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Independent Corporate Governance Organs' Activities, Tax Avoidance, and Country Tax Environment: Evidence from ASEAN Countries

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ABSTRACT

This study aimed to examine the effect of independent corporate governance organ activities (including the busyness level and political connections of independent directors and audit committee) on the level of tax avoidance. In addition, this study also examined the effect of a country's tax environment on the relationship between independent corporate governance organ activities and the level of tax avoidance. This paper used cross-country analysis with the scope of countries in the ASEAN region, consisting of the Philippines, Indonesia, Malaysia, Singapore, and Thailand. The results of this study showed that the busyness level and political connections of independent directors and the audit committee positively affected the company's tax avoidance level in a country with an uncompetitive tax environment. On the other hand, the busyness level and political connections of independent directors and the audit committee did not affect the company's tax avoidance level in a country with a competitive tax environment. The findings prove that the relationship between independent corporate governance organ activities and company tax avoidance activities is affected by the country's tax environment. This study is the first to examine the role of a country's tax environment on the relationship between independent corporate governance organ activities and tax avoidance levels.

Keywords: Corporate governance, busyness level, political connection, tax avoidance, tax environment

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INTRODUCTION

Effective corporate governance can minimize company management behaviors that are opportunistic and may be detrimental to shareholders' interest. There is concrete evidence that management plays a role in tax avoidance such as the Starbucks scandal. In 2012, Starbucks hit the headline of global news for its corporate tax. The sales of Starbuck were £400 million, but it reported no corporate tax paid (Barford & Holt, 2013).

The management has the power to ratify and monitor tax decisions. Several empirical research shows corporate governance affects tax avoidance (e.g., Desai & Dharmapala, 2006; Lanis & Richardson, 2011). Based on sample 32 corporations, Lanis and Richardson (2011) showed that association between the outside board of directors and tax aggressiveness was statistically negative significant.

It is necessary to develop effective corporate governance because it can enhance the monitoring of tax activities. Oktavia (2017) noted that tax avoidance activities were one of the opportunistic activities, sometimes for efficiency purposes. Companies' opportunistic undertakings such as aggressive tax avoidance activities can be harmful to shareholders because companies need to bear those losses in the form of future tax penalties, and possibly, even damaged reputations (Oktavia, 2017). High-level tax avoidance can also result in low-quality company earnings (Hanlon, 2005) which may be unfavorable to the shareholders since the information about the earnings of the companies can misinform them.

In today's corporate governance environment, the agency conflicts between shareholders and management are difficult to minimize trough conventional mechanism. Independent corporate governance organs such as independent directors and independent audit committees are employed as monitors to mitigate agency problems such as tax avoidance actions.

Hiring independent corporate governance organs as a bonding mechanism may enhance information quality and potentially provides mitigation to undertakings aggressive tax avoidance activities, which possibly, damaged corporate reputations. In this article we investigated whether corporate governance in the context of independent corporate organ's activities had an impact on companies' tax avoidance level. Based on this argument, the current study aimed to examine the effect of independent corporate governance organs' activities on the companies' tax avoidance level.

The reason behind this investigation is tax avoidance is not illegal but it is classified into two groups, acceptable tax avoidance and unacceptable tax avoidance (Santoso & Rahayu, 2013). The focus of this paper is unacceptable tax avoidance. Santosa and Rahayu (2013) also pointed out several characteristics of unacceptable tax avoidance. First, it did not have a good business purpose. Second, it was solely to avoid taxes. Third, it did not accord with the spirit & intention of parliament. Four, there was transaction manipulation that incurs costs or losses. Although tax avoidance is not illegal, the public perceives that tax avoidance crosses a line and judges that tax avoidance is morally unacceptable (Barford & Holt, 2013).

A number of previous studies focus on the relationship between corporate governance and tax avoidance (Rajpal, 2012; Sarkar et al., 2006) or political connection and tax avoidance (Khlif & Amara, 2019), and the impact of the environment on the tax avoidance and corporate governance interplay. Jiménez-Angueira (2018) pointed out that relative to other firms, a weak-governance firm might exhibit lower tax avoidance in response to tight external oversee. Different from Khlif & Amara (2019) which used corruption level as moderating variable, and also different from Jiménez-Angueira (2018) which used external monitoring as a moderator, this paper used a tax environment level as moderating effect.

Yee et al. (2018) also examined the moderating impact of corporate governance on the relationship between tax avoidance and firm value. Based on 87 Malaysian Public Listed Companies (PLCs), tax avoidance activity would actually negatively affects firm value and corporate governance had a moderator effect on this relationship. Most importantly, this paper provides more explanation to the current stream of literature especially the relationship between good governance, tax avoidance, and the tax environment.

This study took into consideration the respective country's tax environment and its effects on the relationship between independent corporate governance organs' activities and the tax avoidance level. In addition, the current study is different from previous studies in several ways. First, previous studies examining the effect of corporate governance on tax avoidance activities had measured corporate governance by using the existence, number, or proportion of corporate governance organs in a company. This study, in contrast, measures corporate governance by using independent corporate governance organs' activities (i.e., the busyness level and the political connections of the corporate governance organs) to examine the effect of corporate governance on tax avoidance activities. Second, although Sarkar et al. (2006) and Rajpal (2012) had measured corporate governance in the context of India by using the busyness level of independent directors, their research only associated the busyness level of independent directors to earnings management activities. Unlike them, this study examines the effect of the busyness level of independent corporate governance on tax avoidance activities. Third, previous studies (Christensen et al., 2015; Kim & Zhang, 2016; Leuz & Oberholzer-Gee, 2006) may have investigated the effect of political connections on tax avoidance activities, but their research did not specifically test the effect of the political connections of the independent corporate governance organs. Fourth, corporate governance may have been measured by the busyness level of corporate governance organs by Cashman et al. (2012), but their study only associated the activity level of corporate governance organs with company performance.

Thus, this study would be able to contribute new knowledge based on different aspects. First, this study is among the few to examine the effect of the busyness level and political connections of the independent corporate governance organs on tax avoidance activities. A review of the current literature indicates that no study has particularly linked the busyness level and the political connections of the independent corporate governance organs with tax avoidance activities. In the context of this study, the corporate governance organs being examined here only focuses on corporate governance organs from external parties. The reason is that these parties are more independent when compared to other governance organs. The existence of an independent party as a corporate governance instrument will certainly increase the effectiveness of the company's monitoring, and this, inevitably, reduces the company management's behavior which may potentially harm investors. If independent directors and the audit committee were too busy, their company monitoring duties can be neglected, and they may fail to realize that the company management is carrying out overly aggressive tax avoidance activities.

Second, this study uses a cross-country analysis of the ASEAN region. The diversity of the economic levels among countries in the ASEAN region (Singapore is a developed country while Malaysia, the Philippines, Indonesia, and Thailand are developing countries of varying degrees) as well as their diversity of tax environment characteristics (Malaysia and Singapore are countries with competitive tax environment; the Philippines, Indonesia, and Thailand are countries with less competitive tax environment), are expected to provide an interesting input on the relationship between corporate governance and tax avoidance activities in the ASEAN region.

Third, this study also focuses on the respective country's tax environment factor in examining the relationship between corporate governance and tax avoidance activities. Countries with a competitive tax environment provide a variety of tax facilities which can reduce the companies' tax burden such as exemption from tax for revenues originating from foreign countries or exemption from tax for shareholders' income that come in the form of dividends. Further to this, the compensation period of loss for companies is indefinite, hence companies have the flexibility to compensate for their fiscal losses. This study, therefore assumes that in a country with a competitive tax environment, the role of the independent governance organs can be replaced by such favorable tax facilities.

The rest of the paper is organized as follows. Section 2 critically evaluates the relationship between the busyness of independent corporate governance organs' activities and the tax avoidance level. Furthermore, this chapter also discusses the relationship between the political connection of independent corporate governance organs' activities and the tax avoidance level. In addition, this section also provides a critical evaluation of the relationship between the country's tax environment, the independent corporate governance organs' activities, and the tax avoidance level. Section 3 provides a brief overview of the sample selection and research model. Section 4 presents the result and discussion, while section 5 summarizes the empirical result and provides conclusions and remarks.

LITERATURE REVIEW AND HYPOTHESIS

Effect of the Independent Corporate Governance Organs' Activities on the Tax Avoidance Level

Hanlon (2005) had noted that the greater the difference was between the taxable income and the accounting income, the lower the quality of the company earnings figure. As the difference between the taxable and accounting income is a measure of tax avoidance, the findings of Hanlon (2005) thus indicated that companies with high-level tax avoidance had lower earnings quality when compared to companies with low tax avoidance levels.

This study investigates the effect of corporate governance on tax avoidance activities by measuring corporate governance through the independent corporate governance organs' activities. These activities include the busyness level and the political connections of the independent corporate governance organs. The importance of measuring corporate governance from the busyness level of independent corporate governance organs is based on several reasons. First, the busyness of independent governance organs can hinder the capital market supervisor's authority in creating good corporate governance which serves as a protection mechanism for investors in the capital market. If the independent directors and audit committee have a lot of work to do outside of the companies they are attached to, their responsibility in monitoring the companies' activities tend to be neglected. This oversight can potentially cause them to be less attentive towards their duty of detecting any aggressive tax avoidance activities conducted by the company's management. Based on this argument, the following hypotheses were formulated:

H1a: The busyness level of the independent directors has a positive effect on the tax avoidance level.

H1b: The busyness level of the audit committee has a positive effect on the tax avoidance level.

Measuring corporate governance from the political connections maintained by independent corporate governance organs is equally important. This is because political connections can positively and negatively affect tax avoidance activities (Jian et al., 2012; Pranoto & Widagdo, 2016). In their study, Jian et al. (2012) argued that Chinese companies with political connections were able to conduct political lobbying for the purpose of avoiding tax audits. According to Pranoto and Widagdo (2016), when political connections increase tax aggressiveness, the effect of the political connections on tax avoidance activities is known as "political favoritism effect". Similarly, Khlif and Amara (2019) stated that the association between political connections and tax evasion was positive. It also documented that high corrupt environment strengthened this association.

Jian et al. (2012) also contended that political connections could negatively affect tax avoidance activities since the Chinese government provided incentives in the form of rewards to the largest taxpayers, thereby encouraging companies to optimally contribute towards fulfilling their tax payments. This makes the public reacts to those companies positively. If political connections help to reduce companies' tax aggressiveness, the effect of the political connections on tax avoidance activities is known as the "bureaucratic incentive effect" (Pranoto & Widagdo, 2016).

In line with the arguments of Jian et al. (2012) and Pranoto and Widagdo (2016), this study asserts that political connections can positively and negatively affect the level of tax avoidance. Politically connected independent corporate governance organs can lobby tax authorities when their companies are facing tax audits, thereby motivating the management to be more aggressive in conducting tax avoidance activities. On the other hand, politically connected independent corporate governance organs are more likely to be careful in taking actions since they are aware that their actions are in the public's spotlight, and they also need to maintain a good public image. This occurrence is likely to motivate the companies to oppose the overly aggressive tax avoidance activities, an action which can be detrimental to both the state income and the investors. Based on this argument, the following hypotheses were formulated:

H2a: The political connections of the independent directors affect the tax avoidance level.

H2b: The political connections of the audit committee affect the tax avoidance level.

Effect of the Country's Tax Environment on the Independent Corporate Governance Organs' Activities and Tax Avoidance Level Relationship

This study assumes that a country's tax environment characteristic can affect the relationship between the independent corporate governance organs and the tax avoidance level. The more competitive a country's tax environment is, the lesser the role of the independent corporate governance organs in reducing aggressive tax avoidance activities.

Companies from a competitive tax environment have the flexibility to compensate for their fiscal losses since the compensation period for losses within those countries is indefinite (Setyowati, 2014). Based on these benefits, the current study predicts that in countries with a competitive tax environment, the role of the independent corporate governance organs in reducing aggressive tax avoidance activities can be replaced by those tax facilities that are beneficial to the companies. Also, countries with a competitive tax environment are usually developed countries which generally also implement a much better investor protection scheme than developing countries.

Based on the previous argument, the role of the tax environment is a moderating variable on the relationship between the busyness of the independent corporate governance organs and aggressive tax avoidance activities. It means that a competitive tax environment provides a much better investor protection scheme, in turn, independent corporate governance organs and political connections have less impact on tax avoidance. Finally, the busyness of the independent corporate governance organs in order to conduct aggressive tax avoidance activities for tax payment savings is lower in the competitive tax environment. On the basis of this argument, the following hypotheses were thus formulated:

H3a: The competitive tax environment weakens the positive effect of the busyness level of the independent directors on the tax avoidance level

H3b: The competitive tax environment weakens the positive effect of the busyness level of the audit committee on the tax avoidance level

H4a: The competitive tax environment weakens the effect of the political connections of the independent directors on the tax avoidance level.

H4b: The competitive tax environment weakens the effect of the political connections of the audit committee on the tax avoidance level.

METHODS

Sample Selection

The sample population used in this study was obtained from those companies listed on the stock exchange in the ASEAN countries that have stock exchanges (i.e. the Philippines, Indonesia, Malaysia, Singapore, Thailand, and Vietnam). However, Vietnam was excluded because the majority of the companies' annual reports were in Vietnamese. The sampling criteria developed for the current study include: (i) Companies that were not part of the financial industry; (ii) Companies that calculated their taxable income normally on the basis of their net income and used normal corporate income tax rates; and (iii) Companies that have the English version of their annual reports with complete data. Table 1 presents the sample selection process.

Table 1

Sample selection process

	Philippines	Indonesia	Malaysia	Singapore	Thailand
Number of non-financial institutions listed on the Stock Exchange in 2016	214	472	884	681	669

Table 1 *(Continued)*

	Philippines	**Indonesia**	**Malaysia**	**Singapore**	**Thailand**
Companies that calculate their taxable income based on gross revenue or subject to special income tax rates	(83)	(142)	(185)	(180)	(172)
Total full samples	**131**	**330**	**699**	**501**	**497**
Number of observations for 5 years (f*ull samples* x 5)	655	1650	3495	2505	2485
Number of incomplete data	(337)	(886)	(768)	(807)	(1500)
Final observations per country	**318**	**764**	**2727**	**1698**	**985**
Final observations for all countries			**6492**		

Research Model

To examine the relationship between the independent corporate governance organs' activities (i.e. the activity level and political connections of independent directors and audit committee), and the tax avoidance level (H1a, H1b, H2a, and H2b), Equation (1) noted below, was applied. To test this equation (1), the current study used 6492 firm-year of the final observations which were obtained from all the sample countries.

$$TAXVOID_{it} = \alpha_0 + \alpha_1 BUSYDIR_{it} + \alpha_2 BUSYCOM_{it} + \alpha_3 POLDIR_{it} + \alpha_4 POLCOM_{it} + \alpha_5 SIZE_{it} + \alpha_6 ROA_{it} + \alpha_7 DTA_{it} + \alpha_8 TAXRATE_{it} + \alpha_9 COUNTRY_{it} + \alpha_{10} YEAR_i + \varepsilon_{it} \quad (1)$$

TAXVOID is the level of tax avoidance. It was measured by using the absolute value of the BTD (*Book-Tax Difference*) which was calculated by using the difference between the accounting income, and the taxable income. Hanlon (2005), Hanlon et al. (2012), and Joos et al. (2000), in their studies, had converted the absolute values into large BTD where both the negative and positive would indicate a low quality of earnings. Tang and Firth (2012) also converted the BTD into absolute values in their study, based on the grounds that large positive BTD is the result of increasing the accounting income, and the aggressive tax reporting. In contrast, the large negative BTD is the result of reducing the accounting income, and the taxable income smoothing practices.

BUSYDIR is the busyness level of the independent directors. It was measured by using the average number of jobs or positions outside the company held by the independent directors. BUSYCOM is the busyness level of the audit committee. It was measured by the average number of jobs or positions outside the company held by the audit committee. This corporate governance measurement is consistent with Cashman et al. (2012) when investigating the association between the activity level of corporate governance organs and company performance. An Independent busy board means the independent director or audit committee hold multiple seats. Some argue that the over-busyness board is ineffective, in turn, affects company quality of managerial oversight. This measurement was also used by Ahn et al. (2010) for examining the relationship between multiple directorships and acquirer returns. In addition, Jiraporn et al. (2009) also used the busyness board as governance measures. It indicates that individuals who held multiple outside directorships seats perceived less effectively conduct monitoring function. Finally, using board busyness as the measurement is consistent with previous and recent literature.

POLDIR is the political connection of the independent director. POLDIR served as a dummy variable 1, if there was at least one independent director with a political connection, and 0 if otherwise. POLCOM acts as the political connection of the audit committee. POLCOM serves as a dummy variable 1, if there was at least one member of the audit committee with a political connection, and 0 if otherwise. SIZE is the natural logarithm of the company's total assets. ROA is the returns on the total assets ratio. DTA is the total debts to the total assets ratio. TAXRATE is a statutory corporate income tax rate applicable in each country. COUNTRY is a dummy variable for each country. YEAR is a dummy variable for the observation years.

In order to examine the role of the country's tax environment and its relationship between the independent corporate governance organs' activities and the tax avoidance level (H3 and H4), this study re-examined equation (1). The differences from the hypotheses testing of H3a, H3b, H4a, and H4b with the previous tests were then noted as follows: (i) Tests were conducted for each country; (ii) COUNTRY variables in equation (1) were not included in the hypotheses testing of H3 and H4; and (iii) Testing was done by grouping the sample countries into two groups - "countries with competitive tax environment" and "countries with less competitive tax environment".

The present study used three characteristics: **(1) Tax basis**: Tax basis in the ASEAN countries consists of two systems: "the worldwide income system" and the "territorial & remittance basis". In the worldwide income system, taxes are imposed on all incomes of the resident companies (including income obtained from foreign countries). In the territorial and remittance basis system, the state only collects taxes on income earned within its jurisdiction (Setyowati, 2014). **(2) The imposition of income tax on the dividends**: Malaysia and Singapore grant a facility to waive income tax on dividends (Setyowati, 2014). Through the provision of the income tax exemption on dividends' facility, Singapore and Malaysia are highly competitive in terms of tax when compared to the other ASEAN countries of the Philippines, Indonesia, and Thailand. **(3) Fiscal loss compensation period**: Malaysia and Singapore offer taxpayers the flexibility of carrying-forward the compensation for losses, for indefinite periods of time (Setyowati, 2014). Table 2 further demonstrates the scenario.

The variations of the two groups of countries - "countries with competitive tax environment" and "countries with less competitive tax environment" are highlighted in Table 2. As "countries with a competitive tax environment", both Malaysia and Singapore were also deemed to be more developed, offering high levels of investor protection. In comparison, as "countries with a less competitive tax environment", the Philippines, Indonesia, and Thailand were considered to be less developed, offering low levels of investor protection (http://data.worldbank.org; www.financialfreedomindex.com).

Table 2

Countries with a competitive tax environment versus countries with less competitive tax environment

Characteristics	Malaysia	Singapore	The Philippines	Indonesia	Thailand
Tax Basis	*Territorial & remittance basis*	*Territorial & remittance basis*	*Worldwide Income*	*Worldwide Income*	*Worldwide Income*
Imposition of income tax on dividends	Exempted	Exempted	Not exempted	Not exempted	Not exempted
Fiscal loss compensation period	Indefinite	Indefinite	Definite	Definite	Definite
Country category	Countries with a competitive tax environment		Countries with less competitive tax environment		
Economic category	Developed countries		Developing countries		
Investor protection level	High		Low		

RESULTS AND DISCUSSION

Descriptive Statistics

Table 3 demonstrates the outcomes of the analysis. Here, it is noted that the TAXVOID variables have an average value of 24.1968 and a standard deviation value of 2.0178. These two statistics indicated a fairly high variation in the level of tax avoidance performed by the companies. It can be noted from Table 3 that the busyness level of the independent directors (BUSYDIR) had a minimum value of 1, and a maximum value of 31.5 while the busyness level of the audit committee (BUSYCOM) had a minimum value of 1, and a maximum value of 49.5. It was further identified that BUSYDIR and BUSYCOM were highest in the Philippines while the SIZE variables carried a fairly high variation, from the smallest value of 15.1568 to the highest of 34.4787, with an average value of 27.9440. It was further noted that ROA had an average value of 0.0211, with a standard deviation of 0.1988, and DTA had an average value of 0.4337 with a standard deviation of 0.3020. The positive average value of ROA indicated that in general, the companies sampled in this study generated profits.

Table 3

Descriptive statistics

Variable	N	Mean	Median	Min.	Max.	Std. Dev.
TAXVOID	6492	24.1968	24.1495	13.7479	31.1518	2.0178
BUSYDIR	6492	2.9327	2.5000	1.0000	31.5000	1.9951
BUSYCOM	6492	2.6126	2.0000	1.0000	49.0000	2.1991
POLDIR	6492	0.2298	0.0000	0.0000	1.0000	0.4208
POLCOM	6492	0.2425	0.0000	0.0000	1.0000	0.4286
SIZE	6492	27.9940	27.8211	15.1568	34.4787	1.7020
ROA	6492	0.0211	0.0370	-1.7016	0.9386	0.1988
DTA	6492	0.4337	0.4159	0.0045	1.5663	0.3020

Correlation Results

Table 4 is provided below to show the correlations between the variables in this study. The two variables of BUSYDIR and BUSYCOM were positively and significantly correlated with the TAXVOID variables. These results signified that the higher the busyness level of the independent directors and the audit committee was, the higher the level of tax avoidance. Further, the POLDIR and POLCOM variables were positively and significantly correlated with the TAXVOID variables while SIZE had a negative and significant correlation with TAXVOID. The ROA and DTA carried a positive and significant correlation with TAXVOID. Consequently, it can be detected that the correlation values between the independent variables did not exceed 0.8 which implied that the models used for the hypotheses testing in this study did not suffer from multicollinearity problems.

Table 4
Correlation matrix

	TAXVOID	BUSYDIR	BUSYCOM	POLDIR	POLCOM	SIZE	ROA	DTA
TAXVOID	1							
BUSYDIR	***0.1375	1						
BUSYCOM	***0.1032	***0.7433	1					
POLDIR	***0.1132	***0.1059	***-0.0375	1				
POLCOM	***0.1242	***0.0328	-0.0068	***0.7016	1			
SIZE	***-0.6749	***0.2023	***0.1727	***0.1378	***0.1681	1		
ROA	***0.0887	***0.0613	***0.0822	-0.0057	0.0125	***0.1944	1	
DTA	***0.2268	**0.0291	**0.0264	***0.0477	***0.0713	***0.1858	***-0.3194	1

Note: *) **) ***) Significant at 1%, 5%, and 10%, respectively, two-tailed test

Regression Results

Effect of the Busyness Level of the Independent Corporate Governance Organs on the Tax Avoidance Level. Table 5 shows that BUSYDIR had an insignificant coefficient when the testing was carried out by using observations from all sample countries. The findings indicated that the busyness level of the independent directors did not affect the tax avoidance level. Based on these findings, it can be concluded that hypothesis H1a was not supported. As can be noted in Table 5, BUSYCOM had a positive and significant coefficient which indicated that the busyness level of the audit committee had a positive and significant effect on the tax avoidance level. This is consistent with hypothesis H1b.

In Table 5, it can also be seen that SIZE had a negative and significant coefficient. This result is consistent with Oktavia's (2017) argument stating that bigger company size leads to greater public attention. This can consequently cause the company to be more careful in taking action. ROA was found to have a positive and significant effect on the tax avoidance level. This is consistent with the findings of Gupta and Newberry (1997). This outcome indicated that the higher the profits obtained by the company, the higher the tax avoidance level. DTA was also found to have a positive and significant effect on the tax avoidance level, hence this proved that the higher the level of debts maintained by the company, the higher its tax avoidance level. In the results shown, it was noted that TAXRATE had no significant effect on the tax avoidance level.

The insignificance of the BUSYDIR variable can be traced to the observations used in the test, which had combined the observations of all the sample countries. Nevertheless, each country has a different tax environment characteristic with different economic levels. Therefore, the tests would seem inappropriate if they did not also consider the characteristic differences between the countries. Separate testing for each country as well as for the groups of countries sharing the same characteristics was therefore required.

Table 5
Regression results - all samples

Equation (1)
$TAXVOID_{it} = \alpha_0 + \alpha_1 BUSYDIR_{it} + \alpha_2 BUSYCOM_{it} + \alpha_3 POLDIR_{it} + \alpha_4 POLCOM_{it} + \alpha_5 SIZE_{it} + \alpha_6 ROA_{it} + \alpha_7 DTA_{it} + \alpha_8 TAXRATE_{it} + \alpha_9 COUNTRY_{it} + \alpha_{10} YEAR_i + \varepsilon_{it}$

Variables	Predicted Sign	Coefficient	t-statistic
Intercept	+/-	24.0528	***147.52
BUSYDIR	+	0.0093	0.65
BUSYCOM	+	0.0615	***4.07
POLDIR	+	0.0323	0.38
POLCOM	+	0.0355	0.45
SIZE	-	-0.8283	***-62.96
ROA	+	2.0632	***9.66
DTA	+/-	0.1870	***3.08
TAXRATE	+/-	5.5724	1.25
COUNTRY		Yes	
YEAR		Yes	
N		6492	
R Square		51.75%	
F Stat		***364.10	

Note: *) **) ***) Significant at 1%, 5%, and 10%, respectively, one-tailed test

Effect of the Political Connections of the Independent Corporate Governance Organs on the Tax Avoidance Level.

Table 5 indicates that the POLDIR and POLCOM variables had insignificant coefficients. These results indicated that the political connections held by the independent directors, and the audit committee did not affect the companies' tax avoidance level. Thus, hypotheses H2a and H2b in this study were not supported. The insignificance of POLDIR and POLCOM was most likely caused by the outcome of the observations, which comprised the observations obtained from all sample countries where each sample country possessed different tax environment characteristics and different economic levels. In this regard, it would be quite inaccurate if the tests did not consider the differences in characteristics among the sample countries.

Table 6 presents the test results derived for each sample country while Table 7 presents the test results derived for the groups of countries (Countries with a competitive tax environment versus Countries with less competitive tax environment).

Effect of a Country's Tax Environment on the Tax Avoidance Level. Table 6 highlights that in Indonesia, the Philippines, and Thailand, BUSYDIR and BUSYCOM had a positive and significant effect on the tax avoidance level. In the case of Malaysia and Singapore, however, BUSYDIR and BUSYCOM did not affect the companies' tax avoidance level. As noted in Table 6 too, Indonesia, the Philippines, and Thailand had POLDIR and POLCOM revealing their positive and significant effect on the companies' tax avoidance level whereas, for Malaysia and Singapore, the tax avoidance level was not affected by POLDIR and POLCOM. These results indicated that hypotheses H1 and H2 were only supported for the countries of Indonesia, the Philippines, and Thailand whereas they were not supported in the case of Malaysia and Singapore. This finding further suggested that a country's tax environment has an effect on the relationship between the independent corporate governance activities and corporate tax avoidance activities.

On top of being countries with a competitive tax environment, both Malaysia and Singapore are also considered as developed countries. According to the 2017-2018 Global Competitiveness Index, Malaysia and Singapore are countries with a high level of investor protection, with Singapore ranking first and Malaysia ranking third (https://tcdata360.worldbank.org). This means that even though the independent corporate governance organs in these two countries may be significantly busy or they may have political connections with the government, their companies were well protected due to the countries' excellent investor protection (supported by strict law enforcement in the country). It was thus clear that companies operating in these two countries were more likely to monitor their own actions from being deviant because company actions that caused detrimental effects to their investors would have to bear severe legal consequences.

To further strengthen the evidence that a country's tax environment can influence the relationship between the independent corporate governance organs' activities and the corporate tax avoidance activities, this study also conducted a test with the two groups of ASEAN countries. Table 7 shows that in countries with a competitive tax environment, the busyness level of the independent directors and the audit committee did not affect the companies' tax avoidance level. In contrast, the busyness level of the independent directors and

Table 6

Regression results – each sample country

$TAXVOID_{it} = \alpha_0 + \alpha_1 BUSYDIR_{it} + \alpha_2 BUSYCOM_{it} + \alpha_3 POLDIR_{it} + \alpha_4 POLCOM_{it} + \alpha_5 SIZE_{it} + \alpha_6 ROA_{it} + \alpha_7 DTA_{it} + \alpha_8 YEAR_i + \varepsilon_{it}$

Variables	Prediction Sign	Indonesia		Philipines		Thailand		Malaysia	
		Coeff.	t-stat	Coeff.	t-stat	Coeff.	t-stat	Coeff.	t-stat
Intercept	+/-	23.8376	***125.81	25.3714	***85.71	23.6066	***83.40	23.6780	***232.43
BUSYDIR	+	0.1147	***3.52	0.0662	***3.45	0.0384	**2.11	0.0382	0.97
BUSYCOM	+	0.1506	***3.56	0.0264	*1.36	0.0645	***3.42	0.0336	0.82
POLDIR	+	0.6567	***3.69	0.2032	**2.13	0.2289	*1.36	0.0761	0.21
POLCOM	+	0.2124	*1.40	0.4334	**1.70	0.1572	*1.53	0.1803	0.50
SIZE	-	-0.9090	***-24.39	-0.9396	***-21.34	-0.9518	***-22.19	-0.7889	***-38.81
ROA	+	2.5380	***3.50	2.9660	***3.10	1.8349	**2.17	3.3569	***11.35
DTA	+/-	0.2779	***3.82	0.4473	*1.48	0.3815	1.24	0.2380	**1.67
YEAR		Yes		Yes		Yes		Yes	
N		764		318		985		2727	
R Square		55.30%		70.51%		46.72%		50.00%	
F Stat		***81.81		***90.82		***77.36		***203.66	

Note: *) **) ***) Significant at 1%, 5%, and 10%, respectively, one-tailed test

Table 6 *(Continued)*

$TAXVOID_{it} = \alpha_0 + \alpha_1 BUSYDIR_{it} + \alpha_2 BUSYCOM_{it} + \alpha_3 POLDIR_{it} + \alpha_4 POLCOM_{it} + \alpha_5 SIZE_{it} + \alpha_6 ROA_{it} + \alpha_7 DTA_{it} + \alpha_8 YEAR_i + \varepsilon_{it}$

Variables	Singapura	
	Coeff.	t-stat
Intercept	24.5202	***149.46
BUSYDIR	0.0030	0.12
BUSYCOM	0.0141	0.47
POLDIR	0.0667	0.49
POLCOM	0.1084	0.78
SIZE	-0.7754	***-32.62
ROA	1.7719	***8.90
DTA	0.0458	0.33
YEAR	Yes	
N	1698	
R Square	48.16%	
F Stat	***129.38	

Note: *) **) ***) Significant at 1%, 5%, and 10%, respectively, one-tailed test

the audit committee had positively and significantly affected the corporate tax avoidance level in countries with a less competitive tax environment. These findings indicated that the positive effect of the busyness level of the independent directors and the audit committee on tax avoidance level was weaker in countries with a competitive tax environment as compared to countries with a less competitive tax environment. Based on these findings, hypotheses H3a and H3b in this study were supported.

Table 7 also shows that in countries with a competitive tax environment, the political connections maintained by the independent directors and the audit committee did not affect the tax avoidance level. On the contrary, in countries with a less competitive tax environment, the political connections of the independent directors and the audit committee positively and significantly affected the tax avoidance level. These findings demonstrated that the positive effect of the political connections held by the independent directors and the audit committee on the tax avoidance level was lower in countries with a competitive tax environment than in countries with a less competitive tax environment. Thus, hypotheses H4a and H4b were supported.

Table 7

Regression Results – Countries with a competitive tax environment versus Countries with a less competitive tax environment

$TAXVOID_{it} = \alpha_0 + \alpha_1 BUSYDIR_{it} + \alpha_2 BUSYCOM_{it} + \alpha_3 POLDIR_{it} + \alpha_4 POLCOM_{it} + \alpha_5 SIZE_{it} + \alpha_6 ROA_{it} + \alpha_7 DTA_{it} + \alpha_8 TAXRATE_{it} + \alpha_9 YEAR_i + \varepsilon_{it}$

Variables	Prediction Sign	Countries with a competitive tax environment (Malaysia & Singapore)		Countries with a less competitive tax environment (Philipines, Indonesia, & Thailand)	
		Coef.	t-stat	Coef.	t-stat
Intercept	+/-	24.0445	***295.51	24.0713	***191.87
BUSYDIR	+	0.0134	0.62	0.0280	**1.69
BUSYKOMDIT	+	0.0036	0.16	0.0516	***3.02
POLDIR	+	0.0623	0.49	0.1317	*1.29
POLKOMDIT	+	0.1199	0.93	0.1492	*1.56
SIZE	-	-0.7736	***-47.28	-0.9432	***-41.49
ROA	+	2.0054	***9.24	2.4707	***5.20
DTA	+/-	0.1051	0.96	0.2484	***3.51
TAXRATE	+/-	6.4064	***7.68	-0.5480	-0.49
YEAR		Yes		Yes	
N		4425		2067	
R Square		51.02%		53.95%	
F Stat		***302.78		***203.75	

Note: *) **) ***) Significant at 1%, 5%, and 10%, respectively, one-tailed test

Sensitivity Analysis

As a sensitivity analysis, this study measured tax avoidance using ETR (Effective Tax Rate) and CETR (Current Effective Tax Rate). The result of the sensitivity test is consistent with the main test results. In Indonesia, the Philippines and Thailand, the busyness level and political connections of independent directors and the audit committee had a negative and significant effect on both ETR and CETR. These indicate that the higher the busyness level of independent directors and the audit committee were, the lower the effective tax rates of the company were. The more government political connections maintained by independent directors or the audit committee were, the lower the company's effective tax rates were. Conversely, in Malaysia and Singapore, which are countries with a competitive tax environment, the busyness level and political connections of independent directors and the audit committee had no effect on the companies' effective tax rates (i.e. ETR and CETR).

CONCLUSIONS

Dividing the ASEAN countries into two groups – those with a competitive tax environment and those with a less competitive tax environment, this study had revealed that in the latter, both the busyness level and the political connections maintained by the independent directors and the audit committee had a positive effect on the company's tax avoidance level. Conversely, for the former, the busyness level and the political connections maintained by the independent directors and audit committee clearly, did not affect the level of the company's tax avoidance. These findings stressed that the relationship between the independent corporate governance organs' activities and the company's tax avoidance activities was affected by the country's tax environment characteristic.

In countries with a competitive tax environment (such as Malaysia and Singapore), companies were given a variety of tax facilities that benefitted them, for example, exemption from company revenues gained from abroad and the exemption for shareholders' income in the form of dividends. This phenomenon existed because these countries had employed the territorial and remittance system as part of their tax regulations. Companies operating in these two countries also had the flexibility to compensate for their fiscal losses indefinitely, as provided by the two countries' tax systems. As a result of this, the role of the independent corporate governance organs in reducing aggressive tax avoidance activities can be replaced or substituted by such beneficial tax facilities. The provision of such beneficial tax facilities can automatically enable those companies to save on their corporate tax payments, thus these companies do not need to carry out the highly aggressive tax avoidance activities in order to obtain tax savings.

Further, both Malaysia and Singapore offer high levels of investor protection as was already noted by the 2017-2018 Global Competitiveness Index. This means that investors tend to be better protected within these countries than the other ASEAN countries encompassing the Philippines, Indonesia, and Thailand. Although the independent corporate governance organs may have significantly high busyness level or strong political connections with the government, it appears that companies in Malaysia and Singapore were more likely to apply caution when taking tax avoidance actions, especially in relation to the shareholders' interests. This is attributed to the high-level investor protection provided by these two countries. Apparently, the severity of the legal consequences must be borne by the companies should they be caught conducting activities that could harm investors in the future, such as carrying out overly aggressive tax avoidance activities, which reduces the transparency of financial statements and increases information asymmetry (Balakrishnan et al., 2019). The increase of information asymmetry and tax avoidance activities provide more opportunities for managers to commit rent diversions, hide bad news, and mislead investors (Desai & Dharmapala, 2006; Kim et al., 2011).

In conclusion, the Tax environment in each country should be competitive. It means that the government should provide some facilities in which companies could catch their benefits. In this environment, the regulation provides some exemption from company revenues gained from abroad. Also, the regulation provides some exemption for shareholders' income in the form of dividends. Finally, this environment may reduce tax avoidance, in turn, strengthen the negative relationship between independent corporate governance organs and aggressive tax avoidance activities.

This study has several implications. ***First***, authorities need to oversee the capital market, particularly in countries with low investor protection. This study had revealed that the busyness level and the political connections of the independent directors and the audit committee have a positive effect on the company's tax avoidance level. If the independent corporate governance organs have many positions in other companies/institutions, their duty of monitoring their respective companies would be neglected. The capital market supervisory authorities, in this regard, need to establish a better protection mechanism for investors in the capital market. This can be accomplished by: (i) Determining the maximum number of jobs or positions outside which can be held by the company's independent directors or audit committee. Doing so can curtail their activities and make them more effective in monitoring the companies' activities, and (ii) Determining whether the independent corporate governance organs were allowed to have political connections. ***Second***, this study is expected to provide useful information to the tax authorities for the respective countries with regards to: (i) The role of the independent corporate governance organs' activities in monitoring the company's tax avoidance activities, and (ii) The role of the competitive tax environment in minimizing aggressive tax avoidance activities. If a company is based in a country with a competitive tax environment, it is likely to obtain various tax facilities that would permit savings on tax payments, thereby motivating the companies to mitigate aggressive tax avoidance activities.

This study is also constrained by a number of shortcomings: (i) It measured the level of tax avoidance by using BTD, ETR, and CETR. Future studies may consider using other measures, such as DTAX (Discretionary measures of tax avoidance) or abnormal BTD, to measure the level of corporate tax avoidance, and (ii) It only used five countries in the ASEAN region as sample countries. Future research may consider using countries in the Asia Pacific region for comparison purposes.

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