

The Effect of Corporate Governance and Executive Incentives on Tax Avoidance of Food and Beverage Sector Companies

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Abstract

The purpose of this study is to determine the effect of **corporate governance** and **executive incentives** on **tax avoidance** listed on the IDX. The population in this study is food and beverage sector manufacturing companies listed on the IDX for the 2019-2022 period. The samples in this study used purposive sampling sample techniques, based on the criteria set, 40 samples were obtained. The type of data used is secondary data in the form of the company's Annual Report. The data analysis methods used in this study are descriptive statistics, classical assumption tests, multiple linear regression analysis and hypothesis tests. Based on the results of data research using the Eviews 12 application shows that **corporate governance** has a t-count of $-0.191 < 1.68709$ t-table value and **executive incentives** have a t-count of $-0.584 < 1.68709$ t-table value, then the author draws a conclusion that **corporate governance** with institutional ownership, managerial ownership and independent commissioners has no effect on **tax avoidance**. And **executive incentives** also have no effect on **tax avoidance**.

Keywords: *Corporate Governance, Executive Incentives, Tax Avoidance*

INTRODUCTION

According to the accounting point of view, taxes can reduce the net profit of a company contrary to the goals of business organizations that want to create considerable profits (Anita Wijayanti, Endang Masitoh, 2018). The government seeks to optimize tax revenue in the form of strengthening the country's economy. On the other hand, entities view high taxes as an expense that can reduce profits from corporate profits. Therefore, many entities pay taxes by taking steps to pay taxes efficiently, such as avoiding burdensome taxes that reduce state revenues (Married and Lesbian, 2022).

Corporate governance is a monitoring mechanism that aims to harmonize various interests of management and shareholders so as to minimize management behavior stemming from company conflicts (Yuniarsih, 2018). With the application of **corporate governance** This government can identify violations committed by an entity by examining the financial statements of that entity. Based on this explanation, it indicates that there is a relationship between good governance and **tax avoidance** Entity. Therefore, companies need **good corporate governance** to carry out good tax management (Married and Lesbian, 2022).

Corporate Governance play several roles, such as being a supervisor of tax avoidance and making decision-making procedures and performance monitoring so that it can be accounted for (Anita Wijayanti, Endang Masitoh, 2018).

1. The effect of institutional ownership on **tax avoidance**

Institutional ownership has the ability to control management through effective monitoring so as to motivate managers to reduce opportunistic actions including **tax avoidance** practices. This aims to ensure the prosperity of shareholders (Hernawati, 2018).

2. The effect of managerial ownership on **tax avoidance**

The higher the managerial ownership in an enterprise, the lower the level of tendency of a manager to commit tax avoidance actions due to the rate of **tax avoidance**. Lower will contribute to higher net income which will make the value of the stock higher for shareholders (Ejeh & Salaudeen, 2018).

3. The influence of independent commissioners on **tax avoidance**

The independent commissioner will oversee the performance of the board of commissioners and board of directors in supervising management in managing the company's operational activities (Onyali & Okafor, 2018).

Executive Incentives is a way to increase the motivation of executives to work and achieve company goals that have been set (Saputra, 2017). Therefore, high incentives to executives are one of the best ways to implement corporate tax efficiency. This is because executives will feel benefited by getting a bigger bonus so that they can improve the company's performance even better. One of the ways to achieve tax payment efficiency is through tax avoidance.

Tax Avoidance is one of the strategies that can be used by company management in reducing or reducing the proportion of tax burden paid without violating applicable tax laws, this is done so that the net profit obtained by the company increases (Silviana & Sumantri, 2023). **Tax avoidance** It can also be interpreted as an effort to carry out tax avoidance that is legal and safe without contradicting applicable tax provisions by taking advantage of weaknesses listed in laws and regulations to reduce the amount of tax owed (Silviana & Sumantri, 2023).

The phenomenon that has been explained can be concluded that food and beverage business subsector companies are estimated to have the ability to avoid taxation because these sub-sectors contribute significantly to economic growth and tax revenue by reducing costs to a minimum and maintaining net profit as much as possible, because companies in the sector have high competition and their products are also needed by consumers so that plays an important role in economic growth that requires companies to be able to meet needs.

RESEARCH METHODS

The research used quantitative descriptive. The type of data used in this study is secondary data by taking financial statement data of the food and beverage sector listed on the Indonesia stock exchange. The population in this study is food and beverage sector manufacturing companies on the Indonesia stock exchange for the 2019-2022 period. Sample is the number of characteristics taken from a population by purposive sampling method with several criteria, then 40 samples are obtained.

RESEARCH RESULTS

1. Descriptive Analysis

Descriptive statistics provide an overview or description of a data seen from the average value (mean), standard deviation, variance, maximum, minimum, sum, and range of each variable,

namely corporate governance (X1), Executive Incentives (X2), and Tax Avoidance (Y). Regarding the results of descriptive statistical test research can be seen in table 1.

Table 1 Descriptive Statistics

	X1	X2	And
Mean	1.122500	28.98650	0.272500
Median	1.180000	23.33000	0.230000
Maximum	1.680000	253.2000	0.860000
Minimum	0.180000	19.58000	0.170000
Std. Dev	0.300186	36.41752	0.148095
Skewness	-1.126543	6.054700	3.082876
Kurtosis	6.080141	37.78763	11.74198
Jarque-Bera	24.27277	2261.361	190.7311
Probability	0.000005	0.000000	0.000000
Sum	44.90000	1159.460	10.90000
As Sq. Dev	3.514350	51723.19	0.855350
Observations	40	40	40

Source: Eviews 12 Processed Data

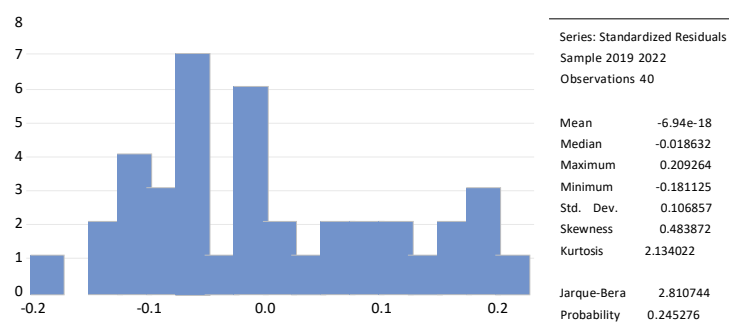
Based on table 1 illustrates the variable **Corporate Governance** (X1) has a minimum value of 0.180000 and a maximum value of 0.1.680000. While the average is 1.122500 and standard deviation is 0.300186, then the **Executive Incentives** (X2) variable has a minimum value of 19.58000 and a maximum value of 253.2000 while the average is 28.98650 and a standard deviation of 36.41752.

2. Classical Assumption Test

a. Normality Test

Normality test to find out whether the regression of bound variables and independent variables is normally distributed or not. To determine the normality of a data can be done by looking at the normality value of the residue. The research data is said to be normal if the probability value > 0.05 , then the data is normally distributed

Table 2 Normality Test



Source: Eviews 12 Processed Data

Based on table 2 above, it can be seen that the normality test results of the probability value obtained are $0.245276 > 0.05$. Then it can be concluded that the residual values are normally distributed.

b. Multicollinearity Test

A multicollinearity test was used in this study to find out if the independent variable was present in the regression model. In detecting the presence or absence of multicollinearity in regression models, it can be seen through countered VIF (variance inflation factor). If the VIF value > 10 then multicollinearity occurs.

Table 3 Multicollinearity Test

Variance Inflation Factors			
Date: 04/30/24 Time: 17:38			
Sample: 2019M01 2022M12			
Included observations: 40			
Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.076856	134.5797	NA
X1	0.006698	15.80816	1.030433
X2	1.41E-08	135.1333	1.030433

Source: Eviews 12 Processed Data

Based on table 3, it can be seen that the VIF value of the Independent Variable < 10.00 , it can be concluded that the assumption of the multicollinearity test has been fulfilled or passed the multicollinearity test.

c. Heteroscedasticity Test

The heteroscedasticity test is performed to determine whether in a regression model there is a residual variance inequality between one observation and another observation. If the value of Prob. Chi-Square (i.e. $\text{Obs} \times R\text{-squared}$) > 0.05 hence no symptoms of heteroscedasticity.

Table 4 Heteroscedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
Null hypothesis: Homoskedasticity			
F-statistic	0.064542	Prob. F(2,37)	0.9376
Obs*R-squared	0.139066	Prob. Chi-Square(2)	0.9328
Scaled explained SS	0.642678	Prob. Chi-Square(2)	0.7252

Source: Eviews 12 Processed Data

Based on table 4 it can be seen that the value **Probability Obs*R Squared** As much as 0.9328 (> 0.05), it can be concluded that the assumption of the heteroscedasticity test has been fulfilled or the data have passed the heteroscedasticity test.

d. Uji Autokorelasi

Autocorrelation Test aims to test whether in the linear regression model there is a correlation between confounding error in period t with confounding error in period $t-1$ (previous). If the value of $\text{PROB. CHI-SQUARE}(2) > 0.05$ then there are no symptoms of autocorrelation.

Table 5 Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:

Null hypothesis: No serial correlation at up to 2 lags

F-statistic	2.420594	Prob. F(2,35)	0.1036
Obs*R-squared	4.860486	Prob. Chi-Square(2)	0.0880

Source: Eviews 12 Processed Data

Based on Table 5 Prob Values. Chi-Square(2) which is 0.0880 ($\text{Prob. Chi-Square}(2) > 0.05$) then accept H_0 while H_1 is rejected, meaning there is no autocorrelation problem in this regression model.

3. Multiple Regression Analysis

Multiple linear regression analysis is used to examine the effect of two or more independent variables on the dependent variable, i.e. whether the independent variable is positively or negatively related and to predict the value of the dependent variable if the value of the independent variable increases or decreases.

Table 6 Multiple Regression Analysis

Dependent Variable: Y

Method: Panel Least Squares

Date: 04/30/24 Time: 15:15

Sample: 2019 2022

Periods included: 4

Cross-sections included: 10

Total panel (balanced) observations: 40

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.301152	0.095689	3.147194	0.0033
X1	-0.015487	0.080694	-0.191920	0.8489
X2	-0.000389	0.000665	-0.584425	0.5625
R-squared	0.010110	Mean dependent var		0.272500
Adjusted R-squared	-0.043398	S.D. dependent var		0.148095
S.E. of regression	0.151274	Akaike info criterion		-0.867408
Sum squared resid	0.846703	Schwarz criterion		-0.740742
Log likelihood	20.34816	Hannan-Quinn criter.		-0.821610
F-statistic	0.188939	Durbin-Watson stat		0.732065
Prob(F-statistic)	0.828630			

Source: Eviews 12 Processed Data

Based on table 6 The constant value obtained 0.301152 means that **Tax Avoidance** will be 0.301152 if the **corporate governance** and **executive incentives variables** are fixed or 0, the Regression coefficient value of Variable X1 is negative (-) of -0.015 then it can be interpreted that if variable X1 increases then variable Y will decrease by -0.015 and the value of the Regression coefficient of Variable X2 is negative (-) by -0.000389, it can be interpreted that if the variable X2 increases then the variable Y will decrease by -0.000389.

4. Hypothesis Testing

a. Partial Test (t test)

The Partial Test is used to find out if it is partially variable *corporate governance* and *executive incentives* Effect on *Tax Avoidance*.

Table 7 Test Results t

Dependent Variable: Y				
Method: Panel Least Squares				
Date: 04/30/24 Time: 15:15				
Sample: 2019 2022				
Periods included: 4				
Cross-sections included: 10				
Total panel (balanced) observations: 40				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.301152	0.095689	3.147194	0.0033
X1	-0.015487	0.080694	-0.191920	0.8489
X2	-0.000389	0.000665	-0.584425	0.5625

Source: Eviews 12 Processed Data

b. Simultaneous Test (Test F)

The F test aims to find whether the independent variables together (simultaneously) affect the dependent variable. Test F is performed to see the effect of all independent variables together on the dependent variable.

Table 8 F Test Results

Dependent Variable: Y				
Method: Panel Least Squares				
Date: 04/30/24 Time: 15:15				
Sample: 2019 2022				
Periods included: 4				
Cross-sections included: 10				
Total panel (balanced) observations: 40				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.301152	0.095689	3.147194	0.0033
X1	-0.015487	0.080694	-0.191920	0.8489
X2	-0.000389	0.000665	-0.584425	0.5625
R-squared	0.010110	Mean dependent var		0.272500
Adjusted R-squared	-0.043398	S.D. dependent var		0.148095
S.E. of regression	0.151274	Akaike info criterion		-0.867408
Sum squared resid	0.846703	Schwarz criterion		-0.740742
Log likelihood	20.34816	Hannan-Quinn criter.		-0.821610
F-statistic	0.188939	Durbin-Watson stat		0.732065
Prob(F-statistic)	0.828630			

Source: Eviews 12 Processed Data

Based on table 8 can be known the value **F-Statistic** 0.1889 < 1.68709 T-table values with values **Prob. (F-statistic)** By 0.8285 (>0.05), it can be concluded that the Independent Variable (X) does not have a significant effect simultaneously on the dependent variable (Y).

c. Determination Test (R2)

The coefficient of determination (R2) is a measure of how far the model is able to explain variations in the dependent variable. The value of the coefficient of determination is between zero and one. A small R2 value indicates an independent or independent variable that provides almost all the information needed in predicting the variation of the dependent or dependent variable.

Table 9 Determination Test Results

Dependent Variable: Y
Method: Panel Least Squares
Date: 04/30/24 Time: 15:15
Sample: 2019 2022
Periods included: 4
Cross-sections included: 10
Total panel (balanced) observations: 40

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.301152	0.095689	3.147194	0.0033
X1	-0.015487	0.080694	-0.191920	0.8489
X2	-0.000389	0.000665	-0.584425	0.5625

R-squared	0.010110	Mean dependent var	0.272500
Adjusted R-squared	-0.043398	S.D. dependent var	0.148095
S.E. of regression	0.151274	Akaike info criterion	-0.867408
Sum squared resid	0.846703	Schwarz criterion	-0.740742
Log likelihood	20.34816	Hannan-Quinn criter.	-0.821610
F-statistic	0.188939	Durbin-Watson stat	0.732065
Prob(F-statistic)	0.828630		

Source: Eviews 12 Processed Data

Based on table 9, the adjusted value of R is known *Square By* -0.043, it can be concluded that the influence of the Independent Variable on the Dependent Variable simultaneously (simultaneously) is 4.3%.

Discussion

Based on the test results, *Corporate Governance* with institutional ownership, managerial ownership and independent commissioners has no effect on *Tax Avoidance*. The results of this study are supported by *the theory of planned behavior* by Ajzen (1991) where institutional ownership and managerial ownership do not affect *tax avoidance*, allowing institutional shareholders to entrust the supervision and management of the company to the board of commissioners (Khan et al, 2017). The higher the institutional ownership, managerial ownership and independent commissioner, the lower the tax *avoidance rate*.

Based on the test results show *executive incentives* has no effect on *tax avoidance*. The higher *executive incentives* Then the lower the tax avoidance. The amount of incentives that include salaries, bonuses, benefits, and other payments that executives receive does not influence the company to engage in tax avoidance. The shareless compensation system applied to companies in Indonesia is less effective in motivating executives to avoid corporate taxes. The results of this study are supported by research conducted by Multazam and Rahmawaty (2018) which states that *executive incentives* has no effect on *tax avoidance*.

CONCLUSION

Based on the results of data analysis, it shows that *corporate governance* and executive incentives have no effect on *tax avoidance*. Institutional ownership and managerial ownership

do not affect tax avoidance, allowing institutional shareholders to entrust the supervision and management of the company to the board of commissioners. The higher or greater the institutional ownership, managerial ownership, independent commissioners and executive incentives, the lower the tax *avoidance rate*.

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