Jurnal Ekonomi & Keuangan Islam
2024, 10(1), 1-14

Influence of the Shariah supervisory board on tax avoidance at an Indonesian Islamic bank

Ahmad Naufal[1], Prasojo Prasojo[2], Ristianawati Dwi Utami[3]

[1,2] Islamic Accounting Department, Faculty of Islamic Economics and Business, State Islamic University Sunan Kalijaga, Yogyakarta, Indonesia
[3]School of Management, Wuhan University of Technology, Wuhan, Hubei, China

Article History
Received : 2023-03-15
Revised : 2023-07-13
Accepted : 2024-01-04
Published : 2024-01-04

Keywords:
Tax avoidance, shariah supervisory board, profitability, Islamic bank.

DOI:
https://doi.org/10.20885/JEKI.vol10.iss1.art1

JEL Clasification:
G21, G28, H26, H27

Corresponding author:
Prasojo
prasojo@uin-suka.ac.id

Author's email:
ahmad.naufal@student.uin-suka.ac.id
prasojo@uin-suka.ac.id
utami.ristianawati@whut.edu.cn

Paper type:
Research paper

Center for Islamic Economics Studies and Development, Faculty of Business and Economics, Universitas Islam Indonesia

Abstract

Purpose – This study examines the influence of the Shariah supervisory board (SSB) and Islamic banks' characteristics on tax avoidance practices in Indonesia.

Methodology – This research uses secondary data using the panel data analysis method fixed effects model; the research sample is an Islamic bank in Indonesia from 2017 to 2021.

Findings – The results indicate that SSB size, SSB reputation, and bank size have a positive effect on tax avoidance. The variables across SSB members, SSB education level, bank age, and bank profitability have a negative effect. Meanwhile, the SSB expertise variable, SSB remuneration, and turnover do not affect tax avoidance.

Implications – Islamic banks play an essential role in social welfare to align with tax contributions in developing countries. Therefore, tax regulators and Islamic banks must collaborate to review the treatment of expenses according to tax regulations.

Originality – This study fills a research gap by investigating the relationship between SSB characteristics and tax avoidance in Indonesian Islamic banks, which has yet to be discussed in previous papers.

Cite this article:
Naufal, A., Prasojo, P., & Utami, R. D. (2024). Influence of the Shariah supervisory board and bank characteristics on tax avoidance practices at Indonesian Islamic banks. *Jurnal Ekonomi & Keuangan Islam* 10(1): 1-14. https://doi.org/10.20885/JEKI.vol10.iss1.art1

Introduction

Islamic banks (IB) are different from conventional banks because the governance structure of Islamic banks must be in line with the Shariah rules. The IB is required to comply with Islamic principles that prioritize honesty and fairness. Consumer trust in bank products depends on the IB's adherence to the Shariah rules (Nomran et al., 2018). For Islamic banks to comply with Islamic principles, institutions operating according to Islamic principles must be supervised. The IB must have an internal body with authority to supervise and make decisions related to compliance with Shariah principles (Muhammad et al., 2021). Therefore, the SSB exists to ensure the compliance of Islamic banks with Shariah law.

The Shariah supervisory board (SSB) is an additional board consisting of people with expertise in Islamic law and an understanding of contemporary finance (Khan et al., 2018). The

P ISSN 2088-9968 | E ISSN 2614-6908

SSB is responsible for ensuring that the IB operates according to Islamic rules. These responsibilities may include issuing fatwas related to Islamic law, overseeing all bank transactions, inspecting all bank products, and providing opinions on how the bank's Shariah compliance is achieved (Buallay, 2019). In general, the main task of the SSB is to supervise Islamic banks so that they operate according to Islamic values. In addition, the SSB ensures that the IB honestly reports financial reports. IBs are deemed not to follow Islamic values when they do not report their finances honestly, such as lowering the tax burden illegally.

The SSB is a unique part of the Shariah governance. SSB are knowledgeable people in Islamic law who oversee the implementation of Shariah in Islamic financial institutions (Luthan, 2021). The presence of an SSB in the IB is crucial because it ensures that its operations comply with Islamic principles. These responsibilities may include issuing a fatwas, overseeing all transactions, inspecting all products, and providing opinions on compliance with Shariah. The SSB has a role in monitoring IB to comply with Shariah rules (Buallay, 2019).

Formal Shariah compliance is the obligation of Islamic banks to comply with Islamic law (Prasojo et al., 2022; Taufik, 2022). In the context of this research, Shariah compliance is associated with financial reporting free from elements of tyranny, such as non-compliance in recognition of income and expenses. Past research has linked Islamic banks' compliance with unethical practices, such as income smoothing (Ozili & Outa, 2017; Pramono et al., 2019), earnings management (Elghuweel et al., 2017; Kolsi & Grassa, 2017; Muhamad & Sulong, 2019; Muhfiatun et al., 2022), and Islamic accounting conservatism (Almutairi & Quttainah, 2019). To the best of our knowledge, only a few researchers have examined Shariah compliance in terms of tax avoidance. Tax avoidance includes business practices inconsistent with Islamic values. Therefore, this research is essential to investigate the role of the Islamic bank SSB in maintaining Shariah integrity.

This study empirically analyzes the relationship between Islamic governance and tax avoidance, which is helpful for future research. This study provides a starting point for future researchers regarding the relationship between the role of SSB and tax avoidance. The literature examining the relationship between SSB and tax avoidance still needs to be improved. The practice of tax avoidance in Indonesia is closely related to the costs that may be recognized as expenses according to tax law No. 36 of 2008. Regulations in Indonesia allow social activity donations and scholarships to be included in the coverage of deductible expenses, according to the tax law. This regulation acts as a gap for the IB to avoid taxes, which can reduce tax payments to the state treasury (Taufik, 2022). State revenue contributes more broadly to social welfare because it is used to build public facilities, health insurance, and subsidies for people experiencing poverty. IB social donations can receive benevolent funds through corporate social responsibility (CSR) programs. The IB has a better Islamic philosophy and should promote more social functions without tax avoidance. Therefore, this study highlights the role of SSB and the characteristics of IB in tax avoidance as novelties. The results of this study make several contributions, first enriching the literature on Shariah governance and tax avoidance, and second, testing the resource dependence theory (RDT) about the benefits of SSB resources on tax avoidance in IB.

Literature Review

Resource Dependence Theory (RDT)

Resource dependence theory (RDT) assumes that properly managing company resources creates higher added value, thereby increasing company performance (Hillman et al., 2009; Hillman & Dalziel, 2003; Salancik & Pfeffer, 1978). SSB is a crucial resource for Islamic banks. SSB, in the perception of RDT, is a resource because it has expertise, experience, and an excellent societal reputation(Prasojo et al., 2022; Taufik, 2022), thereby supporting Islamic banks in performing better. Tax avoidance causes a decrease in state revenue, thereby hindering development and economic growth (Taufik, 2022). Tax avoidance negatively affects the economy and society; this does not align with Islamic banks, which aim to improve social welfare. Therefore, Islamic banks must follow this mission.

The literature linking SSB characteristics with tax avoidance still needs to be solved. Most of the current literature focuses on linking SSB characteristics with Islamic bank (IB) performance, such as research conducted by Ajili and Bouri (2018), Almutairi and Quttainah (2017), Ben Abdallah and Bahloul (2021), Buallay (2019), Farag et al. (2018), Hakimi et al. (2018), Khan et al. (2018), Nomran et al. (2018), and Prasojo et al. (2022), and linking the characteristics of SSB with Shariah compliance was carried out by Alam et al. (2022) and Muhammad et al. (2021). However, it is challenging to identify literacy that links SSB characteristics with tax avoidance practices.

The literature reveals that many variables related to SSB characteristics can determine how effectively the SSB performs its duties. Variables related to SSB characteristics include size, education level, cross-membership, expertise, reputation, remuneration, and member turnover (Almutairi & Quttainah, 2017; Khan et al., 2018; Muhammad et al., 2021; Nomran et al. al., 2018; Sutapa & Hanafi, 2019) which are associated with tax avoidance. Several studies link firm characteristics (Darma, 2021; Honggo & Marlinah, 2019; Stawati, 2020; Tanjaya & Nazir, 2021; Taufik, 2022; Wulandari & Purnomo, 2021) with tax avoidance. According to recent literature, some IB characteristics include size, age, and profitability of IB (Darma, 2021; Honggo & Marlinah, 2019; Stawati, 2020; Tanjaya & Nazir, 2021; Taufik, 2022; Wulandari & Purnomo, 2021), given the lack of research on the SSB, IB characteristics of IB and tax avoidance. Therefore, researchers have linked these three aspects to one research framework.

Hypotheses

Effect of SSB size on tax avoidance

The SSB's task is to ensure that the IB adheres to Islamic ethical values that cover governance and product aspects. In addition, the SSB is responsible for ensuring Shariah compliance to guarantee depositors and shareholders that IB operations follow Shariah (Almutairi & Quttainah, 2017). The SSB size refers to the number of IB members owns (Muhammad et al., 2021). Agency theory assumes that a small SSB can reduce agency costs and improve member coordination (Quttainah et al., 2011). More SSB members have the potential to raise communication problems. Therefore, a small size can improve coordination and provide more effective supervision (Muhammad et al., 2021). More effective supervision carried out by the SSB will reduce tax avoidance on the IB. The more members of the SSB, the more diverse the educational background and expertise and the reputation of being a member of the MUI, so they contribute more to supervision. More effective supervision by the SSB will reduce IB's tax avoidance. This opinion is supported by the research of Muhammad et al. (2021) and Taufik (2022), which shows that SSB with a small size has a better effect on tax avoidance than a larger size. The first hypothesis was formulated as follows:
H_1: SSB size has a positive effect on tax avoidance behaviour

Effect of cross-member SSB on tax avoidance

Resource dependence theory (RDT) views that companies can be connected to the external environment through cross-member SSB. Cross-membership allows members to provide information about other IB activities and policies (Nomran et al., 2018). There is an exchange of helpful information to find better methods for carrying out duties related to supervision. Sharia-compliant IBs understand that tax avoidance is contrary to Islamic values. Almutairi and Quttainah (2017) and Nomran et al. (2018) showed that cross-member SSB positively impacts IB. Members work in more than one Islamic financial institution to exchange information and improve the supervision of IB directors and operations (Quttainah & Almutairi, 2016). Cross-members can improve the quality of discussions and add perspective and experience in applying Shari' ah rules to IB (Muhammad et al., 2021). The second hypothesis was formulated as follows:
H_2: SSB cross-member has a negative effect on tax avoidance behaviour

The influence of SSB with a doctoral degree on tax avoidance

SSB education level is associated with a doctoral degree in fiqh, Shariah, or Islamic economics (Taufik, 2022). In decision-making, educational qualifications are essential for SSB (Almutairi &

Quttainah, 2017). A high level of education shows the ability to identify problems rationally, ultimately resulting in the most effective problem-solving (Hambrick & Mason, 1984). SSB members with doctoral degrees have valuable information needed for decision-making. Understanding Shari' ah and financial and accounting knowledge helps SSB make high-quality decisions (Khan et al., 2018). The RDT assumes that SSB is an IB resource that plays an essential role in IB supervision (Nomran et al., 2018) to minimize tax avoidance. SSB members with doctoral degrees are considered to have a lot of knowledge and experience in performing better supervision (Luthan, 2021). This argument is in line with the research of Almutairi and Quttainah (2017) and Muhammad et al. (2021) that SSB with a doctoral degree positively influence Shari' ah compliance and IB performance. SSB members with doctoral degrees better understand that committing tax avoidance is an act that is not in line with Islamic ethical values. In addition, paying taxes is a social contribution to the IB because taxes are used to build social facilities, such as schools, hospitals, and other public facilities (Taufik, 2022). The third hypothesis was formulated as follows:
H_3: SSB doctoral level has a negative impact on tax avoidance behaviour

Effect of SSB expertise on tax avoidance

The RDT assumes that the SSB provides essential resources, such as knowledge and experience in finance. SSB members with experience and understanding of the financial sector perform better (Nomran et al., 2018). SSB members who know about finance can ensure that the transactions carried out by IBs do not violate Islamic values. The SSB controls IB activities under Shariah principles. The complexity of banking activities requires that SSB members not only be experts in Shariah but also have expertise in other fields (Khan et al., 2018; Luthan, 2021). SSB members with Islamic accounting and finance expertise qualifications increase the effectiveness of their supervision (Muhammad et al., 2021). The SSB, with expertise in Islamic accounting and finance, has an adequate understanding of auditing financial reports, including taxes, to minimize tax fraud. The fourth hypothesis was formulated as follows:
H_4: SSB expertise has a negative effect on tax avoidance behaviour

Effect of SSB's reputation on tax avoidance

The SSB's reputation is related to credibility in society because it has high knowledge of Islamic law (Almutairi & Quttainah, 2017). In Indonesia, SSB members are elected by the IB board based on the recommendation of the Indonesian Ulema Council (MUI) and the approval of Bank Indonesia. SSB members who have a good reputation are expected to improve IB performance related to Shariah compliance (Nugraheni, 2018). The RDT assumes that the SSB's reputation is a human capital resource owned by the IB (Taufik, 2022). With a good reputation, the SSB will maintain credibility by not doing things contrary to Islamic values, including tax avoidance. Researchers claim that the SSB's reputation improves the quality of IB operational knowledge (Nomran et al., 2018; Nugraheni, 2018; Farook et al., 2011) so thereby reducing tax avoidance (Taufik, 2022). The fifth hypothesis was formulated as follows:
H_5: SSB's reputation has a negative effect on tax avoidance behaviour

Effect of SSB remuneration on tax avoidance

The SSB has complex responsibilities and functions, so having muamalah fiqh educational qualifications and expertise in bank business operations is required. The IB has a more extensive business segment, starting from funding activities, financing, and banking services (Muhammad et al., 2021). The SSB is entitled to receive appropriate compensation due to the magnitude of its responsibilities and roles. According to RDT, SSB is a crucial resource for IB, and compensation is one way for resources to perform better. In addition, compensation motivates the SSB to devote all its resources to overseeing Shariah compliance (Taufik, 2022). This is in line with the RDT, which assumes that SSB is an essential resource for IB. Compensation can improve supervision to reduce tax avoidance in the IB (Muhammad et al., 2021; Taufik, 2022). The sixth hypothesis was formulated as follows:

H_6: SSB remuneration has a negative effect on tax avoidance behaviour

The effect of substitution of SSB on tax avoidance

The change in SSB is a change in members in the current year. Changes in SSB members are considered good indicators because they can provide members with experience, knowledge, and new insights (Nomran et al., 2018). IBs may benefit from changes in the SSB composition, such as the acquisition of new experts. Generally, new members are selected for various reasons, such as increasing the effectiveness of the IB or people selected to have better abilities in several fields (Fox & Opong, 1999). The IB has a complex business that requires SSB to ensure Shariah compliance. SSBs with complete characteristics are in great demand by IBs to minimize tax avoidance (Taufik, 2022). This view is under the RDT's assumption that changing SSB allows IB to obtain varied resources, thereby increasing performance (Nomran et al., 2018). Taufik (2022) shows that changing SSB members can reduce tax avoidance because changing SSB offers better resources due to a higher level of experience and knowledge (Muhammad et al., 2021). The seventh hypothesis was formulated as follows:
H_7: Change of SSB has a negative effect on tax avoidance behaviour

The effect of Islamic bank size on tax avoidance

The bank's size shows the IB's size as measured by the number of assets owned. The higher the total assets owned, the larger the IB size (Honggo & Marlinah, 2019). Significant total assets are one way for a company to prove a more stable condition for generating profits and sustainable performance in the future. Large IB have complex transactions that have the potential to take advantage of tax avoidance loopholes (Barli, 2018). According to the agency theory, management is interested in reducing the tax burden by manipulating profits. This management behavior can result in information asymmetry, which decreases company value (Wardani & Isbela, 2018). Previous research has shown that company size affects tax avoidance (Honggo & Marlinah, 2019; Mocanu et al., 2021; Tanjaya & Nazir, 2021; Wulandari & Purnomo, 2021). Larger IBs have higher operational costs than smaller ones. The IB will carry out more effective tax planning to reduce tax costs (Wulandari & Purnomo, 2021). The eighth hypothesis was formulated as follows:
H_8: The size of IB positively affects tax avoidance behaviour.

Effect of age of Islamic banks on tax avoidance

A longer IB age shows that the company can compete with other banks (Honggo & Marlinah, 2019). Longevity shows much experience in increasing profits and reducing taxes, making tax avoidance easier (Darma, 2021). This aligns with Wulandari and Purnomo's (2021) finding that firm age has a significant positive relationship with tax avoidance. IBs around longer periods tend to have better tax planning abilities, resulting in a smaller tax burden. Good tax planning is related to recognizing transactions according to tax regulations so that they do not violate the Shariah principles. The ninth hypothesis was formulated as follows:
H_9: Age of IB has a positive effect on tax avoidance behaviour.

Effect of Islamic bank profitability on tax avoidance

Profitability is a company's ability to generate profit (Stawati, 2020). Profitability assesses management's performance in managing company assets to generate profit (Dwiyanti & Jati, 2019; Tanjaya & Nazir, 2021). Novriyanti (2020) and Tanjaya and Nazir (2021) show that profitability positively affects tax avoidance. However, these results contradict the research of Arianandini and Ramantha (2018) and Dwiyanti and Jati (2019), who show that profitability has a negative effect on tax avoidance. The greater the profitability of the IB, the more potential it has to report its taxes in real terms. Conversely, IBs with lower profitability have the potential to experience financial difficulties; therefore, they try to reduce the tax burden. IB financial performance is better able to pay taxes, so they try to pay taxes according to actual calculations. The tenth hypothesis is formulated as follows.

H_{10}: IB profitability has a negative effect on tax avoidance behaviour

Research Methods

This study uses a quantitative approach using secondary data. The population and research sample are all IBs in Indonesia that publish annual reports from 2017 to 2021. The total sample comprised 15 banks with 68 observers. The dependent variable in this study is tax avoidance, proxied by the effective tax rate(Amri et al., 2023; Boussaidi & Hamed-Sidhom, 2021; Chouaibi et al., 2022; Menchaoui & Hssouna, 2022; Taufik, 2022). By contrast, the independent variables consist of SSB size, cross-member SSB, SSB with a doctorate, SSB expertise, SSB reputation, SSB remuneration, SSB turnover, size IB, age IB, and profitability. Control variables for other factors that can affect the dependent variable or have the potential to interfere with the test results, including leverage, capital intensity, net cash from operating activities, and sales growth, were added to the test model. Table 1 presents the variables, definitions, and predicted impacts of tax avoidance.

Table 1. Operational Variables

Type of Variable	Name	Abbreviation	Variable Definitions	Predicted Impact on ETR
Dependent	Tax Avoidance	ETR	Tax expense / Profit before Tax (%)	
Independent	Variable SSB characteristics			
	SSB Size	SIZ	Number of SSB members who are in IBs.	+
	Cross SSB Members	CROS	Number of SSB members who work in IBs or other Islamic financial institutions (IFIs)	-
	SSB Education Level	EDU	Number of SSB members who hold the title doctor in field fiqh, syariah or Islamic economics	-
	SSB Expertise	EXP	Number of SSB members who have expertise in the field of accounting, economics, business and law	-
	SSB Reputation	REP	Number of SSB members who work at MUI	-
	SSB Remuneration	REM	Natural logarithm of total remuneration	-
	SSB Turnover	TUR	Dummy variable with value 1 if there is a change in SSB member, and a value of 0 if there is a no change in SSB members	-
	Variable Characteristics of Banks			
	Bank Size	IBZ	Natural logarithm of total assets	+
	Bank Age	AGE	Bank age of date the establishment of a Islamic bank until 2021	+
	Profitability	PRO	Profit after tax /Total assets (%)	-
Control	Leverage	LEV	Total debt / Total assets (%)	
	Capital Intensity	CIN	Asset fixed /Total assets (%)	
	Net Cash from Activity Operation	NCF	Operating cash flow / Total assets (%)	
	Sales Growth	SGR	(Sales *i.* t – Sales *i.* t-1)/ Sales *i.* t-1 (%)	

This study used panel data regression analysis with an unbalanced model. This panel data regression analysis was used to analyze the effects of SSB characteristics and the characteristics of Islamic banks with tax avoidance. The following equation indicates the panel data regression model:

$$ETR_{it} = \alpha + \beta_1 SIZ_{it} + \beta_2 CROS_{it} + \beta_3 EDU_{it} + \beta_4 EXP_{it} + \beta_5 REP_{it} + \beta_6 REM_{it} + \beta_7 TUR_{it} + \beta_8 IBZ_{it} + \beta_9 AGE_{it} + \beta_{10} PRO_{it} + \beta_{11} LEV_{it} + \beta_{12} CIN_{it} + \beta_{13} NCF_{it} + \beta_{14} SGR_{it} + \varepsilon_{it} \quad (1)$$

Where ETR is the effective tax rate proxy for the tax avoidance variable. SIZ is the number of SSB members at the end of a year. CROS is the number of Islamic financial institution members in the same year. EDU is the number of SSB with doctoral degrees at the end of a year. EXP is the number of members with Islamic finance or accounting backgrounds. REP is the number of SSB members in the MUI for the same year. REM is the natural log of total SSB remuneration per year. TUR is the number of SSB member changes in one year. IBZ is the natural log of total assets, age is the age from which the bank was founded until December 31, 2021, and PRO is financial performance proxied by ROA. The LEV is the ratio of debt to total assets. The CIN is the ratio of fixed assets to total assets. NCF is the ratio of operating cash flow to total assets and SGR is the percentage of bank revenue growth in the year of observation from the previous year.

Results and Discussion

Descriptive Analysis

The research data were all Islamic banks (IB) in Indonesia, totaling 15 banks. Table 2 presents descriptive statistical data for each variable. Tax avoidance had a mean value of 0.2451, a maximum value of 0.9473, and a minimum value of -0.4433. The SSB size had a mean value of 2.2205, median value, minimum value of 2.0000, and maximum value of 4.0000. The number of SSB IBs in Indonesia meets the minimum requirements of the OJK with at least two members.

Table 2. Descriptive Statistics

Variable	Mean	Median	Maximum	Minimum	Std. Dev.
Tax Avoidance	0.2451	0.2449	0.9473	-0.4433	0.2208
SSB Size	2.2205	2.0000	4.0000	2.0000	0.4520
SSB Cross-membership	1.9411	2.0000	4.0000	0.0000	0.6665
SSB Education Level	1.2500	1.0000	4.0000	0.0000	0.8353
SSB Expertise	0.6470	1.0000	2.0000	0.0000	0.6638
SSB Reputation	1.4264	2.0000	3.0000	0.0000	0.8161
SSB Remuneration	6.4414	6.3784	8.2429	4.1502	0.6913
SSB Turnover	0.2058	0.0000	1.0000	0.0000	0.4073
Bank Size	16.3412	16.1697	19.3963	13.4028	1.2813
Bank Age	17.7941	11.0000	29.0000	1.0000	15.0923
Profitability	0.0076	0.0061	0.1080	-0.1122	0.0342
Leverage	0.3657	0.2017	0.9682	0.0407	0.2936
Capital Intensity	0.0295	0.0175	0.4631	0.0007	0.0558
Net Cash from Operating Activities	0.0362	0.0398	0.4133	-0.4285	0.1145
Sales Growth	0.1664	0.0535	3.9678	-0.5960	0.6698

An SSB with a doctoral degree has a maximum value of 4.0000 and a minimum value of 0.0000. SSB expertise has a mean value of 0.6470, maximum value of 2.0000, and minimum value of 0.0000. The SSB's reputation has a mean value of 1.4264, maximum value of 3.0000, and minimum value of 0.0000. This result indicates that several IBs do not have SSB with a doctoral degree, have a background in Islamic accounting and finance, and do not have members as members of the MUI.

SSB remuneration has a mean value of 6.4414, maximum value of 8.2429, and minimum value of 4.1502. The lowest remuneration gap, with the highest, was 200 percent. The highest SSB remuneration occurred in IBs with large breasts and vice versa. The substitution of SSB members has a mean value of 0.2058, a maximum value of 1.0000, and a minimum value of 0.0000. SSB changes occurred in only a few banks during the observation period. The majority of IBs keep members the same every year. Islamic bank size has a mean value of 16.3412, maximum value of 19.3963, and minimum value of 13.4028. Islamic bank age has a maximum value of 29,0000 and a minimum of 1,0000. Profitability has a mean value of 0.0076, maximum value of 0.1080, and minimum value of -0.1122.

Leverage had a mean value of 0.3657, a median value of 0.2017, a maximum value of 0.9682, a minimum value of 0.0407, and a standard deviation of 0.2936. Capital intensity has a mean value of 0.0295, median value of 0.0175, maximum value of 0.4631, minimum value of 0.0007, and standard deviation value of 0.0558. Net cash from operating activities has a mean value of 0.0362, median value of 0.0398, maximum value of 0.4133, minimum value of -0.4285, and standard deviation value of 0.1145. Sales growth has a mean value of 0.1664, median value of 0.0535, maximum value of 3.9678, minimum value of -0.5960, and standard deviation of 0.6699.

The multiple regression test was carried out after the classical assumption test and appropriate model selection test using the Chow and Hauman tests. The Chow test aims to choose one of the correct fixed effect models (FEM) and common effect models (CEM) for this study. Based on the Chow test, the cross-sectional Chi-square probability value was 0.0044, less than 0.05 ($P<0.05$), so the appropriate research model was the Fixed Effect Model (FEM). The Hausman test was carried out to determine a suitable model between the fixed effect model (FEM) and the random effect model (REM) as the model of this study. Based on the table above, the cross-section random value with the probability obtained is 0.0570, which is greater than 0.05 ($P> 0.05$), so it can be concluded that the suitable model for this study is the Random Effect Model (REM).

Table 3. Multiple Regression Analysis

Variable	Coefficient	Std. Error	Prob.
C	-0.281478	0.179722	0.1173
SSB Size	0.153352	0.050743	0.0025
SSB Cross-membership	-0.120732	0.032105	0.0002
SSB Education Level	-0.099531	0.024049	0.0000
SSB Expertise	-0.037597	0.031289	0.2295
SSB Reputation	0.048049	0.018516	0.0095
SSB Remuneration	-0.007683	0.028780	0.7895
SSB Turnover	0.011555	0.032013	0.7181
Bank Size	0.044108	0.014519	0.0024
Bank Age	-0.003673	0.001293	0.0045
Profitability	-1.265858	0.398522	0.0015
Leverage	-0.008973	0.089877	0.0004
Capital Intensity	0.059150	0.043216	0.0002
Net Cash from Operating Activities	-0.008794	0.029627	0.2310
Sales Growth	-0.054219	0.015620	0.0671

Hypothesis testing was carried out using the panel data regression analysis presented in Table 3 with the dependent variable of tax avoidance. Before testing the hypothesis, multicollinearity and heteroscedasticity tests were carried out to ensure no multicollinearity between variables and to prevent heteroscedasticity. Based on the multicollinearity test in all the studies, the correlation value was <0.9000; therefore, this study did not experience multicollinearity problems. The results of the heteroscedasticity test for all variables showed a probability value of > 0.05, so that the research data were free from heteroscedasticity problems.

Discussion

The results of the data analysis in Table 3 show that SSB size positively affects tax avoidance behavior (sig. 0.0025 <0.05); therefore, H1 was accepted. The results of this study align with those of Muhammad et al. (2021) and Taufik (2022), who show that smaller SSB sizes have a better effect than large SSB sizes. A small SSB makes it easier to coordinate among members, making communication and supervision more effective (Jensen, 1993; Khanchel, 2007; Yemarck, 1996). Increasingly adequate supervision of the SSB improves the supervisory function so that the IB is more compliant with Islamic values and that they are not tempted to avoid tax. Tax avoidance is not in line with Islamic values, because it is dishonest and detrimental to the state.

SSB cross-membership has a negative effect on tax avoidance (sig. 0.0002 <0.05), so H2 is accepted. This finding aligns with the results of Almutairi and Quttainah (2017) and Nomran et al. (2018). SSB members can reduce tax avoidance because those who work in more than one Shariah financial institution can exchange information. The exchange of information benefits SSB by developing the best methods for supervising bank directors and operations under Islamic guidelines (Quttainah & Almutairi, 2017). The SSB uses the information and experience gained to supervise and ensure that the IB does not avoid tax avoidance. Cross-members will also improve the quality of discussions and add perspective and experience in applying Shari' ah rules to Shari' ah banks (Muhammad et al., 2021).

An SSB with a doctoral degree significantly negatively affects tax avoidance behavior (sig. 0.0000 <0.05); thus, H3 was accepted. The results of this study indicate that the more SSB who have doctoral degrees in fiqh, Shariah, or Shariah economics, the lower the tax avoidance. This aligns with Almutairi and Quttainah (2017) and Muhammad et al. (2021). SSB, who have a scholarly background and a master's degree, better understand the implications of good Shariah in Islamic financial institutions (Farook & Lanis, 2007). SSB members with higher education are considered to have a wealth of knowledge and experience, so they can supervise Islamic banks so that they do not avoid tax more effectively (Luthan, 2021).

SSB expertise does not affect tax-avoidance behavior (sig. 0.2295 > 0.05), so H4 is rejected. This result aligns with Taufik's research (2022), which states that SSB expertise does not affect tax avoidance. The SSB has more tasks, such as issuing fatwas, overseeing all operational aspects of Islamic banks, approving or rejecting banking products, and reporting and expressing opinions on Islamic banks' obligations to avoid tax avoidance (Taufik, 2022). The complexity of SSB tasks requires SSB members to have sufficient experience and knowledge related to the tasks that they own.

The SSB's reputation significantly affects tax avoidance behavior (sig. 0.0095 > 0.05). This statistical result is different from the hypothesis that an SSB's reputation has a negative effect on tax avoidance behavior, so H5 is rejected. SSB members who serve as fatwa regulators in the MUI have more activities than SSB members who do not serve in the MUI. This causes SSB members to be less than optimal in performing their duties. SSB members with a reputation will supervise Islamic banks less than optimally so that they can lead to tax avoidance.

SSB remuneration does not affect tax-avoidance behavior (sig. 0.7895 > 0.05); thus, so the H6 hypothesis was not supported. These results align with Taufik's research (2022), which states that SSB remuneration does not affect the ETR (Effective Tax Rate). High compensation can motivate SSB members to improve their performance. However, as a burden for SSB members, remuneration may be intended as a tax avoidance loophole (Taufik, 2022). SSB members have a good understanding of Islamic law; therefore, they do not consider remuneration as something that can influence them in carrying out their duties. This causes the remuneration to be independent of tax avoidance.

The SSB turnover does not affect tax avoidance (sig. 0.7181 > 0.05), so H7, which states that SSB member turnover has a negative effect on tax avoidance, is not supported. The results of this study indicate that changes in SSB members do not affect tax avoidance. This result aligns with Taufik's research (2022), which states that changing SSB members does not affect ETR (Effective Tax Rate). According to Nomran et al. (2018), SSB member changes can reduce the effectiveness of SSB performance because changes in SSB composition will reduce competent and experienced SSB members. However, according to Muhammad et al. (2021), SSB member turnover offers better resources that are expected to provide a higher level of experience and knowledge. SSB replacement does not affect tax avoidance because the problems encountered by SSB members in each company may be cases that tend to be different, so the experience and knowledge gained by SSB members do not provide significant benefits for Islamic banks.

Islamic bank size positively affects tax-avoidance behavior (sig. 0.0024 <0.05), so the H8 hypothesis is accepted. This research is in line with previous research that shows the effect of company size on tax avoidance (Honggo & Marlinah, 2019; Mocanu et al., 2021; Tanjaya & Nazir, 2021; Wulandari & Purnomo, 2021). Large Islamic banks have more complex activities and operations than small banks. Large Islamic banks have more potential to avoid taxes than small banks. This is because banks' operational costs are significant, so companies take advantage of their resources to reduce the tax burden by carrying out tax planning (Wulandari & Purnomo, 2021).

Islamic banks' age has a negative effect on tax avoidance behavior (sig. 0.0045 <0.05), with a negative beta. These results indicate that H9, which states that the age of Islamic banks positively affects tax avoidance behavior, is rejected. This study shows that the age of Islamic banks can reduce tax avoidance. These results are consistent with research conducted by Silvia (2017), who states that company age has a negative effect on tax avoidance. The longer the company's age, the wider the disclosure of financial information because the company has more experience in disclosing annual reports (Silvia, 2017). The experience gained by the company will result in good management, so that the company can solve various problems encountered and tend to report financial reports honestly.

Islamic bank profitability negatively affects tax-avoidance behavior (sig. 0.0015 <0.05); thus, so the H10 hypothesis is accepted. The results of this study align with those of Novriyanti (2020) and Tanjaya and Nazir (2021), which show that the higher the profitability of a company, the lower the tax avoidance. Companies with high profitability tend to report their taxes more honestly than those with low profitability do. This is because companies with low profitability have the potential to experience financial distress, so they tend to avoid taxes. Meanwhile, companies with high profitability show that they have good performance and are better able to avoid financial difficulties. The philosophy of Islamic banks emphasizes honesty, including prohibiting the manipulation of transaction records. It is inappropriate for Islamic banks to take advantage of the gap in recognizing income and expenses according to fiscal and accounting to reduce their corporate tax. Islamic banks must maintain their reputations and integrity in their operations.

Conclusion

This study analyzes the role of SSB and the characteristics of IB in reducing tax avoidance practices. The results of this study provide evidence that SSB size, reputation, and IB size positively affect tax avoidance. An SSB that is too large reduces the effectiveness of communication. The SSB's reputation in bringing together SSB from various IBs helps to provide discussions regarding Islamic regulations and ethics. A larger size of the IB contributes to increasing tax-deductible costs. Across SSB members, SSB with doctoral degrees, IB age, and IB profitability have a negative effect on tax avoidance. Cross-members and SSB doctoral degrees improve the quality of supervision of analytical acumen to reduce tax avoidance practices when IBs experience increased profitability. SSB expertise, remuneration, and changes in SSB members do not affect tax avoidance. SSB expertise cannot detect tax planning; therefore, it cannot reduce tax avoidance. The SSB's remuneration was not able to motivate it to tighten supervision. SSB replacement should enrich expertise to ensure that supervision is of higher quality.

This study's results have several practical implications. First, regulators in Indonesia must review deductible costs under tax regulations. This regulation allows IBs to avoid taxes under the guise of CSR simultaneously so that the impact of poverty alleviation is less widespread. Second, the IB must have other competencies, such as Islamic finance and accounting experts, considering that the SSB's tasks are more complex than just issuing fatwas. Third, the SSB must improve operational control, including unethical transactions, such as tax avoidance. Fourth, tax avoidance should be used as material for the government's evaluation in improving tax regulations to optimize state tax revenues.

Furthermore, researchers can add to or replace the independent variables studied. The tax avoidance variable can be associated with other variables such as political connections, audit committee characteristics, and institutional ownership.

Author Contributions

Conceptualization: Ahmad Naufal, Prasojo, Ristianawati Dwi Utami
Data curation: Ahmad Naufal, Prasojo

Formal analysis: Ahmad Naufal, Prasojo, Ristianawati Dwi Utami
Investigation: Ahmad Naufal, Prasojo, Ristianawati Dwi Utami
Methodology: Ahmad Naufal, Prasojo
Project administration: Ahmad Naufal
Supervision: Prasojo, Ristianawati Dwi Utami
Validation: Prasojo, Ristianawati Dwi Utami
Visualization: Ahmad Naufal
Writing - original draft: Ahmad Naufal, Prasojo, Ristianawati Dwi Utami
Writing - review & editing: Ahmad Naufal, Prasojo, Ristianawati Dwi Utami

References

Ajili, H., & Bouri, A. (2018). Corporate governance quality of Islamic banks: Measurement and effect on financial performance. *International Journal of Islamic and Middle Eastern Finance and Management*, *11*(3), 470–487. https://doi.org/10.1108/IMEFM-05-2017-0131

Alam, M. K., Rahman, M. M., Runy, M. K., Adedeji, B. S., & Hassan, M. F. (2022). The influences of shari'ah governance mechanisms on Islamic bank performance and shari'ah compliance quality. *Asian Journal of Accounting Research*, *7*, 2–16. https://doi.org/10.1108/AJAR-11-2020-0112

Almutairi, A. R., & Quttainah, M. A. (2019). Corporate governance and accounting conservatism in Islamic banks. *Thunderbird International Business Review*, 61(5), 745–764. https://doi.org/10.1002/tie.22063

Almutairi, A. R., & Quttainah, M. A. (2017). Corporate governance: Evidence from Islamic banks. *Social Responsibility Journal*, *13*(3), 601–624. https://doi.org/10.1108/SRJ-05-2016-0061

Amri, K., Ben Mrad Douagi, F. W., & Guedrib, M. (2023). The impact of internal and external corporate governance mechanisms on tax aggressiveness: Evidence from Tunisia. *Journal of Accounting in Emerging Economies, 13*(1), 43–68. https://doi.org/10.1108/JAEE-01-2021-0019

Arianandini, P. W., & Ramantha, I. W. (2018). Pengaruh profitabilitas, leverage, dan kepemilikan institusional pada tax avoidance. *E-Jurnal Akuntansi Universitas Udayana*, *22 (3)*, 2088–2116. https://doi.org/10.24843/EJA.2018.v22.i03.p17

Barli, H. (2018). Pengaruh leverage dan firm size terhadap penghindaran pajak. *Jurnal Ilmiah Akuntansi Universitas Pamulang*, *6*(2), 223. https://doi.org/10.32493/jiaup.v6i2.1956

Ben Abdallah, M., & Bahloul, S. (2021). Disclosure, shariah governance and financial performance in Islamic banks. *Asian Journal of Economics and Banking*, *5*(3), 234–254. https://doi.org/10.1108/ajeb-03-2021-0038

Boussaidi, A., & Hamed-Sidhom, M. (2021). Board's characteristics, ownership's nature and corporate tax aggressiveness: New evidence from the Tunisian context. *EuroMed Journal of Business*, *16*(4), 487–511. https://doi.org/10.1108/EMJB-04-2020-0030

Buallay, A. (2019). Corporate governance, shariah governance and performance. *International Journal of Bank Islamic and Middle Eastern Finance and Management*, *12*(2), 1753–8394. https://doi.org/10.1108/IMEFM-07-2017-0172

Chouaibi, J., Rossi, M., & Abdessamed, N. (2022). The effect of corporate social responsibility practices on tax avoidance: An empirical study in the French context. *Competitiveness Review: An International Business Journal,* 32(3), 326–349. https://doi.org/10.1108/CR-04-2021-0062

Darma, S. S. (2021). Pengaruh kompensasi manajemen, umur perusahaan dan pertumbuhan penjualan terhadap penghindaran pajak. *Jurnal Disrupsi Bisnis*, *4*(2), 118. https://doi.org/10.32493/drb.v4i2.9551

Dwiyanti, I. A. I., & Jati, I. K. (2019). Pengaruh profitabilitas, capital intensity, dan inventory intensity pada penghindaran pajak. *E-Jurnal Akuntansi Universitas Udayana*, *27*(3), 2293-2321. https://doi.org/10.24843/EJA.2019.v27.i03.p24

Elghuweel, M. I., Ntim, C., Opong, K., & Avison, L. (2017). Corporate governance, Islamic governance and earnings management in Oman: A new empirical insights from a behavioural theoretical framework. *Accounting in Emerging Economies, 7*(2), 190–224. https://doi.org/https://doi.org/10.1108/JAEE-09-2015-0064

Farag, H., Mallin, C., & Ow-Yong, K. (2018). Corporate governance in Islamic banks: New insights for dual board structure and agency relationships. *Journal of International Financial Markets, Institutions and Money*, *54*, 59–77. https://doi.org/10.1016/j.intfin.2017.08.002

Hakimi, A., Rachdi, H., Mokni, R. B. S., & Hssini, H. (2018). Do board characteristics affect bank performance? Evidence from the Bahrain Islamic banks. *Journal of Islamic Accounting and Business Research*, *9*(2), 251–272. https://doi.org/10.1108/JIABR-06-2015-0029

Hillman, A. J., & Dalziel, T. (2003). Boards of directors and firm performance: Integrating agency and resource dependence perspectives. *Academy of Management Review*, *28*(3), 383–396. https://doi.org/10.5465/amr.2003.10196729

Hillman, A. J., Withers, M. C., & Collins, B. J. (2009). Resource dependence theory: A review. *Journal of Management*, *35*(6), 1404–1427. https://doi.org/10.1177/0149206309343469

Honggo, K., & Marlinah, A. (2019). Pengaruh ukuran perusahaan, umur perusahaan, dewan komisaris independen, komite audit, sales growth, dan leverage terhadap penghindaran pajak. *Jurnal Bisnis dan Akuntansi*, *21*(1), 9–26. https://doi.org/10.34208/jba.v21i1a-1.705

Khan, I., & Zahid, S. N. (2020). The impact of shari'ah and corporate governance on Islamic banks performance: Evidence from Asia. *International Journal of Islamic and Middle Eastern Finance and Management*, *13*(3), 483–501. https://doi.org/10.1108/IMEFM-01-2019-0003

Khan, I., Zahid, S. N., & Akhtar, T. (2018). Shari'ah governance and Islamic banks performance: Evidence from South Asia. *South Asian Journal of Management Sciences*, *12*(2), 173–187. https://doi.org/10.21621/sajms.2018122.04

Kolsi, M. C., & Grassa, R. (2017). Did corporate governance mechanisms affect earnings management? further evidence from GCC Islamic banks. *International Journal of Islamic and Middle Eastern Finance and Management, 10*(1), 2–23. https://doi.org/10.1108/IMEFM-07-2015-0076

Luthan, L. (2021). Islamic corporate governance: pengaruh tingkat pedidikan dan keahlian keuangan dewan pengawas syari'ah (DPS) terhadap perilaku pengambilan risiko. *Wahana Riset Akuntansi*, *9*(1), 23. https://doi.org/10.24036/wra.v9i1.111855

Menchaoui, I., & Hssouna, C. (2022). Impact of internal governance mechanisms on tax aggressiveness: Evidence from French firms listed on the CAC 40. *EuroMed Journal of Business.* https://doi.org/10.1108/EMJB-03-2022-0047

Mocanu, M., Constantin, S. B., & Răileanu, V. (2021). Determinants of tax avoidance–evidence on profit tax-paying companies in Romania. *Economic Research-Ekonomska Istraživanja*, *34*(1), 2013–2033. https://doi.org/10.1080/1331677X.2020.1860794

Muhammad, R., Azlan Annuar, H., Taufik, M., & Nugraheni, P. (2021). The influence of the SSB's characteristics toward shariah compliance of Islamic banks. *Cogent Business and Management*, *8*(1). https://doi.org/10.1080/23311975.2021.1929033

Muhfiatun, M., Prasojo, P., Wijayanti, D. M., & Fitrijanti, T. (2022). Linking Islamic corporate social responsibility, sharia governance practices, and earnings management in Islamic banks. *Jurnal Dinamika Akuntansi dan Bisnis, 9*(1), 121–134.

https://doi.org/https://dx.doi.org/10.24815/jdab.v9i1.24262

Najib, H., & Rini. (2016). Shariah compliance, Islamic corporate governance, dan fraud pada bank syari'ah. *Jurnal Akuntansi dan Keuangan Islam*, *4*(2). https://doi.org/10.35836/jakis.v4i2.23

Nomran, N. M., Haron, R., & Hassan, R. (2018). Shariah supervisory board characteristics affect Islamic banks' performance: evidence from Malaysia. *International Journal of Bank Marketing*, *36*(2), 290–304. https://doi.org/10.1108/IJBM-12-2016-0197

Novriyanti, I., & Dalam, W. W. W. (2020). Faktor-faktor yang mempengaruhi penghindaran pajak. *Journal of Applied Accounting and Taxation*, *5*(1), 103–121. https://doi.org/10.33633/jpeb.v5i1.2645

Nugraheni, P. (2018). Shariah supervisory board and social performance of Indonesian Islamic banks. *Jurnal Akuntansi dan Auditing Indonesia*, *22*. https://doi.org/10.20885/jaai.vol22.iss2.art6

Ozili, P. K., & Outa, E. (2017). Bank loan loss provisions research: A review. *Borsa Istanbul Review*, *17*(3), 144–163. https://doi.org/10.1016/j.bir.2017.05.001

Pramono, S. E., Rossieta, H., & Soedarmono, W. (2019). Income smoothing behavior and the procyclical effect of loan loss provisions in Islamic banks: Global evidence. *Journal of Islamic Accounting and Business Research, 10*(1), 21–34. https://doi.org/10.1108/JIABR-09-2014-0032

Prasojo, P., Yadiati, W., Fitrijanti, T., & Sueb, M. (2022). Exploring the relationship between intellectual capital and maqasid shariah-based performance: The moderating role of shariah governance. *Journal of Islamic Marketing,14*(8), 2130-2146. https://doi.org/10.1108/JIMA-07-2021-0226

Rohyati, Y., & Suripto, S. (2021). Corporate social responsibility, good corporate governance, and management compensation against tax avoidance. *Budapest International Research and Critics Institute (BIRCI-Journal): Humanities and Social Sciences*, *4*(2), 2612–2625. https://doi.org/10.33258/birci.v4i2.1968

Salancik, G. R., & Pfeffer, J. (1978). *The external control of organizations: A resource dependence perspective*. Harper & Row.

Slemrod, J. (1989). *Complexity, compliance cost, and tax avoidance. an agenda for compliance research,* The University of Pennsylvania Press.

Stawati, V. (2020). Pengaruh profitabilitas, leverage dan ukuran perusahaan terhadap penghindaran pajak. *Jurnal Akuntansi dan Bisnis*, *6*(2), 147–157. https://doi.org/10.31289/jab.v6i2.3472

Sutapa, S., & Hanafi, R. (2019). Dampak Islamic corporate governance, Islamic social reporting pada kinerja keuangan bank syari'ah di Indonesia. *Jurnal Akuntansi Indonesia*, *8*(2), 155. https://doi.org/10.30659/jai.8.2.155-165

Tanjaya, C., & Nazir, N. (2021). Pengaruh profitabilitas, leverage, pertumbuhan penjualan, dan ukuran perusahaan terhadap penghindaran pajak. *Jurnal Akuntansi Trisakti*, *8*(2), 189–208. https://dx.doi.org/10.25105/jat.v8i2.9260

Taufik, M. (2022). Can shari'ah supervisory board and Islamic bank characteristics reduce tax avoidance? evidence in Indonesia and Malaysia. *Journal of Financial Crime. 30*(3), 677-701.https://doi.org/10.1108/JFC-03-2022-0059

Wardani, D. K., & Isbela, P. D. (2018). Pengaruh strategi bisnis dan karakteristik perusahaan terhadap manajemen laba. *Jurnal Riset Akuntansi dan Keuangan*, *13*(2), 91. https://doi.org/10.21460/jrak.2017.132.283

Wulandari, T. R., & Purnomo, L. J. (2021). Ukuran perusahaan, umur perusahaan, pertumbuhan penjualan, kepemilikan manajerial dan penghindaran pajak. *Jurnal Akuntansi dan Bisnis*, *21*(1), 102. https://doi.org/10.20961/jab.v21i1.626

Zuliana, R., & Aliamin, A. (2019). Pengaruh dewan pengawas syari'ah, intellectual capital, dan corporate social responsibility terhadap kinerja bank syari'ah di Indonesia. *Jurnal Ilmiah Mahasiswa Ekonomi Akuntansi*, *4*(4), 677–693. https://doi.org/10.24815/jimeka.v4i4.15335