The Impact of Corporate Governance Mechanisms on Corporate Tax Avoidance in Indonesia Public Companies

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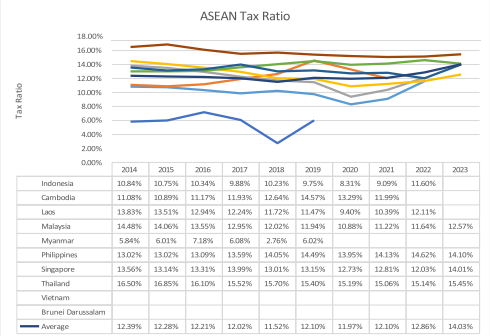
ABSTRACT

Tax avoidance remains a critical issue in Indonesia. Tax revenue, which should be a major source of revenue, is hampered by corporate tax avoidance.This study analyzes the impact of corporate governance mechanisms on tax avoidance in non-financial public companies in Indonesia during 2019–2023. Data were obtained from annual reports of 171 companies (670 observations) and analyzed using multiple linear regression with a Random Effect Model. Independent variables include audit quality, audit committee size, managerial ownership, independent board of commissioners, and institutional ownership. Results show that audit quality and managerial ownership reduce tax avoidance, while the other three variables have no significant effect. Regulators are advised to strengthen the roles of external auditors and managerial ownership in corporate governance.

Keywords : Tax avoidance; Corporate governance; Effective tax rate

I. INTRODUCTION

Taxes serve as a critical source of state revenue in Indonesia, contributing more than 80% to the national income, with Income Tax (PPh) being the largest contributor (Badan Pusat Statistik, 2024). However, Indonesia's tax ratio is still lower compared to other ASEAN countries, which can be seen in Image 1, and indicates that tax collection efforts are still not optimal. (tradingeconomics.com, 2025).



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Indonesia	10.84%	10.75%	10.34%	9.88%	10.23%	9.75%	8.31%	9.09%	11.60%	
Cambodia	11.08%	10.89%	11.17%	11.93%	12.64%	14.57%	13.29%	11.99%		
Laos	13.83%	13.51%	12.94%	12.24%	11.72%	11.47%	9.40%	10.39%	12.11%	
Malaysia	14.48%	14.06%	13.55%	12.95%	12.02%	11.94%	10.88%	11.22%	11.64%	12.57%
Myanmar	5.84%	6.01%	7.18%	6.08%	2.76%	6.02%				
Philippines	13.02%	13.02%	13.09%	13.59%	14.05%	14.49%	13.95%	14.13%	14.62%	14.10%
Singapore	13.56%	13.14%	13.31%	13.99%	13.01%	13.15%	12.73%	12.81%	12.03%	14.01%
Thailand	16.50%	16.85%	16.10%	15.52%	15.70%	15.40%	15.19%	15.06%	15.14%	15.45%
Vietnam										
Brunei Darussalam										
Average	12.39%	12.28%	12.21%	12.02%	11.52%	12.10%	11.97%	12.10%	12.86%	14.03%

Image 1.
ASEAN Tax Ratio

One of the contributing factors is corporate tax avoidance, where companies exploit loopholes in tax regulations to legally minimize their obligations. This practice has been evident in cases involving PT Adaro Energy Tbk and PT Asian Agri, where strategies such as transfer pricing and fictitious cost allocation were used to reduce tax payments (Melani & Tulus, 2019; Yusdi, 2019). Although tax avoidance is not classified as illegal, it undermines the state's fiscal capacity and raises concerns regarding accountability and transparency in corporate financial practices. Therefore, strong corporate governance is needed to monitor managerial actions and align them with stakeholders' interests (Asadanie & Venusita, 2020; Fauziah & Yanthi, 2021; V. A. Lestari, Maryanti, & Biduri, 2024).

Grounded in agency theory, which highlights the conflict between principals (shareholders) and agents (managers), corporate governance mechanisms are expected to function as oversight instruments that prevent managerial opportunism (Jensen & Meckling, 1976). Several studies have analyzed the impact of governance mechanisms—such as audit quality, audit committee size, managerial ownership, independent board of commissioners, and institutional ownership—on tax avoidance that we can see on table 1. However, the findings remain mixed and inconclusive. While some researchers have found certain governance variables to reduce tax avoidance, others reported no significant effect or even opposite results. This inconsistency reveals a gap in the literature, particularly in the Indonesian context, where comprehensive studies incorporating all five governance variables are still scarce. Existing studies often isolate specific mechanisms or focus on

limited sectors, making it difficult to generalize the outcomes.

Table 1.
Previous Research Table Between the Variables Studied and ETR Values

Variable	Positive	Negative	Not Significant
Audit Quality	(Alkurdi & Mardini, 2020; Dang & Nguyen, 2022; Yahaya, 2025)	(Alfandia & Putri, 2023; N. Lestari & Nedya, 2019; Rizqia & Lastiati, 2021)	(Handoyo, Wicaksono, & Darmesti, 2022; Kurniasih, Yusri, & Hassan, 2022)
Audit Committee Size		(Karlinah, Meutia, Hanifah, & Ismawati, 2024; Yahaya, 2025)	(Dang & Nguyen, 2022; Islam & Hashim, 2023)
Managerial Ownership	(Alkurdi & Mardini, 2020; Handoyo et al., 2022; Hassan, Masum, & Sarkar, 2022; Sulfia & Rusmanto, 2024; Wongsinhirun, Chatjuthamard, Chintrakarn, & Jiraporn, 2024)	(Wenwu, Khurram, Qing, & Rafiq, 2023)	
Independent Board of Commisioners		(Achmad, Helmina, Hapsari, & Pamungkas, 2023; Sulfia & Rusmanto, 2024)	(Handoyo et al., 2022; Rizqia & Lastiati, 2021)
Institusional Ownership	(Ratnasari & Nuswantara, 2020)	(Alkurdi & Mardini, 2020; Karlinah et al., 2024; Tee, Teoh, & Hooy, 2022)	(Almaharmeh, Shehadeh, Alkayed, Aladwan, & Iskandrani, 2024; Dang & Nguyen, 2022; Handoyo et al., 2022; Hassan et al., 2022; Sulfia & Rusmanto, 2024)

This study aims to analyze the influence of corporate governance mechanisms—such as audit quality, audit committee size, managerial ownership, independent board of commissioners, and institutional ownership— on tax avoidance among publicly listed non-financial companies in Indonesia during the period 2019 to 2023. By using the Effective Tax Rate (ETR) as a proxy for tax avoidance, the study offers empirical insights into how governance practices relate to corporate tax behavior. The novelty of this research lies in its integrated analysis of multiple governance variables across a recent five-year span, providing a broader and more up-to-date understanding of tax avoidance practices. The findings are expected to contribute to the development of more effective governance policies and offer practical implications for regulators and stakeholders in strengthening corporate compliance with tax obligations.

II. RESEARCH METHOD

This quantitative study investigates the causal relationship

between corporate governance mechanisms and tax avoidance in 171 non-financial companies listed on the Indonesia Stock Exchange from 2019 to 2023, selected through purposive sampling while excluding financial institutions due to their distinct characteristics.

Table 2.
Sample Selection Criteria

No.	Information	Total
1.	Companies listed on the Indonesia Stock Exchange	954
2.	Excluding companies from the financial sector	(105)
3.	Companies that were not listed during the 2019–2023 period	(287)
4.	Annual Reports for the 2019–2023 period were not published or not accessible	(48)
5.	Companies that incurred losses during the 2019–2023 period	(343)
	Number of sample companies	171
Number of observations (companies × 5 years)		855

Trimming was performed to remove outliers in the data. Trimming resulted in a total of 670 company observations over five years. The study utilizes secondary data collected from official sources such as www.idx.co.id and company websites, focusing on variables derived from audited annual reports.

This study examines tax avoidance, measured by the Effective Tax Rate (ETR), using several independent variables: audit quality (Big 4 affiliation), audit committee size, managerial ownership, independent board of commissioners, and institutional ownership. Control variables include firm size (ln of total assets), leverage (debt-to-equity), return on assets (ROA), and firm age. Multiple linear regression with a panel data approach is employed, with the Random Effect Model (REM) selected based on Chow, Hausman, and Lagrange Multiplier tests. Classical assumption tests—normality, multicollinearity, autocorrelation, and heteroscedasticity—are also conducted to ensure model validity.

III. RESULTS AND DISCUSSION

1. Descriptive Statistics

Descriptive statistics offer a summary of the key characteristics of the data utilized in this study.

Table 3.
Descriptive Statistics

Var	Mean	Std. dev.	Min	Max
ETR	0.198	0.089	0.000	0.470
KA	0.452	0.498	0	1
KAI	3.069	0.388	2	7
KM	0.056	0.132	0	0.700
DKI	0.412	0.097	0.167	0.833
KI	0.819	0.221	0	1
SZ	29.338	1.630	25.049	33.731
LVR	0.771	0.727	0.034	4.648
ROA	0.091	0.081	-0.020	0.616
AGE	17.373	11.525	0	42

2. Normality Test

The normality test is used to evaluate whether the residuals adhere to a normal distribution. In this study, the Kolmogorov-Smirnov test will be used for the normality test. Based on the test results shown in Table 4, the significance value obtained is 0.001, which is below 0.05, indicating that the residuals are not normally distributed. However, Meiza (2023) argues that as long as the sample size is large—above 30 or 40—normality is not a major issue and parametric procedures can still be applied. Additionally, some researchers suggest that other classical assumptions require more attention than the normality assumption, especially when the dataset is large (Gosselin, 2024; Schmidt & Finan, 2018). In line with this view, Gujarati & Porter (2011) state that when the sample size is sufficiently large, the normality assumption can be disregarded.

Table 4.
Normality Test

		Unstandardized Residual
N		670
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	0.0858538
Most Extreme Differences	Absolute	0.128
	Positive	0.068
	Negative	-0.128
Test Statistic		.128
Asymp. Sig. (2-tailed)[c]		<.001

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 2000000.

3. Multicollinearity Test

The multicollinearity test is undertaken to examine if there is a link among independent variables that might impact the regression results. One measure to detect multicollinearity symptoms is by examining the VIF values (Meiza, 2023). A VIF value less than 0.1 or greater than 10 indicates the presence of multicollinearity symptoms. From Table 5, it can be seen that the variables used in this regression model have VIF values within a healthy range, between 1.067 and 2.519. This signifies the absence of notable multicollinearity symptoms among these variables.

Table 5.
Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	KA	0.828	1.207
	KAI	0.889	1.125
	KM	0.397	2.519
	DKI	0.938	1.067
	KI	0.398	2.514
	SZ	0.704	1.419
	LVR	0.860	1.163
	ROA	0.890	1.124
	AGE	0.842	1.188

4. Autocorrelation Test

Based on the Durbin-Watson result in Table 6, further analysis can be conducted as shown in the table below by using the Durbin Lower value of 1.844 and the Durbin Upper value of 1.908. It can be seen that the Durbin-Watson value meets the second criterion, indicating the presence of positive autocorrelation.

However, according to Gujarati & Porter (2011), if the Durbin-Watson test indicates the presence of positive or negative autocorrelation but the time variable has already been included, then the autocorrelation is called pure autocorrelation. Pure autocorrelation can be corrected by using an estimator from Generalized Least Squares (GLS), which aligns with the choice of the Random Effects Model used in the multiple linear regression in this study.

Table 6.
Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.481[a]	0.231	0.218	0.079	0.770

a. Predictors: (Constant), AGE, LVR, KI, KAI, ROA, DKI, SZ, KA, KM
b. Dependent Variable: ETR

5. Heteroscedasticity Test

Based on the Table 7, it was found that the variables KA, SZ, ROA, and AGE do not meet the assumption of heteroscedasticity-free residuals.

Table 7.
Heteroscedasticity Test

Model		t	Sig.
1	(Constant)	0.636	0.525
	KA	-3.742	0.000
	KAI	-1.884	0.060
	KM	-1.138	0.256
	DKI	-1.623	0.105
	KI	0.311	0.756
	SZ	2.266	0.024
	LVR	-1.148	0.252
	ROA	-4.512	0.000
	AGE	-2.459	0.014

a. Dependent Variable: Abs_Res

However, Gujarati & Porter (2011) and Hoechle (2007) state that if heteroscedasticity symptoms are present, robust standard errors can be used to correct them. Therefore, this study will use the Random Effects Model with Robust Standard Errors.

6. Model Feasibility Test

The model feasibility test In Table 8 shows that this study uses balanced panel data with 670 observations from 134 companies over five years. The Wald chi-square test yields a $chi^2(22)$ value of 6634.79 with a significance level of 0.000, indicating that the model is

statistically significant and suitable for further analysis.

Table 8.
Model Feasibility Test

Number of obs	=	670
Number of groups	=	134
Obs per group:		
min	=	5
avg	=	5.0
max	=	5
Wald chi2(22)	=	6634.79
Prob > chi2	=	0.000

7. Coefficient of Determination Test

The coefficient of determination test findings indicate that the within R^2 is 0.1095, indicating that the independent variables account for only 10.95% of the variance within the same groups across time. The between R^2 is higher, at 0.5341, suggesting that the model better explains the differences between firms, with a contribution of 53.41%. Overall, the R^2 is 0.4358, indicating that the model is able to explain 43.58% of the variation in the dependent variable.

Table 9.
Coefficient of Determination Test

R-squared:		
Within	=	0.1095
Between	=	0.5341
Overall	=	0.4358
corr(u_i, X)	=	0 (assumed)

8. Multiple Linier Regression

It can be seen that the variables Audit Quality (significant at 0.008), Managerial Ownership (significant at 0.037), and Return on Assets (ROA) (significant at 0.003) have a significant effect on Tax Avoidance. Meanwhile, the variables Audit Committee Size, Independent Board of Commissioners, Institutional Ownership, Firm Size, Leverage, and Firm Age do not have a significant effect on Tax Avoidance.

Table 10.
Multiple Linier Regression

Variable	Coefficient	Robust Std. Error	z	P > |z|
(Constant)	0.250	0.100	2.500	0.012
KA	0.027	0.010	2.660	0.008
KAI	-0.005	0.007	-0.700	0.486
KM	0.069	0.033	2.090	0.037
DKI	0.023	0.043	0.530	0.596
KI	0.012	0.026	0.480	0.634
SZ	-0.0001	0.004	-0.020	0.985
LVR	0.008	0.005	1.390	0.166
ROA	-0.137	0.047	-2.930	0.003
AGE	-0.0003	0.000	-0.690	0.490

sigma_u	).052
sigma_e	).045
rho	0.568 (fraction of variance due to u_i)

IV. CONCLUSION

This study finds that audit quality and managerial ownership significantly increase the Effective

Tax Rate (ETR) of publicly traded companies in Indonesia, indicating lower levels of tax avoidance. High-quality audits promote transparency and reduce opportunities for tax manipulation, while managerial ownership aligns management interests with long-term corporate sustainability, discouraging tax avoidance. In contrast, variables such as audit committee size, independent board of commissioners, and institutional ownership show no significant effect on tax avoidance. These findings underscore the importance of audit quality and managerial ownership in enhancing tax compliance.

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