The Effect of Foreign Ownership and Foreign Board Commissioners on Tax Avoidance

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ABSTRACT

This study aims to provide empirical evidence of the influence of foreign ownership and foreign board of commissioners on tax avoidance. The dependent variable is tax avoidance, measured using an effective tax rate proxy (ETR), and the independent variable is the structure of foreign ownership and foreign board of commissioners. It tested the theory of legitimacy using the sample consisting of 53 non-financial companies listed on the Indonesia Stock Exchange in 2012-2016. The results showed that the structure of foreign ownership has a positive effect on tax avoidance, where the greater the structure of foreign ownership, the higher the company to avoid tax. The results of the study do not support the legitimacy theory, explaining the role of foreign ownership in gaining legitimacy from the public by not doing tax avoidance. Furthermore, this study also proves that the proportion of foreign commissioners does not influence tax avoidance. The implication is that the government can encourage increased foreign ownership in order to optimize tax payment or to minimize tax avoidance.

ABSTRAK

Penelitian ini bertujuan memberikan bukti empiris pengaruh dari kepemilikan asing dan dewan komisaris asing terhadap penghindaran pajak. Variabel dependen adalah penghindaran pajak yang diukur dengan menggunakan proksi tarif pajak efektif (ETR) sedangkan variabel independennya adalah struktur kepemilikan asing dan dewan komisaris asing. Penelitian ini menguji teori legitimasi dengan menggunakan sampel berjumlah 53 perusahaan non-keuangan yang terdaftar di Bursa Efek Indonesia tahun 2012-2016. Hasil penelitian menunjukkan struktur kepemilikan asing berpengaruh positif terhadap penghindaran pajak dimana makin besar struktur kepemilikan asing maka semakin besar perusahaan melakukan penghindaran pajak. Hasil penelitian tidak mendukung teori Legitimasi yang menjelaskan peran kepemilikan asing dalam mendapatkan legitimasi dari publik dengan tidak melakukan penghindaran pajak. Hasil penelitian selanjutnya membuktikan bahwa proporsi komisaris asing tidak berpengaruh pada penghindaran pajak. Implikasinys adalah pemerintah dapat mendorong peningkatan kepemilikan asing guna meningkatkan pembayaran pajak atau meminilkan pengindaran pajak.

1. INTRODUCTION

Taxes have been considered a significant cost for companies and reduce the cash flow available for their shareholders. Therefore, it is an incentive for companies to reduce taxes through tax avoidance activity (Chen, Chen, Cheng, & Shevlin, 2010). Tax avoidance is an attempt to decrease the tax burden that does not violate the regulation (Mardiasmo, 2009). In other words, tax avoidance is the effort made by the company as a taxpayer in such a way as to minimize the tax burden that are deemed to be legal. Therefore, tax avoidance is regarded as a legal thing as it is commonly and practically done. It is related to how the companies exploit the loopholes in the tax laws.

According to Finnerty, Merks, Petriccione, & Russo (2007), tax avoidance can be done in various ways. First, it can be done by moving the subject of taxes and/or tax objects to the countries that provide preferential tax treatment or tax relief (tax haven country) on a type of income (substantive tax planning). Second, tax avoidance is done to maintain

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the economic substance of the transaction through a formal selection that provides the lowest tax burden (formal tax planning). Third, the provisions of the anti avoidance of transactions, such as transfer pricing, small capitalization, treaty shopping, and controlled foreign corporation (Specific Anti Avoidance Rule), as well as transactions that have no business substance (General Anti Avoidance Rule).

Foreign investors want to invest in foreign countries that provide tax relief due to their countries have a higher tax rate, such as in European countries (Huizinga & Nicodème, 2006). In that case, foreign companies will invest in the countries offering tax exemptions (tax holiday) or a lower-tax rate as a complementary form of foreign companies that invest in countries with a higher tax rate.

The regulation issued by the Indonesian government about the tax holiday, as well as a lower tax, should encourage the growth of foreign investment in Indonesia. Foreign companies or foreign investors will benefit from this policy so that they are expected not to avoid tax. The cases of tax avoidance practices are undertaken by companies with foreign ownership structure, as quoted from Liputan6.com (March 25th, 2016). Directorate General of Taxation, Ministry of Finance said about 2,000 multinational companies operating in Indonesia do not pay income tax (VAT) Agency Article 25 and Article 29 (Ariyanti & Gideon, 2000). These companies are those with a foreign ownership structure that handled Regional Office (Regional Office) Special Tax. The mode they used is, namely, transfer pricing, amenities tax incentives (tax holiday and tax allowance). In the case related to the legitimacy theory, it is importantly relevant to look at issues concerning the company's compliance and tax avoidance. The theory of legitimacy related to social performance and financial performance is a the condition when there is a discord between the system of corporate value and value systems of society (often called the legitimacy gap). Landolf (2006) illustrates that tax avoidance is a crime against the state.

Companies with foreign ownership structure do business extensively in various countries. To do so, they need commissioners who understand the business globally, and of course, they are foreigners. Through foreign commissioners, foreign investors can provide oversight and ensure that their interests are protected. The presence of foreign commissioners in the company board structure shows the board diversity. The concept of board diversity—with regard to the composition of their various combination—shows varied nature, characteristics, and expertise contributed by each individual as a member of the board in the decision-making process (Van der Walt & Ingley, 2003). One of the common diversities in the era of globalization is the citizenship of the board members. This diversity occurs because of the influence of foreign ownership that puts members of the board in the company to protect their interests (Choi, Sul, & Min, 2012).

Several previous studies have tried several proxies to measure tax avoidance, among others are effective tax rates (Chen et al., 2010; Huizinga & Nicodème, 2006; Lanis & Richardson, 2012; Salihu, Annuar, & Obid, 2015; Sari & Martani; Waluyo & Basri, 2015), cash effective tax rates (Chen et al., 2010; Diantari & Ulupui, 2016; Kurniasih, Sari, & Maria; Salihuet al., 2015); book-tax differences (Desai & Dharmapala, 2006; Frank, Lynch, & Rego, 2009; Richardson & Lanis, 2007); the ratio of income tax expense to operating cash flow (Salihu et al., 2015), and the ratio of tax payments to operating cash flow (Salihu et al., 2015).

This study uses a proxy effective tax rates (ETR), cash effective tax rates (CETR), book-tax differences (BTD), income tax ratio to operating cash flow (TEOCF), the ratio of tax payments to operating cash flow (TPOCF). Lower values of ETR, CETR, TEOCF, TPOCF indicate higher tax avoidance actions. In other words, the values of ETR, CETR, TEOCF, TPOCF inversely, or negatively affect the actions of tax avoidance. Meanwhile, a high value of BTD indicates higher tax avoidance measures undertaken by a company, or the value of BTD positively affects tax avoidance actions (Chen et al., 2010).

Empirical studies on the effect of the structure of foreign ownership towards tax avoidance have been carried out in several countries, including Grubert and Mutti (1991), Hines Jr and Rice (1994), Kinney and Lawrence (2000). They show that multinational companies in the America pay lower taxes in developing countries even though they have a higher level of profitability. Huizinga and Nicodème (2006) found that companies with higher foreign ownership levels also had a higher rate of tax. Egger, Eggert, and Winner (2010) and Demirgüç-Kunt and Huizinga (2001) found that the level of tax avoidance is higher in companies largely owned by foreign investors.

Salihu et al. (2015) study foreign investors' interests and corporate tax avoidance in Malaysia, one of the emerging economies. They study the top 100 companies in the Malaysian Stock Exchange and found a positive influence of foreign ownership

structure on tax avoidance measures. The proxies used to measure tax avoidance actions are ETR, CETR, and the ratio of income tax. This can be proven by the number of foreign companies that report losses for five years in a row and are suspected of tax evasion. One of the motivations of foreign companies to invest their capital in Indonesia is that this country treats tax incentives to attract investment. As such, foreign companies will be freer to transfer pricing in company operations. By doing so, if a company has a higher level of ownership with high foreign shares, determining the company policy from foreign parties that lead to minimizing the burden of tax is also higher. That reason, this study used ETR as a proxy for tax avoidance. This study refers to research by Salihu et al. (2015). In this study, we used ETR to measure tax avoidance. Referring to Rahayu (2010), foreign companies tend to do tax planning, both aggressive and non-aggressive.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Legitimacy Theory

Understanding the theory of legitimacy proposed by O'Donovan (2002) stating that the organization continually has to ascertain whether the company has been operating based on the norms such as the norms of society and ensure that the companies' activities can be accepted by outsiders (legitimized). The theory of legitimacy confirms that the company continues to strive to ensure that they operate within the framework and norms that exist in the community. Also, they work and pay attention to the environment where the companies are located, where the company seeks to ensure that the companies' activities are accepted by outsiders as *legitimate* (Deegan, Rankin, & Tobin, 2002)

Chariri and Ghozali (2007) stated that the underlying theory of legitimacy is the social contract between the company and the communities where the companies operate and use resources. The theory is based on the companies that basically have to provide benefits to the community. It can be done by implementing tax payment through obeying the laws and regulations. With the benefits provided to the public, the company can obtain feedback from the community in the form of legitimacy.

Payment of corporate taxes is regarded as the fulfillment of corporate responsibility to the communities in which the company conducts operations (Preuss, 2010). The theory of legitimacy related to social performance and financial performance is one where if the discord between the system of corporate value and value systems of society (often called the legitimacy gap). Landolf (2006) illustrates that tax avoidance is a crime against the state rather than a crime against the director-general of the tax itself. In this perspective, the theory of legitimacy is more relevant when being viewed by looking at the issues regarding the company's compliance and tax avoidance.

Tax Avoidance

According to Zain (2005), tax avoidance is a way to reduce taxes. It is still within the limits of statutory provisions and taxation that can be justified, mainly through tax planning. Tax avoidance is also a process of controlling the action in order to avoid the consequences of taxation, which is not desired. Purposefully, tax avoidance aims to minimize the tax burden by exploiting weaknesses (loophole) of the tax laws in a country, and declared as a legal action because it does not violate tax laws.

Tax avoidance can be grouped into acceptable tax avoidance and unacceptable tax avoidance. In other words, tax avoidance through the defensive motive is allowed for doing tax planning, whereas tax avoidance is not allowed to be done through aggressive tax planning (Darussalam & Danny, 2017). Therefore, it could be a particular tax avoidance scheme in a country that can be regarded as tax avoidance that is not allowed, but in other countries, they think tax avoidance is allowed. More clearly, it can be described as the following. For example, according to Suandy (2011), tax avoidance is engineered 'tax affairs, ' which is still in the frame of the tax regulations (lawful). Tax avoidance can occur within the provisions of the tax laws but contrary to the spirit legislation. Another expression is by Lim (2011), tax avoidance results in tax savings by utilizing the tax provisions that are legal to minimize tax liabilities. Tax avoidance is not a violation of tax laws for business taxpayers to reduce, avoid, minimize, or alleviate the tax burden carried by means permitted by tax law. According to Finnerty *et al*. (2007), tax avoidance can be done in various ways, namely moving the tax and subject to tax or to countries that provide preferential tax treatment or tax relief (tax haven country) on a type of income (substantive tax planning), tax avoidance efforts to maintain the economic substance of the transaction through a formal selection that provides the lowest tax burden (formal tax planning), and anti-avoidance provisions of the transaction of transfer pricing, thin capitalization, treaty shopping and controlled foreign corporation (Specific Anti Avoidance Rule), as well as transactions that have

no business substance (General Anti Avoidance Rule).

Measurement of Tax Avoidance

There are many different kinds of proxies for measuring tax avoidance, among others are Effective Tax Rates (ETR), Cash Effective Tax Rates (CETR), GAAP Effective Tax Rates, Book Tax Differences, Discretionary Permanent BTDs (DTAX), Unrecognized Tax Benefit, Tax Shelter Activity, and Marginal tax rate. According to Chen et al. (2010), tax avoidance has three components measurement. First, the effective tax rate (ETR) is defined as the total tax burden (tax expense) divided by income before tax (pre-tax book income). ETR measurement is used to determine the company's tax burden and tax avoidance activity showed a direct impact on net income through the use of permanent differences between accounting income and taxable income. ETR describes the magnitude of the tax rate paid by the company compared to the stationary rate in Indonesia at 25%. The company said to avoid tax if the value ETR below 25%, which means that a lower value of ETR indicates companies are increasingly doing tax avoidance. Second, the total book-tax differences (BTD): the calculations are earnings before tax (pre-tax income) less than the estimated taxable income (taxable income) scaled by total assets of the previous year. BTD reflects the activities of tax avoidance through the use of permanent and temporary differences between the statements of income and taxable income. The higher the accounting profit compared with the company's taxable income, the higher the tax avoidance activities. Third, the cash effective tax rate (CETR), is defined as cash paid for taxes (tax cash paid) divided by earnings before tax (pre-tax book income). CETR reflects the assumption that managers see effective tax planning as the ability to minimize cash payments on tax on a long-term period. Company tax planning by utilizing permanent differences between accounting income and taxable income. If the company has a CETR value below 25% indicates that the company act of tax avoidance. The lower the value, the higher the company CETR tax avoidance by the company.

In addition to the above proxy, Salihu et al. (2015) add two more proxies to measure tax avoidance, namely income ratio to operating cash flow and ratio of tax payments to the operating cash flow. Income Ratio to Operating Cash Flow (TEOCF), is defined as the corporate income tax burden (Tax Expense) divided by net cash flows used for operating activities of the company (Operating Cash Flow). If the company has a TEOCF ratio of less than 25% indicates that the company act of tax avoidance. The lower the ratio, the higher the TEOCF tax avoidance by companies. The ratio of tax payments to the Operating Cash Flow (TPOCF), is defined as income tax payments (Tax Paid) of the company divided by the net cash flows used for operating activities of the company (Operating Cash Flow). If the company has a TPOCF ratio of less than 25% indicates that the company act of tax avoidance. The lower the ratio, the higher the TPOCF tax avoidance by companies.

This study uses a proxy of effective tax rates (ETR), cash effective tax rates (CETR), book-tax differences (BTD), the ratio of income tax expense to operating cash flow (TEOCF), and the ratio of tax payments to operating cash flow (TPOCF). ETR value, CETR, TEOCF, TPOCF that the lower the company tax avoidance shows a high value higher BTD show company tax avoidance is also high.

Foreign Ownership Structure

Foreign Direct Investment (FDI) is a process where residents of one country (home country) have ownership of the asset to exercise control over the production, distribution, and activity of other companies in other countries (Moosa & Cardak, 2006). The United Nations World Investment Report published by the United Nations Conference on Trade and Development (UNCTAD) defines FDI as a long term investment that produces a lasting interest and control by an economic entity in a country in the entity in another country.

According to Law No. 25 of 2007 on capital investment, foreign investment is investing activity to do business in the territory of the Republic of Indonesia, made by a foreign investor, whether using foreign capital and joint venture with a domestic investor. While the structure of foreign ownership is foreign individuals, foreign corporations, and/or foreign government investments in the territory of the Republic of Indonesia. Foreign investment shall be in the form of a limited liability company under the laws of Indonesia and domiciled in the territory of the Republic of Indonesia unless otherwise stipulated by law. The structure of foreign ownership in Indonesia measured using the proportion of shares held by foreign investors to the total outstanding shares of the company.

Board of Commissioner

According to the Financial Services Authority Regulation No. 33 of 2014, board of commissioner

(BOC) is the organ of the Public Company that is in charge of supervising and advising the Board of Directors. The duties, powers, and responsibilities of the board of commissioners are as follows:

1) The Board of Commissioners to supervise and be responsible for overseeing the management policies, the road maintenance in general, both the Public Company nor attempt Public Company, and to advise the Board of Directors.
2) Under certain conditions, the Board shall convene the Annual General Meeting and other AGM in accordance with the authority as stipulated in the laws and statutes.
3) Members of the Board of Commissioners shall carry out the duties and responsibilities in good faith, full of responsibility, and prudence.
4) In order to support the effective implementation of the duties and responsibilities of the Board of Commissioners shall establish the Audit Committee and may establish other committees.
5) The BoC must evaluate the performance of the committee that helps the implementation of the duties and responsibilities of each financial year-end.

Characteristics of the Board of Commissioners

Characteristics of the board referred to as board diversity, which is defined as the difference between the commissioners and directors relating to the characteristics of the differences in attitudes and opinions (Ararat, Aksu, & Tansel Cetin, 2010). The presence of foreign commissioners on the company board structure shows the board diversity. The concept of board diversity with regard to the composition of the board and various combinations of nature, characteristics, and skills contributed by each individual who is a member of the board in the decision-making process (Van der Walt & Ingley, 2003). This diversity occurs because of the influence of foreign ownership that puts members of the board to protect their interests (Choi et al., 2012).

Frijns, Dodd, and Cimerova (2016) explained that the diversity of the board provides the following benefits: (1) diversity improve the ability of the board of commissioners and directors in monitoring managers owing to increased independence, (2) diversity improve decision-making board of the company due to perspective unique new, creativity increases, and innovative approach to non-traditional, (3) diversity improve the information provided by the company's board on the manager due to the unique information provided by the council spread, (4) the company's board with a structure that is spread out giving access to interested parties and essential resources in the external environment, (5) the diversity of the board of commissioners and directors provide a significant positive signal on the labor market, product markets, and the money market, and (6) the diversity of the board of commissioners and directors provide legitimacy the company with external parties and internal.

Previous Studies and the Development Hypothesis

Foreign ownership structure affects tax avoidance

The theory of legitimacy confirms that the company continues to strive to ensure that the company operates within the framework and norms that exist in the community or the environment in which the company is located, where the company seeks to ensure that the activity (the company) is accepted by outsiders as legitimate (Deegan *et al.*, 2002). Based on the theory of legitimacy, the companies with foreign ownership structure basically have to provide benefits to the community that can be done by implementing tax payments by obeying laws applicable because tax laws in Indonesia have given special tax treatment or relief on corporate income tax for companies with foreign ownership structure (PMK No. 159/ PMK.010/ 2015). With the payment of this tax, the companies can obtain feedback from the community that is legitimacy.

Some empirical studies have shown that multinational corporations in the United States pay lower taxes in the countries although they have a level of higher profitability (Grubert & Mutti, 1991; Hines & Rice, 1994; Kinney & Lawrence, 2000). Salihu et al. (2015) showed a positive effect of foreign ownership on tax avoidance. In this studies, tax avoidance was proxied by namely CETR, ETR, TEOCF, TPOCF, which means that the positive effect of foreign ownership on tax avoidance shows that companies with foreign ownership have a tendency not to do tax avoidance. Based on the above arguments, the hypothesis is formulated as the following:

H1: *Foreign Ownership Structure Impact of Tax Avoidance*

The foreign board of commissioners affects tax avoidance.

The presence of foreign commissioners on the company board structure shows the board diversity. This diversity occurs because of the influence of

foreign ownership that puts members of the board to protect the company's interests (Choi et al., 2012). The theory of legitimacy confirms that the company continues to strive to ensure that they operate within such as the existing framework and norms in the community or environment where the company is located, where the company seeks to ensure that the activities (the company) are accepted by outsiders as legitimate (Deegan et al., 2002). The relationship between the foreign commissioners and tax avoidance, as based on the theory of legitimacy, is clear. A company with foreign commissioners has to provide benefits to the community, done by implementing tax payments, e.g., obeying the laws and regulations. With the benefits provided to the public, the company gets feedback from the community.

Empirical studies have shown that multinational corporations in the United States pay lower taxes in the countries, although the company has a level higher profitability (Grubert and Mutti, 1991; Hines and Rice, 1994; Kinney and Lawrence, 2000). Salihu et al. (2015), in his research, concluded the positive influence of foreign commissioners against tax avoidance means that companies with foreign commissioners do not tend to do tax avoidance. Based on the above arguments, the hypothesis can be formulated as follows:

H2: *Foreign Board of Commissioner Influences Tax Avoidance*

3. RESEARCH METHOD

This study aims to provide empirical evidence of the influence of foreign ownership and foreign board of commissioners on tax avoidance. The dependent variable is tax avoidance, measured using an effective tax rate proxy (ETR), and the independent variable is the structure of foreign ownership and foreign board of commissioners.

Dependent Variables

Tax avoidance

The dependent variable is tax avoidance. It was measured using effective tax rate (ETR). ETR measurement was done using the formula as used by Salihu *et al*. (2015), which is to divide the total income tax expense to profit before tax, as follows.

$$\boldsymbol{ETR_{it}} = \frac{\boldsymbol{Total\ tax\ expense_{it}}}{\boldsymbol{Total\ income\ before\ tax_{it}}} \quad (1)$$

Independent Variables

Structure of foreign ownership

The foreign ownership structure is the proportion of shares held by foreign investors to the company's total outstanding shares (Salihu *et al*., 2015). Based on such a definition, the shares are owned by either the foreign institutional investors who have direct ownership of the company or individual investors who have a foreign nationality. The formula for calculating foreign ownership (FI) by Salihu *et al.* (2015) is as follows:

$$\boldsymbol{FI_{it}} = \sum \frac{\boldsymbol{Total\ shares\ owned\ by\ foreign\ investors\ _{it}}}{\boldsymbol{Total\ outstanding\ shares_{it}}} \quad (2)$$

Foreign commissioners

Foreign commissioners are proxied by the proportion of the foreign commissioners (commissioners are foreign nationals or foreigners) on the company's board structure with the following formula (Salihu et al., 2015):

$$\mathbf{FC_{it}} = \sum \frac{\boldsymbol{Number\ of\ foreign\ commisioners_{it}}}{\boldsymbol{Total\ Number\ of\ Commisioners_{it}}} \quad (3)$$

Control Variable

Profitability

Profitability is proxied by Return on Assets (ROA). It is the ability of a company to generate profit (profit) at the level of sales, assets, and equity capital (Kurniasih and Sari, 2013). Return On Assets (ROA) is calculated using a formula by Salihu et al., (2015) as follows:

$$\boldsymbol{ROA_{it}} = \frac{\boldsymbol{Net\ Income_{it}}}{\boldsymbol{Total\ Aset_{it}}} \quad (4)$$

leverage

It is measured by using The proportion of total debt to total equity of the company (LEV) refer to Salihu et al. (2015).

$$\boldsymbol{LEV_{it}} = \frac{\boldsymbol{Total\ Long\ Term\ Debt_{it}}}{\boldsymbol{Total\ Assets_{it}}} \quad (5)$$

Company size

This study uses the company's total assets. This proxy of total asset (Size) also refers to Salihu et al. (2015), as follows:

$$\boldsymbol{Size = (Total\ Assets)} \quad (6)$$

Sampling Method

The population consists of all non-financial companies listed on the Stock Exchange in 2012-2016. The sampling technique is using a non-probability sampling with purposive sampling. It

was done based on a specific criteria which include non-financial sector companies listed on the Indonesian Stock Exchange (BEI), companies that are listed in 2010 or before, companies that have only one type of shares, the financial statement of companies are presented in rupiah, companies that have foreign ownership or foreign commisoner, companies that do not suffer losses during the year of observation, and information needed related to the variables to be studied is available.

Data Collection Method

This study uses secondary data drawn from the annual reports of companies listed on the Indonesia Stock Exchange (BEI) in 2012-2016. It was obtained through the Indonesia Stock Exchange website www.idx.co.id and www.sahamok.com.

The test of variables was done using regression analysis that is Eviews 9.0. The analytical method includes descriptive statistics, classical assumption test, regression analysis, and hypothesis testing. Multiple regression equation models in hypothesis testing are as follows:

$$ETR_{it} = \beta_0 + \beta_1 FI_{it} + \beta_2 FC_{it} + \beta^3 Size_{it} + \beta_4 LEV_{it} + \beta_5 ROA_{it} + \varepsilon_{it} \quad (7)$$

The test of the hypothesis was done using the *t*-test. It was used to test a significant level of effect of independent variables on the dependent variable. This test can be done by looking at the *p*-value of each variable. If the p-value is <5%, then the hypothesis is accepted, and if the *p*-value is > 5%, then the hypothesis is rejected (Ghozali, 2011).

Data Analysis Method

4. DATA ANALYSIS AND DISCUSSION

Population and Research Sample

Criteria were set out with the total number of 53 sample companies in 190 observations. The number of samples in the observations can be seen in Table 1.

Table 1
Research Samples

Company Research Samples	Total Sample	Total obser.5 five years	%
Non-financial companies listed on the Indonesia Stock Exchange in 2012-2016	375	1875	100
The newly listed company after 2010	(73)	(365)	19.45
Companies that have more than one type of shares	(33)	(165)	8.80
The financial statements are presented in a currency other than rupiah (dollars)	(41)	(205)	10.93
The financial statements of companies that do not have complete data	(29)	(145)	7.73
Companies that do not have a foreign ownership and foreign commissioners	(37)	(185)	9.80
Companies that do not have a foreign ownership or foreign commissioners	(109)	(545)	7.29
Companies that suffered losses during the year of observation	-	(75)	4.00
The number of companies that meet the criteria of the study and the research sample	53	190	10.13

Hypothesis testing

The results of the regression to test the hypothesis in this study can be seen in Table 2.

Table 2
Hypothesis Testing Results

Variables	Modle 1 (ETR)		
	Coef	*t*	*Sig*
Constants	0.1560	13.8630	0.0000
FI	0.0450	2.0600	0.0410
FC	0.0160	0.6960	0.4880
ROA	-0.0670	-1.4690	0.1440
LEV	0.0800	2.0010	0.0470
SIZE	0.0000	-1.8910	0.0600
R-Squared		0.0960	
adjusted R2		0.0680	
F		3.4200	
Sig.		0.0060	

Foreign Ownership and Tax Avoidance

The result of testing the foreign ownership structure (FI) variable with the dependent variable of tax avoidance was measured by the effective tax rate (ETR). It showed a positive coefficient value of 0.045, with a significance level of 0.041 (α <0.05). The direction of the positive coefficient of the foreign ownership structure (FI) shows that the greater the foreign ownership, the higher the ETR or tax avoidance.

The result above does support legitimacy theory. This theory states that companies continue to strive to ensure that companies operate within the framework and norms in a society where companies try to ensure that their activities are accepted by outsiders as legitimate (Deegan et al., 2002). Companies with foreign ownership structures basically have to provide benefits to the community by implementing tax payments by complying with applicable laws and regulations.

The coefficients of the foreign ownership turn out to be positive and significant at the 5%. This result suggests a negative relationship between foreign ownership and corporate tax avoidance. Companies with foreign ownership structure do not do tax avoidance. These foreign ownership will not shift profits or avoid tax that is in conflict with applicable tax laws. This result in line with Lanis and Richardson (2011). The corporate social responsibility literature also emphasizes the importance foreign ownership in monitoring the behavior of top management. Foreign investors should actively support greater corporate responsiveness to society's needs by paying a higher tax rate (Landolf (2006). In short, the higher foreign ownership structures, the higher the company further reduce tax avoidance.

This result is not consistent with Huizinga's and Nicodome (2006) research finding that companies with a high foreign ownership structure also have higher tax avoidance rates. This study also does not support the research by Demirguc¸-Kunt and Huizinga (2001), Egger, Eggert, and Winner (2010) and Salihu et al. (2015) that also found that the structure of foreign ownership has a positive effect on tax avoidance.

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Foreign Commisioner and Tax Avoidance

The result of testing the second hypothesis indicates that the variable of a foreign board of commissioners has no effect on tax avoidance. The existence of an foreign commissioners should increase the oversight of management and company compliance with tax regulations. Therefore, the greater the number of foreign commissioners in a company, the lower the tax avoidance is (Lanis and Richardson, 2011). Yet, this research does not support the legitimacy theory, which is based on the statement that one of the efforts to protect the interests of foreign investors is that the foreign board of commissioners must supervise for ensuring that the company should provide benefits to the public by not doing tax avoidance. They can do it by implementing tax payments based on the existing laws and regulations. By doing so, the company can get feedback in the form of legitimacy from the public.

The argument that can be given on the non-influence of the board of foreign commissioners on tax avoidance is that the number of foreign commissioners of the companies sampled in this study is not dominant, at an average of 41.5823%. This, eventually, could not be an effective monitoring mechanism in limiting tax avoidance.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Based on the research problem, it can be concluded as follows. Foreign ownership structure has a positive effect on tax avoidance. It indicates that the higher the foreign ownership structure of the company, the lower the tax avoidance measures taken by the company. The foreign board of

commissioners cannot prove that they affect tax avoidance. This shows that the diversity of the board of commissioners cannot suppress tax avoidance. Therefore, the foreign board of commissioners does not support the theory of legitimacy. The result of the first hypothesis is in accordance with the theory of legitimacy, which states that companies with foreign ownership structures—having benefited with tax breaks for companies with foreign ownership structures—the company will try to get legitimacy from the community by operating.

The are some implications of this study. For investors, this study proves that companies in Indonesia, on average, do not carry out tax avoidance, as evidenced by the research descriptive statistics findings. For regulators, especially tax authorities, need to encourage more foreign ownership because this can increase tax payments. In addition, the regulator is expected to clarify the rules regarding the existence of a foreign board of commissioners in a company, especially regarding the duties, functions, responsibilities, and composition of foreign commissioners for companies that have a foreign ownership structure.

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