



The Role of Audit Committee Characteristics in Tax Planning

Alfita Rakhmayani^{1b}, Maya Aresteria^{1b}
Deddy Sulestiyono, Body Avivya Faraintika

Diponegoro University, Jalan Prof. Soedarto 13, Semarang, Indonesia
alfitar@lecturer.undip.ac.id

Abstract. Notably, an overly aggressive tax planning strategy undertaken by a company increases the likelihood of encountering unprecedented risks. In conjunction with scrutinizing financial statements, the Audit Committee assumes responsibility for ensuring compliance with applicable accounting regulations and standards, including taxation guidelines. This investigation endeavours to examine the impact of committee composition and meeting frequency on the tax planning strategies pursued by companies. A multiple regression analysis was employed in testing the hypotheses. The research sample comprised 75 Indonesian companies listed on the Indonesian Stock Exchange in 2023 that satisfied the established criteria. The findings of this study indicate that the configuration of committee membership and the frequency of meetings do not exert any significant influence on the tax planning initiatives undertaken by the surveyed firms. Consequently, it appears that the Audit Committee does not yield a sufficient influence on the companies' tax planning strategies.

Keywords: Effective Tax Rate, Audit Committee, Supervision, Tax Planning.

1 Introduction

Corporate enterprises implement tax planning strategies with the objective of minimizing their tax liability, in accordance with regulatory frameworks and statutory requirements, to effectively optimise their tax obligations [1]. Complementing prudent fiscal governance, sound tax planning practices enable corporations to augment their net profits and rationalise operational expenditures by judiciously mitigating tax burdens. Conversely, excessively aggressive tax planning approaches generate legal vulnerabilities and reputational risks, culminating in adverse scrutiny from tax authorities [2].

In a corporate context, tax planning is an important part of financial management, because taxes can affect cash flow, net profit and investment decisions [3]. Companies must carry out careful tax planning in order to take advantage of tax incentives, deductions and relief provided by the government, without violating applicable legal provisions. This is becoming increasingly important amidst intense business competition and the dynamics of tax regulations that continue to develop.

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The tax planning process entails choosing specific strategies and approaches to structure business transactions in accordance with prevailing tax laws while also leveraging available opportunities to minimize tax obligations in a lawful manner [4]. This practice plays a crucial role in ensuring compliance with regulations while optimizing financial efficiency. Additionally, tax planning accommodates diverse stakeholders, including management, shareholders, and regulatory bodies, each with distinct interests and priorities. The complexity of this process arises from the dynamic nature of tax laws and the necessity to balance compliance with financial benefits. Given its far-reaching implications, tax planning can significantly influence a company's overall financial health and long-term sustainability. Moreover, businesses must carefully assess various determinants that shape tax planning decisions, such as corporate governance, industry regulations, and economic conditions. A thorough understanding of these factors allows firms to develop tax strategies that align with both legal frameworks and corporate objectives. Consequently, exploring the key drivers of tax planning is essential for companies seeking to achieve financial optimization while mitigating tax-related risks.

Effective corporate governance is significantly influenced by the presence of an audit committee, which assumes a pivotal role in overseeing financial reporting to guarantee its accuracy and transparency. This committee is entrusted with the responsibility of ensuring compliance with all pertinent accounting principles, standards, and regulatory requirements. By assuming a safeguarding function, the audit committee enhances corporate accountability and mitigates the risk of financial misrepresentations. Agency theory posits that corporate governance mechanisms, including an audit committee, facilitate the reduction of agency problems by discouraging conflicts of interest between corporate management and shareholders. These disagreements arise when management prioritizes its interests over those of shareholders, thereby necessitating more stringent managerial oversight. Through the enhancement of this regulatory framework, the audit committee ensures that corporate decisions align with the best interests of shareholders. Furthermore, the presence of the audit committee strengthens financial discipline, advances transparency, and lessens the risk of fraudulent financial activities, although its effectiveness is contingent upon several factors including expertise, independence, and experience [5].

Prior research has extensively investigated the impact of audit committee attributes on corporate tax planning practices. A negative correlation between corporate tax evasion and size/committee meetings frequency. Individual attributes of the audit committee, such as size, meeting frequency, and independence, also influence corporate tax aggressiveness. The findings of their research indicate a negative relationship between the aforementioned audit committee attributes and corporate tax aggressiveness, suggesting that greater audit committee independence, frequency of meetings, and size are associated with less aggressive corporate taxation.

Contrasting empirical evidence exists concerning the relationship between audit committee characteristics and corporate tax avoidance. A study by Ziliwu et al., 2021 revealed a positive correlation between audit committee attributes and tax avoidance [6]. Identical findings were observed by Idzniah & Bernawati, 2020 highlighting the influence of audit committee size on tax minimization strategies [7]. Conversely, the

outcome of Hendro and Bowo Pranogyo's research in 2023 suggests an inconclusive link between audit committee size and aggressive tax planning [8]. Additionally, Ardillah & Prasetyo's, 2021 demonstrated that audit committees bear no significant influence on tax avoidance [9].

Notwithstanding incongruities in previous research results, a paucity of empirical evidence has been identified as a critical limitation in existing studies examining the role of audit committees in tax planning within the Indonesian corporate landscape. Therefore, this study endeavours to investigate the differential impact of audit committee size and meeting frequency on corporate tax planning utilising data from publicly listed Indonesian companies. The study is anticipated to provide novel insights into the audit committee's function in monitoring corporate tax planning activities. Ultimately, the findings of this research may be utilised by corporate entities to establish an optimal audit committee structure to facilitate effective tax planning activities, with regulatory bodies also able to inform policy decisions regarding the oversight of tax planning practices.

2 Literature Review

The concept of tax planning within a corporate entity can be elucidated through the lens of agency theory. According to Jensen dan Meckling's definition, an agency relationship is characterized as a contractual arrangement whereby a principal delegates authority to an agent to execute specific duties, including the delegation of decision-making power [10]. Within the corporate framework, the principal corresponds to the entity's ownership, particularly shareholders, whereas the agent represents the managerial entity entrusted with overseeing business operations. To mitigate the potential conflict between shareholders and management, the institution of corporate governance plays a pivotal role, particularly through the implementation of a board of commissioners and an audit committee. In the context of financial reporting, the audit committee is a critical component of corporate governance.

Agency theory underscores the significance of a robust governance structure, comprising a proficient audit committee, in tax planning for resolving the discrepancies of interest between shareholders and management. The long-term implications of unbri-dled tax planning methodologies manifest in detrimental consequences to shareholders, including financial burdens, reputational damage, and legal repercussions, which may initially benefit management. However, when considering these outcomes, shareholders often concur with management's strategic objectives. Consequently, an audit committee operating effectively can procure alignment between a company's tax planning initiatives and the long-term interests of its shareholders, thereby circumscribing these risks [11].

Corporate tax planning is a methodically conceived initiative implemented by companies to minimise taxable liabilities through legitimate techniques that conform to prevailing tax regulations. This process entails a comprehensive examination of the firm's financial profile and the incorporation of tax strategies designed to optimise after-tax

earnings. Research has characterised tax planning as encompassing two distinct approaches, including tax avoidance: the lawful minimisation of tax obligations without violating tax statutes, and tax evasion: the unlawful circumvention of tax regulations to nullify or reduce tax liabilities. Studies on tax planning have established that reductions in tax liabilities are a consequence of tax planning activities, with the effective tax rate being a commonly employed measure by researchers. This metric is deemed suitable for assessing corporate tax planning, as it mitigates errors associated with tax burdens on foreign income and tax credits.

The Financial Services Authority Regulation No. 55/POJK.04/2015 prescribes the composition, duties, and authority of audit committees in Indonesia, with a view to instilling accountability and transparency in corporate governance. In consonance with this regulation, the board of commissioners is mandated to establish an audit committee, which in turn reports directly to the board. This institutional framework requires publicly listed companies on the Indonesia Stock Exchange to maintain an audit committee, tasked with reviewing the organization's adherence to applicable legal and regulatory standards, including tax-related matters. The audit committee also undertakes the critical function of addressing grievances related to financial reporting and accounting practices, while concurrently overseeing tax planning initiatives to prevent the exploitation of loopholes and prevent reputation-damaging tax evasion schemes [11].

This investigation is grounded in the notion that the audit committee serves as a guardianship mechanism, as posited by agency theory, to preclude conflicts of interest and ensure managerial conduct aligns with shareholder interests. Furthermore, the committee ensures corporate compliance with pertinent laws. In accordance with Section 55 of the Financial Services Authority Regulation No. 04/2015, an audit committee must comprise at least three members, including both independent commissioners and external stakeholders external to the corporate entity. Notably, a more extensively staffed audit committee can effectively monitor managerial decisions, including tax planning, due to the presence of enhanced human and experiential resources. This organisational structure has been shown to have a positive impact on mitigating tax evasion. Similarly, Nguyen discovered a strong correlation between audit committee size and corporation tax savings [12]. The audit committee size hypothesis for the study was developed in light of these findings and is as follows:

H1: The number of audit committee members has an effect on tax planning.

The audit committee's duties include identifying concerns that need the commissioners' attention and expressing comments to the board of commissioners regarding reports or topics submitted by the board of directors [13]. Audit committee meetings enhance transparency and disclosure of company information related to tax planning practices, as the committee monitors the company's compliance with tax regulations and internal policies. The Financial Services Authority mandates that audit committee meetings be held at least once every three months on a regular basis. The frequency of these meetings reflects the level of oversight exercised over the company. More frequent audit committee meetings can enhance supervision of the company's tax planning activities, reduce the risk of tax violations, and improve the effectiveness of tax planning strategies. Good corporate governance, including an active audit committee [12], fosters more strategic tax planning aligned with long-term corporate goals. Based on

this, the hypothesis related to audit committee meeting frequency in this study is formulated as follows:

H2: The number of audit committee meetings has an effect on tax planning.

3 Methodology

This research examines the influence of the audit committee on corporate tax planning practices, with emphasis on two critical factors: committee composition and meeting cadence. Effective committee functionality is evaluated through the lens of committee size and meeting frequency. The efficacy of tax planning strategies is measured via the Effective Tax Rate (ETR) metric. Committee size is quantified by the total number of committee members, while meeting frequency is calculated as the annual number of meetings convened. Return on assets (ROA) and sales growth serve as control variables in the analysis.

Data collected from Bloomberg was used as secondary data in this study. The research population consisted of Indonesian Stock Exchange (IDX) listed businesses in 2023. The research sample included companies that met the following criteria: (1) Companies must have remained listed on the stock exchange from the beginning of the observation period to 2023. (2) They must not have incurred 2023 losses. (3) All necessary company data for the research must be accessible.

Descriptive statistics is a data analysis method that describes the characteristics of data without testing hypotheses. It involves presentation, calculations, and analysis to explain the data's features or circumstances. This method uses statistics such as mean, standard deviation, and minimum/maximum values. Tax planning and audit committee characteristics are linked through regression analysis, a statistical method that shows how variables are related. The following is one way to formulate the research equation:

$$ETR = \alpha + \beta_1 SIZE + \beta_2 MEET + \beta_3 ROA + \beta_4 SALES + e \quad (1)$$

4 Discussion

Descriptive analysis of 75 Indonesian firms listed on the Indonesia Stock Exchange in 2023 revealed a mean effective tax rate of 21.30%. ETR variability spanned a range of 0.45% to 60.62%, with lower rates indicative of prominent tax avoidance strategies and higher rates signifying inadequate tax mitigation efforts leading to increased tax outlays.

A descriptive analysis of the company's audit committee revealed that its membership varies, typically consisting of 1 to 7 members. Conversely, regulatory standards stipulated by the OJK specify an optimal composition of three committee members. Furthermore, the mean number of audit committee sessions annually falls at 10, although this range spans as low as 2 to as high as 48 meetings. Notwithstanding the OJK recommendation of an annual meeting, this frequency may not be consistently achieved.

Table 1. Descriptive statistics.

Item	Size	Meet	ETR
Min	1	2	0.45
Max	7	48	60.62
Mean	3.41	10.20	21.30
Std. Deviation	0.90	9.68	11.55

Source: processed data, 2025

Notably, the adjusted coefficient of determination (R^2) in the regression analysis equates to 0.174, implying that 17.4% of the variability in the dependent variable (ETR) is accounted for by the independent variables (audit committee size, number of meetings, sales growth, and return on assets). Consequently, the remaining 82.6% of variability is presumably attributed to extraneous factors not integral to the regression model. Furthermore, the calculated F-statistic (4.886) exhibits a significance level of 0.002, thereby ensuring that the regression model meet or exceed the prescribed 5%-level threshold of statistical significance, thereby validating its capacity for tax planning prediction.

Table 2. Hypothesis testing summary.

Hypotheses	Paths	Std. Beta	t-value	Sig
H1	SIZE → ETR	-0,20	-0,186	0,853
H2	MEET → ETR	0,008	0,078	0,938

Source: processed data, 2025

The audit committee's size exhibits a statistically insignificant relationship to company tax planning, as evidenced by a regression coefficient of -0.20 and a t-statistic test result corresponding to a p-value exceeding 0.05. Consequently, the null hypothesis positing the absence of a systemic effect on company tax planning emanating from audit committee composition is not refutable. In accordance with these findings, the theoretical supposition underscoring the presence of an inverse correlation between audit committee membership and company tax planning strategies is not substantiated.

The test's results on the number of audit committees that have been formed. According to the study's findings, corporate tax evasion is unaffected by the audit committee's size. A study by Setyaningsih and Wulandari likewise produced similar findings, namely that the number of audit committee members and the company's tax savings are not significantly correlated [14].

An essential part of the financial reporting process is the audit committee, as explained in the description of the corporate governance concept. Having sufficient, independent resources and individuals with financial competence will boost the audit committee's efficacy [12]. 72% of the sample organizations had the same number of audit committee members as three (three) during the research year. According to the Financial Services Authority's regulations, public corporations must have a minimum

of this number of members on its audit committee. This demonstrates that the majority of businesses typically just have the bare minimum of audit committee members. Just 38% of businesses have more audit committee members than the bare minimum.

Despite the outcomes of the t-statistic test, the data indicate that the number of audit committee meetings is statistically inconsequential at a significance level of 0.05, which negates the research hypothesis suggesting a correlation between audit committee meeting frequency and business tax planning strategies. The empirical evidence implies a lack of association between the quantity of audit committee meetings and business tax planning.

The test results on the number of audit committee meetings are in line with research conducted by Gunawan et al., 2021 This study demonstrates that corporate tax evasion is unaffected by the quantity of audit committee sessions [15]. According to similar findings, there is no meaningful correlation between company tax aggression and the frequency of audit committee meetings in a given year [8].

Examining how well the business complies with rules and regulations pertaining to its operations is the responsibility of the audit committee. Nevertheless, the audit committee's meeting frequency is insufficient to affect the company's tax planning approach. Increasing the frequency of audit committee meetings does not guarantee that the conclusions and discussions made are applicable to increasingly complicated issues like tax planning. Tax planning is a very intricate and technical field that frequently calls for specialized knowledge outside the purview of the audit committee. According to research, the frequency of business meetings has less of an effect on tax planning monitoring than the independence and experience of audit committee members.

5 Conclusion and Recommendation

The empirical findings indicate a lack of correlation between audit committee composition and corporate tax manipulation strategies. The findings indicate that the presence of an audit committee does not significantly impact the company's tax planning strategies. The audit committee's authority in governing financial and taxation-related activities may be constrained. The company's tax planning has not benefited significantly from the audit committee's involvement, highlighting a potential gap in its effectiveness. One possible explanation is that tax planning strategies often fall outside the primary responsibilities of the audit committee. As a result, the audit committee may not have sufficient authority or expertise to influence tax-related decisions effectively. Given these findings, the study suggests that the purpose and direction of the audit committee should be reassessed. Strengthening the audit committee's role could involve improving the quality of meetings and enhancing members' expertise in tax-related matters. Additionally, ensuring greater independence among committee members may help improve oversight and risk management in corporate tax planning. By implementing these changes, companies can enhance the audit committee's effectiveness in monitoring and managing tax risks.

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