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The Effectiveness of Corporate Governance Components as a Control Mechanism in Detecting Tax Avoidance When the Company is Under Financial Pressure

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ABSTRACT

This study investigates the effectiveness of corporate governance components in detecting corporate tax avoidance and how effectiveness is affected when firms are under financial pressure. This study uses three components of corporate governance: board of directors, board of commissioners, and audit committees while corporate tax avoidance is measured using effective tax rate (ETR). This study employs data from manufacturing companies listed on the Indonesian Stock Exchange. Sample was selected using purposive sampling method. Data analysis was conducted on 163 panel data from 62 companies in 2016 - 2018 using moderated regression analysis. The results prove that proportion of independent directors and audit committees as predictors of ETR. Whereas proportion of independent commissioners and board of directors and board of commissioners meeting ratio have no effect on ETR. It also shows that financial pressure moderates the relationship between the proportion of independent directors and ETR. Financial pressure also moderates the relationship between the audit committee and ETR. On the contrary, financial pressure does not moderate the association of independent commissioners and ETR. The results also show that external audit as a control variable related to ETR. This study contributes to the literature on the importance of the effectiveness of corporate governance components in reducing tax avoidance and how financial pressure affects their effectiveness.

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INTRODUCTION

Tax compliance incorporates tax calculation, payment, and reporting activities (Madison, 2017). Poor tax compliance indicates tax avoidance efforts that will impact the state revenue (Lanis and Richardson, 2013). The desire to minimize the tax burden will encourage companies to seek loopholes in tax regulations that prompt tax aggressiveness. Tax aggressiveness is performed through the minimization of tax burden legally within the framework of taxation rules and illegally to violate tax law (Wang et al., 2019).

The phenomenon that occurs in Indonesia shows that the achievement of tax revenues remains under par. The accomplishment of tax payments in 2019 earned IDR 1,312.40 trillion. This figure shows the achievement of 73.47 percent of the tax revenue target in the same year. Tax revenue in 2019 grew by 0.84 percent from 2018 which only reached IDR 1,301.52 trillion (Kemenkeu, 2019). According to the figures and growth of target achievement, the realization of the tax revenue has not been optimum.

Tax revenue is governed by the level of taxpayer compliance as reflected in the tax ratio, namely the ratio of taxes to gross domestic product. The tax ratio in 2019 was 9.76 percent, down 0.48 percent from the 2018 tax ratio, which was fortunately 10.24 percent (Republika.com, 2021). Taxpayers (TP) who self-reported tax obligations until July 2019 attained 12.3 million or 67.2% of the total number of taxpayers, registering 18.3 million people (Bisnis.com, 2019). From 67.2% of taxpayer reporting, the taxpayer from the corporate category has a compliance rate of 57.28%. This figure implies that the company has not fulfilled tax obligations optimally.

Thus far, corporate taxpayers have contributed greatly to state revenues. Conversely, the tax from the company to the state treasury is principally a company burden. This expense will reduce the profit. A large amount of tax that must be submitted to the state treasury has become the obscure motivation for companies to act aggressively in dealing with tax payments (Chen et al., 2010). Tax aggressiveness is legal in terms of tax avoidance and illegal in form of tax evasion (Frank et al., 2009). Tax avoidance is committed by taking loopholes opportunity in tax regulations to preserve high profits, thus maintaining the company's reputation.

The urge to sustain profits arises because the company experiences financial pressure of obligation to meet targeted financial performance. Financial target is a trigger for management to benefit from tax inadequacy. The research by Lanis et al. (2019) proves that financial pressure had an effect on encouraging management to commit tax avoidance.

Former studies show that corporate governance mechanism reduces the extreme level of tax avoidance (Wang et al., 2019). The corporate governance component, which is the proportion of independent directors, is closely related to tax avoidance practices (Lanis and Richardson, 2011), audit committee independence is negatively related to tax avoidance (Lanis and Richardson, 2013), the independence of the board of commissioners is positively related to low level of tax avoidance, but negatively related with a high level of tax avoidance (Armstrong et al., 2015) and internal control weaknesses are negatively related to tax avoidance (Bauer, 2016).

This study complements previous studies by examining the effectiveness of corporate governance components in forecasting corporate tax avoidance using components such as the board of commissioners, the board of directors, and the audit committee. Corporate tax avoidance is reflected in the effective tax rate (ETR); a percentage of corporate tax. The higher the ETR ratio, the smaller the company's propensity to commit tax avoidance and, conversely, the lower the ETR ratio, the higher the likelihood of tax avoidance behavior. Besides, research analysis focuses on moderating financial pressure on the relationship between corporate governance and tax avoidance. Internal financial pressure is reflected in the amount of financial performance that should be achieved in form of return on asset.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The definition of tax avoidance is flexible and robust. The overall set of tax planning strategies that end with legal tax avoidance while the other way includes non-compliance and violation is the flexible definition of tax avoidance from Hanlon and Heitzman (2010). The robust definition is any transaction that reduces the company's tax

obligations are considered as tax avoidance (Dyreng et al., 2008).

Two incentives encourage tax avoidance (Wang et al., 2019). First, the company has a financial interest to preserve company resources so company value can increase (Shackelford and Shevlin, 2001) and shareholders gain more wealth (Kubick et al., 2015), however, it reduces government resources. Second, tax payment is a corporate social obligation that can be allocated to improve the social welfare of the community (Sikka, 2010). Tax avoidance level appears to be small in companies that carry out social responsibility (Lanis and Richardson, 2015). Another argument suggests that if a company engages in tax avoidance, the proceeds can be managed to invest in social activities, such as infrastructure investment and job creation (Davis et al., 2016).

Tax avoidance falls into four divisions (Ostwal and Vijayaraghavan, 2010): deferred tax liability, recharacterization of income or expenses to be subject to low tax or zero-rate tax, permanent elimination of tax obligations, and income shifting from high-income to low-income taxpayer. In practice, these techniques are applied using the tax treaty with involved parties, use of international tax shelters through fake intermediary companies, excessive use of debt over equity, non-arm's length transactions (e.g. transfer price manipulation), resettlement, new branch entities, and use of tax heaven.

Agency Theory in Corporate Tax Avoidance

Tax avoidance attempts to maintain the company's cash resources. These resources can help increase company value and shareholder value. These attributes can be undermined by agency problems related to the separation of concerns between shareholders and managers for several reasons (Wang et al., 2019). First, the separation of ownership and control between shareholders and management is a gap for managers to conduct tax manipulation for personal interest that may harm the company's value. Second, the company will conceal tax behavior through obscure and complicated transactions to keep tax avoidance exposure away from the tax authorities. According to Desai et al. (2007), companies are more likely to create complex transactions to avoid detection by tax authorities. This situation can diminish the transparency of shareholders. Third, tax avoidance results in company loss because this action entails risk to the company's reputation for the long term. Fourth, tax avoidance contrasts to social responsibility (Sikka, 2010) which is an important concern of shareholders (MacKey et al., 2007).

Relationship between the Effectiveness of Corporate Governance and Corporate Tax Avoidance

The corporate governance mechanism is related to healthy and transparent corporate governance to support the company's concern, especially in the face of environmental changes. Good governance requires management on the basis of accountability, transparency, accountability, fairness, and independence. Corporate governance components include the line of the board of directors, board of commissioners, and audit committee.

The board of directors has a role in corporate governance (Adam et al., 2010; Schwartz-Ziv & Weisbach, 2013). The roles performed comprise management and supervision (Schwartz-Ziv & Weisbach, 2013). Both roles can be carried out properly if supported by an adequate number and proportion of the board of directors. The number of board of directors following the scope and complexity of the company will result in better management and supervision activities of a company, consisting of taxation which is one of the financial operational activities. In this scope, the board of directors will determine the level of tax avoidance.

Supervision by the board of directors consumes most of their time. The board of directors meeting is a means for them to discuss and take actions related to problems encountered by a company based on the supervision results (Schwartz-Ziv & Weisbach, 2013), including tax activities.

Independent directors as contributing factors in good corporate governance will maintain professionalism to manage the company. Independent directors have more experience, a better understanding of the importance of decision control, and can work in a controlled system (Beasley et al., 2000). Therefore, independent directors will minimize company management practices that violate regulations, including tax practices. The prevalence of tax avoidance will

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decrease once the number of independent directors of the company increases because it can prevent the company's aggressive behavior towards tax payments (Minnick & Noga, 2010).

H1a: The proportion of independent directors has a positive effect on the effective tax rate.

H1b: The number of board of directors meetings has a positive effect on the effective tax rate.

The board of commissioners carries out a supervisory mechanism for the management of the company through monitoring of the company's operational activities and the implementation of the board of directors' policies. The policy and management supervision by the board of commissioners to manage the company, such as tax management, can prevent or reduce tax avoidance committed by the company (Lanis, and Richardson, 2011; Richardson et al., 2013). The board of commissioners will carry out their functions effectively if they are supported by independent members who have no connection to the owners and managers of the company. Research by Armstrong et al. (2015) proves that the independent board of commissioners had a positive effect on decreasing the level of tax avoidance. The effectiveness of the board of commissioners is also decided by the ongoing activities, such as board of commissioners meetings used to communicate strategic and operational matters of the companies under their supervision. The activities of the board of commissioners are positively related to company performance (Brick & Chidambaran, 2010).

H2a: The proportion of independent commissioners has a positive effect on the effective tax rate.

H2b: The number of board of commissioners meetings has a positive effect on the effective tax rate.

The board of commissioners is required to establish an audit committee to assist the supervision of the board of commissioners on the company. The tasks assigned to the audit committee based on Financial Services Authority Regulation number 55 /POJK.04/2015 involve reviewing: financial information published by companies, compliance with laws and regulations, and risk management implementation.

The effectiveness of the audit committee is regulated by the active role of audit committee members in performing their activities (DeZoort et al., 2002). Previous studies (e.g. Abbott et al., 2003; Xie et al., 2003) show that the active role of the audit committee is demonstrated by the number of audit committee meetings in the present time. The higher the frequency of meetings, it is expected that the greater the possibility of the audit committee carrying out assignments displaying that their function has been effectively performed. Research results in Richardson et al. (2013) and Robinson et al. (2012) discover that the functioning audit committee could reduce the level of tax avoidance.

H3: The number of audit committee meetings has a positive effect on the effective tax rate.

Moderation of Financial Pressure on the Relationship between Corporate Governance Components and Corporate Tax Avoidance

Tax avoidance is more likely committed by companies facing financial pressure (Luo et al., 2020). Approximately 95% of fraud cases are affected by financial pressure (Albrecht et al., 2006). Internal financial pressure, among others, is manifested in the amount of financial performance that should be accomplished by a company. The larger the financial performance target, the greater the pressure on management will be. In public companies, profits from previous years are efficient information for various parties, especially investors. Besides, the obligation to achieve stable or increasing financial performance should be fulfilled to remain registered or included in the top public companies within the ecosystem of the capital market. Therefore, company manipulation on the tax burden is plausible to achieve financial targets. The results of Kraft (2014) investigated that companies with high levels of profitability appeared to have low tax payments.

In companies that implement good governance, independent commissioners, independent directors, and audit committees that perform their duties effectively will influence management's behavior in dealing with financial pressures. The greater the number of independent directors and independent commissioners, the stronger they will be in dealing with financial pressures and escorting management behavior to commit to management and supervision of the company, which is according to prevailing regulations, such as minimizing tax avoidance and

otherwise. Similar to the audit committee, the more effective the audit committee in completing duties, including facing financial pressure, the less the tax avoidance practices will be. In contrast, the more ineffective the audit committee in carrying out their duties, including overcoming financial pressure, the greater the tax avoidance behavior will be.

H4a: Financial Pressure moderates the relationship between the proportion of independent directors and the effective tax rate.

H4b: Financial Pressure moderates the relationship between the number of board of directors meetings and the effective tax rate.

H5a: Financial Pressure moderates the relationship between the proportion of independent commissioners and the effective tax rate.

H5b: Financial Pressure moderates the relationship between the number of board of commissioners meetings and the effective tax rate.

H6: Financial Pressure moderates the relationship between the number of audit committee meetings and the effective tax rate.

Research methods

The research population is manufacturing companies listed on the Indonesia Stock Exchange (IDX). The research sample was selected using a purposive sampling method based on the criteria of a manufacturing company listed on the IDX in 2016-2018 and has complete data according to research needs. The research data were sourced from the annual report published on the IDX website (www.idx.co.id) and the company's website.

This study applied the dependent variable of corporate tax avoidance as a proxy for the effective tax rate (ETR). The effective tax rate is a tax avoidance proxy commonly used in many studies (Wang et al., 2019). ETR measurement uses a comparison between the company's total income tax and profit before tax (Rego, 2003; Hanlon and Heitzman, 2010).

$$ETR = \frac{Total\ Income\ Tax}{Profit\ Before\ Tax}$$

The measurement of the independent variable is the proportion of independent directors by dividing the number of independent directors by the total number of members of the board of directors (Lanis and Richardson, 2011; Armstrong et al., 2015). The number of board of directors meetings is calculated from the total of meetings for a year in form of internal meetings among board of directors and meetings among board of commissioners divided by the number of meetings required by the Financial Services Authority (OJK) per OJK Regulation Number 33/POJK.04/2014 on directors and boards commissioners of issuers or public companies. Article 16 PJOK 33 stipulates that the internal meeting of the board of directors is held at once a month and the meeting with the board of commissioners is once in four months.

The proportion of independent commissioners is assessed by dividing the number of independent commissioners by the total number of commissioners (Richardson et al., 2013). The number of the board of commissioners meetings is calculated from the number of internal meetings and assembly general meetings with the board of directors in a year divided by the number of meetings required by POJK 33. According to article 31 of PJOK 33, the internal meeting of the board of commissioners is held once in two months while the assembly general meeting with the board of directors is once in four months.

The audit committee is measured based on the effectiveness of the audit committee function as reflected in the number of audit committee meetings (Song & Windram, 2004; Davidson et al., 2005) that have been carried out compared to the number of meetings required and regulated in the article 13 of the Financial Services Authority (OJK) regulations Number 55/POJK.04/2015 on the establishment and guidelines for the implementation of the work of the audit committee that the audit committee should assemble in a regular meeting once in three months.

Financial pressure as a moderating variable is proxied using return on asset (ROA). This proxy is one measure of the company's operational success (Skousen et al., 2008). ROA is an indicator of the financial target variable that demonstrates the efficiency of the company's asset management calculated by dividing net income after tax by total asset.

$$ROA = \frac{Net\ Income\ After\ Tax}{Total\ Asset}$$

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The control variable was utilized in multivariate testing by examining several company characteristics that could affect the relationship between the effectiveness of corporate governance and tax avoidance. Some of the control variables in this study are firm size by administering the natural logarithm of total asset and the company's capital structure using debt to equity ratio (Olsen & Stekelberg, 2016). This study also used external audit control variables proxied with the help of Big4 and non-Big4 audit firms (Klassen et al., 2015).

Data analysis began with a normality test of the data using the central limit theorem and classical assumption test in the form of multicollinearity, autocorrelation, and heteroscedasticity to obtain unbiased results. The test was maintained with the simultaneous significance test (F statistic test) and the coefficient of determination (R^2).

Hypothesis testing applied moderated regression analysis (MRA) with the research model:

$$ETR = \alpha + \beta_1 DI + \beta_2 RD + \beta_3 KI + \beta_4 RK + \beta_5 KAI + \beta_6 ROA + \beta_7 DI*ROA + \beta_8 RDI*ROA + \beta_9 KI*ROA + \beta_{10} RKI*ROA + \beta_{11} RKA*ROA + \beta_{12} SIZE + \beta_{13} SIZE + \beta_{14} AE + \varepsilon$$

Keterangan:

ETR : effective tax rate
DI : percentage of independent board of directors
RD : ratio board of directors meeting
KI : percentage of independent commissioners
RK : ratio of board of commissioners meeting
RKA : ratio of audit committee meeting
DI*ROA–KAI*ROA : interaction between independent variables and moderating variables
SIZE : firm size
SM : modal structure
AE : external auditor
α : constant
β_1-β_7 : parameter coefficient
ε : error

RESULTS AND DISCUSSION

The samples collected were 62 companies in the course of three years of research with the final data of 163 after excluding incomplete data that did not meet the research criteria and outlier data. Table 1 presents the overall picture of the research sample.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ETR	163	0.012	0.581	0.259	0.084
DI	163	0.000	1.000	0.295	0.227
RD	163	0.000	3.867	0.581	0.875
KI	163	0.200	0.667	0.397	0.086
RK	163	0.000	2.400	0.424	0.629
KA	163	0.500	6.000	1.732	1.162
ROA*	163	0.001	.300	0.078	0.064
SIZE**	163	25.799	33.474	28.760	1.620
SM**	163	0.083	2.888	0.748	0.541
	Frequency	%			
EA NonBig4**	83	50.9			
EA Big4**	80	49.1			
	163	100			

Source: processed secondary data
*: moderating variable
**: control variables

The average ETR of 25.9% and standard deviation of 8.4% indicate that some companies had a tax payment percentage below the average with the lowest value of 1.2% and above the average with the highest value of 58.1%. Independent directors are not regulated in OJK regulation number 33/POJK.04/2014, therefore the practice of the number of independent directors varies greatly from one company to another with the lowest value of 0.71% and the highest percentage of 100%, and the average was found at 29.99%. General board of directors meetings were held by sample companies with an average of 58.1% and the highest number of meetings of 387%, exceeding the minimum number governed by the OJK. The average proportion of independent commissioners was 39.43%. This figure is more than the baseline set by the OJK with 30% as per OJK regulation article 33. The average number of board of commissioners meetings was 42.4% of the requirement issued by the OJK. The audit committee meeting is an obligation regulated in OJK regulation number 55/POJK.04/2015, thus the average meeting was rather high with 173%, more than the obligation of 100%, and some companies even went beyond 600%. However, some companies could not optimally fulfill such obligations as indicated by the lowest value of 50%. The average percentage of ROA was 7.67% with a standard deviation of 6.01%, while the minimum-maximum value range was impressively high from 0.1% to 30%. The average ROA demonstrates that the efficiency of asset management in several companies was relatively low. The control variables of firm size and capital structure had an average of 28.76 and 0.748, respectively. Meanwhile, the frequency of Big4 and non-Big 4 public accountants appeared to be balanced, 80 and 83.

Based on the central limit theorem, the research data were normally distributed with a total of 163, higher than the minimum limit for the large group category of 30 data. The research data did not show a multicollinearity trend because the overall tolerance value only secured less than 0.1, the VIF value was below 10, and the correlation between independent variables was entirely no more than 95%, implying no significant multicollinearity. The research value of Durbin Watson was 1.835 or between -2 and 2, all things considered, no autocorrelation was found in the research data. The scatterplot to detect heteroscedasticity exhibited random distribution of the data without following a certain pattern, thus there was no heteroscedasticity.

Table 2 lists the adjusted R square value of 10.7%. It implies the ability of the independent variable to explain ETR as the dependent variable by 10.7% and 89.3% were explained by other variables outside the research variables. The result of the F test scored 2.388, which is higher than the F table value of 3.23, and the significance was 0.005 (less than the 5% confidence interval). These results indicate that all independent variables simultaneously affected the dependent variable.

Table 2 Results of F and R^2 Tests

	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.208	14	0.015	2.388	0.005
Residual	0.923	148	0.006		
Adjusted R Square	.107	162			

Source: processed secondary data

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Table 3 displays the results of the t-test on the research model using moderated regression analysis.

Table 3. Results of t-test

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	0.312	0.135		2.309	0.022
DI	0.156	0.051	0.427	3.060	0.003*
RD	0.011	0.022	0.117	0.516	0.606
KI	-0.052	0.111	-0.053	-0.466	0.642
RK	-0.005	0.029	-0.039	-0.182	0.856
KA	0.031	0.011	0.432	2.932	0.004*
ROA	0.032	0.559	0.025	0.058	0.954
DIRoa	-2.115	0.758	-0.489	-2.791	0.006*
RDRoa	-0.348	0.312	-0.277	-1.115	0.267
KIRoa	1.0573	1.687	0.548	1.372	0.172
RKRoa	0.382	0.371	0.250	1.028	0.306
KARoa	-0.426	0.152	-0.557	-2.809	0.006*
SIZE	-0.003	0.005	-0.065	-0.726	0.469
SM	-0.010	0.014	-0.067	-0.762	0.447
EA	0.029	0.016	0.174	1.775	0.078**

*Level of significance at 0.01

** Level of significance at 0.1

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The relationship between the effectiveness of the board of directors and tax avoidance is reflected in hypotheses 1a and 1b. The results of the analysis support H1a and do not support H1b. Hypothesis 1a is accepted given the t-value of the DI variable of 3.060 which is higher than the t-table value of 1.895 and a significance level of 0.003 which is smaller than the 0.01 confidence level. Hypothesis testing on 1b shows the t-value of 0.516 and was not significant at the level of 0.606. These results indicate that the proportion of independent directors (DI) is positively related to ETR. The presence of independent directors in the company can promote better corporate governance practices and prevent companies from malpractices. Strong supervision from the board of directors will minimize tax aggressiveness (Richardson et al., 2013) so that the level of tax avoidance decreases and the percentage of tax payment increases. The composition of the board of directors incorporating outside members or independent members will diminish tax aggressiveness (Lanis and Richardson, 2011) and is in line with the research by Dyreng et al. (2010), Armstrong et al. (2015), Richardson et al. (2015), and Hsu et al. (2018). Regular meetings of the board of directors are principally a means for them to communicate and discuss strategic and operational topics as part of their priority. The insignificant relationship between the board of directors meetings and tax avoidance is, perhaps, because this scope is not a priority discussion at the board of directors meeting.

The independent commissioner variable (KI) had a t-value of -0.466, which is under par of t-table, and a significance level of 0.642, which is greater than the 0.05 confidence level. The results correspond to the board of commissioners meeting variable with a t-value of -0.182 and insignificant with 0.856. Therefore, H2a and H2b are rejected, making the KI and RK variables had no positive effect on ETR. Although the research data obtained the average proportion of independent commissioners of 39.7% above the percentage required by the OJK, which is 30%, the high percentage of independent commissioners and the number of board of commissioners meetings could not optimize the implementation of supervision on company management so tax avoidance could not be prevented and minimized. Managers can take advantage of the lack of supervision to engage in obscure activities in an attempt to evade taxes (Bauer, 2016). The results of this study are in line with the results of research by Pattiasina et al. (2019) that independent commissioners had no effect on tax avoidance.

The test results show that the third research hypothesis (H3) is accepted; the number of audit committee meetings (KA) had a negative effect on tax avoidance or a positive effect on ETR based on a t-value of 2.932 which is higher than the t-table value of 1.895 and a significance level of 0.04 which is higher than the 0.05 of confidence level. The audit committee is assigned to assist the board of commissioners to supervise the company management. Coordination meetings by members of the audit committee are mandatory in nature and regulated in OJK Regulation Number 55 / POJK.04/201 enforces the effectiveness of the audit committee's function in facilitating the board of commissioners to control the company operation. Adequate supervision will minimize unhealthy corporate management practices, including tax avoidance. The functioning audit committee can reduce the level of tax avoidance. These results are similar to the research by Richardson et al. (2013) and Hsu et al. (2018) that companies with more independent audit committees showed lower levels of tax avoidance

Moderation of Financial Pressure on the Relationship between Corporate Governance Components and Corporate Tax Avoidance

The regression results show that ROA as an independent variable had no effect on ETR with a t-value of 0.058 and a significance level of 0.954, nevertheless, ROA moderated the relationship of the independent board of directors to ETR with a t-value of -2.791 and a significance level of 0.006. ROA also moderated the relationship between the audit committee and ETR with a t-value of -2.809 and a significance level of 0.006. These results evidence that ROA as a proxy for financial pressure is a pure moderating variable (Ghozali, 2016).

The interaction variable of independent directors and financial pressure (DiRoa) had a t-value of -2.791 and a significance level of 0.006. Given these results, H4a is accepted, namely financial pressure proxied with financial targets in form of return on asset moderated the relationship of an independent board of directors

to corporate tax avoidance proxied by ETR. On the contrary, H4b containing the assumption of a positive relationship between the board of directors meetings and ETR was not successfully supported by the value of t -1.115 and a significance of 0.267. The t-coefficient on both variables shows that the interaction of these variables had a negative effect on ETR. The stronger the interaction between DI and ROA or RD and ROA, the higher the likelihood for a company to commit tax avoidance. The results of the study indicate that companies with high financial pressure will eventually result in the board of directors encountering such incidents in an attempt to achieve its performance target. Performance Achievement is pursued by taking advantage of available opportunities, including in tax management which leads to tax avoidance to increase the company's net profit. This is in accordance with the research results conducted by Richardson et al. (2015) that the interaction between independent directors and financial distress was positively related to tax aggressiveness. This condition can be attributed to the shortcomings of management internal monitoring who has direct responsibility for the company's operations. The weaknesses of monitoring can be exploited by management through tax avoidance to sustain financial resources. The research by Lanis et al. (2019) shows that in companies engaging in tax avoidance, directors and CEOs were rewarded for improving their reputations.

Research hypothesis 5a was not proven based on the t-value of the independent commissioner interaction variable and financial pressure (KiRoa) of 1.372 and insignificant at a level of 0.172. Furthermore. H5b was insignificant at a t-value of 1.028 and a significance level of 0.306. These findings indicate that financial pressure proxied by financial targets in form of return on asset did not moderate the effect of independent commissioners and the number of board of commissioners meeting on corporate tax avoidance as proxied by ETR. This illustrates that when management experiences financial pressure, there is a tendency to suffer from pressure by exhibiting opportunistic behavior to achieve performance targets. However, when there is supervision from the board of commissioners on the implementation of company operations as part of internal control, management will reduce the possibility of opportunistic behavior in carrying out tax avoidance (Huang and Chang, 2015) to lower risk exposure for such behavior. The results of this study are according to the research by Armstrong et al. (2015) that the corporate governance mechanism was not optimal and did not decrease the level of tax avoidance.

The sixth research hypothesis (H6) regarding the interaction of the audit committee with financial pressure (KaRoa) was successfully proven with a t-value of -2.809 and a significance level of 0.008. Financial pressure as proxied by financial targets in form of return on asset moderated the effect of the audit committee on corporate tax avoidance as proxied by ETR. The interaction of both variables had a negative effect on ETR. The stronger the interaction between the audit committee and ROA, the higher the opportunity to commit tax avoidance will be. Referring to descriptive statistics, the average audit committee meeting was higher than the requirements stipulated by OJK. This should have a positive impact on the optimization of the supervision by the audit committee. The duties of the audit committee include supervising external auditors, evaluating the effectiveness of internal control as well as internal audits, reviewing financial information and performance, and risk management. When reviewing risk management is carried out, the priority of countermeasure is on the main business risks experienced by the company. If tax risk is not considered as the main risk, then supervision will not do anything about it. Considering the prevailing situations, the audit committee considers that tax risk is rather low to be the focus of the evaluation (Tjondro and Olivia, 2018). The results of Deslandes et al. (2019) indicate the argument of audit committee had a negative effect on tax avoidance. Weak supervision in terms of tax compliance will motivate management in the vent of financial pressure to take advantage of inadequacy to avoid taxes.

Control Variable

The test results show that the control variables of firm size and capital structure were not significantly related to ETR, while the external auditor variables proxied by Big4 and non-Big4 audit firms were significantly related to ETR. According to the research done by Klassen et al. (2015), auditors from Big4 firms appeared to be less aggressive in tax avoidance.

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CONCLUSION

The results obtained that the components of corporate governance, comprising independent directors and audit committees, were positively related to the effective tax rate (ETR), therefore companies with these components had relatively large tax payments and relatively small tax avoidance. The increasing number of independent boards of directors and the higher frequency of audit committee meetings increased the effectiveness of the supervision of the board of directors and audit committee on the level of tax payments and suppression of tax avoidance. Moreover, the results show that financial pressure as a proxy for return on asset moderated the relationship between an independent board of directors and the audit committee on ETR. When companies face financial pressure, independent board of directors and audit committees will become insufficient in minimizing tax avoidance as attention is directed to achieving financial targets. The results of the study failed to prove a positive relationship between the board of directors meeting, the proportion of independent board of commissioners, and board of commissioners meeting with ETR and failed to prove that return on asset moderated the relationship between the board of directors meetings, the proportion of independent commissioners, board of commissioners meetings with ETR.

These findings are expected to enrich the literature on the relationship between the effectiveness of the components of corporate governance, tax avoidance, and financial pressure. This study entails limitations; it did not use all of the structures of corporate governance, such as the effectiveness of the general meeting of shareholders, internal control, and institutional and managerial share ownership. This study is also limited to internal financial pressure, which is the return on asset. Future research is expected to overcome these limitations by exploring more components of corporate governance and including external financial pressure proxies in the research model.

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