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THE INFLUENCE CHIEF FINANCIAL OFFICER, PROFITABILITY, LEVERAGE, AND AUDIT COMMITTEE ON TAX AVOIDANCE WITH FIRM SIZE AS A CONTROL VARIABLE

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Abstract: The state gets its money from taxes, although taxes are a burden that reduces the income of businesses. To minimize tax costs, businesses use tax avoidance strategies. Tax evasion is a deliberate attempt by a company to reduce its tax liability through legal means or through strategies and activities that occupy a gray area. The purpose of this research is to collect empirical evidence regarding the effect of Chief Financial Officer, profitability, leverage, and audit committee on tax evasion with firm size as a control variable. The approach used in this research is a quantitative approach. The research sample was 30 mining companies listed on the IDX in the 2019-2021 period, so 90 observations were used. The data analysis technique used is multiple linear regression. This study finds that tax avoidance is not affected by Chief Financial Officer. Likewise, the results are the same using the control variable, namely firm size, Chief Financial Officer also does not have a significant effect on tax avoidance. Conversely, profitability with or without control variables has a positive and significant effect on tax evasion. Different results on leverage, where leverage with or without a control variable has no effect on tax evasion. The audit committee also found no effect on tax evasion with or without control variables.

Keywords: *Chief Financial Officer, Profitability, Leverage, Audit Committee,* Tax Avoidance

INTRODUCTION

Companies want minimal tax payments because a low tax burden affects the amount of profit. In order to minimize tax expenses, companies use tax avoidance strategies. The government always strives to optimize the tax revenue target every year. However, this effort has several obstacles, one of which is the practice of tax avoidance by companies operating in Indonesia. These companies do various ways to minimize their tax expenses. This study conducted research on mining companies on the IDX in 2019-2021. Mining companies were chosen by researchers because the management of this sector is still not transparent enough and the mining sector is one of the 5 main sectors which is the largest supporter of tax revenues for the state. This is of course very worrying about indications of tax avoidance practices by companies engaged in this sector, resulting in tax revenues for the state not being optimal.

The Ministry of Finance noted that tax revenue from the mining sector until the end of September 2019 had decreased by 20.6% to IDR 43.21 trillion (Alika, 2019). This condition was caused by the decline in mining commodity prices on the global

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market and indications of tax avoidance practices by mining companies. The phenomenon of tax avoidance practices has occurred in the case of PT Adaro Energy, which is one of the largest mining companies engaged in the coal sector. PT Adaro Energy is suspected of manipulating profits by diverting some profits from coal sales to a group of companies abroad. This practice aims to reduce taxes (Sugianto, 2019). Taxes are one of the biggest expense items for some companies. This gives companies a strong idea to reduce their tax burden through a practice commonly known as tax evasion.

This condition gave rise to a gap in theory and empirical research regarding the influence of the Chief Financial Officer and tax evasion. Accounting and tax expertise possessed by the Chief Financial Officer is associated with efforts to fulfill tax compliance for taxpayers. The expertise of the Chief Financial Officer will greatly assist in preparing financial analysis for tax reporting purposes. CFO expertise is proxied in three indicators, namely education, experience, and professional skills. However, empirical research shows that the expertise possessed by the Chief Financial Officer is used to explore opportunities for tax evasion (Chen et al., 2020). Chief Financial Officer with financial expertise related to more aggressive tax evasion policies and efforts. The Chief Financial Officer with his financial expertise has a negative and significant effect on the cash effective tax rate, indicating that the CFO is pursuing a more aggressive tax avoidance policy (Huang & Zhang, 2020).

METHODS

Population and Sampel

The research population is all mining sector companies listed on the Indonesia Stock Exchange in the 2019-2021 period. The sampling method used was a purposive sampling method with several criteria. In the end, 30 samples of mining sector companies were obtained in the 2019-2021 reporting period. The number of observations used was 90 observations.

Tax Avoidance

Tax avoidance refers to tax avoidance practices carried out by the company's chief financial officer and does not conflict with regulatory provisions in the field of taxation (Gebhart, 2017; Salman, 2018, 2019; Salman et al., 2018). Tax avoidance is measured by the effective tax rate (ETR).

Chief Financial Officer (CFO)

The CFO is the executive responsible for preparing financial reports, including reports related to corporate tax (Chen et al., 2020). The CFO plays a key role in determining the taxable income a company reports. The CFO's expertise therefore helps management manage corporate taxes while calculating the impact of tax benefits on financial reporting. Chief Financial Officer is measured by giving a value of 1 for someone who has the ability and experience in the accounting or finance sector and 0 if he does not have the ability and experience in the accounting or finance sector.

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Profitability

A company's profitability can also be viewed as a fundamental indicator of its overall success. Therefore, as profits generated increase, the propensity for corporate tax avoidance increases as the level of income tax increases in line with corporate profits (Arianandini & Ramantha, 2018). Profitability is measured by return on asset (ROA).

Leverage

Leverage is Debt financing has an interest cost component of the loan that is deducted from taxable income. Therefore, pre-tax profits of companies that use debt as their primary source of funding tend to be lower than those that finance their operations primarily through the issuance of equity (Stawati, 2020). Leverage is measured by comparing the total liabilities of the company with the total equity owned by the company, debt to equity ratio (DER).

Audit Committee (AC)

Audit committee acts independently, oversees the company's performance and financial standards. With proper oversight, the company seeks to minimize management actions aimed at tax avoidance (Koming & Praditasari, 2017). Audit committee is measured by comparing the total number of audit committees in the company.

Data Analysis

Data were analyzed by multiple regression analysis with SPSS software. Some of the tests used are the F-test, the coefficient of determination, and the t-test to test the research hypothesis. The criterion for accepting the research hypothesis is that the probability t-test is less than 0.05.

RESULTS AND DISCUSSION

Test F

Table 1 shows the F-test results obtained from the test. With a significance level of 0.006, the calculated F value is 3.566. Since the level of significance is less than 0.05, the model is suitable for fitting data studies. H_0 is rejected because the significance level is well below 0.05. That is, the independent variables CFO, Profitability, Leverage, and Audit Firm Size Committee are also affected as control variables for tax avoidance.

Table 1. F test results with control variables

Model		Sum of Squares	df	Mean Square	F	Sig.
2	Reg	2.662	5	.532	3.566	.006[b]
	Residual	12.542	84	.149		
	Total	15.204	89			

Source: SPSS output results, processed (2023)

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Coefficient of Determination

Table 2 shows the results of the coefficient of determination test using adjusted R-squared values of 0.126 or 12.6 percent.This suggests that only 12.6% of the time, the independent variable can explain the dependent variable. Other variables provide an explanation for the remaining 88.4%. The correlation coefficient (R) has a magnitude of 0.418. This suggests that there is a 41.8% relationship between the independent and dependent variables. blood level time has an estimated error of 0.386408 (SEE). The smaller the SEE value, the more accurately the regression model predicts the dependent variable, tax avoidance.

Table 2. Test Results for the coefficient of determination with control variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	.418[a]	.175	.126	.386408

Source: SPSS output results, processed (2023)

T Test Results

The results of the t-test show that only 1 return on assets has a significant effect on tax evasion, while the other three variables, namely the Chief Financial Officer, debt to equity ratio, and audit committee, have no effect on tax evasion (Table 3).

Table 3. T test results with control variables

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.412	.377		1.092	.278
	X_1_CFO	.016	.119	.013	.130	.897
	X_2_ROA	.095	.026	.373	3.646	.000
	X_3_DER	.000	.000	.076	.746	.458
	X_4_AC	-.129	.086	-.149	-1.495	.139
	K_1_SIZE	.013	.010	.133	1.268	.208

Source: SPSS output results, processed (2023)

a. First hypothesis test

The first hypothesis aims to examine the effect of the independent variable CFO on tax avoidance. Based on Table 4.10, the t-value is 0.130 and the significance is 0.897. The 0.897 significance level is higher than 0.05. (0.897≥0.05), the conclusion is that H_1 is rejected, implying that CFO of the company doesn't influences tax avoidance.

B. Second hypothesis test

The second hypothesis aims to examine the effect of the independent variable profitability on tax avoidance. The t-value is 3.646, and the significance level is 0.000, as shown in Table 4.10. It is less than 0.05 to have a significance level of 0.000. (0.000 ≤ 0.05) and the conclusion is that H_2 is acceptable, implying that corporate profitability affects tax avoidance.

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C. Testing the third hypothesis
The purpose of the third hypothesis is to investigate how tax evasion is affected by independent variable leverage. The t-value is 0.746, and the significance is 0.458, according to Table 4.10. The level of significance, 0.458, is greater than 0.05. (0.458 ≥ 0.05) and in conclusion H_3 is rejected.This indicates that tax evasion is unaffected by the company's leverage .

D. Testing the fourth hypothesis
The fourth hypothesis aims to examine the impact of the audit committee independent variable on tax avoidance. The t-value is -1.495, and the significance is 0.139, according to Table 4.10. The level of significance, 0.139, is greater than 0.05.(0.139 ≥ 0.05) and the conclusion is that H_4 is rejected and the internal audit committee is not in control of tax avoidance

Discussion

The test results for the determination coefficient (R^2) obtained different results between using a control variable and not using a control variable. The results of data processing using SPSS statistics 25 for windows show that without a control variable it is 12.0 percent while with a control variable it is 12.6 percent. These results indicate that the dependent variable that is influenced by other variables outside the model is 88.0 without a control variable and 88.4 percent using a control variable.

The findings of the F test that was carried out on the research sample showed different results when using control variables compared to not using control variables. The significance level without a control variable is 0.005 and using a control variable is 0.006. although the results obtained are different but indicate that the regression model is a fit model.The results of the t test show different conclusions between using control variables and not using control variables in the model. When the test is carried out without a control variable, only the profitability variable has a significant effect on tax avoidance. Different results are shown in research when using control variables. Further discussion can be seen in the following description:

The results of the study did not find empirically the effect of the Chief Financial Officer (CFO) on tax evasion. This finding is inconsistent with the concept that the expertise of a Chief Financial Officer assists executives in managing their corporate income tax and in calculating the impact of tax consequences on financial reporting. Similarly, this finding is inconsistent with Chen et al. (2020) showing that Chief Financial Officers with accounting expertise are associated with lower ETR and corporate tax planning. This finding is also inconsistent with the statement that the Chief Financial Officer with his accounting expertise is able to explore tax planning opportunities better. The study results are also inconsistent with Huang & Zhang (2020) which states that CFOs with financial expertise pursue tax avoidance more aggressively.

This study found empirically the positive effect of return on assets on tax avoidance. These findings support the concept which states that there is a relationship between return on assets and the effective tax rate. The greater the ratio of return on assets, the greater the amount of tax paid by the company. If the company generates

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increased income, the operating profit will also increase so that it will also have an impact on increasing the value of the tax paid by the company. The amount of tax paid by the company is an indication of whether there are actions to carry out tax avoidance. This finding is also in line with Stawati (2020) which also found empirically a positive effect on profitability on the effective tax rate.

The results of the study did not find empirically the effect of leverage on tax evasion. This finding is not in line with the concept which states that there is a relationship between leverage and tax avoidance. Leverage indicated by debt financing will bring up a loan interest cost component which becomes a deduction in taxable income. Therefore, the pre-tax profit of companies that use debt as the majority source of funding will tend to be smaller than companies that fund their operational activities mostly by issuing shares. This of course can reduce the company's tax liability and can be classified as an act of tax avoidance. This finding is not in line with Koming & Praditasari (2017) which found a positive effect of leverage on tax avoidance. The high level of leverage will cause interest expenses to be borne by the company and reduce the profit earned by the company so that the tax burden paid by the company is low.

The results of the study did not find empirically the effect of the audit committee on tax evasion. This finding is not in line with the statement which reveals that the audit committee within a company acts independently and functions to supervise performance and financial standards company. With good supervision from the audit committee, the company will try to minimize management actions to avoid taxes. This finding is also not in line with the concept which states that audit committees can improve the quality of internal control within a company which is aimed at providing protection or guarantees to shareholders and other company stakeholders. This finding is in line with Hapsari Ardianti (2019) who did not empirically find the effect of the audit committee on tax avoidance.

CONCLUSION

The purpose of this research is to investigate the effect of Chief Financial Officer, profitability, leverage, and audit committee on tax evasion by using firm size as a control variable. The results of the study prove empirically that return on assets has a positive effect on the effective tax rate. This finding finds that the greater the return on assets indicates the greater the value of the effective tax rate, which means the lower the level of tax evasion by the company. The results of the study did not find empirically the effect of the other three variables namely Chief Financial Officer, leverage, and audit committee on tax evasion.

The research provides policy implications, especially for the tax authorities to focus on reducing the rate of return on assets generated by mining companies. The low rate of return on assets has an impact on increasing tax avoidance practices by mining companies. Suggestions for further research to extend the research period in order to obtain better results. In addition, further research can focus on the impact of factors on tax evasion practices, especially during the Covid-19 pandemic.

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