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**THE INFLUENCE OF CORPORATE GOVERNANCE ON TAX  
MANAGEMENT IN CONSUMER GOODS INDUSTRY SECTOR COMPANIES  
LISTED ON THE INDONESIAN STOCK EXCHANGE IN 2017-2019**

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**Abstract**

*This research aims to determine whether public ownership, board of directors compensation and audit committee have an effect on tax management in basic consumer goods industrial companies listed on the Indonesian Stock Exchange. Secondary data was obtained based on purposive sampling of financial reports. The population was conducted on basic consumer goods industrial companies listed on the IDX with a number of 54 companies, while the samples were selected with purposive sampling method obtained a total of 12 companies or 36 samples for the period 2017-2019. But the 36 samples processed the result is abnormal distribution, so the researcher increase the observation period on the IDX in 2015.2020. Data analysis method used is multiple linear regression. The results of this research indicated that the public ownership, board of directors compensation and audit committee no have significant effect on the tax management.*

**Keywords:** *Public Ownership, Board Of Directors Compensation, Audit Committee, Tax Management.*

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**1. INTRODUCTION**

According to Friese, Link and Mayer (2006), a company is a taxpayer so the fact that a corporate governance structure rule affects the way a company fulfills its tax obligations, but on the other hand tax planning depends on the dynamics of corporate governance in a company. Taxes are the largest source of revenue for the state treasury, so taxes can be seen from several aspects, namely from an economic perspective, taxes are a transfer of resources owned by companies to the public sector, while for the state taxes are a source of state cash receipts that can be used to finance state expenditures. In the practice of implementing tax revenue, one of the parties that makes a major contribution is the company (Suandy, 2011: 1). However, the government's goal to maximize tax revenue is contrary to the company's goal as a taxpayer. Tax management is a company's effort in terms of handling tax payments ranging from planning, implementation, and control. Tax management is basically not contrary to the law and is carried out by utilizing the exceptions permitted by law so that tax management is not an illegal act or violation of tax legislation. Tax management is the process of managing and organizing the tax burden that must be paid. The efficiency

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mechanism through tax management can be implemented if management in management and implementation in the company can be implemented properly.

To implement management in the company is called Corporate governance. The problem that often arises is that some companies often try to reduce their tax burden to a minimum. Some companies choose to do it in an illegal way. For example, by doing tax avoidance or tax evasion. This activity is often detrimental to tax revenue in Indonesia. Another way can be done with tax management. Examples of cases of several food and beverage companies that do tax avoidance show the level of avoidance that goes up and down. Based on IDX data, one of the food and beverage companies, PT Delta Djakarta, Tbk, from 2014 continued to increase until the level of tax avoidance was -0.245. PT Sekar Bumi, Tbk experienced fluctuations in 2014 amounting to -0.256 rising to -0.188 in 2015. In addition, PT Indofood as one of the well-known food and beverage sector companies also experienced the same thing, where in 2014 the level of tax avoidance was -0.294, rising slightly to -0.293 in 2015 ([www.idx.co.id](http://www.idx.co.id)). There are several factors that are thought to affect tax avoidance, one of which is good corporate governance. According to Irawan and Aria (2012), the implementation of corporate governance is expected to overcome agency problems experienced by the company. This agency problem arises due to information asymmetry due to the separation of company ownership and management. This can provide a gap for management to take opportunistic actions (moral hazard). In corporate governance, which is studied, among others, public ownership, the board of directors and the audit committee. The implementation of corporate governance procedures is intended to reduce the occurrence of agency problems at the lowest point. This is as expressed by Jensen and Meckling (1976) in their agency theory, which states that agency problems can arise due to differences in interests between company owners (Principal) and management (Agent).

According to Muid and Santoso (2014: 4) "Public ownership is ownership of company shares with a value of less than 5% each and is not affiliated with the company". Companies with large public ownership indicate that the company has high credibility for the community in providing decent rewards (dividends) and is considered capable of operating continuously (going concern) so that the company can carry out good management. In increasing the value of the company, good funding is needed through internal and external funding. With large public ownership, it is hoped that the company will be more transparent in disclosing information about the company which will have an impact on firm value and with the supervision of public ownership of management can make management more careful in making decisions which will increase company value. (Zulva Yuniati, Elva Nuraina and Elly Astuti, 2017) explain that public ownership partially has no effect on tax management, the size of the proportion of public ownership will not affect company management and tax management, because public ownership does not have a large role and authority in developing the company and making decisions, so that public ownership can only follow the procedures and rules of the company. Compensation is a form of organizational reward for

the performance of tasks assigned to individuals within the organization. Compensation aims to align the goals of company managers with the goals of company owners. In addition, compensation also aims to motivate company managers and advisors. In this case the board of directors is expected to provide the best effort in order to achieve maximum profit. According to Fahrani (2016), Muid and Santoso (2014) public ownership, board of directors, audit committee have different proportions and duties in carrying out company management, this can be seen from the duties, and responsibilities given to public ownership, board of directors, and audit committee to carry out company management in accordance with the portions and provisions applicable in the company. Based on these assumptions, it is suspected that public ownership, board of directors, audit committee simultaneously affect tax management. Based on this background, the authors are interested in examining "The Effect of Corporate Governance on Tax Management in Consumer Goods Industry Sector Companies Listed on the Indonesia Stock Exchange in 2017-2019".

## 2. RESEARCH METHOD

The financial statements of companies in the consumer products sector that are listed on the Indonesia Stock Exchange are the source of secondary data for this study, which employs a quantitative approach. The study was carried out throughout the months of April and May 2021. 54 firms in the consumer goods category that were listed on the Indonesia Stock Exchange between 2017 and 2019 made up the study's sample. Purposive sampling was used to collect the research sample, which originally included 12 companies but was later expanded to include 7 companies from the 2015–2020 timeframe due to unusual data distribution. 42 companies made up the entire sample. Companies that continue to be listed on the Indonesia Stock Exchange for the predetermined period, have complete data for the variables under study (the percentage of public ownership, the compensation of the board of directors, and the number of audit committees), and have positive profit after tax are included in the sample selection criteria. In the consumer goods industry sector companies in Indonesia, this study intends to investigate the relationship between corporate governance factors (board of directors, compensation, and audit committee) and tax management.

Form of Data Collection: Time series data, which are a collection of data arranged by time sequence, are used in this study. Secondary data from the financial statements of companies in the consumer products sector that are listed on the Indonesia Stock Exchange were used in this study. Quantitative data, which can be measured using numbers or numbers, is the type of data that is employed. The Annual Reports of the corporations listed on the Indonesia Stock Exchange are where we found this information. Data Source: The financial statements of companies in the consumer products sector that are registered on the Indonesia Stock Exchange serve as the data source. Secondary data were collected from intermediate media. Classical Assumption Test: Regression analysis employs traditional

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assumption tests such the heteroscedasticity, multicollinearity, and normality tests. These tests' findings are used to confirm that the data satisfies the presumptions needed for regression analysis. In the consumer products industry sector companies in Indonesia, this study intends to investigate the relationship between corporate governance variables (public ownership, board of directors compensation, audit committee) and tax management variables. Descriptive statistical analysis was employed as the analysis method.

Descriptive statistics are used to describe the data that has been collected without drawing any generalizations or conclusions. In order to comprehend the features of the data, it requires displaying the data graphically and numerically. Inferential statistical analysis is used to assess sample data and extrapolate the findings to the entire population. Multiple linear regression analysis is utilized in this study when there are more than two variables at play. Examining how Corporate Governance—including Public Ownership, the Board of Directors, and the Audit Committee—affects Tax Management is the goal. With an equation that contains both independent and dependent variables, multiple linear regression is used. Statisticians use the coefficient of determination ( $R^2$ ), the F statistical test, and the t statistical test to determine the validity of hypotheses. Coefficient of Determination ( $R^2$ ): Indicates how well the model can account for changes in the independent variables. A score near to 1 indicates a good model for describing the variation in the dependent variable. The  $R^2$  value ranges from 0 to 1. To ascertain whether all independent factors collectively have a significant impact on the dependent variable, use the simultaneous significance test (F statistical test). All independent variables have a substantial impact if the significance level (p-value) is less than 0.05. Used to determine the relative importance of each independent variable to the dependent variable (individual parameter significance test, T statistical test). The independent variable has a substantial impact if the significance level is smaller than 0.05. Multiple linear regression analysis was utilized in this study to look at the correlation between tax management and corporate governance characteristics. The findings of this investigation will aid in determining if corporate governance significantly affects tax management in Indonesian enterprises in the consumer products sector.

### **3. RESULTS AND DISCUSSION**

#### **3.1 Description of data on research variables**

Data on the public ownership variable ( $X_1$ ) for the research are described as follows: The percentage of the company's total shares held by the general public is known as public ownership. This information pertains to seven companies in the consumer goods sector and spans the years 2015 through 2020. The percentage of public ownership varies by company and by year.

The amount of remuneration that the board of directors of the company receives is represented by the board of directors compensation variable ( $X_2$ ). This information pertains to seven different companies from 2015 through 2020. The board of directors' pay varies

from one year to the next and from one business to another. Audit Committee Variable (X3): The audit committee is a measurement that expresses the audit committee's membership as a percentage of the company's board of directors. This information pertains to seven different companies from 2015 through 2020. The audit committee's size varies from firm to corporation and from year to year.

Tax Management Variable (Y): Gap ETR and Cash ETR ratios are used to measure tax management. The effective tax rate determined by appropriate financial accounting reporting standards is known as the gap ETR. The effective tax rate, or cash ETR, is calculated by subtracting deferred tax from the tax for the prior year. This information pertains to seven different companies from 2015 through 2020. ETR numbers vary by company and by year. To determine the impact of the independent factors (Public Ownership, Board Compensation, and Audit Committee) on the dependent variable (Tax Management), the data will be subjected to multiple linear regression analysis. The study will use this data to analyze statistical correlations between these variables and test hypotheses about their effects on tax management in Indonesian enterprises in the consumer products sector.

### 3.2 Classical Assumption Test

The Kolmogorov-Smirnov test was utilized to determine the data's normality. The findings demonstrate that the data for each variable utilized in the study is regularly distributed. It is clear that the data is normally distributed because the significance value (Asymp. Sig. 2-tailed) is greater than 0.05 and is approximately 0.198.

To determine whether there is a correlation between the independent variables in the regression model, the multicollinearity test is utilized. The findings demonstrate that there is no evidence of multicollinearity in the data. There is no discernible linear relationship between the independent variables, as shown by the tolerance values of all variables being greater than 0.10 and the VIF value being less than 10.00. Heteroscedasticity Test: The heteroscedasticity test is used to determine whether the residual variances between two observations are unequal. It can be deduced from the results that there is no heteroscedasticity in the data because every variable has a significance level greater than 0.05.

The outcomes of the statistical tests so demonstrate that the data used in multiple linear regression analysis may be used appropriately and satisfy the fundamental requirements of regression. This information can therefore be utilized to examine how the independent factors (Public Ownership, Board of Directors Compensation, and Audit Committee) affect the dependent variable (Tax Management) in this study.

## RESULT

### 3.2 Research Data Analysis

A descriptive statistical analysis was performed on the research data to describe the properties of each variable employed in the study. The outcomes of descriptive statistical analysis for each variable are summarized as follows:

**Public Ownership:** The range of this variable's value is from 0.01 to 0.49. This variable has an average value (mean) of roughly 0.1957 and a standard deviation of roughly 0.17195. About 0.030 of a difference exists. The 42 observations for this variable. **Board of Directors Compensation:** This variable ranges in value from 334,456 to 15,756,857. This variable has a mean value of roughly 5,650,414.33 and a standard deviation that is roughly 3,941,317.520. With a variance of around 15,533,983,791,831.10, it is extraordinarily enormous. The variable has 42 observations as well.

**Audit Committee:** The range for this variable is between 0.33 and 1.50. This variable's mean value is approximately 0.8117, and its standard deviation is approximately 0.31630. The difference is roughly 0.100. The variable has 42 observations as well.

**Tax Management:** The range of this variable's value is from 0.03 to 0.60. This variable's mean value is approximately 0.2738, and its standard deviation is approximately 0.07600. The difference is around 0.006. The 42 observations for this variable. Multiple linear regression analysis's findings demonstrate the impact of each independent variable (public ownership, board compensation, and audit committee) on the dependent variable (tax management). The outcomes of the regression analysis are summarized as follows:

The constant is 0.292, or the intercept. When all independent variables (X1, X2, and X3) have a value of 0, this is the value of Tax Management (Y). If all other variables remain same in this situation, Tax Management has an initial value of roughly 0.292. **Public Ownership (X1):** Public Ownership has a regression coefficient of -0.047. This shows that Tax Management (Y) will decrease by roughly 0.047 if Public Ownership rises by 1%. The more the Public Ownership, the lower the Tax Management, according to this negative coefficient, which denotes a negative link between Public Ownership and Tax Management. **Compensation of the Board of Directors (X2):** -0.000000004705 is a relatively modest regression coefficient for Board Compensation. This suggests that the impact of board compensation on tax management is negligible to nonexistent. As a result, in this situation, there is little connection between board compensation and tax management. **Public Ownership (X1):** Public Ownership has a regression coefficient of -0.047. This shows that Tax Management (Y) will decrease by roughly 0.047 if Public Ownership rises by 1%. The more the Public Ownership, the lower the Tax Management, according to this negative coefficient, which denotes a negative link between Public Ownership and Tax Management.

**Compensation of the Board of Directors (X2):** -0.000000004705 is a relatively modest regression coefficient for Board Compensation. This suggests that the impact of

board compensation on tax management is negligible to nonexistent. As a result, in this situation, there is little connection between board compensation and tax management.

### 3.2 Hypothesis Testing

R<sup>2</sup> Coefficient of Determination: R<sup>2</sup> is equal to 0.019, or 1.9%, of the total sample size. This demonstrates that the combined impact of Board of Directors Compensation (X<sub>2</sub>), Public Ownership (X<sub>1</sub>), and Audit Committee (X<sub>3</sub>) on Tax Management (Y) is 1.9%. About 98.1% of the remaining portion is influenced by factors that have not been looked at.

F Test: The findings of the F test indicate that, overall, there is no significant relationship between the independent variables in the model (Public Ownership, Board of Directors Compensation, and Audit Committee) and the dependent variable Tax Management. At a significance level of 0.05, the estimated F value (1.271) is less than the F table value (2.851).

T Test: Each independent variable's t test findings are as follows:

There is no significant partial influence between Public Ownership and Tax Management, according to the significance value (p-value) for the Public Ownership Variable (X<sub>1</sub>), which is  $0.524 > 0.05$ . The significance value for the Board of Directors Compensation Variable (X<sub>2</sub>) is  $0.150 > 0.05$ , indicating that there is no significant interaction between the Board of Directors Compensation and Tax Management. There is no significant partial effect between the Audit Committee and Tax Management, according to the significance value of  $0.609 > 0.05$  for the Audit Committee Variable (X<sub>3</sub>).

The influence of the independent variables (Public Ownership, Board of Directors Compensation, and Audit Committee) on the dependent variable (Tax Management) in this study is not sufficiently supported by the overall analysis results. As a result, it is vital to take into account additional variables that could have an impact on tax management or to perform additional research to investigate more in-depth data.

### 3.2 Interpretation of Research Results

The Analysis' Findings: There is no discernible relationship between the ratio of public ownership and tax management, according to the results of the analysis. Thus, a company's level of public ownership will not significantly affect its efforts to manage its taxes. This outcome is in line with many earlier investigations.

Effect of Board remuneration Ratio on Tax Management: According to the research's findings, board remuneration has little to no impact on tax management. The hefty salary that the board of directors earned in this situation won't significantly affect how the company manages its corporate taxes. This result is consistent with a number of earlier research. Effect of Audit Committee Ratio on Tax Management: The analysis's findings indicate that the audit committee's impact on tax management is negligible. This means that the company's

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tax management procedures won't be greatly impacted by the existence or level of audit committee activities. This outcome is in line with many earlier investigations.

Overall, this study indicated that characteristics including board compensation, public ownership, and audit committee do not significantly influence the company's tax management methods. It's possible that elements not covered in this study have a greater impact on tax management strategies. The state of company governance and tax laws in Indonesia may also have an impact on the study's findings.

#### **4. CONCLUSION**

The following are the findings from the analysis of research data on how corporate governance affects tax management in companies in the consumer products sector listed on the Indonesia Stock Exchange in 2015–2020:

According to the findings of hypothesis testing incorporating the variables of public ownership, board compensation, and audit committee, there is no significant relationship between these corporate governance aspects and the methods used by these corporations for tax management.

Effect of Public Ownership: There is insufficient proof to conclude that a company's attempts to control its taxes are significantly impacted by its amount of public ownership. The probability (p) found shows that this association is not significant. Compensation of the Board of Directors: The procedures used by the board of directors to manage corporate taxes are not significantly affected by the amount of compensation paid to the board of directors. The analysis's findings indicate that there isn't a significant relationship between the board of directors' pay and the company's attempts to control its tax liabilities.

Effect of Audit Committee: Tax management procedures are not considerably impacted by the audit committee's presence or activity within the organization. In this analysis, the audit committee variable did not show to be significant.

Overall, the study's findings show that the corporate governance aspects it examined don't significantly affect how companies in the consumer products sector handle their taxes. The state of Indonesia's tax laws and regulations, together with other potential influences, may have a significant impact on how these corporations manage their taxes. To comprehend additional aspects that affect tax management in Indonesia, more research may be required.

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