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THE ASSOCIATION OF CORPORATE GOVERNANCE AND TAX COMPLIANCE OF INDONESIA STATE-OWNED ENTERPRISES

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ABSTRACT

This study aims to explore the association of SOE monitoring and corporate governance variables and the tax compliance of Indonesian State-Owned Enterprises (SOEs). The samples of this study are SOEs in 2009-2018 listed on the official website of the Ministry of SOEs that have all required data. The data is analyzed using ordinary least square to test the hypothesis with STATA statistical analysis software. The results show that SOEs that receive PSO (Public Service Obligation) and listed on the stock exchange are more tax compliant compared to others. However, the study found no evidence that the governance structure of SOEs affects tax compliance. The data shows that most SOEs still do not have governance structure that comply the regulations. The findings imply that external monitoring received by PSO recipients and listed SOEs improve SOEs tax compliance. Moreover, the findings also imply that SOEs' corporate governance structure is only a formality and does not take its functions seriously.

Keyword: **Tax Compliance, Corporate Governance, State Owned Enterprises**

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ABSTRAK

Penelitian ini bertujuan untuk mengeksplorasi monitoring dan variabel tata kelola yang dapat menjelaskan kepatuhan pajak badan usaha milik negeri (BUMN) Indonesia. Sampel yang digunakan dalam penelitian ini adalah BUMN pada tahun 2009-2018 yang terdaftar dalam website resmi Kementerian BUMN yang memiliki semua data yang dibutuhkan. Data dianalisis menggunakan *ordinary least square* untuk menguji hipotesis dengan bantuan software analisis statistic STATA. Hasil analisis menunjukkan bahwa BUMN penerima subsidi PSO maupun yang telah *go public* lebih patuh terhadap pajak dibandingkan dengan BUMN yang tidak menerima subsidi PSO maupun yang belum *go public*. Namun demikian, penelitian ini tidak menemukan bukti bahwa struktur tata kelola BUMN mempengaruhi kepatuhan pajak. Data penelitian ini menunjukkan bahwa sebagian besar BUMN masih belum memiliki tata kelola yang sesuai dengan regulasi. Hasil penelitian mengimplikasikan bahwa BUMN yang diawasi karena menerima PSO atau terdaftar di bursa efek menjadi lebih patuh terhadap pajak. Lebih dari itu, data penelitian ini menunjukkan kecenderungan bahwa struktur tata kelola perusahaan hanya bersifat formalitas dan tidak menjalankan fungsinya secara serius.

Kata Kunci: **Kepatuhan Pajak, Tata Kelola, Badan Usaha Milik Negara**

Introduction

State-Owned Enterprises (SOEs) have become global players and the subject of many concentrations of decision making and have been an important element in most economies of a country (Büge et al., 2013). In 2018, total state revenues from the state-owned enterprises' profit sharing up to IDR 44,695.40 billion, which is 12.8% of total non-tax revenues (Directorate of State Budget Preparation and Directorate General of Budget, 2018). On the other hand, Suwiknyo (2017) expressed indications of tax avoidance by Indonesia SOEs because 20 of them had not paid taxes on time according to the results of the Audit Board of Republic Indonesia (BPK) examination in 2017.

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Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 6. No. 1 (2021) 1020-1036
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SOEs work in principle-agent arrangements (Hanlon, and Heitzman, 2010). The government simultaneously has roles as principal, policymaker of corporate operations, and tax authority (Mafrolla, 2019). SOEs have two different objectives i.e., they have the objective of maximizing profits and maintaining business continuity, but on the other hand, there are social and political objectives that must also be done by maximizing the interests of the wider stakeholder community (Mafrolla, 2019). Which objective that SOE will target depends on the agency conflict within SOE. Specifically, when managers are opportunistic and less control applied by shareholders, SOE management will maximize profit and minimize the tax payment that benefit to wider stakeholders. Thus, the behavior of SOE tax compliance can be explained from the perspective of agency theory.

This study assumes that SOE tax compliance is the outcome of government interaction as a tax authority as well as shareholders with management of SOEs as agents. Monitoring conducted by the principal aims to minimize information asymmetry about tax compliance. The governance of SOEs should be designed to maximize the achievement of principal interests in the form of tax payments and maximum dividends. Therefore, the relationship between monitoring and SOEs governance with SOEs' tax compliance is still open to be examined.

This study aims to analyze the association of monitoring and SOEs governance and SOE's tax compliance. This research uses a quantitative research method to explore the data obtained from the annual report of state-owned enterprises in 2009-2018 recorded on the official website of the Ministry of SOEs. The selected year range is expected to describe the interaction between variables. The monitoring variable of SOEs is measured by the status of SOEs as listed company and the status of SOEs as recipient of *public service obligation* (PSO) "subsidy". SOEs that listed on stock exchange or PSO recipients face stricter monitoring so that they are expected to be more tax compliant. Furthermore, the governance of SOEs is measured by the variables of managerial ownership, board of directors (BoD) size, independent commissioners' proportion, audit committees' size, and auditor quality.

This research found that SOE monitoring improves tax compliance. Specifically, the provision of PSO subsidies and the status of public company SOEs improve tax compliance. However, the governance of SOEs is not able to improve tax compliance. Other governance characteristic variables such as managerial ownership and audit committee size had no significant relationship with tax avoidance. Thus, this study concluded that SOE monitoring is more influential in reducing agency conflicts than organizational structure governance.

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol.6 No.1 2021

This research contributes by providing evidence that supports agency theory to explain the compliance of Indonesian SOEs to taxes. More specifically, the layered monitoring undertaken by SOEs go public or PSO subsidy recipients increase the tax paid. On the other hand, formal governance in the organizational structure is not able to improve the tax compliance of SOEs. Moreover, this study provides practical insights to the government and tax policymakers in understanding the behavior of tax avoidance of Indonesian SOEs that can be the

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 6. No. 1 (2021) 1020-1036
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basis for the establishment of an adequate and effective tax system to maximize tax revenues and minimize tax avoidance in Indonesia SOEs.

Layered monitoring can be an effective tax compliance control tool in increasing tax revenue in Indonesia. On this sense, this study supports Richardson, Taylor, and Lanis (2013) that suggest firm's monitoring improves tax compliance. This research uses special setting of Indonesian SOE that different form majority of previous studies. This research data shows that most SOEs still do not have governance that comply with the regulations. Moreover, this study suggests that the corporate governance structure of SOE is only a formality and does not take its functions seriously. This finding supports Pradito et al., (2021). Therefore, this study recommends ministry of SOE to improve SOE governance effectiveness through external monitoring and compliance to CG regulations.

Literature review and Hypotheses Development

Agency Theory

Agency theory assumes there is a conflict of interest between the agent (management) and the principal (shareholders) (Hill & Jones, 1992). In the context of SOE's compliance with taxes, the difference in interest between management and the government as shareholders arises because SOE management wants to maximize profits and avoid taxes but the government as shareholders want SOEs to maximize their tax payments (Hanum, and Zulaikha, 2013). For reducing conflicts of interest in the context of SOE tax compliance, the government as shareholders will establish the SOEs governance to maximize the interests of shareholders. Efforts to minimize such conflicts of interest can be in the form of organizational structures that better represent the interests of the government and stricter monitoring mechanisms.

SOEs Monitoring and Tax Compliance

When SOEs are owned by the government, the state as principal will have a strong effect on corporate policy and tend to avoid risks because their wealth is concentrated only in a few companies (Shleifer, and Vishny, 1986). In this situation, tax compliance is not a problem because the government can extract wealth from SOEs even if it is not through taxes and SOEs can negotiate directly with the government as a tax authority to provide tax relief. When SOEs are privatized, the government's channel to extract the benefits of SOEs and SOEs' connection to negotiate the tax liability becomes limited due to the presence of non-government shareholders.

Privatization of SOEs causes the ability of the state in extracting benefits from SOEs to be more limited with the presence of shareholders other than the government. Therefore, the compliance of SOEs to taxes is becoming more noticed by the government because it is a legal effort to extract benefits from SOEs without conflict with non-government shareholders. Besides, the political pressure faced by go public SOEs becomes greater because more interested parties, therefore, go public SOEs are expected to become more tax compliant (Desai et al., 2007 and Zeng, 2011). Supervision of SOEs going public will reduce agency conflicts

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 6. No. 1 (2021) 1020-1036
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

between the government as shareholders and management. Therefore, the hypothesis of this study is:

H1: Go public status improves SOEs tax compliance.

One of the characteristics of Indonesian SOEs is the responsibility of fulfilling important public service policy objectives, therefore the government provides PSO subsidies to overcome the disparity of the cost of goods sold by SOEs with the price of certain products/services set by the government therefore the services of products/services remain guaranteed and affordable to most of the community (www.anggaran.depkeu.go.id). Submission and disbursement of PSO subsidies require the approval of the government and the House of Representatives (*DPR*) and it needs more reporting obligations including liability for the allocation of PSO subsidies provided (www.anggaran.kemenkeu.go.id). The provision of PSO subsidies also increases the supervision of various parties to reduce the possibility of tax avoidance (McGuire et al., 2014), moreover, the supervision is carried out by the state as a principal party (Bradshaw et al., 2019). Supervision of SOEs receiving PSO by the ministry of finance which is also a tax authority will reduce agency conflicts between the government as shareholders and management. Based on the explanation above, the following hypothesis is proposed:

H2: PSO subsidy increases SOEs tax compliance.

Management Ownership and Tax Compliance

Managers who have shares on SOEs will manage the business at the midpoint between the interests of the principal and agents. The asymmetry information between shareholder managers with other shareholders will decrease and it will have an impact on the decisions taken. High management ownership of SOEs improves tax compliance (Badertscher et al., 2013) because management becomes part of its shareholders as well as tax authorities. Managers who have a deeper knowledge of the organization and have control over the company are factors that have an impact on the decision to comply with the company's tax rules (Maydew, 2001, and Shackelford, and Shevlin, 2001). Based on the description above, the following hypothesis is proposed:

H3: Management Ownership associated with tax avoidance.

Organizational Structure and Tax Compliance

The study by Fama dan Jensen (1983) found the BoD to have a more significant role compared to other governance mechanisms. Internal managers are usually the most important part because they have broader information regarding the company's activities in decision control mechanisms (Fama, and Jensen, 1983). The amount of information owned makes the BoD as agents have an incentive to conduct fraudulent activities by ignoring the interests of shareholders (Lanis, and Richardson, 2011, and Williamson, 1984). Desai, and Dharmapala (2006) and Minnick, and Noga (2010) found that the board of directors' size had a positive effect on tax compliance. Based on the description above, the following hypothesis is proposed:

H4: Board of Directors' Size associated with tax avoidance.

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 6. No. 1 (2021) 1020-1036
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

Regulation of the Minister of State-Owned Enterprises (SOEs) No: PER-01/MBU year 2011 on good corporate governance in SOEs requires at least 20% of SOE board of commissioners/supervisory of SOEs is an independent member. The existence of independent board of commissioners or supervisory boards is considered to represent minority owners and tends to comply with tax regulations (Diantari, and Ulupui, 2016, and Maharani, and Suardana, 2014). Supervision by an independent commissioner can reduce the chances of intervention in the preparation of financial statements conducted by opportunistic management (*agents*) to reduce the company's expenses and achieve earnings targets (Fadhilah, 2014). On the other hand, Asroni, and Yuyetta (2019) find that high independent commissioners proportion forced managers to be more tax aggressive for the interests of shareholders. Based on the explanation above, the following hypothesis is proposed:

H_5: Independent Commissioner associated with SOE tax compliance.

As part of the board of commissioners/supervisory board, the audit committee plays a role in monitoring and ensuring that good governance (GCG) has been implemented effectively and sustainably (Regulation of the Minister of State-Owned Enterprises (SOEs) No: PER-01/MBU year 2011). Discrepancies in the audit committees' size within a company with established rules enable management as agents to be more flexible to carry out its opportunism interests (Swingly, and Sukartha, 2015).

H_6: Audit Committee associated with SOE tax compliance

External auditors are selected by the audit committee as a form of supervision to provide opinions on the fairness and transparency of state-owned financial information. Tax compliance behavior will improve the quality of transparency of financial statements (Balakrishnan et al., 2011; Pourheidari et al., 2014; Salehi et al.,2020). Companies that use big-4 services as external auditors will be more likely to comply with taxes (Annisa, and Kurniasih, 2012; Gaaya et al., 2017; Richardson et al., 2013). This is because large audit firms will greatly safeguard their reputation and professionalism of the work so that they are less tolerant to their clients' tax avoidance (DeAngelo, 1981).

H_7: The service of big-4 auditors associated with SOEs tax compliance

Research Methodology

This research uses a quantitative research approach to explore the data collected. Quantitative research methods are used to examine specific populations or samples using research instruments to test hypotheses that have been built (Sugiyono, 2012).

Data Types and Sources

The source of the data comes from secondary data in the form of annual reports for the period 2009 - 2018 obtained from each official website of state-owned companies listed on the official website of the Ministry of SOEs (www.bumn.go.id). The total population of the research is 1150 observations and

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 6. No. 1 (2021) 1020-1036
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based on the following criteria in table 1 the final sample of this study is 421 observations.

Table 1. Research Samples

Observation of Indonesian SOEs in 2009-2018	1150
Less:	
Observations with N/A Annual Report	(609)
Observation with pre-tax losses	(46)
Observation with N/A data of earning before tax	(7)
Observation with the other Indonesian currency	(21)
Observation with temporary *syirkah* system	(26)
Observation with N/A governance data	(20)
The final sample of GAAP ETR testing	421

Source: Data Secunder is Processed

Based on table 1, observation with losses is removed from the sample because the loss company has the right to tax restitution or reduce the tax liability therefore its tax compliance incentives aren't equivalent to companies that enjoy a profit. Companies with currencies other than rupiah require a conversion process that has the potential to obscure the natural character of the sample. Observations from sharia banking are removed because they have the different character of governance and financial management.

Operational Definitions and Variable Measurements

Tax Compliance Variables

In line with several previous studies, the effective tax rate (ETR) is used to measure tax avoidance (Bradshaw et al., 2019; Chen et al., 2010; Desai and Dharmapala, 2006; Lanis, and Richardson, 2018; McClure et al., 2018; Minnick and Noga, 2010). The effective tax rate (ETR) was chosen because it captures tax avoidance behavior in a broader continuum when compared to other measurements (Bradshaw et al., 2019; Hanlon, and Heitzman, 2010; Lisowsky et al., 2013). Consistent with previous research, high ETR suggests high tax compliance.

The basic form of annual tax compliance measurement using ETR is GAAP ETR (Dyreng et al., 2008). This basic form has some limitations one of which is because it does not measure the corporate tax deferral strategy (Dyreng et al., 2008; Hanlon, and Heitzman, 2010; Salihu et al., 2013). Besides, GAAP ETR cannot distinguish between tax liability deductions due to actual tax planning strategies and other "unintentional" deductions unrelated to tax considerations. Any reduction in explicit tax liabilities would change the GAAP ETR (Gebhart, 2017, and Hanlon and Heitzman, 2010). Hanlon dan Heitzman (2010) measuring GAAP ETR (GETR) as follows

$$\boldsymbol{GETR} = \frac{\text{Total of Income Tax}}{\text{Total of Pre-tax Income}} \ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(1)}$$

Independent Variables

PSO Subsidies (PSO)

PSO subsidy is a special subsidy provided by the government to state-owned enterprises to ensure the quality and service of products/services due to

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol.6 No.1 2021

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 6. No. 1 (2021) 1020-1036
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

disparity between the cost of goods sold with the price of certain products/services set by the government. This variable is measured using a dummy which is 1 if the company receives PSO subsidy and 0 otherwise.

Go Public of SOEs (PBLC)

Go Public SOEs is listed SOEs on Indonesia Stock Exchange. This variable is measured using a dummy variable which is 1 if the company is registered with IDX and 0 otherwise (Fernández-Rodríguez et al., 2019).

Managerial Ownership (CMP)

Managerial ownership is defined as the existence of shares of companies owned by the management either as the board of commissioners (BoC) and the board of directors. This variable is measured using a dummy variable which is 1 if management has equity ownership of the company and 0 otherwise (Bradshaw et al., 2019).

Board of Directors Size (DIR)

The size of the board of directors is defined as the total number of all members of SOE board of directors (Minnick and Noga, 2010).

Independence of Commissioners/Board of Trustees (INDP)

According to Maharani dan Suardana (2014) independence commissioner (INDP) measured as:

$$INDP = \frac{\text{Number of Independent Commissioner member}}{\text{Total of Board of Commissioner}} \qquad (2)$$

Audit Committee Size (KOM)

The size of the audit committee is defined as the number of members of the audit committee in a company so that the measurement of these variables is obtained through the summation of all members of the audit committee of SOEs (Tandean and Winnie, 2016).

Big-4 Auditor

Audit quality can be measured by the size of external auditors selected and can be differentiated into big-4 consist of PricewaterhouseCooper (PwC), Deloitte Touche Tohmatsu Limited (Deloitte), Ernst&Young (EY), and KPMG also non-big-4 (Salehi et al., 2020, and Tandean, and Winnie, 2016). This variable is measured using a dummy variable, i.e.,1 if the company's external auditor is big-4 and 0 otherwise (Richardson et al., 2013).

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol.6 No.1 2021

Control Variables

Company size variables **(SIZE),** profitability **(ROA),** and leverage **(LEV)** were selected in this study as control variables as they were shown to exert a consistent influence in several previous studies (Fernández-Rodríguez et al., 2019, and Kovermann, and Velte, 2019). Control variable measurements are presented in the following table:

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 6. No. 1 (2021) 1020-1036
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

Table 2. Control Variables

Variable	Pengukuran	
Company Size	$SIZE = \text{Ln (Total of Asset)}$	(3)
Profitabilitability	$ROA = \frac{Pre - tax\ Income}{\text{Total of Asset}}$	(4)
Leverage	$LEV = \frac{\text{Total of Liability}}{\text{Total of Asset}}$	(5)

Analysis Model

Multiple linear regression analyses were used in this study to look at the relationships between dependent variables, independent variables, and control variables. The regression model in this study was formulated as follows:

$$\begin{aligned} \mathbf{GETR_{i,t}} = \ & \boldsymbol{\alpha} + \boldsymbol{\beta_1}\mathbf{PBLC_{i,t}} + \boldsymbol{\beta_2}\mathbf{PSO_{i,t}} + \boldsymbol{\beta_3}\mathbf{CMP_{i,t}} + \boldsymbol{\beta_4}\mathbf{DIR_{i,t}} \\ & + \boldsymbol{\beta_5}\mathbf{INDP_{i,t}} + \boldsymbol{\beta_6}\mathbf{KOM_{i,t}} + \boldsymbol{\beta_7}\mathbf{KA_{i,t}} + \boldsymbol{\beta_8}\mathbf{SIZE_{i,t}} \\ & + \boldsymbol{\beta_9}\mathbf{ROA_{i,t}} + \boldsymbol{\beta_{10}}\mathbf{LEV_{i,t}} + \boldsymbol{\varepsilon_{i,t}} \end{aligned} \quad (6)$$

PSO*i,t* : PSO subsidy company *i* year *t*
PBLC*i,t*: Go Public SEO *i* year *t*
CMP*i,t* : managerial ownership of the company *i* year *t*
DIR*i,t* : size of company directors *i* year *t*
INDP*i,t*: proportion of independent commissioners of the company *i* year*t*
KOM*i,t* : size of the company's audit committee *i* year *t*
KA*i,t* : quality audit company *i* year *t*
SIZE*i,t* : size of company *i* year *t*
ROA*i,t* : return on assets of the company *i* year *t*
LEV*i,t* : corporate leverage *i* year *t*
ε *i,t* : error for company *i* year *t*

This study expects that the value $\boldsymbol{\beta_1} - \boldsymbol{\beta_7}$ in model 6 will be not equal to 0 (zero) and statistically significant.

Results and Discussion
Statistical Description Analysis

Table 3 shows a descriptive statistics of governance characteristics. The maximum value of tax compliance measured using a **GETR** is 0.832 which means that the company pays all tax at 80% of the profit. The minimum value for **GETR** is 0. The average number of directors of BUMN **(DIR)** is around 5 people. More specifically, the data showed that 54% of the sample had a board of directors of 5 to 6 people. This indicates that **DIR** data variations are not very large. Furthermore, the average proportion of independent commissioners **(INDP)** is only about 0.171 or ranges from 1 to 2 people. However, most observations (51%) do not report having an independent commissioner. The largest number of audit

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 6. No. 1 (2021) 1020-1036
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

committees **(KOM)** is 10 people but the average number of audit committees is 3.3 because 60% (254) observations report the audit committee is only 3 people.

Table 3. Descriptive Statistic

Panel A: Descriptive Statistics of Ratio Variables

Variable	N	Mean	Standard Deviation	Minimum	Maksimum
GETR	421	0.254	0.148	0	0.832
DIR	421	5.297	1.813	2	13
INDP	421	0.171	0.199	0	0.75
KOM	421	3.302	0.998	0	10
SIZE	421	29.609	1.795	25.721	34.658
ROA	421	0.079	0.066	0.004	0.306
LEV	421	0.531	0.252	0.078	0.918

Panel B: Dummy Variable Descriptive Statistics

Variable	N	Percent
No managerial ownership	348	82.66%
Have managerial ownership	73	17.34%
Non-PSO receiver	336	79.81%
PSO receiver	85	20.19%
Non-Go Public	323	76.72%
Go Public	98	23.28%
Non-Big 4 audit	341	81%
Big 4 audit	80	19%

Source: Analysis results

Panel B showed the distribution of dummy variables in this study. Observations with managerial ownership amounted to 73 or only 17%. PSO subsidy recipients amounted to 85 observations (20%). Go Public SOEs in the observation of this study is 98 or 23%. Big 4 auditors examined 80 observations or 19%.

Table 4 shows correlations between variables in this study. SOE tax compliance is significantly correlated with go public status, auditor size, and leverage. However, these results are still premature and need to be further analyzed.

Table 4. Pearson Correlation Analysis

	GETR	PSO	PBLC	CMP	DIR	INDP	KOM	KA	SIZE	ROA	LEV
GETR	1										
PSO	0.091	1									
PBLC	0.122*	-0.095	1								
CMP	0.048	-0.105*	0.831*	1							
DIR	-0.027	0.257*	0.320*	0.337*	1						
INDP	0.094	-0.064	0.645*	0.514*	0.326*	1					
KOM	0.017	0.121*	0.329*	0.365*	0.569*	0.330*	1				
KA	-0.112*	0.013	0.306*	0.35*	0.399*	0.323*	0.388*	1			
SIZE	-0.072	0.087	0.383*	0.425*	0.762*	0.383*	0.523*	0.566*	1		
ROA	-0.077	-0.135*	-0.100*	-0.121*	-0.170*	-0.155*	-0.002	-0.115*	-0.311*	1	
LEV	0.182*	-0.028	0.271*	0.298*	0.137*	0.268*	0.068	0.191*	0.322*	-0.529*	1

Source: Analysis results

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 6. No. 1 (2021) 1020-1036
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Tests of Different

Table 5 presents partial statistics for SOE tax compliance. SOEs with managerial ownership (**CMP)** has a higher average **GETR** compared to SOEs without managerial ownership but not significant. Furthermore, there is **GETR** difference between SOEs PSO subsidy recipients and non-recipients of PSO subsidies. Go public SOEs (**PBLC**) also have a higher average **GETR** compared to non-go public SOEs. The findings indicate that external monitoring applied to PSO recipients and public SOE improve tax payment (tax compliance). SOE audited by big-4 **(KA)** has a lower average **GETR** compared to state-owned enterprises audited by non-big-4 auditors.

Table 5. GETR Different Test Based on Dummy Variables

	GETR		Different	t-value
	Dummy 1	**Dummy 0**		
CMP – NonCMP	0.269	0.251	-0.019	-0.984
PSO – NonPSO	0.280	0.247	-0.033*	-1.863
Public – Nonpublic	0.287	0.244	-0.043**	-2.524
Big 4 – Non Big 4	0.220	0.262	0.042**	2.296

* p < 0.1, ** p < 0.05, *** p < 0.01
Source: Analysis results

Regression Analysis Results

This study used a regression model (6) to test the variable determinants of tax avoidance of Indonesian SOEs. Table 6 shows the regression results between dependent variables, governance independent variables, and control variables.

Table 6. Result of Regression Analysis of Governance Characteristic

VARIABLE	GETR
PSO	0.04**
	(0.02)
PBLC	0.08**
	(0.03)
CMP	-0.05
	(0.03)
DIR	0.00
	(0.01)
INDP	0.03
	(0.05)
KOM	0.01
	(0.01)
KA	-0.05**
	(0.02)
SIZE	-0.02**
	(0.01)
ROA	0.01
	(0.13)
LEV	0.13***
	(0.03)
Constant	0.57***
	(0.19)
Adj R^2	0.08
F	4.86***
N	421

Source: Analysis results
Standard errors in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

The regression results showed the PSO subsidy variable **(PSO)** was positively associated with **GETR** at a significant rate of 5% and had a coefficient of 0.041. This shows that SOEs that receive PSO subsidies are more tax compliant compared to SOEs that do not receive PSO subsidies. In line with the PSO, the

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 6. No. 1 (2021) 1020-1036
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

status of go public SOEs provides more supervisory exposure to SOEs, for example from the Financial Services Authority (*OJK*) other than the ministry of SOEs, so that SOEs that go public have higher tax compliance than those that do not go public. This is indicated by the positive and significant coefficient of the **PBLC** variable. Thus, hypotheses 1 and 2 of this study are empirically proven. However, there are no variables in the corporate governance structure that affect the compliance of SOEs to taxes. Thus, the hypothesis of 3 to 6 studies does not support empirical evidence. Nevertheless, the big 4 auditors showed a negative and significant influence on tax compliance. This means state-owned enterprises that were audited by the public accountant non-Big Four will have lower tax compliance. This suggests that hypothesis 7 got the support from this study. The results of the analysis showed that this research model (model 6) was able to explain the variation of variables of SOE tax compliance **(GETR).** This is indicated by the significance of coefficient F which is less than 1%. However, model 6 was only able to explain 8.4% of the GETR variation while 91.6% described variables outside model 6.

Discussion

Monitoring Role in Improving Tax Compliance

The results of the regression analysis showed that listed SOEs ***(PBLC)*** or SOE PSO recipients have higher tax compliance. This shows that public scrutiny received by public SOEs increasing incentives to comply with tax rules. Public SOEs supervised by *OJK* (financial service authority), the ministry of SOEs, and investors in general. SOEs receiving PSOs are subjected to more intensive scrutiny from the government agencies as well as tax authorities (finance ministries) and are required to provide more disclosure in their financial statements to improve tax compliance. The finding implies that monitoring by government and stakeholders will improve tax compliance of SOE. Government as the stockholders of SOE may impose sanctions to SOEs that avoid tax as government has the channel to closely monitor SOE. Moreover, government as PSO provider also requires SOE to be transparent and accountable in reporting the PSO fund management including SOE tax compliance. External monitoring applied by stock exchange authority and investors also discipline SOE in complying tax. The results of this study support the argument from McGuire et al. (2014) that monitoring can improve the compliance of SOEs to taxes. The findings also echo Richardson et al. (2013) that suggest that firm's monitoring improve tax compliance.

Governance Structure Relationship with Tax Compliance

The results of the analysis showed that the variables representing the corporate governance structure did not affect the tax compliance of SOEs. Share ownership by management **(CMP)** unrelated to tax compliance and it may be due to minimum observation with managerial ownership (only 17%). Managerial ownership in SOE is limited due SOE is owned by government. Due to this specific, the findings of this research may not be comparable to Putri and Lawita (2019).

The number of directors **(DIR)** also does not affect the tax compliance of SOEs. The data of this study showed that most of the samples had directors of 5 and 6 people (230 out of 421 observations or 54%) so **DIR** data is not varied enough to explain the variation of SOE tax compliance. Besides, the directors of SOEs may follow the formal functions of the organization and focus on improving performance without trying to

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 6. No. 1 (2021) 1020-1036
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influence the number of tax payments closely monitored by the government as well as shareholders. Due to this special characteristic of SOE, the findings of this study do not support Desai and Dharmapala (2006) and Minnick and Noga (2010).

The results of this study indicate that independent commissioners **(INDP)** do not affect the tax compliance of SOEs. The data of this study shows the average independent commissioner is only 1 to 2 people and most observations (51%) do not have an independent commissioner. This has the potential to reduce the ability of independent commissioners in influencing tax compliance. Furthermore, this study found that SOEs need to increase the number and functionality of independent commissioners. Most of the observations still do not follow the Regulation of the Minister of State-Owned Enterprises (SOEs) No: PER-01/MBU year 2011 on good corporate governance in SOEs. As SOEs have this specific, the finding does not support Asroni and Yuyetta (2019).

This research shows that the audit committee **(KOM)** of SOEs does not affect tax compliance. Audit committees in state-owned enterprises are mostly (60%) 3 people who cause audit committee data tend to be monotonous and unable to explain variations in SOE tax compliance. Furthermore, this study recommends further research to evaluate the role of the audit committee of SOEs.

Audit Quality Relationship with Tax Compliance.

Variable quality audit (**KA**) showed a negative coefficient of 0.048 and significant at the level of 5%. This indicates that SOEs audited by big-4 auditors have a lower rate of tax compliance compared to SOEs audited by non-big-4 auditors. Big-4 auditors tend to have specific industry expertise that can influence client tax avoidance through the provision of tax consulting and financial report audit services (McGuire et al., 2012). External audits with comprehensive expertise are generally associated with lower tax compliance, which suggests that experts can combine audit and tax expertise to develop tax strategies that benefit clients from a taxation and financial statements perspective (McGuire et al., 2012) .

Conclusion

This study aims to explore variables that can explain the tendency of tax compliance in Indonesian SOEs. The result shows a significant positive relationship between the provision of PSO subsidies and tax compliance that provides evidence that SOEs receiving PSO subsidies are more tax compliant compared to SOEs that do not receive PSO subsidies. Furthermore, this study found a significant positive relationship between the Go Public of SOEs and tax compliance that provides evidence that the go public SOEs increases supervision of SOEs and ultimately improves tax compliance. This study also shows a significant negative relationship between audit quality and tax compliance that provides evidence that SOEs that use the services of big-4 auditors conduct more aggressive tax avoidance compared to SOEs that use the services of non-big-4 auditors.

However, the study found no evidence that the governance structure of SOEs affects tax compliance. This research data shows that most SOEs still do not have governance that comply with the regulations. Moreover, this study suggests that the corporate governance structure of SOE is only a formality and does not take its functions seriously.

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 6. No. 1 (2021) 1020-1036
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

Limitations

This study has some limitations that cause the need for caution in interpreting the results of the research. This study uses ETR as a tax compliance measurement that is considered capable of capturing tax compliance behavior in a broader continuum when compared to other measurements. However, ETR also has limitations including not measuring the company's tax deferral strategy on GETR measurements. This study suggests that further research uses other tax compliance proxies, such as long-run ETR and ETR Differential, to be a comparison and complement to the interpretation of research results.

This study found the influence of PSO subsidy on SOE tax compliance. However, this study has not been able to know the impact of PSO subsidy value, PSO subsidy allocation strategy, and the quality of realization of PSO subsidy usage to tax compliance due to the limited information available. This research suggests that further research explores the variables of PSO subsidies because PSO subsidies are one of the typical variables contained in SOEs and PSO subsidies have a wide impact on the economy and daily life of Indonesians.

Suggestion

This study suggests that further research uses other tax compliance proxies, such as long-run ETR and ETR Differential, to be a comparison and complement to the interpretation of research results. This research suggests that further research explores the variables of PSO subsidies because PSO subsidies are one of the typical variables contained in SOEs and PSO subsidies have a wide impact on the economy and daily life of Indonesians.

Implications

This study has some contributions. First, it provides evidence that supports agency theory as the basis for understanding the tax avoidance behavior of Indonesian SOEs indicated by a significant relationship between the supervisory characteristics of SOEs and tax compliance. More specifically, the status of going public and recipients of PSO subsidies increase monitoring by the relevant authorities and ultimately increases the tax paid.

Second, this study found that the governance structure of many SOEs has not comply to the regulation of the ministry of SOEs so that the internal monitoring mechanism has not worked optimally. Therefore, the government as a shareholder as well as the tax authority is expected to improve the effectiveness of the governance structure of SOEs to improve the tax compliance of SOEs. Third, this study provides practical insights to the government and tax policymakers in understanding the tax avoidance behavior of Indonesian SOEs that can be the basis for the development of an adequate and effective tax system to maximize tax revenues from Indonesian SOEs.

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