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Incentives, Institutional Ownership, And Profitability On Tax Avoidance, Moderated By Audit Quality

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Abstract:
The purpose of this study was to examine the effect of management incentives (executive compensation), institutional ownership, and profitability on tax avoidance moderated by audit quality. Tax avoidance in this study is measured by the Effective Tax Rate (ETR) proxy. This research is a quantitative type research that uses secondary data sources derived from the financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2020-2022. The number of samples obtained was 213 data using purposive sampling method. The data in this study is panel data so that panel data regression analysis is carried out which is assisted by the EVIEWS (Econometric Views) version 10 data processing program. The results of this study indicate that management incentives and institutional ownership have no significant effect, but profitability has a significant positive effect. Furthermore, audit quality cannot moderate the effect of management incentives on tax avoidance, but audit quality can moderate the effect of institutional ownership and profitability on tax avoidance.
Keyword: Tax Avoidance; Management Incentives; Institutional Ownership; Profitability; Audit Quality
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INTRODUCTION

Indonesia is a country whose main income is supported by tax revenue, this is reflected in the 2021 and 2020 APBN Realization Reports published by the Directorate General of Treasury, Ministry of Finance. Pada Tahun 2021 Realisasi penerimaan pajak sebesar 1.547,8 Triliun Rupiah dengan total Penerimaan dan Hibah Tahun 2021 sebesar 2.011,3 Triliun Rupiah atau memiliki sumbangsih sebesar 76,96%. In 2021, the realization of tax revenue is 1,547.8 trillion rupiah with total revenue and grants in 2021 about 2,011.3 trillion rupiah or has a contribution of 76.96%. The realization of tax revenue in Indonesia is already quite good when compared to the tax revenue target, but when compared to the size of transactions in Indonesia this is still very insufficient, this is related to tax ratio. According to Akbar & Gunadi (Akbar & Gunadi, 2021) the tax ratio can be calculated by comparing total tax revenue with GDP (Gross Domestic Product) of a country. According to the figures presented in the OECD (OECD, 2023) report "Revenue Statistics in Asia and the Pacific 2023- Indonesia" OECD (2023) Indonesia is in the lowest position for the tax ratio of OECD countries in the Asia Pacific region in 2021, at 10.9%, compared to neighboring Malaysia which has an 11.8% tax ratio. Indonesia's tax ratio in 2021 is quite below the average Asia Pacific tax ratio achievement of 19.8%. According to Akbar & Gunadi (Akbar & Gunadi, 2021), a low tax ratio indicates that the level of public compliance with taxes is still low and the ability of tax authorities to find sources of tax revenue from the economic sector is not maximized. As a result, tax authorities are unable to collect much important data and information for tax compliance monitoring.

Revenue from taxes is used for state purposes for the greatest prosperity of the people such as development, health, education, etc. Revenue from taxes is large because taxes are mandatory and compelling for individuals and entities, this is stated in the Law of the Republic of Indonesia Number 28 of 2007 article 1 paragraph (1). In the tax management book written by Anasta et al, (Anasta et al., 2023) it is known that taxes are the largest source of state revenue in Indonesia and many other countries, each government continues to implement various rules and procedures to ensure that taxpayers fulfill their obligations and increase state revenue from the tax sector. However, taxpayers see taxes as a burden that will reduce company profits, so they tend to minimize their tax payments. This can also trigger management to carry out tax management.

Indonesia uses a self-assessment tax system, which means that taxpayers must determine for themselves the amount of tax to be paid in accordance with the law and pay it. This puts the community in control of determining the amount of tax to be paid. Taxpayers also self-report the tax payable and the tax paid. Every taxpayer is obliged to pay the tax owed in accordance with the provisions of tax laws and regulations without relying on the existence of a tax assessment letter as stated in the Law of the Republic of Indonesia Number 28 of 2007 article 12 paragraph (1) (Undang-Undang Republik Indonesia Nomor 28 Tahun 2007 Tentang Perubahan Ketiga Atas Undang-Undang Nomor 6 Tahun 1983 Tentang Ketentuan Umum Dan Tata Cara Perpajakan, 2007). With a tax system in the form of self-assessment and there are legal loopholes that can be utilized by companies in laws and regulations, there is a possibility that companies carry out tax planning. There are several types of tax planning, including tax saving and tax avoidance. Tax saving is an attempt to reduce the tax burden by choosing a tax method with a lower rate (Anasta et al., 2023). Meanwhile, tax avoidance is a term that is difficult to define, but is usually used to indicate taxpayer affairs rules intended to reduce tax liabilities. There is also tax planning through; Delaying tax payments, optimizing allowable tax credits, and avoiding violations of tax regulations (Anasta et al., 2023).

Taxpayers can utilize loopholes in tax provisions to pay the minimum tax payable (Ernawati et al., 2021). According to Anasta et al, (Anasta et al., 2023) tax avoidance is the avoidance of tax payments made legally and following applicable tax regulations. While tax avoidance is not against the law, most people agree that it is unacceptable (Sarpingah, 2020). According to the Tax Justice Network in its report entitled “State of Tax Justice 2021”, the tax problem faced globally is tax avoidance. The report explains that the biggest element of the problem is cross-border corporate tax abuse. It’s about a quarter of global employment, half of global exports, and a third of global economic output come from multinational corporations, so they are responsible for them. Corporate Tax Abuse One of the world's first-rate economic problems is tax abuse, which deprives governments of tax revenue, increases national inequality, and weakens small and domestic businesses, which form the bulk of employment (Brown et al., 2021).

In the literature review conducted by Wang et al, (Wang et al., 2019) there are several factors that are indicated to influence tax avoidance. These variables include ownership structure, company size, management incentives, institutional ownership and others. These variables have been used in several studies by previous researchers, but still show different results or inconsistencies. Therefore, researchers try to use the variables studied with manufacturing companies listed on the Indonesia Stock Exchange because manufacturing companies are the largest contributor to sectoral tax revenue in Indonesia. This study uses variables such as management incentives, institutional ownership, and profitability as independent variables, and audit quality as a moderating variable.

Companies tend to continue to strive to maintain their performance through profit optimization. However, tax payments can reduce company profits, so companies tend to do tax avoidance. In explaining the relationship between management (agent) and shareholders (principal), agency theory is one of the most widely used accounting theories (Dabari & Liuraman, 2022). According to Jensen & Meckling (Jensen & Meckling, 1976) an agency relationship is when one or more individuals (principals) hire others (agents) to provide services and authorize decision making. According to Sarpingah (Sarpingah, 2020) because agents can act against the interests of the principal, there is a conflict of interest between the owner and the agent. As a result, agency costs may increase. According to agency theory, agents and principals are motivated to improve their personal welfare (Sihono & Munandar, 2023).

Agency theory explains the relationship between shareholders (principals) and management (agents), where management incentives help align their interests, reducing tax avoidance (Huang et al., (Huang et al., 2018). Institutional ownership plays a key role in minimizing agency conflicts by enhancing oversight and controlling managerial opportunism (Nanda Mufarikha et al., 2023) (Marsahala et al., 2020). Effective governance mechanisms, including institutional monitoring and audit quality, protect shareholder interests by preventing financial manipulation and ensuring transparency (Dabari & Liuraman, 2022). High-quality audits further mitigate disputes between managers and shareholders, reinforcing corporate governance (Sihono & Munandar, 2023). Thus, agency theory highlights the importance of incentives, institutional oversight, and auditing in balancing managerial actions with shareholder expectations.

Each individual has their own interests, where the company owner wants the company's performance to be better, and also management has an interest in running the company in accordance with the direction of the company owner. But on the other hand, management often acts opportunistically in running the company so that various kinds of problems arise, one of the opportunistic actions of management is tax avoidance. The tax burden is believed to be a considerable burden that can erode the net profit of the company. From opportunistic actions taken by management, agency costs will increase. Therefore, a mechanism is needed to regulate management's opportunistic actions, namely by providing incentives so that the goals of the company owners can be aligned with management. The next mechanism is through corporate governance, namely through a supervisory function that can be carried out through internal and external. Internal supervision can be in the form of institutional ownership and external supervision through audit with high quality. Managers as agents are also delegated by shareholders to be responsible for managing the assets owned by the company. Therefore, this research uses a grand theory known as agency theory.

Tax avoidance refers to legal methods of minimizing tax obligations by exploiting loopholes in tax regulations, differing from illegal tax evasion (Anasta et al., 2023). Management incentives, including fixed salaries and variable compensation like bonuses and stock options, align managerial interests with shareholders (Sihono & Munandar, 2023), measured in this study using the logarithm of total executive compensation (Ardillah & Prasetyo C, (Ardillah & Prasetyo C, 2021). Institutional ownership, defined as shares held by organizations, plays a crucial role in corporate governance by monitoring management and reducing agency conflicts, measured here by the proportion of institutional shares relative to total outstanding shares.

The ability of a company to generate profits is known as profitability (Anggara et al., 2023). According to Manullang (Manullang, 2024) profitability is a measure of how well a company can generate profits as a measure of its performance. Profit margin, return on assets (ROA), and return on equity (ROE) are three ratios used to measure profitability (Anggara et al., 2023). To be able to measure company profitability, one of them is through measuring ROA (Return on Assets). The higher the ROA obtained by the company, the better the company's financial performance Anggara et al (Anggara et al., 2023). In this study, profitability will be measured using ROA (Return on Assets) measurement, this measurement shows how efficiently a company can generate profits from all assets owned in accordance with research conducted by Asih & Darmawati (Asih & Darmawati, 2022), and Manullang (Manullang, 2024).

According to the International Auditing and Assurance Standard Board (IAASB) in Dabari & Liuraman (Dabari & Liuraman, 2022) there is no universally accepted definition of audit quality. On the other hand, according to Palulu et al, (Palulu et al., 2018) audit quality is when the auditor audits the client's financial statements and finds violations of the client's accounting system and reports them in the audited financial statements, where in performing this task, the auditor is guided by auditing standards and the relevant public accountant code of ethics. According to Fitrifiani & Oktris (Fitrifiani & Oktris, 2023) to ensure management transparency to shareholders, audit quality is very important. Audit quality plays an important role in addressing issues resulting from conflicts of interest that occur between shareholders and managers (Sihono & Munandar, 2023). In this study, audit quality will be measured by dummy variables, where companies audited by Big4 will be given a value of 1 and other than Big4 will be given a value of 0.

Agency theory suggests that management incentives are used to align shareholder and management interests, but they can also lead to tax avoidance as managers seek to maintain high profits by reducing tax burdens. Studies by Jihene & Moez (Jihene & Moez, 2019) when using the ETR proxy, Sihono & Munandar (Sihono & Munandar, 2023), Huang et al, (Huang et al., 2018), Jbir et al, (Jbir et al., 2021), and Chee et al, (Chee et al., 2017) show that high executive compensation negatively impacts tax avoidance. Similarly, institutional ownership is believed to enhance oversight, reducing tax avoidance, as seen in research by Dabari & Liuraman (Dabari & Liuraman, 2022), Qawqzeh (Qawqzeh, 2023), Darsani & Sukartha (Darsani & Sukartha, 2021), and Dakhli (Dakhli, 2022). Profitability (ROA) also plays a role, with higher profits increasing tax burdens and incentivizing avoidance, as demonstrated by Manullang (Manullang, 2024), Pitaloka & Aryani Merkusiawati (Pitaloka & Aryani Merkusiawati, 2019), Anggara et al (Anggara et al., 2023), and Asih & Darmawati (Asih & Darmawati, 2022).

Audit quality acts as a moderating factor, mitigating aggressive tax strategies driven by management incentives or institutional ownership, as highlighted by Jihene & Moez (2019) and Dabari & Liuraman (2022). High-quality auditors deter excessive tax avoidance due to reputational risks, while also ensuring better governance. Research by Fitrifiani & Oktris (Fitrifiani & Oktris, 2023) further supports that audit quality can moderate the link between profitability and tax avoidance, ensuring financial transparency and compliance. Thus, effective governance mechanisms, including strong oversight and auditing, are crucial in balancing profit motives and tax responsibilities. Based on the explanation above, the author proposes the hypothesis:

H_1: Management Incentives have a negative effect on Tax Avoidance
H2: Institutional Ownership has a negative effect on Tax Avoidance
H3: Profitability has a positive effect on Tax Avoidance
H4: Audit Quality can moderate the effect of Management Incentives on Tax Avoidance
H5: Audit quality can moderate the effect of institutional ownership on tax avoidance
H6: Audit quality can moderate the effect of profitability on tax avoidance.

RESEARCH METHODS

Sekaran & Bougie (Sekaran & Bougie, 2016) define population as a group of people, events, or interesting things that researchers want to conclude (based on sample statistics). In this study the population is a Manufacturing Company listed on the Indonesia Stock Exchange. For the initial population using the Financial Statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2020 - 2022, which is 160 companies. In this study, a purposive sampling technique was used. The criteria in this study are presented as follows:

1. Companies that are listed on the Indonesian stock exchange and are in the observation year.
2. The company presents financial statements with a reporting position as of December 31 and always records profit before tax in consecutive years of observation.
3. Manufacturing companies that always record consecutive tax expenses in the observation year, because there are several companies that record profit before tax but record tax benefits.

4. Manufacturing companies disclose management incentives/compensation provided, as well as disclose the composition of institutional share ownership.

The number of samples can be described in the following table:

Table 1. Sample size determination

No	Kriteria	Jumlah
1.	Initial population of Manufacturing Financial Statements on IDX for the period 2020 - 2022	160
2.	Companies that suffered a loss before tax, and the position is not December 31 in the observation year	(68)
3.	Companies that do not record consecutive tax expenses in the observation year	(11)
4.	Companies that do not disclose management incentives/executive compensation and institutional ownership	(10)
5.	Number of companies studied	71 Companies
6.	Final Sample Size with 3 Years of Observation	71*3 = 213 Sample

Source : Data processed by the author, 2024

The operationalization of variables in this study is as follows:

Table 2. Variable Operationalization

No	Variabel	Indikator Variabel	Skala Pengukuran	Referensi
1.	Tax Avoidance	$TA = \frac{\text{Tax Expense}}{\text{Income before tax}}$	Ratio (documentation)	Sarpingah (Sarpingah, 2020), and Jihene & Moez (Jihene & Moez, 2019)
2.	Management Incentives	$CEO\_PAY = LogN\ Management\ Compe$	Ratio (documentation)	Jihene & Moez (Jihene & Moez, 2019), and Ardillah & Prasetyo C (Ardillah & Prasetyo C, 2021)
3.	Institutional Ownership	$\text{InstOwn} = \frac{\text{Shares owned by instituti}}{\text{Number of Shares Outstand}}$	Ratio (documentation)	Khan et al, (Khan et al., 2017)
4.	Profitability	$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$	Ratio (documentation)	Asih & Darmawati (Asih & Darmawati, 2022)
5.	Audit Quality	Using Dummy Variables, where companies audited by Big4 = 1 and Non Big4 = 0	Nominal (documentation)	Jihene & Moez (Jihene & Moez, 2019)

Source : Data processed by the author, 2024

This research is a quantitative study where data collection is based on secondary data obtained from the results of documentation sourced from the financial statements of manufacturing companies listed on the Indonesia Stock Exchange. Researchers used tools to analyze data, such as; Eviews (Econometric Views) version 10 and Ms Excel.

The regression model used in this study is stated in the following equation:

TA= α + β1CEO_PAY + β2InstOwn + β3ROA + β4CEO_PAY*AQ + β5InstOwn*AQ + β6ROA*AQ + e……………………………………………………………………………………….....(1)

Description:

α	: Constant
β	: Coefficient
TA	: Tax Avoidance
CEO_PAY	: Management Incentives
InstOwn	: Institutional Ownership
ROA	: Profitability based on Return on Assets
AQ	: Audit Quality
e	: Error

RESULTS AND DISCUSSION

Table 3. Descriptive Statistics

	TA	CEO_PAY	InstOwn	ROA
Mean	0.280200	23.80338	0.683274	0.075827
Max	2.940800	27.76120	0.997100	0.348900
Min	0.014700	21.53950	0.015400	-0.008300
STAD	0.245577	1.306084	0.217402	0.065745

Source : Data processed by the author, 2024

Table 4. Percentage of KAP Usage

Auditor	Sample Quantity	Persentation
Big 4	96	45%
Non Big 4	117	55%
Total	**213**	**100%**

Source : Data processed by the author, 2024

Based on table 4, it is known that 96 samples or 45% of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2020 to 2022 used KAP Big 4, while the remaining 117 samples or 55% of companies did not use KAP Big 4.

Model Selection

Table 5. Chow Test Results

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.513774	(70,136)	0.0203
Cross-section Chi-square	122.716690	70	0.0001

Source : Data generated by EVIEWS, 2024

As stated in the table above, the result shows that the cross-section Chi-square probability statistic of 0.0001 is smaller than 0.05, so it can be concluded that Ho is rejected, which indicates that the best model is the Fixed Effect Model (FEM).

Table 6. Hausman Test Results

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.144041	6	0.1187

Source : Data generated by EVIEWS, 2024

The Hausman Test results in accordance with table 6 state that the Crosssection random probability value is 0.1187 which is greater than 0.05. So it can be concluded that Ho is accepted, which shows that the best model is the Random Effect Model (REM). The results of the model selection have not found the best model that can be used, so the third test is the Lagrangian Multiplier Test.

Table 7. Lagrange Multiplier Test Results

Lagrange multiplier (LM) test for panel data			
Date: 10/22/24 Time: 19:10			
Sample: 2020 2022			
Total panel observations: 213			
Probability in ()			
Null (no rand. effect)	Cross-section	Period	Both
Alternative	One-sided	One-sided	
Breusch-Pagan	2.033184	0.602974	2.636159
	(0.1539)	(0.4374)	(0.1045)
Honda	1.425898	0.776514	1.557340
	(0.0769)	(0.2187)	(0.0597)
King-Wu	1.425898	0.776514	1.003303
	(0.0769)	(0.2187)	(0.1579)
GHM	--	--	2.636159
	--	--	(0.1191)

Source : Data generated by EVIEWS, 2024

As stated in the table above, the result shows that the Breusch-Pagan Cross-section One-sided statistical value is 0.1539 which is greater than 0.05, so H0 is accepted. Thus, the panel regression estimation model that fits the empirical data is the Common effect model (CEM).

Classical Assumption Test

The result of model selection in this study is the Common Effect Model (CEM), therefore the classic assumption tests used are multicolonierity and heteroscedasticity (Napitupulu et al., 2021:120).

Table 8. Multicolonierity Test Results

	CEO_PAY	INSTOWN	ROA	CEO_PAY_AQ	INSTOWN_AQ	ROA_AQ
CEO_PAY	1.000	-0.194	-0.009	0.576	0.236	0.121
INSTOWN	-0.194	1.000	0.135	-0.130	0.281	0.052
ROA	-0.009	0.135	1.000	-0.235	0.302	0.783
CEO_PAY_AQ	0.576	-0.130	-0.235	1.000	-0.394	-0.360
INSTOWN_AQ	0.236	0.281	0.302	-0.394	1.000	0.656
ROA_AQ	0.121	0.052	0.783	-0.360	0.656	1.000

Source : Data generated by EVIEWS, 2024

According to Rahmad et al, (2020:94) the limit of high correlation between independent variables is 0.90. The correlation coefficient of X1 and X2 is -0.194 < 0.90, the correlation coefficient of X1 and X3 is -0.009 < 0.90, the correlation coefficient of X1 and X1 * Z is 0.576 < 0.90, the correlation coefficient of X1 and X2 * Z is 0.236 < 0.90, the coefficient of X1 and X3 * Z is 0.121 < 0.90, the correlation coefficient of X2 and X3 is 0.135 < 0.90, the correlation coefficient of X2 and X1 * Z is -0.130 < 0.90. X2 and X2*Z correlation coefficient of 0.281 < 0.90, X2 and X3*Z correlation coefficient of 0.052 < 0.90, X1*Z and X2*Z correlation coefficient of -0.394 < 0.90, X1*Z and X3*Z correlation coefficient of -0.360 < 0.90 and X2*Z and X3*Z correlation coefficient of 0.656 < 0.90, it can be concluded that it is free of multicollinearity or passes the multicollinearity test.

Heteroscedasticity Test

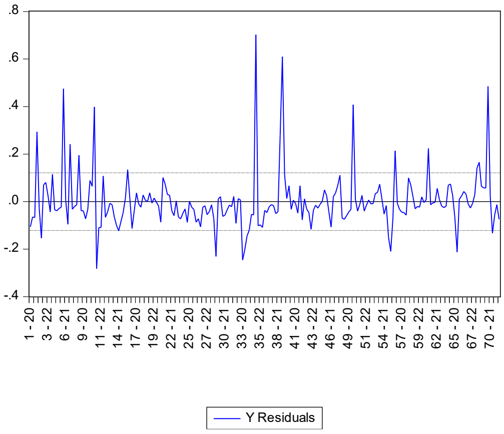

Figure 1. Heteroscedasticity Test results

Source : Data generated by EVIEWS, 2024

From the residual graph (blue color), it can be seen that it crosses the boundaries (500 and -500), meaning that the residual variance is the same. Therefore, there are no symptoms of heteroscedasticity or pass the heteroscedasticity test (Napitupulu et al., 2021:143).

Determination Coefficient Test (R2)

Table 9. Determinal coefficient test results (R2)

R-squared	0.163439
Adjusted R-squared	0.139073
S.E. of regression	0.121168
Sum squared resid	3.024404
Log likelihood	150.8787
F-statistic	6.707691
Prob(F-statistic)	0.000002

Source : Data generated by EVIEWS, 2024

Based on the Common effect model (CEM), the Adjusted Rsquared value is 0.139073 or 13.90%. This indicates that the dependent variable of tax avoidance is explained by the variables of management incentives, institutional ownership, profitability, management incentives moderated by audit quality, institutional ownership moderated by audit quality, and profitability moderated by audit quality by 13.90%, while the remaining 86.10% is explained by other variables outside this study.

Simultaneous Test (F-test)

Table 10. F-Test Results

R-squared	0.163439
Adjusted R-squared	0.139073
S.E. of regression	0.121168
Sum squared resid	3.024404
Log likelihood	150.8787
F-statistic	6.707691
Prob(F-statistic)	0.000002

Source : Data generated by EVIEWS, 2024

The results of the F test test show that the value of f count> f table (6.707691> 2.142793) and a significance value of 0.000002 <0.05 then management incentives, institutional ownership, profitability, management incentives moderated by audit quality, institutional ownership moderated by audit quality, and profitability moderated by audit quality simultaneously affect tax avoidance in the research sample of manufacturing companies listed on the Indonesia Stock Exchange in 2020-2022 so that the model is declared 'fit'.

Hypothesis Test Results (t-test)

Table 11. Hypothesis Test Results (t-test)

Dependent Variable: TA				
Method: Panel Least Squares				
Date: 10/22/24 Time: 19:15				
Sample: 2020 2022				
Periods included: 3				
Cross-sections included: 71				
Total panel (balanced) observations: 213				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.319076	0.030767	10.37079	0.0000
CEO_PAY	0.005429	0.026350	0.206040	0.8370
INSTOWN	0.055786	0.056626	0.985161	0.3257
ROA	-1.427500	0.246660	-5.787325	0.0000
CEO_PAY_AQ	-0.010594	0.034363	-0.308297	0.7582
INSTOWN_AQ	-0.123559	0.049575	-2.492371	0.0135
ROA_AQ	1.102596	0.291795	3.778662	0.0002

Source : Data generated by EVIEWS, 2024

Based on table 11, management incentives have no significant negative effect, institutional ownership has no significant negative effect, profitability has a significant positive effect, audit quality cannot moderate the effect of management incentives on tax avoidance, audit quality can moderate the effect of institutional ownership on tax avoidance, and audit quality can moderate the effect of profitability on tax avoidance.

The Influence of Management Incentives on Tax Avoidance

Based on the results of the t statistical test, it is known that the t statistic of management incentives is 0.206040 with a significance level of 0.8370. Because the calculated t statistic < t table (0.206040 < 1.971271) and the significance value is greater than 0.05, it can be said that management incentives have no significant effect on tax avoidance with a coefficient direction of 0.005429 (positive). According to Jihene & Moez (2019) ETR is an inverse function of tax avoidance, so a positive coefficient indicates a negative relationship between management incentives and tax avoidance. This means that the more management incentives increase as measured by the amount of compensation paid to management in manufacturing companies listed on the Indonesia Stock Exchange in 2020-2022, the more tax avoidance practices decrease but are not significant. So the first hypothesis which states that management incentives have a significant negative effect is rejected

The findings are not in line with the hypothesis and previous research conducted by Jihene & Moez (2019), Sihono & Munandar (2023), Huang et al, (2018), Jbir et al, (2021), and Chee et al, (2017), which state that management incentives have a significant negative effect on tax avoidance, where providing high compensation to executives is one of the best ways to enhance corporate tax payment efficiency. The research results contradict the agency theory, which states that management incentives can serve as a mechanism to align the goals of company owners and management. However, the research findings are in line with the results of studies conducted by Arora & Gill (2022) and Faiz Hilmi et al, (2022), which state that management incentives do not have a significant effect. It should be interpreted that management lacks the necessary motivation from the compensation provided to engage in risky activities such as tax avoidance.

The composition of management incentives in manufacturing companies in Indonesia received by key management has a similar form, consisting of salaries, allowances, incentives, bonuses, and fairly high annual bonuses. According to Arora & Gill (2022), performance-based stock options motivate management more in engaging in tax avoidance practices. The absence of compensation or incentives in the form of shares (stock option) in manufacturing companies in Indonesia leads executives to be less motivated to engage in tax avoidance practices. Thus, the size of the incentive given does not affect key management's decision-making in taking actions for tax avoidance. Thus, executive compensation or management incentives have no effect on tax avoidance behavior in manufacturing companies in Indonesia.

The Influence of Institutional Ownership on Tax Avoidance

Based on the results of the t statistical test, it is known that the t statistic of institutional ownership is 0.985161 with a significance level of 0.3257. Because the calculated t statistic < t table (0.985161 < 1.971271) and the significance value is greater than 0.05, it can be said that institutional ownership has no significant effect on tax avoidance with a coefficient direction of 0.055786 (positive). According to Menurut Jihene & Moez (2019) ETR is an inverse function of tax avoidance, so a positive coefficient indicates a negative relationship between institutional ownership and tax avoidance. This means that the more institutional ownership increases as measured by the number of institutional shares outstanding in manufacturing companies listed on the Indonesia Stock Exchange in 2020-2022, the more tax avoidance practices decrease but not significantly. So the second hypothesis which states that institutional ownership has a significant negative effect is rejected.

The findings are inconsistent with the hypothesis and previous research conducted by Dabari & Liuraman (2022), Qawqzeh (2023), Darsani & Sukartha (2021), and Dakhli (2022), which state that institutional ownership has a significant negative effect on tax avoidance, where institutional ownership can reduce tax avoidance practices through its control function to improve company performance. The research results contradict the agency theory, which states that institutional ownership as corporate governance can mitigate agency problems, one of which is tax avoidance. However, the research results align with the findings of studies conducted by Duvadila Budiarto & Achyani (2023), Safitri & Oktris (2023), and Faiz Hilmi et al, (2022), which state that institutional ownership does not have a significant positive effect, where institutional ownership is positively correlated but not significantly with the tax avoidance practices carried out by the companies in this study. It should be interpreted that the control function of institutional ownership is not functioning properly, and the presence of institutional ownership cannot influence the policies made by management.

The level of corporate tax avoidance practices is not influenced by institutional ownership. Basically, institutional ownership can oversee management performance, but they cannot influence or control management policies, especially those related to tax avoidance. This is because institutional ownership is an external party to the company and cannot be directly involved in its operations. In terms of tax avoidance, institutional shareholders may not be entirely responsible for the opportunistic actions of management. On the contrary, institutional ownership will rely more on the audit committee and the board of commissioners, which are internal parties of the company, to oversee management's actions. In other words, institutional ownership does not significantly influence management decisions, allowing tax avoidance activity.

The Influence of Profitability on Tax Avoidance

Based on the results of the t statistical test, it is known that the t statistic of profitability is 5.787325 with a significance level of 0.0000. Because the t statistic > t table (5.787325 > 1.971271) and the significance value is smaller than 0.05, it can be said that profitability has a significant effect on tax avoidance with a coefficient direction of -1.427500 (negative). According to Jihene & Moez (2019) ETR is an inverse function of tax avoidance, so the negative coefficient indicates a positive relationship between profitability and tax avoidance. This means that the higher the profitability as measured by the return on assets ratio in manufacturing companies listed on the Indonesia Stock Exchange in 2020-2022, the more significant the practice of tax avoidance. So the third hypothesis which states that profitability has a significant positive effect is accepted.

The findings are in line with the hypothesis and previous research conducted by Manullang (2024), Pitaloka & Aryani Merkusiawati (2019), Anggara et al (2023), and Asih & Darmawati (2022) which state that the higher the profitability, the higher the level of tax avoidance. The results of the study are in line with agency theory which states that management as an agent is delegated to manage the assets owned by the company and generate maximum profit. Due to the uncertain nature of the business environment, management needs to strategize so that the company can survive. Furthermore, profitable companies seek to reduce their tax burden, companies with higher asset returns are motivated to undertake higher corporate tax avoidance. Based on Anggara et al (2023) the amount of income tax will increase along with the increase in corporate profits, so companies are more likely to do tax avoidance to reduce their larger tax burden. Profitable companies strive to reduce their tax burden, companies with a higher return on assets are motivated to perform higher corporate tax avoidance (Jihene & Moez, 2019).

The Influence of Management Incentives on Tax Avoidance with Audit Quality as a Moderating Variable

Based on the results of the t statistical test, it is known that the t statistic of management incentives moderated by audit quality is 0.308297 with a significance level of 0.7582. Because the t statistic < t table (0.308297 < 1.971271) and the significance value is greater than 0.05, it can be said that audit quality cannot moderate the effect of management incentives on tax avoidance. So the fourth hypothesis which states that audit quality can moderate the negative effect of management incentives on tax avoidance is rejected.

The findings are inconsistent with the hypothesis and previous research conducted by Jihene & Moez (2019), as well as Sihono & Munandar (2023), which state that audit quality can moderate the effect of management incentives on tax avoidance, where high-quality auditors can prevent aggressive tax behavior from management due to high compensation. The results of this study contradict agency theory, which asserts that audit quality can prevent aggressive tax behavior due to high compensation. However, the research aligns with the findings of Faiz Hilmi et al, (2022), which state that audit quality cannot moderate the effect of management incentives on tax avoidance. It should be understood that auditors from Big4 firms and Non-Big4 firms cannot prevent opportunistic behavior from management, such as tax avoidance, when high compensation is implemented.

Furthermore, based on the data observed by the researchers from 213 samples taken from manufacturing companies listed on the Indonesia Stock Exchange in the years 2020 to 2022, there are 96 samples or 45% whose financial statements were audited by Big4 public accounting firms, while 117 samples or 55% had their financial statements audited by non-Big4 public accounting firms. This indicates that the majority of companies use non-Big4 public accounting firms to audit their financial statements, which are believed to have lower quality and reputation compared to Big4 firms. Therefore, this does not adequately reflect the role of audit quality in moderating the relationship between management incentives and tax avoidance.

The Influence of Institutional Ownership on Tax Avoidance with Audit Quality as a Moderating Variable

Based on the results of the t statistical test, it is known that the t statistic of institutional ownership moderated by audit quality is 2.492371 with a significance level of 0.0135. Because the calculated t value > t table (2.492371> 1.971271) and the significance value is smaller than 0.05, it can be said that audit quality can moderate the effect of institutional ownership on tax avoidance. So the fifth hypothesis which states that audit quality can moderate the effect of institutional ownership on tax avoidance is accepted.

The findings are in line with the hypothesis and previous research conducted by Dabari & Liuraman (2022), Qawqzeh (2023), Mashuri (2023), dan Susilawati & Tarmidi (2024) which state that audit quality can moderate the effect of institutional ownership on tax avoidance, where institutional ownership supervision can run well with the help of qualified auditors. The results are in line with agency theory which states that audit quality can help the supervisory function of institutional ownership to suppress tax avoidance. Furthermore, the results show that qualified auditors are less involved in aggressive tax practices because of the risk of losing reputation and credibility. Auditors will increase the supervision of institutional ownership. Based on Mashuri (2023) external auditors who are able to detect fraud can help supervise institutional ownership. This will suppress the opportunistic behavior of management, namely tax avoidance practices. In line with what is conveyed by research from Susilawati & Tarmidi (2024) in the presence of good financial statement auditors will encourage companies to reduce tax avoidance, as expected by institutional shareholders.

The Influence of Profitability on Tax Avoidance with Audit Quality as a Moderating Variable

Based on the results of the t statistical test, it is known that the t count of profitability moderated by audit quality is 3.778662 with a significance level of 0.0002. Because the t value> t table

(3.778662> 1.971271) and the significance value is smaller than 0.05, it can be said that audit quality can moderate the effect of profitability on tax avoidance. So the sixth hypothesis which states that audit quality can moderate the effect of profitability on tax avoidance is accepted.

The findings are in line with the hypothesis and previous research conducted by Fitrifiani & Oktris (2023) which states that audit quality can moderate the effect of profitability on tax avoidance. Company profits greatly affect the amount of tax that must be paid to the state. The greater the company's profit, the more taxes must be paid (Fitrifiani & Oktris, 2023). Companies can reduce the level of tax avoidance by paying taxes from the profits earned. The greater the profit earned, the greater the tax burden that must be paid, so there is a tendency for companies to take tax avoidance actions. Competent and professional auditors can support minimizing tax avoidance. The audit must be more thorough, by checking the accuracy of the financial statements. As a neutral party, auditors are expected to determine the appropriate level of materiality to find discrepancies between management's financial statements and generally accepted accounting principles (Fitrifiani & Oktris, 2023).

CONCLUSION

This study aims to determine whether management incentives, institutional ownership, and profitability have an influence on tax avoidance, and to determine whether audit quality can moderate the effect of management incentives, institutional ownership, and profitability on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2022. This study used 213 samples from 71 companies from 2020 to 2022. Based on the results of research and discussion, the following conclusions are known: 1. Management incentives have no significant effect on tax avoidance with a negative relationship direction, so tax avoidance practices decrease but are not significant in the presence of management incentives. 2.Institutional ownership has no significant effect on tax avoidance with a negative relationship direction, so the presence of institutional ownership with its control function does not work properly. 3. Profitability has a significant positive effect on tax avoidance. In other words, companies that are able to manage the rate of return on their assets have a tendency to take tax avoidance actions. 4. Audit quality is unable to moderate the effect of management incentives significantly on tax avoidance. In other words, audit quality cannot strengthen or weaken the relationship between management incentives and tax avoidance. 5. Audit quality is able to significantly moderate the effect of institutional ownership on tax avoidance. In other words, audit quality can strengthen or weaken the relationship between institutional ownership and tax avoidance. 6. Audit quality is able to significantly moderate the effect of profitability on tax avoidance. In other words, audit quality can strengthen or weaken the relationship between institutional ownership and tax avoidance. Based on the results of this study where the hypothesis under study has some influence and no effect, further research can take a different research year because the economic situation may not be stable that year due to the pandemic.

Future research can also use samples from other company sectors listed on the Indonesia Stock Exchange or with all existing sectors so that the research results can be used to generalize indications of tax avoidance. Future research can also add several other variables to influence tax avoidance, such as leverage, company size, managerial ownership, family ownership and so on. Future research can also use variables outside of this study for moderating variables that may moderate the influence of independent variables on tax avoidance. Suggestions for manufacturing companies listed on the Indonesia Stock Exchange must comply with all applicable tax regulations, including ensuring accurate, timely, and in accordance with applicable tax regulations. Advice for investors is advised to be more thorough and careful when choosing a company to invest in. This is especially for manufacturing companies listed on the Indonesia Stock Exchange. Suggestions for the government should tighten supervision of tax avoidance, both healthy companies and those experiencing financial difficulties. The government can also provide direction to entities to be able to provide details to the disclosure of management incentives.

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