CHAPTER I
INTRODUCTION

1.1 Background of Study

Tax avoidance is increasingly a significant issue that tax authorities must consider, as this behavior may lead to tax evasion. This will cause a detrimental influence on the country because if it is allowed, then the state will lose a considerable amount of tax revenue from any sector. People's welfare, public infrastructure development, and regional development are all suffering as a result of decreasing tax revenue. People believe that in the case of tax evasion, which they see as a negative activity for society as a whole, businesses should contribute to the greater good by paying taxes (Puspita, 2014).

Tax planning is one of the ways that taxpayers can lower their tax burden. There is a focus on the tax burden and there are some things that are authorized (according to tax regulations) and others that are not. Meanwhile, tax evasion, according to tax experts, it is an act that breaches tax regulations, whereas tax avoidance is an action that is allowed to lower the tax burden.

There are still a lot of enterprises in Indonesia that evade paying taxes. The tax system's tax collection is one of the aspects that can influence tax avoidance. In Indonesia, the tax collecting system is based on the Self-Assessment System, in which the government trusts the mandatory tax to decide the amount of tax owed. Taxpayers are responsible for calculating, depositing, and self-reporting their tax responsibilities. This gives a significant enough chance for some businesses to engage in tax avoidance.

Directorate General of Taxes (DGT) reported that are very many multinational corporations were evading taxes by declaring zero taxes for seven years in a row. According to the DGT, enterprises involved in the manufacturing and processing of raw materials are the most likely to participate in tax evasion (Prakosa, 2014). This demonstrates that public firms in Indonesia do not carry out corporate governance to its full potential (Suardana & Maharani, 2014).

Corporate Governance is a system or collection of rules that governs, manages, and oversees a company's relationship with its management and stakeholders. Corporate Governance serves as a regulatory instrument and controller, as well as a company's added value. Corporate Governance is a problem that will not go away, and it will continue to be a topic of debate among corporate leaders, academics, policymakers, and others. Due to a lack of data on corporate tax paid by companies, research on the direct relationship between corporate governance and tax avoidance is still rare in Indonesia. Financial statements, particularly cash flow statements, do not reflect the current situation because tax payments are mixed with payment of other taxes that are the company's obligations, such as taxes on value-added, land and building taxes, and so on (Pohan, 2008).

Friese, Link, and Mayer (2006) contend that a company's corporate governance structure has an impact on how it handles its tax obligations. However, the characteristics of corporate governance inside a corporation affect tax planning.

Corporate Governance was defined by Mulyani, Wijayanti, and Masitoh (2018) as a factor that determines a company's purpose in relation to its leader's traits. A leader's traits affect all of his choices, including tax avoidance. According to Mangoting, Sukoharsono, and Nurkholis (2017), "Tax avoidance is also a behavior of taxpayers' resistance to their tax obligations that should be implemented based on the provisions of the taxation legislation."

The presence of institutional owners shows that aggressive management is under pressure from institutional investors to maximize profit (Khurana and Moser, 2009). According to Shleifer and Vishney (1986), institutional owners play a crucial role in monitoring, disciplining, and persuading managers. Because the concentrated ownership structure has not been able to provide control over management's actions on the attitude of its opportunities in performing earnings management, owner institutions have incentives to ensure that management makes decisions that maximize the welfare of institutional shareholders (Isnanta, 2008). The ownership structure is one of the reasons for installing Corporate Governance. Companies with a high level of institutional ownership will be more aggressive in their efforts to reduce tax reporting. As a result, the higher the institutional ownership, the better the Corporate Governance mechanism will be, and the company's tax avoidance system will be carried out fairly; as for managerial ownership, the manager will have an equal position with the shareholders' shares, so an increase in managerial ownership will motivate them to improve performance and be responsible for shareholder prosperity (Fadhilah, 2014).

Transparency is one of the most important factors to consider when developing Corporate Governance policies. Transparency is a necessary component of maintaining objectivity when conducting business. Companies must give stakeholders information that is simple to comprehend and available.

According to tax compliance theory, taxpayers who voluntarily agree to pay taxes are under no obligation. Individuals will take action if they gain from it as well. Based on this, a company's management, as the operational leader, will only accept a tax avoidance policy if it also benefits from it. As a result, high executive compensation is one of the most effective strategies to execute corporate tax efficiency. Because executives will earn profit from larger compensation, they will be more motivated to improve corporate performance. According to Minnick and Noga (2010), it stated that the higher the compensation received by the executive, the higher the motivation for corporate tax avoidance.

According to Jensen and Meckling (1976), the board of commissioners, as the main or owner, has the responsibility to supervise and manage the acts of the board of directors in connection to their opportunistic conduct. The board of commissioners is the main of corporate governance, with the responsibility of ensuring that the company's strategy is carried out, supervising management's management, and enforcing implementation accountability. The position of the board of commissioners as a representative of the shareholders, according to (Sabli and Noor, 2012), means that the board of commissioners will prioritize the interests of shareholders, namely maximizing wealth companies whose value is affected by taxation. There is a rule on the Indonesia Stock Exchange that a firm must have at least 30% of its board of directors be independent commissioners so that oversight can be carried out professionally (Pohan, 2008; Annisa, 2012). The larger the percentage of board independent commissioners, the more a company has a board independent commissioner, and so independence will be higher since there are not directly tied to shareholders controllers, allowing for a lower tax avoidance strategy (Winata, 2014). According to Oktofian (2015) research, found that if a company has a small number of audit committees, the audit committee's control of financial policies is minimal, which leads to increased management actions in tax avoidance. However, if the company has a large number of audit committees, the financial policy control is very strict, which leads to fewer management actions in tax avoidance. Also, Ridha and Nurul (2019), in their research stated that Companies that have a proportion of independent commissioners who size and good audit quality, it is suspected that it can reduce the tendency of companies to take tax avoidance actions.

According to previous research conducted by Faqih Arifin (2019), Emma Putri Retno Pratitis (2020), Tammy Avriliusqa (2020), Tria Ayu Wulandari (2019), Nopan Rahmawan and Sugiyanto (2021), and Dita Adhelia (2018), the findings of this study show that corporate governance have impact on tax avoidance. Following by the article written by merdeka.com, it stated that one of the mining sector company which is PT Adaro Energy Tbk is suspected to do a tax avoidance. But the main director of PT Adaro Energy Tbk declines all article and information regarding this case by saying that they have a good corporate governance that applied the principles of good corporate governance and always complying with applicable regulations, including tax regulations.

Management of a corporation engaging in tax avoidance practices with the sole purpose of reducing tax liabilities (Khurana and Moser, 2009). Tax avoidance is an aggressive tax approach used by businesses to reduce their tax liability. As a result, this practice carries consequences for the business, including fines and a negative public perception. As a taxpayer, a company compliance with tax duties that is impacted by the corporate governance structure's rules, but tax planning also rely on the dynamics of corporate governance within a corporation (Friese, Link, and Mayer, 2006).

With the aforementioned phenomena of tax avoidance in the mining sector, it can be inferred that corporations continue to avoid paying taxes for their profit, and companies with a high level of institutional ownership will be more aggressive in their efforts to reduce tax reporting. However, either manufacturing, consumer products, real estate, or the chemical sector are the topics of discussion. As a result of these considerations, the author is motivated to research that corporate governance plays a role in tax avoidance in the mining industry.

As a result, the author is urged to conduct her study under the title of "**The Influence of Corporate Governance Toward Tax Avoidance in Mining Sector Companies Listed on the Indonesia Stock Exchange**"

1.2 Problem Limitation

This study is limited to:

1. Companies of the mining sector that registered in Indonesia Stock Exchange on 2018-2021.
2. The studies have 4 independent variables and 1 dependent variable. The independent variables are Corporate Governance that divided into Institutional Ownership *(Kepemilikan Institusional/KI)*, Managerial Ownership *(Kepemilikan Manajerial/KM)*, Independent Board of Commissioners *(Dewan Komisaris Independen/DKI)*, and Audit Committee (Komite Audit/KA); and the dependent variable is tax avoidance.

1.3 Problem Formulation

The problem that is being analyzed are:

1. Does Institutional Ownership *(Kepemilikan Institusional/KI)* in mining sector companies listed on the Indonesia Stock Exchange influence tax avoidance?
2. Does Managerial Ownership *(Kepemilikan Manajerial/KM)* in mining sector companies listed on the Indonesia Stock Exchange influence tax avoidance?
3. Does the Independent Board of Commissioners *(Dewan Komisaris Independen/DKI)* in mining sector companies listed in the Indonesia Stock Exchange influence tax avoidance?
4. Does the Audit Committee *(Komite Audit /KA)* in mining sector companies listed in the Indonesia Stock Exchange influence tax avoidance?

5. Do the Institutional Ownership *(Kepemilikan Institusional/KI),* Managerial Ownership *(Kepemilikan Manajerial/KM),* Board of Commissioners *(Dewan Komisaris Independen/DKI), and* Audit Committee *(Komite Audit /KA)* in mining sector companies listed in the Indonesia Stock Exchange influence tax avoidance?

1.4 Objective of the Research

The research's goal is to gain a better grasp of the proposed problem formulation. The following are the goals:

1. To examine whether Institutional Ownership *(Kepemilikan Institusional/KI)* in mining sector companies listed in the Indonesia Stock Exchange influence tax avoidance.
2. To examine whether Managerial Ownership *(Kepemilikan Manajerial/KM)* in mining sector companies listed on the Indonesia Stock Exchange influence tax avoidance.
3. To examine whether the Independent Board of Commissioners *(Dewan Komisaris Independen/DKI)* in mining sector companies listed on the Indonesia Stock Exchange influence tax avoidance.
4. To examine whether the Audit Committee *(Komite Audit /KA)* in mining sector companies listed on the Indonesia Stock Exchange influence tax avoidance.
5. To examine whether Institutional Ownership *(Kepemilikan Institusional/KI),* Managerial Ownership *(Kepemilikan Manajerial/KM),*

Board of Commissioners *(Dewan Komisaris Independen/DKI), and* Audit Committee *(Komite Audit /KA)* in mining sector companies listed on the Indonesia Stock Exchange influence tax avoidance.

1.5 Benefits of The Research

This research is intended to yield theoretical as well as practical benefits.

1.5.1 Theoretical Benefit

In the terms of theoretical benefit, the benefit is:

From the writer's point of view, the goal of this study is to learn more about the influence of corporate governance that divided into Institutional Ownership *(Kepemilikan Institusional/KI)*, Managerial Ownership *(Kepemilikan Manajerial/KM)*, Independent Board of Commissioners *(Dewan Komisaris Independen/DKI)*, and Audit Committee *(Komite Audit/KA)* in mining sector companies listed on the Indonesia Stock Exchange.

1.5.2 Practical Benefit

Providing an overview of the influences of corporate governance which are divided into Institutional Ownership *(Kepemilikan Institusional/KI)*, Managerial Ownership *(Kepemilikan Manajerial/KM)*, Independent Board of Commissioners *(Dewan Komisaris Independen/DKI)* and Audit Committee *(Komite Audit/KA)* towards tax avoidance in mining sector companies listed on the Indonesia Stock Exchange, as well as the implementation.