The Impact of Earning Management, Inventory Intensity and Management Compensation on Tax Avoidance

Jennifer Servantlord[1], Iman Akhadi[2]
[1]Trisakti School of Management,
Kyai Tapa Street 20, Grogol, Jakarta
[2]Trisakti School of Management,
Kyai Tapa Street 20, Grogol, Jakarta

doi.org/10.51505/IJEBMR.2024.8822 URL: https://doi.org/10.51505/IJEBMR.2024.8822

Received: Aug 06, 2024 Accepted: Aug 16, 2024 Online Published: Aug 22, 2024

Abstract
The aim of this research is to examine the factors impacting tax avoidance in Indonesia. The study utilizes various independent variables including earnings management, independent commissioners, audit quality, management compensation, inventory intensity, and profitability. The dependent variable under investigation is tax avoidance. The research focuses on companies in the consumer non-cyclicals, consumer cyclicals, and basic material sectors listed on the Indonesia Stock Exchange from 2020 to 2022. Through purposive sampling, 54 companies fitting the criteria were selected then analyzed using multiple regression analysis. The findings suggest that audit quality has a positive correlation with the Cash Effective Tax Rate (CETR), indicating that higher audit quality leads to an increase in CETR and a decrease in tax avoidance. Meanwhile, earnings management, independent commissioners, management compensation, inventory intensity, and profitability have no effect on tax avoidance. This study is the first study conducted on companies in Indonesia that have engaged in tax avoidance during the Covid-19 pandemic (2020-2022).

Keywords: Tax Avoidance, earning management, inventory intensity, management compensation

1. Introduction

1.1 Introduce the Problem

Maximizing a company's value is the primary goal of all business decisions (Zhang et al. 2022). Amid the era of globalization, businesses are compelled to enhance their competitiveness to fully capitalize on their capabilities and efficiently manage their resources. However, there are various factors, including taxes, that may impact a company's net profit from an accounting perspective. While it is possible to minimize tax payments, it is essential to note that this does not signify the avoidance or reduction of tax obligations by the business. Companies emphasized their compliance with tax laws and stated that it is the responsibility of lawmakers to address any loopholes that allow multinational tax avoidance practice. (Riedel 2018)

Tax is an obligatory levy imposed by the state on businesses and individuals with no direct benefits in return. Nevertheless, some individuals or businesses attempt to evade taxes by breaching tax laws. The heavy tax burden compels businesses and individuals to seek ways to minimize their tax obligations through tax planning.

According to (Lim 2011), tax avoidance is described as a company's strategy to reduce tax liabilities without breaching legal regulations. Enhancing tax institutions and addressing tax evasion issues can lead to an increase in the tax ratio.

This study aims to answer the lack of research on tax avoidance strategies amid the Covid-19 pandemic in 2020-2022. Researchers will examine the impact of earnings management, independent commissioners, audit quality, management compensation, inventory intensity, and profitability on tax avoidance.

1.2 Importance of the Problem

The issue of tax avoidance is a distinct and intricate issue, as it is technically legal but considered undesirable. Companies engage in tax avoidance by taking advantage of opportunities and loopholes in tax laws, as well as exploiting weaknesses in tax enforcement, in order to reduce their tax liabilities (Henny 2019).

The previous study conducted by (Solikhah et al. 2019) utilized data gathered from 2014 to 2018, focusing on 40 manufacturing companies listed on the IDX. Our current research, however, focuses on data collected from 2020 to 2022, a period marked by the Covid-19 pandemic. The data collected was from 54 companies in the consumer non-cyclical, consumer cyclical and basic material sector listed on the IDX. Therefore, our study holds significance in examining potential tax avoidance practices among companies during the 2020-2022 period.

Throughout the years 2020-2022, the global economy faced significant challenges due to the Covid-19 pandemic, impacting numerous companies directly. In order to mitigate the effects of the pandemic, companies are focusing on enhancing efficiency to lessen the burden on the organization. One strategic approach towards achieving this goal is by implementing tax-saving initiatives.

1.3 Describe Relevant Scholarship

Agency Theory

According to the Agency theory, the government, acting as the tax authority, seeks to maximize revenue through tax collection, while company management, as an agent, aims to increase profits by minimizing tax expenses (Veronika and Yohannes 2022).

Based on (Anwar 2019), the agency problem arises when there is a divergence of interests between management (agent) and shareholders (principals). When management places their own interests above those of shareholders, it conflicts with the principle that management should work to enhance shareholder interest. It is possible that a company's aggressive tax avoidance strategies may not align with the preferences of its shareholders, creating a conflict known as agency theory. This discrepancy between shareholder desires and management behavior can impact the overall performance of the firm. (Zhang et al. 2022)

The study by (Lim 2011) highlights the practical significance of tax avoidance as a means of tax savings, which involves reducing the tax burden while ensuring compliance with legal regulations. Tax avoidance aims to lessen the tax liability within the confines of the law, which can be achieved through the utilization of deductions and exceptions provided in existing tax laws (Dewinta, Setiawan 2016).

Tax avoidance involves utilizing loopholes or taking advantage of ambiguous areas in tax laws to lessen the tax burden. According to Pohan (2013, p.23 in Veronika and Yohannes 2022)), this tactic relies on the opportunities presented by existing tax regulations. Research by (Chen et al. 2010) demonstrates that cash effective tax rate (CETR) can be a reliable indicator of corporate tax avoidance. By analyzing the tax amount disclosed in a company's statement of cash flows, one can effectively pinpoint instances of tax avoidance.

1.4 State Hypotheses and Their Correspondence to Research Design

The aim of this study is to identify the various factors that impact tax avoidance, specifically focusing on earning management, independence of commissioners, audit quality, management compensation, inventory intensity ratio, and profitability. The structure of this study consists of an introduction, theoretical framework, methodology, results, and conclusions.

Earning Management and Tax Avoidance

Earnings management involves intentional interference by management in profit determination for personal motives (Shipper 1989 cited in (Subramanyam, K. R. 2009)). According to a study by (Sebastian and Handoyo 2019), earnings management undermines the reliability and transparency of financial statements, leading to potential distortions that can mislead users who trust the figures presented as a result of manipulation. (Yolanda and Rudiyanto 2022) argues that earnings management is comparable to cosmetics, as managers manipulate company profits for their own benefit.

According to (Thalita et al. 2022), a decrease in profit leads to a corresponding decrease in the calculated value of tax avoidance, as well as a decrease in the extent of tax avoidance activities. These findings align with previous studies by (Nurlis et al. 2021) and (Marfiana et al. 2021), which suggest that earnings management positively influences tax avoidance. In contrast, (Darma et al. 2019) argue that earnings management has a negative impact on tax avoidance. On the other hand, (Solikhah et al. 2019) and (Hashim et al. 2016) have reported differing results, indicating that earnings management does not influence tax avoidance.

Effective earnings management can be an important tool in tax avoidance efforts, so that corporate profits can be optimized by exploiting loopholes in tax regulations and using them to

reduce the tax burden. According to the information provided and the discrepancies outlined, a hypothesis can be formulated as follows:
H_1: The practice of earning management impacts tax avoidance.

Independent Commissioners and Tax Avoidance

According to the Financial Services Authority Regulation No. 56/PJOK.04/2017, independent commissioners are defined as commissioners who have no affiliation with the company, hold no shares directly or indirectly, and have no personal relationships with the company. These commissioners have the responsibility of overseeing and evaluating the management's performance to ensure its effectiveness. As per the Financial Services Authority Regulation No. 56/PJOK.04/2017, it is mandated that at least 30% of all commissioner members must be independent commissioners. (Doho et al. 2020)

The presence of more independent commissioners within a company tends to increase their impact on monitoring management behavior related to tax avoidance. This finding aligns with previous research by (Diantari and Ulupui 2016) and (Maharani and Suardana 2014), which suggests that independent commissioners have a positive influence on tax avoidance. Conversely, other studies by (Feranika 2018) and (Putra and Merkusiwati 2016) suggest that independent commissioners may have a negative impact on tax avoidance. On the other hand, (Tebiono and Sukadana 2019), (Honggo and Marlinah 2019), and (Hanum and Zulaikha 2013) found that independent commissioners do not have a significant effect on tax avoidance.

Having independent commissioners on the board of a company has the potential to enhance tax compliance and enhance the overall corporate governance standards within the organization. According to the information provided and the discrepancies outlined, a hypothesis can be formulated as follows:
H_2: The presence of independent commissioners impacts tax avoidance.

Audit Quality and Tax Avoidance

According to (Hadi and Tifani 2020), audit quality refers to the auditor's proficiency in recognizing discrepancies in a client's financial statements. The better auditors are at identifying deviations in financial statements, the higher the quality of the audit. (Sari et al. 2016)suggest that audit quality is linked to the size of the Public Accounting Firm, with big four Pubic Accounting Firms demonstrating better audit quality compared to non-big four firms.

According to (Oktaviana and Kholis 2021), the financial report of the company have auditing by a Public Accounting Firm to identify any weakness in the report, ensuring that the company's actual performance is accurately reflected. It is crucial for every company to disclose its financial report openly. Research conducted by (Maharani and Suardana 2014) and (Purba 2019) found that audit quality positively impact on tax avoidance. Conversely, (Eksandy 2017) and (Oktaviana and Kholis 2021) discovered that audit quality has a negative impact on tax avoidance. Additionally, (Damayanti and Susanto 2015) and (Solikhah et al. 2019) revealed through their research that audit quality does not have a significant effect on tax avoidance.

Vol. 8, No.08; 2024

ISSN: 2456-7760

A competent auditor plays a critical role in ensuring the integrity and accuracy of a company's financial statements. Not only do auditors serve as effective overseers, but their expertise also helps uphold the company's credibility. By demonstrating high audit quality, qualified auditors can deter companies from engaging in tax avoidance practices. According to the information provided and the discrepancies outlined, a hypothesis can be formulated as follows:
H_3: The quality of audit impacts tax avoidance.

Management Compensation and Tax Avoidance
Management compensation involves developing strategies to appropriately compensate employees for their work and ensure they adhere to company policies and fulfill their duties. It is crucial that the compensation structure is equitable, measurable, and transparent to promote employee satisfaction with their job performance (Mujanah 2019).

Recent studies have shown that higher management compensation can lead to a decrease in corporate tax avoidance. Companies with well-compensated management teams are more inclined to take measures to reduce their tax burdens. This finding is supported by various researchers such as (Zulma 2016), (Budiadnyani 2020), and (Armstrong et al. 2015). However, conflicting results have been reported by other researchers like (Nugraha and Mulyani 2019), (Regina and Agengtyas 2021), (Hudha and Utomo 2021), and (Syarli 2021). Further research is needed to better understand the relationship between management compensation and tax avoidance.

Compensating management can help restrain their opportunistic behaviors when it comes to tax avoidance strategies, thereby mitigating potential legal risks for the company. According to the information provided and the discrepancies outlined, a hypothesis can be formulated as follows:
H_4: Management Compensation impacts tax avoidance

Inventory Intensity and Tax Avoidance
Companies with significant investments in inventory incur higher costs for maintaining and storing inventory (Artinasari and Mildawati 2018). Herry (2016:183, in (Rahmadani et al. 2022)) confirm this finding, noting that companies with high inventory intensity tend to take more aggressive measures to reduce their tax burden, ultimately resulting in lower profits.

Based on the findings of (Rahmadani et al. 2022), it is observed that inventory intensity plays a significant role in tax avoidance strategies, leading to potential savings in terms of cash, inventory, and company assets. These results align with the findings of (Sari and Indrawan 2022). Conversely, the studies conducted by (Pratomo et al. 2022), (Novitasari and Suhami 2019), and (Madjid and Akbar 2023) suggest a negative relationship between inventory intensity and tax avoidance. Furthermore, results of the study (Artinasari and Mildawati 2018) revealed that inventory intensity has no effect on tax avoidance.

Inventory intensity can contribute to higher levels of tax avoidance as companies have the ability to lower their tax liability by allocating funds towards inventory investments. According to the information provided and the discrepancies outlined, a hypothesis can be formulated as follows:
H_5: Inventory Intensity impacts tax avoidance

Profitability and Tax Avoidance

Profitability, as defined by (Weygandt et al. 2019), is an indicator used to assess a company's success and financial performance within a specified timeframe. It indicates how effectively a company utilizes its assets, capital, net income, earnings per share, and sales to generate profit. Shareholders and other stakeholders can gauge the company's ability to generate returns on its assets and investments. (Kasmir 2016:201 in (Rahmadani et al. 2022)

The relationship between profitability and tax avoidance in companies has been a topic of interest in various studies. Research by (Hidayat 2018) suggests that as a company's profitability increases, so does its tendency to engage in tax avoidance. This is supported by findings from (Yohan 2019), (Ayuningtyas and Sujana 2018), and (Arianandini and Ramantha 2018), who all found a positive correlation between profitability and tax avoidance. However, (Putriningsih et al. 2018) found a negative relationship between profitability and tax avoidance in their research. Furthermore, studies by (Rosandi 2022) and (Fitriyani 2022) indicated that profitability does not have a significant impact on tax avoidance. These varying results highlight the complexity of the relationship between profitability and tax avoidance in companies.

Businesses with substantial financial resources often engage in tax avoidance strategies to minimize their tax obligations. As a company's profits increase, so too does the associated tax burden. According to the information provided and the discrepancies outlined, a hypothesis can be formulated as follows:
H_6: Profitability impacts tax avoidance

2. Method

This study employs causal research methodology to investigate the causal relationship between various variables. The research focuses on consumer non-cyclicals, consumer cyclicals, and basic material sectors listed on the Indonesia Stock Exchange from 2020 to 2022. A purposive sampling technique is utilized to select samples based on specific criteria established for the study.

The data collected from the sample selection process revealed that out of 273 companies that provided financial report data from 2020 to 2022, 54 companies met the sample criteria. For a detailed breakdown, please refer to Table 1 below.

Vol. 8, No.08; 2024

ISSN: 2456-7760

Table 1: Table of Sample Selection Procedures

No	Company Sample Criteria	Number of Companies	Number of Data
1	Companies within the consumer non-cyclicals, consumer cyclicals, and basic materials industries maintained a continuous presence on the Indonesia Stock Exchange (IDX) from 2020 to 2022.	273	819
2	Companies within the consumer non-cyclicals, consumer cyclicals, and basic materials industries are required to release their annual financial reports for fiscal years ending on December 31 during the years 2020 through 2022.	(19)	(57)
3	Companies within the consumer non-cyclicals, consumer cyclicals, and basic materials sectors that utilize the Rupiah as their currency of choice for financial reporting between 2020 and 2022.	(32)	(96)
4	Companies within the consumer non-cyclicals, consumer cyclicals, and basic materials sectors that consistently earn profits before and after tax in the period 2020 to 2022.	(128)	(384)
5	Companies within the consumer non-cyclicals, consumer cyclicals, and basic materials industries with CETR values ranging from greater than 0 to less than 1.	(17)	(51)
6	Companies within the consumer non-cyclicals, consumer cyclicals, and basic materials sectors will be incorporating management compensation for the 2020-2022 timeframe.	(23)	(69)
Total Sampel		**54**	**162**

2.1 Definition and Measurement of Variables

2.1.1 Tax Avoidance

Tax avoidance is defined as the practice of minimizing tax liability within the confines of the law (Putra 2019 in (Tanjaya and Nazir 2021)). This study focuses on evaluating tax avoidance through the use of the Cash Effective Tax Rate (CETR). CETR indicates the proportion of tax payments in Rupiah relative to the income earned (Cheng et al. 2012). A high CETR suggests inefficient utilization of tax incentives and substantial tax payments by a company, whereas a low CETR indicates effective tax planning. The measurement scale for assessing tax avoidance is ratio scale. The proxy utilized to compute tax avoidance is based on the methodology proposed by (Solikhah et al. 2019) :

$$\text{CETR} = \frac{\text{Cash Tax Paid}_{it}}{\text{Pretax Income}_{it}}$$

2.1.2 Earning Management

According to (Wardani et al. 2019), earning management (EM) is the practice of managers influencing and intervening in financial reports. (Silvia 2017) further explains that EM involves deliberate intervention in the profit determination process with the goal of fulfilling personal desires. It is noted that companies with higher profits tend to engage in more tax avoidance activities. The ratio scale is commonly used to measure earnings management. The proxy for earnings management is defined by (Solikhah et al. 2019) and (Thalita et al. 2022), which can be calculated using the following formula:

$$DACC_{it} = \left(\frac{TACC_{it}}{TA_{it-1}}\right) - NDACC$$

$$TACC_{it} = NI_{it} - CFO_{it}$$

$$\frac{TACC_{it-1}}{TA_{it}} = \beta_1 \left(\frac{1}{TA_{it-1}}\right) + \beta_2 \left(\frac{\Delta REV_{it}}{TA_{it-1}}\right) + \beta_3 \left(\frac{PPE_{it}}{TA_{it-1}}\right) + \beta_4 (ROA_{it})$$

$$NDACC_{it} = \beta_1 \left(\frac{1}{TA_{it-1}}\right) + \beta_2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{it-1}}\right) + \beta_3 \left(\frac{PPE_{it}}{TA_{it-1}}\right) + \beta_4 (ROA_{it})$$

2.1.3 Independent Commissioners

An independent commissioner (IC) is an individual who maintains no professional ties with the controlling shareholder, board of directors, or fellow commissioners, and who does not hold a directorship within the company as stipulated by relevant laws (Pohan 2008 cited in (Honggo and Marlinah 2019)). The presence of a higher proportion of independent commissioners enhances their supervisory authority over management, enabling them to effectively reduce the tax burden. Independent commissioners typically utilize a ratio scale as a measurement tool. The following indicators, adapted from (Solikhah et al. 2019), serve as proxies for evaluating the effectiveness of independent commissioners:

$$\mathbf{IC} = \left(\frac{\text{Number of indepedent commissioners}_{it}}{\text{Total Board of commissioners}_{it}}\right) \text{x } 100\%$$

2.1.4 Audit Quality

Audit quality (AQ) refers to the different options available when the auditor examines the client's financial statements and discovers errors, which are then recorded in the audit report (Alviyani 2016). The level of audit quality directly influences the extent of tax avoidance by the entity. Audit quality is assessed using the nominal scale and is indicated by a dummy variable that assigns a value of 1 to entities audited by a big four Public Accounting Firm and a value of 0 to entities audited by a non-big four Public Accounting Firm, as noted in previous research (Solikhah et al. 2019).

2.1.5 Management Compensation

The correlation between management compensation and tax avoidance indicates that as management compensation rises, tax avoidance tends to decline. Management compensation, referred to as MC, encompasses both tangible and intangible incentives granted to managers by an organization (Putri and Yanti 2022). (Nugraha and Mulyani 2019) study corroborates this

Vol. 8, No.08; 2024

ISSN: 2456-7760

concept, demonstrating that management plays a key role in determining a company's tax avoidance strategies, prompting shareholders to compensate management accordingly. Management compensation is commonly assessed on a ratio scale. For the purposes of this research, the measure of management compensation is derived from the equation outlined by (Pucantika and Wulandari 2022).

MC = Ln (total compensation of the board of directors and commissioners received within a year)

2.1.6 Inventory Intensity

Elevated levels of inventory intensity can lead to decreased company profits as a result of the associated extra costs, implying a correlation between higher levels of inventory and increased tax avoidance activities. Conversely, lower inventory levels may lead to reduced tax avoidance activities. According to a study by (Indriyanti and Setiawan 2019), the additional costs incurred from inventory management can result in decreased profits that may influence tax avoidance strategies. The inventory intensity is measured using a ratio scale. This study utilizes the proxy developed by (Indriyanti and Setiawan 2019), which can be calculated using the following formula :

$$\textit{Inventory intensity ratio}\ (\text{IIR}) = \frac{\textit{Total Inventory}}{\textit{Total Asset}}$$

2.1.7 Profitability

Profitability is determined by comparing the capital utilized to the operating profit obtained by an entity (Indriyanti and Setiawan 2019). A higher profitability value (ROA) indicates a company's superior ability to generate profits from asset management. The ratio scale is used to measure profitability in this study, with the proxy formula outlined by (Indriyanti and Setiawan 2019)as follows:

$$\text{ROA} = \frac{\textit{Net Profit After Tax}}{\textit{Total Asset}} \times 100\%$$

2.2 Regression Equation Model

This study uses multiple linear regression analysis with SPSS software. The following is the regression model equation used in this study.

$TA = \alpha + \beta_1 EM + \beta_2 IC + \beta_3 AQ + \beta_4 MC + \beta_5 IIR + \beta_6 ROA + e$

Notes :

TA: Tax Avoidance (CETR)

EM: Earning Management

IC: Independent Commissioner

AQ: Audit Quality

MC: Management Compensation

IIR: Inventory Intensity Ratio

ROA: Return on Asset (Profitability)

e: Error

3. Results

The descriptive statistical test generated results including the data amount, minimum, maximum, mean, and standard deviation, which are detailed in Table 2 below.

Table 2: Results of Descriptive Statistical Tests

Variable	N	Minimum	Maximum	Mean	Std. Deviation
CETR	162	0,00258	0,93975	0,23588	0,15026
EM	162	-0,30307	0,34061	-0,00230	0,08728
IC	162	0,25000	1,00000	0,42267	0,14571
AQ	162	0,00000	1,00000	0,45679	0,49967
MC	162	20,06122	27,61702	23,71632	1,48949
IIR	162	0,00165	0,86754	0,20135	0,13536
ROA	162	0,00150	0,55886	0,08587	0,08377

Source: Analysis of Data Processing Outcome

Based on the results of the descriptive statistical test in table 2, a total of 162 samples of company data from consumer non-cyclicals, consumer cyclicals, and basic material sectors were analyzed. The minimum value CETR variable indicating a higher likelihood of tax avoidance. Conversely, the maximum value CETR variable suggesting a lower probability of tax avoidance. The mean value denotes the average value of all research variables, reflecting the potential for tax avoidance. Lastly, the standard deviation value illustrates the degree of deviation from the mean value in the observations.

According to the average profitability data spanning from 2020 to 2022, the companies demonstrated a figure of 0.08587, signifying a minimal level of profitability. This can be linked to the difficulties brought about by the Covid-19 pandemic during that timeframe. In contrast, the average CETR figure was 0.23588, indicating that companies involved in tax avoidance practices in the same period were not notably substantial.

Table 3: t-Test Results

Variable	β	Sig.	Decision
(Constant)	0,461	0,034	-
EM	0,255	0,064	H_1 not accepted
IC	-0,018	0,838	H_2 not accepted
AQ	0,076	0,008	H_3 accepted
MC	-0.010	0,275	H_4 not accepted
IIR	0,109	0,208	H_5 not accepted
ROA	-0,288	0,062	H_6 not accepted

Adjusted R^2=0,053

F=2,515, Sig. = 0,024

Source: Analysis of Data Processing Outcome

Based on the results shown in Table 3, the model fit test (F test) indicates a significant value of 0.024, which is below the predetermined significance level of α (0.05). Therefore, it can be

Vol. 8, No.08; 2024

ISSN: 2456-7760

inferred that the research model is suitable and appropriate for use in this study. Additionally, the adjusted R^2 value of 0.053 suggests that the independent variables of earning management (EM), independent commissioners (IC), audit quality (AQ), inventory intensity (IIR), and profitability (ROA) collectively account for 5.3% of the variation in the dependent variable (tax avoidance). The remaining 94.7% of the variance is explained by other variables not included in the research model.

The coefficient value for the earning management (EM) variable in the t-test results is 0.255, with a significance value of 0.064. Since the significance value for EM is greater than 0.05, we cannot accept the alternative hypothesis (H_1), indicating that the EM variable does not impact the dependent variable tax avoidance. These findings align with previous studies by (Solikhah et al. 2019) and (Hashim et al. 2016).

The t-test results for independent commissioners (IC) have a coefficient value of -0.018 and a significance value of 0.838. As the significance value for IC exceeds 0.05, we are unable to accept the alternative hypothesis (H_2), indicating that the independent commissioner variable (IC) does not impact tax avoidance. This finding is consistent with (Primasari 2019) research, which suggests that a higher number of independent commissioners does not promote tax avoidance behaviours.

The t-test results for the audit quality variable (AQ) indicate a coefficient value of 0.076 and a significance value of 0.008, which is less than the commonly accepted threshold of 0.05. This suggests that audit quality does indeed impact tax avoidance, allowing us to accept hypothesis H_3. In light of this finding, it can be inferred that higher audit quality, demonstrated through the engagement of major auditing firms like the big four Public Accounting Firms, corresponds to reduced likelihood of engaging in tax avoidance practices. This relationship implies that AQ has a positive influence on CETR and a negative impact on tax avoidance behavior. The findings of this research are in line with (Eksandy 2017), suggesting a negative relationship between audit quality and tax avoidance practices. This implies that the big four Public Accounting Firms are generally more esteemed by tax authorities due to their reputable status and high level of integrity as highlighted by (Purba 2019).

The t-test results for the management compensation (MC) variable show a coefficient value of -0.010 and a significance value of 0.275, indicating a lack of statistical significance ($p > 0.05$) and leading to the rejection of hypothesis H_4. This suggests that increasing management compensation does not necessarily incentivize companies to engage in tax avoidance practices. These findings are consistent with the research conducted by (Syarli 2021).

The t-test results for the inventory intensity ratio (IIR) variable show a coefficient value of 0.109 and a p-value of 0.208, indicating that the p-value is greater than the typical significance level of 0.05. Therefore, we can infer that H_5 cannot be accepted. This suggests that IIR does not have a significant impact on tax avoidance. In other words, increasing the intensity of inventory does

ISSN: 2456-7760

not lead to a reduction in a company's profit or facilitate tax avoidance. This finding aligns with previous research conducted by (Artinasari and Mildawati 2018).

The t-test results for the profitability variable (ROA) indicate a coefficient value of -0.288 with a significance value of 0.062, which surpasses the critical value of 0.05. Consequently, it is determined that H_6 cannot be accepted. This suggests that ROA does not influence tax avoidance; in other words, higher profitability levels do not lead companies to engage in tax avoidance practices. This finding is consistent with the conclusions drawn by (Ivena and Handayani 2022)as well as (Jekang and Hama 2022).

4. Discussion

The objective of this research is to investigate the impact of various factors on tax avoidance by incorporating independent variables such as earning management (EM), independent commissioners (IC), audit quality (AQ), management compensation (MC), inventory intensity ratio (IIR), and profitability (ROA). The F-test results suggest that the independent variables of EM, IC, AQ, MC, IIR, and ROA collectively impact the tax avoidance variable, with a significant sig value of 0.023 below the threshold of α 0.05. This indicates statistical significance. The adjusted R^2 value have a moderate value of 0.054, signifying that the independent variables were able to account for only 5.4% of the variance in the tax avoidance variable. The remaining variance was attributed to other variables that were not considered in this study.

According to the t-test results, only the audit quality (QA) variable has a significant impact on tax avoidance, whereas the variables of earnings management (EM), independent commissioners (IC), management compensation (MC), inventory intensity ratio (IIR), and profitability (ROA) do not impact on tax avoidance.

The research findings confirm that Financial Reports of high quality, verified by prominent Big Four Public Accountants, encourage transparency and accountability in corporate financial reporting. This in turn motivates companies to steer clear of tax avoidance strategies in order to avoid unfavourable evaluations from both the public and tax authorities. Additionally, the study underscores the crucial role of Auditors in identifying potential tax errors or breaches within a company. A sound audit quality not only boosts confidence among shareholders and investors, but also serves as an incentive for companies to adhere to tax regulations diligently in order to safeguard a positive corporate image and maintain their market value.

The study is constrained by several limitations:

1. The research period is confined to the years 2020-2022.
2. The residual data before and after the outlier test exhibits non-normal distribution.
3. The study indicates that only the independent variable of audit quality influences the dependent variable of tax avoidance.

There exist recommendations to address current limitations in research, aiming to enhance the quality of future studies. These include:

1. Encouraging future researchers to extend the research timeframe, for instance, to 6 years, to enhance the quality of data produced.
2. Suggesting the use of alternative tax avoidance proxies like current Effective Tax Rate (ETR) or book-tax difference (BTD) in upcoming research endeavours.
3. Advocating for the incorporation of additional independent variables or the replacement of existing ones that could impact tax avoidance, such as sales growth, corporate social responsibility, company risk, accounting conservatism, or other relevant variables. This will aid in identifying the influence of these factors on tax avoidance behaviour.

Acknowledgments

I am grateful to STIE Trisakti for providing us with the necessary support and resources to conduct this research. The academic environment and assistance from the institution have played a crucial role in the successful completion of this study.

I would like to acknowledge the esteemed academicians and faculty members at STIE Trisakti for their guidance, insights, and encouragement. Their expertise in areas such as earning management, inventory intensity, and management compensation has been invaluable in shaping and refining this journal.

I want to express my appreciation to Ms Astrid Rudiyanto, whose feedback and support have been instrumental in enhancing the quality of this research. Their dedication to academic excellence and willingness to share knowledge have greatly contributed to its success.
I also extend my gratitude to my peers and colleagues for their constructive discussions and moral support, which have been a source of motivation throughout this process.

References

Alviyani, Khoirunnisa. 2016. "Pengaruh Corporate Governance, Karakter Eksekutif, Ukuran Perusahaan, Dan Leverage Terhadap Penghindaran Pajak (Tax Avoidance)." *JOM Fekon* 3.

Anwar, Mokhamad. 2019. *Dasar-Dasar Manajemen Keuangan Perusahaan*. Prenada Media Group.

Arianandini, Putu Winning, and I Wayan Ramantha. 2018. "Pengaruh Profitabilitas, Leverage, Dan Kepemilikan Institusional Pada Tax Avoidance." *E-Jurnal Akuntansi*. https://doi.org/https://doi.org/10.24843/eja.2018.v22.i03.p17.

Armstrong, Christopher S., Jennifer L. Blouin, Alan D. Jagolinzer, and David F. Larcker. 2015. "Corporate Governance, Incentives, and Tax Avoidance." *Journal of Accounting and Economics* 60 (1): 1–17. https://doi.org/https://doi.org/10.1016/j.jacceco.2015.02.003.

Artinasari, Nikita, and Titik Mildawati. 2018. "Pengaruh Profitabilitas, Leverage, Likuidittas, Capital Intensity Dan Inventory Intensity Terhadap Tax Avoidance." *Jurnal Ilmu Dan Riset Akuntansi* 7 (8).

Ayuningtyas, Ni Putu Winda, and I Ketut Sujana. 2018. "Pengaruh Proporsi Komisaris Independen, Leverage, Sales Growth, Dan Profitabilitas Pada Tax Avoidance." *E-Jurnal Akuntansi*. https://doi.org/https://doi.org/10.24843/eja.2018.v25.i03.p10.

Budiadnyani, Ni Putu. 2020. "Pengaruh Kompensasi Manajemen Pada Penghindaran Pajak Dengan Kepemilikan Institusional Sebagai Variabel Pemoderasi." *Jurnal Ilmiah Akuntansi Dan Bisnis* 5. http://journal.undiknas.ac.id/index.php/akuntansi.

Chen, Shuping, Xia Chen, Qiang Cheng, and Terry Shevlin. 2010. "Are Family Firms More Tax Aggressive than Non-Family Firms?" *Journal of Financial Economics* 95 (1): 41–61. https://doi.org/https://doi.org/10.1016/J.JFINECO.2009.02.003.

Cheng, C S Agnes, Henry He Huang, Yinghua Li, and Jason Stanfield. 2012. "The Effect of Hedge Fund Activism on Corporate Tax Avoidance." *The Accounting Review* 87: 1493–1526.

Damayanti, Fitri, and Tridahus Susanto. 2015. "Pengaruh Komite Audit, Kualitas Audit, Kepemilikan Institusional, Risiko Perusahaan Dan Return on Assets Terhadap Tax Avoidance." *Jurnal Bisnis Dan Manajemen* 5 (2).

Darma, Rizky, Yuniarti Dwi Jayanthi Tjahjadi, and Susi Dwi Mulyani. 2019. "Pengaruh Manajemen Laba, Good Corporate Governance, Dan Risiko Perusahaan Terhadap Tax Avoidance." *Jurnal Magister Akuntansi Trisakti* 5 (2). https://doi.org/https://doi.org/10.25105/jmat.v5i2.5071.

Dewinta, Ida Ayu Rosa, and Putu Ery Setiawan. 2016. "Pengaruh Ukuran Perusahaan, Umur Perusahaan, Profitabilitas, Leverage, Dan Pertumbuhan Penjualan Terhadap Tax Avoidance." *E-Jurnal Akuntansi Universitas Udayana*.

Diantari, Putu Rista, and IGK Agung Ulupui. 2016. "Pengaruh Komite Audit, Proporsi Komisaris Independen, Dan Proporsi Kepemilikan Institusional Terhadap Tax Avoidance." *E-Jurnal Akuntansi*.

Doho, Sisilia Zealion, and Eko Budi Santoso. 2020. "Pengaruh Karakteristik Ceo, Komisaris Independen, Dan Kualitas Audit Terhadap Penghindaran Pajak." *Media Akuntansi Dan Perpajakan Indonesia* 1 (2).

Eksandy, Arry. 2017. "Pengaruh Komisaris Independen, Komite Audit, Dan Kualitas Audit Terhadap Penghindaran Pajak (Tax Avoidance) (Studi Empiris Pada Sektor Industri Barang Konsumsi Yang Terdaftar Di Bursa Efek Indonesia Periode 2010-2014)." *Jurnal Akuntansi Dan Keuangan* 1 (1).

Feranika, Ayu. 2018. "Pengaruh Kepemilikan Institusional, Dewan Komisaris Independen, Kualitas Audit, Komite Audit, Karakter Eksekutif, Dan Leverage Terhadap Tax Avoidance." *Jurnal Akuntansi & Keuangan Unjani* 2 (2): 12–21. https://doi.org/https://doi.org/https://doi.org/10.22437/jaku.v2i2.4710.

Fitriyani, Theresia. 2022. "The Moderating Earnings Management on the Impact of CEO Narcissism, Sales Growth, and Profitability on Tax Avoidance." *Journal of Accounting, Finance and Accounting Studies*. https://doi.org/https://doi.org/10.32996/jefas.

Hadi, Felita Icasia, and Sherly Tifani. 2020. "Pengaruh Kualitas Audit Dan Auditor Switching Terhadap Manajemen Laba." *Jurnal Bisnis Dann Akuntansi* 22. http://jurnaltsm.id/index.php/JBA.

Hanum, Hashemi Rodhia, and Zulaikha. 2013. "Pengaruh Karakteristik Corporate Governance Terhadap Effective Tax Rate (Studi Empiris Pada BUMN Yang Terdaftar Di BEI 2009-2011)." *Diponegoro Journal of Accounting* 2 (2): 1–10. http://ejournal-s1.undip.ac.id/index.php/accounting.

Hashim, Hafiza Aishah, Mohamad Ariff, and Muneer Rajab Amrah. 2016. "Accounting Irregularities and Tax Aggressiveness." *International Journal of Economics, Management and Accounting* 24.

Henny. 2019. "Pengaruh Manajemen Laba Dan Karakteristik Perusahaan Terhadap Tax Avoidance." *Jurnal Muara Ilmu Ekonomi Dan Bisnis* 3 (1): 36. https://doi.org/https://doi.org/10.24912/jmieb.v3i1.4021.

Hidayat, Wastam. 2018. "Pengaruh Profitabilitas, Leverage Dan Pertumbuhan Penjualan Terhadap Penghindaran Pajak." *Jurnal Riset Manajemen Dan Bisnis*.

Hudha, Bill, and Dwi Cahyo Utomo. 2021. "Pengaruh Ukuran Dewan Direksi, Komisaris Independen, Keragaman Gender, Dan Kompensasi Eksekutif Terhadap Penghindaran Pajak Perusahaan." *Diponegoro Journal of Accounting* 10 (1): 1–10.

Indriyanti, Komang Dessica, and Putu Ery Setiawan. 2019. "Pengaruh Kompensasi Manajemen, Inventory Intensity Ratio, Dan Profitabilitas Pada Tax Avoidance." *E-Jurnal Akuntansi*. https://doi.org/https://doi.org/10.24843/eja.2019.v27.i02.p27.

Ivena, Felicia, and Sri Handayani. 2022. "Pengaruh Inventory Intensity, Leverage, Dan Profitabilitas Terhadap Tax Avoidance." *Journal Advancement Center for Finance and Accounting* 1 (1). http://journal.jacfa.id.

Jekang, Petronius, and Aloisius Hama. 2022. "The Effect of Inventory Intensity, and Liquidity on Tax Aggressiveness on Food and Beverage Companies Listed on the Indonesia Stock Exchange." *Journal of Mantik* 6 (1): 891–98.

Lim, Youngdeok. 2011. "Tax Avoidance, Cost of Debt and Shareholder Activism: Evidence from Korea." *Journal of Banking and Finance* 35. https://doi.org/https://doi.org/10.1016/j.jbankfin.2010.08.021.

Madjid, Seva, and Nahruddien Akbar. 2023. "Pengaruh Transfer Pricing, Capital Intensity, Dan Inventory Intensity Terhadap Tax Avoidance." *Jurnal Pendidikan Tambusai* 7 (1): 2966–79.

Maharani, I Gusti Ayu Cahya, and Ketut Alit Suardana. 2014. "Pengaruh Corporate Governance, Profitabilitas Dan Karakteristik Eksekutif Pada Tax Avoidance Perusahaan Manufaktur." *E-Jurnal Akuntansi Universitas Udayana*.

Marfiana, Andri, Yohanes Praka, Mael Putra. 2021. "The Effect of Employee Benefit Liabilities, Sales Growth, Capital Intensity, and Earning Management on Tax Avoidance." *Jurnal Manajemen STIE Muhammadiyah Palopo* 7 (1).

Marlinah, Honggo &. 2019. "Pengaruh Ukuran Perusahaan, Umur Perusahaan, Dewan Komisaris Independen, Komite Audit, Sales Growth, Dan Leverage Terhadap Penghindaran Pajak." *Jurnal Bisnis Dan Akuntansi*.

Mujanah, Siti. 2019. *Manajemen Kompensasi*. Surabaya: Putra Media Nusantara.

Novitasari, Maya, and Siti Suharni. 2019. "Implikasi Indikator Keuangan Terhadap Tax Avoidance." *AFRE (Accounting and Financial Review)* 2 (1). https://doi.org/https://doi.org/10.26905/afr.v2i1.3177.

Nugraha, Moehammad Iman, and Susi Dwi Mulyani. 2019. "Peran Leverage Sebagai Pemediasi Pengaruh Karakter Eksekutif, Kompensasi Eksekutif, Capital Intensity, Dan Sales Growth Terhadap Tax Avoidance." *Jurnal Akuntansi Trisakti* 6 (2): 301–24.

Nurlis, Nurlis, Fitri Indriawati, and Meiliyah Ariani. 2021. "Effect of Earning Management and Corporate Social Responsibility Disclosure on Tax Avoidance with Firm Size as a Moderating Variable, Survey on Manufacturing Companies Listed on the Indonesia Stock Exchange." *International Journal of Management Studies and Social Science Research* 3 (3).

Oktaviana, Devia, and Nur Kholis. 2021. "Corporate Governance Dan Profitabilitas Terhadap Penghindaran Pajak. Bagaimana Pengaruhnya?"." *Jurnal Bisnis Dan Akuntansi* 23 (2): 217–28. http://jurnaltsm.id/index.php/JBA.

Pratomo, Dudi, Muhamad Rafki Nazar, and Rifqi Aziz Pratama. 2022. "Pengaruh Inventory Intensity, Karakter Eksekutif, Karakteristik CEO Terhadap Tax Avoidance Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia (BEI) Pada Tahun 2016-2020."." *Jurnal Ilmiah Universitas Batanghari Jambi* 3. https://doi.org/https://doi.org/10.33087/jiubj.v22i3.2871.

Primasari, Nora Hilmia. 2019. "Leverage, Ukuran Perusahaan, Profitabilitas, Pertumbuhan Penjualan, Proporsi Komisaris Independen Dan Kualitas Audit Terhadap Tax Avoidance." *Jurnal Akuntansi Dan Keuangan.*

Pucantika, Nichen Ria, and Sartika Wulandari. 2022. "Pengaruh Kompensasi Manajemen, Profitabilitas, Capital Intensity, Dan Leverage Terhadap Tax Avoidance." *Jurnal Ilmiah Komputerisasi Akuntansi* 15 (1): 14024.

Purba, Hasian. 2019. "Effect of Corporate Governance And Profitability On Tax Avoidance (Empirical Study Of Sharia Banking Companies Listed On The Indonesia Stock Exchange 2012-2016)." *Journal of Finance and Accounting.* 10 (18). https://doi.org/https://doi.org/10.7176/RJFA.

Putra, I Gst Ln Ngr Dwi Cahyadi, and Ni Ketut Lely Aryani Merkusiwati. 2016. "Pengaruh Komisaris Independen, Leverage, Size Dan Capital Intensity Ratio Pada Tax Avoidance." *E-Jurnal Akuntansi Universitas Udayana* 17 (1): 690–714.

Putri, Yoana Aulia, and Harti Budi Yanti. 2022. "Pengaruh Corporate Social Responsibility, Kompensasi Manajemen, Intensitas Modal, Financial Distress Terhadap Tax Avoidance." *Jurnal Ekonomi Trisakti* 2: 487–500.

Putriningsih, Dewi, Eko Suyono, and Eliada Herwiyanti. 2018. "Profitabilitas, Leverage, Komposisi Dewan Komisaris, Komite Audit, Dan Kompensasi Rugi Fiskal Terhadap Penghindaran Pajak Pada Perusahaan Perbankan." *Jurnal Bisnis Dan Akuntansi* 2 (2): 77–92.

Rahmadani, Destia, Rina Asmeri, Sri Yuli. 2022. "Pengaruh Profitabilitas, Inventory Intensity Dan Capital Intensity Terhadap Tax Avoidance (Studi Empiris Pada the Effect Of Profitability, Inventory Intensity And Capital Intensity On Tax Avoidance (Empirical Study on Construction and Building Companies L." *Pareso Jurnal* 4 (2): 324–44.

Regina, Masripah, and Ayunita Agengtiyas. 2021. "Pengaruh Kepemilikan Manajerial Dan Kompensasi Eksekutif Terhadap Penghindaran Pajak Dengan Kualitas Audit Sebagai Variabel Pemoderasi." In *Konferensi Riset Nasional Ekonomi, Manajemen, Dan Akuntansi*.

Riedel, Nadine. 2018. "Quantifying International Tax Avoidance: A Review of the Academic Literature." *Review of Economics* 69 (2). https://doi.org/https://doi.org/10.1515/roe-2018-0004.

Rosandi, Alfi Dwi. 2022. "Pengaruh Profitabilitas, Inventory Intensity Terhadap Tax Avoidance Dengan Kepemilikan Institusional Sebagai Pemoderasi." *Jurnal Akuntansi STIE Muhammadiyah Palopo* 8 (1).

Sari, Mayang Ratna, and I Gede Adi Indrawan. 2022. "Pengaruh Kepemilikan Instutional, Capital Intensity Dan Inventory Intensity Terhadap Tax Avoidance." *Riset Dan Jurnal Akuntansi* 6 (4).

Sari, Nila, Nawang Kalbuana, and Agus Jumadi. 2016. "Pengaruh Konservatisme Akuntansi, Kualitas Audit, Ukuran Perusahaan Terhada Penghindaran Pajak." *Jurnal Publikasi Ilmiah UMS*.

Sebastian, and Irwanto Handojo. 2019. "Pengaruh Karakteristik Perusahaan Dan Corporate Governance Terhadap Manajemen Laba." *Jurnal Bisnis Dan Akuntansi* 21 (1): 97–108.

Silvia, Yeanualita Selly. 2017. "Pengaruh Manajemen Laba, Umur Perusahaan, Ukuran Prusahaan Dan Pertumbuhan Penjualan Terhadap Tax Avoidance." *Jurnal Equity* 3 (4).

Solikhah, Badingatus, Agus Wahyudin, Septya Purwaningsih, and Trisni Suryarini. 2019. "The Role of Earning Quality, Audit Quality and Independent Commissioner in Suppressing Tax Avoidance Practice." *Journal of Advanced Research in Law and Economics* 10 (8): 2523–32.

Subramanyam, K. R., and John J. Wild. 2009. *Financial Statement Analysis*.

Syarli, Zikri Aidilla. 2021. "Pengaruh Kompensasi Manajemen, Dan Kesulitan Keuangan Terhadap Tax Avoidance." *Creative Research Management Journal* 4 (2).

Tanjaya, Christili, and Nazmel Nazir. 2021. "Pengaruh Profitabilitas, Leverage, Pertumbuhan Penjualan, Dan Ukuran Perusahaan Terhadap Penghindaran Pajak Pada Perusahaan Manufaktur Sektor Barang Konsumsi Yang Terdaftar Di BEI Tahun 2015-2019." *Jurnal Akuntansi Trisakti* 8 (2): 189–208. https://doi.org/https://doi.org/10.25105/jat.v8i2.9260.

Tebiono, Juan Nathanael, and Ida Bagus Nyoman Sukadana. 2019. "Faktor-Faktor Yang Mempengaruhi Tax Avoidance Pada Perusahaan Manufaktur Yang Terdaftar Di BEI." *Jurnal Bisnis Dan Akuntansi* 21. http://jurnaltsm.id/index.php/JBA.

Thalita, Arin Agnesia, Bambang Hariadi, and M Khoiru Rusydi. 2022. "The Effect of Earnings Management on Tax Avoidance with Political Connections as a Moderating Variable." *International Journal of Research in Business and Social Science*, 2147–4478. https://doi.org/https://doi.org/10.20525/ijrbs.v11i5.1864.

Veronika, Monika, and Yohanes. 2022. "Faktor-Faktor Yang Mempengaruhi Tax Avoidance Di Perusahaan Non-Keuangan." *E-Jurnal TSM*. 2. http://jurnaltsm.id/index.php/EJATSM.

Wardani, Dewi Kusuma, Widyani Indah Dewanti, and Nur Indah Permatasari. 2019. "Pengaruh Manajemen Laba, Umur Perusahaan Dan Leverage Terhadap Tax Avoidance." *AKUISISI-Jurnal Akuntansi Online* 15 (2): 18–25. http://www.fe.ummetro.ac.id/ejournal/index.php/JAhttp://dx.doi.org/10.24217.

Weygandt, Jerry J. 1942-, Paul D. Kimmel, and Donald E Kieso. 2019. *Financial Accounting with International Financial Reporting Standards*. Singapore: Markono Print Media Pte Ltd.

Yohan, and Arya Pradipta. 2019. "Pengaruh Roa, Leverage, Komite Audit, Size, Sales Growth Terhadap Tax Avoidance." *Jurnal Bisnis Dan Akuntansi*. 21. http://jurnaltsm.id/index.php/JBA.

Yolanda, and Astrid Rudyanto. 2022. "Kesadaran Moral Vs Pengawasan: Faktor Apa Yang Dapat Mengurangi Manajemen Laba?" *Jurnal Bisnis Dan Akuntansi* 24 (1). https://doi.org/https://doi.org/10.34208/jba.v24i1.1243.

Zhang, Xiaochen, Muhammad Husnain, Hailan Yang, Saif Ullah, Jaffar Abbas, and Ruilian Zhang. 2022. "Corporate Business Strategy and Tax Avoidance Culture: Moderating Role of Gender Diversity in an Emerging Economy." *Frontiers in Psychology* 13 (May): 1–11. https://doi.org/10.3389/fpsyg.2022.827553.

Zulma, Gandy Wahyu Maulana. 2016. "Pengaruh Kompensasi Manajemen Terhadap Penghindaran Pajak Perusahaan Dengan Moderasi Kepemilikan Keluarga Di Indonesia." In *Simposium National Akuntansi*.