Managerial and Financial Capabilities Become Determining Factors of Tax Avoidance Practice in Indonesia

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Abstract

Differences in interests related to taxation between the government and companies are still a current issue. The purpose of this study is to examine the impact of managerial and financial competencies on tax avoidance in Indonesian manufacturing companies. 149 financial statements of companies listed on the Indonesia Stock Exchange were used to compile the data. Panel data regression with a random-effects model was used to test and analyze the data. The findings revealed that financial challenges and managerial ability had a detrimental impact on tax avoidance, but there was no influence between the audit committee on tax avoidance. As for the control variable, there is a positive influence between profitability on tax avoidance, and there is no influence between leverage on tax avoidance.

Keywords: Financial capability; Managerial Ability; Tax avoidance

JEL Classifications: B26; G32; H26
Introduction

Differences in interests that exist between governments and companies in terms of taxation will cause problems, namely, companies are motivated to do tax planning to get high income which can lead to tax avoidance practices. The difference in interest in question is that the government considers taxes as state income and businesses see taxes as a burden that might limit profitability. The difference of opinion will lead to taxation problems, one of which is tax avoidance as a part of a tax plan. According to the Law Dictionary, tax avoidance is an attempt to minimize tax liability, taking advantage of tax evasion opportunities (loopholes) without violating tax laws. Taxpayers take this action to reduce the amount of tax due or not pay it through illegal means. Companies have incentives to develop strategies to minimize their tax payments by taking advantage of the inefficiency of the tax system (Haruna Abubakar et al., 2021). Tax avoidance is a strategy carried out by companies to reduce their tax obligations legally and not against tax provisions (Dewanti & Sujana, 2019). Tax avoidance can also be utilized to boost shareholder value and company cash flow (Garg et al., 2020). Based on agency theory, management can manage the tax expenses by valuing assets, maximizing income and expenses without opposing tax regulations (Putra et al., 2018).

Tax Avoidance in a company is generally full of confusion and complexity. Some companies have succeeded in dealing with the occurrence of tax avoidance due to financial difficulties, but some companies have difficulty avoiding it. This is because companies experiencing various financial difficulties will face situations that will impact the value and claim holders of the company. The difference in how to respond to and deal with the effect of the company's managerial ability on tax avoidance will lead to information containing various company assessments. The assessment can be in the form of good and bad judgments. Even in the worst case, the company will have conflicts of interest both internally and externally.

Tax avoidance cases have arisen in Indonesia, such as the tobacco company owned by British American Tobacco (BAT) through PT. Bentoel Internasional Investama Tbk. This is proven by the Tax Justice Network stating that there are tax avoidance activities that BAT has carried out through PT. Bentoel has cost the state up to US$ 14 million per year. British American Tobacco carries out tax avoidance by diverting income outside Indonesia in two ways, namely by making intra-company loans and paying royalties, fees, and IT services (Kontan.co.id, 2019).

The decline in the financial condition of a company is a factor that encourages companies to do tax avoidance (Salehi et al., 2020). Companies facing financial distress are still required to maintain a going concern, this also motivates companies to do tax avoidance to maintain and increase their profits (Sadjijarto et al., 2020). This assertion is consistent with past research by Dang & Tran, (2021); Swandewi & Noviari, (2020) where this study indicates that financial difficulties (financial distress) have a large beneficial impact on tax avoidance, and where the study finds that when the Zscore rises, the CETR value rises as well. The more the company is in capital danger, the higher the tax avoidance. Meanwhile, research by Monika & Noviari, (2021) resulted in significant negative financial problems on tax avoidance, where the higher the financial distress of a company, the lower the practice of tax avoidance. Companies that are facing financial distress are too risky if they decide to practice tax avoidance. McClure et al. (2018) also found that tax avoidance decreased when the company was in a state of financial distress.

Managerial ability is also a driving factor for tax avoidance. Managerial ability is an ability possessed by a manager to be efficient in earning income to bring maximum profit to the company (Demerjian et al., 2012). Managers are interested in making decisions on the level of tax avoidance that will be carried out (Saragih et al., 2021). The practice of tax avoidance brings benefits to managers, where managers will get greater incentives because they generate high profits. Top managers are those who make decisions on tax avoidance because top managers have a role in determining the company's strategy viewpoints and attitudes to top managers' is organizational behavior, such as tax avoidance (Hsieh et al., 2018). The higher position of a manager, the better in understanding business decision-making with tax strategies, making it easier to see tax planning opportunities (Koester et al., 2017). The better the managerial ability of a company, the manager can know the business, environment, and opportunities within the company. So it is likely that managers will do tax avoidance effectively (Koester et al., 2017). Research by Saragih et al. (2021) creates a considerable positive managerial competence in terms of tax avoidance, demonstrating that the manager's strategy is affected by tax planning and is related to tax avoidance. Another thing with Aristyatama & Bandiyono, (2021) shows the results where managerial ability is significantly negative on tax avoidance because managers who have high abilities will know more about their industry, so they can efficiently utilize existing resources.
The audit committee is also a factor that has a role in the practice of tax avoidance. An audit committee is a group that has a minimum of three members and has the function of supervising corporate governance and monitoring external audit activities on the financial situation of the business statements (Triyanti et al., 2020). In the company, the audit committee controls the management on activities to increase income by reducing the tax burden. If the number of audit committees is three or more, it will have an impact on corporate governance and will reduce the practice of managers evading taxes. (Abdillah & Nurhasanah, 2020). Researchers Andriyani & Mahpudin, (2021); Mulyani et al. (2018) produced a study, where the audit committee was significantly positive on tax avoidance. Then research by Koming & Praditasari, (2017) the audit committee is considerably negative on tax avoidance and can limit opportunistic tax avoidance management. Meanwhile, Herlanda et al. (2021) found that the committees had no discernible impact on tax avoidance.

There are control variables in this study, namely profitability and leverage. Where profitability is an important indicator to determine the imposition of Corporate Income Tax and leverage to see the level of funding from debt that will result in debt burden as a deduction from taxable income.

Until now, there is still the phenomenon of tax avoidance and gap research, so it is clear that tax avoidance is still a current issue that deserves to be researched. This is what motivates researchers to carry out this research. The novelty of this research is the Abnormal Book Tax Difference (ABTD) as a proxy for tax avoidance. The addition of two new independent variables, namely financial distress and the audit committee in this study.

**Literature Review**

**Agency Theory**

Jensen & Meckling, (1976) introduced a theory, namely agency theory. This theory explains the relationship between the principal who delegates work and decision-making with the agency that completes the task on behalf of the principal (Nadhiyah & Arif, 2020). Jensen & Meckling, (1976) stated that agency theory is a contract agreement or nexus of contract, which exists between the party who delegates responsibility and those who will carry out the responsibility (Irwansyah et al., 2020). Agency theory states that each party is expected to run according to their respective interests (Swandewi & Noviari, 2020).

The existence of differences in interests between the agent and principal will lead to agency problems. Information asymmetry is a condition when the agent knows more about the information owned by the company so that it does not provide all the information to the principal (Eisenhardt, 2010). In this study, according to agency theory, the tax authority (government) is the principal while the company is the agent (Khamisan et al., 2020). The Fiscus (government) as the principal asks the company as an agent to pay its tax obligations (Khairani, 2019). There is a difference between the principal (fiscus) and the agent (company). Fiscus (government) expects high tax revenues from companies, but companies want low tax payments in order to maximize company profits. This information is used for decision-making by interested parties. Company information is presented because there is information asymmetry among external parties (Khairani, 2019). This theory relates to management using financial distress as a reason for deciding to do tax avoidance.

**The Impact of Financial Distress on Tax Avoidance**

According to the agency theory, each party will act according to their own interests, especially agents. Managers as agents will try anything to see their performance as good even though they are experiencing financial distress (Swandewi & Noviari, 2020). So tax avoidance is carried out by managers as a way to maintain their performance.

Companies in financial hardship are more likely to engage in tax avoidance because their cash is increasingly critical, the tax burden is the main thing in cash flow, the company will override the negative reputation as a result of tax avoidance practices (Aliifianti et al., 2017). However, tax avoidance becomes a high-risk investment method if it is done during financial distress, which is at risk of decreasing the company's image (Kovermann & Velte, 2019).
Previous research conducted by Swandewi & Noviari, (2020); Dang & Tran, (2021) produced financial distress and significant positive tax avoidance. Where the more in danger of capital or the result of the Z-score is smaller, meaning that the higher the amount of tax avoidance that is carried out or the lower the real tax that the company will pay on profits. However, previous research conducted by Monika & Noviari, (2021) resulted in financial distress and significant negative tax avoidance, this is because when a company is facing financial problems, it has a high there is a possibility of tax avoidance, as well as a negative impact on the company’s reputation.

H1: Financial distress impact tax avoidance

The Impact of Managerial Ability on Tax Avoidance

According to the state of Agency theory, managers have more information about the company or called information asymmetry, so this supports managers to act by their goals (Laksono & Firmansyah, 2020). Managers will carry out tax planning for their personal or company interests (Kirana et al., 2016). Managers with higher levels tend to do greater tax avoidance because higher-level managers know the business, environment, and opportunities within their companies (Prakosa & Sari, 2019). The research of Koester et al., (2017) shows that managers will essentially avoid paying taxes The greater a manager's ability, the wider his understanding of tax avoidance so that it is not detected by the tax authorities (Nurfauzi & Firmansyah, 2018). Previous research by Saragih et al., (2021) states that managerial ability is significantly positive on tax avoidance. Meanwhile, Aristyatama & Bandiyono, (2021) stated that managerial ability was significantly negative on tax avoidance.

H2: Managerial ability impact tax avoidance

The Impact of Audit Committee on Tax Avoidance

According to agency theory, by supervising the company's actions, the audit committee with better accounting and finance competencies can decrease tax avoidance methods within the corporation (Pramesty et al., 2020). The more audit committees there are, the less likely the corporation is to engage in tax avoidance. Like previous research by Abdillah & Nurhasanah, (2020); Mulyani et al., (2018); Koming & Praditasari, (2017) mentions that the audit committee has an effect on tax avoidance, where the audit committee can reduce opportunistic management to carry out tax avoidance.

H3: The audit committee impact tax avoidance

Research and Methodology

Data

Manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2020 period are the population. The purposive sampling method was used as a sampling technique for this research. The criteria for selecting the sample required are as follows: (1) Manufacturing companies listed on the Indonesia Stock Exchange and consistently publishing financial and annual reports for the period 2018-2020; (2) To perform Data Envelopment Analysis (DEA) calculations, each company is grouped based on the manufacturing industry sub-sector to form a Decision-Making Unit (DMU). Grouping is done with a minimum number of 4 companies in one industry, this is done to produce varying DEA scores.

Research Operational Definition and Measurement

Variables Dependent

Tax avoidance

Tax avoidance is a way of avoiding taxes by using loopholes in tax regulations. Tax avoidance is measured using the Abnormal Book Tax Difference (ABTD) formula as follows:
BTD = \frac{EBT - (Current\ tax\ expenses\times tax\ rate)}{Total\ assets_{i-1}}

Then perform a total BTD regression, here is the formula:

$$BTD_{it} = 1 + Total\ Accrual_{it} + e_{it}$$

Description:

Total Accrual_{it} : \frac{Net\ Income - Operational\ Cash\ Flow_{it}}{Total\ assets_{i-1}}

Independent Variable

Financial Distress

This refers to a situation in which an entity is experiencing financial difficulties and its cash flow is unhealthy or in crisis (Carolina et al., 2018). The modified Altman Z-score approach is used to assess financial distress because this model is the best model and is globally accepted in the management field to see financial health (Divekar & Sukhari, 2021). The formula is as follows:

$$Z = 0.717Z_1 + 0.847Z_2 + 3.107Z_3 + 0.420Z_4 + 0.999Z_5$$

Description:

$Z_1$ : Working capital / total assets
$Z_2$ : Retained earnings / total assets
$Z_3$ : Income before interest and taxes / total assets
$Z_4$ : Book value of equity / book value of debt
$Z_5$ : Sales / total assets

formula modified is, if the Z-score > 2.90 means the company is in the safe category. If 1.23 < Zscore< 2.90 the company is in the gray category. And if Z < 1.23 means the company is in the category of financial distress.

Managerial Ability

Managerial ability is an ability possessed by a manager to be efficient in earning income in order to bring maximum profit to the company (Demerjian et al., 2012). Managerial ability is proxied by using Data Envelopment Analysis (DEA) which is then performed tobit regression as follows:

$$\text{Max} \theta = \frac{Sales}{v_1COGS+v_2SG&A+v_3PPE+v_6INTAN}$$

Description:

COGS : Cost of Good Sold or Cost of Goods Sold (HPP)
SG&A : Selling, General, and Advertising Expense
PPE : Property, plan,t and equipment
INTAN : Other intangible assets

Residual value from tobit regression becomes value managerial abilities are as follows:

Firm Efficiency = + 1Firm Sizeit + 2Market Sharei + Free Cash Flow Indicatori + 4ln(Age)i + 5 Foreign Currency Indicatori +

Description:

Firm Sizei : Natural logarithm of total assets
Market Sharei : Revenue divided by total industry revenue
Free Cash Flow Indicator: Score 1 for cash flow less than 0 and score 0 for cash flows more than 0
\( \ln(Age) \): Logarithm of company age
Foreign Currency Indicator: Absolute value of foreign exchange earnings or losses divided by total income

**Audit Committee**

The audit committee is a committee created by the Board of Commissioners and has responsibility for the duties and functions of the Board of Commissioners (Abdillah & Nurhasanah, 2020). The measurement proxy for the audit committee is as follows:

Expertise in accounting and or finance, namely:
- Score 1 is given when a member has has expertise in accounting and or finance.
- Score 2 is given if only one member has more expertise in accounting and finance.
- Score 3 is given to companies with more than one member having expertise in finance and accounting.

Audit committee’s Size:
- Score 1 if the company does not have an audit committee
- Score 2 if the audit committee consists of 2 people
- Score 3 if the audit committee members are more than 3 people

Number of meeting activities namely:
- Score 1 if one year the number of meetings < 4 times
- Score 2 if the number of meetings in a year is between 4-6 times
- Score 3 if the number of meetings in a year is >6 times

Then the scores for each indicator are added up and then divided by the maximum score of 9, resulting in the ratio value of the audit committee.

**Control Variables**

**Profitability**

Profitability is measured using the Return on Assets (ROA) formula, namely by comparing net profits with total wealth. If the ROA ratio is high, it indicates that the company’s total assets have increased (Saragih et al., 2021). The ROA formula is as follows:

\[
\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}
\]

**Leverage**

Leverage is measured using the Debt to Equity Ratio (DER), which is used to calculate the amount of capital financed from total debt (Saragih et al., 2021). The DER formula is as follows:

\[
\text{DER} = \frac{\text{Long Term Debt}}{\text{Shareholders Equity}}
\]

**Research**

The panel data regression model for hypothesis testing uses the following equation:

\[
ABT_{it} = +1ZSCORE_{it} + \beta 2MASCORE_{it} + 3KA_{it} + \beta 4ROA_{it} + \beta 5DER_{it} + \]

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Description:

\[ \text{ABTD}_{it} \]: Tax Avoidance by company \( i \) in year \( t \)

\( \alpha \): Constant

\( \beta_1 - \beta_4 \): Regression coefficient

\[ \text{ZSCORE}_{it} \]: Financial Distress by company \( i \) in year \( t \)

\[ \text{MASCORE}_{it} \]: Managerial Ability by company \( i \) in year \( t \)

\[ \text{KA}_{it} \]: Audit Committee by company \( i \) in year \( t \)

\[ \text{ROA}_{it} \]: Profitability by company \( i \) in year \( t \)

\( \text{DER}_{it} \): Leverage by company \( i \) in year \( t \)

\( \epsilon \): Error

Results and Discussions

The process of selecting the research sample is a manufacturing company registered on the Indonesia Stock Exchange in the period 2018-2020 using the purposive sampling method, namely determining the sample by being limited to certain types of criteria for research needs (Sekaran & Bougie, 2017).

The purposive sampling method was used to select samples according to the established criteria. The criteria are as follows:

Table 1: Sample Criteria

| Description                                                                 | Sample |
|----------------------------------------------------------------------------|--------|
| Manufacturing companies listed on Stock Exchange Indonesia 2018 - 2020     | 196    |
| Companies listed/delisted during the research period                       | (30)   |
| Companies that do not consistently present annual reports in 2018-2020     | (6)    |
| Companies in the manufacturing industry sub-sector are less than four       | (11)   |
| Total research sample                                                      | 149    |
| Total sample for three years                                               | 447    |

Source: Processed data (2021)

Descriptive Statistical Analysis

Table 2: Descriptive Statistical Data

| Variable | Obs | Mean   | SD Deviation | Min   | Max   |
|----------|-----|--------|--------------|-------|-------|
| ABTD     | 447 | 0.0067831 | 0.06912298 | -0.2778112 | 0.6764724 |
| Z-score  | 447 | 2.39953 | 6.149159 | -26.65016 | 121.9118 |
| MASCORE  | 447 | 0.948487 | 0.0672512 | 0.2993886 | 1 |
| KA       | 447 | 0.9040517 | 0.0802538 | 0.333333 | 1 |
| ROA      | 447 | 0.0520048 | 0.4104303 | -1.36932 | 8.302363 |
| DER      | 447 | 2.494247 | 39.02617 | -166.749 | 786.9311 |

Source: STATA Output Version 16.0, processed data (2021)

From Table 2, it can be seen that the mean or average of tax avoidance is 0.0067831, meaning that accounting profit is greater than fiscal profit because the results of the average value show positive. The existence of a difference in value between accounting profit and fiscal profit indicates the existence of tax avoidance by managing the company's total accruals. Therefore, the average manufacturing company in 2018-2020 carries out tax avoidance at a reasonable level. The lowest value of tax avoidance, which is -0.2778112, was the Magna Investama Mandiri Tbk in 2019. While the maximum value for tax avoidance is 0.676724 from the Merck Tbk company in 2018.

From Table 2, it can be seen that the average value of financial distress is 2.405601, meaning that the average company in the study falls into the gray category. This can be seen from the classification of the
modified Altman z-score method. If the calculation results are 1.23 < Z-score < 2.90, the company is in the gray category. The gray category means that the company has the potential to fall into the unsafe category, so it is necessary to improve performance to be in a safe position. The minimum value of financial distress is -26,65016 at Magna Investama Mandiri Tbk in 2020, meaning that the company is in financial distress. The maximum value of financial distress is 121,9118 by the Star Petrochem Tbk company in 2020, meaning that the company is in the safe category.

From Table 2, it can be seen that managerial ability has a mean of 0.948487, meaning that the average company is in the fairly efficient category because the value is close to 1 or 100%. The minimum value of managerial ability is 0.2993886, namely at the Panasia Indo Resources Tbk company in 2019, meaning that the company has not been efficient in managing company resources. The maximum value of 1 or 100% is found in several companies, including Campina Ice Cream Industri Tbk, etc.

From Table 2, it can be seen that the audit committee has a mean of 0.9040517 or 90.40517%, meaning that on average, the companies studied have an effective audit committee because it is close to 100% ratio. The minimum score for the audit committee is 0.333333, which is Tiga Pilar Sejahtera Food Tbk because the composition of the audit committee members was only re-established in 2018. The maximum value is 1 or 100% from several companies, including Wilmar Cahaya Indonesia Tbk, etc.

From Table 2, it can be seen that the average value of profitability is 0.0520048, which means that the average company generates 5% net profit using company assets. The maximum profitability value is the company Magna Investama Mandiri Tbk in 2020 of 8.302363. While the minimum value is also found in the company Magna Investama Mandiri Tbk but in 2019 it was -1,36932. The higher the ROA ratio, the better the company will utilize assets to earn a profit.

The mean value of DER is 2.494247, meaning that funding from debt is 2.4 times from equity. The minimum DER value for Century Textile Industries Tbk is -166.749. And the maximum value is 786,9311 from the company Alumindo Light Metal Industri Tbk, meaning that the company's funding is substantial from debt.

Panel Data Model Test

**Table 3: Chow Test Results**

| Probability | 0.0229 |
|-------------|--------|
| 0.05        | STATA  |

Source: STATA Output Version 16.0, processed data (2021)

**Table 4: Lagrange Multiplier Test Results**

| Probability | 0.0270 |
|-------------|--------|
| 0.05        | 0.05   |

Source: STATA Output Version 16.0, processed data (2021)

**Table 5. Hausman Test Results**

| Probability | 0.1730 |
|-------------|--------|
|             | STATA  |

Source: STATA Output Version 16.0, processed data (2021)

From Table 3, it can be seen that the results of the Chow test, namely the probability value are less than alpha so that the fixed effect is accepted. Table 4, shows the Lagrange multiplier test results where the significance level is less than alpha so that based on this test, the random effect is accepted. Table 5, shows the results of the Hausman test where the probability value is greater than alpha so that the random effects are appropriate for this study. Furthermore, the classical assumption test includes a normality test, multicollinearity test, and heteroscedasticity test.

Classical Assumption Test

After testing with skewness and kurtosis tests, it turns out that some data are proven to be abnormal, so it is necessary to do a wonorized to solve the problem of normality. Winsorized use is 4% (cuts 4 96) so that it
can produce a skewness value of less than three and a kurtosis of less than 10. Following are the results of the normality test after winsorized treatment:

**Table 6: Skewness Kurtosis Results**

| Variable  | Skewness | Kurtosis   |
|-----------|----------|------------|
| ABTD_w    | 0.3764645| 3.297409   |
| KA_w      | 0.0774458| 2.946405   |
| W         | MASCORE_w | -0.8798214|
| 2.520661  | 0.1426886 | 2.560904   |
| ROA_w     | 0.4275711 | 3.644231   |
| DER_w     | 1.697483  | 6.7083862  |

Source: Output Version 16.0, processed data (2021)

**Table 7: Multicollinearity Test Statistical Results**

| VIF | 1/VIF |
|-----|-------|
| ZSCORE_w | 2.09 | 0.437832958.09 |
| Centered_MASCORE | 0.9278358.w & 6MASCORE_w | Variable |
| VIF | ZSCORE_w | for |
| Statistics | STATA | Multicollinearity |
| Test | 1.23 | 0.811997 |

Source: Output STATA Version 16.0, processed data (2021)

In Table 6 and Table 7 above, it can be seen that after treatment centering all variables are independent of multicollinearity because they produce VIF values less than 10.

**Table 8: Heteroscedasticity Test Statistical Results**

| Chi2(1) | Prob> Chi2 |
|---------|------------|
| ABTD    | 12.97      | 0.0003 |

Source: STATA Output Version 16.0, processed data (2021)

From Table 8 above, it can be seen that the probability value is less than alpha (0.0003 < 0.05), meaning that there is heteroscedasticity in the data. Therefore, it is necessary for robust standard error treatment.

**Hypothesis Testing**

**Table 9: Hypothesis Testing**

| Variable | Regression Model | Random Effect Model |
|----------|-----------------|---------------------|
| Cons     | 0.0032068       | 0.005027            | 0.524 |
| ZSCORE_w | -0.047904       | 0.0017282           | 0.006 |
| centered_MASCORE | -0.1131155 | 0.0441723 | 0.010 |
| centered_KA | 0.007196       | 0.023999            | 0.764 |
| ROA_w    | 0.3240082       | 0.0477128           | 0.000 |
| DER_w    | 0.0012403       | 0.0022764           | 0.586 |
| Number of Obs | 447            |                     |
| Adjusted R-Squared | 0.1424       |                     |
| Prob (F-Statistics) | 0.0000       |                     |

Source: Output STATA Version 16.0, processed data (2021)

Using Table 9 as a guide, the modified R-Squared result is 0.1424, which indicates that there is a 14.24% relationship between the independent variables and dependent variables while 85.76% is influenced by other factors. After testing with the Random Effect following is the form of the regression equation:

\[
\text{ABTD}_{it} = 0.0032068 - 0.0047904 \text{ZSCORE}_{it} - 0.1131155 \text{MASCORE}_{it} + 0.007196 \text{KA}_{it} + 0.3240082 \text{ROA}_{it} + 0.0012403 + \text{DER}_{it} + \epsilon
\]
The Impact of Financial Distress on Tax Avoidance

It produces a probability that is smaller than alpha based on the test results from the t-test with a significance of 5% (0.006 < 0.05) with a coefficient of -0.0047904, which means that there is a negative influence between financial distress on tax avoidance. So it can conclude that H1 is accepted.

Those effects imply that if the business enterprise is in monetary distress, the business enterprise will lessen tax avoidance practices due to the fact corporations which are in monetary issues are too volatile if they determine to do tax avoidance (Cita & Supadmi, 2019). In agency theory, it is stated that the agent, namely management, must be responsible to the principal, namely the owner, so that management is more careful in making decisions that can damage the trust of the principal, such as avoiding tax when the company is experiencing financial problems which can lead to greater risk. The risk in question is to the company's image, if the company decides to do tax avoidance when facing financial problems it will reduce the company's image which will give a negative signal to investors. So here good managerial skills are needed to influence corporate tax avoidance (Francis et al., 2013; Koester et al., 2017). The regression results in this study indicate that financial distress is significantly negatively related to tax avoidance across several proxy measures of tax avoidance and financial distress (Richardson et al., 2015; Wruck, 1990).

This study is also in line with previous research by Cita & Supadmi, (2019); Monika & Noviari, (2021); Nadhifah & Arif, (2020) Selistiaheni et al., (2020) which states that the existence of financial distress has a negative impact on tax avoidance. That is, when a company is in financial distress, the company will try to reduce tax avoidance. Financial distress will not be seen as a motivation to pursue tax-heavy activities (Dang and Tran, 2021; Dhamara and Violita, 2018).

The Impact of Managerial Ability on Tax Avoidance

After the t-test process with a significance of 5% resulted in a probability of less than alpha (0.010 < 0.05) with a correlation coefficient of -0.113155, it suggests that there is a considerable negative correlation between managerial and financial performance ability on tax avoidance. So it can be concluded that H2 is accepted.

These results indicate that the higher the managerial ability, the lower the level of tax avoidance carried out. Managers who have a high level of ability will understand the industry better so that they can manage company resources efficiently. Not only that, when managers have high abilities, they will focus more on trying to improve company performance without doing tax avoidance which can increase risk.

In agency theory, it is stated that tax avoidance actions can trigger the growth of risk for shareholders such as other costs arising that can harm shareholders (Aristyatama & Bandiyono, 2021). Therefore, managers who have high abilities will utilize company resources efficiently rather than do tax avoidance which will cause more costs that can harm shareholders. This is done because the main goal of managers is to enrich shareholders, so managers will reduce actions that can harm shareholders. Managers will also prefer to invest compared to tax avoidance in order to improve company performance. Managers who have high abilities will reduce tax avoidance because they are considered to have an impact on the reputation of the manager and the company.

The results of this study in line with previous research by Aristyatama & Bandiyono, (2021) which results that the better the managerial ability, the more the manager knows about the industry so that they can manage company resources efficiently to get the desired output, so that the lower the practice of tax avoidance.

The Audit Committee's Impact on Tax Avoidance

The probability value is more than alpha (0.764 > 0.05) with a coefficient of 0.007196, indicating that there is no influence between the audit committee and tax avoidance, according to the results of the t-test with a significance of 5%. As a result, H3 is rejected.

The findings show that the audit committee has no impact on tax avoidance; this is possible because there are various factors of other parties who have more authority to make corporate strategy decisions including tax strategies than the audit committee. Then, if the advice given by the audit committee is not carried out by the company, the audit committee does not influence in terms of taxation. The audit committee's activities and reports must be of high quality in order for the company to fulfill its objectives.
Based on agency theory, the principal, namely the owner, gives responsibility to the agent or management to operate the company. Thus, management has an important role in deciding the company's strategy, including the tax strategy. Therefore, management is the party that has the role and authority to make corporate strategic decisions such as taxation compared to the audit committee. The advice given by the audit committee is not immediately carried out by the company, so there is no influence between the audit committee and tax avoidance.

Previous studies support the results, such as research by Herlanda et al. (2021); Abdillah & Nurhasanah, (2020); Pramesty et al., (2020); (Lubis et al., 2017), which stated that the audit committee did not affect tax avoidance. This is because to minimize opportunistic actions, members of the audit committee must be able to observe management's operations to the fullest extent possible. In addition, tax avoidance is seen from the number of members of the audit committee and the independence of the audit committee. The audit committee's role is less efficient in terms of taxation can also be due to the lack of support from all components of the company.

**Conclusions**

The conclusion obtained after testing and analyzing the data is that hypothesis one is accepted, meaning that financial distress has a negative effect on tax avoidance. The second hypothesis is also accepted with the result that there is a negative effect between managerial ability and tax avoidance, but the third hypothesis is rejected because there is no effect between the audit committee on tax avoidance. The profitability control variable has a positive effect on tax avoidance, while leverage does not affect tax avoidance. The results show that companies facing financial distress tend to minimize tax avoidance, and in this case, managers are required to have good managerial skills to manage company finances and maintain the company image. Then, although the audit committee does not have a significant effect on corporate tax avoidance, the audit committee plays an important role in providing advice to management in regulating tax strategies and the quality of work of company resources. The results of the study are expected to be a benchmark for principals, and agents in determining future tax policies, to create stability in accounting profits and fiscal profits in the company.

The limitations in the process of collecting research data are that there are financial and annual reports obtained from websites with scanning quality, making it difficult to read in data collection. The authors recommend further researchers select a sample of companies with detailed financial and annual reports obtained directly from primary sources in the collection process so that the final research results can be maximized.

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