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THE INFLUENCE OF INSTITUTIONAL OWNERSHIP, LEVERAGE, AND FINANCIAL DISTRESS ON TAX AGGRESSIVENESS

Juli Ismanto[1], Tubagus Arya Abdurachman[2]
[1,2]Faculty of Economics and Business, Pamulang University
july.ismanto@gmail.com[1], dosen01872@unpam.ac.id[2]

ABSTRACT

This study was inspired to look at the factors that influence the practice of tax aggressiveness seen in financial factors and corporate governance. The research was then developed by proving other factors that strengthen the importance of the company's information breadth in eliciting a response from the market that can affect the level of tax aggressiveness, namely financial distress. The object of this research is companies in the Real Estate & Property Services Sector listed on the Indonesia Stock Exchange (IDX) during the 2019–2022 period. The samples taken from this study were taken using the purposive sampling method, which resulted in a total of 15 companies for 4 years. The results of research on institutional ownership, leverage, and financial distress on tax aggressiveness can be concluded that institutional ownership and leverage have no effect on tax aggressiveness, while financial distress affects tax aggressiveness with a negative coefficient direction, proving empirically that when companies face financial difficulties, their top priorities tend to maintain liquidity and meet urgent financial obligations.
Keywords: Tax Aggressiveness, Financial Distress, Institutional Ownership, Leverage

A. INTRODUCTION

Lately, Indonesia has experienced a surge of unease and ambiguity on global matters. Global economic conditions are expected to worsen due to conflicts and increasing energy prices, leading several countries to make preparations for a potential economic recession. Sri Mulyani, the Minister of Finance, has expressed that the Ministry of Finance is making efforts to enhance the export sector in Indonesia in light of this situation. Furthermore, the administration is also endeavoring to uphold the efficacy of the State Budget (RAPBN) (Gozal, 2022).

Taxation is a crucial means of generating funds for the state, so facilitating national progress. Both corporate and individual taxpayers contribute to this kind of income. Presently, taxes constitute the predominant portion of governmental revenue. The Ministry of Finance (MoF) data indicates that Indonesia's actual state revenue in 2023 amounted to IDR 2,774.3 trillion, representing a 5.3% year-on-year growth compared to 2022 (Kemenkeu). This represents 112.6% of the targeted state budget for 2023 and 105.2% of the value specified in Presidential Regulation 75/202. Nevertheless, it is crucial to acknowledge that a substantial tax revenue does not automatically ensure the successful attainment of revenue objectives. The stated data are currently tentative and awaiting confirmation through an audit verification process. Surprisingly, even with efficient tax collection, the actual amount of income generated by the state in 2023 falls significantly short of the total state expenditure of IDR3,121.9 trillion. The 2023 state budget incurred a deficit of IDR 347.6 trillion (Annur, 2024).

Indonesia's tax ratio is comparatively low in relation to other nations due to pervasive corruption and extensive tax evasion. Two prominent instances include the Gayus Tambunan and Rafael Alunan incidents. Typical tax violations include the failure to submit taxes that have been withheld and the act of evading taxes on business turnover. Additional issues include a lack of confidence in the government's leadership and inefficient implementation of law enforcement measures. Indonesia incurs yearly financial losses of up to US$4.86 billion as a result of tax evasion (Azzahra, 2023; Sukmana, 2020).

The lack of compliance from taxpayers in Indonesia hampers the optimization of tax collection. Despite a 10% expansion in the property industry, there was no corresponding rise in tax revenue. Instances of tax evasion are prevalent, such as the illicit sale of luxury properties at values that diverge from official records. As a result, there has been a decline in tax revenue and a depletion of state finances (kompas.com, 2013). For instance, a property in Semarang was acquired for Rp 7.1 billion, but its legal documentation only reflects a value of Rp 940 million. The discrepancy of Rp 6.1 billion signifies a shortfall of Rp 610 million for value-added tax (VAT) and Rp 300 million for final income tax. If this occurs in hundreds of housing units, the resulting losses could amount to tens of billions of rupiah. In Depok, a comparable event took place, including a pricing discrepancy of IDR 1.9 billion and a tax shortfall of IDR 275 million. As stated by Rambe & Utami (2021), this leads to a substantial decrease in the funds received by the government.

The development of corporate strategy centers around the primary objective of maximizing profits and minimizing costs and expenditures, which encompasses reductions in tax expenditures (Alkausar et al., 2020). However, tax policies that levy taxes on global business profits appear to have minimal impact. Tax avoidance is a hindrance to the collection of taxes, resulting in a decrease in the earnings of the state treasury. Nevertheless, tax avoidance is commonly perceived as a lawful action aimed at reducing tax obligations within the boundaries of tax legislation, but tax evasion or tax fraud is deemed as an unlawful act (Hidranto, 2023). Companies have a significant role in contributing to state revenues by the amount of taxes they pay during each given period. Nevertheless, firms perceive taxes as an encumbrance that diminishes their profits, prompting them to seek ways to minimize their tax burden. Conversely, the government anticipates levying optimal taxes to finance the nation's development initiatives. The divergence in interests between taxpayers and the government leads to taxpayers' endeavors to minimize their tax payments, sometimes referred to as aggressive taxation or tax aggression (Harsana & Susanty, 2023; Rambe & Utami, 2021).

This scenario demonstrates that there is still a significant number of taxpayers who perceive taxes as an encumbrance capable of diminishing their profits. While firms' attempts to lessen their tax obligations may not necessarily breach tax legislation, as these efforts become more assertive, companies might be seen to exhibit aggressive tax behavior. Various elements, including as financial issues and corporate governance (CG), might impact tax aggression. Profitability, leverage, and capital intensity are financial characteristics that serve as tools for corporate financial research. This according to Khotimah et al., (2021) will make patterns or plans important to integrate the main objectives or a policy with a series of actions taken to achieve the main objectives. They are used to assess their impact on tax aggressiveness practices. Effective company governance procedures, such as the presence of independent commissioners and a share ownership structure, are anticipated to mitigate corporate tax aggressiveness (Harsana & Susanty, 2023).

Prior research has examined many determinants that impact the adoption of tax aggressive tactics, focusing on financial issues and corporate governance (CG). The research findings of Octaviani & Sofie (2019); Yuliana et al. (2021) demonstrate a positive correlation between two factors: tax aggression and the practice of employing various strategies to minimize tax payments. Despite the increased risks involved, corporations strive to maximize tax savings. Nevertheless, alternative research conducted by Harsana & Susanty (2023; Sustresia Sihombing et al. (2021) reveals that there is no favorable impact on tax aggressiveness. This is due to companies being unwilling to assume the potential consequences of tax non-compliance, such as the risk of penalties and fines, which discourages them from engaging in tax aggressiveness under the guidance of company management. Aggressiveness can have a negative impact on corporate performance by creating uncertainty for investors if the company has a big amount of debt. Leverage, among other aspects, is employed to enhance operating profit and might serve

as an indicator of managers' inclinations towards earnings management operations (Aldi et al., 2020). A high leverage ratio indicates that the company relies heavily on debt financing, resulting in increased profitability. However, it also raises the danger of bankruptcy (Setiorini et al., 2022; Wati & Putra, 2017). Tax is an expense element in accounting that has the potential to decrease a company's profitability. The tax obligation to be sent to the state treasury is contingent upon the annual profit generated by the company. Complying with tax regulations naturally contradicts the primary goal of the firm, which is to maximize profit. Therefore, the company endeavors to minimize the expenses it incurs from taxes (Rambe & Utami, 2021).

Prior studies have also demonstrated that financial issues and business governance have an impact on the adoption of tax aggressiveness. During this practice, firms employ many strategies to minimize their tax liabilities. Nevertheless, these endeavors can heighten hazards if they are excessively assertive. Utilizing debt, known as leverage, has the potential to enhance operating earnings, but it also carries the danger of heightened vulnerability to bankruptcy. Tax is an expense that has the potential to decrease a company's earnings. Consequently, firms endeavor to reduce tax expenses. This study also examines the significance of company information in influencing the degree of tax aggression. During periods of financial hardship, corporations may attempt to falsify accounting procedures in order to boost their profitability. This may entail engaging in assertive tax reporting. The objective of this study is to assess the congruity of findings with prior research across varying market circumstances.

B. RESEARCH METHODS

This study is a quantitative-secondary-research. This study specifically examines the firms operating in the Real Estate & Property Services industry that are publicly listed on the Indonesia Stock Exchange (IDX) between the years 2019 and 2022. The data sources were acquired from the www.idx.co.id website, specifically referring to the IDX Industrial Classification (IDX-IC) classification. The sample for this study was collected using the purposive sampling method, resulting in research data from 15 organizations seen over a period of 4 years, totaling 60 observations. The criteria for selecting the research sample are as follows:

1. Companies operating in the Real Estate & Property Services industry that were publicly traded on the Indonesia Stock Exchange between 2019 and 2022.
2. Companies that have released and verified their yearly financial reports between 2019 and 2022.
3. Companies operating in the Real Estate & Property Services industry and conducting transactions in the Indonesian Rupiah currency.
4. Companies that create profits within the specified time frame.

This research employs a causal study approach, which aims to investigate the causative relationship between the independent variable and the dependent variable (Nachrowi & Usman, 2020). The study employed panel data regression analysis to do the data analysis. Panel data regression analysis is a statistical method that mixes time series data and cross-sectional data to analyze the relationship between variables over multiple objects and periods. Panel data regression is employed to assess the degree to which the occurrence of the dependent variable may be anticipated based on the independent variable. The data in this study was analysed using Eviews12. Multiple linear regression analysis Arifin et al., (2023) is an analysis that relates two or more independent variables to the dependent variable. The analysis involved descriptive statistical stages, panel data regression analysis stages, and feasibility tests or hypothesis tests for the panel data regression model (including F test, t test, and coefficient of determination).

Operational Definitions of Variables

Dependent Variables

Tax Aggressiveness

Tax aggressiveness refers to a company's deliberate efforts to decrease its tax obligations through tax planning, often known as tax avoidance. This involves legally minimising taxes without breaking any tax laws or regulations. Tax evasion, often known as illicit tax actions, is intentionally reducing tax obligations by breaching tax regulations, which can also be referred to as tax fraud. Companies perceive taxes as a supplementary expense that can diminish the earnings earned by the organisation. The function of the accounting process based on Zaman & Pratama, (2023) can also be the basis for tax calculations and for determining company management policies. Hence, it is hypothesised that corporations will engage in tax aggression as a strategy to minimise their tax liability (Rambe & Utami, 2021). The degree of tax aggression can be determined by analysing the Effective Tax Rate (ETR). A small firm with a low Effective Tax Rate (ETR) is regarded as tax-aggressive, whereas a company with a high ETR is seen as non-tax aggressive. The equation for computing the Effective Tax Rate (ETR) is provided by Astika & Asalam (2023); Harsana & Susanty (2023).

$$\text{Effective Tax Rate} = \frac{\text{Income Tax Expenses}}{\text{Profit before Tax}} \text{x}100\%$$

Independent Variables

Institutional Ownership

Institutional ownership denotes the proportion of ownership that is owned by different institutions in a certain entity. Examples of such institutions encompass governments, financial institutions, foreign institutions, incorporated institutions, fiduciary funds, and various more. Institutional ownership, as stated by Astika & Asalam (2023), has a significant impact on the supervision and control of management. The level of external institutional ownership directly correlates with the degree of management control. External institutions contribute to the oversight process, which can facilitate the attainment of effective corporate governance. The approach for measuring institutional ownership can be conducted according to the description provided by Harsana & Susanty (2023).

$$\text{KInst} = \frac{\text{Institutionally owned shares}}{\text{Total Shares Outstanding}} \text{x}100\%$$

Leverage

The capability of a business to fulfil its immediate and future financial obligations is referred to as its leverage. The leverage ratio indicates the proportion of total long-term debt to total assets held by a company. This ratio is employed to assess the extent to which the organisation is funded through debt, or more precisely, to determine the extent of its debt burden (Hery, 2017). Consequently, the leverage ratio offers a comprehensive depiction of the ratio between the aggregate long-term debt of the organisation and its overall assets. The procedure for calculating leverage is as follows (Rambe & Utami, 2021):

$$\text{Lev} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Financial Distress

Financial distress refers to a situation where a corporation experiences financial limitations that prevent it from fulfilling its financial responsibilities. If the company's operating cash flow is inadequate to fulfil immediate financial obligations, such as overdue loan interest payments, then the company may experience financial difficulty. As the corporation acquires more obligations, the likelihood of experiencing financial hardship will increase (Hisa & Haq,

2023). The Altman Z-score formula, as elucidated by Astika & Asalam (2023), can be employed for the purpose of quantifying financial distress.

$$Z = 1.2A + 1.4B + 3.3C + 0.6D + 1E$$

Where:
A = Current assets-current debt / Total assets
B = Retained earnings / Total assets
C = Profit before tax / Total assets
D = Number of shares x Price per share / Total debt
E = Sales / Total assets

The z value in the Altman Z score indicates the likelihood of bankruptcy. If the Z value is more than or equal to 2.99, the company is considered to be in a safe zone, indicating that there is no chance of financial hardship. If the value falls within the range of 1.81 to 2.99, the company is considered to be in the grey zone. Ultimately, if the Z value is less than 1.81, the company is situated within the distress zone, indicating a significant likelihood of bankruptcy.

C. RESEARCH RESULTS AND DISCUSSION

Descriptive Statistical Analysis

This study examines a sample of 15 companies from the Real Estate & Property Services sector listed on the Indonesia Stock Exchange between 2019 and 2022. During this time frame, a total of 60 observation data points were collected over a span of 4 years. This data is utilised to offer a comprehensive understanding of the purported impact of the independent variable on the dependent variable.

Table 1 Descriptive Statistics of Panel Regression Model

	AP	KInst	LEV	FD
Mean	-0.017343	0.673903	0.401770	2.945135
Maximum	0.184464	0.966184	1.360301	13.76351
Minimum	-0.207144	0.228884	0.078898	0.508413
Std. Dev.	0.062842	0.199357	0.250159	2.643942

Data from the source has been processed in the year 2024.

Table 1 provides an overview of the distribution and variability of each variable. The average institutional ownership, leverage, and financial distress values exceed the standard deviation, indicating a larger degree of variability. The mean value of tax aggressiveness ownership is smaller than the standard deviation, indicating that the data has fewer fluctuation. These values collectively offer a comprehensive summary of the data attributes that are pertinent to each variable.

The chow test is used to assess the appropriate choice between combined effects and fixed effects regression models. The probability value of the cross-section F dictates which of these two processes to choose. If the probability value of the cross-section F is greater than 0.05, then the null hypothesis H0 is accepted, and the common effect model is employed. If the likelihood of the resulting cross-section F is less than 0.05, then the null hypothesis H0 is rejected and the fixed effect model, as described by Nachrowi & Usman (2020), is employed. The outcome of the Chow test indicates that both the Cross-section F probability value and the Cross-section Chi-square probability value are 0.0000. The result indicates that the probability value is below

0.05. Therefore, the preferred model for the chow test is the Fixed Effects Model (FEM). The subsequent estimating model to consider is the Hausman test.

The Hausman test is performed to ascertain whether the fixed effect model or the random effect model should be employed in the study's regression analysis. The Chi-square probability value is used to determine which of these two approaches should be chosen. If the Chi-square probability value is greater than 0.05, then the null hypothesis (H0) is accepted, and the random effect model is employed. If the probability value of the Chi-square test is less than 0.05, then the null hypothesis (H0) is rejected, and the fixed effect model is employed. (Nachrowi & Usman, 2020). The Chi-square value was estimated to be 11.543734, and the corresponding P-value is 0.0091. Given that the P-value is less than 0.05, the Fixed Effect Model method is employed. Both the Chow test and the Hausman test yield consistent results, indicating that the fixed effect model is the prevalent one. The fixed effect model was employed in this investigation. When conducting panel data regression, the OLS method model findings can be utilised without the need for normality assumptions on the independent variables. However, it is necessary to consider multicollinearity and heteroscedasticity. The necessity of normality test is not a prerequisite for the Best Linear Unbiased Estimator (BLUE) (Gujarati, 2012).

The heteroscedasticity test conducted using panel data regression yielded a ChiSquare probability value of 0.0517. Since this value is greater than the significance level of 0.05 (0.3155 > 0.05), it can be concluded that the data used does not exhibit any symptoms of heteroscedasticity or homoscedasticity.

The Multicollinearity test results indicate that the correlation coefficient between KInst (institutional ownership), Lev (Leverage), and FD (financial distress) is less than 0.90. The presence of multicollinearity can be determined by examining the correlation coefficient between each independent variable, which is considered significant if it exceeds 0.90. One way to detect multicollinearity is by examining the correlation coefficient between each independent variable. If the value is higher than 0.90, it indicates a strong link. Based on the research data provided, there is no significant correlation above 0.90 among the independent variables. There is no presence of multicollinearity among the independent variables in this investigation.

Panel Data Regression Analysis

Based on the outcomes of doing the Chow test, Hausman test, and Lagrange Multiplier test on the panel data model, it has been determined that the most appropriate model for this study is the fixed effect model. The subsequent outcomes of the panel data regression examination utilising the fixed effect model are as follows:

Table 2: Selected Fixed Effect Models

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Hipotesis
C	-0.028410	0.064694	-0.439150	0.6628	
KInst	0.069064	0.096797	0.713496	0.4795	Rejected
LEV	-0.016070	0.028508	-0.563712	0.5759	Rejected
FD	-0.009853	0.004779	-2.061.693	0.0455	Accepted
Adjusted R-squared 0.794615					
Prob(F-statistic) 0.000000					

Data from the source has been processed in the year 2024.

The panel data regression analysis in table 2 yielded the following results for the regression model equation in this study:

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$$AP = -0.028410 + \underset{(0.4795)}{0.069064\text{KInst}} - \underset{(0.5759)}{0.016070\text{Lev}} - \underset{(0.0455)}{0.009853\text{FD}} + \text{e}$$

Regression model with fixed effects is presented in Table 2. A model might be utilised to elucidate the subsequent outcomes:

1. The regression equation suggests that when the independent variables Kinst (institutional ownership), Lev (leverage), and FD (financial distress) are held constant, the projected value of tax aggressiveness is -0.028410.
2. The regression coefficient for institutional ownership, represented by Kinst, is 0.069064. The number of 0.069064 indicates that a one unit increase in 'Kinst' will result in a 6.9% rise in 'tax aggression', assuming that all other independent variables in the model remain unchanged.
3. The regression coefficient for leverage, denoted by the variable Lev, is -0.016070. An increase in 'leverage' by one unit will lead to a reduction in 'tax aggressiveness' by 1.6%, assuming that all other independent variables remain unchanged.
4. The regression coefficient for financial hardship, represented by the variable FD, is -0.009853. The coefficient of -0.009853 signifies that a 1-unit rise in 'financial distress' will lead to a 0.98% decline in 'tax aggression', provided that all other independent variables in the model remain unchanged.
5. The error term 'e', which represents epsilon, signifies that tax aggressiveness is influenced by factors or variables other than Kinst (institutional ownership), Lev (leverage), and FD (financial distress).

Coefficient of Determination (R^2)

The Coefficient of Determination (R2) for the regression model in table 2 is 0.794615, indicating that 79.46 percent of the company value is influenced by Institutional Ownership, Leverage, and financial distress. The remaining 20.54 percent is influenced by other variables not considered in this study.

Simultaneous Test

According to the findings in table 2, the prob (F-Statistic) value of 0.000000 is less than 0.05. This indicates that the variables of Institutional Ownership, Leverage, and financial distress collectively have an impact on the tax aggressiveness variable.

Partial Test (t Test)

The study provides partial test results, which are displayed in table 2. There is no correlation between institutional ownership and tax aggression in Real Estate & Property Sector Service companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022. The probability value is 0.4795, which is greater than the significance level α of 0.05. Similarly, the use of Leverage does not impact the level of tax aggression in Real Estate & Property Sector Service companies that are publicly traded on the Indonesia Stock Exchange (IDX) between 2019 and 2022. The reason for this is that the probability value is 0.5759, which is greater than the significance level α of 0.05. Financial distress exerts a detrimental impact on the level of tax aggressiveness exhibited by companies in the Real Estate & Property Sector Services industry that are publicly traded on the Indonesia Stock Exchange (IDX) throughout the period of 2019-2022. The probability value is 0.0455, which is less than the significance level α of 0.05.

Discussion

The Effect of Institutional Ownership on Tax Aggressiveness

In the initial test with the panel data regression method (table 2), the institutional ownership variable (abbreviated as KInst) has a positive coefficient of 0.069064 with a significance level of 0.4795. Because the significance value is more than 0.05, the initial hypothesis that institutional ownership affects tax aggressiveness cannot be proven. This finding is in line with research conducted by (Astika & Asalam (2023); Harsana & Susanty (2023); Hisa & Haq (2023); Kartika (2022); Octaviani & Sofie (2019); Sustresia Sihombing et al. (2021), which shows that institutional ownership has no significant impact on tax aggressiveness.

This finding also corroborates the results of Octaviani & Sofie (2019) research, which concluded that institutional ownership does not affect tax aggressiveness. This may be due to institutional shareholders who tend to comply with the law rather than seeking direct benefits from the company. Institutional ownership does not directly provide strong control over company policies, which can have an impact on company performance in general. It also does not put significant pressure on managers to implement optimal tax planning, which could increase aggressiveness in tax management and lower the company's overall effective tax rate (Astika & Asalam, 2023).

This study shows different results from previous research Yuliana et al. (2021) which states that institutional ownership has an impact on tax aggressiveness. When companies experience financial distress, management tends to increase tax aggressiveness. In financial distress, companies will try their best to improve their financial condition, including through tax avoidance, so that they can still get recognition and can maintain the company's survival. Limited options during financial distress will encourage companies to take risks by doing more aggressive tax avoidance, even though it has the potential to damage reputation.

This discovery has substantial implications for agency theory, a conceptual framework that aims to comprehend the dynamics between owners (principals) and agents (managers) within a corporation. Agency Theory emphasises the issue of the agent-principal problem, in which the agent, who acts on behalf of the principal, may have motivations to act in a way that goes against the principal's interests (Jensen & Meckling, 1976). Within this particular framework, institutional ownership is integrated into the overall ownership structure of the organisation. However, if institutions do not actively participate in the administration of the firm and just hold shares for legal compliance or other unrelated purposes, they will lack the motivation to influence the company's tax aggressive policies. According to the research findings, institutional ownership does not have direct influence over the company.

Agency Theory posits that managers, acting as agents, may engage in behaviours that are not aligned with the interests of shareholders, the principals, as a result of a conflict of interest. In this scenario, managers may be motivated to embrace tax aggressive strategies in order to maximise their personal income, without taking into account the company's or shareholders' long-term interests. Agency theory emphasises that a company's ownership structure and the relationship between agents and principals significantly influence business behaviour, particularly the adoption of tax aggressive techniques. Hence, the results corroborate the notion of agency theory, which posits that the active oversight of managers by institutional shareholders can impact company behaviour, particularly in relation to tax strategies (Sustresia Sihombing et al., 2021).

Indications indicate that passive institutional ownership is unable to exert impact on tax-aggressive acts, as the absence of active supervision enables managers to engage in such strategies.

The Effect of Leverage on Tax Aggressiveness

The second test results in the finding that leverage has no significant impact on tax aggressiveness, with a coefficient of -0.016070 and a significance level of 0.5759. Since the significance level is greater than 0.05, the second hypothesis stating that leverage has an effect

on tax aggressiveness cannot be proven. The negative coefficient indicates that a one unit increase in 'leverage' will reduce 'tax aggressiveness' by 0.016070. This finding is in line with previous research by Harsana & Susanty (2023); Prihana et al. (2023); Rambe & Utami (2021); Tjhai & Haikal (2022); Yusi & Rina (2019), who also found that leverage has no effect on tax aggressiveness.

This study also supports the findings of Yusi & Rina (2019) which state that the higher the value of corporate debt, the lower the level of tax aggressiveness carried out by the company. Companies need to maximize profits to build the trust of their stakeholders. This approach will result in an increase in the amount of tax paid, which cannot be compensated by the interest expense of the company's current debt, so the company cannot take aggressive tax actions. Rambe & Utami (2021) argue that leverage is not a determining factor for companies to carry out tax aggressiveness. This reflects that the amount of debt does not encourage management to practice tax aggressiveness. Another possibility is that the company does not have a large enough debt so that interest expense has no effect on reducing the effective tax rate.

This study shows different results from the research of Octaviani & Sofie (2019), which states that leverage has an influence on tax aggressiveness. This shows the tendency of managers to choose accounting methods that can increase corporate profits by allocating future profits to the current period. When the company's profit increases, the tax burden will also increase, so the company's tendency to carry out tax aggressiveness decreases. If the company has high debt, creditors will pay more attention to the company regarding timely loan payments.

Agency theory highlights the relationship between owners (principals) and managers (agents) in a company, where there is a conflict of interest between the two. The main focus of agency theory is how managers act to maximize their personal interests which may conflict with the interests of the owners (Jensen & Meckling, 1976). In this context, the relationship between leverage (the level of corporate debt) and tax aggressiveness can be explained. Managers may tend to use tax aggressiveness strategies to reduce the corporate tax burden, which in turn may improve net profit and financial performance. However, if managers also consider the risk of bankruptcy associated with high levels of debt (leverage), they may be more cautious in taking tax aggressive actions (Molina, 2005). Agency theory also suggests no relationship between leverage and tax aggressiveness, suggesting that managers may prefer to minimize the risk of bankruptcy associated with high debt levels rather than maximize corporate tax deductions. Managers may prioritize the long-term interests of the company and shareholders (principals) over their personal gain (Prihana et al., 2023; Yusi & Rina, 2019).

Indications imply that Companies are inclined to exercise prudence while employing aggressive tax evasion strategies, as they prioritise sustainable revenues and cultivating a favourable reputation among stakeholders. Although leverage can be a valuable tool in financing, corporations are generally hesitant to adopt aggressive techniques in their tax administration in order to minimise risk and safeguard their reputation.

The effect of financial distress on tax aggressiveness

In the third test, the variable 'financial distress' (FD) shows a regression coefficient of -0.009853 with a significance level of 0.0445. Since this significance level is lower than 0.05, the third hypothesis stating that 'financial distress' has a significant influence on 'tax aggressiveness' is accepted. This negative coefficient indicates that a one unit increase in 'financial distress' will result in a decrease in 'tax aggressiveness' by 0.009853. Thus, when a firm experiences an increase in 'financial distress' (i.e., becomes financially unstable), the firm's 'tax aggressiveness' (efforts to reduce tax burden) tends to decrease.

These results are consistent with previous research by Astika & Asalam (2023); Ayem et al. (2020); Christia Firdianti & Damayanti (2022); Maulida et al. (2023); Yuliana et al. (2021); Yusi & Rina (2019), who also found that 'financial distress' affects 'tax aggressiveness'.

This study further confirms the conclusions of Ayem et al. (2020), which assert that organisations undergoing 'financial difficulty' encounter challenges such as rising expenses, reduced availability of funding sources, and failure to meet credit obligations promptly. This may incentivize corporate managers to actively pursue methods to minimise their tax liability, a tactic sometimes referred to as 'tax aggressiveness'. The concept of 'tax aggressiveness' encompasses a range of strategies, including the utilisation of tax deductions, international tax planning, and the establishment of certain legal organisations Christia Firdianti & Damayanti, (2022); Maulida et al. (2023). Companies that are experiencing greater financial difficulties are less inclined to engage in 'tax aggression'. Companies are averse to assuming greater risks, such as the possibility of bankruptcy. Furthermore, tax planning necessitates substantial capital or resources, hence rendering it unaffordable for financially troubled enterprises. Alternatively, companies may explore alternative methods to acquire extra funds, such as engaging in debt restructuring by requesting creditors for extended repayment periods or implementing changes in management to prevent potential investors from shying away due to perceived financial difficulties, rather than simply reducing the company's tax obligations (Astika & Asalam, 2023).

The findings of this study contrast with previous research conducted by Ahdiyah & Triyanto (2021); Kartika (2022); Octaviani & Sofie (2019), which concluded that there is no significant impact of 'financial distress' on 'tax aggressiveness'. Octaviani & Sofie (2019) found that companies in Indonesia facing financial difficulties do not attempt to increase their revenue by minimising their tax obligations. This is because investors are averse to taking on excessive risk, particularly the risk of bankruptcy. If the company goes bankrupt, the investment that has been made by investors will be lost, so investors are hesitant to take on that risk. Furthermore, should the public become aware of the company's engagement in 'tax aggressiveness', it has the potential to harm the company's reputation.

In the realm of corporate dynamics, Jensen & Meckling, (1976) put forth the concept of agency theory. This theory highlights the existence of an agency relationship, which arises when a company owner (the principal) entrusts managerial authority to a manager (the agent). Both parties share a common objective: to optimise their own well-being. The company serves as the hub for contractual relationships between management, owners, creditors, and the government. When faced with financial difficulties, the goals of shareholders and management may not necessarily be in sync. This study offers empirical evidence supporting the assumptions of agency theory, which emphasise the conflicting interests between shareholders and management. It also sheds light on management's proactive measures in tax planning to ensure the company's survival during times of financial distress.

Indications indicate that enterprises facing 'financial difficulty' are likely to prioritise the restoration of their financial health and resolution of fundamental problems, perhaps leading to a decrease in attention and resources allocated to aggressive tax planning methods.

D. CONCLUSION AND SUGGESTIONS

Conclusion

Based on extensive research and analysis of the impact of institutional ownership, leverage, and financial distress on tax aggressiveness in companies within the Real Estate & Property sector listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022, it is evident that institutional ownership does not play a significant role in influencing tax aggressiveness. This finding demonstrates the significant impact of institutional ownership on the effective control of institutional shareholders over managers, leading to a reduction in tax aggressiveness practices. It is crucial to have stricter oversight and increased involvement from institutional shareholders to ensure that corporate tax decisions are not solely advantageous to managers or specific internal parties, but also take into account the long-term interests of the company and all shareholders.

Companies prioritise risk management and reputation in tax decision making, as evidenced by the empirical finding that leverage has no significant effect on tax aggressiveness. Managers may prioritise reducing the risk of bankruptcy linked to excessive debt rather than solely focusing on maximising corporate tax deductions. Meanwhile, financial distress has an impact on tax aggressiveness, as evidenced by a negative coefficient. This suggests that when companies experience financial distress, their main focus is on preserving liquidity and fulfilling immediate financial obligations. Reducing taxes may not be the primary focus in this particular scenario. When companies are facing financial difficulties, they tend to be more careful in adhering to tax regulations and avoiding practices that could be seen as controversial or damaging to their reputation.

Suggestions

In order to further advance future research, it is suggested that additional variables that may have an impact on tax aggressiveness should be taken into consideration. These variables are also taken into account when calculating financial ratios: profitability ratio, firm size, capital intensity, and inventory intensity. Future research may also explore the integration of variables related to Corporate Social Responsibility (CSR). Furthermore, by analysing data from a wider range of time periods, one can gain a more comprehensive understanding of various industries.

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