Does Managerial Ability and Corporate Governance Mitigate Tax Avoidance Activities when Environmental Uncertainty is Considered?

1st Mutiara Kemala Ratu
Universitas Indonesia
Jakarta, Indonesia
mutiarakemala.ratu@yahoo.com

2nd Sylvia Veronica Siregar
Universitas Indonesia
Jakarta, Indonesia
sylvia.veronica@ui.ac.id

***Abstract*—This study aims to examine the effect of environmental uncertainty on tax avoidance with a managerial ability and corporate governance as a moderating role in it. The sample used in this study is a company listed on the Indonesia Stock Exchange (IDX) period 2014-2016. Abnormal Book-Tax Difference (ABTD) considered as an appropriate measurement of tax avoidance in this study because considering of misleading created from management discretion as another cause of tax avoidance in addition to the differences in tax standard with accounting standard. The results of the study showed significant positive evidence of the effect of environmental uncertainty on tax avoidance. Managerial ability is found to play a role in strengthening the influence of environmental uncertainty on tax avoidance. For corporate governance, there is evidence of its role to mitigate the impact of environmental uncertainty on tax avoidance.**

Keywords*— *tax avoidance, environmental uncertainty, managerial ability, and corporate governance

I. Introduction

Tax is recognized as the most significant income source in Indonesia with 85,6% its accomplishment from overall Indonesia's income in 2017 (www.kemenkeu.go.id). Even though tax shows positive results, but when we see it in taxpayer perspective (especially corporate taxpayer), it could contradict from it. They interpret tax as a considerable cost, which can be a problem to lessen their corporate wealth. To overcome that problem, they usually make an effort to manage that cost with tax avoidance activities. Tax avoidance can be used as a legal tax saving method without breaking the constitutional act despite its ethical problem. As we can it from the educational field, there are many empirical types of research on tax avoidance and its stimulant factors in various countries [1] [2] [3] [4]. However, there are limitation researches on tax avoidance when environmental uncertainty considered as their stimulant factor.

According to [5], environmental uncertainty leads to variability in revenue growth and increases information asymmetry between managers and outside stakeholders [5]. They also stated when corporate is operating in a highly volatile environment. Managers will have the discretion to reduce such variability by managing income figures. Adaptation with earnings management activities in such situations is also possible, leading to other opportunities activities such as tax avoidance. Then it also leads if environmental uncertainty can be essential factors to tax avoidance activities. More volatile environment causes managers to seek more cost-saving opportunities to stabilize their cash flow and present a less-risky corporate image for shareholders [6].

The prior study uses environmental uncertainty as a factor in tax avoidance activities conducted by [5]. [5] expanded the literature by conducting research studies in the field of tax avoidance and linking it to environmental uncertainty. Empirically they found that the environment with high-level uncertainty has a positive influence on tax avoidance activities. They even stated that their research included in the first study to examine the relationship between environmental uncertainty and tax avoidance activities at the enterprise level. Therefore, this study aims to conduct related research in Indonesia to strengthen the findings of [5], mainly because there is still a lack of research that directly relates the relationship of environmental uncertainty to tax avoidance.

[28] and [5] in conducting studies that link environmental uncertainty to tax avoidance. Different from [5], [28] argued that uncertainty of operations led to uncertainty over future tax-savings benefits, leading to lower decision-making for tax sheltering. Also, another study from found that firms operating in more uncertain environments benefited from the quality of their private information in helping them avoid paying more taxes [7]. When corporate facing higher environmental uncertainty, they will have more planning activities in overcoming the uncertainty. Tax planning is used as the initial plan because the company considers taxes as a significant cost and deduction of shareholder wealth for the company [8].

However, tax avoidance activities can also make an agency problem arise because of the rising of information asymmetry. Accordingly, it is essential to mitigate the effect of tax avoidance when corporate is in a volatile environment. Managerial ability I considered an essential factor because manager-specific features (ability, talent, reputation, or style) have an influence on economic outcomes, therefore shareholders and stakeholders will trust more capable manager than incompetent manager [5] which can mitigate tax avoidance [5]. Prior research has found that managerial ability has a significant negative effect on tax avoidance where it indicates that more capable managers may play a role in suppressing opportunistic actions of managers such as tax avoidance activities [9] [10.

In line with that, this study also using environmental uncertainty as a factor on tax avoidance activities and considered the moderating effect of managerial ability to mitigate its relation. Prior research has found that managerial ability has a significant negative effect on tax avoidance where it indicates that more capable managers may play a role in suppressing opportunistic behavior of managers such as tax avoidance activities [2] [9] [10]. Beside managerial ability as a moderating factor, we also use corporate governance as a moderating effect to mitigate the relation of environmental uncertainty and tax avoidance. We argue that corporate governance can mitigate the effect of agency cost, which, causing high information asymmetry in corporate tax aggressiveness [11]. High information asymmetry found when there is environmental uncertainty because of the unstable situation in corporate's cash flow (riskier) and managers use tax avoidance to overcome that situation.

We use Abnormal Book-Tax Differences (ABTD) as a measurement which is a residual form of Normal Book-Tax Differences (NBTD) and believed to be more appropriate in measuring tax avoidance activities [3] [12]. For managerial ability, we use the measurement from [29] and scoring from [13] with some adjustment for measuring corporate governance. We found significant positive evidence of environmental uncertainty and tax avoidance. Managerial ability is found to play a role in strengthening the influence of environmental uncertainty on tax avoidance. For corporate governance, there is evidence of its role to mitigate the impact of environmental uncertainty on tax avoidance.

II. LITERATURE REVIEW

In achieving self-interest, managers can perform various maximized profits strategies, including performing tax management acts such as tax avoidance. However, tax avoidance activities can create agency problems because shareholder and manager interests may not comply with tax risks [14]. Managers can do tax avoidance by exploiting loopholes of tax avoidance legality whose definitions are still involved and biased [23]. Concerning environmental uncertainty, information asymmetry of agency issues between managers and external stakeholders will be higher due to environmental uncertainty will lead to variability in reported earnings [23]. Managers will then have an incentive to reduce such variability to lead to opportunistic behaviors such as tax avoidance.

The essence of stakeholder theory lies in the creation of more value [15]. Corporate governance can emerge as a form of corporate liability in creating value-added for stakeholders. OECD-based corporate governance aims to assist policymakers in evaluating and improving the legal, regulatory, and institutional frameworks for corporate governance, to support economic efficiency, sustainable growth, and financial stability [16]. Similar to corporate governance, the more managerial ability can also be the firm option in engaging stakeholders. More capable managers will have better knowledge or ability in their business so that they will be better able to make adequate assessments and estimates [17]. Then if it linked to agency problems that can arise like an explanation in previous theories, corporate governance, and managerial ability also have a significant function in reducing the problem.

Tax avoidance saw as a strategy to reduce taxes that tax legislators may not want but are allowed by law [18]. Tax avoidance as a form of the tax-saving strategy defined in contrast to tax evasion strategies. Tax evasion is a tax-saving strategy that is included in violations of the tax law while tax avoidance is a strategy to reduce taxes that are still within the scope of taxation (legal) primarily through tax planning [19]. The definition of legal (or illegal) based on tax laws is debatable, especially considering the difficulty of determining which activities to reduce the tax expenses is legal and which are not. The legal or not level of tax avoidance or tax aggressiveness will be challenging to determine and view conceptually [4].

[4] therefore stated that they technically do not distinguish legal action to avoid taxes from such illegal acts, for two reasons: (i) most related behaviors revolve around transactions that are generally considered technically legal and (ii)) the legality of tax avoidance transactions generally determined by fact. [4], in his study, summarized 12 tax avoidance measures used in research. Each of these measurements has their respective advantages and disadvantages so it should take more than one measurement as an alternative in tax avoidance research [4]. This study would use ABTD as a proxy for ABTD as it may reflect differences caused by manager discretion which can use in the behavior of earnings management and tax avoidance and interaction (for example, increasing income but paying lower taxes) [12].

Environmental uncertainty is defined as the degree of change or variability in the external environment of the organization, consisting primarily of customers, competitors, government regulations, and unions [20]. In a study conducted by [5] some previous studies on environmental uncertainty have also shown that volatile environments result in significantly improved planning activity, which helps managers to cope with better volatile environments. Tax planning is a significant planning component because taxes are a high cost to companies and a reduction in shareholder wealth in the company that pays more than a third of their profits in taxes [8]. A more volatile environment will then lead managers to seek more cost-saving opportunities to stabilize their cash flow and present a less-risky corporate image for shareholders [6].

Based on the [16], corporate governance is key to the development and efficient growth of the economy that connects the corporate environment (both management, councils, shareholders, and stakeholders) in achieving company objectives with performance supervision. OECD's corporate governance principles are used to evaluate and improve corporate governance, institutional and regulatory frameworks, as well as to provide guidance and advice to stock exchanges, investors, corporations, and others who play a role in the process of developing good corporate governance [16]. Therefore, corporate governance aims to ensure that resources allocated by investors will not be used by executive managers in activities that do not provide the best benefits [21] [22]. The core of the discussion of corporate governance is the handling of agency problems, which can be created a useful set of mechanisms [23], both incentives and monitoring conducted by the board of commissioners (and assisting audit committees) to ensure that executive behavior always matches the interests of shareholders.

Based on agency theory, managers and shareholders have their respective interests resulting in agency problems. Where a manager who has discretion in carrying out his duties can utilize it for his benefit by doing tax avoidance. Opportunistic tax avoidance by managers can lead to information asymmetry to the detriment of shareholders. While shareholders have an interest and are entitled to know more accurate and actual company information, not just information that managers wish to convey only.

Regarding the relationship of environmental uncertainty to tax avoidance, this study looks at the study of [28] and [5]. [28] examine whether three investment factors (investment opportunities, operational uncertainty, and capital market pressures) influence the decision to invest in a tax shelter. They found that firms with more significant operating uncertainties tend to decide to invest. It stated that a volatile environment creates more uncertainty (risk), making it difficult for companies to make investment decisions. If [28] found that investment difficulties, especially in tax shelter due to the high risk posed, are different for [5]. [5] found that given the high uncertainty, the higher the company to use their discretion that could lead to tax avoidance activities in order to overcome the uncertainty.

To cover the high risks that can arise from environmental uncertainty or show to shareholders that their company is less-risky, the company makes tax avoidance efforts. Tax avoidance is an excellent alternative to companies because it is considered more cost-saving in stabilizing chaotic cash flows due to environmental uncertainty [6] [5]. Tax avoidance is the company's efforts to help companies stabilize cash flow, benefit shareholders, and illustrate the less risky image of shareholders with cost-saving assumptions [6]. The practice of tax avoidance with consideration of environmental uncertainty leads to instability in accounting information, causing the difficulty of detection that can be done. Instability is then the opportunity for managers to avoid taxes. So when companies are in a volatile environment, they will be more likely to engage in tax avoidance activities. Based on these explanations, environmental uncertainty, and tax avoidance are predicted to be positively related, the first hypothesis is:

H_1: Environmental uncertainty positively affects tax avoidance

[5] argue that more managerial abilities engage in lesser tax avoidance activities and are better able to adapt to a volatile environment than less managerial abilities. Their relationship was based on research by [9] found that a strong relationship between managerial ability and effective tax rates suggests that better managers will be less involved in tax avoidance while less capable managers are relatively involved. Skilled managers are considered to play an essential role in companies especially when faced with volatile environments due to the importance of policies and the flexibility they take to address environmental uncertainty [6]. [5] state that when faced with volatile environments, more capable managers make better long-term decisions and adopt better strategies to adapt to the environment, rather than involving more tax avoidance activities. Based on that, then the third hypothesis of the first part is:

H_2: Managerial ability will mitigate the effect of environmental uncertainty on tax avoidance

To address the agency problem arising from tax avoidance activities while in a volatile environment, this study incorporates corporate governance to address the problem. Based on stakeholder theory were prioritized to increase the value of the entire corporate environment (stakeholders), not only its shareholders only, then the governance can be used as an alternative. The quality of corporate governance will negatively relate to tax management where corporate governance is used as a monitoring tool in reducing earnings management [24] by companies when they have high environmental uncertainty. [24] states by the views of [25] where high corporate governance will have low information asymmetries. Under these conditions, the environmental uncertainty seen as the determinant factor of information asymmetry will below as well. Therefore, corporate governance is also predicted to reduce the impact of environmental uncertainty in generating asymmetric information, which in this study associated with tax avoidance. Based on these statements, the first four hypotheses of the first part of this study are:

H_3: Corporate governance will mitigate the impact of environmental uncertainty on tax avoidance.

III. METHOD

The research method used in this study is a quantitative empirical study. This research conducted by using all companies listed in Indonesian Stock Exchange (BEI) in 2014-2016 except companies in a financial sector, mining sector and property sector, real estate, and building construction as research object because the sector has different taxation regulation. This research is a research with the quantitative method using panel data type, that time-series data type, and cross-section combined. The research model used to test the first hypothesis (H1) is as follows Eq. (1) moreover, for the second model used in testing the second (H2) and third (H3) hypotheses are as follows Eq. (2).

$$TAXAVOID_{i,t}=\beta_0+\beta_1 EU_{i,t}+\beta_2 SIZE+\beta_3 LEV_{i,t}+\beta_4 MBV_{i,t}+\beta_5 ROA_{i,t}+\beta_6 PPE_{i,t} + \textit{Industry \& Year Indicator} + \varepsilon_{i,t}$$

$$TAXAVOID_{i,t}=\beta_0+\beta_1 EU_{i,t}+\beta_2 MASCORE_{i,t}+\beta_3 EU_{i,t}*MASCORE_{i,t}+\beta_4 CG_{i,t}+\beta_5 EU_{i,t}*CG_{i,t} + \beta_6 SIZE+\beta_7 LEV_{i,t} + \beta_8 MBV_{i,t}+\beta_9 ROA_{i,t} + \beta_{10} PPE_{i,t} + \textit{Industry \& Year Indicator} + \varepsilon_{i,t}$$

This study uses firm size variables; leverage; Market to Book Value ratio (MBV); Net Operating Loss (NOL); Return on Assets (ROA); Property, Plant and Equipment (PPE) and the volatility of Operating Cash Flows. Company size measured by using the natural logarithm of market value (market value). Large firms will tend to avoid tax avoidance because of the potentially substantial political costs, so negatively SIZE will have an effect on tax avoidance [26]. Company leverage measured through total debt divided by total assets. Leverage variables are used as debt ratios to control the effects of corporate financial decisions in general tax planning. Leverage is considered to have a positive effect on tax avoidance because with the high debt it will also increase the interest to provide incentives to tax avoidance in generating tax savings [5].

Market to Book Value (MBV) ratios are measured by looking at market value comparisons of the firm's book value. MBV used in controlling the growth of companies, i.e., companies with high growth have tremendous investment opportunities tend to choose to optimize the company's performance without having to make tax efficiency, so they also tend not to engage in tax planning activities [5]. Return on Asset (ROA) used as a measure of profitability based on the value of net income on total assets. Companies that have profitability tend to undertake tax avoidance activities to reduce tax expenses to be paid [8]. The property, Plant, and Equipment (PPE) are measured based on the net value of PPE to total assets. These variables are used because different treatments of depreciation costs for taxes and accounting can affect firms with more capital equipment or tangible fixed assets [5]. The assumption is that the higher the PPE, the higher the depreciation expense that can be used as a tax avoidance incentive.

This study uses the abnormal value of book tax differences which is the residue of BTD. ABTD calculation is based on [1] research with the following formula:

$$BTD_{i,t}=\beta_0+\beta_1\Delta INV_{i,t}+\beta_2\Delta REV_{i,t}+\beta_3 NOL_{i,t}+\beta_5 TLU_{i,t}+\beta_6 BTD_{i,t-1}+\varepsilon_{i,t}$$

Where: BTD is book-tax differences, ΔINV is the change in investment in gross property, plant and equipment, and intangible assets, ΔREV is a change in revenue, NOL is the value of net operating losses, TLU is the amount of tax loss that has compensated. To calculate the BTD of the previous year, BTD is first calculated proxy from [4] with the following formula.

$$BTD_{i,t}=EBT_{i,t}-\frac{CTE_{i,t}}{TR_{i,t}}$$

Where: BTD is book-tax differences, EBT is net profit before tax, CTE is the current tax expense, TR is the applicable tax rate, amounting to 25%. A study conducted by [5] concluded that sales volatility is an appropriate proxy for measuring the company's environmental uncertainty compared to technology volatility. Based on that, the proxy that will use for the environmental uncertainty in this research is the coefficient of variation (CV) of sales divided by total assets in showing sales volatility, with the following formula:

$$CV(S_i)=\frac{\sqrt{\sum_{i=1}^{5}\frac{(S_i-S_{mean})^2}{5}}}{S_{mean}}$$

Where: Si is the company's sales (divided by total assets) in the year i and Smean is the mean of the company's sales (to total assets) in 5 years.

In moderating the environmental uncertainty related to tax avoidance, the managerial ability is predicted to reduce the relationship between the two. Managerial ability measured by [29] where managerial ability is a performance-based measure of a manager's efficiency in using company resources to generate revenue. There are two steps to measure managerial ability, where the first step is to use the DEA (Data Envelopment Analysis) method to estimate the total efficiency of the firm by industry and year. Envelope denotes the normative ideal of existing data, where when the point is at the envelope it will be optimally efficient, whereas when the point below the envelope is inefficient. There are input and output data in DEA, where the input is the cost of goods sold; sales, general and administrative costs; housing, plants, and equipment; operating lease; research and development costs; goodwill; and other intangibles; while for output is net sales. The second step is to identify manager-specific characteristics and company-specific characteristics from previous DEA results. Then a total enterprise efficiency regression is performed on six firm-specific variables (firm size, firm market share, cash available, firm age, operational complexity, and foreign operations) assessed whether it could help or even hinder managerial ability. The residuals from the regression result will then become the proxy for managerial ability (MASCORE).

The second moderation variable is corporate governance that is predicted to reduce the influence of environmental uncertainty relationships on tax avoidance. The measurement of corporate governance did by scoring a focus based on the responsibility of the board of commissioner by research [13]. The focus of measurement lies in the function of the board because company directors usually considered reliable because they can take advantage of various benefits with their discretion [27]. Monitoring by the board is also seen as an essential role in showing corporate governance [24]. The Board of Commissioners shall then establish an audit committee to support the effectiveness of the implementation of its duties and responsibilities. Therefore, in this study, the focus of corporate governance will be on the responsibilities of the board of commissioners and the audit committee. Different from the measurements used by [14], this study uses corporate governance scoring based on [13] and applicable POJK (starting now referred to as Regulation of the Financial Services Authority Number 33 / POJK.04 / 2014 and Number 55 /POJK.04/2015).

IV. RESULTS

To testing the first hypothesis (H1) on the influence of environmental uncertainty to tax avoidance can be seen in Table 1 below. In the first hypothesis (H1), we find that environmental uncertainty positively significantly affects tax avoidance. Following initial predictions that companies in a volatile environment will engage more tax avoidance. These findings also reinforce previous research by [5], who found evidence that environmental uncertainty is negatively related to ETR, which means that positively the environmental uncertainty affects tax avoidance. This is because when companies are in a volatile environment, they will face a more risky situation. To demonstrate a less-risky corporate image to shareholders, managers will seek to find cost-effective opportunities to stabilize their cash flow [6]. Therefore, managers will prefer to avoid taxes as a form of their discretion and flexibility in the face of environmental uncertainty. Table 1. Shows the effect.

Table 1. Environmental uncertainty and tax avoidance

Variable	Pred	Model 1		
		Koef	Prob	Significant
Constanta		**-0,0200**	**0,2945**	
EU	+	**0,0451**	**0,0000**	***
SIZE	-	**0,0006**	**0,3345**	
LEV	+	**-0,0169**	**0,0465**	**
MBV	-	**-0,0013**	**0,0045**	***
ROA	+	**0,0629**	**0,0250**	**
PPE	+	**0,0045**	**0,2945**	
***Adjusted* R^2**	**0,0405**			
Prob. F-Statistik	**0,0004**			

Note:
***** significant 1%. ** significant 5%, * significant 10%**
ABTD = Residual value / error of book tax difference;
EU = Value of environmental uncertainty based on sales volatility;
SIZE = firm size based on company asset;
LEV = ratio of total debt to total company asset;
MBV = ratio of market value to book value of equity of the company;
ROA = ratio of profit before tax to total company asset;
PPE = ratio of tangible fixed asset to total company asset;

Tax avoidance in a volatile environment will be more challenging to detect due to the lack of stability of accounting information. Based on a study by [24] related to earnings management activities, companies that are in a volatile environment will be more challenging to detect than companies in dynamic environments. The point is that when in a dynamic environment the company still has the opportunity to conduct an opportunistic management discretion (in this study tax avoidance) whereas in a volatile environment the opportunities in conducting tax avoidance behavior will be more significant.

However, the higher the chance of managers to avoid taxes, the greater the information asymmetry that can be generated. Contexts that are the problem of these agencies can appear even higher when companies have environmental uncertainties. This is due to the difficulty of detection that can be done when there is environmental uncertainty in the presence of instability in accounting information [27]. This instability is the opportunity for managers to avoid taxes.

Regression results for the second research model can be seen in table 2. The first moderation variable in testing the second hypothesis (H2) is the managerial ability. We find that significantly managerial ability will moderate the effects of environmental uncertainty on tax avoidance. However, the effect is positive where managerial ability does not play a role in mitigating but strengthen the effect of environmental uncertainty on tax avoidance. This result may be caused by the magnitude of the influence of environmental uncertainties within the company, so the risk obtained is difficult to overcome by managers, although managers have a high ability. Even this can show that tax avoidance by a competent manager is considered the most effective decision in overcoming environmental uncertainty. This is similar to [6] which states that tax avoidance is considered the best way to save money to cope with risks such as unstable cash flows due to enormous environmental uncertainty.

Table 2. Moderating effects of managerial ability and corporate governance

Variable	Pred	Model 2		
		Koef	Prob	Sign.
Constanta		**-0,0151**	**0,3575**	
EU	+	**0,1488**	**0,0355**	**
MASCORE	-	**-0,0370**	**0,0690**	*
EUMASCORE	-	**0,1855**	**0,0240**	**
CG	-	**-0,0067**	**0,3685**	***
EUCG	-	**-0,1261**	**0,0995**	*
SIZE	-	**0,0006**	**0,6672**	
LEV	+	**-0,0155**	**0,0640**	*
MBV	-	**-0,0012**	**0,0060**	***
ROA	+	**0,0657**	**0,0265**	**
PPE	+	**0,0032**	**0,3495**	
***Adjusted* R^2**	**0,0491**			
Prob. F-Statistik	**0,0003**			

Note:
***** significant 1%. ** significant 5%, * significant 10%**
ABTD = Residual value / error of book-tax difference;
EU = Value of environmental uncertainty based on sales volatility;
MASCORE = The residual value of managerial ability based on DEA scoring
EUMASCORE = Interaction variable between EU and MASCORE
CG = Value of corporate governance practices based on the percentage of commissioner's accountability scores and the role of the audit committee;
EUCG = Interaction variable between EU and CG;
SIZE = firm size based on company asset;
LEV = ratio of total debt to total company asset;
MBV = ratio of market value to book value of equity of the company;
ROA = ratio of profit before tax to total company asset;
PPE = ratio of a tangible fixed asset to total company asset;

The second moderation variable in testing the third hypothesis (H3) is that corporate governance predicted to weaken the influence of environmental uncertainty on tax avoidance. Corporate governance can be used as a form of oversight in addressing corporate agency issues to ensure that manager behavior can continue to be in the best interests of shareholders [24]; Gomes, 2016). The result obtained is similar to the prediction, so that H3 is accepted. This finding is in accordance with previous theories and research where good governance can be used as a way of addressing agency issues arising from tax avoidance practices that are conducted in a volatile environment. This corporate governance can then be used as a form of value-added to stakeholders in accordance with stakeholder theory [15]. Thus the information asymmetry as a form of agency problem can also be reduced so that the company can operate in line with the interests of shareholders through good corporate governance [24]; [23].

For the control variables in this study, there were five companies, namely firm size (SIZE), debt ratio (LEV), the ratio of market value to book value (MBV), asset revenue ratio as profitability meter (ROA), and fixed asset ratio

(PPE). Of the five control variables used, three of them had a significant influence on both research models. The two variables that are not proven to have a significant effect on tax avoidance, as measured by ABTD are SIZE and PPE. Leverage as a debt ratio indicates a negative significance, which means firms that have a high debt-to-asset ratio will tend to avoid tax avoidance. Then for MBV used in seeing the growth of the company and ROA that indicate the level of profitability of the company have a negative and positive effect.

V. CONCLUSION

This study aims to examine and analyze the positive effects of environmental uncertainty on tax avoidance by considering the role of managerial skills and corporate governance that are considered capable of reducing the positive influence. Tax avoidance as a company's legal effort to reduce the tax expenses the company pays will be detrimental to the government and society, even its shareholders. Of course, the loss felt by the government and the people here is because of the decrease in tax revenue on tax avoidance behavior. While on the shareholder side, they will be disadvantaged because of the information asymmetry that arises as an agency problem over tax avoidance.

We found the results of the first and third hypothesis testing as predicted, whereas for the second hypothesis, the results were contrary to the prediction. Environmental uncertainty proved to be significantly positive to affect tax avoidance, where a volatile environment will lead to increased risk. This is the risk that leads to tax avoidance. Managers make tax avoidance can be due in order to address risks in a way that cost-saving or indeed from the beginning intends to take advantage of the gap of the risks formed. Managerial ability will significantly strengthen the effect of environmental uncertainty on tax avoidance, which is in contrast to the original hypothesis. This may be due to the enormous influence of environmental uncertainties within the company, so the risks that managers find difficult to overcome even if managers have high skills.

Moreover, the final hypothesis (H3) is that corporate governance significantly weakens the effect of environmental uncertainty on tax avoidance. Good governance can be used as a way of addressing agency issues arising from tax avoidance practices that are conducted in a volatile environment. This corporate governance can then be used as a form of value added to stakeholders similar to stakeholder theory.

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