The Impact of Corporate Governance to Tax Management

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This study aims to determine whether corporate governance has effect on tax management which is measured by effective tax rate. Corporate governance is measured by proxies of number of commissioner, percentage of independent commissioner, and board of directors' compensation. The findings of this study are (1) The number of commissioner has positive effect on effective tax rate measured by tax expense, but has negative effect on effective tax rate measured by cash tax paid, (2) Percentage of independent commissioner has negative effect on effective tax rate measured by tax expense and cash tax paid (3) Compensation has negative effect on effective tax rate measured by tax expense, and cash tax paid.

Key Words: corporate governance, tax management, effective tax rate, board of commissioner, independent commissioner, compensation of commissioner and executives.

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A. Introduction

Tax plays a central role in a country. Based on the 2010 APBN (state budget), it can be seen that the 67.24% state expenditures funded by taxes. For companies, tax payment obligations for financing the state will cause the tax burden, both corporate income tax (Tax Agency) and value added tax (VAT) or other tax which significantly reduces the company's net profit. It is less in line with the objectives to be achieved by the company, which produces the maximum profits to attract investors and to finance the company itself.

Various attempts are made to streamline the amount of company taxes should be paid to the state, one of them is to apply the tax management. Byrnes & Lavelle (2003) found that bluechips stocks in the stock market in the United States made tax management as a field of competition by benchmarking effective tax rate (ETR) with the rival companies. Byrnes & Lavelle (2003) found that companies like General Electric and Marriott are famous for their effective tax rate (ETR) or the effective tax rate which is consistently low.

There are several factors affecting the implementation of tax management in a company, one of these factors is the company's corporate governance characteristics. Minnick and Noga (2010) found that compensation provide incentives for the board of directors and board of commissioners to reduce taxes in the short term and long term. It was also found that governance plays a crucial role in the management of tax, that is: companies with different corporate governance characteristics have also different strategies in the management of tax.

According to Minnick and Noga (2010), examining the influence of corporate governance of tax management is interesting for two reasons. First, tax

planning or tax management is complex and provokes opportunist nature of management that understands the role of governance in the management of the tax itself to be more important. Second, tax management has a very high level of uncertainty and usually does not always directly provide direct impact to the company, but it is possible to give a long-term impact. By understanding the influence of the characteristics of corporate governance on tax management, we can obtain a better understanding of how governance works both in the short and in long term.

Based on the thought above, the authors would like to do further research on the effects of company corporate governance toward company tax management which is measured by the effective tax rate. This study repeats the study of Minnick and Noga (2010) with adaptation to the characteristics of corporate governance in Indonesia.

Adaptation is applied is to unify the board of commissioners and directors compensations. While in the research of Minncik and Noga (2010), compensation is divided into compensation of board of commissioners and compensation of directors. The second adaptation does not enter the dualism of CEO. The next adaptation is that this research observes only on ETR, it does not divide in state ETR, domestic ETR, foreign ETR, ETR value, and other ETR. The last adaptation is by using current ETR as a substitute for cash ETR.

This study will be divided into five sections. The first is the introduction. The second is the theoretical basis and development of hypotheses that will explain briefly the theory and hypothesis development path. Third, the research methods that will show how research is done. Fourth, data analysis and discussion, and the last are conclusions and suggestions.

B. Theory and Hypothesis Development

1. Tax Management

According to Zain (2005), tax management is the process of business organizing of taxpayer or a group of taxpayers in such a way so that their tax debt, both income tax and other taxes are in minimal position as long as permitted by the provisions of tax laws and regulations.

According to the Indonesian Tax Review, there are several strategies that can be taken to streamline the tax burden legally. The first way is tax saving, the second way is tax avoidance, the third way is to delay tax payments without violating the regulations, and the fourth way is to optimize the tax credit allowed.

Scholes et al. (2002) built a conceptual framework of tax management comprising all parties, all tax, and all costs. Effective tax planning requires decision-makers to see the consequences of the planned transaction to all parties that will be affected by the transaction. In addition, an effective tax planning requires decision-makers to consider not only explicit taxes, but also the implicit tax. Finally, an effective tax planning requires policy makers to realize that the tax is just one of many costs in the business, and all charges will be taken into account when making plans. These three cases; all parties, all taxes, and all costs will make a tax structure that can achieve organizational goals, such as

profit maximization and shareholder wealth. These three basis explain that tax minimization is not necessarily the primary goal of effective tax planning.

Walby (2010) defined statutory tax rate as tax rates that are legally valid and confirmed by tax authorities. Effective tax rate is defined as the actual tax rate to be paid by the company compared to the profit generated by the company. Effective tax rate briefly demonstrates the effectiveness of tax management of an enterprise. In addition, the effective tax rate also shows a response and impact of tax incentives to a company. Gillman et al. (2002) suggested that statutory tax rate should be equal to an effective tax rate if there is absence of tax shields factors, credits, and rebates. These factors are known as tax incentives.

Although all firms have the same tax rate statutory, but in reality the effective tax rates vary between firms. There are companies that have effective tax rate higher than the applicable tax rate statutory, and there are also companies that have effective tax rate lower than the applicable tax rate statutory. These effective tax rate differences among firms are due to inequality between accounting and taxation records. The differences are caused by this recording which can be temporary or permanent differences.

Gillman et al. (2002) suggested that the difference of effective corporate tax rate among companies is influenced by several factors such as interest expense, research expense, development (R & D), foreign ownership, stock-market listing, and the number of subsidiaries. Firm characteristics may also affect the effective tax rate variations among companies. Companies that perform financing through debt will have an effective tax rate is lower when compared to companies that perform financing through the issuance of shares. This is

because the interest expense incurred from financing through debt is a burden that can reduce taxable income.

2. Trade off Reporting and Tax Management

Shackelford et al. (2007) suggested that there are at least two reasons why the financial statements are important to management. First, many contracts such as debt contracts, including contracts and compensation are based on the financial statements. Second, because of the financial statement users can not distinguish between low earnings because of poor profitability and low earnings because of tax management. Tax management will result in lower profit but cash flow will increase due to lower taxes paid.

3. Corporate Governance

Governance is often associated with the company's financial performance is better in the future. In measuring the success of these sources, it is usually used some proxies, some of which is the number of commissioners, the percentage of independent commissioners and compensation.

Law No.1/1995 on Limited Companies (PT) in Indonesia is adopting a two board system, with separation of directors and commissioners. Directors act as caretaker, while the commissioners are as supervisors. Commisioner function is a deputy of the shareholders to supervise and advise the board of directors in connection with good corporate governance. Commissioners also have duty and responsibility, i.e.: supervise the management of the company which carried out the policy and provide advice to the board of directors, giving opinions and advice to the RUPS, oversee the implementation of work plan and budget of the company, keep abreast of corporate activities, and perform other tasks

determined by the RUPS. Commissioners held a meeting at least once a month and in the meeting, commissioners invite directors.

In 2000, the government had made regulations namely Regulation Record No IA about General Provisions of Registration of Equity Securities in the Stock Exchange. This regulation requires the existence of an independent commissioner in companies listed on the stock. The proportion is comparable to the number of shares not owned by the controlling shareholder or the provision of at least 30% of the total number of commissioners.

As quoted from Herwidayatmo (2000), Reiter (1999) stated that an independent commissioner could help to provide continuity and objectivity needed for a company to grow and prosper. Hermalin and weisbach (1998) concluded that outside directors provide a huge oversight on the board of commissioners. To realize the role to be, independent commissioners should be the main organ for the implementation of good corporate governance practices within the company. In Indonesia, the existence of independent commissioners has been regulated in the Code of Good Corporate Governance (KNKCG). Independent commissioners can encourage the establishment of committees of commisioners board such as nomination committee, remuneration committee, risk management committee, and audit committee.

Compensation has three basic objectives; those are to attract, to retain and to motivate key empolee (Cheeks, 1982). Theory of motivation tries to explain all types of motivated behavior in all kinds of situations, including the behavior in organizations. Compensation is one application of motivational theory. Ratna (1994) proposed that humans are very influenced by the environment and rewards and motivation is influenced by incentives.

Research on incentives by Anthony and Welsch (1981) found that individuals tend to be motivated by rewards. They also found that monetary compensation is a means of satisfying certain needs that are important. Anthony and Welsch (1981) found that the motivation will be weaker when one considers not to be able to achieve the goal or too easy to achieve the goal. Motivation will be stronger if the goal can be achieved with a variety of businesses. Motivation also will be stronger if individuals regard achievement as an important thing in connection with needs.

4. Hypotesis Development

a. Number of Board of Commissioners

Desai and Dharmapala (2006) and Erickson et al. (2006) showed that tax management is influenced by corporate governance. The structure of the board of commissioners is one of the internal mechanisms that can be used to determine whether management acts in accordance with the wishes of principals. Board of Commissioners serves as an internal control that served to protect the interests of shareholders. Some writings reveal an association between the numbers of commissioners toward the effectiveness of the oversight function. Coles et al. (2008) found that the optimal number of commissioners varies depending on the characteristics of the company itself. Companies that are large and have complex structures will maximize the performance if the number of board more and more. This happens because the larger the companies are, the more advisers will be required.Conversely, Bhagat and Black (1999) stated that the low number of commissioners will produce slightly better oversight functions. Along with Bhagat and Black (1999), Minnick and Noga (2010) stated that the

fewer the number of commissioners will make the council more focus to convince management to invest in tax management.

Since in this study, the observed sample companies listed on the Indonesia Stock Exchange, so it is assumed that the companies are large and have a high complexity. Is expected that more the number of commissioners will lower effective corporate tax rate so that the hypothesis proposed is :

H1: The number of commissioners is positively related to tax management characterized by increasingly lower effective tax rate

b. Percentage of Independent Commissioner

Some writings reveal an association between compositions of board of commissioners with effectiveness of the oversight function. Coles et al. (2008) found that the optimal percentage of independent commissioners vary depending on the characteristics of the company itself. Large companies with complex structures will maximize the performance if the number of independent commissioners. Bhagat and Black (1999) stated that the more number of independent commissioners will produce better oversight functions. Along with Bhagat and Black (1999), Minnick and Noga (2010) stated that the presence of independent commissioners will make the company also be in a position of no longer focusing on top-line performance measure but focusing on overall performance in which the effective tax rate plays an important role.

Implementation of corporate governance is still quite new in Indonesia, especially governing the independent commissioner. It is expected that role of the independent commissioners has a significant impact on effective tax rates. The greater the percentage of independent commissioners, then the effective tax rate will decline faster. Because of this, the proposed hypothesis is:

H2: The percentage of independent commissioners is positively related to tax management which is characterized by the lower of effective tax rate.

c. Compensation Board

Yermack (2004) said that the commissioners had two reasons to protect shareholders, namely reputation and remuneration. Commissioners with a good reputation will get better chances in the future, such as opportunity to provide consulting services, offer of new jobs or positions in other commissioners. When the value of a company is bigger, the remuneration received by the commissioner is even bigger. On the other hand, when the performance of board of commissioners is poor, it is possible to lose the position.

Bertrand and Mullinathan (2001) suggested that from the standpoint of contracting, remuneration to the directors given by shareholders is to solve the problem of agency. The literature discussing the correlation between the compensation of directors and corporate performance by Jensen and Murphy (1990) found a positive correlation between CEO remuneration with company performance. Each of the increase of 30 cents on the remuneration of the CEO will lead in increasing in shareholder wealth of USD1000. The literature also showed that compensation in the form of stock option can reduce the potential for moral hazard by management.

Armstrong et al. (2009) and Rego and Wilson (2009) found that there is a correlation between compensation with tax management in the short term. On the other hand, the governance literature by Jensen and Murphy (1990) found that this form of compensation affected corporate performance. Compensation can provide long-term incentives by using a form of incentive stock options as well as providing short-term incentives to use monetary compensation.

Because of tax management in this study is measured in the short term, it is expected that companies providing greater compensation to the board of directors and commissioners will invest more to the management of tax that generates low tax in the current year, so the proposed hypothesis is:

H3: The amount of compensation for the board of commissioners and directors has a positive impact toward tax management characterized by the lower of effective tax rate

C. Research Methodology

1. Empiric Model and Research Variable

The purpose of this empiric model is to test hypotheses which has been explained before. The following is empiric model tested:

$$ETR = \beta_1 + \beta_2 ETR_{t-1} + \beta_3 BOARD + \beta_4 INDEP + \beta_5 COMP + \beta_6 SIZE + \beta_7 ROA + \beta_8 LEV + \varepsilon$$

Tax management is measured by using ETR. ETR consists of GETR and CETR. How to calculate each variable are presented in appendix 6.

a. Measurement of Tax Management

Dyreng et al. (2007) stated that the GAAP ETR is one measure of tax aviodance. However, GAAP ETR has some limitations, namely; GAAP ETR is not a good predictor variable in the long run and GAAP ETR can not measure in the long run because of accounting estimates contained in the GAAP ETR. Therefore, in addition to GAAP ETR, Minnick and Noga (2010) used also other measurement tool, that is Cash ETR.

Cash ETR in this study will be replaced by Current ETR. The reason is that the tax which is presented in the cash flow is not entirely a corporate income tax,

but there are other elements such as excise and other taxes. Some other researchers such as Kern and Morris (1992), Omer et al. (1993), Stickney and McGee (1982), and Zimmerman (1983) stated that there should be adjustments to deferred taxes. Omer and Molloy (1991) stated that the use more than one measure of ETR can strengthen the results.The reason is that different ETR measures can produce different effects according to which will be studied. In this study, the GAAP ETR aims to see the tax burden reported by the company, while Current ETR aims to see taxes paid in the current year. Therefore in this study in addition to calculate GAAP ETR, the author also calculates Current ETR. Function of Current ETR is to accommodate the GAAP ETR deficiencies that can not represent tax paid by the company. Current ETR in this study will be calculated by the formula used by Pocarno (1986).

2. Data Sources and Samples Selection

The sampled companies are companies belonging to non-financial sector are listed in Indonesia Stock Exchange from 2008 until 2010. Financial data and corporate governance data obtained from the IDX website, www.idx.co.id as of May 10, 2011.

Criteria for the sample firms are (1) publish the financial statements for the period December 31, 2008 to December 31, 2010 (2) has the completeness of financial data for the years 2008 to 2010 which is required for the measurement of the overall variable (3) has a complete data on corporate governance in 2009 and 2010 (4) do the bookkeeping in the currency of rupiah (5) has a positive value of profit before tax (6) has a positive value of CETR and GETR and (7) has a value of CETR and GETR which is not more than 1.

3. Data Processing and Hypotheses Testing

To find the different impact of corporate governance characteristics toward corporate tax management within the group of samples, then this research uses different test with ANOVA analysis. To test the hypothesis, this study will use a regression model with panel data and estimation of the Generalized Least Square.

4. Independent Variable

The number of commissioners is given the BOARD symbol. Previous studies have been widely shown that the amount commissioner influenced the effectiveness of the supervisory of the company. Coles et al. (2008) found that companies with large size and high complexity will maximize the performance if it the board of commissioners is more corpulent.

Percentage of independent commissioners is given the symbol of INDEP. Previous studies have been widely shown that the composition of the board of commissioners influences the effectiveness of supervision within the company. One of them is by including independent commissioner in the board of commissioners. The author calculates the percentage of independent commissioners by dividing the number of independent commissioners toward the number of existing commissioners. Independent commissioner is the board that does not originate from the company nor parties affiliated with the company. Bhagat and Black (1999) stated that the bigger number of independent commissioners will produce better supervion functions.

Compensation of directors and commissioners are given the symbol of COMP. The definition of compensation in this study is the total amount received by the entire board of commissioners and directors in any form divided by the company's revenue. Commissioners and directors remuneration is usually given

in the form of cash, stock, or stock options. Minnick and Noga (2010) stated that compensation for the board of commissioners and directors can be an incentive to improve performance. It also found that the increase in wealth of $ 1000 both on the commissioner and the directors caused the increasing stock price by 1%.

In this study, it will be used three control variables namely; firm size, profitability and debt level. Dyreng et al. (2007) suggested that company size plays a role in tax management. In his research, Dyreng et al. (2007) found that there was a negative correlation between size of company and effective tax rate. Sari and Dwi Martani (2010), Richardson and Lanis (2007) and Derashid and Zhang (2003) found that firm size is negatively correlated with ETR. Sigfried (1972) as quoted by Richardson and Lanis (2007) stated that in political power theory, the greater the company, the effective tax rate will be lower. Cons of political power theory is political cost theory which states that the tax authorities will tend to control the large corporations in order to maximize tax revenues so that the larger the company is, the greater the effective tax rate will be (Watts and Zimmerman, 1986).

Richardson and Lanis (2007) suggested that the profitability of the company can give effect to tax management. Wilkie (1998) found that effective corporate tax rate is a function of the ratio of tax incentives toward book income. Therefore, the author uses ROA to control changes in corporate operating results. Derashid and Zhang (2003) found that the ROA has a negative correlation with the ETR. In contrast, Gupta and Newberry (1997) found that the increase in ROA will result in an increase in effective tax rates.

Jensen (1986) showed that high level of debt can eradicate the problem of agency. DeAngelo dan Masulis (1980) stated that a company can switch

between debt dan non-debt tax shields. Derashid and Zhang (2003) with Richardson and Lanis (2007) proved that effective tax rate and leverage have negative correlation. Gupta dan Newberry (1997) found a positive correlation between leverage with the effective tax rate. This phenomenon occured because firms with higher effective tax rate will prefer the use of financing through the issuance of debt (Gupta and Newberry, 1997).

D. Data Analysis and Discussion

1. Descriptive Statistics

In appendix 1, it is presented the results of the study of descriptive statistics. It can be seen that during three-year study period, the average of GETR and CETR of companies is above the statutory tax rate. The high effective tax rate can occur because of two things. First, because the company does not do tax planning effectively. Second, companies are trying to adhere to the rules because of fear toward tax authorities' audit.

2. ANOVA

In appendices 2 and 3, it can be seen ANOVA test for model GETR and CETR. It is stated that in GETR model, there are significant differences in variables of SIZE and ROA. While in the model CETR, there are significant differences in the variables of INDEP, SIZE and ROA. The positive correlation is only found in the variable LEV. Negative correlation found on variable of BOARD, INDEP, COMP, SIZE, and ROA.Further analysis will be discussed in hypothesis testing.

2. Analysis of Regression Results

a. Model GETR

Appendix 4 shows the results of multiple linear regressions for the first model. It can be seen that there is a positive influence between the variables of BOARD with GETR, so that the hypothesis H1 is rejected. These results are consistent with the argument of Minnick and Noga (2010) which stated that the fewer number of commissioners will make more focus to convince management to invest in tax management.

These results can also be explained by the theory of the trade off between accounting profit and effective tax rate. As described by Shackelford et al. (2007), financial statement users have a tendency not to distinguish the low of earnings due to poor profitability and low earnings because the company implements a tax management. By applying tax management, firms sacrifice accounting profits so that tax payments can be lower in cash. However, the sacrifice of these accounting profits will give bad impact to the company such as the company will be difficult to get capital, or at least the company will get capital in high costs. Moreover, because the compensation contract to the board of commissioners is also possibly affected by the accounting profit, so that the board of commissioners have tendency not to apply the tax management so that accounting earnings remain high.

In appendix 4, it can be seen that there is a negative influence between variable of INDEP with GETR so that hypothesis H2 is accepted. Results obtained from this study are consistent with Bhagat and Black (1999) which stated that the more number of independent commissioners will produce better oversight functions. One embodiment of better oversight function is an oversight in the field of taxation. The more independent commissioners are, the higher the

pressure to the management in order that the tax reaches the lowest point without violating the statutory provisions in force.

Minnick and Noga (2010) suggested the presence of an independent commissioner will also be no longer in a position on focusing on top-line performance measure but focusing on overall performance. When companies focus on top-line performance, the independent commissioner will supervise management in order to maximize sales without considering the amount of tax. When companies focus on overall performance, an independent commissioner will oversee the management in order to maximize net income in which the decreased of the tax burden amount plays a significant role.

In appendix 4, it can be seen that the variable COMP has a negative influence with GETR so that hypothesis H3 is accepted. Result of the study is in line with Minnick and Noga (2010) who found that neither commisssioners compensation nor board of directors compensation has negative effect toward company's effective tax rate. This result is also consistent with Rego and Wilson (2009) which stated that there is a negative influence between effective tax rate and amount of compensation of directors. The basic purpose of compensation is to equate the interests of shareholders with the interests of asset managers. The goal of shareholder is to maximize wealth by corporate performance measurement. Therefore, when the compensation is higher, management goal to maximize shareholder wealth is more apparent. Jensen and Murphy (1990) found that there is positive effect on CEO remuneration with company performance. One measure of corporate performance is the amount of net income flows which are affected by income tax expense in the current year.

b. Model CETR

Appendix 5 shows the results of multiple linear regressions for both models. It can be seen that there is a negative influence between the variables of BOARD with CETR, so that the hypothesis H1 is accepted. The results found are consistent with Coles et al. (2008) who found that the more number of commissioners will make company's performance increasingly high. Coles et al. (2008) stated that these results apply to large size companies with high degree of complexity. This happens because the larger the company is, the more need of counsels will be.

Another thing that also can explain this negative correlation is the board of commissioners tends to care about the amount of tax actually paid by the company. Unlike the GETR, CETR is obtained by adjustments to income tax accounting profit. GETR describes the amount of corporate income tax in accordance with its accounting profits, while CETR describes the amount of income tax in accordance with taxable profit so that value of CETR is amount of tax actually paid by the company. The higher the amount of tax paid by the company is, the higher the cash flow out of the company will be. The high cash outflows can disrupt the financial health of companies. The function of commissioner as a deputy of the shareholders is to supervise and to give advice to the board of directors. In this case, the commissioner board must act to protect the interests of shareholders in which to maintain the financial health of companies. The conclusion that can be taken is the larger size of the board of commissioners, the higher the level of input that can be obtained by management related to tax management in order to protect the interests of shareholders so that the value of effective tax rate will be lower.

In appendix 5 shows that there is a significant and negative influence between variables of INDEP with CETR so that hypothesis H2 is accepted. Result obtained form this study is consistent with Bhagat and Black (1999) which stated that the more number of independent commissioners will produce better oversight functions. One embodiment of better oversight function is an oversight in the field of taxation. The more independent commissioners are, the higher the pressure to the management in order that the tax reaches the lowest point without violating the statutory provisions in force.

Minnick and Noga (2010) suggested that the presence of independent commissioners will make the company also be in a position of no longer focusing on top-line performance measure but focusing on overall performance. When companies focus on top-line performance, the independent commissioner will oversee the management with the goal of maximizing sales. When companies focus on overall performance, one of which can be measured by cash flow, the independent commissioner will oversee the management to maximize cash flow, in which the decrease of amount of taxes paid plays a significant role.

In appendix 5 shows that the variable COMP has a negative influence toward CETR so that hypothesis H3 is accepted. The result of this study is in line with Minnick and Noga (2010) who found that neither commissioners' compensation nor board of directors' compensation is correlated negatively to the company's effective tax rate. These results are also consistent with Rego and Wilson (2009) which stated that there is a negative correlation between the effective tax rate with the amount of compensation of directors. The basic purpose of compensation is to equate the interests of shareholders with the interests of asset managers. The goal of shareholder is to maximize wealth by

corporate performance measurement. Therefore, when the compensation is higher, management goal to maximize shareholder wealth is more apparent.

Jensen and Murphy (1990) found that there is a positive correlation between CEO remuneration with company performance. One measure of corporate performance is the amount of corporate cash flows affected by the taxes paid in the current year (Dechow et al., 1998).

E. Conclusion and Suggestion

1. Conclusion

Tax management plays an important role in determining the amount of the tax burden of companies and the amount of tax paid by the company. Corporate governance is one factor that determines where the company will invest. If the company focuses on top-line performance, the company will invest heavily in fixed assets and advertising. If the company focuses on overall performance, the company will invest on tax management. Tax management is measured by the effective tax rate based on the amount of tax expense and effective tax rate based on the amount of taxes paid.

This study found that the number of commissioners has a positive effect on the effective tax rate based on the tax burden, but a negative effect with the effective tax rate based on the amount of taxes paid. This happens because commissioners tend to care about company performance measured by accounting earnings and cash outflow to pay corporate income taxes.

This study also found that the percentage of independent commissioners negatively affects toward the effective tax rate both under the burden of taxes and taxes paid. This supports Minnick and Noga (2010) stating that the presence

of independent commissioners will make the management focus on overall performance which is affected by the tax burden.

This study also found that the amount of compensation for the board of commissioners and directors negatively affects the effective tax rate based on tax burdens and taxes paid. This negative effect supports previous research by Minnick and Noga (2010) which stated that this happens because the directors and commissioners concern in net income and cash outflow to pay corporate income tax.

2. Limitations and Suggestions

Based on these results, it can put forward some limitations. The first limitation of this study is that this research uses a relatively short observation period, lasting only two years (2009 and 2010 only). For the next study, it should use a longer observation period to see the impact in the longer term as well.

The second limitation in this study is that it measures only tax avoidance in short term only one year. For further research, it should be better to measure tax avoidance in the long term to see the influence of corporate governance toward tax management in the long run by seeing tax avoidance in a five-year period with the model of Dyreng et al. (2007).

The next limitation of this study is that this study does not include financial industries. This is because the performance of financial sector companies is strongly influenced by external factors. For further research, it can examine the influence of corporate governance in financial sector in particular.

The last limitation in this study is that it only inputs the number of commissioners, the independent commissioners and the amount of compensation for directors and commissioners as components of corporate

governance. For further research, it preferably uses broader variables of corporate governance such as ownership, corporate social responsibility, audit committees, corporate governance index and other components of corporate governance.

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APPENDICES

Appendix 1 Descriptive Statistics

Variable	Maximum	Median	Minimum	Average	Std. Deviation
GETR	0.8354	0.2650	0.0485	0.2799	0.0946
GETR_T1	0.8575	0.2973	0.0485	0.3141	0.1115
CETR	0.8247	0.2598	0.0000	0.2798	0.1134
CETR_T1	0.8247	0.2984	0.0000	0.3114	0.1128
BOARD	10.0000	5.0000	2.0000	4.5372	1.6687
INDEP	1.0000	0.4000	0.1667	0.4135	0.1124
COMP	0.1817	0.0064	0.0002	0.0110	0.0168
SIZE	13.9990	12.1743	10.8438	12.2114	0.6654
ROA	0.3391	0.0646	0.0010	0.0816	0.0665
LEV	6.6857	0.8969	-1.4696	1.0907	1.0075

Appendix 2 ANOVA GETR

Variable	GETR Average		Direction	p-value ANOVA (one tail)
	Above Median	Below Median		
BOARD	0.27	0.29	-	0.0988
INDEP	0.27	0.29	-	0.0593
COMP	0.27	0.29	-	0.3024
SIZE	0.26	0.3	-	0.0079*
ROA	0.25	0.31	-	0.0000*
LEV	0.28	0.28	+	0.2707

Appendix 3 ANOVA CETR

Variabel	Rata-Rata CETR		Arah	p-value ANOVA (one tail)
	Diatas Median	Dibawah Median		
BOARD	0.278	0.281	-	0.4151
INDEP	0.27	0.29	-	0.0702**
COMP	0.27	0.29	-	0.2048
SIZE	0.26	12.75	-	0.0000*
ROA	0.25	0.31	-	0.0000*
LEV	0.29	0.27	+	0.1024

Appendix 4 GETR Regression

Variable	Expectation	Coeff	Std. Error	t-Statistic	Prob.(one-tail)

C		3.1095	0.0097	322	0.0000*
GETR_T1		-0.1564	0.0000	-2690527	0.0000*
BOARD	-	0.0058	0.0000	973363	0.0000*
INDEP	-	-0.0684	0.0000	-392154	0.0000*
COMP	-	-1.3249	0.0000	-450336	0.0000*
SIZE	-	-0.2220	0.0000	-385248	0.0000*
ROA	-	-1.1284	0.0000	-5012157	0.0000*
LEV	-	0.0338	0.0000	712880	0.0000*
R-squared					0.7938
Adjusted R-squared					0.5568
F-statistic					3.3490
Prob(F-statistic)					0.0000

Appendix 5 CETR Regression

Variable	Expectation	Coeff	Std. Error	t-Statistic	Prob.(one tail)
C		4.8150	0.0075	643	0.0000*
CETR_T1		-0.3834	0.0000	-6537266	0.0000*
BOARD	-	-0.0122	0.0000	-792424	0.0000*
INDEP	-	-0.0402	0.0000	-253336	0.0000*
COMP	-	-1.4055	0.0000	-706302	0.0000*
SIZE	-	-0.3487	0.0000	-790719	0.0000*
ROA	-	-1.3258	0.0000	-6063654	0.0000*
LEV	-	0.0013	0.0000	34203	0.0000*
R-squared					0.8599
Adjusted R-squared					0.6988
F-statistic					5.3376
Prob(F-statistic)					0.0000

Appendix 6 Formula of Research Variable

$$GAAP\ ETR\ (GETR) = \frac{tax\ expense}{pretax\ income}$$

$$Current\ ETR\ (CETR) = \frac{current\ tax\ expense}{pretax\ income}$$

$$BOARD = jumlah\ dewan\ komisaris$$

$$INDEP = \frac{jumlah\ komisaris\ independen}{jumlah\ dewan\ komisaris}$$

$$COMP = \frac{jumlah\ kompensasi\ dewan\ komisaris\ dan\ direksi}{sales}$$

$$SIZE = log(total\ asset)$$

$$ROA = \frac{net\ income}{total\ aset}$$

$$LEV = \frac{debt}{equity}$$