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Factors Influencing Tax Avoidance: Corporate Governance, Profitability And Executive Character

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Abstract
Purpose –The purpose of writing this article is to build a hypothesis on the influence of corporate governance, profitability, and executive character on tax avoidance to be used in further research.
Design/methodology/approach – This research was conducted through the study of theory and relationships or influences corporate governance, profitability, and executive character on tax avoidance from online books and journals sourced from Mendeley, Scholar Google and other online media.
Findings –The results show that corporate governance has no effect on tax avoidance, while Return On Assets (ROA) and executive character have an effect on tax avoidance.
Research limitations/implications –This study is only a literature review which is limited to research on the influence of corporate governance, profitability, and executive character variables on tax avoidance from various previous studies. Even though there are many other factors that influence tax avoidance
Practical implications –This research suggests to study further and look for other factors that can affect tax avoidance besides corporate governance, profitability, and executive character. For example, company size, leverage, sales growth, company age, and capital intensity ratio.
Originality/value – This research contributes to providing an understanding of tax avoidance and the factors that influence it.

Keywords: Tax avoidance; corporate governance; Profitability; and Executive Character.

Introduction

Taxpayer non-compliance is still very common today, even though taxes are one of the biggest sources of state revenue, this is what causes tax compliance.

Taxpayers are expected to carry out their tax obligations in accordance with the current tax regulations. An example of non-compliance by taxpayers is tax avoidance, or it can also be referred to as a form of tax avoidance where taxpayers make various legal means and efforts to achieve a reduction in the tax burden charged to taxpayers, by reducing the tax payable by looking for loopholes or weaknesses in the tax regulations themselves without violating tax regulations. This tax avoidance is a complicated issue, because on the one hand it is permissible because it does not violate tax regulations, but on the other hand, this tax avoidance is undesirable.

Cases of tax evasion occur a lot, especially in Indonesia, where most multinational companies use various schemes to avoid taxes that cause losses to both the country of origin and the country of investment destination. An example is the SIM simulator case, where the developer sells a house for Rp. 7.1 billion to the defendant, but in the notary deed written Rp. 940 million where there is a price difference of Rp. 6.1 billion, this transaction has the potential for Value Added Tax (VAT) which must be deposited, namely 10 percent of Rp. 6.1 billion or Rp. 610 million, another shortcoming is the final Income Tax (PPh) of 5 percent of Rp. 6.1 billion or Rp. 300 million, so the total tax shortfall is Rp. 910 million. If the developer sells houses in hundreds of units,

Corporate governance, profitability, and executive character are factors that can influence a company in carrying out its tax obligations. corporate governance explains corporate governance which explains the relationship between company participants in determining the direction of company performance. Companies that do tax evasion indicate that the company has not fully implemented corporate governance.

Profitability describes the company's performance in terms of the ability to generate profits during a certain period through all the capabilities and also the resources owned by the company, for example: the level of sales, assets, and certain share capital. One of the profitability ratios is Return On Assets (ROA), where the ratio this is an indicator that can reflect the company's financial performance, the higher the Return On Assets (ROA) achieved by the company, the company can be categorized as having good financial performance. In terms of taxation, Return On Assets (ROA) is the ratio of net profit to tax which is a measure to assess and measure the efficiency and profitability of a company in utilizing its assets to generate profit before tax.

Tax avoidance by the company is a policy taken by the leadership of the company itself. Company leaders may have the character of a risk taker which is reflected in the size of the company's risk, where risk takers tend to be more courageous in making decisions within the company even though these decisions have a high risk. Executives involved in tax avoidance usually have a team trained in tax planning. They can work closely with accountants, tax consultants, or other tax advisors to design tax strategies that are efficient and comply with applicable laws. Executives or company leaders often prioritize the interests of shareholders in an effort to maximize profits and reduce the tax burden.

This article discusses the effect of corporate governance, profitability, and executive character on tax avoidance, a literature review study in the field of tax accounting.

Based on the background, it can be formulated the problems that will be discussed in order
build hypotheses for further research, namely:

1. Does corporate governance affect tax avoidance?
2. Does Profitability affect Tax avoidance?
3. Does Executive Character affect Tax Avoidance?

Literature Review

Tax

Taxes or taxes are levies imposed by the government on individuals, companies or other entities as a source of state revenue. Tax is one of the main sources of income for the government to finance various public activities and programs, such as infrastructure development, education, health, security and other public services. The government stipulates applicable tax rules and rates, as well as stipulates a tax system that regulates tax obligations, reporting, and payment of taxes by taxpayers. Taxes are usually regulated through tax laws and overseen by tax authorities who are responsible for collecting and administering taxes.

Taxes are contributions to the state (which can be forced) owed by those who are obliged to pay them according to regulations, with no return on achievement, which can be directly appointed, and whose use is to finance public expenses related to the duties of the state that administers government(Waluyo, 2011).

Tax Avoidance

Tax avoidanceis an effort to carry out legal and safe tax avoidance without conflicting with applicable tax provisions by exploiting the weaknesses contained in the Legislation to minimize the amount of tax owed(Pohan, 2009). Tax avoidance is not a violation of tax law because the taxpayer's efforts to reduce, avoid, minimize or alleviate the tax burden are carried out in a way that is permitted by the tax law. As for the way according to(Merks, 2007)are a) transferring tax subjects and/or tax objects to countries that provide special tax treatment or tax relief (tax haven countries) for a type of income (substantive tax planning), b) efforts to avoid taxes by maintaining the economic substance of transactions through formal selection that provides the lowest tax burden (Formal tax planning), c)

Anti Avoidance provisions for transfer pricing transactions, thin capitalization, treaty shopping, and controlled foreign corporations (Specific Anti Avoidance Rule); as well as transactions that do not have business substance (General Anti Avoidance Rule).

Corporate Governance

Corporate governanceaccording to the National Committee on Governance Policy (KNKG) is one of the pillars of the market economy system. Corporate governance is closely related to trust both in the company that implements it and in a conducive business climate(Annisa, NA, 2012). According to(Desai, M.A, 2005), Corporate governance is definitively a system that regulates and controls companies to create added value (value added) for all stockholders. In short, there are four main components needed in the concept of corporate governance, namely fairness, transparency, accountability and responsibility. The large number of companies that practice tax avoidance proves that corporate governance has not been fully implemented by public companies in Indonesia.

Return On Assets(ROA)

Definition of Return On Assets (ROA) according to Rivai et al (2013)is the company's ability to utilize its assets to earn profits. This ratio measures the rate of return on investment that has been made by a company using all of its funds (assets). Companies that earn profits are assumed not to do tax avoidance because they are capable manage income and tax payments(Maharani, IGA, 2014).

Executive Character

Tax avoidancewhat these companies do is of course done with the policies of the company leaders. Company leaders certainly have different characteristics. These characteristics will influence it in decision making.(Low, 2009)states that each individual executive has one of 2 characteristics, namely as a risk taker or risk averse.Dyreng et al., (2010)tested 908 samples of company leaders listed on ExecuComp and obtained the result that individual company leaders have a significant role in the level of tax avoidance. Executives who have the character of a risk taker are executives who are bolder in making business decisions. This type has a strong urge to have higher positions, wealth, authority, and greater income by being willing to accept higher risk consequences as well. In addition, the nature of risk taker management has a desire to bring in high cash flow to meet the goals of the company owner, namely to get cash flow from the company's operations (La Porta & Silanezin Budiman and Setiyono, 2012).

High cash flow will be obtained from tax avoidance activities by increasing tax savings. In contrast to risk takers, executives who have a risk averse character usually tend to dislike risk so that in making decisions they prefer opportunities with lower risks. The risk averse type prioritizes security over getting big but risky profits. Usually risk averse executives are older, have held positions for a long time, and are dependent on the company (MacCrimmon, K.R.in Budiman and Setiyono, 2012). The difference between the two types of executives is reflected in the size of the existing company risks. The high or low risk of this company indicates the character of the executive whether he is a risk averse or a risk taker (Paligorova, 2010).

Table 1
Relevant Previous Research

No	Authors (year)	Previous Research Results	Similarities to this article	Difference with this article
1	(Saputra et al., 2015a)	Return On Assets(ROA) & executive character have a significant effect on tax avoidance while corporate governance (board of commissioners, audit quality, and audit committee) has no effect on tax avoidance	Return On Assets(ROA) & executive character has an effect on tax avoidance while corporate governance (board of commissioners, audit quality, and audit committee) has no effect on tax avoidance	-
2	(Praptidewi & Sukartha, 2016)	Executive characteristics have a negative effect on tax avoidance	Executive character influences tax avoidance	-

3	(Koming & Praditasari, 2017)	corporate governance& Return On Assets (ROA) has a negative effect on tax avoidance, executive character has a positive effect on tax avoidance	Return On Assets(ROA) & executive character affect tax avoidance	corporate governance effect on tax avoidance
4	(Handayani, 2018)	Return On Assets(ROA) & company size has a positive effect on tax avoidance, leverage has no effect on tax avoidance	Return On Assets(ROA) affects tax avoidance	This article does not discuss the effect of company size and leverage on tax avoidance
5	(Prasatya et al., 2020)	Executive characteristics have a negative effect on tax avoidance, profitability has no effect on tax avoidance	Executive character influences tax avoidance	profitability has no effect on tax avoidance
6	(I Wayan & Ni Gusti Agung Sri, 2018)	Executive character does not have a positive effect on tax avoidance, company characteristics have a negative and significant effect on tax avoidance and corporate governance does not have a significant negative effect on tax avoidance	-	executive character has no significant effect on tax avoidance, corporate governance has no significant effect on tax avoidance
7	(Rizki & Fuadi, 2019)	profitability proxied by Return On Assets (ROA) has a positive effect on tax avoidance, Executive Character has a positive effect on tax avoidance	Return On Assets(ROA) & executive character has an influence on tax avoidance	-
8	(Meiliawati & Hermanto, 2004)	Return On Assets and the board of commissioners has a negative effect on tax avoidance, executive characteristics have a positive effect on tax avoidance & audit quality and audit committee have no effect on tax avoidance	Return On Assets(ROA) & executive character have an effect on tax avoidance, audit quality and audit committee have no effect on tax avoidance	The board of commissioners has an effect on tax avoidance
9	(Koming & Praditasari, 2017)	Institutional ownership, audit committee, and firm size have a negative effect on tax avoidance, and leverage and profitability have a positive effect on tax avoidance, and independent commissioners have no effect on tax avoidance.	profitability effect on tax avoidance	ownership institutional, audit committee, and company size (good corporate governance) have a negative effect on tax avoidance

Method

The method of writing scientific articles is a qualitative method and literature review (library research). Examine the theory and the relationship or influence between variables from online books and journals sourced from Mendeley, Scholar Google and other online media.

In qualitative research, literature review must be used consistently with methodological assumptions. This means that it must be used inductively so that it does not direct the questions posed by the researcher. One of the main reasons to do qualitative research, namely that the research is exploratory in nature, (Ali & Limakrisna, 2013).

Results and Discussion

Based on relevant theoretical studies and previous research, the discussion of this literature review article in the Taxation concentration is:

1. Effect of Corporate governance on Tax avoidance

Research shows that corporate governance has no significant effect on tax avoidance, according to(Saputra et al., 2015b), The proportion of the board of commissioners has no significant effect on tax avoidance, the proportion of the board of commissioners is measured based on the percentage of the number of independent commissioners to the total number of company commissioners, the more boards of commissioners in a company, the better impact it will have on supervision so that company management does not carry out tax avoidance . The audit committee has no effect on tax avoidance, because it is part of the company whose job is to supervise and evaluate the company's operational performance. Audit quality has no significant effect on tax avoidance, high audit quality can actually reduce tax avoidance practices. Research showing that audit quality and audit committee have no effect on tax avoidance is supported by research(Meiliawati & Hermanto, 2004)who said that audit quality cannot be used as a benchmark that companies do not carry out tax avoidance, this is because even though the company uses a good KAP, of course this can still be tricked. The audit committee is tasked with supervising the company's internal audit, while the practice of tax avoidance is more in the nature of a fiscal report with reference to tax laws, even though in reality the company practices tax avoidance, the audit committee cannot blame the actions taken by the company, as far as this practice is carried out legally and in accordance with PSAK in Indonesia.

2. Effect of Profitability (ROA) on Tax Avoidance

Research shows that Profitability (ROA) has a significant effect on tax avoidance(Saputra et al., 2015a), through Return On Assets (ROA) it can be an illustration of the ability of invested capital as a whole assets capable of generating profits and managing income and tax payments, research on Return On Assets (ROA) has an effect on Tax avoidance is in line with research conducted(Suardana, 2014), where Return On Assets (ROA) has a significant negative effect on tax avoidance. ROA can be used as an indicator that is able to describe a company's financial performance where the higher the Return On Assets (ROA) value, the better the financial performance of a company, a company that earns profits is assumed not to do tax avoidance because it is able to manage its income and tax payments. Other research that is in line with the results of this study is research (Handayani, 2018),(Rizki & Fuadi, 2019), And(Meiliawati & Hermanto, 2004).

3. Effect of Executive Characteristics on Tax Avoidance

Research shows that executive characteristics influence tax avoidance, according to(Praptidewi & Sukartha, 2016)Executive characteristics have a negative effect on tax avoidance because executive characteristics tend to be risk averse, namely executives who do not like risk so that when making decisions they tend to choose decisions that do not pose a high risk. Companies that have executives who are risk takers are more likely to do tax avoidance because executives tend to be brave in taking risks. This research is in line with research conducted by (Saputra et al., 2015a)which states that leaders in companies or executives have a significant role in the decision to commit tax avoidance (tax avoidance) this study is also in line with(Prasatya et al., 2020),(Suardana, 2014). However, this research is not in line with(I Wayan & Ni Gusti Agung Sri, 2018), this is because the principal still has greater influence in making decisions compared to the executive, the executive tends to act in accordance with the wishes of the principal and has a behavior where he is formed to always be invited to cooperate in an organization, and is always willing to serve the principal.

Conceptual Framework

Based on the formulation of the problem, theoretical studies, relevant previous research and discussion of the influence between variables, the framework for thinking about this article is processed as follows.

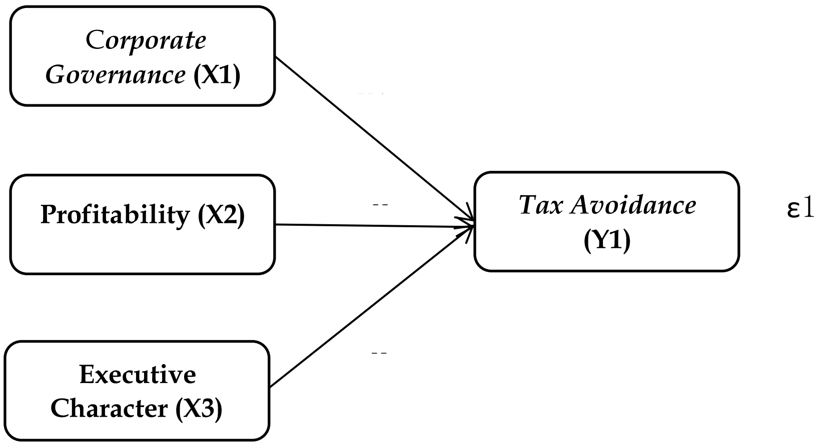

Figure 1
Conceptual Framework

Based on the conceptual framework picture above, Corporate governance, Profitability, and Executive Character effect on tax avoidance.

Conclusion

Based on the theory, relevant articles and discussion, hypotheses can be formulated for further research:
1. corporate governance don't influence Tax avoidance.
2. Profitability influences Tax avoidance.
3. Executive character influences Tax avoidance.

Suggestion

Based on the conclusions above, the suggestion in this article is that there are many other factors that influence tax avoidance, apart from corporate governance, profitability, and executive character at all types and levels of organizations or companies, therefore further studies are needed. to look for other factors that can affect tax avoidance besides the variables examined in this article. Other factors include company size, leverage, sales growth, company age, and capital intensity ratio.

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