Does Independent Commissioner Affect Tax Avoidance? Evidence from Mining Companies in Indonesia

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Abstract: - This study investigates how Tax Avoidance is affected by the proportion of independent commissioners, audit committees, and executive risk preferences. Independent commissioners, audit committees, and executive risk preferences are the independent variables, and firm size is the control variable. The variable of tax avoidance is the dependent variable. This study's population consists of all mining companies listed on IDX between 2016 and 2021. The examples in this study are 26 organizations from 156 mining organizations. Purposive sampling is used in the sampling technique. Secondary data and quantitative data are the data types and sources utilized. Information is broken down utilizing numerous relapse examinations of SPSS 26. According to the findings of this study, the proportion of independent commissioners influences Tax Avoidance. Tax avoidance is unaffected by the audit committee, executive risk preferences, or company size.

Key-Words: Tax avoidance, Independent commissioners, Executive risk preferences

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1 Introduction

According to official information from the Republic of Indonesia's Ministry of Finance, the country's tax ratio has decreased since 2016. The tax ratio in Indonesia fell to 11.6 per cent in 2016, 10.8 per cent in 2017, and 10.7 per cent in 2018. The tax ratio has decreased, and Indonesia's tax revenues have yet to reach their goal, [1]. In 2016, revenue was only 83.29 per cent of what was expected. The achievement of tax income has fallen short of the target for the upcoming biennium, and in 2019, it only reached 93.86 per cent of the goal. The behaviour of taxpayers who attempt to lessen their tax burden cannot be separated from the reduced tax ratio and the failure to realize revenue. The public's authority will expand income from the duty area the other way to the organization's objectives as a citizen. One of the taxpayers who significantly contribute to the nation is the company.

Tax avoidance is an active resistance that does not violate the law by minimizing the tax they bear to be small, but this is not recommended to be done. Moving a business or domicile from a location with a high tax rate to a low tax rate is one method of tax avoidance. Other methods include taking advantage of loopholes or flaws in existing tax laws. The business will have a bad reputation for long-term business continuity, necessitating expenditures on labour and time. The presence of an autonomous overseer is a fundamental aspect of corporate governance that every company should have. The company's autonomous overseer must prevent the management from engaging in financial statement deception and supervise their actions. Thus, the existence of an autonomous overseer can act as a link between the management and the shareholders. According to POJK Number 57 4/POJK.04/2017, at least 30 per cent of the board of commissioners' members must be independent commissioners.

The independent commissioner's propensity to exhibit the correlation between the two obstructed corporate administration from participating in Tax Avoidance. It is anticipated that the company's presentation of an independent commissioner will lessen the amount of fraud committed by management when reporting tax returns. In addition, independent commissioners are expected to mediate between management and shareholders when

formulating policies to ensure the business does not break the law.

The audit committee is the next factor. The audit committee will enhance the oversight power of the board of directors regarding the company's financial reporting process and establish and implement an efficient internal monitoring mechanism, [2], [3], [4], [5]. The audit committee, by its role, can help the board of commissioners so that information asymmetry does not occur by monitoring and giving opinions to management on the ongoing internal control within the company, [6], [7]. In addition, many audit committees can enhance the quality of a company's good governance to prevent tax avoidance, [8].

In addition to these factors, tax avoidance is also taken by the policies taken by executives, namely the executive risk preference. Executive tax collection can be done because the executive represents the party who received the decision, [9]. As the company's manager, the organizational agent management of the company asks which decisions are best for the business. The character of a company's management is a significant factor in tax avoidance. Making risky decisions is more difficult for corporate management in tax avoidance businesses. The measure of a company's size is its size in units. The organization's size can decide the size of the absolute worth of resources claimed by the organization, where the more enormous the organization's complete resources will likewise expand the organization's productivity, [10]. Companies take advantage of opportunities in every transaction for tax avoidance efforts.

2 Literature Review

2.1 Agency Theory

[11], argue that the principal's relationship with an agent raises different interests because there is a principle that humans are trying to maximize the benefits of their interests. However, actions taken by management are only sometimes in line with what shareholders expect. The primary purpose of agency theory is to explain how parties associated with the agreement can design agreements that aim to minimize costs due to information asymmetry. According to, [12], agency theory is emphasized to overcome two problems in agency relationships.

The first issue is that it is difficult for the principal to determine whether the agent's actions are correct when the principal and agent have divergent expectations or goals. Second, problems occur when facing risks where the principal and agents have an attitude in dealing with risk. Third, according to, [11], agency conflicts and costs that shouldn't have to be incurred by the company if managed by the owner will result from this conflict between interests. For example, the shareholders want to pay the most taxes possible so that the company doesn't lose its good name, and the management wants to make a lot of money while spending the least amount of taxes possible. Fourth, conflict arises because the business views tax as an expense that can lower its Profit; therefore, it is necessary to implement measures to decrease the taxes paid. Tax avoidance refers to the strategy of trying to reduce the tax liability.

2.2 Hypothesis Development

2.2.1 The Effect of the Independent Commissioners on Tax Avoidance

Based on agency theory, shareholders need help overseeing what management is doing. Agency conflicts between shareholders and company management can result in an imbalance of information. Management sometimes tends to cover up information that occurs to shareholders to cover their interests. Overcoming the problem so that it does not happen, the company Audit Committee (X2), Proportion of Independent Commissioners (X1), Executive Risk Preference (X3), and Tax Avoidance (Y). H1, H2, and H3 form an independent board of commissioners not affiliated with any party to equalize and protect the rights of holders' shares and other parties. The presence of independent commissioners in the company will impact management decisions, including those regarding tax payments, which are expected to reduce the likelihood of fraud.

The gap between shareholders and managers can be bridged by having an independent commissioner. Managers' Tax Avoidance tends to decrease in proportion to the independent commissioner of the company, [13]. The extent of free magistrates in the association impacts an organization's expense evasion rehearses. The company's independent commissioners will make performance management more stringent to stop management from trying to avoid paying taxes. This is also backed up by, [14], [15], [16]. From the account provided, it can be inferred that an independent commissioner can increase supervision of management performance.

H1: Independent Commissioners influences Tax Avoidance

2.2.2 The Influence of the Audit Committee on Tax Avoidance

The audit committee, by its role, can help the board of commissioners so that information asymmetry does not occur by monitoring and giving opinions to management on internal controls within the company, [8]. Therefore, the greater the audit committee's involvement within the organization, the more elevated the level of corporate governance will be within the company.

The audit committee will also control managers' actions to get significant profits, where managers tend to reduce their tax costs. With the audit committee in the company, the manager will provide accurate information to the shareholders, and the company is facing the challenge of tackling Tax Avoidance practices within its operations. This is also supported by, [7]. Based on this description, the existence of an audit committee can prevent tax avoidance practices so that management will provide the correct information.

H2: Audit Committee Influences Tax Avoidance

2.2.3 The Effect of Executive Risk Preferences on Tax Avoidance

Executives, as decision-makers, consider aspects before acting on various things that happen in the company. The impact of action will also be analyzed, as the risks will occur to make the best decision, including determining corporate tax avoidance. Agency theory is related to solving problems that can occur in agency relationships; One is the risk problem that arises when shareholders and company managers have different views of risk, [12], [17].

The management wants to generate significant profits by depositing a small tax burden. In contrast, the shareholders want to deposit the tax burden and do not want the company's reputation to be bad, resulting in long-term business continuity. The executive risk preference factor, characterized by the company's high and low risks, can illustrate the company's executive risk preferences in determining the decisions taken, including the decision to practice tax avoidance, [10], [18], [19].

H3: Executive Risk Preference influences Tax Avoidance

3 Method

3.1 Data Types and Sources

The kind of information utilized in this study is auxiliary information. Optional information is a wellspring of examination information obtained roundabout through middle-person media. Method of Data Collection This study employs the documentation method. The information source utilized in this examination is the mining organization's yearly financial report. The IDX official website, www.IDX.co.id, contains a list of companies and annual reports.

3.2 Definition of Variable Operations

3.2.1 Independent Commissioners

The independent commissioner supervises the business, assists the management, and prepares more objective financial statements. Free chiefs are parties that are not subsidiaries with controlling investors, individuals from the top managerial staff, and other leading bodies of magistrates, [20], [22]. With an increasing number of independent commissioners, a board of commissioners can enhance the oversight of directors' performance; the ratio will be even more dispersed. Ace per, [24], is calculated by the number of independent commissioners divided by the total number.

3.2.2 Audit Committee

The audit committee is also tasked with conducting audits and overseeing the company's financial statements, [24]. In 37 businesses, an audit committee is expected to provide an overview of the internal control, accounting, and monetary policy issues. The risks an executive will face due to his actions are referred to as executive risk preferences. The risk that will affect the company's ability to continue operating is known as company risk. This study uses company risk to measure administrative risk preferences by dividing total assets by the standard deviation of EBITDA, [25]. The greater the standard deviation of EBITDA divided by the total assets of a company indicates, the greater the risk of existing companies.

3.2.3 Tax Avoidance

Tax avoidance attempts to pay taxes legally by applicable laws and regulations, [8], [18]. Tax avoidance can be an active resistance that does not violate the law but is not recommended to be carried out, which hurts the receipt of state tax revenues. This variable is a proxy using the cash effective tax ratio (CETR) formula by calculating the cash spent to pay taxes divided by Profit before tax. CETR can be interpreted as the amount of money the company issues to pay taxes each year. The smaller the CETR value, the more likely the level of corporate tax avoidance. The greater the 38 CETR values, the less

reasonable corporate tax avoidance practices are to occur.

3.2.4 Company Size

A scale where companies can be classified according to various sizes, one of which is the size of the assets owned, [25]. The value of a company's assets can be influenced by its size. This is because productivity rises more rapidly once assets are owned, [26]. Large businesses typically have a lot of help, and vice versa. The total assets owned by the company, the market value of shares, the average level of sales, and the number of sales all indicate the size of the business, [27]. Ln can calculate the measurement of company size from the total assets owned by the company, [25]. The results of the Definition of Variable Operations Extracted from various journals test are shown in Table 1 as follows:

Table 1. Definition of Variable Operations

Variable	Proxy	Source
Tax Avoidance	CETR: Amount of Tax paid / Profit before tax	[28]
Independent Commissioner	KI: Number of Independent Commissioners / Total Members of the Board of Commissioners	[29]
Audit Committee	Number of audit committees in the company	[30]
Executive Risk Preferences	*Standard Deviation of EBITDA divided by Total Assets* $RISK = \sqrt{\sum_{t=1}^{T}(E - 1/T\sum_{t=1}^{T} E)^2 / (T-1)}$ Information: E = EBITDA (Earning Before Interest Tax Depreciation Amortization) T = Total Samples, t = year	[31]
Company Size	$Size = \log\ (Total\ Assets)$	[25]

Source: Extracted from various journals, 2022

3.3 Population and Sample

Mining companies listed on the Indonesia Stock Exchange (IDX) make up the population of this study, and the study's observation period is from 2016 to 2021 using a purposive sampling technique with a total sample of 156. The research sample is presented in Table 2 as follows:

Table 2. Research Sample Criteria

No.	Criteria	Total
1.	Mining companies listed on the Indonesia Stock Exchange 2016-2021	44
2.	Companies that do not load and publish financial statements 2016-2021	(2)
3.	The company suffered losses during the study period	(16)
4.	Companies that do not provide complete data	(0)
Total Research Samples		26
Observation Year		6
Total Data		156

Source: Processed secondary data, 2022

3.3 Analysis Method

The technique of scrutinizing data employed in this study is quantitative. This type of data can be assessed directly through numerical information or explanations. Examining quantitative data involves using descriptive statistical analysis and conventional assumptions such as normality, multicollinearity, autocorrelation, and heteroskedasticity tests. Additionally, multiple linear regression analysis, t-test hypothesis testing, and assessment of the model's fitness are carried out by evaluating the coefficient of considerable determination (R2). A total sample of 156 shows that the minimum value is -6.66 and the maximum is 2.9. For more details, the test results of the descriptive analysis are shown in Table 3 as follows:

Table 3. Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
Y	156	-3.25	1.44	-8542	.835
Y1	156	-1.78	-.46	-.9926	.277
X2	156	0.54	1.12	1.1551	.184
X3	156	-6.66	1.27	-.4235	1.749
SIZE	156	2.50	2.91	2.7761	.0252
Valid N	156				

Source: Processed secondary data, 2022

4 Result and Discussion

4.1 Result

The contribution of this study is to examine the influence of the Independent Commissioner, Audit Committee, and Executive Risk Preference on tax avoidance in Mining Companies in Indonesia. The results of testing the research hypothesis are shown in Table 4 as follows:

Table 4. Hypothesis Test Result

H	Path	Direct Effect Coeficient	t-test	Conclusion
H1	Independent Commissioner's ⟶ Tax Avoidance	0,041	2,135	Accepted
H2	Audit Committee ⟶ Tax Avoidance	0,096	1,745	Rejected
H3	Executive Risk Preference ⟶ Tax Avoidance	0,838	0,028	Rejected

Source: Processed secondary data, 2022

4.2 Independent Commissioners on Tax Avoidance

Based on the results of the t-test, it can be inferred that the presence of an autonomous overseer impacts tax avoidance. Therefore, H1 is proven. Furthermore, the regression coefficient findings about the independent variable of the overseer indicate a negative correlation, suggesting that the higher the quality of the autonomous overseer within the organization, the lower the incidence of Tax Avoidance.

In his role, an independent commissioner helps shareholders obtain accurate information from management and oversees every company management's actions. The relationship between the independent commissioner and the independent commissioners in the corporate governance mechanism has performed an excellent supervisory function that can prevent bad decisions made by management and decide to practice tax avoidance, [21], [23]. Based on agency theory, agency problems, including shareholders, find overseeing what direction challenging. So conflicts can result in information asymmetry. An autonomous commissioner within the organization can bridge the divide between the management and shareholders. Consequently, the management's conduct is influenced by the commissioner's presence, resulting in the provision of precise information to the shareholders, [24]. This assertion is backed up by studies conducted by, [32], which state that an independent commissioner influences tax avoidance.

4.3 Audit Committee on Tax Avoidance

The findings derived from the t-test indicate that the audit committee does not impact tax avoidance. Consequently, H2 is invalidated. As per the regulations of POJK No. 55 of 2014, the audit committee must consist of a minimum of three members who are independent commissioners and external parties from issuers/companies. Almost all of the sample companies used had three audit committee members; there was only one BSSR company in 2014, with only two members on the audit committee. A few audit committees do not affect the high or low level of tax avoidance, [16]. Thus, the small number of audit committees does not affect the level of tax avoidance. No audit committee can have any effect because of other factors. Thus, the small number of audit committees does not affect the level of tax avoidance. No audit committee can have any impact because of other factors. In this study, the results of hypothesis testing show that the audit committee's role is ineffective against tax avoidance. This is likely because the audit committee in the corporate governance mechanism needs to be more active in determining policies related to the company's effective tax rate and is more likely to carry out its duties neutrally and appropriately based on established regulations. The audit committee's inability to avoid tax avoidance is not by agency theory. The gap caused by the information asymmetry must be resolved correctly if the audit committee needs to carry out its duties properly. This is supported by [8], [32], [33].

4.4 Executive Risk Preference on Tax Avoidance

Hypotheses test results show that executive risk preferences do not affect tax avoidance. Thus H3 is rejected. The organizational risk preference does not affect the executives who tend to be less courageous in making decisions, so tax avoidance does not affect them. The findings suggest that the level of risk associated with a company does not necessarily reflect the executive's risk preferences. The study indicates that the total value of more-than-average executive risk preference exceeds that of more-than-average tax avoidance. Therefore, it can be inferred that a company's high or low risk does not necessarily indicate the executive's risk preferences. The t-test results do not align with the theoretical framework employed in this research. [12], states that agency theory is related to solving problems that can occur in agency relationships. Shareholders and management want to avoid taking more significant risks to save the company's good name.

Control variable for company size - Based on the outcomes derived from the t-test, it can be deduced that the control variable for company size has no impact on Tax Avoidance. This variable remains unaffected since tax payment is a mandatory

responsibility of corporations. Large and small companies do not affect tax avoidance. That is because large and small companies are equally compliant with applicable laws and regulations. The company wants to avoid taking significant risks with a bad reputation for the company's longevity.

5 Conclusion

This study concludes that the proportion of independent commissioners influences Tax Avoidance. Tax avoidance is unaffected by the audit committee, executive risk preferences, or company size. The ratio of independent commissioners influences Tax Avoidance. This demonstrates that the stricter the supervision level, the higher the proportion of independent commissioners in the company. The existence of an independent commissioner will influence every decision that the company's management makes. Tax Avoidance is not affected by the audit committee. This is because Tax Avoidance is mainly unaffected by the audit committee. Executive risk preferences do not influence tax avoidance. A company's risk levels cannot indicate administrative risk preferences.

Future studies should use different variables or add other variables significantly influencing a company's tax avoidance. We can use a more extended research period so that the study results can represent the generalized population. The object of further research should be to use other sector companies that are indicated as possible tax avoidance and become the target of the Directorate General of Taxes.

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-Achmad Tarmizi regarding conceptualization and funding acquisition.
-Helmina Monica Rahardian Ary regarding visualization and validation
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