THE EFFECT OF CORPORATE GOVERNANCE AND AUDIT QUALITY ON TAX AGGRESSIVENESS WITH FAMILY OWNERSHIP AS THE MODERATING VARIABLE

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ABSTRACT

This study aims to prove the allegation of tax aggressiveness activity which is conducted by corporate taxpayers in Indonesia. This study also aims to examine and analyze the effect of corporate governance and audit quality as solutions of tax aggressiveness, and the presence of family ownership as a moderating variable in the effect of corporate governance and audit quality on tax aggressiveness. Tax aggressiveness is measured by using the effective tax rate (ETR) and book tax difference Manzon-Plesko (BTD_MP). The measurement of corporate governance is in accordance with the aspects, principles and recommendations of corporate governance listed in Circular Letter of Otoritas Jasa Keuangan (OJK), or Financial Service Authority, 32/SEOJK.04/2015, concerning Guidelines for Public Corporate Governance. Audit quality measurement uses the type of Public Accounting Firm (PAF), namely Big Four and Non Big Four. Family ownership was obtained in immediate way through company's stock reports on annual reports and in an ultimate way with the help of OSIRIS database. Samples were procured from public sector of manufacturing companies listed on the Indonesia Stock Exchange (IDX). Based on the purposive sampling method, 66 company samples were collected during the year of 2016-2017. Based on the purposive sampling method, 66 company samples were collected during the year of 2016-2017. The results of this study show that public companies in Indonesia especially manufacturing companies are proven to not doing the tax aggressiveness. It makes the corporate governance and audit quality on the companies sample to have no effect on tax aggressiveness. Furthermore, family ownership cannot moderate the effect of corporate governance on tax aggressiveness, but it can moderate the effect of audit quality on tax aggressiveness. Overall, this study shows that either family companies or non-family companies obey and adhere to the tax provisions even if the implementation level of corporate governance mechanism is still low and they use independent auditors from different public accounting firms.

Keywords: Corporate Governance, Audit Quality, Tax Aggressiveness, Family Ownership.

INTRODUCTION

Managerial actions which is designed to minimize corporate taxes through tax aggressiveness activities are becoming more commonly done by companies around the world (Lanis & Richardson, 2013). Secretary General of the Indonesian Forum for Budget Transparency or *Forum Indonesia untuk Transparansi Anggaran* (FITRA), Yenny Sucipto, explained that tax avoidance in Indonesia is a serious problem. Every year, it is suspected that tax avoidance reaches Rp110 trillion, around 80% is tax evasion undertaken by corporate taxpayers, and the rest is tax evasion effectuated by individual taxpayers (Himawan, 2017). It shows the high level of tax avoidance behavior which carried out by corporate taxpayers in Indonesia. Thus, this study is conducted to prove the allegation of a tax avoidance activity which held by the corporate tax payers in Indonesia and to analyze its solutions.

The act of tax aggressiveness raises agency problems since there are dissimilarity in interests between the company and the tax authorities. Type III of agency relationships explains the relationship between companies and third parties, in this case the tax authorities (which are representatives of the government) (Armour, Hansmann, & Kraakman, 2009). Conflicts of interest between the company and the tax authorities can be resolved through corporate governance mechanisms. Governance has a stronger relationship with more extreme levels of tax avoidance, hence in fact, good corporate governance can weaken tax aggressiveness (Armstrong, Blouin, & Larcker, 2015; Timothy, 2010).

Audit quality is a factor that also needs to be envisaged to create good corporate governance. There is a need for accurate disclosure transparency as a form of supervision. Audit quality in this study is made as an independent variable, besides corporate governance. It happens due to the corporate governance index used is in accordance with the aspects, principles and recommendations of good corporate governance listed in the Circular Letter of Financial Services Authority, or *Otoritas Jasa Keuangan* (OJK), No.32/SEOJK.04/2015 concerning Guidelines for Public Corporate Governance. Yet, audit quality is not included in the Corporate Governance assessment indicators in that circular letter of OJK.

The level of agency problems for each company is not always the same. The presence of the founders' family provokes a different ownership structure when compared to non-family companies. Comparison of the level of tax aggressiveness of companies with family ownership and companies with non-family ownership depends on how much the effect of benefits or costs arising from aggressive tax actions (Chen, Chen, Cheng, & Shevlin, 2010). Family ownership is considered to alleviate agency problems in the interest of the owner has sufficient incentives and strength to monitor management. Therefore, the family company is envisaged as an ideal form of organization that can align between the goals of the owner and the company (Landry, Deslandes, & Fortin, 2013).

Previous studies which examining the effect of corporate governance on tax aggressiveness have had mixed results. Several studies have shown that corporate governance is able to reduce the level of tax aggressiveness (Armstrong et al., 2015; Desai & Dharmapala, 2006; Diantari & Ulupui, 2016; Eksandy, 2017; Siregar & Utama, 2008; Timothy, 2010; Wijayanti & Merkusiwati, 2017) (Armstrong et al., 2015; Desai & Dharmapala, 2006; Diantari & Ulupui, 2016; Eksandy, 2017; Siregar & Utama, 2008; Timothy, 2010; Wijayanti & Merkusiwati, 2017). Several other studies demonstrate that corporate governance has no effect on tax aggressiveness due to the less effective implementation of governance and the assessment of corporate governance in which using different components and measurements (Sari & Martani, 2010; Utami & Setyawan, 2015). Research on the effect of audit quality on tax aggressiveness also has varied results. Several previous studies have proven that audit quality affects tax aggressiveness. Other studies have found that audit quality does not affect tax aggressiveness (Subagiastra, Arizona, Kusuma, & Mahaputra, 2016; Wibawa, Wilopo, & Abdillah, 2016). The main reason of that researches is that not only the big four public accounting firms (PAFs) conduct audits according to the guidelines, but other non-big four PAFs have also done the same thing in auditing financial statements.

The inconsistency results of previous researches that examine the effect of corporate governance and audit quality on tax aggressiveness become the reason for adding family ownership as a moderating variable. Family ownership is chosen as a moderating variable since companies with family ownership are considered to have a lower level of tax aggressiveness compared to non-family companies (Chen et al., 2010). Another reason for using family ownership as a moderating variable is because it is contingent (uncertain). The meaning of uncertain is that the amount of family ownership cannot be controlled in order to minimize tax aggressiveness in the future. More specifically, in this study we will see the effect of corporate governance and audit quality on tax aggressiveness moderated by family ownership.

This study has a difference with previous researches in terms of the measurement of corporate governance which refers to the guidelines of good governance listed in the Circular Letter of Financial Services Authority Number32/SEOJK.04/2015 concerning the Guidelines for Public Corporate Governance. It contains aspects of good corporate governance which is more complete than conventional corporate governance components and refers to international good corporate governance practices. The governance guidelines were implemented in Indonesia after the launch of The New G20/OECD Principles of Corporate Governance (CG) which is the result of OECD collaboration with the Financial Services Authority (OJK).

This study uses manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2016-2017. Manufacturing companies are chosen since most of the activities in business decision making are related to taxation aspects. In addition, manufacturing companies are the largest companies so they are expected to be able to represent the situation of the entire companies.

LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESIS

Agency relations can lead to conflict when there are disparity in interests between principals and agents. Agency conflict does not only exist within the scope of the company but, it can also occur between the company and outside parties (Armour et al., 2009). The government (fiscus) acts as a third party and the company as an insider. Fiscus has the right to procure taxes from profits earned by the company. However, companies often do not fulfill their tax obligations and do tax planning that violates tax regulations. For companies, tax savings by avoiding taxes are becoming a cheap source of funding (Armstrong, Blouin, & Larcker, 2012), and the benefits of tax avoidance economically are quite large (Armstrong, Larcker, Ormazabal, & Taylor, 2013). Yet, aggressive tax avoidance can be followed by costs that look like fines or legal fees, or also unseen costs like big risks and company's reputation (Armstrong et al., 2013).

The agency relationship between fiscus and companies (type III of agency relationship) can lead to information asymmetry. Fiscus as an outsider does not have full control over actions taken by the company, such as tax aggressiveness.
Corporate governance exists to solve agency problems. Corporate governance is now crucial because there have been many proven successes in dealing with agency problems in the company. Corporate governance is an integrated monitoring and balancing system that is involved to prevent and resolve agency conflicts or problems, and those who supervise can be divided into parties from within the company structure, parties from outside of the company and parties originating from the government (Kim, Eppler-Kim, Kim, & Byun, 2010). The principle of corporate governance is able to reduce opportunistic managerial actions (Siregar & Utama, 2008) and to limit the management space, hence it is difficult to carry out risky actions such as tax aggressive actions.

Authorization by principals to agents makes the need for an auditor profession more important (Jensen & Meckling, 1976). Independent auditors are able to be a bridge between agents and users of information in order to decrease the information asymmetry. Audit that has a quality (audit quality) is audits conducted by competent and independent people (Tandiontong, 2015). The size of the accounting firm becomes a representative for audit quality (auditors' independency) because there is no single client that is important for a large PAF, and the auditor has a greater reputation to lose (their entire client group) if they report incorrectly (DeAngelo, 1981; Defond & Jiambalvo, 1991). Investors will be more inclined to accounting data which come from the high audit quality. On the other hand, if the tax value that must be paid by the company is considered too high, then the company will tend to avoid tax (Cai & Liu, 2009), so the company will be more aggressive towards taxes. However, if an increasingly qualified auditor evaluates the company's financial statements, it is believed that the company will not manipulate earnings for tax purposes.

Insider control and other organizational factors, such as ownership structure are determinants of tax aggressiveness (Shackelford & Shevlin, 2001). The presence of a founding family causes a different ownership structure when compared to non-family companies. Family ownership is considered to alleviate agency problems because the owner has sufficient incentives and strength to monitor the management. Family owners are more willing to spend money to pay high taxes, rather than having to pay fines due to violations of tax regulations and damage to the company's reputation because of the inspection or audit from the tax authorities. Conversely, a higher level of tax aggressiveness occurs in non-family companies allegedly because agency problems are greater in non-family companies (Chen et al., 2010).

The Effect of Corporate Governance on Tax Aggressiveness
Good corporate governance has proven its success in dealing with agency problems. Companies with poor levels of governance apt to take risky actions (Desai & Dharmapala, 2006; Siregar & Utama, 2008). Tax aggressiveness is a risky action because it causes a company deemed as non-compliant and violating tax regulations. Although not all actions are considered to violate tax regulations, yet if there are more loopholes to avoid tax, the companies will be more aggressive towards the tax. Corporate governance is considered to be capable on decreasing tax avoidance activities. Therefore, the existence of corporate governance is expected to be able to oversee management performance and can lessen the level of tax aggressiveness. Thus, the first hypothesis in this study is as follows:

H1: Corporate Governance has a negative effect on tax aggressiveness.

The Effect of Audit Quality on Tax Aggressiveness
The existence of an independent auditor is envisaged to be important in overcoming agency problems in the company. Audit quality is the probability of an auditor in finding and reporting an error or deviation that occurs in an accounting system. If the tax value that must be paid by the company is considered as too high, hereinafter the company will likely to avoid tax (Cai & Liu, 2009), thus the company will be more aggressive towards taxes. However, if an auditor is increasingly qualified to evaluate the company's financial statements, it is believed that the company will not manipulate earnings for tax purposes. Several studies have shown that audit quality influences tax avoidance (Annisa & Kurniasih, 2012; Dewi, 2014; Eksandy, 2017). It means that high audit quality can diminish tax avoidance practices. The second hypothesis in this study is as follows:

H2: Audit quality has a negative effect on tax aggressiveness.

Family Ownership towards the Effect of Corporate Governance on Tax Aggressiveness
Tax aggressiveness in the context of family ownership is based on agency theory, that companies with family ownership have less tax aggressive than non-family companies (Chen et al., 2010; Steijvers & Niskanen, 2014). The existence of family ownership in a company is expected to be able to further maximize corporate governance, then it further dwindles tax aggressiveness. The higher the percentage of family members occupying managerial positions, the lower the tax aggressiveness (Ahmed & Braithwaite, 2005; Bjuggren & Sund, 2005). It ensues for the reason that family managers are usually not tax experts, especially in the early stages of family business, they avoid tax aggressiveness (Sanchez-Marin, Baixauli-Soler, & Lucas-Perez, 2011). The third hypothesis in this study is as follows:

H_3: Family ownership reinforces the negative effect of corporate governance on tax aggressiveness.

Family Ownership towards the Effect of Audit Quality on Tax Aggressiveness
Audit quality limits corporate incentives with family ownership to engage in positions of aggressive tax action (Gaaya, Lakhal, & Lakhal, 2017). According to the perspective of agency theory, audit quality is necessary in reducing conflicts of interest between managers and external shareholders. Auditors included in "The Big Four" are able to cut down uncertain tax positions (Lanis & Richardson, 2012). This is because companies audited by The Big Four are more concerned with reputation (Kanagaretnam, Lobo, Ma, & Zhou, 2016). High quality audits generate a positive influence between family ownership and tax aggressiveness in the study of Gaaya et al. (2017) yet it turned into a negative effect (indicating that audit quality moderates the effect of family ownership on tax aggressiveness). Families diminish their opportunistic behavior when monitored by qualified external auditors. Therefore, it is estimated that audit quality by family companies will lessen the tendency of companies to do tax aggressiveness. The fourth hypothesis in this study is as follows:

H_4: Family ownership reinforces the negative effect between audit quality on tax aggressiveness

RESEARCH METHOD

Population and Sample
The population in this study are all public companies belonging to the manufacturing industry listed on the Indonesia Stock Exchange (BEI) during the period of 2016-2017. The sampling method used is purposive sampling with the following criteria: (1) Manufacturing companies listed on the IDX successively during the period of 2016-2017; (2) The company publishes annual reports during the period of 2016-2017; (3) The company uses the Rupiah currency; (4) Data needed for research is available in financial statements; (5) The company's profit is positive. (6) Effective Tax Rate (ETR) value is less than 1 (< 1), because if the ETR value is more than or equal to 1 (≥ 1), it will create problems in estimating the model (Gupta & Newberry, 1997).

Resources and Types of Data
This study uses secondary data derived from annual reports. Financial and corporate governance data are procured from the company's annual report accessed on the Indonesia Stock Exchange website (www.idx.co.id) and company ownership data are earned in immediate way through the company's annual report and in ultimate way by using OSIRIS database program.

Operational Definition and The Measurement of Variable
Dependent Variable
The dependent variable in this study is tax aggressiveness. Tax aggressiveness are measured by using two measurements namely Effective Tax Rate (ETR) and Book-tax Difference Manzon-Plesko (BTD_MP). The Effective Tax Rate (ETR) is utilized to reflect the difference between book income and fiscal profit calculations (Frank, Lynch, & Rego, 2009). This measure reflects aggressive tax planning through distinctness in permanent tax books (Chen et al., 2010) with the measurement formula is as follows:

$$ETR_{i,t} = \frac{Total\ tax\ expense_{it}}{Income\ before\ tax_{it}}$$

The second measurement is Book-tax Difference Manzon-Plesko (BTD_MP) (Manzon & Plesko, 2001). According to Desai & Dharmapala (2006), book-tax difference can emerge due to the tax planning and earnings management activities, afterward the expected accrual value is purely a reflection of tax planning activities. The book-tax difference measurement formula is as follows:

$$BTD\_MP_{i,t} = \frac{Y_{it}^{s} - Y_{it}^{T}}{Total\ Asset_{it-1}}$$

Y_{it}^{s} is income that is disclosed to the users of financial statements and Y_{it}^{T} is income that is disclosed to the tax authority (taxable income). Companies that are more aggressive towards tax have lower effective tax rates (as measured by ETR) and higher tax book differences (as measured by BTD_MP) (Chen et al., 2010).

Independent Variable
Corporate Governance
The corporate governance mechanism in this study will be examined as a whole by using good corporate governance recommendations listed in the Circular Letter of Financial Services Authority, Number 32/SEOJK.04/2015, concerning Guidelines for Public Corporate Governance. The principles and recommendations of Governance in the Circular Letter consist of 25 recommendations on the application of aspects and principles of good corporate governance. The calculation of corporate governance index (CGI) in this study refers to Agustina (2016) is formulated as follows:

$$CGI = \frac{Number\ of\ published\ items}{total\ of\ all\ indicator\ items} \times 100\%$$

Furthermore, if the CGI index is more than or similar to 60% ($TKI \geq 60\%$), thence it is given a value of 1 and it is categorized as well-governed, if the TKI index value is less than 60 % ($TKI < 60\%$), then it is given a value of 0 and it is grouped as poorly-governed (Sari & Martani, 2010).

Audit Quality
Audit quality in this study is measured by using a dummy variable. If the company was audited by The Big Four PAFs, which are Deloitte Touche Tohmatsu (Deloitte), Ernest & Young (EY), Klynveld Peat Marwick Goerdeler (KPMG), and PricewaterhouseCoopers (PwC). Score of 1 will be given to The Big Four PAF and those which are not included in the Big Four's Public Accounting Firms are given a score of 0.

Moderating Variable
Family ownership is a moderating variable in this study. Family ownership can be traced to two events namely using the immediate approach and the ultimate approach (Porta, Lopez-de-silanes, & Shleifer, 1999). The immediate approach is carried out by looking at the percentage of shares held in the company's annual report. The ultimate approach can be collected by tracing family ownership of a company through other agencies (Porta et al., 1999). Pyramid analysis and cross-ownership structure are used in this approach to trace the indirect voting rights which owned by the family. After searching, if the owner of the company is an individual, then it is grouped as a family company. Family ownership with an ultimate approach cannot be notice directly in the company's financial statements. Its tracing can be done with the help of the OSIRIS database program.

Family ownership is measured using dummy variable with the score of 1 if the proportion of family ownership is more than 50% (> 50%), and 0 if otherwise. Companies with a family ownership proportion of more than 50% are clustered as family businesses, and family ownership of less than 50% are categorized as non-family businesses.

Control Variables
The control variables in this study consist of ROA, LEV, PPE, SIZE variables. Companies that have high profitability have the opportunity to position themselves in tax planning hence they are able to shrinkage the amount of tax liability expense (Chen et al., 2010).

$$ROA = \frac{Net\ profit\ after\ tax}{Total\ Assets}$$

Increasing the leverage ratio affects the profitability of the company, because part of it is used to pay the loan interest (Gunawan et al., 2015). Companies that have higher level of debt will pay higher tax interest resulting in lower ETR values (Richardson & Lanis, 2007).

$$LEV = \frac{Long\ term\ debt}{Total\ assets}$$

Property, Plant, and Equipment (PPE) or fixed assets are also controlled in this study as the result of disparity in depreciation methods of commercial and fiscal financial reporting that can cause book-tax difference in family companies with more investment in fixed assets (capital-intensity), different from inventory-intensity companies (Manzon & Plesko, 2001).

$$PPE = \frac{property, plant, \text{dan}\ equipment\ value}{Total\ assets}$$

The size of the company (SIZE) is seen from the size of the equity value, value of total sales, or value of total asset. The larger the company, the lower the level of ETR it has, because larger companies are more capable to use their resources to do good tax planning (political power theory) (Richardson & Lanis, 2007). Nevertheless, not all companies are able to use their power to undertake tax planning due to the limitations in the form of the possibility on becoming the focus or target of the regulator's decision - political cost theory (Watts & Zimmerman, 1978).

$$SIZE = Ln\ (Total\ aset)$$

METHOD OF DATA ANALYSIS

Data analysis techniques utilized in this study are regression analysis, namely multiple linear regression and Moderated Regression Analysis (MRA). Data were processed by using IBM SPSS statistics 21 software.
The regression model in this study is as follows:

1. Regression models which use ETR in measuring tax aggressiveness.
   $ETR = \alpha + \beta_1 CG + \beta_2 AQ + \beta_3 ROA + +\beta_4\ LEV + \beta_5 PPE + \beta_6 SIZE + \varepsilon$ (1)
   $ETR = \alpha + \beta_7 CG + \beta_8 AQ + \beta_9 FO + \beta_{10} ROA + \beta_{11}\ LEV + \beta_{12} PPE + \beta_{13}\ SIZE\ + \varepsilon$ (2)
   $ETR = \alpha + \beta_{14} CG + \beta_{15} AQ + \beta_{16} FO + \beta_{17} FO * CG + \beta_{18} FO * AQ\ + \beta_{19} ROA + \beta_{20}\ LEV + \beta_{21} PPE + \beta_{22} SIZE + \varepsilon$ (3)
2. The regression models which use BTD_MP in measuring tax aggressiveness.
   $BTD\_MP = \alpha + \beta_{23} CG + \beta_{24} AQ + \beta_{25} ROA + +\beta_{26}\ LEV + \beta_{27} PPE +\ \beta_{28} SIZE + \varepsilon$ (4)
   $BTD\_MP = \alpha + \beta_{29} CG + \beta_{30} AQ + \beta_{31} FO + \beta_{32} ROA + \beta_{33}\ LEV +\ \beta_{34} PPE + \beta_{35}\ SIZE + \varepsilon$ (5)
   $BTD\_MP = \alpha + \beta_{36} CG + \beta_{38} AQ + \beta_{39} FO + \beta_{40} FO * CG + \beta_{41} FO * AQ + \beta_{42} ROA + \beta_{43}\ LEV + \beta_{44} PPE + \beta_{45} SIZE + \varepsilon$ (6)

Information:

ETR	: Tax Aggressiveness measured by using the Effective Tax Rate
BTD_MP	: Tax Aggressiveness as measured by using Manzon-Plesko Book-Tax Difference.
$\beta_1, \dots, \beta_{34}$	: Regression Coefficient
α	: Constants
CG	: Corporate governance
AQ	: Quality Audit
KK	: Family Ownership
ROA	: Return on Assets
LEV	: Leverage
PPE	: property, plant and equipment values
SIZE	: Company size
ε	: Error term, the estimator error level in the study

Classical Assumption Test

The classical assumption test is undertaken to provide confidence that the regression equation obtained has certainty in the estimation, is unbiased and consistent. The classical assumption test consists of normality test, multicollinearity test, and heterokedasticity test.

Goodness of Fit Model

Statistically, to assess the goodness of fit in the multiple linear regression model, it can be done by measuring the coefficient of determination (R^2) and the statistical value of F.

Determinant Coefficient Test (R^2)

Determinant coefficient testing is implemented to see how much the effect of independent variable has on the dependent variable. This test is performed by looking at the determinant efficiency value which is detected from the Adjusted R Square value. The determinant coefficient (R^2) is a non-negative quantity and the magnitude of the determinant coefficient is ($0 \leq R^2 \leq 1$).

Model Suitability Test (F-test)
F test is used to test the suitability of a model and the effect of independent variables on the dependent variable. The outcomes of this test can be seen in the ANOVA table. The significant value of ANOVA can be said as feasible to test if $\alpha \leq 0.05$.

Hypothesis testing
Hypothesis testing is effectuated to determine the effect of each independent variable on the dependent variable, as well as the influence of the moderating variable. The results of this test can be identified from the SPSS output, where the significant level used is 0.05 for each independent variable. If the $P - value$ in the Sig. ≤ 0.05 then H_a is accepted and H_0 is rejected.

RESEARCH RESULT

Research Samples
There are 140 manufacturing companies listed on the Indonesia Stock Exchange in 2016-2017. After selecting the sample with the purposive sampling method, the number of samples collected in this study are 132 companies in total (66 companies for two periods, namely in 2016 and 2017).

Descriptive Statistics Results
According to Table 1, the average value of the Effective Tax Rate (ETR) is 0.282 and the standard deviation value is 0.121. It means that there is a little variation between the minimum and maximum values during the observation period or there is no large gap from the ETR value. The average value of the Manzon-Plesko Book-tax Difference (BTD_MP) is -0.036 and the standard deviation is 0.048, which demonstrate a large variation between the maximum and minimum values during the observation period.

Else, the average value of ROA is 0.083 and the standard deviation value is 0.085 that is denoting a high variation between the minimum and maximum values during the observation period. The average value of leverage and the standard deviation which is 0.105 and 0.109 respectively illustrate that there is a high variation between the minimum and maximum values during the observation period. The average value of PPE is 0.426 and it has standard deviation of 0.158 which show that there is a small variation between the minimum and maximum values during the observation period or there is no a large gap on PPE. The average value of the company size is 28,597 and the standard deviation value is 1,602. It illustrates that there is a small variation between the minimum and maximum values during the observation period or there is no a large gap from the size of the company.

Table 1. The result of Statistical Descriptive test

Variabel	Minimum	Maximum	Average	Standard Deviation
Effective Tax Rate	0,010	0,920	0,282	0,121
Book-tax Difference Manzon-Plesko	-0,224	0,100	-0,036	0,048
Return on Assets	0,000	0,530	0,083	0,085
Leverage	0,000	0,600	0,105	0,109
Property, Plant, and Equipment	0,001	0,765	0,426	0,158
Firm Size	25,664	33,320	28,597	1,602

Based on Table 2, it is known that there are 65 companies that have good governance (well-governed), while 67 companies have bad governance (poorly-governed). This pinpoints a propensity to have poor corporate governance towards the samples. Besides, there are 50 companies which used auditors from Big Four PAF and 82 other companies used auditors from Non Big Four PAF. It indicates that the tendency of sample companies to be audited by auditors from Non-Big Four PAF. The number of companies with family ownership are 22 companies, while there are 110 companies with non-family ownership. It demonstrates a domination of non-family companies in this study.

Table 2. Data Frequency

Variable		Frequency	Percentage
Governance	Well Governed	65	49,2%
	Poorly Governed	67	50,8%
	Total	**132**	**100%**
Audit Quality	Big Four PAF	50	37,9%
	Non Big Four PAF	82	62,1%
	Total	**132**	**100%**
Family Ownership	Family Ownership	22	16,4%
	Non-Family Ownership	110	82,1%
	Total	**132**	**100%**

Regression Analysis Results
Regression analysis conducted in this study utilize multiple linear regression (Multiple Regression Analysis) and Moderated Regression Analysis (MRA). Regression model 1 in equation (1) is used to examine the hypotheses 1 and 2, namely the effect of

corporate governance and audit quality on tax aggressiveness (which is calculated by using the Effective Tax Rate / ETR method). Equation (2) and (3) is utilized to examine the hypotheses 3 and 4 namely the moderation of family ownership on the effect of corporate governance and audit quality on tax aggressiveness (which is calculated by using the Effective Tax Rate / ETR method). The outcomes of the regressions can be seen in Table 3.

Table 3. Results of Regression Model Analysis 1 (ETR)

Variable	Equation 1	Equation 2	Equation 3
CG	0,002	0,002	0,016
(*t*-value)	(0,087)	(0,100)	(0,692)
AQ	0,013	0,014	0,005
(*t*-value)	(0,484)	(0,518)	(0,188)
ROA	-0,373**	-0,382**	-0,436**
(*t*-value)	(-2,722)	(-2,653)	(-2,983)
LEV	0,008	0,005	0,043
(*t*-value)	(0,077)	(0,049)	(0,410)
PPE	-0,051	-0,052	-0,059
(*t*-value)	(-0,741)	(-0,747)	(-0,843)
SIZE	-0,021	-0,021	-0,017
(*t*-value)	(-1,123)	(-1,123)	(-0,907)
FO		0,006	0,034
(*t*-value)		(0,209)	(0,817)
CG*FO			-0,098
(*t*-value)			(-1,655)
AQ*FO			0,062
(*t*-value)			(0,940)
F	1,986	1.696	1,723
Sig F	0,072*	0,116	0,091*
Adj R^2	0,043	0,036	0,047

* significant at the 5% level, ** significant at the 1% level
Variable definition:
ETR = Effective Tax Rate; CG = Corporate Governance; AQ= Audit Quality; ROA = Return on Assets; LEV = Leverage; PPE = Property, Plant, and Equipment; SIZE = Firm Size; FO = Family Ownership

Regression model 2 equation (4) is utilized to examine hypothesis 1, namely the effect of corporate governance and audit quality on tax aggressiveness (which is calculated by using the Manzon-Plesko / BTD_MP Book-Tax Difference method). Equations (5) and (6) is functioned to examine the hypotheses 3 and 4 particularly the moderating effect of family ownership on the effect of corporate governance and audit quality on tax aggressiveness (which is calculated by using the Manzon-Plesko / BTD_MP Book-Tax Difference method). The outcomes of regression model 2 (BTD_MP) can be seen in table 4.

Table 4. Results of Regression Model Analysis 2 (BTD_MP)

Variable	Equation 4	Equation 5	Equation 6
CG	0,013*	0,014*	0,016*
(*t*-value)	(1,797)	(1,837)	(2,024)
AQ	0,003	0,005	0,010
(*t*-value)	(0,349)	(0,510)	(1,031)
ROA	-0,336**	-0,347**	-0,339**
(*t*-value)	(-7,363)	(-7,238)	(-6,990)
LEV	-0,044	-0,047	-0,042
(*t*-value)	(-1,320)	(-1,399)	(-1,224)
PPE	0,019	0,018	0,013
(*t*-value)	(0,834)	(0,795)	(0,549)
SIZE	-0,001	-0,001	-0,002
(*t*-value)	(0,088)	(-0,105)	(-0,245)
FO		0,007	0,023*
(*t*-value)		(0,731)	(1,674)
CG*FO			-0,014
(*t*-value)			(-0,728)
AQ*FO			-0,041*
(*t*-value)			(-1,876)
F	11,838	10,186	8,525
Sig F	0,000**	0,000**	0,000**
Adj R^2	0,332	0,329	0,341

*significant at the 5% level, ** significant at the 1% level

Variable definition:
ETR = Effective Tax Rate; CG = Corporate Governance; AQ= Audit Quality; ROA = Return on Assets; LEV = Leverage; PPE = Property, Plant, and Equipment; SIZE = Firm Size; FO = Family Ownership

DISCUSSION OF THE RESEARCH RESULTS

Corporate Tax Aggressiveness in Indonesia

Besides discussing corporate governance and audit quality in overcoming tax aggressiveness, this study will also discuss about the tax aggressiveness in Indonesia's public companies from 2016 to 2017. This is undertaken to reveal how big is the trend of companies in executing tax aggressiveness hence if tax aggressiveness actually happens, it can be useful for the government to create tax policies that are able to cope the problem of tax aggressiveness by considering factors from the outside of the company.

The average value of ETR in Indonesia is 0.25 since the corporate income tax is 25%. Therefore, the sample company is said to be aggressive towards taxes if it has an average value of ETR < 0.25. To detect whether the sample of public companies in this study have an average ETR < 0.25 or not, a one sample t-test was exerted. Based on Table 5, it is known that the average value of ETR on the sample data is 0.282, the t value is 3.089 and the Sig (2-tailed) value is 0.002. Therefore, it can be concluded that the average value of ETR is more than 0.25 (> 0.25) or it means that there is no tax aggressiveness in the sample companies.

Table 5. Effective Tax Rate

	Average	*t*	*Sig*
ETR	0,282	3,089	0,002

Furthermore, examination towards the average value of tax aggressiveness (BTD_MP). The greater the BTD_MP value, the more aggressive the tax company is. Hence, if the BT value is less than 0 (< 0), then the company is not aggressive towards taxes. To find out whether BTD_MP of the public company in this study is < 0 or not, a one-sample t-test was conducted. In Table 6, the average value of BTD_MP sample data is -0,036, t-value is -8,527 and Sig (2-tailed) value is 0,000. Then it sums up that the average value of BTD_MP is less than 0 or $BTD_{MP} < 0$, it pinpoints that there is no tax aggressiveness in the sample companies.

Table 6. Book Tax Difference – Manzon Plesko

	Average	*t*	*Sig*
$\boldsymbol{BTD_{MP}}$	-0,036	-8,527	0,000

The average value of ETR = 0.282 and the average value of BTD_MP = -0.036 illustrate that the sample companies are not aggressive towards taxes.

The Effect of Corporate Governance on Tax Aggressiveness (H_1)

The outcomes of this study indicate that the mechanism of corporate governance has no effect on tax aggressiveness, so **H_1 is not supported**. The results of this study support several previous studies which stated that there is no significant effect of corporate governance on tax aggressiveness (Sari & Martani, 2010; Utami & Setyawan, 2015).

The reason that might explain this unsupported result of the influence of corporate governance on tax aggressiveness is in behalf of the sample companies in this study does not tend to be aggressive towards taxes. This indicates that tax aggressiveness, which is envisaged as a problem, does not transpire in public companies, especially in the manufacturing sector, so the implementation of corporate governance as a solution to the problem of tax aggressiveness has no effect.

When viewed in terms of the exertion of governance, there are still many companies in the research sample that have poor corporate governance. The average implementation of corporate governance from 2016 to 2017 experienced a slight increase, however, the average value still likely to be small at 43.15% in 2016 and 45.15% in 2017 (Table 7). Corporate governance that still likely to be bad in this study does not make companies to be aggressive towards taxes. It demonstrates that public companies in Indonesia are only limited to fulfill OJK's regulation in executing corporate governance, so the application had not been effective. Nonetheless, in the case of implementing tax regulations, public companies apt to be obedient because there are penalties if the company is proven to do violations towards the tax provisions. Even though the company is not aggressive towards taxes, the application of corporate governance that still tend to be bad is expected to become particular concern of governments because it is an important aspect that gives a positive impact on stakeholders.

Table 7. Corporate Governance Index of 2016-2017

	2016	2017
The Lowest Governance Index	0 %	0%
The Highest Governance Index	100%	100%
The Average Governance Index	43,15%	45,15%

Effect of Audit Quality on Tax Aggressiveness (H_2)

The results illustrates that audit quality has no effect on tax aggressiveness, so **H2 is not supported**. This is in line with the results of research conducted by Subagiastra et al. (2016) dan Wibawa et al. (2016). Companies that use the services of accountants from KAP Big Four to be more likely as less aggressive towards taxes are not yet acceptable. The researcher suspects that the reason which might explain the influence of audit quality on tax aggressiveness is due to unaggressive towards taxes in the sample companies in this study, thus the audit quality which becomes the solution of the tax aggressiveness problem has no effect.

When viewed from the quality of auditors, all Public Accounting Firms (PAF) must already have Public Accountant Professional Standards (PAPS) which implemented by all auditors who are members of the PAFs. Thus, it is not only the Big Four PAFs that conduct high credibility audits and perform audits according to the guidelines, but the Non Big Four PAFs also do the same in auditing the company's financial statements. The audit quality of auditors from various types of PAF in this study does not make companies to be aggressive towards tax. This indicates that companies apt to comply with tax provisions hence when auditors from KAP big four and KAP non big four conduct audits, things that are likely to violate taxation are not found.

Family Ownership on the Effect of Corporate Governance on Tax Aggressiveness (H_3)

Tax aggressiveness and family ownership are both based on agency theory. Previous research found that family companies have lower tax aggressiveness compared to non-family companies (Chen et al., 2010; Steijvers & Niskanen, 2014). In contrast to those studies, the results of this study support several other studies (Hidayanti & Laksito, 2013; Sari & Martani, 2010; Utami & Setyawan, 2015) that there is no effect of family ownership on tax aggressiveness and this study also discovered that family ownership was not able to strengthen the negative influence of corporate governance on tax aggressiveness, so that **H_3 is not supported**. It evinces that the level of family ownership does not determine the level of tax aggressiveness performed by the company.

Explanation on how family ownership does not affect tax aggressiveness and not able to strengthen the negative influence of corporate governance on tax aggressiveness is because the sample companies in this study did not undertake tax aggressiveness. It demonstrates that bad governance and good governance in family and non-family companies do not induce companies to be aggressive towards taxes.

Companies with family ownership as well as non-family is obedient to tax provisions perhaps for the reason that the company considers the expense incurred to pay taxes is not greater when compared to losses due to tax penalties given when the company is proven to have committed to undertake tax aggressiveness. In addition, the benefits earned from paying taxes are more profitable to the company than from the possibility of a decrease in the company's reputation due to tax violations.

Family Ownership on the Effect of Audit Quality on Tax Aggressiveness (H_4)

Family companies are envisaged as an ideal form of organization that is able to align the objectives of the owner and the company (Landry et al., 2013). Companies with family ownership will reduce their opportunistic behavior when they are monitored by independent auditors. Audit quality limits the incentives of companies with family ownership to engage in positions of doing tax aggressiveness (Gaaya et al., 2017).

The result of this study demonstrate that family ownership makes audit quality that had no prior effect has a negative effect on tax aggressiveness (using the BTD_MP method), so **H4 is supported**. It is because the companies with family ownership reduce their opportunistic behavior when monitored by qualified external auditors (Gaaya et al., 2017). Therefore, family companies will diminish the tendency of companies to conduct tax aggressiveness. However, since the sample companies in this study are proven not to carry out tax aggressiveness, it shows that family companies and non-family companies tend to be obedient and compliant with tax regulations. Hence, the company will not be concerned about its financial statements being audited by auditors from big four or non-big four, because the company did not manipulate their financial statements.

Discussion of Control Variable Regression Results

The influence of control variables towards tax aggressiveness shows mixed results (Tables 3 and 4). The control variable that has a significant probability value is only the ROA variable, but the regression coefficient is negative. This proves that companies with high ROA are not aggressive towards tax (not in line with the research of Chen et al. (2010). It happened because in reality, the sample companies do not undertake tax aggressiveness and the average value of ROA of the sample companies tends to be low at 0.08 (Table 1). So, the size of the ROA, does not make the sample companies act aggressively towards taxes.

CONCLUSION

This study focuses on the phenomenon of tax aggressiveness in Indonesia effectuated by corporate taxpayers. The sample used is all manufacturing companies listed on the Indonesia Stock Exchange, which contains of 132 observational data from companies during the 2016-2017 period. The outcomes pinpoint that the propensity of public companies in Indonesia especially the manufacturing sector did not carry out tax aggressiveness because it had an average level of ETR > 0.25 and BTD_MP <0. The sample companies which are not aggressive towards taxes make the mechanism of corporate governance and audit quality which is considered as a solution of tax aggressiveness become has no effect. The level of exertion of corporate governance mechanisms, which tends to be low, does not engender companies to be aggressive towards taxes. Audit quality also has no effect as a result of the company does not effectuate tax aggressiveness. Companies that obey and adhere to the tax provisions will not mind if their financial statements are being audited by auditors from the big four or non-big four PAFs because they do not manipulate the financial statements so no frauds that break the rules will be found there.

The results of this study are also unable to prove that family ownership elevates the negative effect of corporate governance on tax aggressiveness. Nevertheless, this study finds that family ownership increase the negative effect of audit quality on the tax aggressiveness. Family companies and non-family companies are obedient and compliant with tax regulations even though the level of implementation of corporate governance mechanisms is still low and companies have independent auditors from different PAFs. Researchers suspect that the compliance of companies towards the taxation provisions is due to the given financial penalties if they are proven to have violated the tax provisions. It then makes the companies assume that paying tax will be more beneficial if compared to pay a fine and lose their reputation if they do tax aggressiveness.

This research provides policy implications for the government to continuously provide stimulus to taxpayers in order to regularly improve the implementation of tax in which avoid the aggressive action. Although public companies, especially the manufacturing sector, have not been proven to carry out tax aggressiveness, other companies, especially non-public companies, are more likely to do that action. The government needs to increase supervision of company compliance on tax regulations. The government also needs to evaluate the existing policies so their application will be better, one of the ways is by implementing corporate governance. Tax-related socialization also needs to be improved to escalate the taxpayers' knowledge about tax provisions. The government is expected to be able to enhance the awareness of corporate taxpayers to conduct tax practices in accordance with the applicable regulations, henceforth in the future, the state revenue from the taxation sector will continuously increase.

RESEARCH LIMITATIONS

This research has several limitations in the process of collecting and analyzing data. Some of these limitations include: (1) Good corporate governance is assessed based on guidelines on good corporate governance recommendations listed in the Circular Letter of Financial Services Authority, 32/SEOJK.04/2015, which resulting this research is carried out over two periods (2016-2017) after the letter the circular was issued, which generated in a small number of samples; (2) Limited information related to family ownership in the annual report of companies listed on the Indonesia Stock Exchange. It engendered a large number of undetected companies; (3) Not all of the ownership share data in the OSIRIS database trace ownership to individual levels and also some companies' ownership information is not accessible. This causes the possibility of a family company that is not included in the study sample.

SUGGESTIONS FOR THE NEXT RESEARCH

Subsequent research that takes the same problem with this research can find solutions to the limitations that have been submitted by researchers. Some things that can be suggested are as follows: (1) Future studies are recommended to use a longer period of research so that the research has many samples obtained. Additionally, the next researchers can conduct research in all sectors of public companies listed on the Indonesia Stock Exchange (not only focusing on manufacturing companies) or research on non-public companies that may have opportunities to take tax aggressiveness. (2) For the next researchers who want to review related to family ownership, it is advisable to trace ownership in an absolute manner through a database other than OSIRIS (e.g. ORBIS) in order to expect the information earned to be more complete.

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