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The Role of the Audit Committee in Minimising Tax Avoidance Behaviour in Coal Mining Companies

Muhammad Aganthasyah*, Kusharyanti Kusharyanti, Januar Eko Prasetio
Master of Accounting, Faculty of Economics and Business, Universitas Pembangunan Nasional Veteran Yogyakarta, Yogyakarta
*Corresponding Email addresses: 242232004@student.upnyk.ac.id

Abstract

This study examines the role of the audit committee in minimizing tax avoidance practices in coal mining companies in Indonesia. Tax avoidance practices, although legal, are often controversial because they reduce the company's tax contribution to the state and create injustice among companies that comply with regulations. The mining sector, particularly the coal industry, is one of the sectors vulnerable to tax avoidance practices, particularly through transfer pricing methods and profit shifting to offshore affiliated entities. This study highlights the importance of strong corporate governance, particularly the presence of an independent and competent audit committee, in supporting corporate transparency and accountability. This study uses quantitative methods by observing 28 mining companies listed on the Indonesia Stock Exchange (IDX) during the period 2019-2023. Using multiple linear regression analysis, this study evaluates the effect of Audit committee attributes and control variables such as Return on Assets (ROA) and Debt to Asset Ratio (DAR) on tax avoidance. The results show that the existence of an effective audit committee has a significant influence in reducing tax avoidance practices, while encouraging the implementation of better corporate governance and increasing compliance with tax regulations. These findings are expected to contribute to the development of stricter tax policies and support the improvement of the quality of corporate governance in sectors with a high risk of tax avoidance.

Keywords: Tax Avoidance, Audit Committee, Profitability, and leverage.

INTRODUCTION

Taxes play a central role in sustaining the country's budget and supporting various development programs, yet challenges in tax revenue realization in Indonesia are still significant. One of the main challenges faced by the government is the practice of tax avoidance, where companies use loopholes in regulations to legally reduce their tax liabilities, albeit ethically contentious (Wongsinhirun et al., 2024). This practice has a negative impact on state revenue and creates injustice among companies that comply with tax regulations (Chalevas et al., 2024).

The mining sector, particularly the coal and oil industries, is often a clear example of complex tax avoidance practices, including profit shifting to offshore entities and the use of complex ownership structures (Jiang et al., 2024). One prominent example is the case of PT Adaro Energy Tbk., which allegedly engaged in tax avoidance practices through transfer pricing schemes and income shifting to overseas affiliates. These actions allowed the company to report lower profits in Indonesia, thereby reducing the tax liability it would otherwise have paid (Qi et al., 2023). The case highlights the challenges tax authorities face in enforcing regulations and demonstrates the importance of greater scrutiny (Kerr et al., 2024).

Research shows that weaknesses in corporate governance can exacerbate tax avoidance practices (Dang & Nguyen, 2022). The role of an effective audit committee in the corporate governance structure is critical to ensuring transparency and compliance with tax regulations (Kerr et al., 2024). Companies that have independent and competent audit committees are more likely to comply with tax regulations and reduce the risk of tax avoidance (Al Lawati & Hussainey, 2021).

Tax avoidance practices can create negative perceptions of corporate transparency and accountability, especially if it is known that the company engages in aggressive tax strategies (Qi et al., 2023). This emphasizes the importance of this study, which aims to analyze the influence of corporate governance, particularly the role of audit committees, in reducing tax avoidance practices. This research is expected to contribute to the development of more effective tax policies and encourage better corporate governance in vulnerable sectors (Wongsinhirun et al., 2024).

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Literature Review

Tax avoidance is an action taken by companies to reduce the amount of tax that must be paid by utilizing loopholes in tax regulations. While this practice is legal, it is often considered controversial because it can reduce a company's contribution to state revenues, affect the fair distribution of taxes, and raise ethical implications. The practice usually involves complex tax planning strategies to legitimately reduce the tax burden without violating regulations. Tax avoidance can improve a company's cash flow and provide short-term gains for shareholders. However, the practice also carries risks, such as scrutiny from tax authorities, litigation and reputational damage that can affect the company's image in the eyes of the public and stakeholders (Mappadang, 2021).

The audit committee is an integral part of corporate governance that is tasked with ensuring the reliability of financial statements, monitoring risk management, and ensuring compliance with applicable regulations. The audit committee acts as an independent watchdog that assists the board of commissioners in supervising the company's management. The existence of an effective audit committee can help detect tax avoidance practices that can harm the company and stakeholders. The committee also serves to minimize financial risk through quality internal audits and oversight of external auditors. An audit committee with expertise, adequate size, and proportional tenure plays a significant role in maintaining the integrity of the company's financial statements (Purnomo & Eriandani, 2022).

Agency theory posits that the separation of ownership and control within corporations can lead to agency conflicts, where managers may prioritize their own interests over those of shareholders (Sewpersadh, 2022). This theory suggests that higher managerial ownership aligns the interests of managers with those of shareholders, thereby reducing the likelihood of tax avoidance motivated by self-interest. When managers hold a significant portion of shares, they bear a greater cost for actions that may diminish shareholder value, which can lead to more responsible tax practices(Wongsinhirun et al., 2024). Consequently, the alignment of interests through managerial ownership serves as a crucial governance mechanism that mitigates agency conflicts and promotes sustainable corporate behavior.

Hypothesis Development

Tax avoidance practices are influenced by various internal and external factors of the company. One of the main factors that play a role in minimizing tax avoidance is corporate governance. A good governance structure, such as the existence of an effective audit committee, an independent board of commissioners, and adequate audit quality, is very effective in suppressing tax avoidance practices (Purnomo & Eriandani, 2022). Close supervision by the audit committee and the independence of the board of commissioners can prevent corporate behavior that tends to reduce tax liabilities (Tania & Mukhlasin, 2020).

Conversely, companies with weak governance are more susceptible to tax avoidance practices due to the lack of internal controls and effective supervision (Purnomo & Eriandani, 2022). Audit committees play an important role in ensuring a company's compliance with tax regulations and the integrity of financial reporting, which can help minimize tax avoidance practices (Dang & Nguyen, 2022). A strong and independent audit committee can increase corporate transparency and accountability, making it more difficult for internal stakeholders to engage in tax avoidance practices (Jiang et al., 2024).

Research shows that the existence of an effective audit committee has a significant effect on reducing tax avoidance practices. (Purnomo & Eriandani, 2022) stated that companies that have audit committees with high levels of independence and expertise tend to have lower levels of tax avoidance. Similar results were found in a study by (Kerr et al., 2024), which confirms that companies with active audit committees are more compliant with tax regulations and more transparent in their financial reporting.

The role of audit committees in reducing tax avoidance practices remains a major concern in an effort to improve corporate compliance with tax regulations. The focus on improving the quality and effectiveness of audit committees in companies, especially in the coal mining sector, is expected to help minimize tax avoidance practices and support the stability of state revenues (Purnomo & Eriandani, 2022).
H1: The audit committee has a negative effect on tax avoidance.

METHODS

This research is quantitative with an explanatory approach, aiming to analyze the effect of audit committee effectiveness on tax avoidance in mining sector companies in Indonesia. The population of this study is all mining companies listed on the IDX during the period, and the sample was taken using purposive sampling technique based on certain criteria, resulting in 28 mining companies with a total of 130 observations, where each company has data for three consecutive years from 2019 to 2023. Sample selection criteria include:

1. Companies that have complete financial statement data for the period 2019-2023
2. Annual report that includes information on profit before tax, total assets, number of audit committee members, Return on Assets (ROA), and Debt to Asset Ratio (DAR).

The data collection technique uses the documentation method, namely by collecting, recording, and reviewing secondary data in the form of annual financial reports from mining companies listed on the Indonesia Stock Exchange (IDX) for the period 2019-2023, which are obtained through the official IDX website.

The research variables consist of the dependent variable, namely tax avoidance, which is defined as a legal action by taxpayers to minimize taxes payable by taking advantage of loopholes in tax regulations (Purnomo & Eriandani, 2022). The proxy to measure tax avoidance is the Effective Tax Rate (ETR), calculated by the formula:

$$\text{Effective Tax Rate (ETR)} = \frac{\text{Tax expense}}{\text{Profil Before Tax}}$$

The ETR ratio was chosen because it is able to accurately reflect the level of corporate tax avoidance by using total assets as the denominator. This allows companies to assess the effectiveness of reducing the tax burden according to the scale of the company, providing more representative and objective results. The independent variable in this study is (1) the Audit Committee, which is measured by the number of audit committee members. Additionally, the control variables include (2) Return on Assets (ROA), which measures the company's profitability in generating profits from its assets, and (3) Debt to Asset Ratio (DAR), which assesses the proportion of debt relative to the company's total assets. ROA is calculated using the following formula:

$$\text{Return on Asset (ROA)} = \frac{\text{Net Profit}}{\text{Assets}}$$

And (3) Debs to Asset Ratio, which is a ratio that measures the proportion of assets funded by debt and is calculated by the formula:

$$\text{Debt to Asset Ratio (DAR)} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Based on the explanation of the previous research variables, the data analysis technique in this study uses multiple linear regression to test the effect of the independent variable on the dependent variable. Multiple linear regression, according to (Ghozali, 2021), regression is a statistical method for measuring the effect of more than one independent variable on one dependent variable, which can determine the magnitude of the influence and direction of the relationship of each independent variable on the dependent variable. The regression model used in this study is:

AVOID = α + β_1 (Audit Committee) + β_2 (ROA) + β_3 (DAR) + e

Description:

AVOID	: Tax avoidance
α	: Constant (intercept)
β	: Regression coefficient of the independent variable on the dependent variable
Audit Committee	: Number of audit committee members,
ROA	: Return on Assets
DAR	: Debt to Asset Ratio
e:	: error.

RESULT AND DISCUSSION

Result

Descriptive Test

In this study, descriptive statistical analysis was applied to provide an overview or description of the data based on the mean value, standard deviation, variance, maximum value, minimum, number, range, kurtosis, and skewness (Ghozali, 2021). Descriptive statistics are used to explain various variables that are analyzed, including the audit committee, company size, public accounting firm, number of board of commissioners, level of complexity, independent commissioners, and profitability.

Tabel 1. Descriptive statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Tax Avoidance	130	-5176.0154	81.3820	-50.244697	457.5703488
Komite Audit	129	2.00	5.00	3.1008	0.63547
ROA	130	-354.00	92.00	8.3603	36.47820
DAR	130	-0.76	204.00	25.6000	36.09229

Table 1 shows the descriptive statistics of the research variables on a scale or ratio. The data shows that the number of samples analyzed is 129-130. The Tax Avoidance variable has a minimum value of -5176.0154 and a maximum value of 2.00. The mean value for this variable is 457.5703488, with a standard deviation of 457.5703488. The audit committee variable has a minimum value of 2 and a maximum value of 5. The average value for this variable is 3.1008, with a standard deviation of 0.63547. The ROA variable has a minimum value of -354.00 and a maximum value of 92. The average value for this variable is 8.3603, with a standard deviation of 36.47820. The DAR variable has a minimum value of -76 and a maximum value of 204. The average value for this variable is 25.6000, with a standard deviation of 36.09229.

Classical Assumption Test

A regression model is considered fit if there is no violation of errors or classical assumptions. Therefore, this study requires a classic assumption test to ensure the validity of the regression model. The classical assumption test consists of normality test, multicollinearity test, and autocorrelation test.

The Normality Test is carried out to ensure that the confounding or residual variables in the regression model have a normal distribution. The following are the results of the normality test in this study.

Tabel 2. Normality Test Results

Description	Unstandardized Residual
N	13
Asymp. Sig. (2-tailed)	0.200[c,d]

Based on Table 2. the value of Asymp. Sig. (2-tailed) value of 13, which indicates that the significance value is greater than 0.05. Thus, it can be concluded that the residual data in this study are normally distributed.

Regression model testing is carried out to analyze data to determine whether there is a correlation or relationship between independent variables with one another (Ghozali, 2021). The following are the results of the multicollinearity test in this study:

Tabel 3. Multicollinearity Test Results

Independent Variable	Tolerance	VIF	Description
Audit Committee	0.579	1.726	No multicollinearity
ROA	0.930	1.075	No multicollinearity
DAR	0.612	1.635	No multicollinearity

Based on Table 3, the Variance Inflation Factor (VIF) value for all independent variables is below 10, and the tolerance value is above 0.1. This indicates that there is no linear relationship between the independent variables in the regression model, so it can be concluded that this model is free from multicollinearity problems.

The heteroscedasticity test aims to determine whether there are differences in the variance of the residuals between one observation and another in the regression model. The following are the results of the heteroscedasticity test conducted in this study.

Tabel 4. Heteroscedasticity Test Results

Independent Variable	Sig.	Alpha
Audit Committee	0.267	0.05
ROA	0.896	0.05
DAR	0.827	0.05

Based on the test results in Table 4 regarding Heteroscedasticity Results, all variable significant values are above 0.05. Therefore, it can be concluded that the regression model used in this study does not experience heteroscedasticity.

Autocorrelation testing aims to ensure that errors that occur in one previous year do not repeat in the following year. The Autocorrelation test is performed using the Durbin Watson value as follows:

Tabel 1. Autocorrelation Test

Du	Durbin Watson (Dw)	4-Du	Equation	Description
1.7291	1.939	2.271	Du < Dw < 4-Du	No Autocorrelation

Based on table 5, the Autocorrelation Test results show the values of Du, Dw, and 4-Du which fulfil the order Du < Dw < 4-Du. It can be concluded that there is no autocorrelation.

Hypothesis Test

Determination Coefficient Test

The coefficient of determination (R2) essentially measures how far the model's ability to explain variations in the dependent variable.

Tabel 6. Determination Coefficient Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.658a	0.433	0.311	1.37875

Based on the test results in Table 6 regarding the Determination Results, a small R2 value means that the variable ability of the independent variables in explaining the variation in the dependent variable is very limited. Values close to one independent variables provide almost all the information needed to predict variations in the dependent variable (Ghozali, 2021). Based on the results of the

SPSS output above, it shows that the coefficient of determination Adjusted R square 0.311. These results indicate that 31,1% of the independent variables affect the audit committee (Y) and the remaining % is influenced by other variables not included in the research model.

F Statistical Test

The F statistical test is used to determine whether the independent variables included in the model have a simultaneous influence on the dependent variable or not (Ghozali, 2021). This test provides an overview of the collective contribution of the independent variables to the variation that occurs in the dependent variable.

Tabel 7. F statistical test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.283	3	6.761	3.557	0.042[b]
	Residual	26.613	14	1.901		
	Total	46.896	17			

Based on table 7. F statistical test, the regression results obtained a significance value (F-statistic) of 0.042, which is smaller than the significance level of 0.05 (0.042 <0.05). This indicates that the independent variables in the model together have a significant influence on the dependent variable.

Partial T Test

The partial T-test aims to assess the effect of each independent variable on the dependent variable in the regression model individually.

Tabel 8. F statistical test

Independent Variable	B	Std. Error	Beta	t	Sig.
Audit Committee	-3.032	1.056	-0.760	2.872	0.012
ROA	-0.283	0.218	-0.272	-1.302	0.214
DAR	0.172	0.272	0.163	0.632	0.537

Based on table 8. This partial T-test determines the significance of the effect based on the p-value; if $p < 0.05$, the effect of the variable is considered significant (Ghozali, 2021).

1. The Audit Committee variable has a coefficient of -3.032 with a significance value of 0.012, which is greater than alpha 0.05. This shows that H1 is supported, so it can be concluded that the audit committee variable has a significant effect on tax avoidance.
2. ROA has a significance value of 0.214, which is higher than alpha 0.05. This shows that it can't be concluded that the ROA variable controls not significantly on tax avoidance.
3. DAR has a significance value of 0.537, which is higher than alpha 0.05. This shows that it can't be concluded that the DAR variable controls not significantly on tax avoidance.

CONCLUSION

The results of this study examine the role of the audit committee in minimising tax avoidance practices in coal mining companies in Indonesia. Specifically, this study focuses on 32 mining companies listed on the Indonesia Stock Exchange (IDX) during the period 2021-2023, using the multiple linear regression analysis method. This study aims to evaluate how the presence of an audit committee and other factors, such as Return on Assets (ROA) and Debt to Asset Ratio (DAR), affect tax avoidance practices.

The main results of the study show that an effective audit committee has a significant influence in reducing tax avoidance practices. This is because the audit committee plays an important role in maintaining transparency and accountability, which encourages companies to comply with applicable tax regulations. With an independent and competent audit committee, companies are more likely to report financial conditions honestly, reducing the use of transfer pricing and profit shifting methods abroad that are commonly used to avoid taxes.

In addition, this study also found that the profitability variable measured through ROA has no significant effect on tax avoidance, while leverage measured through DAR has a significant effect. This shows that the financial structure of the company, especially the proportion of debt, can affect the company's tendency to conduct tax avoidance.

This finding provides an important contribution to the development of tax policy in the mining sector, especially in building better corporate governance through strengthening the role of the audit committee. Tax avoidance in a company is influenced by various internal and external factors, one of which is good corporate governance. Solid governance structures, such as the existence of effective audit committees, independent boards of commissioners, and quality audits, are proven to be able to suppress tax avoidance practices. Close supervision by the audit committee and the independence of the board of commissioners can inhibit corporate actions that tend to reduce tax obligations. Conversely, companies with weak governance are more vulnerable to this practice due to weak internal controls and supervision. Audit committees have an important role in maintaining corporate compliance with tax regulations and the integrity of financial reporting, which in turn can reduce the risk of tax avoidance. An independent and competent audit committee can increase corporate transparency and accountability, thereby reducing opportunities for internal stakeholders to engage in tax avoidance. Research shows that companies with independent and highly skilled audit committees tend to have lower levels of tax avoidance. This confirms that improving the quality and effectiveness of audit committees, especially in the coal mining sector, has the potential to support corporate tax compliance and support the stability of state revenues. The previous statement is in line with research (Purnomo & Eriandani, 2022) found that the effectiveness of the audit committee can significantly reduce tax avoidance activities.

Future research is expected to expand the scope of industry sectors studied, such as banking and manufacturing, to test the relevance of the findings in other sectors as well as explore additional factors that affect tax avoidance, such as corporate ownership characteristics, remuneration policies, and ESG regulations. The follow-up study may also examine moderating variables such as audit quality and audit committee experience to understand the factors that moderate the relationship between audit committees and tax avoidance. These findings contribute to the corporate governance literature by highlighting the role of audit committees in financial transparency and tax compliance and have implications for the development of more effective tax policies, particularly in sectors with high tax avoidance risk such as mining. For practitioners and policymakers, the results of this study can strengthen governance mechanisms to reduce tax avoidance loopholes and encourage more responsible tax reporting.

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