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Executive compensation, characteristics, and shareholder on tax avoidance

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Abstract
This study aims to empirically prove the effect of executive compensation, executive characteristics, and executive share ownership on tax avoidance. Using a descriptive associative research method and secondary data, this study was shown in the consumer goods manufacturing corporation listed on the Indonesia Stock Exchange (IDX) from 2017–2021. The sampling method used purposive sampling. This research used 16 sample corporations, with a five-year research period of 5 years, so 80 objections were obtained for data processing. This study found that executive-compensation variables have no significant effect on tax avoidance, executive characteristics, and executive of the shareholder have a negative effect on tax avoidance.

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Introduction

The company considers taxes a burden that harms the company because of its nature which is a deduction for its profits. The variance in benefits between the government and the company gives rise to non-compliance by the management, which impacts the company's efforts to carry out tax avoidance. Companies mostly carry out this action because using tax avoidance, companies try to reduce their taxes but still comply with the tax principles, such as taking advantage of exemptions and deductions that are allowed or delaying taxes that are not regulated yet in existing tax regulations and usually through policies chosen by the company's leadership (Wardani dan Khoiriyah, 2018).

Tax avoidance practices carried out by corporations in Indonesia have an impact on reducing the achievement of tax revenues. The decrease in the percentage of tax revenue achievement was triggered by the large number of companies that carried out tax avoidance. Taxes are a burden on the company because they can reduce net profit. Therefore, tax avoidance becomes a solution for companies to lower their tax payments (Yulyanah dan Kusumastuti, 2019). The company utilizes loopholes in regulations of taxes as one of the legal ways in tax avoidance to lower the burden of taxes owed.

Several factors influence tax avoidance practices, including executive compensation. According to Armstrong et al. Madyanata, Wijaya, and Widiasmara (2020), executive compensation is a return given to the executive for his dedication to the company. This executive compensation can also be interpreted as a tribute to the executive ranks to continue to try to force profits through cost efficiency measures, one of which is the tax burden. To streamline the tax burden, the company carries out tax avoidance practices. Based on the description that several researchers in the previous study have explained, a survey conducted by Nugraha and Mulyani (2019) stated that the study proved the outcome of executive reward on tax evading.

The second factor is the executive characteristic. Company executives are parties who have a significant role in determining policies and making decisions related to the company. Executives in the company consist of C.F.O (Chief Financial Officer), C.E.O (Chief Executive Officer), and other Top Executives. According to Rahmawati, Nugraha & Mulyani (2019), the main focus of executives with risk-taker character is to maximize company value or achieve results. On the other hand, executives with risk-averse nature tend to be less courageous in taking a risk, so when it comes to making decisions, executives who have this character will choose decisions that do not cause high stakes. Executives with risk-averse personalities will always consider every opportunity and select opportunities that are not at significant risk. The main focus of executives who have a risk-averse nature is safety. Previous study that examined the connection among executive characteristics and tax avoidance has been widely carried out; one of these studies was conducted by Meilia and Adnan (2017), which resulted in the conclusion of her research that the size of executive characteristics affects tax avoidance.

The third factor is executive shareholding. Share ownership is determined by how much capital is invested in a company. Ownership can have a significant influence if shareholders hold a controller and affect the course of the company so that it affects the performance of those who run a company and can control conflicts between management and shareholders, according to Armstrong et al. In Kurniawan and Trisnawati (2019), executive share ownership can encourage payment efficiency in corporate taxes because of the power in the proportion of ownership for decision-making and controlling the company. Previous research that examined the relationship between executive share ownership and tax avoidance has been widely carried out; one of these studies was conducted by Juwanto and Trisnawati (2021), which resulted in the conclusion of a study showing that executive share ownership affects tax avoidance.

According to research conducted by Setyowati (2020), executive compensation, executive shareholding, decision-making risk preferences, and executive appearances together have no significant influence on corporate tax avoidance. However, the results of the opposite study were found by Tandiono and Santosa (2021). They stated that decision-making compensation, executive share ownership, company performance, and company size affect tax avoidance together. Hence, this study aims to replicate and re-test the inconsistency of previous findings. In addition, the sector we have chosen is consumer goods, in contrast to previous studies. The results of this study can provide additional information for researchers and the government to evaluate the phenomenon of tax avoidance based on executive compensation, executive shareholding, and characteristics.

Literature review

Tax avoidance

According to Rego in Saputro (2017), tax avoidance uses tax planning methods to decrease the revenue tax paid legally. The practice of tax avoidance does not require a small cost; some potentially arise, often called agency costs. Where these agency costs occur because of agency problems, namely conflicts of interest between managers and shareholders where each party only cares about the interests of their parties, in addition to these agency costs, there will be other costs that will potentially arise. These additional costs are essential to the company, such as implementation costs, time and effort sacrifices, and other costs arising from the risk of tax avoidance behavior, such as potential punitive costs or the cost of losing reputation (Wardani and Khoiriyah, 2018).

Based on the understanding explained by experts, it can be resolved that Tax Avoidance is a legal utilization or arrangement of a tax fair's affairs, which is a legal act of taking advantage of loopholes in the Tax Law to minimize the burden of income tax that should be paid.

Executive compensation

Regina et al. (2021) explained that executive compensation is a form of appreciation for management's contribution to the company. Providing high compensation can motivate managers to improve the corporation's performance so that the organization is considered to have succeeded as an agent in managing the company. Executive compensation has a relationship with agency theory between principals and agents; in general, executive compensation is an award to motivate executives to achieve company goals A previous study that examined the connection between executive compensation and tax avoidance has been widely carried out; one of these studies was carried out by Setiawan, Pratomo, and Kurnia (2020), who reported that the conclusions of their researchers showed that executive compensation affects tax avoidance. With high payments, executives will benefit from improving the company's performance, one of which is to carry out the tax burden efficiently. In other words, if executives are provided with performance-based incentives tied to company profits or earnings, they may be inclined to seek ways to reduce the tax the company owes. They can involve aggressive tax evasion or creating complex corporate structures to exploit tax loopholes. From the theoretical explanations and research that have been carried out previously, the researcher can draw a second hypothesis, namely:

H_1: Executive compensation affects tax avoidance

Executive characteristics

Executives in the company consist of C.F.O (Chief Financial Officer), C.E.O (Chief Executive Officer), and other Top Executives. According to Carolina et al. in Nugraha and Mulyani (2019), in terms of decision-making, company executives have different characters, namely executives who dare to take risks (risk takers) and executives who dare not take risks (risk-averse). The theory used to answer this hypothesis is agency theory. The executive uses this theory if it has the character of a risk-taker with more courage in determining a policy even though the risks taken are significant. Risk-taker executives are required to generate more cash inflows. Tax avoidance carried out by the company will change the cost of taxes that the company must pay to be smaller. The impact of the small amount of tax that the company must pay will increase the company's cash flow.

A previous study that studied the connection between executive characteristics and tax avoidance has been widely carried out; one of these studies was conducted by Meilia and Adnan (2017), which resulted in the conclusion of her research that the size of executive characteristics affects tax avoidance. From the theoretical explanations and analyses that have been carried out before, the researcher can draw the third hypothesis:

H_2: Executive characteristics affect on tax avoidance

Executive shareholder

Share ownership is a proportion of ownership determined by how much participation in the number of shares invested in the company, especially in shares used to hold control and influence the course of the company so that it affects the concert in running a company and is trusted to be able to reduce conflicts between management and shareholders (Afnani, 2020). The theory of tax compliance requires that no taxpayer is willing to pay taxes voluntarily. If he benefits from the act, the individual will carry it out. The executive, as the operational leader of the company, will implement a tax avoidance policy if he also benefits from such actions. Moreover, stock options are one common form of executive compensation. When stock prices rise, executives can make significant profits when they sell their stock options. To optimize this advantage, executives may try to influence the company's financial reporting and tax practices to create favorable conditions for stock prices to rise. This situation can involve manipulation of financial statements or taxation activities inconsistent with the spirit of tax laws.

Previous research that examined the relationship between executive share ownership and tax avoidance has been widely carried out; one of these studies was carried out by Juwanto and Trisnawati (2021), which resulted in the conclusion of this learning showing that decision-making share ownership affects tax evading. In the presence of shareholding, an executive can become part of the company's owner. So, either directly or indirectly, a good company's cash flow is the executive's hope that he will get higher profits. A good company's cash flow can be achieved by making the tax burden efficient through tax avoidance. From the theoretical explanations and research that have been carried out before, the researcher can draw the fourth hypothesis, namely:

H_3: Executive shareholder affects on tax avoidance

Method

The type of research carried out is quantitative research with associative methods. This research was conducted on manufacturing companies in the consumer goods sector of the food and beverage sub-sector listed on the Indonesia Stock Exchange (IDX) from 2017 – 2021. The total population of companies incorporated in the industry is 53 companies with 80 objections of data. The reason for choosing the consumer goods sector is because the consumer goods industry is one of the leading manufacturing sectors that contributes significantly to the national economy's growth and tax revenues.

The selection of samples for this study used purposive sampling techniques considering specific criteria (Sugiyono, 2019). The requirements include the following:

Table 1.
Sample Selection Results

No	Criterion	Violation of Criteria	Amount
1.	Total industrial corporations in the consumer goods sector listed on the Indonesia Stock Exchange (IDX) in the 2017-2021 period.		53
2.	The consumer goods manufacturing that published their financial statements in full in the period 2017-2021	(16)	37
3.	Have complete data needed for research in the 2017-2021 period	(9)	28
4.	The consumer goods manufacturing companies that did not understanding sufferers in the 2017-2021 period.	(12)	16

Source: idx.co.id

There are 3 (three) independent variables in this study, namely Executive Compensation (Excom). According to Armstrong et al. in Fatimah et al. (2017) measure executive compensation using the natural logarithm value of the total compensation received during the year by the company's executives by using the amount of compensation received by the company executives (Executive board and Board of Commissioners) as a proxy for this compensation variable and contained in the notes to the corporation's financial statements.

Executive Characteristics (Exchar). In this study, corporate risk measured executive characteristics using EBIT (Earnings Before Income Tax) in the same section as the company's total assets. The high level of corporate risk will indicate the skew of executive characteristics, will be risk-taker or risk-averse (Feranika, 2016). Here's the formula used Risk=EBIT/(Total Aset). The measurement of executive shareholding is: Executive shares = (Number of Executive Shares) / (Number of Shares Outstanding) x 100%. Tax avoidance in this study used the CETR ratio. According to Purwanto in Wardhani & Khoiriyah (2018), the CETR ratio is measured by the following calculations: CETR=(Tax Payment)/(Profit Before Tax).

Results and discussion

Research objects and samples

This study used the (I.D.X) Indonesia Stock Exchange data from 2017-2021. IDX is the only stock exchange in Indonesia and is located at Indonesia Exchange Building, 1st Tower Jl. Jenderal Sudirman Kav 52-53, South Jakarta 12190 Indonesia. The object of this learning is the financial statements of consumer goods sector manufacturing companies listed on the IDX, with a sample consisting of 53 companies for 5 (five) years, namely from 2017-2021. Sampling uses purposive sampling techniques, which are samples that can present data: executive compensation, executive characteristics, executive share ownership, and tax avoidance.

Panel data regression model selection

Panel data regression can be done with three models, namely the common effect model (CEM), fixed effect model (FEM) and random effect model (REM). To process valid statistical data, which can be accounted for statistically, it is necessary to determine assumptions and fulfilment of requirements that affect the model's selection. Using CEM, the linear equation of panel data regression can be shown as follows:

$$Y = 0.136366 + 0.009142.X_1 - 0.793961.X_2 - 0.028930.X_3 + e$$

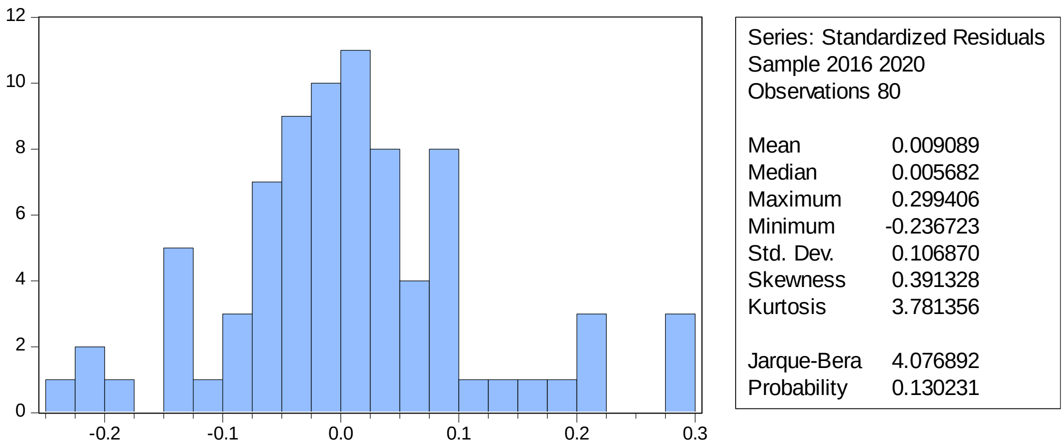
Using FEM, the linear equation of panel data regression can be shown as follows:

$$Y = -4.775333 + 0.205167.X_1 – 0.995559.X_2 – 0.352926.X_3 + e$$

The chow test results showed that the chi-square probability value was 0.0011 less than 0.05 or 0.0011 < 0.05. Using REM, the linear equation of panel data regression can be shown as follows:

$$Y = 0.016932 + 0.014106.X_1 - 0.881272.X_2 - 0.020164.X_3 + e$$

The Hausman test shows from the random cross-section probability value of 0.0535 that the matter is more significant than 0.05 or 0.0535> 0.05; this means that the chosen model is REM. On Lagrange Multiplier test results, see that the probability value of cross-section random is 0.1348; the matter is more significant than 0.05 or 0.1348 > 0.05; this means that the chosen model is CEM.



Source: data result

Figure 1.
Test of Classical Assumptions

This classical assumption test uses four tests: the normality test, the multicollinearity test; the heteroscedasticity test; and the autocorrelation test. The normality test using jarque-bera (JB) show that the probability value of JB is 4.076892 greater than 0.05 or 4.076892 > 0.05, so it can be concluded that this study is usually distributed.

The multicollinearity test results, each variable: executive compensation, executive characteristics, and organisational share ownership, resulted in a coefficient value of less than 0.90 or < 0.90, so it can be concluded that this study did not experience multicollinearity problems. The heteroskedasticity test with Glejser shows the probability value of each independent variable: executive compensation, executive characteristics, and organisational share ownership, more significant than 0.05, so it can be concluded that this study has no heteroskedasticity problems. The results of the autocorrelation test using the Durbin Watson test showed a new value of 1.195846; it can be concluded that this study had no autocorrelation problems.

Linear **regression analysis of panel data**

The analysis in this study was used to know the effect of executive compensation (X1), executive characteristics (X2), and executive share ownership (X3) on tax avoidance (Y) in the consumer goods manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period.

The linear regression analysis of panel data results shows that the panel data linear regression equation can be formulated as follows:

$Y = 0.136366 + 0.009142.X1 - 0.793961.X2 - 0.028930.X3$

The constant (C) is positively valued at 0.136366, meaning that if the variables of tax, managerial ownership, and growth of the company are considered stable, then the amount of dividend distribution to the company is 0.136366. Executive compensation (X1), the coefficient of the executive compensation variable of 0.009142 and a positive value indicates that any increase in the amount of tax on the company by 1% and other variables are considered constant. The value of the company tax will increase by 0.009142. Executive characteristics (X2), the coefficient of the characteristic administrative variable of 0.793961 and a negative value indicates that if there is an increase in the amount of tax on the company by 1%, and other variables are considered constant, then the value of the company tax will decrease by 0.793961. Executive share ownership (X3), the coefficient of the executive share ownership variable of 0.028930 and a negative value indicates that any increase in the amount of tax on the company by 1% and other variables are considered constant. The value of the company tax will decrease by 0.028930.

Hypothesis Test

The result of the F-test is calculated at 5.613132, and the significance value is 0.001571. As for looking for the F_{table} with the number of samples (n)= 80 and the number of variables (k)= 3. Based on the F value of the $_{table}$ obtained, it can be concluded that the executive compensation variables, executive characteristics, and executive share ownership simultaneously affect tax avoidance with the test results $F_{calculate} > F_{table}$ (5.613132 > 2.72) and the significance value < 0.05 (0.001571 < 0.05).

Table 3.
Regression results

	Coeff	t-stat	Prob
C	0.136366	0.636701	0.5262
EXCOM	0.009142	1.374182	0.1734
EXCHAR	-0.793961	-2.919688	0.0046
EXSHAR	-0.028930	-2.390548	0.0193

Source: data result

Based on the results obtained from the table 2 , the test is carried out partially to test the influence of each independent variable. To find the t_{table}, namely by looking at the number of sample data of 80, the t statistical test was carried out by comparing t_{count} with t_{table} with significance of 5% or

0.05 with a degree of freedom (df)=n-k-1 → 80-3-1=76 where n is the number of samples and k is the number of independent variables. From this test, a t_{table} result of 1.99167 was obtained.

The Effect of Executive Compensation on tax avoidance. Based on the statistical test results, t obtained the signature of the executive compensation variable of 0.1734 > 0.05 and got the result of count of 1.374182 and the positive value, while the t_{table} was 1.99167. These results mean that count $<$ t_{table}, which is 1.374182 < 1.99167. It can be concluded that, partially, executive compensation does not affect tax avoidance.

Effect of executive characteristics on tax avoidance. Based on the statistical test results, t obtained the signature of the executive characteristic variable of 0.0046 < 0.05 and got the calculated t result of 2.919688 and negative value, while the t_{table} was 1.99167. These results mean that $t_{count} > t_{table}$, which is -2.919688 > 1.99167. It can be concluded that executive characteristics partially negatively affect tax avoidance.

Effect of executive shareholding on tax avoidance. Based on the statistical test results, t obtained the significance of the executive share ownership variable of 0.0193 > 0.05 and got the calculated t result of 2.390548 and the negative value, while the t_{table} was 1.99167. These results mean that $t_{count} > t_{table}$, which is -2.390548 > 1.456040. It can be concluded that partial ownership of executive shares negatively affects tax avoidance.

Discussion

The statistical test shows that, in part, executive compensation did not affect tax avoidance. Executive compensation has a relationship with agency theory between principals and agents; in general, executive compensation is an award to motivate executives to achieve company goals. From the test results above, which show that executive compensation does not affect tax avoidance, it can show that the compensation system in Indonesia lacks the motivation of managers to carry out tax avoidance actions. This study's results align with the research conducted by Juwanto and Trisnawati (2021), which stated that the study did not prove the impact of executive compensation on tax avoidance. However, it rejected the findings of Madyanata, Wijaya, and Widiasmara (2020), which said that executive compensation affected tax avoidance.

The statistical test shows that partially the executive characteristics negatively affected tax avoidance. The relationship between executive characteristics and agency theory where executives use this theory is if they have a risk-averse character, they have more courage in determining a policy even though the risks taken are significant. The tax avoidance that the company does will change the cost of taxes that the company has to pay to be more minor. Executive characteristics proxied through corporate risk negatively affect corporate tax avoidance because, in this study, executive features are more inclined to be executive risk-averse. Executives with risk-averse traits are executives who don't like risk, so in choosing business decisions, they will select decisions that do not result in high risk. This research strengthens the results of Praptidewi and Sukartha (2016), which states that the higher the risk of the company, the lower the tax avoidance. Companies with high corporate risk or whose executives are risk-takers tend to present financial statements more as they are to see how far the performance has been done by the company so that the opportunity to do tax avoidance is low. But this research is not in line with the research conducted by Kartana and Wulandari (2018), which states that the study does not prove the influence of executive characteristics on tax avoidance.

Finally, the results said that partially executive shareholdings negatively affected tax avoidance. The theory of tax compliance states that no taxpayer is willing to pay taxes voluntarily. The executive, as the operational leader of the company, will implement a tax avoidance policy if he also benefits from such actions. So efforts are needed to implement corporate tax efficiency to provide high compensation to executives. One of them is efforts to streamline tax payments. Tax avoidance measures are carried out to increase profits or profits for shareholders. A good company's cash flow can be achieved by tax efficiency through tax avoidance. This research supports a study by Putri and Indriani (2020), which states that executive share ownership has a negative and insignificant influence on tax avoidance. But this research does not support the results of Madyanata, Wijaya, and Widiasmara (2020), stating that executive share ownership does not affect tax avoidance. Because the average company in Indonesia has a minimal executive share ownership below 5%. As a result, the opportunity for the executive to influence and determine the decision to make tax avoidance is also very small.

The implication of this study is that the executive compensation system does not motivate managers to take tax avoidance actions because the provision of compensation to the BOD (board of directors) only aims to improve the corporate's performance. The other side is that executive characteristics are more likely to be executive risk-averse. Executives with risk-averse features are executives who don't like risk, so in choosing business decisions, they will select decisions that do not result in high risk. In the presence of shareholding, an executive can become part of the company's owner. So, the implication either directly or indirectly, a good company's cash flow is the executive's hope that he will get higher profits. A good company's cash flow can be achieved by making the tax burden efficient through tax avoidance.

Taxes are an essential source of revenue for the government in carrying out public functions, such as providing health, education, infrastructure, and social protection services. However, in today's complex and global business environment, dubious tax practices can cause harm to the country and society. One of the practices of concern is tax avoidance or tax avoidance. Tax avoidance refers to efforts individuals or companies make to reduce actual tax obligations by taking advantage of existing tax loopholes. While tax avoidance may technically be legal, this practice is often against the spirit of tax law and the principles of tax equity.

When individuals or companies avoid the tax obligations they should pay, the tax burden that should be used to support balanced economic and social development becomes unfulfilled. This situation can reduce government revenue, narrow the resources available for public investment, and affect the provision of public services to citizens. In addition, tax avoidance can also interfere with fair competition and harm businesses that operate honestly. When companies or individuals can avoid paying the taxes they should, they gain an unfair competitive advantage over their competitors who comply with tax regulations. Also, tax avoidance can create inequality in the business environment and undermine the tax system's integrity.

In addition to economic and competitive impacts, tax avoidance has significant social and political consequences. This practice often exacerbates the economic disparity between the rich and the poor, hinders inclusive social development, and reduces public trust in the tax system and government. In the long term, tax avoidance also can create social tensions and political instability and undermine the government's and citizens' relationship. In facing this challenge, efforts to prevent tax avoidance are essential. Cooperation between the government, companies, and the public is needed to strengthen transparency, improve monitoring and law enforcement, and promote fairness and integrity in the tax system. By preventing tax avoidance, taxes can be expected to be an effective instrument in achieving sustainable development, economic equality, and broader social welfare for society.

Several steps can be taken by government supervision: First, the government can increase transparency by requiring companies to report more detailed tax information and publish financial reports. This step could provide greater visibility into corporate tax practices and allow the government to detect indications of improper tax evasion. Second, the government can strengthen tax regulations to close loopholes that tax avoidance actors might exploit. This strategy could involve increasing the stringency of tax law definitions and explanations and introducing rules that lead to more consistent and precise interpretations.

Conclusion

Based on the data obtained and analyzed by the data that has been carried out and the discussions that have been carried out on the effect of executive compensation, executive characteristics, and executive share ownership on tax avoidance in manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange from 2017 to 2021 as follows as simulant that the results of tests conducted in this study said that executive compensation, executive characteristics, and executive share ownership significantly affect tax avoidance in the consumer goods manufacturing companies listed on the Indonesia Stock Exchange (IDX); (1) it is stated that executive compensation has no impact on tax avoidance in the consumer goods manufacturing companies listed on IDX.; (2) based on the results of test conducted in this study, it is stated that executive characteristics have a negative impact on tax avoidance in consumer goods manufacturing companies listed on IDX.; (3) based on the results of tests conducted in this study, it is stated that executive shareholder has a negative effect on tax avoidance in consumer goods manufacturing companies listed on IDX.

This study has limitations because it only covers the consumer goods sector in manufacturing and research for five years. Besides that, the use of independent variables uses only three variables. Suggestions are given so that further research is more comprehensive to explore another potential factor. For example, add the independent variables that are needed and affect tax avoidance, and require data from larger samples, such as companies going public with the aim of broader coverage of the research sample so that the types of companies are more varied because the determination of tax avoidance is strongly influenced by the variability of the company's types and operations.

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