International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

The Effect of Financial Distress, Earning Management, Institutional Ownership, Independent Commissioner, and Audit Committee on Tax Avoidance

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Abstract
This study aims to examine and analyze the effect of financial distress, earning management, institutional ownership, independent commissioner, and audit committee on tax avoidance. The research method uses a quantitative approach. The research data uses secondary. The research population was 96 Non-Cyclicals Consumer Sector Manufacturing companies listed on the Indonesia Stock Exchange for the period 2021-2023 using purposive sampling technique, a sample of 88 companies was obtained. The data was analyzed with panel data regression by using Eviews 10. The results showed that financial distress has a significant negative effect on tax avoidance. Companies experiencing financial difficulties will tend to do tax avoidance. While earnings management, institutional ownership, independent commissioners, and audit committees have no significant effect on tax avoidance.

Keywords: Financial Distress, Earning Management, Institutional Ownership, Independent Commissioner, Audit Committee, Tax Avoidance.

INTRODUCTION

State revenue is very important in helping the continuity of government and national development to improve welfare. Tax is the largest contributor to state revenue. Tax is a compulsory payment imposed by law on individuals or entities, with no direct benefit in return, and is utilized to fund state functions and activities. The contribution of tax revenue to state revenue, in 2021 tax revenue contributed 77.15% of total state revenue, while in 2022 it contributed 77.36% of total state revenue, and in 2023 it contributed 77.38% of total state revenue. In accordance with the performance report of the Ministry of Finance for the year 2023, the largest contribution to tax revenue is that of manufacturing sector companies, which constitutes 26.90% of the total. The amount of revenue from the Manufacturing Industry sector makes the government always try to optimize tax revenue from the Manufacturing Industry sector. However, companies generally tend to reduce their taxable income. Taxes are a burden for companies because they can reduce company profits and other benefits for management and investors so that companies do various things to reduce these tax costs (Tarmidi et al., 2020). One of the actions that can be taken is tax avoidance. Tax avoidance can be defined as a legal effort to reduce tax costs by utilizing and optimizing tax regulations. Nevertheless, in practice, there are loopholes that are not clearly defined by tax law, which can result in tax avoidance being misinterpreted as an illegal act (Ekaristi & Apip, 2023).

Based on the OECD report in the Revenue Statistics in Asia and the Pacific ratio 2023, Indonesia's tax ratio is lower than other countries, especially in the ASEAN region. In 2020 Indonesia's tax ratio was 10.10%, while in 2021 it was 10.90%, and in 2022 it was 10.41%. A low tax ratio indicates that there are indications of high tax avoidance practices. Based on the report Tax Justice Network (2023) reported that state losses due to tax evasion amounted to US$ 2,736.5 million per year.
Based on the author's observations, several manufacturing companies in the Consumer Non Cyclicals Sector from 2021 to 2023 have an ETR value below 22%, which is below the applicable corporate income tax rate in accordance with the Law. The ETR value is obtained from a comparison of the income tax expense with the profit before tax.

Table 1. Comparison of ETR Value

No.	Company Name	2021			2022			2023		
		ETR	STR	Difference	ETR	STR	Difference	ETR	STR	Difference
1	PT. Siantar Top Tbk	19%	22%	-3%	17%	22%	-5%	17%	22%	-5%
2	PT. Palma Serasih Tbk	5%	22%	-17%	19%	22%	-3%	17%	22%	-5%
3	PT. Budi Starch Sweetener Tbk	20%	22%	-2%	20%	22%	-2%	19%	22%	-3%
4	PT. Akasha Wira International Tbk	21%	22%	-1%	21%	22%	-1%	21%	22%	-1%
5	PT. Sariguna Primatirta Tbk	22%	22%	0%	22%	22%	0%	21%	22%	-1%

Table 1 shows 5 companies with ETR values below the applicable corporate income tax rate in accordance with the Law. In 2020 PT. Budi Starch Sweetener Tbk has the smallest ETR value, which is 3% so that the difference is 19% with the STR value. If the ETR is below the tax rate set in the tax regulations, the company is indicated to be doing tax avoidance efforts (Wulan et al., 2019).
One of the Non Cyclicals Consumer Sector Manufacturing companies that have practiced tax avoidance is PT. Bentoel Internasional Investama Tbk which is a subsidiary of British American Tobacco in Indonesia. Tax Justice Network (2019) reported that a tobacco company owned by British American Tobacco (BAT) practiced tax evasion in Indonesia through PT Bentoel Internasional Investama Tbk, which caused the state to lose US$14 million per year due to loan interest payments (2013-2015) and royalty payments, fees and IT costs (2010-2016).
Tax avoidance occurs because of different perceptions between companies and the government in viewing taxes, making company management will act to reduce its tax burden in order to get the maximum profit possible. For businesses, maximizing profits and increasing profits is the goal. This goal is achieved by maximizing revenue or minimizing costs. In particular, corporate income tax is an expense that companies always try to minimize because it has a direct impact on actual operating profit. Because these actions do not violate the law, business actors are always motivated to minimize corporate income tax through tax avoidance (Dang & Tran, 2021). Based on this phenomenon, the study of tax avoudance is still relevant today.

Research on tax avoidance has identified that financial distress affects tax avoidance, the greater the company is in financial distress, the greater the tax avoidance carried out by the company (Dang & Tran 2021) and Fauziyah and Sumarta (2023). Meanwhile, in research (Ariff et al. (2023) shows the opposite result that financial distress has no effect on tax avoidance.

Furthermore, several studies have identified that earnings management has a positive effect on tax avoidance, this illustrates that companies avoid taxes through income manipulation (Amidu et al., 2019; Thalita et al., 2022). Meanwhile, in research Dewi et al. (2019) earnings management has no effect on tax avoidance in manufacturing companies.

Research on tax avoidance found that institutional ownership has a negative effect on tax avoidance (Dakhli, 2022; Alkurdi & Mardini, 2020). The greater the proportion of institutional ownership, the less likely tax avoidance is. However, these results are inversely proportional to the research of Jiang et al. (2020) which shows that institutional ownership is positively related to the level of corporate tax avoidance, an increase in institutional ownership tends to encourage corporate tax avoidance.

Another study on tax avoidance found that independent commissioners have a significant negative effect on tax avoidance, meaning that the greater the number of independent commissioners in the company reduces tax avoidance practices (Oktaviani et al., 2023). Meanwhile, the research of Lismiyati and Herliansyah (2021) shows the opposite result that independent commissioners have no effect on tax avoidance.

In the research of Oktaviani et al. (2023) and Novita & Herliansyah (2019) show that the audit committee is proven to have an effect on tax avoidance, these results indicate that the higher the presence of an audit committee in the company will improve the quality of good corporate governance, so that it will minimize the possibility of tax avoidance activities. Meanwhile, in the research Pamungkas & Fachrurozie (2022) shows the opposite result that the audit committee has a positive impact on tax avoidance, the more the number of company audit committees increases, the more companies do not comply with tax regulations and prefer corporate tax avoidance practices.

LITERATURE REVIEW

Agency Theory

Agency theory elucidates the agency relationship, which is a set of contracts or agreements between principals (stakeholders such as shareholders, creditors, and government) and agents (executors or managers) within the company (Jensen & Meckling, 1976). This study uses agency theory to explain tax avoidance, arising from conflicts of interest between management and shareholders. Management seeks to maximize profitability by reducing the tax burden, often through tax avoidance strategies, while shareholders, lacking direct involvement, struggle to monitor these actions. Managers, with access to detailed company information, can influence financial statements more effectively. Although both parties aim for high profits, shareholders remain cautious to ensure management's policies do not harm their investments.

Stakeholder Theory

As defined by Freeman & Mc Vea (2001), stakeholders are groups or individuals who are either influenced by or have the potential to influence the achievement of an organization's goals. The conventional perspective posits that the responsibility of management is to safeguard the interests of shareholders and stakeholders. Stakeholder theory emphasizes that companies are not only responsible to shareholders, but also to all parties who have an interest in the company, such as employees, customers, suppliers,

communities, governments, and other groups (Freeman & Mc Vea , 2001). This study uses stakeholder theory to explain tax avoidance as a management strategy to meet shareholder expectations of maximizing profits and ensuring stable dividend growth. While reducing tax burdens can increase net profits, benefiting investors and stakeholders, companies also have broader responsibilities to all stakeholders, including the government and society. Although legal, tax avoidance can be seen as unethical, as it reduces contributions to public welfare and risks damaging trust and reputation among stakeholders. Tax avoidance may provide short-term financial benefits, but can lead to significant legal and reputational risks in the long run, which can ultimately hurt the company.

Financial Distress and Tax Avoidance

Financial distress is a situation that starts with an inability to meet financial obligations and may lead to bankruptcy (Sari et al., 2023). According to Brigham and Gapenski in Amaniyah (2023) financial distress occurs when a debtor cannot meet its debt payment schedule to creditors when due or the company's cash flow projections illustrate that the company will soon experience difficulties in terms of liquidity. The intensification of financial pressure on the company will consequently influence the tax policy that the company deems most appropriate. Companies often resort to tax avoidance to minimize tax payments, as taxes do not directly contribute to profitability. Firms in distress are incentivized to adopt tax avoidance strategies due to limited alternatives and the relatively low impact on operations compared to other cost-saving measures like cutting capital expenditures or workforce reductions (Ariff et al., 2023). Companies use tax avoidance strategies to stay in business, especially companies that experience financial difficulties (Sadjiarto et al., 2020). Such strategies help companies survive financial difficulties while allowing managers to improve performance and generate profits, benefiting stakeholders.Financial distress has an impact on tax avoidance, according to research by (Fauziyah & Sumarta, 2023), (Dang & Tran, 2021).

H_1: Financial distress has a significant effect on tax avoidance

Earnings Management and Tax Avoidance

According to Scott in Putri & Erinos (2023) earnings management can be defined as a manager's action in selecting accounting policies or actions that affect income in financial reporting. Managers may manipulate earnings to reduce tax liability, structuring transactions to create differences between taxable and accounting profits. This tax avoidance allows opportunistic managers to pursue personal goals through earnings management. According to Jensen & Meckling (1976), agency relationships often lead to agency problems due to information asymmetry, where managers exploit their superior information for self-benefit. Earnings management, often motivated by tax avoidance, involves techniques to lower reported profits and tax burdens. While this benefits investors and stakeholders in the short term, it carries significant legal and reputational risks that can harm the company. Higher levels of earnings management typically correlate with increased tax avoidance. Earnings management has an effect on tax avoidance, according to research by Prismanitra & (Sukirman, 2021), (Amidu et al., 2019), (Thalita et al., 2022).

H_2: Earnings management has a significant effect on tax avoidance.

Institutional Ownership on Tax Avoidance

Institutional ownership is seen as the main mechanism of corporate governance that conducts effective monitoring of management decisions related to tax avoidance to reduce agency problems and monitor manager activities (Dakhli, 2022). Institutional ownership has the opportunity and ability to control the company, correct and influence management appropriately to avoid opportunistic behavior of managers (Waluyo, 2017). The voting rights of institutional ownership to become active monitors make it easier for them to exercise control over managers. With the higher the level of institutional ownership, the greater

the level of managerial supervision so that it can reduce aggressive tax actions taken by the company (Prayitro et al., 2023). Theory of the stakeholder emphasizes the importance of balancing short-term and long-term interests. The practice of tax avoidance may provide short-term financial benefits, but it can also lead to significant legal and reputational risks in the long run, which can ultimately have a negative impact on the company. Institutional ownership has a negative effect on tax avoidance, according to research by (Apandi & Waluyo, 2023), (Qawqzeh, 2023), (Dakhli, 2022), (Alkurdi & Mardini, 2020).
H_3: Institutional ownership has a significant effect on tax avoidance.

Independent Commissioner on Tax Avoidance

Independent commissioners are commissioners who come from outside the company, do not have shares either directly or indirectly in the company, have no affiliation with the company, commissioners, directors or major shareholders of the company and do not have direct or indirect business relationships related to the company's business activities. The responsibility of independent board members is to oversee the actions of all parties within the scope of the company, with the aim of preventing the occurrence of unregulated provisions, such as preventing fraud for companies to avoid taxes (Lismiyati & Herliansyah, 2021). In the context of agency theory, the role of independent commissioners is to mitigate agency problems between investors, who act as principals, and company managers, who act as agents (Oktaviani et al., 2023). Stakeholder theory suggests that in order to maintain the support and trust of various stakeholders, companies must act ethically and transparently, including in terms of tax obligations. Independent commissioners have a significant negative effect on tax avoidance, according to research by (Oktaviani et al., 2023), (Apandi & Waluyo, 2023).
H_4: Independent commissioner has a significant effect on tax avoidance.

Committee Audit and Tax Avoidance

The Audit Committee is a committee constituted by the Board of Commissioners and is accountable to the Board of Commissioners for the performance of its duties and functions. The audit committee must consist of at least three members, one of whom is an independent commissioner and the chairman of the audit committee. According to Forker in Dang & Nguyen (2022) he presence of an audit committee can enhance the efficacy of an organization's internal control system. Furthermore, it can serve as an effective monitoring instrument to elevate the caliber of information disclosure. According to Beasley & Salterio in Dang & Nguyen (2022) the board of directors and audit committee serve as pivotal internal monitoring mechanisms. In accordance with agency theory, the greater the degree of involvement of an audit committee within a company, the more effective the supervision of the company's activities. This, in turn, serves to mitigate the potential for agency conflicts that may arise due to management's inclination to avoid taxes (Novita & Herliansyah, 2019). Audit committee has an effect on tax avoidance, according to research by (Oktaviani et al., 2023), (Novita & Herliansyah, 2019).
H_5: Audit committee has a significant effect on tax avoidance.
Based on this hypothesis, the following is the research conceptual framework:

RESEARCH METHODS

In this study using quantitative research. This type of research is causative research. The sample selection method used was purposive sampling so that 96 non-cyclical consumer sector manufacturing companies listed on the Indonesia Stock Exchange in 2021-2023 were obtained. Resulting in a total of 88 companies was obtained with an observation period of 3 years, from 2021-2023, so that the total number of company

samples observed was 264 observation data. Panel data regression analysis utilizing the Eviews 12 tool is the analysis method used.

Table 2. Operational Variable of the Research

Variable	Indicator	Measurement Scale	Sumber
Tax Avoidance	$TA = \frac{\text{cash tax payment} - \text{statutory tax rate x income before tax}}{\text{market value of assets}}$	Ratio	Henry & Sansing (2018)
Financial Distress	Z'Score = 0,717X1 + 0,847X2 + 3,107X3 + 0,420X4 + 0,998X5	Ratio	Altman (1983)
Earnings Management	$\Delta AR_{it} = \alpha + \beta_1 \Delta R_{it} + \beta_2 \Delta R_{it} \times SIZE_{it} + \beta 3 \Delta R_{it} \times AGE_{it} + \beta_4 \Delta R_{it} \times AGE_SQ_{it} + \beta_5 \Delta R_{it} \times GRR_P_{it} + \beta_6 \Delta R_{it} \times GRR_N_{it} + \beta_7 \Delta R_{it} \times GRMit + \beta_8 \Delta R_{it} \times GRM_SQ_{it} + \varepsilon_{it}$	Ratio	Stubben (2010)
Institutional Ownership	$\text{Institutional ownership} = \frac{\text{Number of institution shares}}{\text{Total outstanding shares}}$	Ratio	Dakhli (2022)
Independent Commissioner	$\text{Independent commissioner} = \frac{\text{Number of independent commissioners}}{\text{The total number of the board of commissioners}}$	Ratio	Novita & Herliansyah (2019)
Audit Committee	Audit Committee = Total Audit Committee Members	Nominal	Novita & Herliansyah (2019)

The panel data regression equation utilized in this study is as follows:

$TA = \alpha + \beta 1FD + \beta 2EM + \beta 3INST + \beta 4KI + \beta 5KU + \varepsilon$

The following is an explanation of the panel data regression equation used in this study: TA = Tax Avoidance, α = Constanta, Β = Regression coefficient, FD = Financial Distress, EM = Earning Management, INST = Institutional Ownership, KI = Independent Commissioner, KU = Audit Committee, ε = Standard Error, which is the level of estimator error in the study.

In this study, Eviews 10 is employed as a quantitative data analysis tool, with a particular focus on hypothesis testing through panel data regression analysis. Panel data regression allows for the specification of alternative models, including the common effect, fixed effect, and random effect. Three model selection tests are employed to ascertain the most appropriate panel data regression model: the chow test, the hausman test, and the lagrange multiplier test. Moreover, the classical assumption test comprises a series of additional tests, namely a normality test, a multicollinearity test, a heteroscedasticity test, and an autocorrelation test. The final set of tests includes determination analysis (R2), F statistic test, and T statistic test.

ANALYSIS AND DISCUSSION

Panel Data Regression Models

There are three model fit testing procedures that are used to select the best panel data regression model, consisting of the Chow test, the Hausman test, and the Lagrange multiplier test.

Table 3 Chow Test Results

Redundant Fixed Effects Tests Equation: Untitled Test cross-section fixed effects			
Effects Test	**Statistic**	**d.f.**	**Prob.**
Cross-section F	1.402085	-87,171	0.0314
Cross-section Chi-square	142.1496	87	**0.0002**

The results of the Chow test in Table 3 show that the cross-sectional chi-squared probability value is 0.0002, which is less than alpha (0.05), so the selected model is the fixed effects model (FEM).

Table 4 Hausman Test Results

Correlated Random Effects - Hausman Test Equation: Untitled Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	11.30093	5	**0.0457**

Based on the results of Hausman test in Table 4, it can be seen from the cross-sectional random probability value of 0.0457, which means that the value is smaller than alpha (0.05), which means that the selected model is the fixed effect model (FEM). Based on the Chow and Hausman tests, the selected model is a fixed effects model, so there is no need to perform the Lagrange multiplier test. So, the best panel data model obtained and used in this study is the fixed effect model (FEM).

Classical Assumption Tests

The best panel data model used in this study is the Fixed Effect Model (FEM). Fixed Effect uses the Ordinary Least Squares (OLS) approach in its estimation technique. In panel data regression, not all of the classic OLS assumption tests are used, only multicollinearity and heteroscedasticity are required (Napitupulu et al., 2021).

Table 5 Multicollinearity Test Results

Keterangan	**Financial Distress**	**Earnings Management**	**Institutional Ownership**	**Independent Commissioner**	**Audit Committee**
Financial Distress	1.000000	**0.093860**	**0.027933**	**0.031085**	**-0.282976**
Earnings Management	0.093860	1.000000	**0.170163**	**0.147326**	**0.075354**
Institutional Ownership	0.027933	0.170163	1.000000	**-0.058632**	**0.021714**
Independent Commissioner	0.031085	0.147326	-0.058632	1.000000	**0.242030**
Audit Committee	-0.282976	0.075354	0.021714	0.242030	1.000000

Based on the multicollinearity test in Table 5, each variable has a correlation coefficient value less than (0.9), it can be concluded that the model does not experience multicollinearity problems.

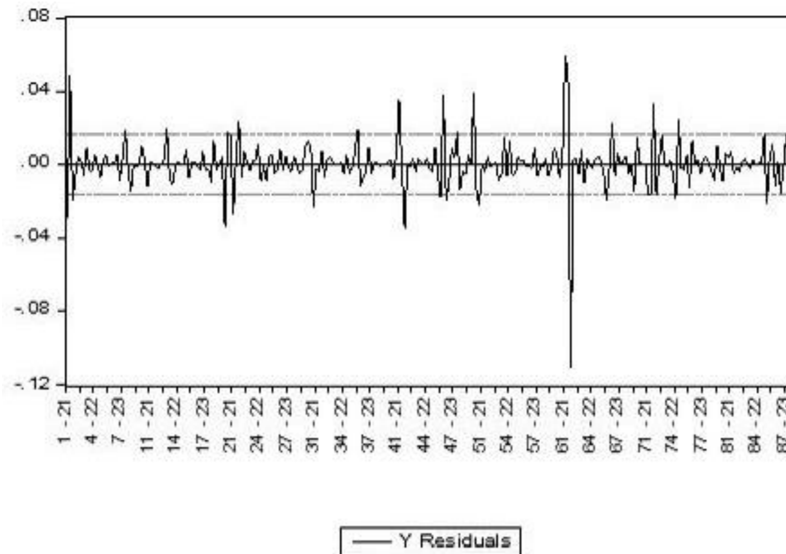

Figure 2 Heteroscedasticity Test Result

Based on Figure 1, we can see that the residual curve does not cross the 500 and -500 limits, which means that the residual variance is equal. Therefore, there is no evidence of heteroscedasticity or the test for heteroscedasticity is passed.

Table 6 Panel Data Regression Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constanta	0.003349	0.016037	0.208839	0.8348
Financial Distress	-0.005068	0.001055	-4.801791	**0.0000**
Earnings Management	-0.016120	0.029091	-0.554120	**0.5802**
Institutional Ownership	0.007660	0.014778	0.518346	**0.6049**
Independent Commis-sioner	-0.003762	0.018414	-0.204297	**0.8384**
Audit Committee	0.004161	0.003482	1.194822	**0.2338**
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.478274	Mean dependent var		0.005011
Adjusted R-squared	**0.197579**	S.D. dependent var		0.018287
S.E. of regression	0.016381	Akaike info criterion		-5.115116
Sum squared resid	0.045886	Schwarz criterion		-3.855407
Log likelihood	768.1953	Hannan-Quinn criter.		-4.608927
F-statistic	1.703895	Durbin-Watson stat		2.559198
Prob(F-statistic)	**0.001397**			

Regression Results

The regression equation can be formulated based on the regression results in Table 6 as follows:

$$Y = 0.003 - 0.005FD - 0.016EM + 0.007INST - 0.003KI + 0.004KA + \varepsilon$$

Determination Analysis (R2)

Table 6 indicates that the large Adjusted R-Square (R2) value is 0.1975, representing a 19.75% contribution to the dependent variable. This suggests that the independent variables, namely Financial Distress, Earnings Management, Institutional Ownership, Independent Commissioner, and Audit Committee, collectively account for 19.75% of the observed variance in the dependent variable. The remaining portion of the variance is likely influenced by factors external to the regression model.

F Statistic Test

As evidenced by the F-test results presented in Table 6, the probability (F-statistic) value of 0.0013 is less than the significance level of 0.05. This indicates that there is a significant influence between the independent variables of Financial Distress, Earnings Management, Institutional Ownership, Independent Commissioner, and Audit Committee simultaneously on Tax Avoidance.

T Statistic Test

The regression analysis results presented in Table 6 indicate that the probability financial distress value is 0.0000, which is less than 0.05. Consequently, H1 is accepted, suggesting that the Financial Distress has a significant effect on Tax Avoidance. The Probability value for earnings management is 0.5802, which is greater than 0.05. H2 is rejected. This finding suggests that the earnings management has no significant effect on Tax Avoidance. The probability value for institutional ownership is 0.6049, which is greater than 0.05. H3 is rejected. This finding suggests that institutional ownership has no significant effect on tax avoidance. The probability value for the Independent Commissioner is 0.8384, which is greater than 0.05. H4 is rejected. This finding suggests that the Independent Commissioner has no significant effect on Tax Avoidance. The probability value for Audit Committee is 0.2338, which is greater than 0.05. H5 is rejected. This suggests that the Audit Committee has no significant effect on Tax Avoidance.

Discussion

The Effect of Financial Distress on Tax Avoidance

The results of testing the first hypothesis indicate that financial distress has negative significant effect on tax avoidance. Companies at risk of bankruptcy often adopt tax avoidance strategies to reduce their financial burden and improve survival chances. In such situations, minimizing tax payments becomes a priority as taxes do not directly enhance profitability. While tax avoidance has its pros and cons, financially distressed firms are more likely to engage in it due to survival pressures and limited alternatives. Managers aim to improve company performance to meet stakeholder interests and ensure profitability, aligning with stakeholder theory. Tax avoidance reflects managerial efforts to meet shareholder expectations, primarily focused on maximizing profits and enabling consistent dividend growth. By utilizing tax avoidance measures or government provisions, companies can lower their tax obligations, ultimately boosting net profit (Sadjiarto et al., 2020). The results of this study are consistent with the results of previous research conducted by Fauziyah & Sumarta (2023), Dang & Tran (2021) which states that financial distress affects tax avoidance.

The Effect of Earnings Management on Tax Avoidance

The results of testing the second hypothesis indicate that there is no significant effect of earnings management on tax avoidance. Earnings management is often done for financial reporting purposes, such as improving the company's financial image in the eyes of shareholders by increasing reported earnings. If the reported profit increases, it will cause an increase in tax burden. Tax avoidance activities and

earnings management are two things that are not always directly related. Tax avoidance is done by utilizing tax regulation loopholes, while earnings management is more often done for non-tax purposes, such as improving the image of company performance in the eyes of stakeholders Manuel et al. (2022). This is in line with research conducted by Manuel et al. (2022) which indicates that earnings management has no effect on tax avoidance. In a study conducted by Dewi et al. (2019) it was also found that there is no significant effect between earnings management and tax avoidance.

The Effect of Institutional Ownership on Tax Avoidance

The results of testing the third hypothesis indicate that there is no significant effect of Institutional Ownership on Tax Avoidance. This can happen because the level of supervision carried out by institutional owners is not strong enough to influence management decisions regarding taxes or institutional owners are not actively involved in operational decision making. Because the focus of institutional owners is on reported profits and not on reducing the specific tax burden, they do not actively encourage or influence management to avoid taxes. As a result, the amount of institutional ownership does not affect the company's behavior in making tax policies, including tax avoidance. Institutional ownership should play an important role in supervising more optimal management of the company, with the higher the level of institutional ownership, the greater the level of managerial supervision so as to reduce aggressive tax actions taken by the company (Prayitro et al., 2023). The result of this study is in line with research conducted by Safitri & Oktris (2023) which states that institutional ownership has no effect on tax avoidance. Similarly, the findings of the research conducted by Prayitro et al. (2023) indicate that institutional ownership has no effect on tax avoidance.

The Effect of Independent Commissioner on Tax Avoidance

The results of testing the fourth hypothesis indicate that there is no significant effect of independent commissioners on tax avoidance. Independent commissioners do not have a vested interest in the majority shareholders, including when making tax decisions. Independent commissioners have the main task of overseeing the work of the board of directors. This supervision is preventive, namely preventing potential violations and repressive, namely correcting violations that have occurred in a more general aspect. However, tax avoidance is mostly determined by operational policies taken by company management, so independent commissioners are not directly involved in making decisions related to tax strategies. Independent commissioners are often seen as a standard part of corporate governance, but their presence in some cases may be less significant in influencing tax policy. This can happen because they are not deeply involved in the day-to-day operations of the company, including tax decision-making. The result of this study is in line with research conducted by Primasari (2019) which states that independent commissioners do not influence companies to carry out tax avoidance. In research by Lismiyati & Herliansyah (2021) also indicate that independent commissioner has no effect on tax avoidance.

The Effect of Audit Committee on Tax Avoidance

The results of testing the fifth hypothesis indicate that there is no significant effect of the audit committee on tax avoidance. This is because the number of audit committees owned by a company does not guarantee that the company will take tax avoidance actions. The number of audit committees has not been effective in making decisions related to corporate tax policy in Indonesia (Mita Dewi, 2019). A small audit committee tends to be able to act more efficiently, but it also has a problem, namely the lack of experience of members, causing the audit committee to pay less attention to tax issues. The number of members in the audit committee also does not guarantee that they are able or effective in carrying out their roles, such as intervening or influencing company policies related to taxes.The number of audit committee members

does not necessarily correlate with the quality of oversight or success in preventing inappropriate practices, such as tax avoidance. Therefore, it is important to assess other aspects such as the competence, professionalism, and independence of the audit committee in carrying out its functions. The findings of this study are consistent with research conducted by Mita Dewi (2019) which states that the audit committee has no effect on tax avoidance. Similarly, the findings of the research conducted by Michelle & Anggraeni (2022) study also indicate that the audit committee has no effect on tax avoidance.

CONCLUSION AND SUGGESTIONS

Conclusion

The results of the research carried out through several tests on the variables studied can be concluded as follows:

1. Financial Distress has a significant negative effect on Tax Avoidance.
2. Earnings Management has no significant effect on Tax Avoidance.
3. Institutional Ownership has no significant effect on Tax Avoidance.
4. Independent Commissioner has no significant effect on Tax Avoidance.
5. The Audit Committee has no significant effect on Tax Avoidance

Suggestions

1. This study is limited to data from 96 Non-Cyclical Consumer Sector Manufacturing companies listed on the Indonesia Stock Exchange during 2021–2023, which may affect the findings. Future research is encouraged to expand the sample to include all manufacturing companies on the exchange over a longer period and to explore additional independent variables with other proxies, and moderating variables like sales growth to improve result quality.
2. Companies at risk of bankruptcy are advised to adopt a conservative tax planning strategy that reduces risk while ensuring compliance with tax regulations. This approach avoids aggressive tactics that could lead to audits or legal penalties. By focusing on legally minimizing tax liabilities, companies can steer clear of illicit practices, protect their reputation, and avoid long-term legal consequences. A conservative strategy helps maintain stability and sustainability under financial strain.

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