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THE EFFECT OF FIRM SIZE AND AUDIT COMMITTEE TOWARDS COMPANIES' TAX AVOIDANCE

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ABSTRACT

This research aims to find out the effect of firm size and audit committee towards companies' tax avoidance. The amount of tax avoidance conducted by companies has been very concerning, where this refers to the Panama Paper phenomenon in 2016. Numerous large-scaled companies collectively keeping their funds in tax haven countries for "free tax" which causes loss of the tax imposition basis which were supposed to be absorbed by the government. The legality of tax avoidance is still up for debate, the reason it is viewed as legal is because it does not violate the laws, though in business ethics, this is considered unacceptable. Researchers carried out studies on all businesses listed in BEI throughout 2015-2016. Sampling method used purposive sampling that spanned 253 samples that fulfilled the criteria. Data analysis technique used multiple linear regressions. The test result showed that firm size and audit committee do not affect companies' tax avoidance.

KEY WORDS

Tax avoidance, firm size, and audit committees.

The taxation system that applies in Indonesia demands the Directorate General of Taxation (DJP) to be actively monitoring the compliance of tax obligations of taxpayers. According to the elaboration of UU KUP, self-assessment system is a system that give trusts taxpayers to calculate, pay, and report their amount of taxes that must be paid based on taxation law and regulations. Complete trust given by the government 'enforces' taxpayers to always consider tax aspects in their every economic activities. Paying tax is one of state obligations, because taxpayers participate in supporting state funding.

Taxpayer compliance is an indicator of DJP success in collecting tax revenue. Irrespective to compliance and awareness in abiding tax obligations, a number of taxpayers consist on performing tax resistances, which are: Tax avoidance, Tax evasion, and Tax negligence. Tax avoidance is an action of which the taxpayer does not openly violate taxation regulations, but rather, interpret the law not according to the means and purpose of the lawmakers. Different from tax avoidance, tax evasion is an action of which the taxpayer openly violates taxation law in order to reduce basis of tax imposition basis. The third form of tax resistance is tax negligence, which means that the taxpayer neglects taxation regulations.

Out of the three forms of tax resistances, tax avoidance is the most widely conducted form of tax resistance by companies. Even though tax avoidance can be done "legally", in other words, by exploiting loopholes within the taxation regulations in order to avoid tax payments, Tax avoidance remains to inflict some serious effects, some of which are the degradation of business ethics and auditor independence, which causes the loss of control system interference in companies.

In Indonesia, practices of tax avoidance caught the attention of DJP after the appearance of Panama Papers that showed the government that the potential of tax avoidance in Indonesia is quite prominent. Concealing wealth through offshore companies in tax haven countries is not a violation of the law. Perpetrators consider this as a legal tax avoidance. Despite legal, this action is viewed as less ethical because it opposes the purpose of the formulation of taxation law, which states that taxes must be paid in the country of which the revenue is gained. This is what underlay the emergence of tax amnesty in Indonesia.

The target of this tax amnesty is the taxpayers who keeps their funds in foreign countries. “This tax amnesty targets large taxpayers, mainly those who keep their wealth abroad. But this tax amnesty may also be followed by others, such as medium scaled enterprises and by small scaled enterprises,” President Joko Widodo stated (Tangerang, 30 August 2016). This is also supported by a statement by the Head of Regional Office (Kanwil) of General Directorate of Taxation (DJP) of Large Taxpayer, “Recently, the first period achieved 1.100 taxpayers (WP) out of our 1.200 large WP target. Essentially, almost every large WP have participated tax amnesty. Therefore, indeed in the second period, our target no longer focused towards large individual taxpayers (WPOP), rather, it is focused towards medium entrepreneur and micr0-, small-, and medium-scaled enterprises.” Mr. Mekar Satria Utama stated (Jakarta, 2 October 2016). The emphasis underlined from the statements above is that large taxpayers have become a special concern for DJP in looking into tax avoidance behaviors which has been long conducted.

Positive relationship between firm size and tax avoidance is proved in a study by Richardson and Lanis (2013), Rego (2003), and Surbakti (2012) which stated that large companies will have complex transaction level which causes them to make use of taxation regulation loopholes to commit tax avoidance in each of their business activities. Also, large companies perform transnational transactions which enable them to transfer profits to companies in another country having lower rates of taxation. However, there are several research gap with a study by Khoiru Rusidy (2013) and Chen et. al (2010) which stated that firm size does not influence companies in committing tax avoidance.

Apart from firm size variable which became a global phenomenon in the increase of tax avoidance actors, audit committee is also suspected to be one of the factors that are able to affect companies’ tax avoidance behavior. Audit committee is a committee whose role and authority is independent from the influence of board of directors and external auditors, and is fully responsible towards board of commissioners (Surya, 2008). Audit committee has authority in three fields, which are financial statements, corporate governance, and corporate monitoring. A study by Annisa (2012) and Fadhilah (2014) explained the negative relationship between audit committee with companies’ tax avoidance behavior. The correlation between these variables is based on the argument that large number of audit committee will lead to stricter corporate financial governance policies, thus minimalizing tax avoidance.

Based on this background, the writer of this study is intrigued to conduct a study which aimed to identify deeper on the effect of firm size and audit committee towards companies’ tax avoidance with a hypothesis as follows:

H_1 : Firm size significantly affects companies’ tax avoidance
H_2 : Audit committee significantly affects companies’ tax avoidance

LITERATURE REVIEW

Experts in describing firm size have a variety of perspectives. According to Riyanto (1995), firm size can be measured by the amount of equity value, company value, and total company assets. Whereas Sujianto (2001) argues that firm size can be measured based on total assets, total sales, average total asset sales, and average total assets of a company. The size of the company is seen from the total assets owned by the company that can be used for company operations. If the company has large total assets, the management is more flexible in using the assets in the company. This management's freedom is proportional to the concerns felt by the owner of his assets. A large number of assets will reduce the value of the company when viewed from the side of the company owner. However, if viewed from the management side, the ease with which it controls the company will increase the value of the company. Large company sizes make it easier for companies to have funding problems. Companies generally have high flexibility and accessibility in funding issues through the capital market. This convenience can be captured as good information. Large size and growth can reflect the future level of profit (Suharli, 2006). Companies that have large total assets indicate that the company has reached the stage of maturity where in this stage the company's cash flow has been positive and is considered to have good prospects in a relatively long period of time, besides that the company is relatively more stable and able to generate profits compared to companies with small total assets (Ismu Basuki, 2006).

The Audit Committee is a committee formed by the board of commissioners of a listed company, whose members are appointed and dismissed by the board of commissioners to help conduct necessary checks or research on the implementation of the functions of directors in managing listed companies. The membership of the audit committee consists of at least 3 people, of which one of them is an Independent Commissioner of the listed company who concurrently serves as the chairman of the audit committee, while the other two members are independent external parties, and one of them must have the ability in accounting and/or finance.

The audit committee is tasked with providing an independent professional opinion to the board of commissioners and identifying matters that require the attention of the board of commissioners, which include:

a. Review financial information that will be issued by the company such as financial statements and other projections and financial information.

b. Reviewing the independence and objectivity of public accountants.

c. Reviewing the adequacy of examinations conducted by public accountants to ensure all important risks have been considered.

d. Review the effectiveness of the company's internal controls.

e. Reviewing the level of compliance of the company recorded against the laws and regulations in the field of capital markets and other laws and regulations relating to company activities.

f. Examine the alleged error in the decision of the board of directors meeting or irregularities in the execution of the decisions of the board of directors meeting. The audit can be carried out by an audit committee or an independent party appointed by the audit committee at the expense of the listed company.

The audit committee must report the results of the review to all members of the board of commissioners no later than 2 working days after the report is completed. The audit committee is required to submit reports of its activities to the board of commissioners regularly, at least 1 time in 3 months.

Tax avoidance or resistance to taxes are obstacles that occur in tax collection resulting in reduced state cash receipts. Tax Avoidance is always interpreted as a legal activity. However, this tax avoidance is not always legal because basically tax avoidance can be divided into two, namely tax avoidance (acceptable tax avoidance and unacceptable tax avoidance) (Rohatgi, 2002).If the purpose of this tax planning is to engineer the tax burden can be reduced as low as possible by utilizing existing regulations but different from the objectives of legislators, then tax planning here is equal to unacceptable tax avoidance, because the nature of the economy both try to maximize income after tax, because tax is a deduction of profit (Suandy, 2008) Generally tax planning refers to the process of engineering a business and taxpayer transactions (WP) so that tax debt is in a minimal amount (Suandy, 2008). Tax Avoidance can occur in the law or it can also occur in the sound of statutory provisions. but contrary to the spirit of the law (Suandy, 2008). Usually, companies carry out legal strategies or methods by applicable laws but are carried out by utilizing things that are ambiguous in the law so that in this case the taxpayer utilizes the gaps created by ambiguity in tax law (Suandy, 2008). The tax-saving strategy is also called an aggressive tax strategy. The Fiscal Affairs Committee of the Organization for Economic Cooperation and Development (OECD) mentions three characteristics of tax avoidance: 1. There is an artificial element in which various arrangements appear to be contained in them even though they are not, and this is done due to the absence of tax factors. 2. Utilizing loopholes from laws or applying legal provisions for various purposes, even though that is not intended by legislators. 3. The consultants show the tools or ways to do tax avoidance with the requirements of the taxpayer to maintain confidentiality as possible. Some of the risks posed by tax avoidance activities include fines, publicity, and reputation (Friese, 2006). A theoretical approach emphasizes the interaction of tax avoidance activities and agency problems that stick to companies going public (Sartori, 2010). Barriers that limit the legal and legality of a tax-saving measure to tax planning are still difficult to distinguish, so it is hoped that the company will better comply with tax regulations and not take advantage of the ambiguity of tax regulations for the company's goodness in the future

METHODS OF RESEARCH

This study is qualitative study type which reviews companies' annual report listed at the Indonesia Stock Exchange (*Bursa Efek Indonesia*) in 2015-2016. The data source used is secondary data. The sampling method used in this study is purposive sampling, meaning that the samples are chosen based on specific criteria predetermined by the researcher in order to obtain representative samples. The criteria are:

- Companies which became the samples are companies that published their annual report through Indonesia Stock Exchange website (www.idx.co.id);
- Companies which delivered complete data during observation period in 2015-2016 related to GAAP ETR, firm size, and audit committee;
- Companies having positive GAAP-ETR;
- Companies not having fiscal loss compensation;
- Companies who published financial statements in Rupiah.

The total population is 555 companies, but out of these numbers, only 253 companies meet the predetermined study sample criteria.

The analyzed variables within this study are tax avoidance (Y), firm size (X_1), and audit committee (X_2). The dependent variable of this study is companies' tax avoidance. Tax avoidance is an inhibiting factor in the process of imposing taxes because it reduces state revenue. Viewed in terms of legality, tax avoidance is often defined as a legal action (Bambang: 2009). According to Rohatgi (2000), tax avoidance can be categorized into two type; acceptable tax avoidance, and unacceptable tax avoidance. The difference between the two types of tax avoidance can be perceived from their purpose. If the purpose of the tax avoidance is to manipulate the tax imposition so that it can be reduced as low as possible by exploiting the loopholes in the existing laws and regulations which opposes the purpose by the lawmaker, then it is considered to be an unacceptable tax avoidance.

Most of the studies, such as: Chen et.al. (2010) and Minnick & Noga (2010) measure Tax Avoidance using GAAP-ETR. Below is the formula of GAAP ETR:

$$\text{GAAP ETR} = \text{Tax Expense}_{i,t} / \text{Pretax Income}_{i,t} \qquad (1)$$

Where: GAAP ETR is the effective tax rate based on the applicable financial accounting reporting; tax expense, is the income tax burden for company "i" in year "t" based on company financial report; pretax Income, is the income before tax for company "i" in year "t" based on company financial report.

The first independent variable in this study is firm size (X_1). The measurement of firm size in this study referred to a study by Hanlon (2005) and a study by Siegfried (1972), where firm size variable utilizes total assets model (log asset) present in companies. Below is the formula of firm size:

$$\text{Firm Size} = \log(\text{book value of total assets}) \qquad (2)$$

Where: Firm Size: The size of a company where the logarithm of the total asset owned by a company is calculated.

The second independent variable in this study is audit committee (X_2). The authority of the audit committee in a company is to make sure the company conducts all business activities corresponding to the existing regulations with full ethics, as well as to monitor every conflict of interests that occurs within the company. According to Mayangsari (2003), generally, audit committee functions to provide suggestions and assists problems related to financial policies and internal control. The measurement in this study used number of audit

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committee model (log audit committee) present in companies. Below is the equation for in this study model:

$$\text{Audit Committee} = \log(\text{number of audit committee}) \qquad (3)$$

Where: Audit committee: The size of audit committee where the logarithm of the total number of audit committee owned by a company is calculated.

Data analysis technique in this study is descriptive statistics and classical assumption test. Descriptive statistics is used to provide data description regarding mean, standard deviation, and maximum-minimum data. Classical assumption test intends to obtain unbiased estimation result or BLUE (Best Linear Unbias Estimator) from a multiple regression equation. Several classical assumption tests comprise normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.

Hypotheses test for this study used multiple linear regressions. According to Ghozali (2005), the proposed hypotheses test method is conducted using simultaneous test, partial test, and coefficient of determination analysis. These hypotheses tests are as follow:

- Simultaneous F Test, for simultaneously testing independent variables towards the dependent variable;
- Coefficient of Determination Test (R^2), for finding out to what extent the variation percentage of the independent variables can be explained by the dependent variable;
- Partial T Test, for displaying how far the effect of individual independent variable in explaining the dependent variable.

The equation to test the hypotheses that is used in this study is as follows:

$$Y = 27.562 + 4.973E\text{-}5 - 1.913 + e$$

Where: Y = GAAP (Generally Accepted Accounting Principles); α = Constant; X_1 = Firm Size; X_2 = Committee; e = Error of term.

RESULTS AND DISCUSSION

Based on purposive sampling method, 253 companies are identified throughout the period of 2015-2016. The classical assumption test conducted in this study is: Normality Test, Multicollinearity Test, Autocorrelation Test, and Heteroscedasticity Test.

Table 1 – Classical Assumption Test Result

Tested Parameters	Normality Test		Multicollinearity Test		Heteroscedasticity Test	Autocorrelation Test
	Z	sig.	Tolerance	Vip	Sig.	DW
Kolmogrov-Smirnov	1.295	0, 070				
Firm Size			.988	1.012	.267	
Audit Committee			.988	1.012	.364	
Durbin-Watson						.016

Source: Analyzed secondary data, 2017.

In Normality Test, the value of Kolmogrov-Smirnov is 1.295 with significance at 0, 070 (Sig. value or significant or probability > 0,05). This means that Ha is accepted, which means that residual data is normally distributed. Study result clearly indicated that no significant independent variable statistically affect the dependent variable. This can be seen from its significance probability being above confidence level of 5%. Thus, it can be concluded that the regression model did not contain Heteroscedasticity.

Based on table 1, it can be seen that the value Durbin-Watson (DW) is 0.016. Next, this value will be compared with significance table value at 0,05 (5%), with sample size of 250 (N=250), and number of independent variable of 2 (K=2). Based on the Durbin Watson (DW) table, the upper bound value (dU) = 1.80075 and lower bound value (dL) = 1.78469.

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Therefore, the Durbin-Watson value (DW) =0,016 less than the upper bound value (dU) of 1.80075 and the lower bound value (dL) = 1.78469 where Durbin Watson (DW) > dU, then it can be concluded that there was no positive autocorrelation. In multicollinearity test, the low tolerance value is equal to the high VIF value (because VIF = 1/Tolerance). The cutoff value commonly used to indicate the presence of multicollinearity is tolerance value < 0,10 or equal to the VIF value >10. Based on the test above, it can be seen that the tolerance level for Firm Size variable and Audit Committee variable is both 0,988, which is larger than 0,10. Meanwhile, for the VIF value for both of them is 1,012, which is smaller than 10. Calculation result of Tolerance value also showed that there are no independent variable having Tolerance value less than 0.10. This indicated that no multicollinearity occurred between independent variables in this study.

Table 2 – Multiple Linear Analysis Test Result

Partial T Test	t	Sig.
Firm Size	1.112	.267
Audit Committee	-.909	.364
Simultaneous F Test		
F Value	.933	
Sig.	.395	
Coefficient of Determination Test		
R Square	.007	
Adjusted R Square	.000	
Dependent Var: Tax Avoidance		

Source: Analyzed secondary data, 2017.

Multiple Linear Regression tests that were used to test the hypotheses consists of partial t rest, simultaneous f test, and coefficient of determination test. The result of partial t test displayed a conclusion stating that Firm Size (X_1) has significance value of 0,267, which is greater than 0,05. Meanwhile, t calculated value is 1.112 < t table of 1,650971. Based on these two values, it can be concluded that H_0 is accepted (Ha rejected) or simply explained, Firm Size variable, partially, does not significantly affect Tax Avoidance (Y). While Audit Committee (X_2) has significance value of 0,364, which is greater than 0,05. Meanwhile, t calculated = 0,909 < t table of 1,650971. Based on these two values, it can be concluded that H_0 is accepted (Ha rejected) or simply explained, Audit Committee, partially, does not significantly affect Tax Avoidance (Y).

In order to see F table during hypothesis test on regression model, degree of freedom (df), or also known as df2 and symbolized as N2 in F Table, needs to be determined beforehand. This can be acquired using the equation:
df1 = k -1 = 3 – 1 = 2, df2 = n – k = 250 – 3 = 247. Then, F Table for α 5% is 2.324184. Based on the table above, the F calculated > F table where 0.933 > 2.324184, then H_0 is accepted (Ha rejected). Judging from the significance value is greater than the statistic standard sore, which was 0.395 > 0.05, then it can be concluded that Firm Size variable (X_1) and Audit Committee variable (X_2), simultaneously, does not significantly affect Tax Avoidance variable (Y). Coefficient of determination showed R^2 value of 0.007. Hence, Firm Size variable and Audit Committee variable only 0,7% affected Tax Variable.

DISCUSSION OF RESULTS

The result for the first analysis indicated that firm size has no effect towards companies' tax avoidance. This was proven by the fact that tax avoidance behaviors are not based on company size, but rather, based on other factors. Referring to the panama paper case stated in the introduction above, has yet able to prove that strictly multinational companies "keen" on committing tax avoidance. Therefore, this brought up the idea that there are chances that smaller-scaled companies have the potential to also commit tax avoidance. The result for the second analysis indicated that audit committee has no effect towards companies' tax avoidance. Audit committee which functions to monitor a company "behaviors" were not able to lessen the possibility of the occurrences of tax avoidance behaviors within a company. Therefore, this yields a rationale where regardless of the presence of audit committee, the rate of tax avoidance potential is still high.

The input that this study can give is that the succeeding researcher may able to use other variables that are suspected to affect companies' tax avoidance such as leverage, ROA, and corporate management. For government, particularly the General Directorate of Taxation, it is necessary to review taxation laws that are considered to have a number of loopholes, which enabled taxpayers conveniently, conduct tax avoidance. Also, there ought to be a regulation concerning rewards for law-abiding taxpayers which, hopefully, will improve taxpayers' compliance.

CONCLUSION

Based on the results of the research that has been done, the researcher draws the following conclusions:

1. Firm size does not affect the company tax avoidance. This proves that tax avoidance behavior is not based on company size but from other factors. Referring to the panama paper case presented in the introduction above, it has not been able to prove that only multinational companies that "like" do tax avoidance. So this raises the thinking of researchers that it does not rule out the possibility of small-scale companies also having the potential to carry out tax avoidance.
2. Communication audit does not affect the company's tax avoidance. Audit committees that function as supervisors of the company's "behavior" cannot reduce the possibility of tax avoidance behavior in the company. So that this raises the thinking of researchers that there is no audit committee, the level of potential tax avoidance remains high.

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