Shareholders And Independent Commissioners In Influencing The Tax Planning Strategy

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Abstract

Purpose:
This study examines the role of shareholders and independent commissioners in influencing firm tax planning strategies. Shareholders and management are concerned with tax planning. Shareholders are more focused on cash availability as it relates to cash dividends and investments. Management hopes incentives calculated from the net profit-related expenses. This paper analyzes the relationship between shareholders and tax planning, so this paper measures tax planning with tax payments, namely the Cash Effective Tax Rate (CashETR).

Design/methodology/approach:
Shareholders are divided into domestic institutional shareholders and foreign shareholders. Independent commissioners are distinguished by the number and percentage of independent commissioners. This article uses regression analysis from panel data of manufacturing companies listed on Bursa Efek Indonesia (IDX) for 2014 to 2017. CashETR is a ratio of tax payments and profits before tax based on generally accepted accounting principle (GAAP).

Findings:
This paper finds that the foreign shareholders and the percentage of independent commissioners have a positive relationship to CashETR. The domestic institutional shareholders with ownership of more than 32.09% and the independent commissioners of at least 3 people have a positive relationship to CashETR. This positive relationship can reduce aggressive tax planning. By using mean value of the
data, the independent commissioners have more dominant role to reduce aggressive tax planning than that of the shareholders.

Research limitations/implication:
The sample of manufacturing companies is a limitation. Different types of businesses will have different results, because there are different tax regulations for certain types of businesses, such as construction businesses.

Practical implications:
The method in this paper can be used to estimate whether a group of firms is implementing aggressive tax planning and the role of shareholders and independent commissioners to the tax planning strategy.

Originality/value:
The greater the number of shareholders and independent commissioners, the more positive the effect on CashETR. Independent commissioners are representatives of minority shareholders in public companies. The role of independent commissioners is more dominant than shareholders in influencing CashETR. The method in this paper can be used in various companies with different types of business.

Keywords: shareholder, independent commissioner, tax planning, effective tax rate.

JEL classification: G30, H26,

1. Introduction
One of the firm’s goals is to increase the firm value by management appointed by shareholders (Brigham & Daves, 2007). The management uses the firm assets (Widodo, 2018) to implement strategies, such as a tax planning strategy (Karayan & Swenson, 2007). This tax planning strategy should be able to increase the firm value, however, for opportunistic management; the tax planning can damage firm value and increase incentives for management (Desai and Dharmapala, 2009; Wahab and Holland, 2012). Therefore, the firm's tax planning strategy must be monitored so that it has a positive effect on the firm value. Monitoring, which is corporate governance, can make tax planning have a positive effect on the firm value (Desai & Dharmapala, 2009).

There are some measurements to estimate how a firm's tax planning strategy is implemented. Besides the 12 tax planning measurements described by Hanlon and Heitzman (2010), there are other measurements described by Drake, Hamilton, and Lusch (2020); Edwards, Schwab, and Shevlin (2016); and Santana and Rezende (2016). One measurement related to paying taxes is CashETR. This study uses a measure with CashETR because the availability of additional cash from tax planning can make management invest in new capital (Ni, Huang, Chiang, & Liao, 2019) and CashETR is more closely related to pre-tax-income (Edwards, Kubata, & Shevlin, 2020). CashETR is estimated to have a significant on the firm value.

Broadly speaking, measuring tax planning can be done in 2 ways, namely by tax payments and tax expenses. Shareholders are more focused on tax payments because the shareholders concern to cash dividends received and firm value. The available cash must be balanced in its use, whether as dividends or investments. This balance is related to the firm value that is the concern of the
shareholders. Management has an interest in the incentives received. The calculation of this incentive is based on how much profit the firm receives. The profit is obtained by calculating how many expenses are incurred. In measuring tax planning, management pays more attention to the effective tax rate that takes into account tax expenses. Measurement of tax planning using tax payments and tax expenses has a different purpose. This paper looks at the influence of shareholders on tax planning. Therefore, the measurement used is tax payments, namely CashETR.

The majority of shareholders can influence corporate governance by placing representatives in the firm, either as commissioners or as directors. Desai and Dharmapala (2009) explain that institutional shareholders have a positive role in implementing corporate governance. Minority shareholders will be difficult to monitor firm operations and influence corporate governance because of the absence of representatives. Therefore, in Indonesia, a Financial Services Authority (OJK) regulation stipulates that there must be a minimum number and percentage of independent parties in firms that represent a minority of shareholders (Otoritas Jasa Keuangan, 2014). Having representatives from shareholders, the firm's tax planning strategy can increase the firm value and not damage the firm's reputation.

Shareholders can influence the firm value directly (He & Kyaw, 2018; Thanatawee, 2014) and indirectly, such as through free cash flow (Karpavicius & Yu, 2017). The greater the share ownership by the institution, the lower the leverage and dividend payout, so that cash available will increase. Foreign shareholders, especially those who cannot monitor the firm, will take the firm's resources and ignore the minority shareholders (Thanatawee, 2014). There are differences in behavior between these types of shareholders in influencing the firm value. The shareholder type can also differently influence the firm's tax planning strategy. This paper compares how the roles of domestic institutional shareholders and foreign shareholders in influencing firm tax planning.

An independent commissioner, as a representative of a minority of shareholders, influences corporate governance and firm tax planning (Klein, 2002). Besides the number, the percentage of independent commissioners is also important. The independent commissioners, either number or percentage, can exercise control in the preparation of financial reports and can prevent intervention from the majority shareholder that could harm other shareholders (Liu & Lu, 2007). The OJK also regulates the importance of this percentage of independent commissioners. OJK requires that the percentage of independent commissioners in a firm is at least 30% (Otoritas Jasa Keuangan, 2014). Previous researches explained that the relationship between independent parties, such as independent directors, and the firm value had different results (Denis & McConnell, 2003; Vintilă & Gherghina, 2013). Some studies explain that independent parties affect firm performance and that this performance affects firm value. The relationship between independent parties and tax avoidance is not always the same. It changes according to the level of tax avoidance being undertaken (Armstrong, Blouin, Jagolinzer, & Larcker, 2015). This study examines how the influence of independent commissioners, either number or percentage, on the firm's tax planning strategy by considering the OJK policy.

This paper finds that the foreign shareholders and the percentage of independent commissioners affect and change the value of CashETR positively. As long as the share ownership is more than 32%, domestic institutional shareholders influence and change the value of CasETR positively. The number of independent commissioners affects and changes the value of CashETR positively as long as it is at least 3 people. These results contribute to the relationship between shareholders and supervision by independent parties on corporate tax planning. The greater the share ownership, the less aggressive
the tax planning strategy will be. This result is consistent with the explanation of Badertscher, Katz, and Rego (2013) and Richardson, Wang, and Zhang (2016). The more independent parties monitor the firm, in this case, the number and percentage of independent commissioners, the less aggressive tax planning will be. This condition creates better corporate governance. This result is consistent with the explanation of Armstrong et al. (2015).

By using the mean value of the data used in this paper, the shareholders negatively influence the value of CashETR. The independent commissioners positively influence the value of CashETR. Together, the shareholders and independent commissioners positively influence the value of CashETR. These results explain that independent commissioners have a better role than shareholders in reducing aggressive tax planning strategies. The paper results are consistent with Armstrong et al. (2015), namely the larger the portion of the independent party, the less aggressive tax planning can be.

2. Literature review and hypotheses development

There are 2 viewpoints of implementing the tax planning strategy, namely the traditional theory and agency theory (Ilaboya, Izevbekhai, & Ohiohka, 2016). The traditional theory explains that by reducing tax payments, there is a transfer of wealth from the government to taxpayers or firms. Agency theory explains that tax planning harms firm value because opportunistic management applies tax planning for the incentive received. This management may reduce the firm reputation. Thus, tax planning became an agency problem (Desai & Dharmapala, 2009; Jensen & Meckling, 1976). To reduce this problem, good governance is needed (Desai & Dharmapala, 2006) and shareholders exercise to control the firm. Majority shareholders can directly control the firm (Bradshaw, Liao, & Ma, 2019), and minority shareholders exercise the control through an independent party, one of which is an independent commissioner (Masripah, Diyanty, & Fitriasari, 2016; Suparno & Pitoyo, 2016). Another fact explains that a firm can do tax planning very aggressively, but it does not reduce the firm's reputation as Starbucks in the UK. Starbucks strategy is through social responsibility (Campbell & Helleloid, 2016).

The increasing of institutional shareholders in a firm is associated with increased tax avoidance (Khan, Srinivasan, & Tan, 2017) because the control over the firm will increase. Other studies explain different things. Firms with a greater concentration of ownership and control will have fewer tax deductions (Badertscher et al., 2013). In this case, the owner controlling the management tries to reduce and avoid the risk of tax avoidance. The relationship between ownership concentration and tax avoidance is not always linear. This relationship is inverted U-shaped (Richardson et al., 2016). Research in Thailand explains that foreign shareholders cannot monitor to improve corporate governance (Thanatawee, 2014). This lack of monitoring has a certain effect on the tax planning implemented by management. M’Ithiria & Musyoki (2014) explain that foreign ownership shareholders have an inconsistent effect on firm value. From the previous paper, the shareholder structure has a different effect on the tax planning implemented by management. This different effect seems inconsistent. Thus, the hypothesis in this paper is:

H1: The types of shareholders, domestic institutional shareholders, and foreign shareholders affect tax planning in a firm differently.

The OJK Regulation aims to implement good governance of listed firms in IDX. This regulation is in line with the explanations of Klein (2002) and Liu & Lu (2007). Without monitoring from
independent parties, management tends to increase the number of abnormal accruals (Klein, 2002). The independent parties’ capabilities are expected to monitor management performance and affect firm performance (Hermalin & Weisbach, 2003). Supervision by independent parties is expected to that management presents more transparent reports (Balakrishnan, Blouin, & Guay, 2017) and reduces tax aggression. Other studies have explained that the proportions from independent parties positively affect earnings management and stock returns (Veronica & Bachtia, 2005). Another study explains that supervision is carried out by independent parties only, then the firm’s performance will have a negative effect (Agrawal & Knoeber, 1996). The relationship between an independent party as a director and firm performance can be positive (Rosenstein & Wyatt, 1990) and can also be inverted U-shaped (Vintilă & Gherghina, 2013). Independent parties play a role in reducing firm tax avoidance. Independent parties who are strong in monitoring, then tax avoidance will be lower, and vice versa (Armstrong et al. 2015). The composition of independent commissioners can prevent majority shareholder intervention that harms minority shareholders’ interest (Liu & Lu, 2007). It appears that the relationship between independent parties and firm performance is not consistent and this is following the study conducted by Mishra and Kapil (2017). By determining the independent party from the commissioners, the hypothesis of this research is:

H2: composition of independent commissioners, percentage, and number, affects tax planning differently.

3. Research method and data

The population is listed manufacturing firms in IDX. The manufacturing sector provides the largest contribution to Indonesia’s GDP, around 20%. The size of this GDP certainly affects tax revenue in Indonesia and this factor is the reason why the manufacturing sector has become a population. By using the Slovin formula with a 5% margin of error, 102 companies are obtained as samples. This sampling considers the availability of the required data.

In 2016 and 2017, the Indonesian government implemented tax amnesty to increase state revenues. The tax amnesty policy certainly affects the firm’s tax planning. Therefore, the sampling year is 2 years before the tax amnesty is implemented (2014 and 2015) and 2 years when the tax amnesty is implemented (2016 and 2017). The number of sample years in this study is 4 years. The number of analyst units becomes 408 (4 x 102). The sample composition in this study was 46 firms in the basic industry and chemicals sub-sector, 28 firms in the consumer goods industry sub-sector, and 28 firms in the miscellaneous industry sub-sector.

The regressions from this study are as follows:

\[
\text{CashETR}_{it} = \beta_0 + \beta_1 \text{DI_Shareholder}_{it} + \beta_2 \text{F_Shareholder}_{it} + \beta_3 \text{IC_Number}_{it} + \beta_4 \text{IC\_Percentage}_{it} + \\
\beta_5 \text{Size}_{it} + \beta_6 \text{CashETR\_1}_{it} + \beta_7 \text{Leverage}_{it} + \beta_8 \text{EPS}_{it} + \beta_9 \text{TA}_{it} + \epsilon_{it} \quad \text{.... (1)}
\]

To examine whether the relationship between the type of shareholders and the composition of the independent commissioners to CashETR is linear or not, equation 1 is converted to a quadratic. So that the equation becomes:

\[
\text{CashETR}_{it} = \beta_0 + \beta_1 \text{DI_Shareholder}_{it} + \beta_2 (\text{DI_Shareholder}_{it})^2 + \beta_3 \text{F_Shareholder}_{it} + \beta_4 (\text{F_Shareholder}_{it})^2 + \beta_5 \text{IC\_Number}_{it} + \beta_6 (\text{IC\_Number}_{it})^2 + \beta_7 \text{IC\_Percentage}_{it} + \\
\beta_8 \text{Size}_{it} + \beta_9 \text{CashETR\_1}_{it} + \beta_10 \text{Leverage}_{it} + \beta_11 \text{EPS}_{it} + \beta_12 \text{TA}_{it} + \epsilon_{it} \quad \text{.... (1)}
\]
\[(IC\textbf{\_Percentage}_{it})^2 + \beta_9 \text{Size}_{it} + \beta_{10} \text{CashETR\_1}_{it} + \beta_{11} \text{Leverage}_{it} + \beta_{12} \text{EPS}_{it} + \beta_{13} TA_{it} + \varepsilon_{it} \quad \text{.... (2)}\]

This study uses CashETR as used by Drake, Hamilton, and Lusch (2020); Graham et al. (2014); and Huseynov and Klamm (2012) to measure tax planning. The independent variable consists of types of shareholders and composition of independent commissioners. The types of shareholders consist of domestic institutional and foreign shareholders. The composition of independent commissioners consists of the number and percentage of independent commissioners. The control variables in this study consist of company size (size), previous year's tax payment strategy (CashETR_1), debt composition (leverage), earnings per share (EPS), and tax amnesty policy.

In implementing tax planning, firm size is a determining factor. The firm size can determine the economic scale of the firm. Therefore, firm size is used as a control variable. The logarithmic value of firm assets is used to measure size because of the large variation in the asset value of the firms being sampled. The logarithmic measurement of this asset is used by Chen et al. (2014). The tax planning strategy of a firm in the current year is influenced by the tax planning strategy in the previous year; for example, a firm with income tax overpayments in the last year will calculate the overpayment in the current year. Because this study uses CashETR; therefore, tax planning strategies in the past have also used CashETR. Debt owned affects the tax planning strategy because it relates to interest expenses and is used as a control variable by Li, Liu, and Ni (2017). EPS describes how the company gets earnings per share after implementing tax planning. The EPS value of each company is different and this explains the different strategies in each company. The use of EPS is a modification of the use of EPS growth by Jiménez-Angueira (2018). The Indonesian government implemented a tax amnesty policy in 2016 and 2017. Tax amnesty is a dummy variable. The data for 2016 and 2017 is 1, and for 2014 and 2015 it is 0. The definitions of the variables used in this study are shown in Table 1.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variable:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Effective Tax Rate (CashETR)</td>
<td>Ratio to describe the effectiveness of tax payment.</td>
<td>Income tax payments</td>
</tr>
<tr>
<td></td>
<td>Profit before income tax</td>
<td></td>
</tr>
<tr>
<td><strong>Independent Variable:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic institutional shareholders (DI_Shareholder)</td>
<td>Ratio to determine the share ownership by domestic institutions.</td>
<td>Domestic Institutional Shareholders</td>
</tr>
<tr>
<td></td>
<td>Total Shares Issued</td>
<td></td>
</tr>
<tr>
<td>Foreign shareholders (F_Shareholder)</td>
<td>Ratio to determine the share ownership by foreign.</td>
<td>Foreign Shareholders</td>
</tr>
<tr>
<td></td>
<td>Total Shares Issued</td>
<td></td>
</tr>
</tbody>
</table>

State shareholders, cooperatives, unions, and foundations established in Indonesia are classified as domestic institutional shareholders. Some papers use the percentage of institutional shareholders as a
Variable | Definition | Indicator
--- | --- | ---
Number of Independent Commissioner (IC_Number) | Nominal amount to determine how many independent commissioners. | Number
Percentage of Independent Commissioner (IC_Percentage) | Ratio to determine the percentage of independent commissioners. | Number of independent commissioner / Total commissioner

Control Variable:

<table>
<thead>
<tr>
<th>Size</th>
<th>Value to measure the firm size.</th>
<th>Ln (Total Asset)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CashETR_1</td>
<td>Ratio to describe the effectiveness of tax payment in the previous year.</td>
<td>Income tax payments ( t - 1 ) / Profit before income tax ( t - 1 )</td>
</tr>
<tr>
<td>Leverage</td>
<td>Ratio to describe the capital structure, from debt to equity.</td>
<td>Total debt / Total asset</td>
</tr>
<tr>
<td>Earning Per Share (EPS)</td>
<td>Ratio to determine the level of net profits for achievement each firm shares when running its operations.</td>
<td>Profit after income tax / Total shares issued</td>
</tr>
<tr>
<td>Tax Amnesty (TA)</td>
<td>The enacted tax amnesty policy in the time data used.</td>
<td>Before enacted the policy = 0, and the time of enacted the policy = 1.</td>
</tr>
</tbody>
</table>

4. Results and discussion
The summary statistics of the variables used in this study are shown in Table 2.

<table>
<thead>
<tr>
<th>Variable</th>
<th>DI_Shareholder</th>
<th>F_Shareholder</th>
<th>IC_Number</th>
<th>IC_Percentage</th>
<th>CashETR_1</th>
<th>Size</th>
<th>Leverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Mean</td>
<td>0.4500</td>
<td>0.3913</td>
<td>0.2989</td>
<td>1.6348</td>
<td>0.4036</td>
<td>14.5961</td>
</tr>
<tr>
<td>Median</td>
<td>0.2578</td>
<td>0.4193</td>
<td>0.1607</td>
<td>1.0000</td>
<td>0.3333</td>
<td>14.3257</td>
<td>0.2633</td>
</tr>
<tr>
<td>Maximum</td>
<td>54.7780</td>
<td>0.9818</td>
<td>0.9977</td>
<td>4.0000</td>
<td>1.0000</td>
<td>19.5047</td>
<td>54.7781</td>
</tr>
<tr>
<td>Minimum</td>
<td>61.4551</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>11.5161</td>
<td>61.4551</td>
<td>0.0002</td>
</tr>
</tbody>
</table>

8121 | http://www.webology.org
The corporate income tax rate in Indonesia is 25% for the year data used. Table 2 describes that the mean CashETR value is 45%. This value explains that the sample firms on average pay higher income tax than the stated income tax rates. This condition can occur due to expenses that cannot be charged according to tax regulations. On average, firms do not do aggressive tax planning. A negative CashETR value (minimum value) is obtained from a firm that has a GAAP loss, but according to taxation regulations, has taxable income, and pays income tax.

The mean value of domestic institutional shareholders (0.3913) is greater than the mean value of foreign shareholders (0.2989). On average, the companies in this sample are still dominated by domestic institutional shareholders, although there are firms that are majority-owned by foreigners (see the maximum value of foreign shareholders). On average, there are 2 independent commissioners (mean value 1.6348) and the average percentage of independent commissioners is 0.4036. On average, the number and percentage of independent commissioners have met the regulations set by the OJK.

The correlation between variables used in this study is shown in Table 3. Table 3 explains that the relationship between domestic institutional shareholders and foreign shareholders is negative and quite large (-0.7787). It is estimated that if foreign shareholders decrease, then ownership by domestic institutions will increase. From observations on several samples, there is a transfer of share ownership from foreign shareholders to domestic institutional shareholders. This transfer of ownership occurred because of the tax amnesty. By using the rule of thumb correlation of 0.8000, the relationship between domestic institutional shareholders and foreign shareholders can still be accepted.

### Table 3: The correlation variables used in this article

<table>
<thead>
<tr>
<th></th>
<th>Cash ETR</th>
<th>DL_Shareholder</th>
<th>F_Shareholder</th>
<th>IC_Number</th>
<th>IC_Percentage</th>
<th>Size</th>
<th>Cash ETR_1</th>
<th>Leverage</th>
<th>EPS</th>
<th>TA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash ETR_1</td>
<td>1</td>
<td>-0.0229</td>
<td></td>
<td>-0.0078</td>
<td>0.0996</td>
<td>1.6348</td>
<td></td>
<td>0.0817</td>
<td>0.001</td>
<td>0.5831</td>
</tr>
<tr>
<td>DL_Shareholder</td>
<td>-0.0195</td>
<td>-0.7787</td>
<td>1</td>
<td>-0.0691</td>
<td>0.0114</td>
<td>0.4362</td>
<td></td>
<td>-0.0125</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F_Shareholder</td>
<td>-0.0078</td>
<td>-0.0691</td>
<td>0.0996</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IC_Number</td>
<td>0.0817</td>
<td>0.0482</td>
<td>0.0114</td>
<td>0.4362</td>
<td>-0.0125</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IC_Percentage</td>
<td>-0.0174</td>
<td>0.0063</td>
<td>0.5831</td>
<td>-0.0125</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size</td>
<td>0.0174</td>
<td>-0.0316</td>
<td>0.5831</td>
<td>-0.0125</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The data of the sample in this article have fairly high volatility (see Table 2). Variation and volatility in this data cause a correlation error from the independent variables. Therefore, in processing this data a fixed-effect model is used and treatment is carried out to get a fit result as explained by Gujarati (2003:650). The results of data processing in the regressing equation in this article are described in Table 4.

Table 4: Regression results

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent Variable (CashETR)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Eq:1</td>
</tr>
<tr>
<td>C</td>
<td>3.4531</td>
</tr>
<tr>
<td>(Prob)</td>
<td>(0.0000)</td>
</tr>
<tr>
<td>DI_Shareholder</td>
<td>-0.5541</td>
</tr>
<tr>
<td>(Prob)</td>
<td>(0.0030)</td>
</tr>
<tr>
<td>(DI_Shareholder)^2</td>
<td>-2.4308</td>
</tr>
<tr>
<td>(Prob)</td>
<td></td>
</tr>
<tr>
<td>F_Shareholder</td>
<td>0.6064</td>
</tr>
<tr>
<td>(Prob)</td>
<td>(0.0000)</td>
</tr>
<tr>
<td>(F_Shareholder)^2</td>
<td>0.5353</td>
</tr>
<tr>
<td>(Prob)</td>
<td>(0.3578)</td>
</tr>
<tr>
<td>IC_Number</td>
<td>-0.2197</td>
</tr>
<tr>
<td>(Prob)</td>
<td>(0.0000)</td>
</tr>
<tr>
<td>(IC_Number)^2</td>
<td>0.2930</td>
</tr>
<tr>
<td>(Prob)</td>
<td>(0.0000)</td>
</tr>
<tr>
<td>IC_Percentage</td>
<td>1.7167</td>
</tr>
<tr>
<td>(Prob)</td>
<td>(0.0000)</td>
</tr>
<tr>
<td>(IC_Percentage)^2</td>
<td>-0.1053</td>
</tr>
<tr>
<td>(Prob)</td>
<td>(0.9377)</td>
</tr>
<tr>
<td>Size</td>
<td>-0.2195</td>
</tr>
<tr>
<td>(Prob)</td>
<td>(0.0000)</td>
</tr>
<tr>
<td>CashETR_1</td>
<td>-0.2251</td>
</tr>
<tr>
<td>(Prob)</td>
<td>(0.0000)</td>
</tr>
<tr>
<td>Leverage</td>
<td>-0.1370</td>
</tr>
<tr>
<td>(Prob)</td>
<td>(0.0000)</td>
</tr>
</tbody>
</table>
4.1. Shareholders and CashETR

The Eq: 1 equation in Table 4 explains that the relationship between domestic institutional shareholders and CashETR is negative and significant (coefficient = -0.5541; prob. = 0.0030). The domestic institutional shareholders have a role to reduce tax payments. These results also explain that the greater the share ownership by domestic institutions, the smaller the CashETR value. It is necessary to further analyze whether this relationship remains negative or will change if the number of share ownership by domestic institutions exceeds a certain amount. By using the Eq: 2 equation which has been squared and is shown in Table 4, it is known that when the share ownership by domestic institutions exceeds 32.09%, this relationship becomes positive and significant. The calculation is as follows:

\[
\text{CashETR} = 4.3459 + 1.5599 \text{DI} \_ \text{Shareholder} - 2.4308 (\text{DI} \_ \text{Shareholder})^2
\]

\[
\frac{\partial \text{CashETR}}{\partial \text{DI} \_ \text{Shareholder}} = 1.5599 - 2(2.4308) \text{DI} \_ \text{Shareholder}
\]

\[
4.8616 \text{DI} \_ \text{Shareholder} = 1.5599
\]

\[
\text{DI} \_ \text{Shareholder} = 0.3208614
\]

\[
\text{DI} \_ \text{Shareholder} \approx 32.09\%
\]

When share ownership by domestic institutions is more than 32.09%, these shareholders are not too focused on influencing tax planning by minimizing tax payments. This shareholder is expected to focus on other than tax planning strategies that are not by minimizing tax payments.

The Eq: 1 equation in Table 4 explains that the relationship between foreign shareholders and CashETR is positive and significant (coefficient = 0.6064; prob. = 0.0000). These results explain that foreign shareholders influence the tax planning implemented by the firm, but not by reducing tax payments. It is necessary to conduct further analysis whether this relationship remains positive and significant regardless of foreign ownership of shares. By using the Eq: 2 equation shown in Table 4, when the share ownership by foreigners is less than -10.47%, this relationship becomes negative and insignificant. The calculation is as follows:

\[
\text{CashETR} = 4.3459 + 0.1121 \text{F} \_ \text{Shareholder} + 0.5353 (\text{F} \_ \text{Shareholder})^2
\]

http://www.webology.org
\[
\frac{\partial \text{CashETR}}{\partial \text{F\_Shareholder}} = 0.1121 + 2(0.5353) \text{ F\_Shareholder}
\]

1.0706 F\_Shareholder = - 0.1121
F\_Shareholder = - 0.1047076
F\_Shareholder \approx - 10.47%

Minimum shareholding in the company is 0%. Therefore, the results of this calculation explain that the relationship between foreign shareholders and CashETR is always positive and significant.

These results illustrate that foreign shareholders are not too aggressive in influencing tax planning by reducing the value of CashETR. Domestic institutional shareholders are also not too aggressive in reducing the value of CashETR if the share ownership is more than 32.09%. Shareholders who are not aggressive in influencing the tax planning strategy are expected to have long-term goals, namely increasing firm value without damaging the firm's image. If the firm has a small CashETR, this will be the attention of the tax authorities to become the target of tax audits that can damage the firm's image.

The mean value of domestic institutional shareholders is 0.3913, and the mean value of foreign shareholders is 0.2989 (Table 2). On average, the role both of domestic institutional and foreign shareholders on the CashETR value is negative and significant. The calculation is as follows:

Domestic institutional shareholder : Foreign shareholder
0.3913 x (-0.5541) : 0.2989 x (0.6064)
-0.2168 : 0.1813

In absolute terms, the value of domestic institutional shareholders (0.2168) is greater than the value of foreign shareholders (0.1813). Domestic institutional shareholders have a more dominant role than foreign shareholders in the tax planning strategy as measured by CashETR.

4.2. Independent Commissioners and CashETR

Eq: 1 in Table 4 explains that the relationship between the number of independent commissioners and CashETR is negative and significant (coefficient = -0.2197; prob. = 0.0000). These results explain that the number of independent commissioners has a role in influencing the tax planning policies implemented by the company to reduce the CashETR value. Therefore, it is necessary to study further whether this relationship remains negative or changes if the number of independent commissioners also changes. With Eq: 2 in Table 4, if the number of independent commissioners is more than 2 people, this relationship will be positive and significant. The calculation is as follows:

\[
\text{CashETR} = 4.3459 - 1.6229 \text{ IC\_Number} + 0.2930 (\text{IC\_Number})^2
\]

\[
\frac{\partial \text{CashETR}}{\partial \text{IC\_Number}} = -1.6229 + 2(0.2930) \text{ IC\_Number}
\]

0.5860 IC\_Number = 1.6229
IC\_Number = 2.77
IC\_Number \approx 3 \text{ people}

These results explain that if the number of independent commissioners is not more than 2 people, then the independent commissioners can influence management to reduce the CashETR.
value. If the number of independent commissioners is 3 or more, the role of the number of independent commissioners changes, from negative to be positive on the CashETR value. This positive influence can be interpreted that the number of independent commissioners can reduce an aggressive tax planning strategy.

Eq: 1 in Table 4 explains that the relationship between the percentage of independent commissioners and CashETR is positive and significant (coefficient = 1.7167; prob. = 0.0000). Further study using Eq: 2 in Table 4, explains that if the percentage of independent commissioners is more than 1,174.45%, this relationship will be negative and insignificant. The calculation is as follows:

\[
\frac{\partial \text{CashETR}}{\partial \text{IC\_Percentage}} = 2.4734 - 2(0.1053) \text{IC\_Percentage}
\]

The maximum percentage of independent commissioners is 100%. This calculation explains that regardless of the percentage value of independent commissioners, the relationship between the percentage of independent commissioners and CashETR remains positive and significant.

Table 2 describes that the mean value of the number of Independent Commissioners is 1.6348, and the percentage of independent commissioners is 0.4036. Thus, on average, the role of independent commissioners on the CashETR value is positive and significant. The calculation is as follows:

Number of independent commissioners : Percentage of independent commissioners
1.6348 x ( - 0.2197) : 0.4036 x (1.7167)
- 0.3592 : 0.6929

In absolute terms, the percentage value of independent commissioners (0.6929) is greater than the value of the number of independent commissioners (0.3592). Thus, independent commissioners generally prevent aggressive firm tax planning strategies in reducing tax payments.

4.3. Influence on CashETR

Regardless of the value of foreign shareholders and the percentage of independent commissioners, their influences on CashETR are always positive and significant. These results suggest that foreign shareholders and the percentage of independent commissioners are expected to prevent management from implementing too aggressive a tax planning strategy in reducing tax payments. If the value of domestic institutional shareholders is less than 32.09%, this shareholder will negatively affect the CashETR value. It can be concluded that the majority of domestic institutional shareholders (with more than 32.09% ownership) do not affect the firm's tax planning strategy to be aggressive. Likewise, the number of independent commissioners. If the number of independent commissioners is 3 or more, then the number of independent commissioners will reduce the firm's aggressive tax planning strategy.
By using the mean value in Table 2 and the variable coefficient value in Table 4 of each shareholder and independent commissioner, it can be seen how these variables influence the CashETR value. A summary of these effects is provided in Table 5.

**Table 5: Summary of Influencing to CashETR**

<table>
<thead>
<tr>
<th>Domestic institutional shareholders</th>
<th>Foreign shareholders</th>
<th>Number of independent commissioners</th>
<th>Percentage of independent commissioners</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.3913 x (-0.5541)</td>
<td>0.2989 x (0.6064)</td>
<td>1.6348 x (-0.2197)</td>
<td>0.4036 x (1.7167)</td>
</tr>
<tr>
<td>- 0.2168</td>
<td>0.1813</td>
<td>- 0.3592</td>
<td>0.6929</td>
</tr>
</tbody>
</table>

Table 5 explains that the most important role in preventing firms from implementing aggressive tax planning is the percentage of independent commissioners (with a value of 0.6929). Table 5 also explains that in accumulation, the influence of shareholders and independent commissioners is to prevent firms from implementing aggressive tax planning, because the value is positive and is 0.2982 (- 0.2168 + 0.1813 - 0.3592 + 0.6929).

Table 5 explains that shareholders have a role in reducing the value of CashETR because the relationship is negative -0.0355 (0.1813 - 0.2168). Independent commissioners play a role in preventing aggressive tax planning because the relationship is positive 0.3337 (0.6929 - 0.3592). The role of independent commissioners is more dominant in preventing aggressive tax planning and this is consistent with the explanation of Liu and Lu (2007). By increasing share ownership, aggressive strategies to reduce tax payments can be reduced. These results are consistent with the explanation of Badertscher, Katz, and Rego (2013) and Richardson, Wang, and Zhang (2016). By increasing the number and percentage of independent commissioners, good governance is getting better. This governance can reduce aggressive tax planning strategies and this is consistent with the explanation of Armstrong et al. (2015). Based on these results, the OJK regulations regarding the minimum limit for the number and percentage of independent commissioners are appropriate.

### 4.4. Implication of the research, limitation of the study, and future research

This study applies to manufacturing firms listed on the IDX. The different data can give different results. The different business process of the firms needs different monitoring in the tax planning strategy. There are some tax regulations for a specific business process, such as different income tax rates between manufacturing business and construction business. The methods in this study can be used for firms in other business sectors. The methods in this study are better used for firms listed on the stock exchange because there is an independent party representing minority parties who do not have direct access to firms. Corporate governance with monitoring from shareholders and independent commissioners may differ between business sectors and between countries because of differences in regulations and policies (Mishra & Kapil, 2017).

### 5. Conclusion

The relationship between domestic institutional shareholders and CashETR is negative and significant. The increasing of share ownership of the domestic institution shareholders can decrease the CashETR value as long as it is not more than 32.09%. The relationship between the domestic institutional shareholders and the CashETR is positive and significant after the ownership is more...
than 32.09%. Regardless of foreign ownership of shares, the relationship between foreign shareholders and CashETR is positive and significant. The majority of domestic institutional shareholders (with more than 32.09% ownership) and foreign shareholders can reduce tax planning that is too aggressive, because of their positive relationship to CashETR.

The relationship between the number of independent commissioners and CashETR is negative and significant as long as there are no more than 2 independent commissioners. When the number of independent commissioners increases by more than 2 people, it will increase the CashETR value. Regardless value of the percentage of independent commissioners, the relationship between the percentage of independent commissioners and CashETR is positive and significant. A large number of independent commissioners (at least 3 people) and regardless of the percentage of independent commissioners can reduce tax planning that is too aggressive, because of their positive relationship to CashETR.

By analyzing the mean and the coefficient value from the sample data of this study, the shareholder role is negative for CashETR, and the independent commissioner role is positive for CashETR. Together, shareholders and independent commissioners have a positive relationship to the CashETR value and can reduce aggressive tax planning as measured by CashETR.

Reference


Santana, S., & Rezende, A. J. (2016). Corporate Tax Avoidance and Firm Value: Evidence from...


