr>
</tbody>
</table>

Table 1. Descriptive Statistics

Table 1 above shows that the number of observations (N) is 189. From 189 samples, the minimum value of Institutional Ownership is 0.000, while the maximum value of Institutional Ownership is 0.9999. Average Institutional Ownership is 0.7131 with a standard deviation of 0.2453. The minimum value of the Audit Committee is 0.000, while the maximum value of the Audit Committee is 1.6094. The mean of the Audit Committee is 1.0326, with a standard deviation of 0.1373. The minimum value of Tax Avoidance is -16.2541, while the maximum value of Tax Avoidance is 8.0317. The average tax avoidance is 0.1798, with a standard deviation of 1.1039. The minimum value of Return on Assets is -1.0498, while the maximum value of Return on Assets is 0.6070. The average Return on Assets is 0.0193 with a standard deviation of 0.1199.

### 5.2 Normality Test

The normality test aims to determine the data distribution on the variables used in the study. Data that is suitable for use in research is normally distributed. To test the assumption of normality of the data is done using Jarque Bera (JB). If the probability of JB is greater than 0.05, then the data is not normally distributed, but if it is less than 0.05, then the data is not normally distributed (Ghozali, 2018). Based on the results, the probability value of Jarque Bera is 0.262615 > 0.05; thus, it can be concluded that the data from the variables in this study have been normally distributed.

### 5.3 Multicollinearity Test

The multicollinearity test is used to test whether there is a relationship between the independent variables. To detect the relationship between variables in this study by looking at the VIF Centered between each variable. If it is greater than 0.10, then multicollinearity occurs in the regression model, but if the correlation coefficient between each variable is smaller than 0.10, then multicollinearity does not occur (Ghozali, 2018). The test results show that the Centered VIF value of each variable is less than 10. This test concludes that there are no signs of multicollinearity between the independent variables in this research model.

### 5.4 Heteroscedasticity test

The Heteroscedasticity test aims to test whether, in the regression model, there is a variance from a residual inequality to another observation, so it is called Homoscedasticity. If it is different, it is called heteroscedasticity. A good regression model is that there is no homoscedasticity or heteroscedasticity. If, in the regression model, there is a heteroscedasticity problem, it will cause the variance value to no longer be minimum. This will result in an unreliable standard error so that the regression results from the model cannot be justified (Ghozali, 2018). The method to determine whether there are symptoms of heteroscedasticity in this study is the Glejser test. If the significance of prob R < 0.05, then the model contains heteroscedasticity, and if the significance of prob R > 0.05, then the model does not contain heteroscedasticity. Based on the results of the heteroscedasticity test with Glejser, it is known that the Prob. Chi-Square is 0.8459 the value is greater than 0.05, then this research model does not occur heteroscedasticity.

### 5.5 Autocorrelation test

Autocorrelation is a violation of the non-autocorrelation assumption. This is due to the correlation between disturbances in each observation. Autocorrelation can also be said that errors from certain period disturbances correlate with previous disturbances. The autocorrelation problem is only relevant if the data used is a time series. The autocorrelation test in this study was the Lagrange Multiplier Test (LM-test). It detects whether the model used in this study has autocorrelation between the independent and dependent variables, which can be seen if the significance value of Prob*R <.05, then the model contains autocorrelation and vice versa. The results of the autocorrelation test with the Lagrange Multiplier Test (LM-test) show that the Probability Chi-Square of Obs*R-squared is 0.0888. The value is greater than 0.05; thus, there is no Autocorrelation in this research model.

### 5.6 Chow Test

The Chow test was conducted to determine which panel data regression model should be used, whether the Common...
Effect Model or the Fixed Effect Model. This test was carried out using the Eviews 12 program. The conditions for testing the F-Stat/Chow Test are as follows:

1. If the probability value of the Cross-section F and Cross-section Chi-square > 0.05, then H0 is accepted, and the selected regression model is the Common Effect Model (CEM).

2. If the probability value of the Cross-section F and Cross-section Chi-square <0.05, then H0 is rejected, and the selected regression model is the Fixed Effect Model (FEM).

The Chow test in this study was a cross-section fixed effects test where the model chosen is the Fixed Effect Model because the Probability value of the Chi-square cross-section is 0.0022 <0.05.

5.7. Hausman test

The Hausman test was conducted to compare the Fixed Effect Model and the Random Effect Model with the aim of determining which model should be used. This test was carried out using the Eviews 12 program. The conditions for the Hausman test are as follows:

1. If the probability value of a random cross-section is > 0.05, then H0 is accepted by the selected regression model, which is the Random Effect Model (REM)

2. If the probability value of the random cross-section is <0.05, then H0 is rejected, the regression model chosen is the Fixed Effect Model (FEM).

The Hausman test used was a random effects cross-section test where the model chosen is the Fixed Effect Model because of the Prob value. A Cross-section Random of 0.0009 is smaller than 0.05.

5.8. Hypothesis Testing

Multiple linear regression analysis explains the effect of institutional ownership on tax avoidance. The results of testing Hypothesis 1 show that institutional ownership has a significant negative effect on tax avoidance. The prob value is 0.0115, smaller than 0.05; the t-statistic value is greater than the t-table (1.96) and has a negative coefficient value. It is known that the R-Square value is 0.719005, meaning that the influence of institutional ownership on tax avoidance is 71.90%.

Multiple linear regression analysis also can explain the effect of the audit committee on tax avoidance. The results of testing Hypothesis 2 show that the audit committee has a significant negative effect on tax avoidance. The probability value is 0.0087, smaller than 0.05, and the t-statistic value is greater than the t-table (1.96) and has a negative coefficient value. It is known that the R-Square value is 0.722299, meaning that the influence of the audit committee on tax avoidance is 72.23%.

The results of testing Hypothesis 3 show that ROA can moderate the effect of institutional ownership on tax avoidance. The probability value is 0.0165, smaller than 0.05, and the t-statistic value is greater than the t-table (1.96). It is known that the R-Square value is 0.791713, meaning that ROA strengthens the influence of institutional ownership on tax avoidance which was previously 71.90% to 79.17%.

The results of testing Hypothesis 4 show that ROA can moderate the effect of the audit committee on tax avoidance. The probability value is 0.0250, smaller than 0.05, and the t-statistic value is greater than the t-table (1.96). The R-Square value is 0.790744, which means that ROA strengthens the influence of the audit committee on tax avoidance which was previously 72.23% to 79.07%.

6. Discussion

6.1. Institutional Ownership affects Tax Avoidance

The results of empirical testing prove that the greater the institutional ownership in a company, the more likely it is that tax avoidance is carried out because the company has a responsibility to shareholders and wants to pay less tax. Institutional ownership does not significantly influence the alleged tax avoidance because institutional owners do not supervise, discipline, and influence managers' actions. Another reason is that institutional owners are more concerned with their welfare in maximizing their future profits so that the percentage of institutional ownership does not affect tax avoidance. The results of this study support research conducted by (Tandean & Winnie, 2016), which says the results of statistical tests show that institutional ownership does not have sufficient evidence against tax avoidance and has a negative effect on tax avoidance.

6.2. The Audit Committee influences Tax Avoidance

The empirical test results prove that if the number of audit committee members in a company is small, the company will increase management's risk of tax avoidance. On the other hand, if the company has a large number of committee members, the supervision carried out by management will be tighter, and tax avoidance will decrease. It can be concluded that the audit committee has an effect on tax avoidance in companies. However, in contrast to research conducted by (Widuri, Wijaya, Effendi, & Cikita, 2019), the results of the T-test in the audit committee shows a significance level of less than 0.05, and the hypothesis of the effect of the audit committee on tax avoidance is accepted.

6.3. ROA moderates Institutional Ownership effect on Tax Avoidance

The results obtained in this study align with the research results (Dyreng et al., 2008; Fatharani, 2012; Nugroho, 2011) in his research, proving that middle and high-level taxpayers result in low ROA. This is because large expenditures influence ROA in conducting research and development of companies that are carried out for business development. Research and development costs can be used as a deduction from taxable profits based on Law no. 36 of 2008 article 6 paragraph 11 (Dyreng et al., 2008). However, in this study, ROA is a variable that strengthens the effect of institutional ownership on tax avoidance.
6.4. ROA moderates the Audit Committee’s effect on Tax Avoidance

This study is in contrast to research conducted by (Eddy, Angela, & -, 2020). It is found that there is no effect of Return On Assets (ROA) on tax avoidance. However, in this study, ROA is a moderating variable that strengthens the effect of audit committees on tax avoidance.

7. Conclusions

In this study, the findings suggest that both Institutional Ownership and Audit Committee have a significant negative impact on tax avoidance. The first hypothesis indicates that Institutional Ownership is negatively associated with tax avoidance, implying that companies with higher levels of institutional ownership tend to engage in lower levels of tax avoidance. This finding suggests that institutional investors, such as pension funds, mutual funds, or insurance companies, who hold significant ownership stakes in a company, play a crucial role in promoting responsible tax behavior and discouraging aggressive tax avoidance practices. The second hypothesis highlights that the presence of an effective Audit Committee is negatively related to tax avoidance. An Audit Committee is responsible for overseeing the financial reporting process, internal controls, and compliance with legal and regulatory requirements. The presence of a strong and independent Audit Committee acts as a safeguard against inappropriate tax practices and enhances transparency and accountability within the organization. However, through further examination using the Return on Assets (ROA) variable, this study discovered an intriguing moderation effect that enhances the relationship between corporate governance and tax avoidance. Hypotheses three and four, which incorporated ROA as a moderating variable, revealed a notable strengthening of this relationship. The investigation unveiled a significant association between ROA and research expenditures, indicating that companies prioritize substantial investments in research and development to foster business growth and advancement. Significantly, this study shed light on the potential benefits for companies, as research and development costs can be utilized as legitimate deductions from taxable profits in accordance with the stipulations set forth in Law no. 36 of 2008, specifically article 6 paragraph 1f. This noteworthy finding implies that companies have the opportunity to strategically leverage their research and development endeavors to lawfully diminish their tax liabilities.

This research has unavoidable limitations. Disclosure of limitations aims to make this research understandable with interpretations that are not misleading. In addition, the disclosure of limitations is also intended so that further research can fill in the gaps that are the limitations of this research: extending the research period with a longer time span, for example, five years, examining other variables that can be used as proxies for tax avoidance, adding criteria for measuring corporate mechanisms good governance such as the size of the board of directors, managerial ownership, executive character, and conducting tests with a sample of non-manufacturing companies.

References


