Journal of Public Auditing and Financial Management | eISSN: 2798-4737
Published by LPMP Imperium. Journal homepage: https://ejournal.imperiuminstitute.org/index.php/JPAFM
Vol 3 No. 1, 2023. 55-68. DOI: https://doi.org/10.36407/jpafm.v3i1.1583

Original Article Open Access

The influence of financial distress and good corporate governance on tax avoidance

Subjects
Accounting and Auditing

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ABSTRACT

Purpose: This study examines the impact of financial distress, institutional ownership, managerial ownership, independent board of commissioners, board size, and audit committee on tax avoidance in multiple industrial sector companies listed on the Indonesian Stock Exchange from 2015 to 2019.

Methods: This research employs a quantitative associative strategy, focusing on various industrial sector companies listed on the Indonesia Stock Exchange. The sample comprises nine companies selected through purposive sampling, totaling 45 observations. Data were collected from secondary sources via the IDX and IDN Financials websites and analyzed using Eviews version 9, including classical assumption tests and multiple linear regression analysis.

Findings: The study findings reveal that: 1. Financial distress positively influences tax avoidance. 2. Institutional ownership positively affects tax avoidance. 3. Managerial ownership positively impacts tax avoidance. 4. Independent board of commissioners does not affect tax avoidance. 5. Board size has no impact on tax avoidance. 6. The audit committee positively influences tax avoidance.

Practical Implications: The findings highlight the need to tackle financial distress driving tax avoidance. Stakeholders should improve financial planning to prevent misallocation. Institutional and managerial ownership influence tax strategies, requiring governance evaluations. While board size is not significantly related to tax avoidance, ongoing assessment of governance practices and audit committees is crucial for effective oversight.

Article History:
Received: 10 Nov 2022
Revised: 5 Des 2022
Accepted: 10 Jan 2023
Online: 14 Feb 2023

Keywords
Tax avoidance, Financial Distress, Institutional ownership, Managerial ownership, Independent board of commissioners, Size of the board of directors, Audit Committee

Reviewing Editor
Muljanto Siladjaja

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Journal of Public Auditing and Financial Management

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DOI: https://doi.org/10.36407/jpafm.v3i1.1583

Abstrak

Tujuan: Penelitian ini mengkaji dampak kondisi keuangan yang sulit, kepemilikan institusional, kepemilikan manajerial, dewan komisaris independen, ukuran dewan, dan komite audit terhadap penghindaran pajak pada perusahaan sektor industri yang terdaftar di Bursa Efek Indonesia tahun 2015-2019.

Metode: Penelitian ini menggunakan strategi kuantitatif dengan pendekatan asosiatif, berfokus pada berbagai perusahaan sektor industri yang terdaftar di Bursa Efek Indonesia. Sampel terdiri dari sembilan perusahaan yang dipilih menggunakan metode purposive sampling, dengan total 45 pengamatan. Data dikumpulkan dari sumber sekunder melalui situs web IDX dan IDN Financials dan dianalisis menggunakan Eviews versi 9, termasuk uji asumsi klasik dan analisis regresi linier berganda.

Hasil: Hasil penelitian menunjukkan bahwa: 1. Kondisi keuangan yang sulit berpengaruh positif terhadap penghindaran pajak. 2. Kepemilikan institusional berpengaruh positif terhadap penghindaran pajak. 3. Kepemilikan manajerial berdampak positif pada penghindaran pajak. 4. Dewan komisaris independen tidak berpengaruh pada penghindaran pajak. 5. Ukuran dewan tidak berpengaruh pada penghindaran pajak. 6. Komite audit berpengaruh positif terhadap penghindaran pajak.

Implikasi Praktis: Temuan ini menekankan perlunya mengatasi kesulitan keuangan yang mendorong penghindaran pajak. Pemangku kepentingan harus meningkatkan perencanaan keuangan untuk mencegah salah alokasi. Kepemilikan institusional dan manajerial berpengaruh pada strategi pajak, sehingga perlu evaluasi tata kelola. Meskipun ukuran dewan direksi tidak berpengaruh signifikan, evaluasi praktik tata kelola dan komite audit penting untuk pengawasan yang efektif.

Kata Kunci: Penghindaran pajak, Financial Distress, Kepemilikan institusional, Kepemilikan manajerial, Dewan komisaris independen, Ukuran dewan direksi, Komite audit

1. Introduction

Taxes are Indonesia's largest source of revenue, collected from taxpayers. The funds generated from taxes are allocated to drive national economic growth and provide public facilities for the community. In practice, to minimize the tax burden, companies often engage in actions that can be legal, illegal, or a combination of both. According to Maraya and Yendrawati (2016), legal tax reduction is known as tax avoidance, while illegal attempts to reduce tax are called tax evasion. This study will focus on tax avoidance, as this practice is often carried out legally and does not violate the law. Tax avoidance is a company's effort to retain profits through well-planned strategies without violating applicable regulations.

In Indonesia, a case of tax evasion involving a company in the industrial sector, PT Garuda Metalindo, which operates in the automotive and components sub-sector. In its financial report, the company showed a significant increase in debt, with bank loans rising to Rp 200 billion in June 2016, up from Rp 48 billion at the end of December 2015. The company utilized funds obtained from debt to evade tax obligations. However, the CEO of PT Garuda Metalindo, Ervin Wijaya, stated that the increase in debt was related to the company's plan to prepare Rp

350 billion for capital expenditure by mid-next year. This case is interesting to study as it involves various aspects, from administration to practices undertaken to avoid tax obligations.

Several factors can influence a company's tax avoidance efforts based on this phenomenon. Maharani and Suardana (2014) identified one such factor as financial distress, which can arise from poor business planning, cash flow issues, and unpaid debts. In facing financial distress, implementing Good Corporate Governance (GCG) also plays a crucial role in influencing tax avoidance behavior. GCG, as a corporate governance mechanism, directs the company according to the characteristics of its leaders, where a leader's character can influence decisions, including those regarding tax avoidance (Mulyani et al., 2018).

Corporate governance can be managed internally and externally (Fadhilah, 2014). Internal management includes controls through organizational structure and internal processes, while external management is carried out through the market or shareholders (Cita & Supadmi, 2019). GCG includes institutional ownership, managerial ownership, independent board commissioners, board size, and audit committees. Institutional ownership refers to the proportion of shares owned by institutions at the end of the year, measured as a percentage. This ownership variable reflects a strong monitoring mechanism to oversee company management. According to Cita and Supadmi (2019), agency theory explains that the relationship between shareholders and management improves with higher institutional ownership, resulting in better oversight of management behavior, thus reducing agency problems and minimizing opportunities for tax avoidance.

In addition to institutional ownership, there is also managerial ownership, where managers own shares in the company. This managerial ownership helps align the interests of shareholders with those of managers, as managers directly benefit from decisions made and are accountable for the risks that arise from these decisions. Thus, it reduces companies' tendency to engage in tax avoidance.

The Independent Board of Commissioners oversees company policies, motivates fellow commissioners, and advises the board of directors, particularly regarding tax management. The IDX requires that independent commissioners make up at least 30% of the board, with a higher number enhancing oversight of managerial decisions. The Board of Directors, elected by shareholders, ensures the company meets its goals, with a more significant proportion promoting better corporate governance. Irawan and Aria (2012) suggest the board of directors can influence corporate tax avoidance. Additionally, the Audit Committee, consisting of independent commissioners, provides supervision and is regarded as adding value, making investors feel more secure in well-governed companies. Research findings vary; Diantari and Ulupui (2016) found that independent commissioners and audit committees might negatively impact past tax avoidance, while other factors like institutional ownership showed no effect. Conversely, Cita and Supadmi (2019) found that institutional ownership, independent commissioners, and audit committees positively influence tax avoidance.

2. Theoretical Background

Agency Theory

Tax avoidance is commonly linked to good corporate governance, regardless of its effective implementation. The agent-principal theory defines the relationship between agents appointed by principals (investors or shareholders) who execute tasks to meet the company's objectives. Principals delegate authority to agents, allowing them to make decisions on their behalf. According to Riyanto (2003), as cited by Hamdani (2016), managers may prioritize owners' interests despite potential conflicts. Agents are responsible for managing the company in ways that protect its interests, while principals supervise their performance and ensure adherence to regulations, often providing bonuses as incentives. This relationship aims to help companies avoid issues like tax avoidance.

Financial Distress

Financial distress refers to the financial troubles experienced by companies, often preceding bankruptcy or liquidation. It's crucial to analyze a company's financial health to assess its ability to meet obligations and predict bankruptcy risk. Wijoyo (2016: 464) notes that financial difficulties arise when a company fails to adhere to payment schedules or when its cash flow indicates an impending inability to meet obligations. Even experiencing such distress, companies strive to remain operational, often negotiating with creditors to temporarily freeze claims while restructuring to regain profitability. Common causes of financial distress include poor asset management and inadequate corporate governance, usually resulting in high debt. Thus, a company's internal stakeholders must evaluate its financial performance to gauge its ability to satisfy short-term and long-term obligations.

Good Corporate Governance

GCG is essential for enhancing corporate performance and ensuring accountability among all stakeholders, as it is fundamentally based on ethical practices and regulatory compliance. Failure to uphold ethical standards can lead to serious issues like injustice and corruption, while adherence to these norms fosters a broader sense of responsibility that extends beyond just shareholders (Hamdani, 2016: 5).

To effectively implement GCG, companies must ensure transparency by providing precise and accessible information to stakeholders, which helps prevent conflicts of interest and enables informed decision-making (Hamdani, 2016: 73). Independence is also vital; companies should operate free from external pressures, allowing all parties to fulfill their roles without undue influence (Hamdani, 2016: 76). Additionally, policies must ensure equality and fairness among all stakeholders to prevent internal fraud, while accountability requires organizations to manage their operations transparently, allowing stakeholders to demand responsibility through adequate internal controls (Hamdani, 2016: 74). Lastly, companies must comply with laws and address societal needs, taking responsibility for their actions and promoting environmental sustainability to affirm their role as responsible members of the community (Hamdani, 2016: 75).

Institutional Ownership

Institutional ownership in a company promotes greater oversight, which helps optimize management performance. From the perspective of agency relationships, management may prioritize its interests over the welfare of the owners or shareholders. Research by Arianandini and Ramantha (2018) suggests that institutional ownership is more effective in monitoring than managerial ownership. As a result, institutional shareholders are motivated to ensure that management makes decisions that maximize shareholder value. Furthermore, when institutional ownership in a company is higher, there tends to be increased oversight of management behavior, particularly regarding tax avoidance.

Managerial Ownership

Managerial ownership refers to the shares held by managers who actively participate in decision-making and influence organizational implementation. This ownership aligns the interests of managers with those of shareholders. According to Atari and Ilham (2016), when management owns shares, they tend to be more cautious in their decisions, especially regarding tax avoidance, as it carries risks of negative publicity. By having a stake in the company, managers are less likely to prioritize personal gains over the company's best interests, leading to more responsible tax practices.

Independent Board of Commissioners

The Independent Board of Commissioners is essential for ensuring that a company adheres to principles of good corporate governance (Hamdani, 2016:82). This board operates independently and is free from external influences, upholding its responsibility to act in the best interest of the organization. Its role includes supervising the board of directors and advising them to align their actions with shareholder interests, which can sometimes limit the inclination towards tax avoidance practices.

Size of the Board of Directors

The Size of the Board of Directors is pivotal in shaping effective corporate governance. As representatives of shareholders, board members collectively manage the company's affairs and are tasked with ensuring alignment between the corporation's vision and its operations (Hamdani, 2016:86). Research by Irawan and Aria (2012) indicates that a larger board can foster competitive dynamics among directors, which could enhance governance quality and potentially influence tax-related decisions.

Audit Committee

The Audit Committee is established by the independent board of commissioners and tailored to the company's complexity, ensuring effective decision-making. Tasked with supervising the company's management, the audit committee aims to ensure compliance with legal provisions and enhance internal controls to protect stakeholders' rights. As Putri and Anis (2017) noted, a robust audit committee is seen as a significant value-add for investors, fostering confidence in companies that adhere to good corporate governance and monitoring the preparation of financial statements to mitigate aggressive tax avoidance behaviors.

Tax Avoidance

Tax avoidance refers to companies' legal strategies to minimize their tax liabilities through planned approaches. Often exploiting legal loopholes or gray areas, businesses seek to alleviate the perceived burden of taxes, which they believe detracts from their profitability. According to Hanlon and Heintzman (2010), the CETR (Cash Effective Tax Rate) indicates tax avoidance, with a lower CETR suggesting more aggressive tax minimization tactics by the company.

Hypothesis

The effect of financial distress on tax avoidance

Financial distress refers to a company's inability to meet its debt obligations, often stemming from poor management. In such situations, companies typically strive to maintain a stable facade despite difficulties, attempting to gain clients' trust and uphold contracts. Companies in financial distress may manipulate financial statements to inflate profits, aiming to convince clients of their ability to meet debt obligations. They may also attempt to cut production costs, which can lead to tax avoidance practices.

Research by Meilia and Adnan (2017) indicates that financial distress positively correlates with tax avoidance—companies facing heightened financial pressure are more likely to engage in tax avoidance measures. Conversely, Taufik and Muliana (2021) suggest that not all financially distressed companies resort to tax avoidance, as losses can offset tax burdens, leading some to avoid tax strategies altogether. The Cash Effective Tax Rate (CETR) serves as a metric for tax avoidance, with lower CETR values indicating more aggressive tax avoidance actions.

H_1: Financial Distress affects Tax Avoidance

The effect of institutional ownership on tax avoidance

Agency theory describes the relationship between shareholders and management, suggesting that more outstanding shares held by institutional investors enhance management oversight, reducing conflicts of interest and tax avoidance.

Maharani and Suardana (2014) found no significant effect of institutional ownership on tax avoidance, as these investors monitor management performance to deter self-serving behaviors. In contrast, Ariawan and Setiawan (2017) indicated that institutional ownership positively influences tax avoidance, as these investors pressure management to pursue aggressive tax strategies for profit maximization. Since tax obligations can diminish profits, institutional ownership will likely lead to increased tax avoidance through enhanced management monitoring. The CETR measures tax avoidance, with lower values indicating more aggressive tax avoidance strategies.

H_2: Constitutional Ownership affects Tax Avoidance

The effect of managerial ownership on tax avoidance

Managerial ownership occurs when managers also hold shares in the company. According to agency theory, greater managerial ownership reduces conflicts of interest between principals and agents, as it aligns the interests of both parties. Managers benefit directly from their decisions and share the risks of losses, motivating them to enhance performance for shareholders' prosperity.

Research by Prasetyo and Bambang (2018) found that managerial ownership does not significantly affect tax avoidance, possibly due to limited decision-making power among managers. In contrast, Ashari et al. (2020) showed a positive impact of managerial ownership on tax avoidance, as higher share ownership enables management to influence tax strategies. The CETR measures tax avoidance, where lower values indicate aggressive tax practices.

H_3: Managerial Ownership affects Tax Avoidance

The effect of the independent board of commissioners on tax avoidance

The independent board of commissioners comprises members without direct ties to the company's key positions. According to the UUPT, commissioners must operate independently in their roles, supervising and advising the board of directors while aiding in the early detection of fraud. Agency theory suggests that this board reduces information asymmetry by acting as a support to shareholders. Puspita and Puji (2014) emphasize the role of independent commissioners in ensuring corporate tax compliance and preventing tax avoidance.

However, research by Prasetyo and Bambang (2018) indicates that the proportion of independent commissioners does not impact tax avoidance, as they often remain detached from management decisions. In contrast, Cita and Supadmi (2019) found a positive correlation, suggesting that more independent commissioners lead to increased tax avoidance. The CETR serves as a metric for tax avoidance, with lower values indicating more aggressive avoidance strategies.

H_4: Independent Board of Commissioners affects Tax Avoidance

The effect of the board of directors size on tax avoidance

The board of commissioners represents a group elected by shareholders to advocate for the company's interests. The board of directors is tasked with managing the company and analyzing its business objectives, holding each member accountable for any losses incurred due to negligence in their duties. Agency theory emphasizes the importance of good corporate governance in mitigating potential conflicts of interest.

Research by Irawan and Aria (2012) indicates that competition among directors increases with a larger board size, leading to improved governance. A more robust board of directors is linked to reduced tax avoidance, as better oversight minimizes fraudulent activities within management. Consistent with findings by Putri and Anis (2017), a larger board size significantly influences tax avoidance. The CETR serves as a metric for tax avoidance, exhibiting an inverse relationship—lower CETR values indicate more aggressive tax avoidance practices.

H_5: The size of the Board of Directors affects Tax Avoidance

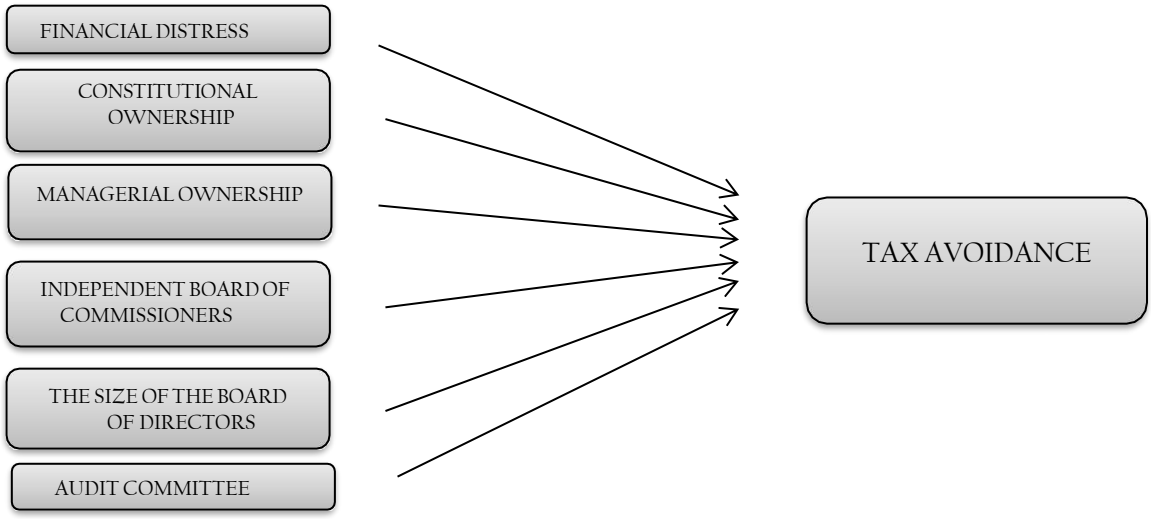
The effect of the audit committee on tax avoidance

The Audit Committee aids the board in auditing financial management and offers insights on economics and internal controls. It addresses agency problems from information asymmetry. A well-functioning committee reduces tax evasion by enhancing oversight of financial statements, thereby decreasing tax avoidance practices.

Oktamawati (2017) states that the audit committee does not influence tax avoidance; smaller committees may be more efficient but could lack diverse perspectives, while more

prominent committees risk opinion conflicts. Conversely, research by Cita and Supadmi (2019) suggests that audit committees positively influence tax avoidance practices, aligning with agency theory where information asymmetry allows agents to mislead principals about company performance. CETR serves as a measure for tax avoidance, indicating that lower values correspond to more aggressive tax avoidance strategies.

H_6: The Audit Committee affects Tax Avoidance



Picture 1. Research Conceptual Framework

3. Methods

This study employs a causal associative research strategy with a quantitative approach to examine the relationship between independent variables and tax avoidance. A purposive sampling technique was applied to select nine companies from 41 firms in the industrial sector listed on the Indonesia Stock Exchange (IDX) between 2015 and 2019. The sample selection process considered several criteria:

Table 1. Table of Research Sample Criteria

No	Sampling Criteria	Total
1	Companies in various industrial sectors listed on the Indonesia Stock Exchange in a row during 2015-2019	41
2	Companies in the various industrial sectors that experienced losses in 2015 – 2019.	-17
3	Companies that did not have complete data related to research variables.	-15
	Total Samples	9

17 companies were excluded due to financial losses, while 15 others were removed due to incomplete data related to the research variables. Consequently, the final sample consisted of nine companies.

The study relied on secondary data from audited financial statements on the IDX website and other relevant sources. Data analysis was conducted using EViews 9, including descriptive statistical analysis, classical assumption tests, and multiple linear regression analysis. This methodology ensures a comprehensive examination of the factors influencing tax avoidance while adhering to rigorous statistical procedures. The findings provide insights into how the identified variables impact tax avoidance behavior in the selected companies.

4. Results and Discussion

Analysis Descriptive Statistics

Based on Table 2, a total of 45 data points were analyzed in this study. The results reveal several key insights. Firstly, the CETR variable exhibits an average value of 0.250587, indicating a generally low level of tax avoidance among companies, as it remains above 25%. Additionally, the financial distress variable averages at 3.873044, with PT Selamat Sempurna Tbk recording the highest value of 11.37311 in 2019 and PT Indospring Tbk the lowest at 1.362828 in 2015, showcasing a notable standard deviation of 2.550262. Regarding institutional ownership, the average stands at 0.605323, with PT Sumi Indo Kabel Tbk having the maximum at 0.930583 and PT Sat Nusapersada Tbk having the minimum at 0.062484.

The managerial ownership variable shows an average of 0.132800, revealing significant variance with a maximum of 0.875033 and a minimum of 0.000326. Moreover, the size of the independent board of commissioners averages 0.382896, highlighting a maximum of 0.600000 by PT Sri Rejeki Isman Tbk and a minimum of 0.300000. The average size of the board of directors is 5.000000, with significant variations observed across companies during the 2015-2019 period. Finally, the audit committee variable averages at 4.177778, indicating consistent oversight, with the maximum being 8.000000 for PT Selamat Sempurna Tbk. These variables provide a comprehensive overview of company dynamics over the analyzed period.

Table 2. Results Descriptive Statistics Tax Avoidance

	Mean	Median	Maximum	Minimum	Std. Dev.
CETR	0.250587	0.252029	0.532239	0.056914	0.082241
C	1.000000	1.000000	1.000000	1.000000	0.000000
FD	3.873044	2.969687	11.37311	1.362828	2.550262
KINST	0.605323	0.581256	0.930583	0.062484	0.235987
KMANJ	0.132800	0.007007	0.875033	0.000326	0.261303
UDK	0.382896	0.333333	0.600000	0.300000	0.082165
UDD	5.000000	4.000000	11.00000	3.000000	2.306118
KA	4.177778	4.000000	8.000000	3.000000	1.570884

Source: Data processed by researchers, 2021

Hypothesis Test

The H1 was tested using the t-test, revealing that the count exceeded the table, specifically 2.180654 > 2.02439, with a probability significance of 0.0030, less than 0.05. Thus, H1 is accepted, indicating that financial distress partially affects tax avoidance. Following this, the H2 was similarly examined through the t-test. The results indicated that the count was again more significant than the table, at 2.102983 > 2.02439, and the probability significance stood at 0.0270, confirming H2's acceptance and reinforcing the notion that institutional ownership also partially affects tax avoidance.

Moving to the H3, the t-test results were striking as the count registered at 2.381389 > 2.02439 with a significance value of 0.0050, further validating H3 and establishing that managerial ownership partially impacts tax avoidance. In contrast, the H4 was not supported; the t-test results showed a count at -1.235804 < 2.02439 and a probability significance of 0.2241, leading to H4's rejection, thereby indicating that the size of the independent board has no partial effect on tax avoidance. Similarly, the H5 was also rejected, as the t-test revealed a count at -0.924491 < 2.02439 and a significance of 0.3611, suggesting no effect from the size of the board of directors on tax avoidance. Lastly, the H6 was favorably received; results showed a count of 2.540628 > 2.02439 with a significance of 0.0153, indicating that the audit committee partially affects tax avoidance.

Table 3. Result of T-test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.383066	0.140318	2.729992	0.0095
FD	0.012409	0.006969	2.180654	0.0030
KINST	0.084533	0.105274	2.102983	0.0270
KMANJ	0.038735	0.101562	2.381389	0.0050
UDK	-0.191017	0.154569	-1.235804	0.2241
UDD	-0.006739	0.007290	-0.924491	0.3611
KA	0.031121	0.012249	2.540628	0.0153
R-squared		0.883059		
Adjusted R-squared		0.785647		

Source: Processing Results Eview's9

In conclusion, based on the adjusted R-squared value of 0.785647 reported in Table 3, it can be inferred that the independent variables collectively explain 78.5647% of the variability in tax avoidance, leaving 21.4353% influenced by other unexamined factors.

Discussion

The effect of board of directors size on tax avoidance

The analysis reveals that financial distress significantly and positively affects tax avoidance. Companies grappling with economic challenges, often due to years of inadequate profits that fail to cover operational costs and poor financial planning by management, tend to allocate funds ineffectively. This misallocation can hinder the company's ability to fulfill both short-term and

long-term obligations, resulting in an increased propensity for tax avoidance as financial distress rises.

These findings support this study's hypothesis and align with Meilia and Adnan's work, which similarly concluded that financial distress significantly influences tax avoidance. However, they diverge from the conclusions of Taufik and Muliana, who found no significant effect of economic distress in their research.

The Effect of Institutional Ownership on Tax Avoidance

The analysis indicates that institutional ownership has a significant positive effect on tax avoidance. This is attributed to the role of institutional investors in monitoring and influencing management, which compels them to adopt aggressive tax strategies to maximize profits. Since tax liabilities are perceived to diminish earnings, institutional shareholders exert more effective oversight, leading to increased tax avoidance behavior by the company. This is due to the incentives institutional owners have to ensure management decisions prioritize the welfare of institutional shareholders. These findings align with the research by Ariawan and Setiawan, which confirms the significant positive effect of institutional ownership on tax avoidance. In contrast, the results differ from those of Maharani and Suardana, who found no such effect.

The effect of managerial ownership on tax avoidance

The results state that managerial ownership has a significant positive effect on tax avoidance. This is because the management has an important role in generating company profits; the management deliberately avoids taxes by increasing the burden by using specific accounting methods and policies to make profits smaller. This happens because the management is directly involved with the company's operational activities. So, if the level of managerial share ownership of a company is high, the influence of the company's management on practicing tax avoidance is higher. This study's results align with research conducted by Ashari et al. (2020), which states that managerial ownership significantly affects tax avoidance. However, this study does not align with research conducted by Prasetyo and Bambang (2018), which states that managerial ownership has no significant effect on tax avoidance.

The Effect of the Independent Board of Commissioners on Tax Avoidance

The results state that the independent board of commissioners has no significant effect on tax avoidance. This is because the independent board of commissioners is a part that comes from outside management, so independent commissioners tend not to be able to influence management's actions in committing fraud; they tend to encourage company management to disclose broader information to shareholders and stakeholders. Also, the independent board of commissioners can less influence accounting policies related to corporate tax policies. This study aligns with research conducted by Prasetyo and Bambang (2018), which states that independent commissioners have no significant effect on tax avoidance. However, this research is not in line with research conducted by Cita and Supadmi (2019), which states that independent commissioners affect tax avoidance.

The effect of board of directors size on tax avoidance

These results state that the size of the board of directors has no significant effect on tax avoidance. This is because the board of directors will usually consider factors related to administrative sanctions, thereby reducing their intention to carry out tax avoidance. However, this study does not align with research conducted by Putri and Anis (2017), which states that the size of the board of directors affects tax avoidance.

The effect of the audit committee on tax avoidance

The results indicate that the audit committee significantly positively affects tax avoidance, which contradicts the idea that a larger audit committee reduces tax avoidance. This is because the audit committee answers to the board of commissioners, and if the board engages in fraud, increased committee members may lead to more tax avoidance. The audit committee influences tax management strategies and can provide misleading financial information about the company's performance. This aligns with Cita and Supadmi's (2019) research, which also found a significant positive effect but differs from Oktamawati's (2017) study, which found no effect.

5. Conclusions

This study identifies key factors influencing tax avoidance in companies. Financial distress positively affects tax avoidance, as firms in trouble often turn to such strategies for relief. Institutional ownership plays a significant role, with institutional investors prompting management toward more aggressive tax policies. Higher managerial ownership also increases the likelihood of tax avoidance.

Conversely, some factors do not significantly impact tax avoidance; the independent board of commissioners and the size of the board of directors do not influence this behavior, as members may focus on avoiding sanctions. Notably, the audit committee positively influences tax avoidance, affecting tax management and potentially leading to misrepresentation of financial performance. The findings shed light on the intricate relationship between corporate governance and tax avoidance.

The study suggests that companies should consider factors like financial distress, ownership structures, and audit committees that affect tax avoidance and utilize online accounting tools for better reporting. Investors should assess financial statements and corporate governance, focusing on tax compliance. Despite limitations in data and sample size, the study serves as a reference for future research, which should involve larger samples, additional variables like education and taxpayer awareness, and a broader period beyond 2015-2019 for companies on the Indonesia Stock Exchange.

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Acknowledgment
the authors are grateful to the various reviewers for their constructive comments in shaping the manuscript.

Funding
Not applicable

Conflicts of interest/ Competing interests:
The authors have no conflicts of interest to declare that are relevant to the content of this article.

Data, Materials and/or Code Availability:
Data sharing is not applicable to this article as no new data were created or analyzed in this study

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Imperium Research Institute remains neutral with regard to jurisdictional claims in published maps and institutional affiliations

Cite this paper:
Novanza, M., A. & Husen. S. (2023). The influence of financial distress and good corporate governance on tax avoidance, *3*(1), 55-68. https://doi.org/10.36407/jpafm.v5i1.1583