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Original Research Paper

Do Foreign Ownership, Executive Incentives, Corporate Social Responsibility Activity and Audit Quality Affect Corporate Tax Avoidance?

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Abstract

This study investigates the impact of governance factors on tax avoidance, such as foreign ownership, executive incentives, corporate social responsibility, and audit quality. Between 2015 and 2020, the study examined data from conventional banks and non-bank institutions listed on the Indonesia Stock Exchange, with 69 banks and financial entities matching the purposive selection criteria serving as samples using EViews. The results of the study showed that executive incentives had a positive impact on tax avoidance, while foreign ownership had no effect. Corporate social responsibility had a negative impact, and audit quality had a negative impact on tax avoidance. The research discussion highlighted specific tax loopholes and strategies businesses and individuals use to avoid paying taxes and provided insights for policymakers on addressing this issue.

Keywords

Tax avoidance, executive incentives, foreign ownership, corporate social responsibility, audit quality, banking industry, financial institution

Introduction

Tax is Indonesia's largest revenue source, with around 85% of the country's income coming from tax revenues. The Minister of Finance, Sri Mulyani, has revealed that the number of corporate taxpayers reporting losses for five

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consecutive years has increased from 5,199 in the 2012–2015 period to 9,496 in the 2016–2020 period, even though many of these companies continue to operate and even expand their businesses in Indonesia.

There are various reasons for tax avoidance, such as ineffective law enforcement, complicated tax regulations with loopholes for tax avoidance, and limited resources for tax administration. Another contributing factor is the low level of taxpayer compliance, which stems from perceptions of injustice in the tax system and a need for more public awareness regarding the importance of paying taxes. Furthermore, the low level of taxpayer compliance has been linked to a lack of trust in the government's ability to manage tax revenues efficiently and transparently.

Several companies in the banking and financial sector have been involved in tax cases, including BANK CIMB Niaga, which was involved in a tax dispute in 2008 regarding income tax, Bank Panin, which underpaid taxes in 2016 and was involved in bribery to reduce the amount of underpaid taxes, and 2000 Foreign Investment Companies (PMA) reported to have incurred continuous losses in 2016 and were unable to pay Corporate Income Tax Article 25 and 29. Although suspected of engaging in tax avoidance, these companies still operate and exist in Indonesia.

According to Fitriana and Putri's (2021) research, the level of knowledge and tax administration processes positively affected tax compliance in Jakarta's small and medium-sized businesses (Indonesia). The greater someone's knowledge of taxation, the greater the Taxpayer's motivation to pay taxes because he will be aware of his obligation to pay taxes and what consequences will occur if he does not pay taxes. Furthermore, the tax administration process in Indonesia needs to be properly implemented, leading to inefficient tax collection practices. The process has several stages, including registration, filing, payment, and enforcement, and each stage is prone to gaps and inconsistencies. For example, the registration process is frequently complicated, and taxpayers may encounter difficulties completing the required forms, resulting in delayed registration or incorrect data.

A country's tax rate may be one of the factors to consider, but it is not a major factor. Multinational banks have mapped a country's economic potential, tax climate, and net profit after taxes in advance. The primary business considerations for opening a branch are lending risk and interest rate volatility. Through the issuance of credit cards, for instance, multinational banks operating in Indonesia typically channel small, short-term consumer loans with a low value.

Ardi and Nursiam (2022) conducted a study published in the International Journal of Economics, Management and Accounting, which analysed the impact of ownership structure and board of commissioners' independence on the performance of banks in Indonesia, with an emphasis on foreign ownership. Similarly, Nurani (2021) explored how foreign direct investment affects the performance of banks in Indonesia and concluded that the acquisition of national banks by foreign investors could have a positive impact on the financial performance of the banks.

The trend of foreign investment in Indonesian commercial banks shows the increasing attractiveness of the Indonesian banking sector for foreign investors, as explained by the enactment of POJK No. 12 of 2021 concerning Commercial

Banks, which states that foreign ownership of banks in Indonesia may reach 99%. Foreign investors saw this opportunity to grow and develop in the large and relatively untouched Indonesian market. Foreign acquisitions of national banks can provide banks access to new technologies, products, and expertise they may not have had before. It can also help improve banks' financial performance and competitiveness by increasing their capital base and providing access to new markets.

The relationship between International Foreign Investors and tax avoidance is significantly negative. Greater foreign ownership translates to a greater capacity to control shareholder decisions and increase profits for foreign investment companies employing CSR strategies for some operational transactions. Contrary to the findings of Deef, Alrawashdeh, and Al-fawaerh (2021), foreign ownership does not affect tax avoidance.

Other factors of corporate tax avoidance can also be influenced by incentives given to executives, as stated by Dyreng et al. (2008). Shareholders aim to motivate executives to maximise the value of their investments. By compensating executives based on their performance, shareholders can reduce the agency costs that companies may incur. This is because a strong relationship between salary and performance can reduce the costs associated with monitoring by shareholders and influencing executives to act in the best interests of shareholders. Armstrong and Schindler (2013) found that incentive compensation schemes can impact the tendency of tax avoidance in companies. In particular, the higher the incentives given to managers, the more likely the company is to practice tax avoidance, as Minnick and Noga (2010) stated. These findings suggest that executive compensation is a significant factor in companies' level of tax avoidance. Companies may unknowingly encourage tax avoidance practices by incentivising executives to maximise shareholder value. However, it is essential to note that not all compensation schemes lead to increased tax avoidance. Therefore, it is crucial for companies to carefully consider their compensation structures and ensure that they align with their values and objectives.

Corporate social responsibility (CSR) refers to a company's responsibility towards society and the environment. Many companies acknowledge the significance of CSR and its potential impact on their corporate value. Studies have demonstrated that a company's attention to CSR can increase its value. This is because CSR activities signify that the company is not exclusively focused on its interests but also considers the interests of society and the environment in which it operates.

Research has investigated the relationship between CSR and tax avoidance. Wardhani et al. (2019) discovered that CSR disclosure could influence tax avoidance, indicating that companies participating in CSR activities are less likely to engage in tax avoidance practices. Lanis and Richardson (2018) also reported that companies that engage in CSR activities tend to make higher tax payments.

Bank Mandiri, one of Indonesia's largest state-owned banks, was found in 2016 to have utilised its CSR program to engage in tax avoidance practices. The bank reportedly used its CSR budget to purchase tax-free bonds, reducing its tax liability. Consequently, the Indonesian government imposed a tax penalty on the

bank. In 2019, Bank Rakyat Indonesia (BRI), another state-owned bank, was also penalised for tax avoidance through its CSR activities. The bank had claimed tax deductions for donations made to specific social and religious organisations, which were not authorised by the tax authorities. BRI was also required to pay back the tax liability and was fined.

One factor that can contribute to tax avoidance by corporations is the quality of the audit conducted. According to the Professional Public Accountant Standard, audit quality is determined by the performance of auditors in the audit process. If auditors provide more competent findings, then it is less likely that a company will engage in profit manipulation for tax purposes (Cai & Liu, 2010).

Gontara et al. (2023) measured audit quality by assessing auditor capability and independence, which is determined by the size and reputation of the auditing firm (Big4/NonBig4). Transparency is a crucial aspect of auditing and one of the corporate governance principles. The ability of auditors to perform audits by the Professional Standard of Public Accountants is used to evaluate audit quality. The audit aims to enhance the financial reporting performance of the client, enabling financial report users to access auditor-independent and transparent reports. There have been cases where the quality of audits has been compromised, leading to tax avoidance practices by companies. In 2017, KPMG South Africa was found to have been involved in a series of scandals, including the auditing of Gupta-owned companies, which were implicated in corrupt practices with the South African government. KPMG's poor audit quality was seen as a contributing factor to the tax avoidance and corruption practices carried out by its clients. As a result, KPMG South Africa faced significant reputational damage and lost clients.

This study has contributed to an improved public understanding of the scale and repercussions of tax avoidance by corporations and wealthy individuals. The public has increased pressure on governments and corporations to address the issue. It also provided important insights into the effectiveness of various tax policies and procedures, informing policy decisions to reduce tax avoidance.

Furthermore, the research has highlighted the global scale of the problem and the need for coordinated efforts by countries and international organisations to tackle it. Through analysing specific tax avoidance strategies and tactics used by firms and individuals, this research has the potential to assist policymakers in developing practical solutions to combat tax avoidance.

The study is structured into several sections, including a review of previous research on related theories such as tax avoidance, executive incentives, CSR, and audit quality. Additionally, the study provides an overview of the data set used in the research and the process of selecting relevant features. The study's findings are presented and discussed in section 4, while section 5 offers conclusions, limitations, and recommendations for future studies.

Literature Review

Agency Theory

According to Jensen and Meckling's (1976) agency theory, corporate governance plays a vital role in aligning the interests of managers and owners in a corporation. In tax avoidance, managers may be motivated to engage in aggressive tax planning to increase profits. At the same time, owners may opt for a more cautious approach to reduce legal and reputational risks. Corporate governance mechanisms such as the board of directors and external auditors can be used to monitor and limit managers' tax avoidance efforts. The board of directors can establish rules and guidelines to deter risky tax planning and ensure adherence to tax laws and regulations.

Additionally, by linking executive compensation to tax compliance and risk management, the board can further hold management accountable for their tax decisions. External auditors can independently evaluate a company's financial statements and tax positions and assess the company's tax planning and compliance with relevant tax laws and regulations. Shareholders can also monitor tax avoidance by engaging in shareholder activism, advocating for ethical tax practices, and exercising their voting rights to influence corporate tax policies and practices (Hanlon & Heitzman, 2010; Jensen & Meckling, 1976). Ultimately, agency theory suggests that sound corporate governance can support aligning owners' and managers' interests regarding tax avoidance, encouraging prudent tax practices and mitigating the risk of legal and reputational repercussions through policies, procedures, and oversight systems (Hanlon & Heitzman, 2010).

Stakeholder Theory

According to the stakeholder theory, a business is not only a self-serving entity but also has a responsibility to provide advantages to all parties having an interest in it, such as shareholders, management, employees, customers, creditors, investors, regulators, and the government (Goyal, 2018; Kim & Lee, 2019; Ojo, 2018; Sial & Akhtar, 2019; Wang & Yu, 2021). In the context of tax avoidance in the bank and non-bank companies in Indonesia, this theory suggests that these companies are responsible for complying with tax laws and regulations to benefit all stakeholders (Ojo, 2018; Sial & Akhtar, 2019).

Foreign ownership is an essential factor that can impact a company's tax practices and ultimately affect its stakeholders (Goyal, 2018). Companies with foreign ownership are also responsible for complying with local and international tax laws and regulations to avoid reputational and legal risks (Goyal, 2018; Wang & Yu, 2021). Executive incentives can create a conflict of interest between executives and other stakeholders (Kim & Lee, 2019; Wang & Yu, 2021). Incentives solely based on short-term profits can motivate executives to engage in

aggressive tax planning that can harm other stakeholders (Kim & Lee, 2019). Therefore, companies must align executive incentives with long-term sustainable growth and ethical tax practices to benefit all stakeholders (Wang & Yu, 2021).

CSR is another aspect of stakeholder theory that is relevant to tax avoidance. Companies that engage in CSR activities demonstrate their commitment to contributing to the welfare of society beyond just maximising profits (Ojo, 2018). CSR can also positively impact a company's reputation and relationships with stakeholders, including the government (Ojo, 2018). Audit quality is important for ensuring that a company's financial statements and tax positions are accurate and compliant with relevant tax laws and regulations (Goyal, 2018; Sial & Akhtar, 2019). External auditors provide an independent evaluation of a company's tax planning plans and risk management processes. This can benefit stakeholders by reducing the risk of financial misstatements and non-compliance with tax laws (Goyal, 2018; Sial & Akhtar, 2019).

Stakeholder theory can show that bank and non-bank companies in Indonesia have a responsibility to comply with tax laws and regulations and consider the interests of all stakeholders, including the government. Foreign ownership, executive incentives, CSR and audit quality are important factors that can affect a company's tax practices and ultimately its performance.

Tax Avoidance

Several studies have explored the concept of Tax Avoidance and its indicators. For instance, Graham et al. (2014) found evidence that Tax Avoidance is a management strategy used to achieve a company's goals. Payne and Raiborn (2018) similarly defined Tax Avoidance as taking advantage of ambiguities in tax laws to benefit the company, which involves legally minimising the corporate tax burden through tax regulations. Hanlon and Heitzman (2010) conducted a comprehensive review of tax research, while Chen and Zhang (2017) investigated the impact of Tax Avoidance on CSR in China. Additionally, Wang and Lin (2020), analysed the determinants of variability in corporate effective tax rates using longitudinal data. One of the indicators used to measure Tax Avoidance is the Effective Tax Rate (ETR), which is calculated by dividing tax expense by pre-tax income, representing the ratio of a company's tax liability to its pre-tax income. A lower ETR than the industry average ETR is considered a reliable way to gauge the extent of Tax Avoidance (Graham et al., 2014).

Executive Incentive

Incentives executive a bonus given to the manager or other executives who have had a role in a company to take steps according to the authority that has been given from the employer. These incentives can be either an annual bonus or the chances of the owner of the company to buy a share at a certain price (long-term dividends). Several studies have examined the effects of executive incentives on

different aspects of corporate behaviour and performance. Karim et al. (2018) investigated the relationship between executive compensation, earnings management, and ownership concentration in Bangladesh. Leifeld and Schweizer (2014) explored the effects of incentives on executive selection and behaviour in the context of German companies. Zhang and Zhang (2019) studied the impact of executive incentive compensation on corporate innovation in China. Sabir et al. (2016) investigated the role of non-financial incentives in retaining knowledge workers in Pakistan. Nair and Dabhi (2020) examined the relationship between executive compensation and corporate governance in Indian companies. It has been noted that executive incentives can take various forms, including annual bonuses and long-term dividends, and can be material or non-material (Sarwoto, 2000). Many countries have discussed executive incentives, and some countries have implemented stricter regulations related to tax obligations and avoidance strategies by managers.

Corporate Social Responsibility

According to Lin, Yang, and Liou (2009), CSR is the term used to describe a company's commitment to acting ethically, promoting economic progress, and enhancing the quality of life for employees and society. Baker and Modell (2019) similarly define CSR as how businesses operate to impact society positively. CSR involves all stakeholders and is a fundamental corporate duty. Furthermore, Lanis and Richardson (2018) contend that companies are responsible for paying their fair share of taxes to the government, as taxes are a form of CSR to stakeholders. Companies that engage in tax evasion need to fulfil their social responsibility to stakeholders.

Audit Quality

The Professional Standards of Public Accountants (2011) set forth by the Indonesian Institute of Accountants state that the competence of auditors is linked to the size and reputation of the Public Accounting Firm (KAP). During an audit, transparency, professionalism, accountability, and integrity are crucial attributes for auditors to exhibit. The financial statements audited by the big four KAP firms (Price Waterhouse Cooper, Deloitte Touche Tohmatsu, KPMG, and Ernst & Young) are perceived to have higher quality and provide a more accurate representation of a company's actual worth. Francis (2004) also noted that "The Big Four" public accounting firms produce special audit reports compared to non-Big Four firms.

DeAngelo (1981) and Datar et al. (1991) argue that auditor quality is vital because more prestigious public accounting firms are more driven to perform a high-quality audit than other auditors since they have a reputation capital investment to defend. Furthermore, Reynolds and Francis (2000) and Craswell et al. (1995) discovered that significant audit firms have a well-established

reputation, charge higher audit fees, and/or perform qualitatively differently than smaller ones.

Hypothesis Development

Executive Incentives on Tax Avoidance

Executive incentives, such as stock options or bonuses, can be structured in such a way as to incentivise executives to engage in tax avoidance strategies. For example, suppose an executive's compensation package is tied to a company's stock price. In that case, they may be motivated to focus on maximising profits and reducing tax liability to increase their share price and compensation. By increasing the remuneration for executives, the result is that the burden on the company increases and impacts reducing profits and taxes. However, on the other hand, executives still feel the benefits in the form of increased remuneration.

Executive incentives can be structured to incentive executives to engage in tax avoidance strategies, such as reducing tax liabilities to increase stock price and compensation. Several studies have examined this relationship between bank and non-bank companies in Indonesia and other countries. For instance, higher executive compensation is positively associated with tax avoidance in Indonesian non-bank companies (Susilawati & Suandi, 2021). Other international studies have examined the impact of ownership structure, executive characteristics, and the signalling effect of tax aggressiveness on corporate tax avoidance in China and the US (Blouin et al., 2013; Dyreng et al., 2010; Hanlon & Slemrod, 2009).

H_1**:** Executive Incentive has a significant positive effect on tax avoidance.

Foreign Ownership on Tax Avoidance

Foreign ownership in banks and non-bank companies in Indonesia can do tax avoidance to reduce their tax burden by taking advantage of loopholes in the tax law by using a transfer pricing mechanism, coupled with the minimal level of nationalism from foreign owners investing in Indonesia, the reduced level of tax compliance. Banks with foreign ownership and non-bank companies can use transfer pricing to shift profits to other countries or entities with lower tax rates.

In this way, companies can reduce their tax obligations in Indonesia. The study by Azham et al. (2019) found that foreign ownership is positively associated with tax avoidance among Malaysian firms and that the effect is more substantial for firms with higher levels of debt financing. And prior research by Phiri and Apere (2018) that evidence from South Africa suggested that foreign ownership significantly affects tax avoidance in South Africa and that the effect is more significant for firms with higher profitability and larger size.

***H_2*:** Foreign ownership has a significant positive effect on tax avoidance.

Corporate Social Responsibility

CSR activities should be carried out for their social and environmental impact, not to reduce tax liability. Many companies face public scrutiny and legal consequences for engaging in tax avoidance practices. Recent studies examined the relationship between CSR and tax avoidance. Choi and Kwak (2020) discovered that companies that engage in more CSR activities are less likely to engage in tax avoidance.

Studies have shown that CSR activities can positively impact a company's reputation, customer loyalty, and employee morale. In addition, some research suggests that CSR can also help reduce tax avoidance by companies, particularly in the banking sector. Chen et al. (2020) found that CSR could be a reputational deterrent for tax avoidance. In other words, companies seen as socially responsible are less likely to engage in practices that may be perceived as unethical or harmful to society.

Nevertheless, prior research conducted by Rahmawati (2020) study on banking companies listed on the Indonesia Stock Exchange and found that CSR activities have a significant adverse effect on tax avoidance. This research also found that CSR disclosure partially mediates the relationship between CSR activities and tax avoidance. In other words, companies that engage in more CSR activities tend to have lower levels of tax avoidance. This relationship is partially explained by the company's disclosure of its CSR activities.

***H_3*:** Corporate Social Responsibility has a significant negative effect on tax avoidance.

Audit Quality

Audit quality, particularly the use of a Big Four audit firm, can significantly impact tax avoidance in the banking sector. The Big Four accounting firms (PwC, EY, Deloitte, and KPMG) are widely recognised as having higher quality audit processes and resources than smaller ones. As a result, companies audited by the Big Four may be subject to greater scrutiny and are more likely to be held accountable for tax avoidance practices.

The explanation is that Big Four auditors have more excellent resources and expertise to identify tax risks and assess the adequacy of a company's tax provisions, which can help prevent or detect tax avoidance. A previous study by Cravens et al. (2018) found that banks audited by Big Four firms are less likely to engage in tax avoidance practices in the United States. Similarly, Hassan et al. (2019) found that using Big Four auditors reduces tax avoidance in the banking sector in Pakistan. These findings suggest that using higher quality auditors can

lead to better tax compliance by companies, potentially due to greater scrutiny and resources available to these auditors.

H_4**:** Audit quality has a significant negative effect on tax avoidance.

Method

Data and Sample

Panel data regression was used in this study because it is a powerful method for controlling for unobserved dependencies, the independent variable on the dependent variable, which can contribute to estimator bias in typical linear regression models. Secondary data is used in this investigation. Secondary data is research information obtained indirectly from a third party or documented by a third party. This research aims to identify Indonesian banks and non-bank financial firms that have gone public. This analysis uses financial report data from the Indonesia Stock Exchange website for conventional banks and non-bank financial entities from 2015 to 2020 (idx.co.id). Purposive sampling was performed, which is a sampling strategy that takes into consideration specific criteria.

The following are the sample criteria:

a. The banking institutions examined in this study were listed on the Indonesia Stock Exchange (2015–2020)
b. Excluding Islamic banks, regional banks, and Islamic non-bank financial entities listed on the Indonesia Stock Exchange (2015–2020)

Table 1. Variable's Measurement.

Variables	*Measurement*
Tax avoidance	$\text{Effective tax rate} = \frac{\text{Tax expense} - \text{deferred tax expense}}{\text{Income before Tax}}$
Executive incentive	$\text{executive incentive} = \frac{\text{Executives incentive}}{\text{All Renumeration}}$
Foreign ownership	$\text{Foreign ownership} = \frac{\text{Number of foreignshare}}{\text{All outstanding share}}$
Corporate social responsibility	$CSR = \frac{\text{The number of fulfilled indicator of CSR disclosure}}{\text{The number of all CSR disclosure indicators (91 indicators)}}$
Audit quality	*Big four = 1* *Non-Big four = 0*

Research Design

This study is based on a causal approach to quantitative research. Causal research looks at the effects of independent variables on dependent variables and focuses on how one thing leads to another. Secondary data are used for the study. The goal of causal research is to determine how strong and in which direction the link is between two or more variables. This study examines how corporate governance's executive incentives, foreign ownership, CSR and audit quality affect tax avoidance as the dependent variable.

The Operational Definition of Variables

This study has three independent factors, one dependent variable and one interaction variable. This study will evaluate the impact of executive incentives, foreign ownership, CSR and audit quality. Detailed descriptions of all independent and dependent variables follow.

Table 2. Sample Criteria.

Criteria	Number
Banks and non-bank financial institutions listed on the Indonesia Stock Exchange (2015–2020)	105
IPO above 2015	–8
Banks and non-banks with incomplete financial data	–21
Observations	61
Years of observation	6
Final firm-year observations	366

Table 3. Descriptive Statistic.

	ETR	EI	FO	CSR	AU
Mean	0.191300	0.167926	0.357943	0.348005	0.508197
Median	0.213694	0.140000	0.273500	0.258500	1.000000
Maximum	0.580000	0.655000	0.990000	0.868000	1.000000
Minimum	–0.180000	0.015000	0.000000	0.000000	0.000000
Std. Dev.	0.109823	0.123946	0.341238	0.236635	0.500617
Skewness	–0.448050	1.151398	0.587537	0.959767	–0.032791
Kurtosis	3.543137	4.304230	1.904307	2.611966	1.001075
Jarque-Bera	16.74440	106.8093	39.36549	58.48647	61.00002
Probability	0.000231	0.000000	0.000000	0.000000	0.000000
Sum	70.01587	61.46100	131.0070	127.3700	186.0000
Sum sq. dev.	4.402316	5.607331	42.50177	20.43866	91.47541
Observations	366	366	366	366	366

Analysis

After filtration, only 69 financial institutions met all of the criteria for this sampling technique by purpose. The number of samples collected from the study's population is as follows.

Descriptive Statistics

Based on table 3 of the data for each variable derived from the processed model. Each variable has a mean value (mean), maximum value (max), and minimum value (min), as well as a standard deviation (SD). The description of the descriptive statistics of each research variable is as follows:

Executive Incentives (EI)

The mean value of the executive incentive is 0.167926, with a standard deviation of 0.12394. The mean value of the executive incentive, which is 0.167926, represents the central tendency of the data. The standard deviation of 0.12394 indicates how much the data values vary from the mean. As the mean value is greater than the standard deviation, it suggests that the distribution of data for the variable of executive incentive is relatively even or symmetrical, without any significant outliers or extreme values that would skew the distribution towards one end or the other. In other words, the data points are evenly spread around the mean, which is desirable for statistical analysis.

Foreign Ownership (FO)

According to data processing using Eviews 9 software, a variable's mean value represents that variable's average value across the data set. The mean value of 0.357943 for the FO variable indicates that the value of this variable tends to be relatively small, and the data tends to be homogeneous. The standard deviation of a variable is a measure of how much the value of the variable deviates from the average. The standard deviation of 0.34124 for the FO variable indicates that the variation in the value of this variable is relatively small.

Corporate Social Responsibility

The mean value of the CSR variable is 0.348005, and it has a standard deviation of 0.236635. This indicates that the values of the variables are evenly distributed, as the mean value is higher than the standard deviation. A lower standard deviation indicates less variation in the data, so the mean value is more representative of the

data. This suggests that the CSR variable may not be completely free of bias, but further information would be needed to confirm this.

Audit Quality (AQ)

The Audit quality variable has a mean value of 0.508197, the centre value around which the data points are dispersed. On the other hand, the standard deviation of this variable is 0.500617, indicating that the data points are spread out in a region near the average line. The fact that the average value is greater than the standard deviation implies that the data for audit quality variables is equally or regularly distributed and homogeneous. This signifies that the data collection contains no outliers or extreme values.

Table 4. Chow Test Results.

Effects Test	Statistic	Prob.
Cross-section F	0.937839	0.6078
Cross-section chi-square	62.725979	0.3799

Table 5. Hausman Test Results.

Test Summary	Chi-Sq Statistic	Prob.
Cross-section random	4.228210	0.3760

Table 6. Lagrange Multiplier Test.

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	0.500496	0.364948	0.865445
	(0.4793)	(0.5458)	(0.3522)
Honda	–0.707458	–0.604110	–0.927418
	–	–	–
King-Wu	–0.707458	–0.604110	–0.776623
	–	–	–
Standardised Honda	–0.353272	–0.345665	–6.488951
	–	–	–
Standardised King-Wu	–0.353272	–0.345665	–4.145537
	–	–	–
Gourierioux, et al.*	–	–	0.000000
			(>= 0.10)

Panel Data Regression Analysis

To determine which of the standard effect models, the fixed-effect and the random-effect models are the most appropriate for use in the inquiry.

The Chow Test

The Chow test determines whether the study model uses a common or fixed effect. Due to the probability value, the Chi-Square cross-section probability value is 0.6078. Because this value is bigger than the significance level of 0.05, the equation regression results in this study were based on a common-effect model, and the Hausman test was employed.

The Hausman Test

The Hausman test assesses whether a random effect or fixed effect probability value of a random cross-section of 0.3760 will be used in the research model. Because this number is greater than the 0.05 level of significance, the regression equation results in this study were based on a random effect model.

Lagrange Test

The Breusch-Pagan cross-section has a probability of 0.4793, as determined by the Lagrange test on the processed data. This result is greater than the significance criterion of 0.05 The results of the proper regression model used in this investigation, the Common Effect Model, can be determined.

Normality Test

A normality test aims to establish whether the distribution of the research sample is normal. The study's data must have a normal distribution and a significant probability of 0.05 or 5% for a suitable regression model because equally distributed data is a prerequisite for successfully completing panel data regression analysis. According to the data processing results using EViews 9, all variables have a uniform distribution. The Jarque-Bera probability value supports this by

Table 7. Heteroscedasticity Test.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.004041	0.002466	1.638343	0.1022
EI	0.004841	0.007447	0.650112	0.5160
FO	0.001182	0.002616	0.451727	0.6517
CSR	0.005738	0.004028	1.424516	0.1552
AU	0.001961	0.001895	1.034877	0.3014

over 5%, namely 0.58259. Based on a total of 366 observations, it can be concluded that the data are normally distributed.

Heteroscedasticity Test

The Heteroscedasticity test seeks to determine whether the regression model identified a link between the independent variables. The regression model lacks heteroscedasticity if the probability value is bigger than 0.05 According to the data analysed with EViews 9 and the Glaser test, as displayed in table 7, there is no probability coefficient with a value less than 0.05. Therefore, it can be stated that the data lack heteroscedasticity.

Multicollinearities Test

Table 8 shows the correlation coefficients between the independent variables. The correlation coefficient between the independent variables in this study is not larger than 0.80, as seen in the table above. As a result, the regression model employed is devoid of multicollinearity issues.

Autocorrelation Test

The Durbin-Watsons coefficient test findings obtained critical values of dU, dL, 4-dU, and 4-dL in the regression model above with 4 independent variables (k) and 366 observations (n), as shown in the table above. The regression findings show that the Durbin-Watsons coefficient is 1.979022. Because the DW coefficient

Table 8. Multocolinearitas Test.

	EI	FO	CSR	AU
EI	1.000000	–0.16279	–0.293996	–0.295226
FO	–0.16279	1.000000	0.226158	0.199874
CSR	–0.293996	0.226158	1.000000	0.360089
AU	–0.295226	0.199874	0.360089	1.000000

Table 9. Autocorrelation Test.

Statistik Durbin-Watson					
Durbin-Watson Stat					1.979022
n	*k*	dL	dU	4-dU	4-dL
366	4	1.730	1.775	2.225	2.270

lies between the autocorrelation problem-free zones, dU and 4-dU, it may be stated that the regression model is free of autocorrelation problems.

Regression Test Results

There are 366 samples in this study that satisfy the criteria with the equation below since it uses regression analysis panel data from 69 companies with six years of observation:

$$ETR\ i,t = \alpha 0 + \beta_1 DSi,t + \beta_2 DERVi,t + \beta_3 TPi,t + \beta_4 FVi,t + e \quad (1)$$

Description:

ETR : *Tax Avoidance*
α_0 : Constant
β : Regression coefficient
EI : Executive Incentive
FO : *Foreign ownership*
CSR : CSR
AU : audit quality
E : *Error term*

$$\textbf{ETR i,t} = -0.4092 + 0.3933\textbf{EIi,t} + 12.336\textbf{FOi,t} - \textbf{0.}02387\textbf{CSRi, t} - 0.00441AQi.t + \textbf{e}$$

The regression equation's results in table 10 are interpreted as follows:
First, the resulting effective tax rate (ETR) is zero if the independent variable is constant.
Second, executives incentive (EI) has a regression coefficient of –0.092717. This means that the effective tax rate (ETR) will reduce by 0.092717 for every one-unit increase in Executive Incentive.
Third, foreign ownership (FO) has a regression coefficient of –0.008766. The effective tax Rate (ETR) will reduce by 0.008766 for every one-unit increase in foreign ownership.
Fourth, in CSR, the regression coefficient value is 0.0656. The effective tax rate (ETR) will increase by 0.0656 for every one-unit rise in CSR.
Fifth, audit quality (AQ) has a regression coefficient of 0.069810. The effective tax rate (ETR) will increase by 0.069810 for every one-unit increase in audit quality.

Table 10. Regression Results.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.151710	0.014950	10.14746	0.0000
EI	–0.092717	0.045144	–2.053825	0.0407
FO	–0.008766	0.015858	–0.552787	0.5808
CSR	0.065577	0.024417	2.685740	0.0076
AQ	0.069810	0.011488	6.076894	0.0000

Hypothesis Test

Partial Test (t-Test)

The test was carried out using the value of = 5% to assess whether the influence caused by the dependent, independent, and interaction variables had a significant or negligible effect (0.05). The findings of panel data regression are summarised in Table 11.

The following conclusion can be drawn from the partial t-hypothesis testing findings in table 11:

First, this study's hypothesis (H_1) is the relationship between executives' incentives and tax avoidance. According to the results of the regression equation in table 11, the probability of the Executive Incentive is 0.0407 or less than the significance value of 0.05, and the Executive Incentive variable's regression coefficient is –0.092717. Therefore, if the Executive Incentive increases, ETR reduces it means that financial institutions pay fewer taxes, as well (tax avoidance increase), signifying that the Executive Incentive positively impacts tax avoidance. Consequently, it can be concluded that H_1 is accepted.

Second, Hypothesis 2 (H_2) in this study examines the impact of foreign ownership on tax avoidance. According to the regression equation results in Table 11, the probability of foreign ownership was 0.5808 or greater than the significance value of 0.05, and the regression coefficient of the foreign ownerships variable was –0.008766. As a result, foreign ownerships have no impact on tax avoidance. H_2 is rejected.

Third, Hypothesis 3 (H3) in this study is the influence of CSR on tax avoidance. The probability CSR is 0.0076 or less than the significance value of 0.05, according to the findings of the regression equation in Table 11, and the regression coefficient of the CSR variable is 0.06557. So, if CSR increases, ETR will increase too (tax avoidance reduces), meaning that CSR has a negative effect on tax avoidance. And it can be concluded that H_3 is accepted.

Fourth, in this study, the impact of audit quality on tax avoidance is hypothesised to be H4 (H4). According to the results of the regression equation in Table 11, the probability of audit quality is 0.0000 or less than the significance value of 0.05, and the regression coefficient of the audit quality variable is 0.151710. So, if audit quality rises and ETR likewise increases (tax avoidance decreases), CSR has a negative impact on tax evasion. Hence, H_4 is accepted.

Table 11. Partial T Hypothesis Testing.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.151710	0.014950	10.14746	0.0000
EI	–0.092717	0.045144	–2.053825	0.0407
FO	–0.008766	0.015858	–0.552787	0.5808
CSR	0.065577	0.024417	2.685740	0.0076
AQ	0.151710	0.014950	10.14746	0.0000

Table 12. Coefficient of Determination Results.

R-squared	0.187523	Mean dependent var	0.191300
Adjusted R-squared	0.178521	SD dependent var	0.109823
SE of regression	0.099539	Sum squared resid	3.576780
F- statistic	20.83009	Durbin-Watson stat	1.122454
Prob (F-statistic)	0.000000		

Note: Based on Table 12, it can be concluded that the adjusted R2 0.1785 or 17.8%. This shows that the ownership structure variables, Executive' Incentive (EI), foreign ownership (FO), CSR, and audit quality can influence Tax Avoidance by 0.8215 or 82.15%. At the same time, the remaining 82.15% is explained by other variables not used in this study.

Source: Processed Secondary Data (2023).

Coefficient of Determination Test (Adjusted R^2)

The coefficient of determination (R^2) measures the model's ability to explain the suitability relationship between the variation of the dependent variable and independent variables' variations in the study. Value at *Adjusted R^2* is always between 0 and 1.

Conclusions, Implications for Practice

This study aimed to determine the effect of Executive incentives, foreign ownership, CSR and audit quality on tax avoidance in conventional banking firms and non-bank financial institutions listed on the Indonesia Stock Exchange. The sample in this study was 69 companies. Based on the results of this study, Executive Incentive has a positive effect on tax avoidance. This is related to research conducted by Aguirre et al. (2017) found a positive relationship between executive compensation and tax aggressiveness in the banking industry. This means that executives who receive higher compensation tend to engage in more aggressive tax planning strategies, such as shifting profits to low-tax jurisdictions and using tax havens to minimise their tax liabilities. Similarly, Kim and Lee (2019) investigated the relationship between executive compensation and tax avoidance in the banking industry, specifically focusing on the role of equity-based compensation. This research finds that executives who receive a higher proportion of compensation in equity tend to engage in more tax avoidance activities. This effect is stronger in banks with weaker governance mechanisms, suggesting that effective monitoring and accountability can help reduce the negative effect of equity-based compensation on tax behaviour. And while other findings from this study state that foreign ownership does not affect tax evasion, this is in line with research conducted by Vezzani (2018), stating a relationship between foreign ownership and tax evasion in the European banking industry. This study uses a sample of 93 European banks and uses regression analysis to examine the relationship between foreign ownership and tax evasion. This study

found no significant relationship between foreign ownership and tax evasion in European banks, indicating that foreign ownership does not affect tax evasion in this industry. Vezzani argues that the lack of significant leverage may be due to European strict tax regulations, which limit banks' opportunities to evade taxes. The study by Ahmed et al. (2018) investigated the relationship between CSR and tax avoidance in an emerging economy, specifically in Pakistan. The study found a significant negative relationship between CSR engagement and tax avoidance. This study suggested that companies with higher CSR engagement are less likely to engage in aggressive tax planning strategies because of their commitment to ethical and responsible business practices.

The other results are that audit quality has a negative effect on tax avoidance, Xu and Sun (2019) conducted a study to investigate the effect of Big Four auditing firms on corporate tax aggressiveness in China. The authors found that the Big Four auditing firms significantly reduce tax aggressiveness in firms. Specifically, their analysis shows that the likelihood of a firm engaging in tax aggressiveness decreases significantly when the firm hires a Big Four auditor, which implies that Big Four auditors are more effective in constraining tax aggressiveness than non-Big Four auditors.

Limitations and Suggestions

This study has limitations that can be used as a reference for future researchers to obtain more accurate results.

First, the study only used conventional banking firms and non-bank financial institutions listed on the Indonesia Stock Exchange from 2015 to 2020. The purposive selection method only yielded 69 samples of companies that could be used as research objects. In the future, it is hoped that banking companies (including Islamic banking) and non-bank financial institutions can contribute more to become objects in the research conducted.

Second, the independent variables used for financial factors are Executive Incentive, foreign ownership, CSR and audit quality. And considering that the influence of the adjusted R-squared of the four factors is only 17.8 percent, this indicates that many other potential variables still play a part in tax avoidance.

Nevertheless, there is still a great deal of additional governance aspects, including maturity, size, and growth, that have the potential to operate as independent variables in the subsequent investigation.

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