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The Moderation Role of Corporate Governance on Tax Aggressiveness

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ABSTRACT

The study examines how tax aggression is affected by firm size, capital intensity, and institutional ownership with corporate governance acting as a moderating factor. Manufacturing firms that were listed between 2018 and 2022 on the Indonesia Stock Exchange comprise the study's population. The population is 214 firms. 62 firms were chosen as research samples. Multiple regression analysis is the approach used for data analysis. The findings suggest that tax aggression is not a function of firm size. Tax aggressiveness is significantly impacted by institutional ownership and capital intensity. Corporate governance factors, however, do not seem to be able to increase the relationship between tax aggression and firm size, capital intensity, and institutional ownership. This is due to the lack of strength or effectiveness of existing corporate governance mechanisms, as well as certain company policies or management practices that may limit the moderating impact of corporate governance.

Keywords: Capital Intensity, Company Size, Corporate Governance, Institutional Ownership, Tax Aggressiveness
JEL Classifications: G320, G340, H260

1. INTRODUCTION

Indonesia is a developing country with a high population, making it one of the largest in the world. As a result, the government seeks to build the country so that its people can live better (Tambunan, 2008). Taxes are the largest source of income for a country, including Indonesia, which gives big role in development (Sari and Qibthiyyah, 2022). The self-assessment system in Indonesia requires taxpayers to participate in a government-made online administration system to calculate, pay, and report taxes. Taxpayers are expected to pay their taxes to help the government achieve its goals (Hassan et al., 2021). Every Indonesia citizen who is a taxpayer is obliged to pay and deposit his tax obligations into the state treasury, either directly or through non-beneficiary institutions (Orkin et al., 2022).

Tax problems in the Indonesia government generally start from the problem of low tax revenue due to lack of tax awareness and knowledge, low level of tax compliance so that there are acts of tax abuse and irregularities (Rahiem and Ardillah, 2022). Taxes are one of the sources of state revenue that comes from community participation, the state is authorized to collect taxes from its people because taxes are used as a means to prosper the people. Taxes are an important source of income for the state in carrying out various development programs and activities. However, in practice, there are still many cases where tax reporting and payment are not transparent. Transparency in tax reporting and payment is very important to create a fair and efficient tax system.

State revenue comes from the tax sector. The process of developing and building a country requires high tax revenues. This causes many taxpayers to engage in tax aggressiveness. Tax aggressiveness is a way to press taxable income which is designed through tax planning (Lietz, 2013). Tax planning actions, whether using methods that are considered lega that does not violate tax regulationsl, namely tax avoidance or tax evasion (Nugroho and Suprapto, 2024). Meanwhile, tax evasion is carried out illegally by hiding the actual situation, where the methods and techniques used are not within the corridor of tax laws and regulations, so it is not safe for taxpayers (Azra and Rahma, 2023).

This situation is known as "tax aggressiveness." According to Balakrishnan et al. (2019), tax aggressiveness is a tax avoidance strategy to minimize or completely eradicate tax burden of the company by utilizing permitted provisions, taking advantage of legal flaws in tax laws, or breaking by taking advantage of provisions of existing loopholes that are still in the gray area (Gribnau, 2015). According to Higgins et al. (2015), tax aggressiveness is a management strategy intended to lower the corporation tax rate that the business must pay to the government. The goal of tax aggressive measures is to reduce corporate taxes, which are now a source of public concern due to their noncompliance with public expectations and negative effects on the government (Lanis and Richardson, 2012).

The size of the corporation is one of the numerous variables that affect tax aggression (Aditya et al., 2023; Jaffar et al., 2021; Pranata et al., 2021; Salman, 2018). The size of the business indicates its capacity to report its tax choices. The size of a firm reflects its stability and capacity to conduct business. Capital intensity is the second element that influences tax aggression (Fransiska et al, 2024; Kurniawati and Mukti, 2023), capital intensity can reflect how much assets are used to generate income for the company. Capital intensity explains amount of company's capital in assets' form that can be used to generate revenue from the sale of the company's products. Examples of capital intensity in a company such as playing a role in helping the company find out the number of company assets used in order to generate revenue (Krisyadi and Mulfandi, 2021).

Capital intensity belongs to investment of the company in fixed assets (Suciarti et al., 2020). Because the firm's fixed assets are depreciated annually, the corporation is able to deduct taxes from them (Mykolaitiene et al., 2010). Moreover, institutional ownership is another element that influences tax aggression (Anggraini and Widarjo, 2020). An organization that has a significant stake in assets, including stock investments in a business, is said to have institutional ownership (Moradi et al., 2022). It is the duty of institutional owners to keep a reasonable eye on and oversee management in order to protect their investment in the business. Additionally, institutional owners are very aware of the significance of meeting tax requirements (Mbilla et al., 2018). When institutional parties own shares in a firm, they can promote additional oversight to improve managerial performance (Daryaei and Fattahi, 2020). Institutional ownership can be used as an effective monitoring mechanism in making decisions by managers in the company (Al-Najjar, 2010), to manage the company for its own interests, especially related to profit optimization, so that the tendency to avoid taxes (Amalia et al, 2020).

The agency hypothesis, which arises from the conflicting interests of the principle, who is the company's management, and the agent, who is the shareholder, is the basis for the link between tax aggressiveness and GCG (Good Corporate Governance). Conflicts of interest between management and shareholders or other stakeholders will be an issue for companies that have traded and disseminated their shares to the public (Bolodeoku, 2006). Not only must businesses pay taxes, but they must also establish Corporate Governance (CG) when they go public in Indonesia. A company's direction for successful performance and the creation of value for stakeholders is determined by the system of regulations and controls known as CG. The corporation may establish a good, effective, and efficient CG by putting CG into practice. controlled by the actions that the business must do to keep growing, but that do not contravene the regulations established by the government (Wahyudi et al., 2021).

An audit committee serves as a stand-in for CG. As an independent professional committee under the board of commissioners, the audit committee's job is to support and enhance the board's ability to perform supervisory functions over financial reporting, risk management, audit implementation, and CG of businesses (Rochmah Ika and Mohd Ghazali, 2012). In the realm of CG, the audit committee's duties include conducting oversight to stop employee fraud and conflicts of interest and making sure the business has been operated in compliance with relevant laws and regulations (Okike, 2007).

2. LITERATURE REVIEW

2.1. Agency Theory

When shareholders (principals) give management (agents) the authority to make choices on the operation of the business, agency relationships arise. Information asymmetry may result from this principal-agent interaction. This may be as a result of the agent knowing more about the state of the business than the principal (Boatright, 1994). The connection between principal and agent, which may lead to knowledge asymmetry and a conflict of interest, is explained by agency theory (Panda and Leepsa, 2017). Agent and principal are distinct concepts in agency theory. An information asymmetry exists between the principal and the agent as a result of this separation. Principals don't know as much about the firm as agents do (Bendickson et al., 2016). Because the agent and the principal have different interests, a conflict of interest may arise between them. Principals desire the best profits, while agents or management want to get paid more. Optimal earnings serve as indicators for assessing management effectiveness (Waterman and Meier, 1998). Agents will be encouraged by agency theory to boost the company's earnings. When a company's profits rise, the amount of income tax will rise in tandem with those profits (Santos and Brito, 2012). Agency Theory explains the relationship between the party that gives authority or can be referred to as the principal who is given authority or can be called an agent. When the management has more information than the principal, there is an imbalance in obtaining information between the management as an information provider and the shareholders as information users in the company (Heath, 2009).

2.2. Tax Aggressiveness

Tax aggressiveness is an issue that is now quite a phenomenon among the public. Tax aggressiveness occurs in almost all large and small companies around the world (Lanis and Richardson, 2012). The objective of this tax aggression action is to minimize the tax costs relative to the expected tax expenses, or it may be accomplished by tax reduction measures (Lin, 2021). A common practice in today's huge corporations is tax aggressiveness, which is the practice of minimizing the taxable amount earned by the organization. This violates the laws that are in effect in both the community and the government. Generally, different costs that can be subtracted from taxable income are used to lease the basis for tax imposition. Therefore, it may be said that tax aggressiveness refers to any attempt made by businesses to minimize the tax burden that they are required to pay. actions carried out by businesses to engage in tax aggression through tax avoidance, both legitimately and criminally. The reason why businesses engage in tax aggression is because taxes are an extra expense that might lower their earnings (Santini and Indrayani, 2020).

2.3. Corporate Governance

The study of the relationships between directors, managers, workers, clients, and suppliers to businesses is known as corporate governance (CG). Trust in a nation's business and the corporation that manages it is directly tied to CG (Jamali et al., 2008). Choosing how to fulfill its tax responsibilities involves considerations of CG. Although a company's CG structure can influence policy decisions, especially those relating to taxes, tax management practices are reliable on the CG system (Schön, 2008). The firm is required to adhere to five primary GCG principles: independence, responsibility, accountability, openness, and justice. A company's increased added value for shareholders will also be impacted by how well its CG structure is applied. Agency theory is the best theory to apply in order to understand the idea of CG. This idea states that in order to ensure that CG has been implemented in accordance with relevant laws and regulations, a company's governance must be monitored and managed (Nurhasanah et al., 2022).

2.4. Hypothesis Development

2.4.1. Company size on tax aggressiveness

A company's size may be categorized using a number of factors, such as its total assets, log size, sales, and market capitalization, among others. The bigger the things, the bigger the business. The complexity of the transactions of a corporation does increase with its size. This circumstance enables businesses to engage in tax avoidance or aggression by using current loopholes (Dang et al., 2018). A company that is classified as large undoubtedly has sufficient financial circumstances, which will enable it to hire professionals who are paid specifically to support it in its efforts to engage in tax aggressiveness measures in order to minimize the tax burden and prevent harm to the business. As a result, the likelihood of engaging in tax aggression increases with the size of the business (Vuković et al., 2022). Numerous studies have examined the impact of firm size; Fitri and Munandar (2018) and Pranata et al. (2021) found that company size had a negative effect on tax aggression. Meanwhile, corporate size has a considerable impact on tax aggressiveness, according to studies by Rahayu and Suryarini (2021); Harjito and Sari (2017); and Yanti and Hartono (2019).

H_1: Company size has a significant effect on tax aggressiveness.

2.4.2. Capital intensity on tax aggressiveness

The amount of a company's capital in the form of assets that may be utilized to make money from the sale of its goods is known as capital intensity. A corporation that has a high capital-intensity ratio is one that requires a lot of capital (Stickney and McGee, 1982). Many studies have been conducted on the relationship between capital intensity and tax aggression. Capital intensity significantly influences tax aggression, claims Sumiati and Ainniyya (2021); Apriyanti and Arifin (2021); and Monika and Noviari (2021). However, Permatasari et al. (2022) found no correlation between capital intensity and tax aggression in the study of Awaliyah et al. (2021).

H_2: Capital intensity has a significant effect on tax aggressiveness.

2.4.3. Institutional ownership on tax aggressiveness

There is no correlation between tax aggression and institutional ownership. This indicates that the responsibility of overseeing, correcting, and influencing management is not a priority for institutional shareholders. Institutional owners must make sure that management makes decisions that maximize the welfare of institutional shareholders, but this should also require management to refrain from acting selfishly. Tax aggression is unaffected by institutional ownership, claim Siregar et al. (2022). In contrast, Khurana and Mosser (2013) claimed that institutional ownership influences tax aggressiveness in their study by Anggraini and Widarjo (2020).

H_3: Institutional ownership has no effect on tax aggressiveness.

2.4.4. Company size on tax aggressiveness moderated by corporate governance

According to the agency hypothesis, a large business's wealth may be utilized by agents to maximize agent performance by lowering the company's tax burden, which in turn maximizes company performance. Large corporations are less likely to avoid tax evasion according to the theory of political costs because they will be in the public eye. This is in contrast to the theory of political power, where states that large corporations are more likely to engage in aggressive tax evasion in order to minimize their tax burden. Although independent commissioners can mitigate the impact of firm size on tax aggressiveness, Pratama and Suryarini (2020) assert that company size has a substantial impact on tax aggressiveness. Then, firm size influences tax aggressiveness, but GCG is unable to mitigate this effect, according to Eka et al. (2024).

H_4: Company Size has a significant effect on tax aggressiveness with Corporate Governance as a Moderation Variable

2.4.5. Capital intensity on tax aggressiveness moderated by corporate governance

An activity relating to a business's investment in inventory and fixed assets is the fixed asset intensity ratio. The capital intensity ratio can demonstrate how the business uses the assets to generate revenue. Sugeng et al. (2020) showed that tax aggressiveness was significantly impacted by capital intensity. However, Sumiati and Ainniyya (2021) showed that tax aggression is unaffected by capital intensity.

H_5: Capital Intensity has a significant effect on tax aggressiveness with Corporate Governance as a Moderation Variable.

2.4.6. Institutional ownership on tax aggressiveness moderated by corporate governance

Managers are in charge of running the business and adhering to relevant laws and reporting requirements, which is one of the tenets of CG. The company's use of GCG principles will be able to reduce ineffective activities or rule infractions. As indicated by the proportion of shares held by institutional investors, institutional ownership is the total quantity of shares held by these investors out of all outstanding shares. One benefit of tax evasion will be the presence of strong institutional ownership control and oversight. Ratnawati et al. (2019) showed that tax aggression is significantly impacted by institutional ownership. Institutional ownership has little impact on tax aggression, claim Fen and Riswandari (2019). H_6: Institutional Ownership Has a Significant Effect on Tax Aggressiveness moderated by Corporate Governance.

3. RESEARCH METHODOLOGY

Manufacturing firms listed on the Indonesia Stock Exchange (IDX) were the subject of this study. The population is manufacturing firms listed on IDX between 2018 and 2022. There are 214 firms overall. The selection of a 5-year time span aims to focus only on that time frame so that the results obtained will be maximized, while the last year chosen is 2022 because this research was conducted in 2023 where the last financial report was issued in 2022. The selection of manufacturing is due to the sector which is more intense in the movement of costs that are integrated with the tax component. The largest manufacturing sector in Indonesia that is of concern to the government, especially tax regulators. In accordance with the criteria used in the study, 62 firms were chosen as research samples. Multiple regression analysis is used for data analysis.

4. RESULTS AND DISCUSSION

4.1. Descriptive Statistical Analysis

The descriptive analysis is presented in Table 1.

4.2. Results of Panel Data Regression Analysis

The results of the panel data regression estimation are as follow in Table.

The test results before using the moderating variable on Table 2, company size has a probability value of 0.6012 > 0.05. Consequently, it may be said that tax aggressiveness is not much impacted by a company's size. Thus, Ha was turned down while Ho was accepted. With a probability value of 0.0016 < 0.05, the test results indicates that capital intensity has a partially significant impact on tax aggressiveness. Thus, Ha was accepted while Ho was turned down. With a probability value of 0.0041 < 0.05, the test result for institutional ownership before using moderation indicates that institutional ownership has been partially significant impact on tax aggressiveness. Thus, Ha was accepted while Ho was turned down.

According to Table 3, company size has a probability value of 0.2426 > 0.05. Therefore, it can be said that the link between firm size and tax aggression is neither significantly moderated nor strengthened by CG as a moderating variable. Thus, Ha was turned down while Ho was accepted. Following the use of moderation factors, namely capital intensity, the test results for the second hypothesis show a probability value of 0.2189 > 0.05. Therefore, it can be said that the link between capital intensity and tax aggression is neither significantly strengthened nor moderated by CG as a moderating variable. Thus, Ha was turned down while Ho was accepted. With a probability value of 0.9089 > 0.05, the test results for the third hypothesis, which used institutional ownership as the moderating variable, indicate that CG does not have a significant effect on moderating and strengthening the relationship between tax aggressiveness and institutional ownership. Thus, Ha was turned down while Ho was accepted.

5. DISCUSSION

5.1. Company Size on Tax Aggressiveness

The test results for the company size hypothesis (X1) prior to the use of the moderating variable are shown in the above table. We may infer that tax aggressiveness is not much impacted by company size. The initial theory was therefore disproved. The result is consistent with Aminah et al. (2017) and Prabowo (2020), who also discovered that tax aggression was not significantly impacted by the size of the firm. This is because other factors might also have a significant impact, thus tax aggressiveness is not always directly impacted by a company's size. Some small companies may have aggressive strategies in managing taxes to optimize profits, while large companies may focus more on complying with strict tax regulations.

5.2. Capital Intensity on Tax Aggressiveness

The mentioned table suggests that capital intensity significantly influences tax aggression. As a result, the second theory is approved. The result is consistent with Pratama and Suryarini (2020); Moreno-Rojas et al. (2017); and Darsani and Sukartha (2021), who also discovered a substantial relationship between capital intensity and tax aggressiveness. This is because of the company which has high capital structures tend to have a large interest expense, which can create opportunities for companies to use aggressive tax planning practices to reduce their tax liabilities. By taking advantage of high interest expenses, companies can create a financial structure that allows them to legally reduce their taxable profits, thereby reducing the tax payments they would otherwise be paying.

5.3. Institutional Ownership on Tax Aggressiveness

Prior to applying the moderating variable, the test results for the institutional ownership hypothesis (X3) are shown in the table above. We conclude that tax aggressiveness is significantly influenced by institutional ownership to a certain extent. The third hypothesis is thus approved. The finding is in line with Tarmizi et al. (2023) and Darsani and Sukartha (2021), who also discovered a substantial relationship between tax aggressiveness and institutional ownership. This can be due to the fact that financial institutions often have a long-term interest in their investments. Tax aggressiveness can affect a company's financial performance, and institutions tend to seek long-term stability and growth. Therefore, they can influence a company's taxation policies to minimize risks and increase the value of their investments.

5.4. Company Size on Tax Aggressiveness Moderated by Corporate Governance

According to the table above, the link between firm size and tax aggression is neither significantly moderated nor strengthened

Table 1: Descriptive statistical test

Value	Y	X1	X2	X3	Z
Mean	0.261074	28.77534	0.330204	0.661219	0.414416
Median	0.236500	28.64423	0.321919	0.747000	0.354000
Maximum	1.222000	33.33939	0.776012	1.000000	0.833000
Minimun	0.001000	21.80200	0.000322	0.000000	0.200000
Standard deviation	0.147121	1.832856	0.190540	0.254457	0.115030
Skewness	2.864703	−0.091620	0.281097	−1.205932	1.507373
Kurtosis	14.32102	4.065347	2.462990	3.885197	5.797758
Observations	310	310	310	310	310

Source: Processed data, 2023

Table 2: Results of partial test (t-test) without moderation variables

Variable	Coefficient	Standard error	t-statistic	Prob.
C	−0.034861	0.297913	−0.117018	0.9069
X1	0.005148	0.009838	0.523293	0.6012
X2	0.105446	0.033013	3.194094	0.0016
X3	0.170869	0.059033	2.894454	0.0041

Source: Processed data, 2023

Table 3: Results of partial test (t-test) using moderation variables

Variable	Coefficient	Standard error	t-statistic	Prob.
C	0.535896	0.389769	1.374905	0.1704
X1	−0.011209	0.013256	−0.845603	0.3986
X2	−0.026498	0.089813	−0.295041	0.7682
X3	0.143597	0.081267	1.766978	0.0785
Z	−0.837740	0.588764	−1.422879	0.1561
X1Z	0.023456	0.020024	1.171425	0.2426
X2Z	0.238009	0.193085	1.232665	0.2180
X3Z	−0.016067	0.140310	−0.114513	0.9089

Source: Processed data, 2023

by CG as a moderating variable. Thus, the fourth theory was disproved. The finding is in line with Wirawan and Sukartha (2018) and Azam and Subekti (2020), who also discovered that CG is unable to keep firms' sizes from being too aggressive when it comes to taxes. This can happen because of other factors that affect these dynamics. In addition, the implementation of ineffective CG practices or limitations in supervising tax policies can affect the ability of CG as moderation.

5.5. Capital Intensity on Tax Aggressiveness moderated by Corporate Governance

According to the table above, the link between capital intensity and tax aggression is neither significantly strengthened nor moderated by CG as a moderating variable. Thus, the fifth theory was disproved. The study's finding is in line with Ghozali's (2021) research; Ghifary et al. (2022) similarly discovered that CG was unable to restrain capital intensity in the face of tax aggressiveness. This can happen because several factors may play a role including the company's governance structure, the implementation of tax policies, and transparency level of the company.

5.6. Institutional Ownership on Tax Aggressiveness moderated by Corporate Governance

According to the table above, the link between institutional ownership and tax aggression is neither significantly strengthened nor moderated by CG as a moderating variable. Thus, the sixth theory was disproved. Muhammad et al. (2022) research, which indicated that CG is unable to moderate institutional ownership against tax aggressiveness, is consistent with the findings of this study. This can happen due to the lack of strength or effectiveness of the existing CG mechanism. If the structure and practices of CG are inadequate, then its ability to moderate corporate behavior, including tax aggressiveness, may be limited. In addition, there may be certain company policies or management practices that can limit the impact of CG as a moderation variable.

6. CONCLUSION

The study examined how CG, institutional ownership, capital intensity, and business size affect tax aggression in manufacturing firms that are listed on the Indonesia Stock Exchange between 2018 and 2022. The findings showed that tax aggressiveness is not directly influenced by a company's size since risk-taking in tax methods can also be influenced by other factors including industry, ownership structure, and corporate policy. Tax aggressiveness is significantly impacted by capital intensity since businesses with high capital structures typically incur high interest costs, which can lead to opportunities for aggressive tax planning strategies to lower tax obligations. Because financial organizations often have a long-term stake in their assets, institutional ownership also has a considerable impact on tax aggression.

The link between business size and tax aggression in manufacturing companies listed on the Indonesia Stock Exchange between 2018 and 2022 is not significantly influenced by CG as a moderating element. This is consistent with earlier studies that demonstrated that other variables, the use of inadequate CG measures, and the difficulties in enforcing tax laws prevent CG from reducing the size of businesses against tax aggression. Additionally, there is conflicting evidence about the relationship between institutional ownership and tax aggressiveness, with CG serving as a moderating factor.

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