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EXECUTIVE COMPENSATION, EXECUTIVE CHARACTER, TAX AVOIDANCE: DOES INDEPENDENT COMMISSIONER MATTER?

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Abstract
This study looks at the impact of executive compensation and character on tax avoidance. This study also looks at the moderating influence of the proportion of independent commissioners in this connection. This study uses secondary data from financial statements from consumer products businesses listed on the Indonesia Stock Exchange between 2017 and 2021, retrieved from www.idx.co.id. The overall sample size for this study was 85 observations, as determined via purposive sampling. Multiple linear regression was used to evaluate panel data. This research concludes that executive compensation is positively related to tax avoidance, while executive character does not affect tax avoidance. Furthermore, the proportion of independent commissioners succeeded in reducing the positive influence of executive compensation on tax avoidance, while the role of independent commissioners did not have a role in reducing the positive influence of executive character on tax avoidance. This research is expected to be a means for the Indonesian Tax Authority to create policies for profiling company compensation characteristics for executives as an initial indicator of tax avoidance activities carried out by companies.
Keywords: Compensation; Corporate governance; Character; Executive; Tax planning

INTRODUCTION

Taxes are mandatory payments to the state owed by individuals or corporations that are coercive based on the law by not obtaining direct compensation and utilized for the state's goals for the maximum prosperity of the people (Undang-Undang RI, 2007). Indonesia is one of the countries whose most extensive source of income derives from taxes, and corporate taxpayers are one of the parties that significantly contribute to taxation activities. Companies as taxpayers tend to take tax avoidance actions. The company considers taxes a burden and will reduce the company's net profit. However, on the other hand, the government expects an increase in tax revenue as much as possible because it can play an important role in developing state facilities (Yulianty et al., 2021). It causes a difference in interests between taxpayers and the government, which tends to reduce the tax burden by allowing tax avoidance actions to be carried out legally and illegally (Moeljono, 2020).

Tax payments can be minimized in 2 ways: tax avoidance and tax evasion. Both have a similar meaning but have different purposes. Tax avoidance can be interpreted as legally minimizing tax payable, while tax evasion is defined as illegally minimizing the payment of tax payable. The reason why a company reduces the payment of taxes that should be paid is the company receives no direct contribution for the taxes that have been paid, so that companies tend to think that the money used for paying taxes will be better used for more profitable investments (Yulianty et al., 2021). From the investors' point of view, the tax avoidance measures taken reflect the manager's interests by manipulating profits, resulting in information asymmetry (Harventy, 2017). Thus, investors who know about these activities can give unfavorable assessments. The obstacle faced by the government, namely in increasing state tax revenue, is the existence of tax avoidance because the existence of tax avoidance has the potential to reduce state revenue from the tax sector.

The Apple Company is one of the phenomena of worldwide tax avoidance. Apple's tax avoidance action is taking advantage of Jersey's deficient tax rules. It is conducted by setting up a tax-free branch company to free up profits estimated at 252 billion US dollars. As a result of the tax avoidance scheme, Europe lost US$78 billion in tax revenue, Africa lost US$14 billion in tax revenue, and Asia lost US$34 billion (Muthahhari, 2017). This tax avoidance issue is also prevalent in Indonesia. The Indonesia Tax Authority has established that some corporations adopt tax avoidance tactics to decrease state revenues (Benedicta, 2019). One of the tax avoidance instances in Indonesia was PT Bentoel Internasional Investama, the country's second-largest tobacco manufacturer. According to a Tax Justice Network Institute research, the British American tobacco corporation committed tax avoidance through PT Bentoel Investama, which used loans from related entities in the Netherlands to finance bank loans (Benedicta, 2019). Interest payments reduce Indonesia's taxable income, resulting in lower tax payments. It leads the state to endure losses of 14 million US dollars yearly (Benedicta, 2019).

Tax avoidance in a practical context is typically connected with tax evasion; academically, tax avoidance is an effort made by taxpayers to lawfully lower tax costs without breaching rules by utilizing loopholes in current tax legislation (Puspita & Febrianti, 2017). Tax avoidance is one aspect of the tax planning industry. Tax avoidance is an attempt by firms as taxpayers to avoid or minimize tax liabilities by using loopholes in the tax laws (Handayani, 2018).

Tax avoidance is a manager's action for a specific motive, so the action may not align with shareholders' interests. Tax avoidance is a manager's policy related to tax planning to minimize the tax expenses paid to the government. This policy is the manager's decision in carrying out the company's business activities as an agent. The level of tax avoidance carried out by managers is also adjusted to the manager's ability and expertise in managing the company, especially related to financial management (Vito et al., 2022). Even though it is not the main goal to increase company profits, managers with the best abilities are still considered to be carrying out various types of tax avoidance. Thus, tax avoidance in each company can be caused by the character of the manager (Pebriyanti et al., 2022). Managers have policy discretion when running the company (Scott, 2015). If managers have specific policies, tax avoidance strategies can be used to align the manager's motives (Sismanyudi & Firmansyah, 2022). Thus, testing the character of managers related to tax avoidance is interesting for further investigation.

This study examines the effect of executive compensation and executive character on tax avoidance. Executive compensation is an additional salary to motivate executives to improve their performance (Tandean & Winnie, 2016). Improved performance also shows that companies increase profits and raise taxes (Puspita & Harto, 2014). Executive compensation is one of the reasons for not achieving the tax target. A company's executives are directly involved in making corporate tax decisions. Usually, company executives will be very influential on decisions made within a company, one of which is the decision to avoid corporate tax. The company’s executives will be very willing to conduct tax avoidance if they also benefit from the activities. Thus, providing high compensation to executives is one of the best efforts to implement corporate tax efficiency (Apsari & Supadmi, 2018). Hanafi & Harto (2014) found that executive compensation is positively associated with tax avoidance. Meanwhile, Apsari & Supadmi (2018) suggested that executive compensation is negatively associated with tax avoidance. Prayogo & Darsono (2015) and Tandean & Winnie (2016) found that executive compensation is not associated with tax avoidance. The difference in the results of previous research is the motivation to reexamine this association.

The company leader's executive character is a characteristic of carrying out company policies (Oktamawati, 2017). There are two types of executive characteristics in their duties: risk-takers and risk-averse. The executive kind of risk taker usually tends to be brave in taking risks. Meanwhile, the risk-averse executive lacks the courage to take risks (Oktamawati, 2017). The character of an executive depends on a company's risk level. The higher the company's risk, the higher the risk-taker character possessed by company leaders who will make decisions in tax avoidance (Alviyani et al., 2016). Oktamawati (2017) concluded that executive character is positively associated with tax avoidance. It differs from Dewi & Sari (2015), who found that executive character is negatively associated with tax avoidance. At the same time, Kartana & Wulandari (2018) and Tandean & Winnie (2016) concluded that executive character is not associated with tax avoidance. The inconsistency of previous research results leads to the need to reexamine this association, which is essential.

This study includes an independent commissioner as a moderating variable in the association between executive compensation and executive character on tax avoidance. Based on the Indonesian regulation on the implementation of good corporate governance, it can be indicated by the percentage of independent commissioners of at least thirty percent (30%). Independent commissioner who aims to carry out monitoring to support better and more objective company management and financial statements. Also, an independent commissioner assists companies in planning their long-term strategy, regularly reviews the implementation of the approach, and reduces tax avoidance (Tandean & Winnie, 2016). For this reason, the percentage of the board of commissioners in a company indirectly affects tax management. Aulia et al. (2018), Eksandy (2017), Pramudya et al. (2021), Sunarsih & Handayani (2018), and Wijayanti & Merkusiwati (2017) suggested that the independent commissioner is negatively associated with tax avoidance. Rahma & Firmansyah (2022) found that an independent commissioner can strengthen the negative effect of companies with more significant debts in reducing tax avoidance. The existence of an independent commissioner within the company impacts monitoring activities on every action taken by managers so that it complies with the established rules (Yulianty et al., 2021).

This research contributes to literature testing tax avoidance in terms of the character of managers or directors in companies. The company's directors are the company's leaders, so each company represented by the directors has a character in its tax avoidance activities. The tax authorities in Indonesia can also use this research to create profiling or policies related to indications of companies that have the potential for tax avoidance in terms of the characteristics of company leaders. In addition, this research can be used by the Tax Authority in Indonesia to coordinate with the Capital Market Supervisory Authority regarding the regulation of the function of independent commissioners concerning tax avoidance activities by managers in companies.

LITERATURE REVIEW

According to Jensen & Meckling (1976), agency relationships exist when one or more parties (principals) hire another party (agent) to deliver services and delegate decision-making authority. The lead delegation is carried out through a contract between the principal and the agent. However, agents may not always behave in a way that follows the principal's objectives because both sides have goals to pursue. Conflicts between agents and principals result in agency fees. These consist of three costs: monitoring costs, which are costs incurred and borne by the principal to monitor agent behavior; bonding costs, which are costs paid by the principal to guarantee that the agent will act in the principal's interest; and residual loss, which is a sacrifice or loss arising from the difference between the agent's decision and the principal's decision (Jensen & Meckling, 1976). The introduction of agency expenses increases the costs paid by the firm since they involve the costs of carrying out the company's activities, requiring the management to act effectively and efficiently. Thus, it is vital to execute tax management to decrease the company's tax costs, thereby enhancing its financial performance (Amri, 2017).

Executive compensation is closely related to the agency relationship between the principal and the agent. It is an agency contract between the company and the manager to unite common interests based on the actions and efforts made. An additional salary is given to executives to motivate them to improve their performance (Tandean & Winnie, 2016). A company's executives are directly involved in making corporate tax decisions. Usually, company executives will be very influential in decisions made within a company, including avoiding corporate tax. Executives will be willing to make tax avoidance decisions if the executive benefits from the activities. Thus, providing high compensation to executives is one of the best efforts to implement corporate tax efficiency (Apsari & Supadmi, 2018). Executive compensation is the reason for the manager to conduct tax avoidance because the company can obtain minimized tax expenses to increase the company's income. Hanafi & Harto (2014) concluded that executive compensation aligns with tax avoidance. Managers who have higher compensation may have a motive for tax avoidance. The manager expects to increase the value of the compensation he receives from the company's total profit in the current period by reducing company tax payments.

H_1: Executive compensation is positively associated with tax avoidance

Executive character is related to company policy, which cannot be separated from policy-making in a company and is never separated from the role of company leaders. The same is true of tax avoidance. Two types of executive characteristics are used to carry out their duties: risk-takers and risk-averse. The executive kind of risk taker usually tends to be brave in taking risks. Meanwhile, the risk-averse executive lacks the courage to take risks (Oktamawati, 2017). The character of an executive depends on a company's risk level. The higher the company's risk, the higher the risk-taker character possessed by company leaders who will make decisions in tax avoidance (Alviyani et al., 2016). Oktamawati (2017) found that executive character is related to tax avoidance activities. Managers with specific pressures tend to avoid tax to compensate for the uncertainty of profits received by the company in a certain period. A low profit can describe a company as unfavorable, so managers should avoid taxes to minimize the company's tax burden.

H_2: Executive character is positively associated with tax avoidance.

Placing an independent commissioner in the organization is one way to oversee a manager's performance (Ramadhan & Firmansyah, 2022). Independent commissioners can supervise managers' implementation to align the interests of managers and shareholders (Ramadhan & Firmansyah, 2022; Sari et al., 2021). Additionally, independent commissioners can reduce asymmetric knowledge between management and shareholders (Ramadhan & Firmansyah, 2022).

Executive compensation is related to an agency contract between the company and the manager to unite common interests based on the actions and efforts made. Executive compensation is an additional salary to motivate executives to improve their performance (Tandean & Winnie, 2016). A company's executives are directly involved in corporate tax decisions (Tandean & Winnie, 2016). Company leaders typically wield significant power in internal choices, including avoiding corporation taxes. Executives will be inclined to engage in tax avoidance if they gain from the actions. Including independent commissioners in the corporation can provide better control of the directors' performance. The higher the number of independent commissioners in a corporation, the more probable the oversight will be stricter to prevent tax avoidance (Aulia et al., 2018; Pramudya et al., 2021; Sunarsih & Handayani, 2018). Independent commissioners are expected to reduce tax avoidance activities by managers to increase compensation as company executives.

H_3: Independent commissioner weakens the positive effect of executive compensation and tax avoidance

Establishing an independent commissioner is one way to reduce managers' acts conflicting with shareholders' interests (Amalia & Firmansyah, 2022). Independent

commissioners have experience disciplining managers' performance (Rahma & Firmansyah, 2022). In making decisions, as an executive, a manager usually has two characteristics: risk-takers and risk-averse. The executive type of risk taker usually tends to be brave in taking risks. Meanwhile, the risk-averse executive lacks the courage to take risks (Oktamawati, 2017). The character of an executive depends on a company's risk level. The higher the company risk, the higher the risk-taker character possessed by company leaders who will make decisions in tax avoidance. The presence of an independent commissioner in the company is a party that is not affiliated with other key management. The more independent commissioners in a corporation, the better the oversight is expected. With better monitoring, firm management will be more cautious, especially in tax avoidance actions (Eksandy, 2017; Wijayanti & Merkusiwati, 2017). Independent commissioners are expected to reduce managerial policies that endanger the company in the future. Risky actions taken by managers can encourage managers to avoid taxes. Therefore, the existence of an independent commissioner can reduce tax avoidance because the manager has a character related to risky policies.
H_4: Independent commissioner weakens the positive effect of executive character and tax avoidance

METHODS

This study takes a quantitative approach. This type of research is causality research, which examines whether an independent variable influences the dependent variable. The study data are based on secondary data from the official website of the Indonesia Stock Exchange (IDX) from 2015 to 2021. The research object for this study is a manufacturing business in the consumer products industry sector listed on the Indonesia Stock Exchange for 2017-2021. Based on purposive sampling, the sample criteria in this study are as follows:

Table 1
Research Sample

Criteria	Amount
Manufacturing companies in the consumer products industry sector that are constantly listed on the Indonesia Stock Exchange (BEI) between 2017 and 2021	36
Manufacturing companies in the consumer products industrial sector that did not file financial results for the 2017-2021 fiscal year ended December 31	(0)
Manufacturing companies in the consumer goods sector did not have positive net income from 2017 to 2021.	(0)
Manufacturing enterprises in the consumer goods industry category that do not have executive compensation data for the 2017-2021 timeframe	(1)
From 2017 to 2021, consumer goods manufacturers gave contradictory statistics and information.	(18)
The number of consumer products companies that match the requirements.	17
Number of observation years (2017-2021)	5
The number of study samples	85

Tax avoidance is the study's dependent variable. Taxpayers strive to reduce their tax burden while increasing earnings. According to Tandean & Winnie (2016), tax avoidance can be measured using the Current Effective Tax Rate (ETR) proxy. ETR is a tool used to measure how big companies do tax avoidance. The tax avoidance referred to here is a company with a Current ETR value above 0 and below 1, indicating that the company is doing tax avoidance. If the company's current ETR is below 0, it means that the company is experiencing losses, which shows that it is not doing tax avoidance, and if the company's current ETR is above 1, it means the company pays more extraordinary tax expenses than its profits. Tax avoidance in this study is measured using the Current ETR, which can be formulated as follows:

$$\text{Current ETR} = \frac{\text{Current Tax Expense}}{\text{Income Before Tax}}$$

Tax avoidance is derived by Current ETR multiplied by -1 as Amalia & Firmansyah (2022) and Rahma & Firmansyah (2022). Executive compensation is the total cash the board of directors, commissioners, and key management receives for a year (Apsari & Supadmi, 2018). The executive compensation variable uses a ratio scale. The executive compensation measurement formula is an adaptation of Apsari & Supadmi (2018), which is as follows:

$$\text{COMP}=\text{LN (Total Executive Compensation)}$$

Executive character is measured using company risk as Novita (2016), which is proxied by the standard deviation of EBITDA (earnings before interest, tax, depreciation, and amortization) divided by total assets for the last 3 years (current year and 2 previous years).

$$\text{RISK} = \sqrt{\frac{\sum_{t=1}^{3}\left(\frac{\text{EBITDA}}{\text{Total Aset}} - \sum_{t=1}^{3} \text{EBITDA} \Big/ \frac{\text{Total Aset}}{3}\right)^2}{2}}$$

The moderating variables in this research follow Diantari & Ulupui (2016) and Tandean & Winnie (2016), namely:

$$\text{INDCOM} = \frac{\text{Number of independent commissioners}}{\text{Number of the entire board of commissioners}}$$

This research also includes control variables, namely company size and profitability. The company size proxies used in this study follow Tandean & Winnie (2016) as follows:

$$\text{SIZE} = \text{Ln Total Aset}$$

Profitability in this research is measured using return on assets (ROA) as follows Wahyuni et al. (2017) is as follows:

$$\text{ROA}=\frac{\text{Net Income}}{\text{Total Assets}}$$

This research uses multiple linear regression analysis using panel data. The research model is described in the following equation:

Model 1

$$\text{TaxAvoid}_{it}= \beta_0 +\beta_1\text{COMP}_{it} + \beta_2\text{RISK}_{it}+ \beta_3\text{ROA}_{it}+\beta_4\text{SIZE}_{it} + \varepsilon_{it}$$

Model 2

$$\text{TaxAvoid}_{it}= \beta_0 +\beta_1\text{COMP}_{it} + \beta_2\text{RISK}_{it}+ \beta_3\text{ROA}_{it}+\beta_4\text{SIZE}_{it} + \beta_5\text{INDCOM}_{it}+ \beta_6\text{COMP} * \text{KOMIND}_{it}+ \beta_7\text{RISK} * \text{KOMIND}_{it} + \varepsilon_{it}$$

Where:
TaxAvoid: Tax Avoidance; COMP: Executive Compensation; RISK: Executive Character; INDCOM: Proportion of Independent Commissioners; ROA: Profitability; SIZE: Company Size; ε: Error

RESULTS AND DISCUSSIONS

Descriptive data for this study are presented as mean, median, standard deviation, maximum, and lowest values. Table 2 summarizes the descriptive statistical analysis results from this investigation.

Table 2. Descriptive statistics

	TAXAV	COMP	RISK	INDCOM	PROF	SIZE
Mean	-0.236	24.482	0.039	0.436	0.168	29.417
Median	-0.231	24.568	0.023	0.400	0.098	28.806
Maximum	-0.008	27.613	0.257	0.833	2.046	32.820
Minimum	-0.959	21.681	0.001	0.333	0.009	27.179

Std. Dev.	0.109	1.5824	0.045	0.120	0.300	1.638
Obs.	85	85	85	85	85	85

Source: data processed

Furthermore, the test is carried out using panel data, with a fixed-effect model (FEM) in both model 1 and model 2. The summary of the results of hypothesis testing is as follows:

Table 3.
Hypothesis Testing Results

Variable	Model 1				Model 2			
	Coeff	t-Stat.	Prob.		Coeff.	T-Stat.	Prob.	
C	-4.412	-4.847	0.000	***	-6.481	-3.744	0.000	***
COMP	0.112	6.973	0.000	***	0.193	2.907	0.002	***
RISK	-0.023	-0.102	0.459		-0.323	-0.867	0.194	
PROF	-0.229	-9.413	0.000	***	-0.211	-6.990	0.000	***
SIZE	0.050	1.611	0.056	*	0.050	3.031	0.002	***
INDCOM					6.985	1.831	0.004	***
COMP*INDCOM					-0.274	-1.801	0.038	**
RISK*INDCOM					0.536	0.810	0.210	
R^2	0.831				0.816			
Adj R^2	0.778				0.746			
F-stat.	15.759				11.728			
Prob(F-stat.)	0.000				0.000			

Notes: ***) significance level at 1%, **) significance level at 5%, * significance level at 10%

The hypothesis test finding implies that executive compensation is positively associated with tax avoidance. The result is in line with Hanafi & Harto (2014) but not in line with Apsari & Supadmi (2018), Prayogo & Darsono (2015), and Tandean & Winnie (2016). According to agency theory, managers' motivations are not aligned with the interests of shareholders. Managers' executive compensation can be considered an encouragement for managers to carry out tax avoidance. Executive compensation usually derives from the profits generated by the company in a certain period because the profits generated are a measure of the manager's performance. Tax avoidance is an action used by managers to obtain greater profits in the expectation that executive compensation will also be large.

This research confirms that executive compensation is closely related to the agency relationship between principal and agent. Managers, on behalf of shareholders, are expected to unite common interests. Additional salaries are given to executives to motivate them to improve their performance (Tandean & Winnie, 2016). Executive compensation is the main reason managers avoid taxes; companies can reduce their tax burden to get higher net profits. As a result, managers are expected to get higher bonuses from the company. Managers utilize asymmetric information by carrying out tax avoidance, a policy discretion in corporate tax planning that benefits managers.

The hypothesis test finding implies that the executive character is not associated with tax avoidance. This study's results align with research conducted by Kartana & Wulandari (2018), which shows that executive character does not affect tax avoidance. In agency theory, managers act for certain motives. These motives are not necessarily in line with the interests of shareholders. Specific policies can be detrimental to the company. Managers who have the character of making decisions with more significant risks do not encourage managers to take tax avoidance actions.

Furthermore, the manager's character is related to the company's business risk and not to tax avoidance activities. The result of this test confirms the findings of Firmansyah & Muliana

(2018), who stated that tax avoidance activities are unrelated to company risk. On the one hand, managers' decisions and policies are relevant to the risks borne by the company, but managers' decisions, whether risky or not, are not in line with the manager's tax avoidance activities. Therefore, tax avoidance actions carried out by managers are not associated with manager activities that have a risk impact on the company.

The hypothesis test result suggests that independent commissioner succeeds in weakening the positive effect of executive compensation on tax avoidance. In consumer sector industrial companies, executive compensation is in the form of additional salaries given to executives as motivation to improve executive performance. A company's executives are directly involved in making corporate tax decisions. Usually, company executives will be very influential in decisions made within a company, including avoiding corporate tax. Therefore, a good composition of independent commissioners will guide the company in running based on applicable regulations (Hanum, 2013).

The hypothesis test result suggests that the proportion of independent commissioners has no moderating role in decreasing the positive relationship between executive character and tax avoidance. In general, the characteristics possessed by executives are divided into two: executives who are risk takers and risk-averse. Executives who have the character of a risk taker tend to take risks. Executives who have a risk-averse character tend to avoid risks. However, the character possessed by executives, both risk-takers and risk-averse, do not play a role in a company's tax avoidance. The principal is the most significant authority in making decisions in a company. Executives, risk-takers, and risk-averse can take big or small risks according to the principal's wishes. Independent commissioners do not see that the character of executives with policies that endanger the company encourages tax avoidance.

CONCLUSIONS

This study indicates that executive compensation has a positive effect on tax avoidance. Meanwhile, the executive character does not affect tax avoidance. Bonus compensation given to managers encourages managers to avoid taxes. Meanwhile, the manager's character is tied to their policies or actions in the company's operational operations, which prevent managers from taking advantage of business risks. Furthermore, the share of independent commissioners has effectively reduced the favorable impact of executive compensation and tax avoidance. In contrast, the percentage of independent commissioners has little bearing on the connection between executive character and tax avoidance.

The limitation of this study is that there are criteria where companies with negative profits will be eliminated, causing a significant reduction in the sample. Therefore, future research will use data and information from a broader sector, such as the manufacturing industry. This research indicates that the proportion of independent commissioners in a company should be increased to supervise (monitor) the company's executives' performance. This research is helpful for the Tax Authority in Indonesia to carry out executive compensation profiling policies related to indicators for companies that practice tax avoidance. In addition, it is also expected that the tax authorities in Indonesia can work together with the Capital Market Supervisory Authority to evaluate laws and regulations to minimize gaps (gray areas) that can be exploited in tax avoidance.

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