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The Effect of Good Corporate Governance Implementation and Financial Policy on Tax Avoidance (Case Study in LQ45 Company Index)

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Abstract

The purpose of this study was to investigate potential correlations between Corporate Governance and Financial Policy on Tax Avoidance Practices. This investigation's primary goals and focus are companies that are listed in LQ45 Index for the 2020-2023 period. 70 observation samples in all were used in this study, and they were all chosen using purposive sampling methods. The data examined using SPSS software was subjected to multiple linear regression testing methodology for the purposes of this investigation. The use of GCG and leverage are unrelated, according to study findings partially. Simultaneously, GCG and Leverage are related to Tax Avoidance Practice.

Keywords: Good Corporate Governance, Leverage, Tax Avoidance

INTRODUCTION

Tax avoidance is a term used to describe legal arrangements for taxpayer operations to reduce the tax liability borne by taxpayers. Tax avoidance is a legitimate attempt to avoid taxes and does not violate any rules because companies view taxes as a burden that reduces profits. There are several factors that encourage taxpayers to engage in tax avoidance, one of which is that the size of the tax burden reduces the taxpayer's net profit. The higher the company's profit, the higher the tax liability. Therefore, many companies implement financial policies to reduce their profit levels. Entities that use loans or debt as a source of funding will incur costs associated with that debt, known as interest expenses. The higher the leverage ratio, the higher the entity's debt. High debt levels result in high interest expenses. This, of course, will impact the entity's profits, which decrease, and the entity's tax burden also decreases.

Additionally, the differing interests between the government and companies as taxpayers create a gap in interests between the two parties. This gap can be minimized by establishing a transparent and accountable management structure. This aligns with sustainability issues based on three main dimensions: environmental, social, and governance. Governance is a framework that combines good principles for corporate management. To ensure effective, efficient, and ethical company operations, this is an important approach for sustainable growth and competitiveness worldwide. According to the 2021 Indonesian Good Corporate Governance Guidelines, corporate governance is the process and structure used to direct and manage a business to achieve business progress and corporate accountability with the aim of creating sustainable value and wealth for shareholders while

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considering the interests of stakeholders (KNKG, 2021). The principles of Good Corporate Governance (GCG), which have been transformed into four pillars, namely ETAK (Ethical Behavior, Transparency, Accountability, and Sustainability), are expected to be fulfilled in the corporate management process. Regarding tax avoidance practices, governance principles compel companies to be open about information, leading them to take risk-averse actions that undermine shareholder trust. Tax avoidance is often seen as conflicting with sustainability principles, which emphasize transparency and social responsibility in business.

Previous studies have extensively examined the influence of corporate governance structures on corporate tax avoidance practices. Research conducted by Belinda Rahma Sofyawati (2024) examined the influence of executive characteristics, independent board of commissioners, audit committees, and female board members. The research findings indicate that the variable of female board members has a negative correlation with tax avoidance practices. This indicates that the presence of female board members influences the reduction of tax avoidance practices. Research conducted by Purbowati (2021) also examined corporate governance structures and their impact on tax avoidance practices. The corporate governance structures used in this study were independent boards of commissioners, institutional ownership, managerial ownership, and audit committees. The results of the study show that, partially, only institutional ownership has an effect on reducing tax avoidance practices. The other variables have no effect. Simultaneously, institutional ownership, managerial ownership, and the audit committee have an effect on tax avoidance practices.

Much of the research conducted has focused on the structural aspects of corporate governance, without considering its implementation within companies. With the increasing demand for transparency and accountability from the public and investors, it is important to investigate how companies implement corporate governance structures and examine their impact on tax avoidance practices. The objective of this study is to investigate how corporate governance is implemented in LQ45-indexed companies on the Indonesia Stock Exchange and to examine the impact of such implementation on efforts to reduce tax avoidance practices.

LITERATURE REVIEW

The Stakeholder Theory states that in order to improve business success and accountability, a company must pay attention to the interests of its stakeholders because stakeholders are one of the groups that influence and support a company. Stakeholders are classified into three groups by Nurul (2020). The first group is primary stakeholders, which are individuals or groups directly involved in decision-making, policies, programs, and projects of the company. Primary stakeholders include the community and community leaders who are directly affected by the decisions, policies, or projects made by the company. Community leaders are considered as figures who represent public aspirations to be conveyed to company representatives.

Tax Avoidance

Tax is defined as a mandatory contribution to the state owed by individuals or entities that is enforceable by law, without receiving direct compensation, and used for state purposes for the greatest prosperity of the people. Meanwhile, Tax avoidance is a term for tax engineering that remains within the framework of taxation provisions (lawful) (Suandy, 2016). Tax avoidance is active resistance by taxpayers. According to Santoso et.al (2013), tax avoidance can be done in three ways, namely:

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a. Restraint, where taxpayers refrain from engaging in activities that could be subject to taxation
b. Relocation, where taxpayers move their business operations or domicile from a high-tax area to a low-tax area
c. Legally, taxpayers exploit loopholes or ambiguities in the law so that their actions are not subject to taxation.

Good Corporate Governance

GCG is a system, principle, or structure used to guide and control companies to operate transparently, accountably, and responsibly. Effective implementation of GCG can enhance operational efficiency, strengthen the company's reputation, and reduce risks associated with unethical business practices. According to the General Guidelines on Corporate Governance in Indonesia published by the National Committee on Corporate Governance (KNKG 2021), the principles/pillars of GCG consist of Ethics, Transparency, Accountability, and Sustainability (ETAK). The ETAK principles were first introduced in the 2021 PUGKI and represent a transformation of the GCG principles from the previous TARIF (Transparency, Accountability, Responsibility, Independence, and Fairness) principles, which were last used in the 2019 PUGKI. The KNKG assesses that this transformation of principles will not alter the essence of governance assessment, as the principles of independence and fairness are already encompassed within the principle of Ethics.

The measurement of good corporate governance in this study uses a good corporate governance index that includes the elements of Board Composition, Audit Committee, Remuneration Committee, Shareholder Rights, Financial Affairs & Audit, and Disclosure. This good corporate governance index consists of 32 indicators of good corporate governance implementation, which are aligned with the 2006 general guidelines for good corporate governance. There are a total of 32 indicator items included in the annual financial report. If an indicator item is present, it is given a score of 1. If not, it is given a score of 0. The good corporate governance index for each company is obtained by summing the scores for each question item. The maximum index value is 32 (indicating 100% compliance by the company in implementing the guidelines).

Leverage

The solvency ratio or leverage ratio is a ratio used to measure how much debt a company must bear in order to fulfill its assets (Hery, 2015:190). The smaller the ratio, the safer it is. According to (Sugiono, 2009), this ratio consists of several types. In this study, the type of ratio used is financial leverage with the Debt to Equity Ratio proxy. This ratio compares total debt with total equity.

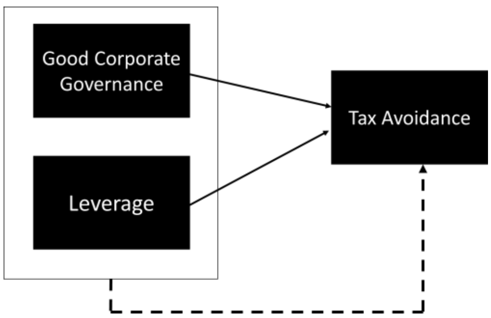

Figure 1. Research Conceptual Framework

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Hypothesis :
H1 : GCG Affect Tax Avoidance in LQ45 companies on the Indonesia Stock Exchange for the period 2020-2023
H2 : Leverage Affect Tax Avoidance in LQ45 companies on the Indonesia Stock Exchange for the period 2020-2023
H3 : GCG and Leverage Affect Tax Avoidance in LQ45 companies on the Indonesia Stock Exchange for the period 2020-2023

METHOD

This study was conducted on the Indonesia Stock Exchange. The companies selected were those listed on the LQ45 index. In this study, the population used was all companies listed on the LQ45 index on the Indonesia Stock Exchange from 2020 to 2023, with a total of 70 companies. Sampling was conducted using purposive sampling based on criteria. Data analysis techniques used descriptive statistics. Then, calibration assumption tests were conducted, including normality tests, multicollinearity tests, and heteroscedasticity tests. This study used multiple linear regression analysis techniques. In addition, this study also conducted hypothesis testing. Hypothesis testing aims to determine whether there is a significant influence between the independent and dependent variables. Hypothesis testing in this study consisted of three tests, namely the coefficient of determination (R^2) test, the t-statistic test, and the F-statistic test.

RESEARCH RESULTS AND DISCUSSION

Data Quality Testing

Result Of Descriptive Statistics

Descriptive statistics used as a testing method related to the presentation and collection of data or test results. The research variable data studied included the amount of data (n), the minimum value (min), the maximum value (max), the average value (mean), and the standard deviation. The results of the descriptive statistical test are as follows :

Table 1. Descriptive Statistics Result

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
LEV	104	-2,04	2,06	-,3421	,95391
GCG	104	-,29	,00	-,1121	,06897
CETR	101	-4,61	1,06	-1,2814	,81551
Valid N (listwise)	101				

Source : Data Processed with SPSS

Classical Assumption Testing

Multicollinearity Test

The multicollinearity Test aims to determine the regression model found a correlation between independent variables and independent variables. Multicollinearity test can be done by looking at the value of VIF (Variance Inflation Factor) and Tolerance.

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Table 2. Multicollinearity Test Result

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	GCG	,998	1,002
	LEV	,998	1,002

Source : Data Processed with SPSS

Based on Table 2 it can be seen that the Tolerance value of the independent variable of 0.999 is greater than 0.1, while the VIF value of the independent variable of 1,002 is smaller than 10, then the data is declared free from Multicollinearity.

Normality Test

The Normality Test is carried out to determine whether the data used in this study has been distributed normally or not. The basis for decision making is if the significance value is greater than 0.05, then the data is normally distributed. Conversely, if the significance is less than 0.05, then the residual value is not normally distributed.

Table 3. Normality Test Result

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		101
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,79043483
Most Extreme Differences	Absolute	,106
	Positive	,106
	Negative	-,106
Kolmogorov-Smirnov Z		1,067
Asymp. Sig. (2-tailed)		,205

a. Test distribution is Normal.
b. Calculated from data.

Source : Data Processed with SPSS

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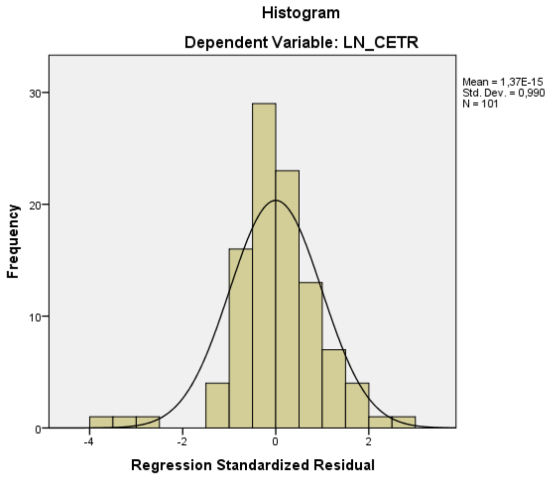

Figure 2. Normality Histogram Result
Source : Data Processed with SPSS

Based on Figure2, it can be seen that the line is bell-shaped, neither deviating left nor right. This indicates that the data is normally distributed and satisfies the normality assumption.

Normality testing also be shown with the P-Plot graph in figure 3.

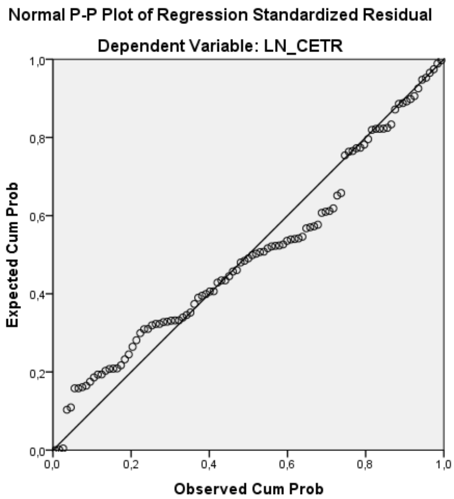

Figure 3. P-Plot Graph Result
Source : Data Processed with SPSS

Based on figure 3 it is shown that the data (dots) spread around the diagonal line and follow the diagonal line. So from the figure,it is concluded that the residuals of the regression model are normally distributed.

Heteroscedasticity Test

The heteroscedasticity test is used to determine whether or not there is a deviation from the classical assumption of heteroscedasticity, namely the presence of variance inequality from residuals for all observations in the regression model. The prerequisite that must be met in the regression model is the absence of symptoms of heteroscedasticity.

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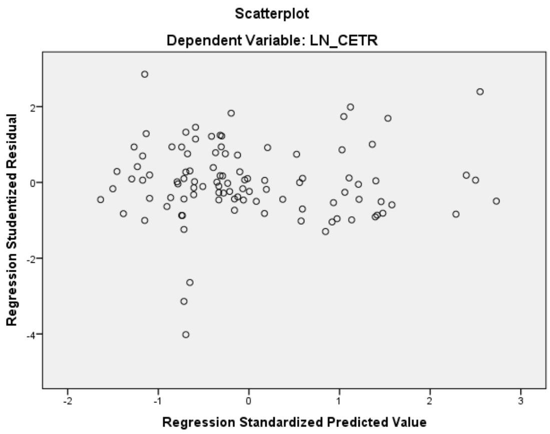

Figure 4. Heteroscedasticity Test Result
Source : Data Processed with SPSS

Based on the scatterplot graphic image above, it can be seen that the points spread randomly and are spread above and below the number 0 on the Y axis. It can be concluded that there is no heteroscedasticity.

Multiple Linear Regression Analysis Test

The results of multiple linear regression analysis tests on threeindependent variables, can be seen in Table below.

Table 4. Multiple Linear Regression Analysis Test
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-1,413	,156		-9,056	,000		
	LN_GCG	-1,698	1,146	-,145	-1,483	,141	,998	1,002
	LN_LEV	,169	,086	,192	1,963	,052	,998	1,002

a. Dependent Variable: LN_CETR
Source : Data Processed with SPSS

Based on Table 4 can be known the values: α = -1.413, β1= - 1.698, β2= 0,169. So that the multiple linear regression equation in this study is:

CETR = -1,413 – 1698 X1 + 0.169X2 + e

Hypothesis Testing

Test Coefficient of Determination (R^2)

The coefficient of determination denoted by R^2 is used to measure how much influence GCG (X1), Leverage (X2) on Tax Avoidance (Y)

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Table 5. Test Result of Coeffiecient of Determination (R2)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,246[a]	,061	,041	,79846	1,947

a. Predictors: (Constant), LN_LEV, LN_GCG
b. Dependent Variable: LN_CETR
Source : Data Processed with SPSS

Based on Table 5 it can be seen that the Adjusted R Square number shows the coefficient of determination. The Adjusted R Square is 0.041. This means that 4,1% of changes in Tax Avoidnce (Y) are caused by GCG (X1) and Leverage (X2) while the remaining 95,9% are caused by factors other than changes in the variables of GCG (X1) and Leverage (X2).

T-Test

The t-test is performed to determine the significant effect of the independent variable dimension partially on the dependent variable.

Table 6. T-Test Analysis Result

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-1,413	,156		-9,056	,000		
	LN_GCG	-1,698	1,146	-,145	-1,483	,141	,998	1,002
	LN_LEV	,169	,086	,192	1,963	,052	,998	1,002

a. Dependent Variable: LN_CETR
Source : Data Processed with SPSS

The research results provide support for the conclusion that the first hypothesis (H1) must be rejected. The first hypothesis cannot be supported, as shown by testing, because the probability value of the variable X1 is 0.141, more than 0.05. The test results show that variable X1 has no effect on the amount of tax avoidance. The research results provide support for the conclusion that the first hypothesis (H2) also must be rejected. The second hypothesis cannot be supported, as shown by testing, because the probability value of the variable X2 is 0.052, more than 0.05. The test results show that variable X2 has no effect on the amount of tax avoidance.

Test F

The F test is performed to test the significant effect of the independent variable dimension simultaneously on the dependent variable.

Table 7. F Test Analysis Result

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4,027	2	2,014	3,159	,047[b]
	Residual	62,479	98	,638		
	Total	66,506	100			

a. Dependent Variable: LN_CETR

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Vol. 3 Issue 2, July-December 2024
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b. Predictors: (Constant), LN_LEV, LN_GCG
Source : Data Processed with SPSS

Based on the table above, the significancy level is 0.047 < 0.05 so, it's concluded that simultaneously the variable of GCG and leverage have an effect and significant on tax avoidance.

Discussion

The Effect of GCG on Tax Avoidance

In this study, GCG was assessed based on items disclosed in annual reports and sustainability reports. Therefore, based on the results of this study, it is indicated that GCG is more of a formal form of compliance to meet regulations and public expectations, but it is not necessarily implemented substantially and effectively in overseeing strategic management decisions, including tax practices. This is reinforced by data showing that GCG disclosure is not always accompanied by effectiveness in practice.

The Effect of Leverage on Tax Avoidance

The results of this research are in line with those found by Anindyka S. et al (2018) who found that there was no relationship between the use of leverage and tax avoidance. The company will use its debt to support the continuity of its operations rather than reducing tax payments because this is more profitable. If the debt ratio is high, management will be more careful in making decisions regarding the company's future. In case the company's debt to asset ratio is much higher, it will also accept higher risks. This will encourage management to be more careful when using the debt to equity ratio to reduce the amount of tax (Winning Arianandini & Wayan Ramantha, 2018).

CONCLUSION

Based on the research analysis carried out, it was concluded that: The GCG variable has no effect on tax avoidance. GCG is just a formal form of compliance not being a monitoring system. The Leverage variable has no effect on tax avoidance. Debt to equity ratio can not be a financial policy that support tax avoidance practice. Simultaneously, GCG and Leverage has a significance effect on tax avoidance. Means that GCG and leverage able to indicate tax avoidance practice.

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