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Tax Avoidance, Corporate Governance, Leverage, and Earnings Quality

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Abstract

This study aims to examine the effect of tax avoidance, corporate governance, and leverage on earnings quality leverage. The research method used in this study is descriptive and verification. The population target in this study is banking companies listed on the Indonesia Stock Exchange (IDX) with observations in 2012-2017. We used 89 sample year sobserved. Data to be used in research is secondary data in the form of data from annual reports and company financial statements. Validity and reliability testing is done before testing the hypothesis. This study uses the SPSS Version 25 analysis technique. The conclusion of tis research shows that tax avoidance, institutional ownership, independent commissioners, independent auditor, and leverage affect the quality of earnings by 31.1%. Almost 69.9% is explained by other variables outside the model.
Keywords: tax avoidance, corporate governance, leverage, earnings quality.

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INTRODUCTION

Previous researchers have used various measuring instruments as indicators of "earnings quality" including persistence, accruals, smoothness, timeliness, loss avoidance, investor responsiveness, and also external measures such as restatements and rules of Security and Exchange Comissions (SEC). Until now experts are still arguing about the most appropriate measure of profit quality. The quality of earnings depends on the context of the decision [1]. Results research by Dechow's directs companies to optimize earnings quality as a fundamental function to supporting company performance. The contribution of the company's fundamental performance is a reflection of a better future for the company.

Previous research about quality of earnings is more often viewed from the financial sector. The effect of tax avoidance (tax avoidance) on earnings quality with earnings management as a measure of earnings quality has been done by [2, 3]. The results of the study show that due to conflicts of interest between managers and shareholders, opportunist managers will try to maximize their own interests by avoiding taxes. Tax avoidance techniques provide space for opportunistic managers to engage in profit-seeking goals and manage income in ways that provide benefits to managers and that do not benefit shareholders [4, 5]. Companies that are consistent with the idea that corporate governance is one of the factors that can reduce agency costs; that better governance in related public companies is therefore, by filtering through limiting opportunism with less information asymmetry between management management behaviors, can lead to increased quality and and shareholders[6].

Research on the role of corporate governance (CG) on the achievement of financial performance has been carried out by [7]. Research conducted on State-Owned Enterprises (SOEs) which concluded that CG had no significant effect on financial performance. Optimal financial performance is expected to optimize profit achievement. Agency conflict can be minimized by prioritizing the interests of shareholders; managers must implement a strategy that is consistent with maximizing shareholder wealth through improving the quality of corporate earnings. Corporate governance is expected to produce better quality earnings. Some of the previous findings have found a significant relationship of corporate governance and earnings management as a measure of earnings quality. Effective implementation of corporate governance (CG) is expected to maintain the quality of corporate earnings [8].

Research that links between tax avoidance and corporate governance practices and their impact on earnings quality is still little done in Indonesia. The results of the study [9] investigated the role of corporate governance mechanisms in influencing the relationship between tax avoidance and earnings management by surveying manufacturing companies

on the Indonesia Stock Exchange (IDX). Research shows that manufacturing companies in Indonesia apply tax avoidance in the form of earnings management actions. This result also shows that among the three indicators of the corporate governance mechanism of institutional ownership that can reduce the effect of tax avoidance on management income; while the board of commissioners and independent commissioners do not.

There are opinions that taxes are paid by companies is the transfer of wealth from companies to shareholders [10, 11] causing shareholders to encourage management to be more aggressive towards taxes that can lead to tax avoidance practices. Tax avoidance practices can increase the company's cash flow and the company's wealth flow which leads to an increase in shareholders' wealth. This action is supported by the assumption that the tax effect on a company's financial decision making encourages management companies to practice tax avoidance in order to generate wealth transfers from government to shareholders [5].

Slemrod [12], Chen and Chu [13], and Crocker and Slemrod [14] conclude the relationship between tax avoidance activities and agency problems in publicly owned companies. Tax avoidance activities carried out by companies that can be used by managers to conduct earnings management. Management will try to optimize its benefits by carrying out opportunistic actions that harm the company because it will reduce the quality of earnings. The existence of agency problems might raise the question of whether tax avoidance measures are carried out by the company for the benefit of shareholders. The application of various schemes, methods, scenarios, and tactics of tax avoidance activities is instead used as a tool to optimize the personal interests of management that are not aligned with the company's goals. Ramadan [15] revealed that financial leverage, corporate performance, investment decisions and conservation of accounting, with control variables: firm size and cash holding had a significant direct impact on Profit Quality. This study uses a sample of 58 manufacturing companies listed on Amman Stock Exchange (ASE). The results of the study of Hassan & Farouk [16] in Nigeria found that leverage, liquidity and company growth had a significant positive effect on earnings quality, but the size of the company, Corporate governance as measured by institutional ownership and profitability had a significant but negative effect on Profit Quality.

Research on the effect of leverage, sales, firm size, operating cycle, performance and industry classification on Profit Quality with proxies: accrual quality, persistence, predictability, smoothness, and the quality of factorial earnings conducted by Pagalung & Sudibdyo [17]. This research was conducted in the period of 2005 to2010. The results of the study show that the leverage variable has a significant relationship with the five proxies of earnings quality, sales and firm size that have a significant effect on four earnings quality proxies. The operating cycle, performance and industry classification also have a positive effect on earnings quality proxies. Tax management efforts carried out by tax payers to minimize the tax burden can be done through tax avoidance and tax evasion. The tax avoidance category is a legal tax management action because it uses more "loopholes" in the tax regulations applicable in Indonesia. The absence of a clear regulation on tax avoidance between legal and illegal makes this very common for companies [18].

Related Litherature and hypotheses development

Tax Avoidance

Tax evasion is an effort that leads to a criminal act in the field of taxation illegally and is outside the frame of tax provisions (unlawfull) [18]. So that it can be clearly distinguished between tax avoidance and tax evasion. A good tax planning is needed for the tax burden borne by the taxpayer. The actions or efforts of the company to carry out tax avoidance business show the level of aggressiveness towards taxes. The greater the company's efforts to avoid taxation, the more aggressive the company is towards taxes. Tax avoidance is an effective tax plan, namely minimizing/reducing the tax burden through schemes / transactions that are clearly regulated in tax laws and their nature does not cause disputes between taxpayers and tax authorities because they use tax provisions loopholes. a country [19-23]. In Indonesia known only two steps taxpayers in reducing taxes owed or taxes that must be paid, tax avoidance and tax evasion [18].

The definition of tax evasion according to Darussalam and Septriadi [20] is a scheme to reduce taxes that owed by violating illegal tax provisions such as by not reporting a portion of sales or minimizing costs in a fictitious way. In many other countries there are tax avoidance arrangements that include permissible tax avoidance (acceptable tax avoidance) and unacceptable tax avoidance. Unacceptable tax avoidance can also be categorized as aggressive tax planning [21, 24]. In Indonesia there is no law that regulates a clear definition of acceptable tax avoidance & unacceptable tax avoidance, so that in practice there is often a different interpretation between taxpayers and tax officials [20].

Corporate governance

Corporate Governance is defined as a system for directing and controlling a company. The same definition was stated by Wahyudin Zarkasyi [25], Good Corporate Governance is a system (input, process and output) and a set of rules that regulate relations between various stakeholders (stakeholders) especially in the narrow relationship between

shareholders, board of commissioners, and board of directors to achieve corporate objectives. Governance regulates the division of duties, rights and obligations of those who have an interest in the life of the company, including shareholders, the board of directors, managers and all members of non-shareholder stakeholders. Corporate governance also presents the provisions and procedures that must be considered by the board of directors and directors in decision making, the company has a handle on how to determine corporate objectives and strategies to prevent these targets. The division of tasks, rights and obligations above also serves as a guide on how to evaluate the performance of the board of directors and company management. The application of corporate governance to the company is expected to minimize agency problems, because in terms of its definition, corporate governance is the ways in which company management (directors) are responsible to company owners or shareholders [26].

Corporate Governance is a system that regulates and controls a company that is expected to be able to provide and increase company value to shareholders [27]. The relationship between corporate governance and avoidance tax is caused by tax avoidance transactions that are usually very complex. Process that allows managers to engage in any activity that endangers shareholders. Asymmetric information between the two causes a high opportunity for managers to commit deviations by using the choice of using the accounting method. Corporate governance mechanisms can be used to assist companies in aligning interests between owners and management [28]. Mechanism Corporate governance is clear rules, procedures, and relationships between the parties that make decisions and those who control/ supervise decisions taken.

Leverage

Leverage is the level of a company's debt to finance assets. The use of debt will be responded negatively by investors because investors will assume that the company will prioritize debt payments rather than paying dividends. If most of the company's assets are financed by debt compared to its own capital, then the company is considered unable to maintain a financial balance in the management of intermediate funds available capital with the capital needed is a ratio that is intended to measure up to what amount the company's assets are financed by long-term and short-term debt.Leverage is usually used to describe the company's ability to optimize the use of assets or funds that have a fixed burden to increase the level of income for the owner of the company. By increasing the leverage, this will mean that the level of uncertainty of the return that will be obtained will also be higher. From the high level of uncertainty, the expected rate of return will be higher along with the level of risk faced by the company. Lukman in Delvira [29] revealed that the risk here is intended from the uncertainty of the company's ability to pay its fixed obligations.

Leverage is the ratio between total debt and total assets used by companies to measure the extent to which assets in a company are financed by debt. Leverage is a variable to find out how much the company's assets are financed by company debt. The leverage variable is measured according to the research A. Zubaidi Indra *et al*. [30].Companies use operating and financial leverage with the aim that the profits obtained outweigh the costs of assets and sources of funds, thereby increasing shareholder profits. Conversely, leverage also increases profit variability (risk), because if the company gets a lower profit than its fixed costs, the use of leverage will reduce shareholder profits.Leverage can also be used to measure the solvency level of a company that shows the company's ability to fulfill all its financial obligations, both long-term and long-term. Various financial ratios can be used to measure risk in relation to companies that use leverage on their capital structure as follows:

- Debt Ratio
- Debt to Equity Ratio
- Ratio of profit to interest (Time Interest Earned)
- Fixed Charge Coverage Ratio

Earnings Quality

According to Valipour & Moradbeygi [31] the quality of earnings is profits that are reported to help users make better decisions. A better decision in this case is that the user is not wrong in making a decision. Every user of earnings information certainly wants to obtain high-quality earnings information. This means that reported profits can reflect the company's performance conditions in the current period and subsequent periods.Investors, through securities analysts are generally based more on economic profit to predict cash flow or company stock returns in the future. Darsono and Ashari in Widjaja [32], stated that the indication of the high quality of earnings can be realized into cash. This is due to the high correlation between earnings and operating cash flows indicating that reported profits reflect the underlying economic performance of the company. So that companies that report profits that are not balanced with operating cash flows can be said to have low quality.

The Hypotheses Development

The Relationship between tax avoidance to earnings quality

Tax avoidance can be done if managers who manage earnings will avoid more taxes because avoidance does not receive direct supervision from shareholders. This is possible because the Corporate Tax Avoidance (CTA) technique is natural (natural) and the tax function does not have direct benefits to the company [5, 33, 34]. With the assumption that by

taking tax avoidance measures, it can maintain company profits and also the position of shareholders outside the company who cannot directly monitor management actions or it can be said to reduce the ability of shareholders to monitor manager's behavior. Schipper [35].The results of previous studies indicate that due to conflicts of interest between managers and shareholders, opportunist managers will try to maximize their own interests by avoiding taxes. Tax avoidance techniques provide space for opportunistic managers to engage in profit seeking and manage income in ways that benefit managers and that do not benefit shareholders [4, 5].

H1: There are positive significance effects between tax avoidance and earnings quality.

The Relationship between corporate governance to earnings quality

Companies which consistent with the idea that corporate governance is one of the factors that can reduce agency costs; better governance in related public companies is therefore, by filtering through limiting opportunism with less information asymmetry between management management behaviors, can lead to increased quality and and shareholders [6]. Corporate governance is expected to be able to produce better quality earnings. Some of the previous findings have found a significant relationship of corporate governance and earnings management as a measure of earnings quality. Effective implementation of correct governance (CG) is expected to be able to and maintain the quality of corporate earnings [8]. The results of the study [9] investigated the role of corporate governance mechanisms in influencing the relationship between tax avoidance and earnings management by surveying manufacturing companies on the Indonesia Stock Exchange (IDX). Research shows that manufacturing companies in Indonesia apply tax avoidance in the form of earnings management actions. This result also shows that among the three indicators of the corporate governance mechanism of institutional ownership that can reduce the effect of tax avoidance on management income; while the board of commissioners and independent commissioners do not.

H2: There are positive significance effects between corporate governance and earnings quality.

The Relationship between leverage to earnings quality

Previous studies analyzed earnings management as a proxy for assessing earnings quality based on discretionary accruals to capture actions opportunistic management [37]. Some researchers use discretionary accrual proxies to examine companies that take action to manipulate earnings [37, 38]. The impact of leverage on earnigs quality in Brazil by evaluating the risk of the company regarding the existence of debt. Previous research revealed that companies tend to avoid presenting financial statement losses. Burgstahler and Dichev [39] and De George, Patel, and Zechhauser [40], show that investors want to get positive results. Companies with higher leverage ratios have higher incentives to take earnings management actions that can reduce lab quality. Management gets pressure to give satisfactory results to creditors so that they provide loans to the company. According to Matsumoto [41] management will avoid a significant increase in profits.

Research on the effect of leverage, sales, firm size, operating cycle, performance and industry classification on Profit Quality with proxies: accrual quality, persistence, predictability, smoothness, and the quality of factorial earnings performed by Pagalung& Sudibdyo [17]. This research was conducted in the period 2005 to 2010. The results showed that the leverage variable has a significant relationship with five proxy earnings quality; sales and firm size significantly influence the four proxy quality earnings. The operating cycle, performance and industry classification also have a positive effect on earnings quality proxies.

H3: There are positive significance effects between leverage and earnings quality

Sample, variables, and descriptive statistics
Sample selection

The population used in this study is all banking companies listed on the Indonesia Stock Exchange (IDX) for the period 2012 to 2017. The samples selected in this study used the sampling method with criteria (purposive sampling).The following are the criteria used for sampling:1) Banking companies are listed on the IDX for the period 2012 to 20172) Banking companies that provide information needed for research(period 2012 to 2017)3) Banking companies that have not suffered losses in a row during the study period (2012 to 2017).4) Companies that meet the criteria for implementing Corporate Governance, namely the composition of the board of commissioners is at least 30%, and presents all financial statements based on the data needed to support the research. Data collection techniques took by purposive sampling method with certain criteria. This study uses secondary data in the form of issuer's financial statements on the Indonesia Stock Exchange (IDX) in

the period 2012 to 2017. The data of this study were obtained from website www.idx.co.id (http://web.idx.id/).

Measurement Variables

We used multiple regression analysis with SPSS Version 25. The results of the regression analysis are in the form of coefficients for each independent variable. To test the hypotheses above, the regression equation will be used as follows:

$$EQ = \beta 0 + \beta 1ETR + \beta 2IO + \beta 3IC + \beta 4AC + \beta 5LV + \varepsilon...$$

EQ = Earnings Quality

ETR = Effective Tax Rate

IO = Institusional Ownership

IC = Independent Commissioner

AC = Audit Committee

LV = Leverage

RESULTS AND DISCUSSION

Descriptions of variables in descriptive statistics used in this study include the minimum, maximum, mean, and standard deviations of one dependent variable, namely earnings quality and five independent variables, namely Tax avoidance, institutional ownership, independent comissioner, audit committee, and leverage.

Table-4.1: Statistics Descriptive

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
TA	89	-,12	,60	,2329	,08576
IO	89	11,03	97,54	67,1252	18,83330
IC	89	33,33	80,00	56,6100	9,70318
AC	89	25,00	100,00	55,3431	14,75244
LV	89	,00	14,75	6,6978	2,68966
EQ	89	-1,16	1,47	,3956	,46351
Valid N (listwise)	89				

Sumber: Data dari IDX (diolah)

We analyzed 114 year firms in the regression. However, after testing classical assumptions, we found that the collected data didn't pass the classical assumption test. So, an outlier test is done to produce better data. Outlier data is the data significantly different from other data. Detecting the presence of outliers can be done by determining the threshold value which is categorized as an outlier by converting the value of the research data into a standard score, also called the Z-Score. The threshold values used in this study are those that have a Z-Score value above 3 or below -3 so the research data that has a standard score above 3 or below -3 is stated as an outlier [42]. After conducting the Z-score test, it is known that from the collected data there are 25 samples that must be discarded because it is an outlier data, so that only 114 - 47 = 89 companies will be used as samples in this study.

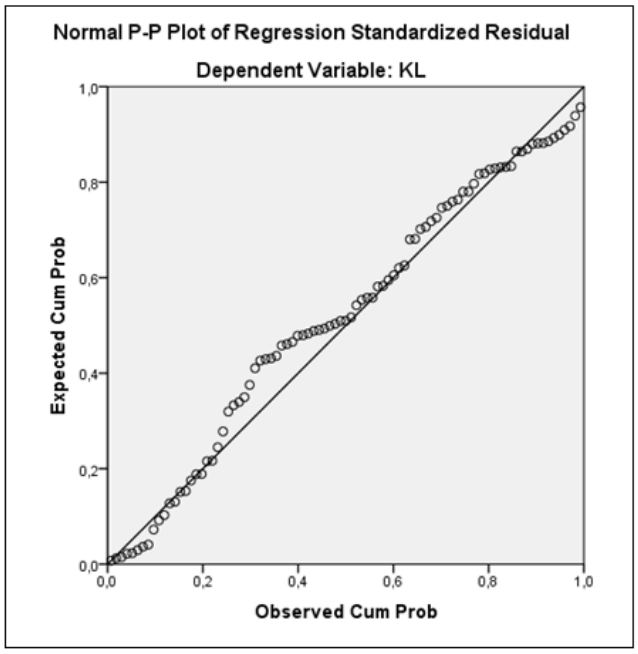
- **Normality test results**

The normality test was carried out by looking at the Asymp.Sig (2-Tailed) values in Kolmogorov-Smirnov and the P-plot graph. The normality test uses residual value data which was tested with the Kolmogorov-Smirnov Test through a measurement of the significance level of 0.05 or 5%. Data normally distributed if Asymp. Sig (2-Tailed) is greater than 0.05 or 5% and if on the P-plot graph the data is spread around the diagonal and follows the direction of the diagonal line, it can be concluded that data is normally distributed [42].

Table-4.2 Hasil

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		89
Normal Parameters[a,b]	Mean	,1174299
	Std. Deviation	,39955187
Most Extreme	Absolute	,063

Differences	Positive	,045
	Negative	-,063
Test Statistic		,063
Asymp. Sig. (2-tailed)		,200[c,d]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		



Based on the results of the normality test using the Kolmogorov-Smirnov test in table 4.2 the results of the normality test show a normal relationship. The amount of K-S for the Asymp.ig (2-Tailed) value is 0.200 above 0.05, while the normal plot graph can be seen in the picture above which shows that the data spreads around the diagonal and follows the direction of the diagonal line. This means that the data is normally distributed.

Multicollinearity Test Results

Multicollinearity test in this study was conducted by looking at the tolerance value and variance inflation factor (VIF). Both of these measures indicate which independent variables are explained by other independent variables. Data can be free from multicollinearity problems if it has a tolerance value> 0.10 or equal to VIF <10.

Table-4.3: Multicollinearity Test Results Table

Collinearity Statistics	
Tolerance	VIF
,891	1,123
,920	1,088
,965	1,036
,980	1,021
,934	1,070

Coefficients[a]
a. Dependent Variable: EQ
Sources: IDX SPSS version 24

Based on the table the results of the calculation the tolerance values and VIF values above shows that there is no independent variable that has a tolerance value of <0.10 and no VIF value> 10. It can be concluded that the regression model in this study did

not occur multicollinearity and regression models were feasible to use.

Autocorrelation Test ResultsAutocorrelation test in this study was carried out using the Run Test. According to Ghozali (2016) the decision making on the Run Test is as follows: If the results of the Run Test test show a significant value smaller than 0.05, it can be concluded that the residual is not random or there is autocorrelation between residual values.1. If the Run Test test results show a significant value greater than 0.05 it can be concluded that the residual is random or there is no autocorrelation between residual values

Table-4.4: Autocorrelation Test Results

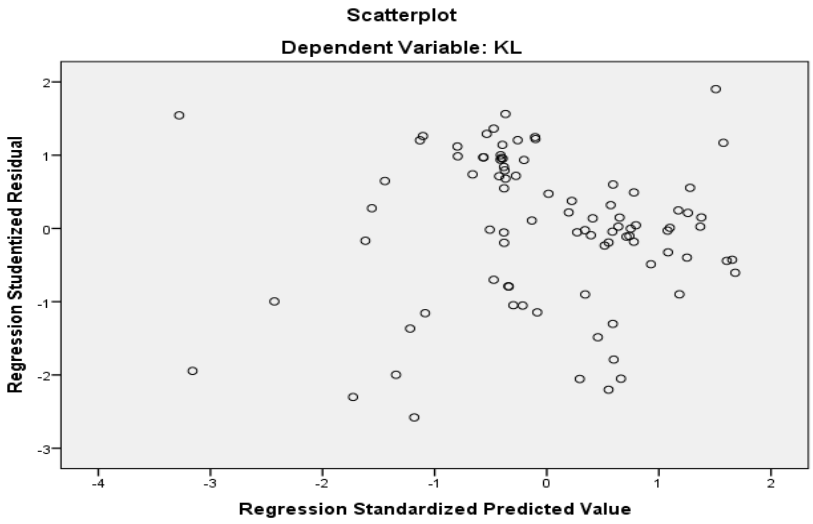
Runs Test	
	Unstandardized Residual
Test Value[a]	,00931
Cases < Test Value	44
Cases >= Test Value	45
Total Cases	89
Number of Runs	40
Z	-1,172
Asymp. Sig. (2-tailed)	,241
a. Median	

Sources: IDX SPSS version 24

Based on the table above, the results of the autocorrelation test using the run test, obtained the value of Asymp. Sig (2-tailed) of 0.241. This value is suitable with the criteria to determine whether or not autocorrelation occurs, where the value of Asymp. The Sig (2-tailed)> 0.05. It can be concluded that there is no autocorrelation between independent variables so that the model is feasible to use.

Heteroscedasticity Results Test

This heteroscedaticity test is done by looking at the pattern of dots on the scatter regression plot. The basis of decision making is: 1. if the existing points form a above and below the certain pattern that is regular like wavy, widened, then heteroscedasticity occurs.2. If there is no clear pattern and the point spreads narrows, number 0 on the Y axis, there is no heterocedasticity.



From the results of the Heteroscedasticity test using scatter plots in regression, it can be seen that there is no clear pattern, and points spread above and below the number 0 on the Y axis. Heteroscedasticity does not occured.

Results of Multiple Regression Analysis

Multiple regression analysis is used to determine the effect of tax avoidance, institutional ownership, independent commissioners, audit committees, and leverage on earnings quality.The results of linear regression analysis in this study can be seen as follows:

Table-4.5: Results of Multiple Regression Analysis
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	-,630	,364	
	TA	-,230	,507	-,043
	IO	,015	,002	,592
	IC	,001	,004	,029
	AC	-,001	,003	-,032
	LV	,012	,016	,068

a.Dependent Variable: EQ

a. The results of testing the regression equation can be explained as follows

EQ = (-0,630) + (-0,230) TA + (0,015) IO + (0,001) IO + (- 0,001) AI + (0,0120LV + e. The interpretations of multiple regression equation are as follows: If it is assumed the value of variables X1 (Tax Avoidance), X2 (Institution Ownership), X3 (Independent Commissioner), X4 (Audit Committee), X5 (Leverage) and X6 (Earnings Quality) are constant or equal to zero, then variable value Y (Quality of earnings) is -0,630. Variable X1 (Tax Avoidance) has a relationship with a negative direction on variable Y (Earnings Quality) with a regression coefficient of -0,230 which means if there is an increase in variable X1 (Tax Avoidance) of 1 unit, then Quality profit (Y) will decrease by 0.230, noting that other variables are constant or constant. Variable X2 (Institutional Ownership) has a relationship with a positive direction towards variable Y (Earnings Quality) with a regression coefficient of -0,015 which means that if there is an increase in variable X2 (Institution Ownership) of 1 unit, the Earnings Quality (Y) will increase by 0,015 . If the other variables are constant or constant.

b. Variable X3 (Independent Commissioner) has a relationship with a positive direction towards the variable Y (Earnings Quality) with a regression coefficient of 0.001 which means that if there is an increase in variable X3 (Independent Commissioner) of 1 unit, the Earnings Quality (Y) will increase by 0.001. Note that other variables are constant or constant.a. Variable X4 (Independent Auditor) has a relationship with negative direction towards variable Y (Earnings Quality) with a regression coefficient of -0,001 which means that if there is an increase in variable X4 (Independent Auditor) of 1 unit, the Earnings Quality) (Y) will decrease by -0,001 .If the other variables are constant or constant.

c. Variable X5 (Leverage) has a relationship with a positive direction on the variable Y (Earnings Quality) with a regression coefficient of 0.012 which means that if there is an increase in variable X5 (Leverage) of 1 unit then the Earnings Quality (Y) will increase by 0.012. Note that other variables are constant or fixedd. e = Is a residual value to know the possibility of errors from the regression equation model, which is caused by the possibility of other variables that can affect the quality of company profits.

B. Hypothetical Test Results

The first, second, third, fourth, fifth, and sixth hypotheses in this study used the t test. The t test is used to determine whether the independent variables individually (partial) affect the dependent variable, while the F test is used to assess the feasibility of the regression models that have been formed. Basically to evaluate whether the independent variable included in the model has an influence on the dependent variable.Hasil Uji t (parsial)

The t test is conducted to determine the effect of tax avoidance variables, institutional ownership, independent commissioners, audit committees, and leverage on earnings quality individually (partially) which can be seen in the table as follows:

Table-4.6: t-test results (parsial)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,630	,364		-1,731	,087
	TA	-,230	,507	-,043	-,454	,651
	IO	,015	,002	,592	6,411	,000
	IC	,001	,004	,029	,322	,748
	AC	-,001	,003	-,032	-,360	,720
	LV	,012	,016	,068	,746	,458

Coefficients[a]
a. Dependent Variable: KL

b. Tax Avoidance to Earnings Quality

Based on the above table obtained a regression coefficient of -0.454 and a significance value of 0.651 greater than 0.05, so it can be concluded that tax avoidance has a negative and not significant effect on earnings quality.

c. Corporate Governance with proxi by Institutional Ownership (IO) effect to Earnings Quality

Based on the above table obtained a regression coefficient of 6.411 and a significance value of 0.000 smaller than 0.05, it can be concluded that institutional ownership has a positive and significant effect on earnings quality.

d. Independent Commissioner

Based on the above table obtained a regression coefficient of 0.322 and a significance value of 0.748 greater than 0.05, so it can be concluded that Independent Commissioner has a positive and not significant effect on earnings quality.

e. Audit Committee

Based on the above table obtained a regression coefficient of -0.360 and a significance value of 0.720 greater than 0.05, so it can be concluded that the audit committee has a negative and not significant effect on earnings quality.

f. Leverage

Based on the above table obtained a regression coefficient of 0.746 and a significance value of 0.458 greater than 0.05, so it can be concluded that leverage has a positive and not significant effect on earnings quality.

C. F Test Results (Test Model)

Test F is used to assess the feasibility of a regression model that has been formed. Basically to evaluate whether the independent variable included in the model has an influence on the dependent variable. The following are the results of the F Test in this study:

Table-4.7: F Test Results (Test Model)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6,620	5	1,324	8,944	,000[b]
	Residual	12,286	83	,148		
	Total	18,906	88			

ANOVA[a]
a. Dependent Variable: KL
b. Predictors: (Constant), LV, IO, AC, IC, TA

From the table above, there is a significance value of 0,000. It appears that the significance value is smaller than 0.05. It can be concluded that the feasibility test of the model in the independent variable which consists of variables Tax avoidance, institutional ownership, independent commissioners, audit committee, and leverage can be used to predict earnings quality.

Determination Coefficient Test Results (Adjusted R^2)

The coefficient of determination or adjusted R^2 is used to measure the goodness of multiple regression equations to percentage of total variation in the dependent variable explained by all independent variables. The coefficient of determination or adjusted R2 can be seen in the following table : On the table below, it can be seen that the adjusted R^2 value is 0.311 or 31.1%. This shows that tax avoidance, institutional ownership, independent commissioners, independent audit, and leverage affect the quality of earnings by 31.1% while the remaining 69.9% is explained by other variables outside the model.

Table-4.8: Determination Coefficient Test Results (Adjusted R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,592[a]	,350	,311	,38474

Model Summary

Summary and Conclusions

Based on the above table obtained a regression coefficient of -0.454 and a significance value of 0.651 greater than 0.05, so it can be concluded that tax avoidance has a negative and not significant

effect on earnings quality. These results confirm the previous study by [5, 33, 34]. Corporate governance with 3 (three) proxies like Institutional Ownership (IO), Independent Commissioner (IC), and Audit Committee AC) have positive effect to earnings quality. These results confirm the previous research by Karmanaou, I. and N. Vafeas [6, 8], [9]. Corporate governance is expected to be able to produce better quality earnings. Effective implementation of correct governance (CG) is expected to be able to and maintain the quality of corporate earnings this result also shows that among the three indicators of the corporate governance mechanism of institutional ownership that can reduce the effect of tax avoidance on management income; while the board of commissioners and independent commissioners do not. Leverage has positive effect to earnngs quality. These results confirm the previous study by [36], Dechow *et al.* [37] Matsumoto [41], Phillips *et al.* [38], and Pagalung& Sudibdyo [17]. There some limitations of this research such as the small sample, incomplete proxies of Corporate Governance, etc.

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