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The impact of fiscal loss compensation and corporate governance on tax avoidance: The moderating role of foreign share ownership

Muhammad Daniel NA[1], Yuliansyah Yuliansyah[2], Reni Oktavia[3]
University of Lampung, Bandar Lampung, Lampung, Indonesia[1-3]
mdanieln.a@gmail.com[1]

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Abstract

Purpose: This study examines the influence of fiscal loss compensation and corporate governance, proxied by independent commissioners and the audit committee, on tax avoidance, with foreign ownership as a moderating variable in Indonesian manufacturing companie.

Research/methodology: A quantitative design was applied using purposive sampling of 65 manufacturing companies listed on the Indonesia Stock Exchange during 2020–2024, producing 280 valid observations. Data were collected from financial statements accessed via the IDX and company websites. The analysis employed descriptive statistics, classical assumption tests, multiple regression, and moderated regression analysis (MRA).

Results: The findings reveal that fiscal loss compensation significantly increases tax avoidance, while independent commissioners and the audit committee reduce it. Foreign ownership does not directly affect tax avoidance but moderates the relationships. Specifically, foreign ownership weakens the negative effects of independent commissioners and the audit committee on tax avoidance, whereas it does not moderate the relationship between fiscal loss compensation and tax avoidance.

Conclusions: Corporate governance mechanisms remain crucial in mitigating tax avoidance, but the presence of foreign shareholders creates complex dynamics that may undermine governance effectiveness.

Limitations: The study focuses only on manufacturing firms within a five-year period and relies on secondary data, limiting generalization across industries and contexts.

Contribution: This research contributes to the literature by integrating fiscal loss compensation, corporate governance, and foreign ownership into tax avoidance studies in emerging markets. Practically, the findings offer guidance for policymakers and investors to enhance governance mechanisms and reduce tax avoidance risks.

Keywords: *Customer Satisfaction, Mobile Banking, Service Quality, Usage Loyality*

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1. Introduction

The Indonesian government mandates and offers taxpayers the obligation to calculate, pay, and report their taxes through a self-assessment system. This system aims to improve the effectiveness and efficiency of tax administration while motivating voluntary compliance from taxpayers (Saputra, Zahra, & Sundary, 2024). The tax burden imposed by the state on taxpayers essentially represents the fulfillment of obligations and the role of taxpayers in promoting the country's growth and development.

In Indonesia, various industries are classified as corporate tax payers. The phenomenon of tax collection in Indonesia indicates significant tax revenues. These revenues are used to boost the country's growth and development; therefore, the government must manage them well. On December 31, 2024, according to data from the Ministry of Finance, tax revenue reached IDR 1,932.4 trillion, or 100.5% of the target, growing by 3.5% year-on-year. This growth in tax revenue was driven by the growth in major tax revenue categories.

Another variable that can be tested for its effect on tax avoidance is the presence of independent commissioner. Independent commissioners have no familial relationship with other board members. This is in accordance with the Financial Services Authority Regulation (POJK) No. 33/POJK.04/2014 regarding the board of directors and official representatives of issuers or public companies, where independent officials come from outside the issuer or public company. Independent commissioners can act independently to prevent tax-avoidance. This indicates that independent commissioners, like corporate governance, influence corporate tax avoidance. According to Oktaviani, Wulandari, Srimindarti, and Ma'sum (2023), previous studies could not be generalized. Independent commissioners can guide the board of directors to manage the company and formulate better strategies, including setting tax payment policies (Nisa & Hariyanti, 2022). The presence of independent commissioners can reduce corporate tax aggressiveness (Tiaras & Wijaya, 2015).

In this context, the audit committee is a key component of corporate governance. The primary task of the audit committee is to ensure that the company operates in compliance with regulations and laws, conducts activities with integrity, and provides proper supervision over potential conflicts of interest and fraud by employees (Cunningham, Stein, Walker, & Wolfe, 2025). The committee also serves as a liaison between management, external auditors, and the board of directors, ensuring the independence of auditors and the accuracy and reliability of the company's financial reports. Audit quality is also an important element in supporting the effectiveness of corporate governance. High-quality audits help identify and prevent financial reporting errors, data manipulation, and unethical practices in corporate management. Audit quality is determined by several factors, such as auditor competence, independence, and the application of relevant standards.

The relationship between the audit committee and corporate governance is strong. A competent audit committee selects high-quality auditors and effectively monitors their performance, thereby increasing stakeholder trust and transparency in the company's management. Conversely, solid corporate governance creates an environment that supports auditors in carrying out their duties independently and professionally. According to agency theory, the principal (company owner) and agent (manager) have their own interests. Enhancing the welfare of the owned company is the principal's goal. Meanwhile, the agent strives to increase their wealth by receiving bonuses from the principal if they meet the goals set by the owner of the firm. Furthermore, management, acting as an agent, receives complete information about the company's condition. Consequently, management takes steps to control profits to achieve their objectives (Khalik & Sylvia, 2022).

Tax avoidance refers to a company's efforts to minimize tax liabilities by exploiting loopholes in tax regulations that are still within the law but are often considered unethical. Tax avoidance is a crucial issue because it can affect transparency and accountability, as well as the interaction between companies and stakeholders such as foreign investors. On the other hand, foreign ownership refers to the portion of a company's shares held by foreign investors. Foreign investors typically expect higher standards of corporate governance, including tax compliance, clarity in financial reporting, and risk management. They are also likely to bring external influences, such as international standards in corporate management.

In the context of corporate governance, foreign investors are often linked to increased management oversight. Foreign investors, who usually come from countries with higher governance standards, tend to encourage companies to adopt clearer, more responsible management practices and adhere to regulations (Chen, Han, Li, Megginson, & Zhang, 2022). They have an incentive to monitor the company more closely because of limited access to internal information, thus relying more on the

quality of financial reporting and corporate governance. Maisaroh, Tjaraka, and Rahmiati (2024) revealed that foreign ownership is associated with a reduction in tax avoidance levels because foreign investors typically avoid the risks associated with participation in highly aggressive tax avoidance practices. Additionally, research by Khalil, Ozkanc, and Yildiz (2020) in emerging markets shows that companies with higher foreign ownership tend to adopt more cautious managerial approaches, including in managing tax obligations.

On the other hand, corporate governance structures, such as independent commissioners and audit committees, serve as important tools for monitoring management's opportunistic behavior. Independent commissioners, who are responsible for overseeing management decisions, are expected to reduce tax avoidance practices through objective supervision (Handoyo, Wicaksono, & Darmesti, 2022). Meanwhile, the audit committee works to enhance the quality of financial reporting and oversee accounting policies, including compliance with tax regulations (Lutfi et al., 2022). In the context of globalization, owning shares in other countries is a crucial external element that can strengthen the impact of company management on tax avoidance. Foreign investors typically come from countries with stricter accounting and governance standards, thus demanding higher levels of transparency and accountability from the companies in which they invest (Chen et al., 2022). A study by V. R. Putri, Zakaria, Said, and Azis (2023), revealed that foreign ownership can enhance the impact of corporate governance in reducing tax avoidance.

Therefore, it is important to investigate how fiscal loss compensation, independent commissioners, and audit committees influence tax avoidance and how foreign ownership acts as a moderating variable that strengthens this relationship, particularly in the context of companies in developing countries such as Indonesia. This study further explores the effects of fiscal loss compensation and corporate governance on tax avoidance practices, with foreign ownership as a moderating variable. With existing theories as the foundation for this research and the empirical gap in previous studies, this study aims to fill the gap and contribute to the understanding of tax avoidance.

2. Literature review

2.1 Theory Concept

2.1.1 Positive Accounting Theory

Positive accounting theory explains current accounting procedures that align with real-world events. Policymakers can use this theory to calculate the economic impacts of various accounting practices and policies. Positive accounting theory attempts to describe what occurs in accounting practice based on empirical evidence that can be directly tested. Research questions are developed based on this theory to analyze actual behaviors or events that are not included in the normative theory. By creating issues, developing hypotheses, collecting information, and evaluating scientific statistics, this theory aims to explain research in an organized manner according to accepted guidelines. Therefore, positive accounting theory can determine whether the theory is accepted.

Dissatisfaction with normative theory is closely linked to the evolution of positive accounting theories. According to this theory, the normative approach to accounting theory analysis is too straightforward and lacks a strong theoretical foundation (Watts & Zimmerman, 1986). The following are the reasons for the shift from the normative approach to the positive one.

2.1.2 Corporate Governance

In this study, corporate governance is proxied by independent commissioners and an audit committee. According to Rahma and Firmansyah (2022), independent commissioners are individuals who do not have a family relationship with controlling shareholders or other directors, do not have special relationships, do not have family ties with authorized persons or the board of directors, and do not act as managers in a company related to the owner. As elements of corporate governance (CG), independent commissioners and audit committees are interpreted as effective systems created to reduce conflicts of interest and enhance the managerial function in internal management, with a special focus on the legal system that prevents takeovers by small shareholders (Napitupulu, Situngkir, Basuki, & Nugroho, 2023). According to Hunger and Wheelen (2003), corporations are structured mechanisms through which various parties can share capital, knowledge, and energy for mutual benefit. The principles of

CG in Indonesia are based on the State-Owned Enterprises Ministerial Regulation No. Kep-117/M-MBU/2002 on the implementation of good business practices, Article 3, Chapter II, which lists five principles: transparency, independence, accountability, responsibility, and fairness. Institutional ownership and independent commissioners who are part of CG are applied as the foundation of applicable regulations.

2.1.3 Tax Avoidance

In the General Explanation of PMK No. 213/PMK.03/2016, tax avoidance is explained as an effort by taxpayers to reduce the amount of tax payable legally, by exploiting loopholes or weaknesses in tax regulations. Efforts to reduce taxes are often referred to as tax planning. Generally, tax planning refers to the process of preparing business activities and transactions by taxpayers to minimize their tax liabilities while remaining in compliance with applicable tax laws. Tax avoidance is a form of legal tax planning aimed at reducing the tax base used to determine tax obligations, in accordance with Article 18 (1) of the applicable Tax Law and following the prescribed procedures. Based on Soemitro (1990), tax planning is a process conducted by a tax professional for taxpayers, either individuals or businesses, in applying tax law rules to legal situations or activities, as well as efforts to avoid tax or violate the law, allowing taxpayers to pay little or no tax. According to Yantri (2022), tax planning is an effort related to the formulation of tax strategies to make tax payments more efficient.

2.1.4 Foreign Ownership

Foreign ownership refers to the condition in which shares of a company operating in Indonesia are owned by foreign parties, whether individuals, foreign businesses, or foreign governments investing in Indonesia. Foreign ownership is the form of share ownership by entities not registered as citizens but are legally permitted to operate in the country (Alkurdi & Mardini, 2020). Law No. 25 of 2007 on Foreign Investment, in Article 1, defines foreign ownership as ownership by foreign individuals, foreign businesses, and foreign governments who invest in the Republic of Indonesia. This law further regulates the percentage of foreign shareholdings, which can be a maximum of 95%, while domestic investors must own at least 5%. There is a difference in perspective between investment (BKPM) and capital market regulators regarding foreign ownership limits. The BKPM tends to consider share ownership in the capital market as part of Foreign Direct Investment (FDI), subject to certain limitations. Meanwhile, capital market regulators and market participants view share ownership in the capital market as Foreign Portfolio Investment, which is not limited by FDI provisions as long as transactions are conducted in the domestic capital market. Research shows that the presence of foreign shareholders, particularly on the board of commissioners, tends to pressure management to reduce tax-avoidance practices. This means foreign ownership can contribute to better corporate governance and adherence to tax regulations (Wen, Cui, & Ke, 2020).

2.3 Hypothesis Development

2.3.1 The Effect of Fiscal Loss Compensation on Tax Avoidance

Loss compensation (carrying loss) is a method of carrying losses from one tax year to the next (Oktaviani et al., 2023). Watts and Zimmerman's (1978) positive accounting theoryWatts and Zimmerman (1978) focuses on how managers choose accounting policies to maximize personal utility by considering compensation contracts, debt contracts, and political costs. Fiscal loss compensation provides an opportunity for companies to reduce taxes paid in future periods by considering previous losses. This can encourage companies to manage earnings (earnings management) or engage in tax avoidance to maximize their fiscal benefits. Handoyo et al. (2022) showed that companies with strong internal oversight structures do not always use loss compensation for tax aggressiveness; they are more cautious because the company's reputation is prioritized. According to Kerr (2019), some companies choose transparency over tax aggressiveness, even when fiscal loss balances are available, particularly in countries with strong law enforcement. Based on the relationship between theory and the findings of previous studies, the hypothesis for this research is as follows:

H1: Fiscal loss compensation has a positive effect on tax avoidance

2.3.2 The Effect of Independent Commissioners on Tax Avoidance

According to Agatha, Nurlaela, and Samrotun (2020), when the board of commissioners carries out its supervisory duties, they can influence management in preparing good financial reports. One element of the board of commissioners, the independent commissioner, can perform various functions, including monitoring functions that support effective company management and presenting financial reports more objectively. Independent commissioners are part of the board of commissioners who have no ties to the management, other members of the board of commissioners, or controlling shareholders and are not involved in business or other relationships that could affect their ability to operate independently or solely in the interest of the company. The results of research conducted by Wen et al. (2020) show that the influence of independent commissioners on tax avoidance varies depending on the country context. In some countries, independent commissioners are less effective because of "formality" without real power. According to Johannesen, Tørsløv, and Wier (2020), in developing countries, independent commissioners are not always able to curb tax avoidance due to resource limitations and quality of supervision. Based on the relationship between theory and the findings of previous studies, the hypothesis for this research is as follows:

H2: Independent Commissioners have a negative effect on tax avoidance

2.3.3 The Effect of the Audit Committee on Tax Avoidance

The audit committee plays a supervisory role in the financial reporting process to prevent fraudulent actions by management. With an audit committee, the company is expected to be clearer and more accountable in presenting financial reports, thereby reducing the risk of tax avoidance. Research reveals that the existence of an audit committee has a significant negative impact on tax avoidance, indicating that the more members there are in the audit committee, the less likely the company is to avoid tax. However, some studies have found that the audit committee does not significantly affect tax avoidance, suggesting that its effectiveness may vary depending on the context and structure of the company. In a study with different results, Lawati and Hussainey (2021) show that the presence of an audit committee is not always effective in reducing tax avoidance, especially when the committee has duties in other committees and is merely "symbolic" (not actively performing its supervisory function). According to Wahab, Wardani, Harymawan, and Nasih (2024), in some ASEAN companies, although there is an audit committee, tax avoidance practices remain high due to the lack of independence and expertise of the members. Based on the relationship between theory and the findings of previous studies, the hypothesis for this study is as follows:

H3: The audit committee has a negative effect on tax avoidance

2.3.4 The Effect of Foreign Ownership on Tax Avoidance

Foreign ownership refers to the condition in which a portion of a company's shares is owned by foreign parties, whether individuals, institutions, or foreign governments, investing in Indonesia. From the perspective of Jensen and Meckling's (2019) agency theoryJensen and Meckling (2019), foreign ownership serves as an external monitoring mechanism that can curb opportunistic management behavior, including tax avoidance. Foreign investors, especially those from countries with strict governance and tax compliance standards, tend to encourage companies to be more transparent, comply with regulations, and avoid aggressive tax-avoidance strategies (Chen et al., 2022). The findings of research by D. B. K. Putri and Damayanti (2021) show that companies with a higher proportion of foreign ownership tend to have lower levels of tax avoidance, as foreign investors avoid reputational risks and potential legal sanctions due to aggressive tax practices. Khalil et al. (2020) also confirmed that in emerging markets, foreign ownership is correlated with a more cautious managerial approach in managing tax obligations. This is consistent with the concept that strong external oversight can reduce agency conflicts between managers and shareholders. From the perspective of positive accounting theory (PAT) by Watts and Zimmerman (1986), foreign ownership can change the incentives for managers in choosing accounting and tax policies. Pressure from foreign investors for transparency and accurate financial reporting limits managers' ability to exploit tax loopholes excessively.

H4: Foreign ownership has a negative effect on tax avoidance

2.3.5 Foreign Ownership Moderates the Effect of Fiscal Loss Compensation on Tax Avoidance

In Watts and Zimmerman's (1978) positive accounting theoryWatts and Zimmerman (1978), managers tend to choose accounting policies that maximize their own interests under contractual pressures, such as bonuses, debt, or political costs. Fiscal loss compensation provides companies with opportunities to engage in tax avoidance. However, foreign ownership introduces additional monitoring pressures. Foreign investors will likely emphasize transparency and regulatory compliance (including taxation) and reduce management's room for extreme tax-avoidance practices. Different results were found by Syukur, Marzuki, and Zakaria (2022), who showed that under certain conditions, foreign investors may also support moderate tax-avoidance strategies to enhance investment returns. According to Alkurdi and Mardini (2020), foreign ownership does not always reduce tax avoidance if domestic tax regulations are weak and investors focus more on short-term profits. Companies with large fiscal loss compensation are usually more driven to avoid taxes because they can use past losses to reduce future tax liabilities (Velte, 2024). Based on the relationship between theory and the findings of previous studies, the hypothesis for this study is as follows:

H5: Foreign ownership moderates the effect of fiscal loss compensation on tax avoidance

2.3.6 Foreign Ownership Moderates the Effect of Independent Commissioners on Tax Avoidance

Independent commissioners generally do not significantly influence tax avoidance. However, some studies have shown that independent commissioners can reduce tax-avoidance practices. In practice, independent commissioners perform supervisory roles and prevent conflicts within the company. According to Jensen and Meckling's (2019) agency theoryJensen and Meckling (2019), there is a conflict of interest between the owner (principal) and manager (agent). Managers may act in their own interests, such as engaging in excessive tax avoidance to increase short-term profits, but this comes at the cost of the company's reputational risk and sustainability. From the perspective of Agency Theory, foreign ownership is expected to strengthen the effectiveness of independent commissioners in limiting tax avoidance by management.

Foreign ownership strengthens the role of governance mechanisms, including independent commissioners, in reducing tax-avoidance. Similar results were found by several studies that showed no significant effect, suggesting that results may vary depending on the industry context and regulations (D. B. K. Putri & Damayanti, 2021). Nguyen and Le (2025) explained the different resultsNguyen and Le (2025), stating that in some companies, the presence of foreign investors does not significantly affect the effectiveness of independent commissioners in curbing tax avoidance. This effect is consistent across various developing countries, including Southeast Asia and the Middle East. There is no strong evidence that foreign ownership strengthens the role of governance (e.g., independent commissioners) in curbing tax avoidance (Alkurdi & Mardini, 2020). Based on the relationship between theory and the findings of previous studies, the hypothesis for this study is as follows:

H6: Foreign ownership moderates the effect of independent commissioners on tax avoidance

2.3.7 Foreign Ownership Moderates the Effect of the Audit Committee on Tax Avoidance

The audit committee is responsible for ensuring transparency and accountability in a company's financial reports, including compliance with tax regulations. Some studies show that the presence of an effective audit committee can reduce tax avoidance because it plays a role in overseeing the company's tax policies. Foreign ownership moderates the relationship between audit committees and tax avoidance. In this context, the effect of the audit committee on tax avoidance may be strengthened or weakened, depending on the role and objectives of foreign shareholders. According to Jensen and Meckling (2019), there is a conflict of interest between managers (agents) and owners (principals). The audit committee ensures financial and tax oversight, reduces information asymmetry, and prevents opportunistic behavior. Foreign ownership acts as an external force. Foreign investors usually demand higher accounting standards, tax transparency, and stricter governance.

Wen et al. (2020) show that foreign ownership does not significantly strengthen the role of the audit committee in reducing tax avoidance. The study suggests that the experience of foreign directors (not foreign ownership per se) sitting on the audit committee can strengthen oversight and reduce tax avoidance, especially if they bring governance practices from countries with strong investor protection.

Alkurdi and Mardini (2020) found different resultsAlkurdi and Mardini (2020), stating that in some ASEAN countries, foreign ownership does not consistently strengthen the role of the audit committee in tax avoidance, especially when investors focus on short-term profits. Foreign ownership itself, in some contexts, has not been proven to strengthen the role of the audit committee in reducing tax avoidance and may even increase tax avoidance practices (D. B. K. Putri & Damayanti, 2021). Based on the relationship between theory and the findings of previous studies, the hypothesis for this study is as follows:

H7: Foreign ownership moderates the effect of the audit committee on tax avoidance

2.4 Framework of Thought

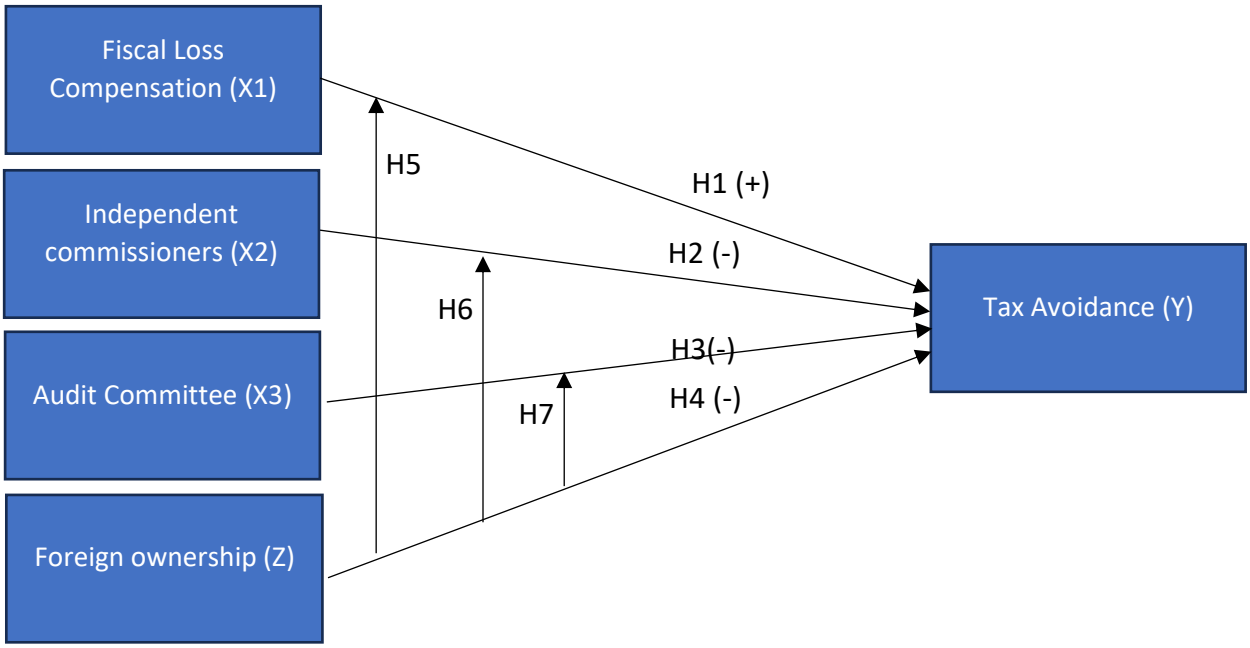

Figure 1. Framework of Thought

3. Research methodology

3.1 Type and Source of Data

This study uses a quantitative research type that can be processed with statistical calculations and analyzed using analytical software. Sugiyono (2017) argued that quantitative research collects information about individuals or specific groups using research tools, and the information is then examined quantitatively and statistically, relating to previously existing theories. This study aims to prove whether fiscal loss compensation and corporate governance affect tax avoidance, with foreign ownership as a moderating variable. The data source for this study is the financial statements of companies taken from the Indonesia Stock Exchange website, www.idx.co.id, and the official websites of the companies.

3.2 Population and Sample

Sugiyono (2017) explains that the population is a generalization that includes items or individuals with certain attributes selected by the researcher to be studied and from which conclusions are drawn. The population in this study is manufacturing companies listed on the Indonesia Stock Exchange for the years 2020-2024. This study used purposive sampling to select samples from the manufacturing industry listed on the IDX. According to Sugiyono (2017), purposive sampling is a method of obtaining a sample that meets the specified characteristics, with sample selection based on research objectives. The general characteristics used to select the samples were as follows:

1. Manufacturing companies listed on the Indonesia Stock Exchange for the years 2020-2024.
2. Manufacturing companies not listed on the Indonesia Stock Exchange for the years 2020-2024.

3. Companies that do not report financial statements for the years 2020-2024 and do not earn profits (profit before tax).
4. Companies that do not use the rupiah currency in their reports.

In purposive sampling, the sample is selected based on the alignment of characteristics with the specified sampling criteria, and companies that do not meet the criteria are excluded.

3.3 Operational Definitions and Measurement of Research Variables

3.3.1 Operational Definitions of Research Variables

This study used dependent and independent variables. The dependent variable is a variable whose magnitude depends on that of the independent variable. The dependent variable in this study was tax avoidance. The independent variable is not dependent on other variables. The independent variables in this study are independent commissioners, audit committees, and fiscal loss compensation. The moderating variable is foreign ownership, which influences the strength or direction of the relationship between the independent (X) and dependent (Y) variables in this study.

1) Dependent Variable

The measurement method for tax avoidance in this study is proxied through the Effective Tax Rate (ETR), a measure that shows the proportion of taxes paid by the company relative to its profit before tax (Hsu, Moore, & Neubaum, 2018). The use of ETR aims to identify the effectiveness of a company's actual tax burden and indirectly detect signs of tax avoidance.

$$ETR = \frac{\text{Tax Expense}}{\text{Profit Before Tax}} \quad \text{.....(1)}$$

Tax expense includes current and deferred taxes. Profit before tax refers to a company's net income before deducting income tax. A low ETR (close to 0) indicates a high level of tax avoidance, as the company pays relatively less tax than its profits (Heitzman & Lester, 2021). A high ETR (close to 1 or higher) indicates low tax avoidance.

2) Independent Variables

The independent variables in this study are fiscal loss compensation, independent commissioners, and audit committees.

a) Fiscal Loss Compensation

Fiscal loss compensation is a tax mechanism that allows companies to offset fiscal losses from previous years against taxable income in subsequent years. The goal is to reduce the taxes that must be paid in the future. Fiscal loss compensation is measured using a dummy variable, which is given a value of 1 if there is fiscal loss compensation and 0 if there is none at the beginning of year T. It has been found that the existence of fiscal loss compensation increases tax aggressiveness, especially when governance is weak (Akamah, Omer, & Shu, 2021).

b) Independent Commissioners

This definition refers to the Financial Services Authority Regulation (OJK) No. 33/POJK.04/2014, regarding the Board of Directors and Commissioners of Issuers or Public Companies. An independent commissioner is a member of the board of commissioners who does not have financial, management, ownership, or family relationships with the directors, other commissioners, or the controlling shareholders. The main purpose of independent commissioners is to maintain objectivity and provide effective management oversight.

$$\text{Independent Commissioner} = \frac{Number\ of\ Independent\ Commissioners}{Total\ Number\ of\ Commissioners}\ x\ 100\% \quad \text{.....(2)}$$

This proxy explains the scale, with a ratio ranging from 0 to 1. The higher the proportion of independent commissioners, the tighter the expected oversight of management, which potentially reduces tax avoidance.

c) Audit Committee

The audit committee is formed by and responsible to the Board of Commissioners to assist in carrying out the tasks and functions of the Board of Commissioners. The board of commissioners appoints and dismisses audit committee members. The audit committee must consist of at least three members, who come from Independent Commissioners and external parties of the issuer or public company. The number of audit committee members should also be adjusted to the complexity of the company while maintaining effectiveness in decision-making.

Audit Committee = ∑ Audit Committee Members…….(3)

The audit committee is responsible for ensuring transparency and accountability in a company's financial reports, including compliance with tax regulations.

3.4 Moderating Variables

Foreign ownership refers to the proportion of a company's shares owned by foreign investors, including individuals and institutions. In the context of moderating variables, foreign ownership is considered to influence the strength or direction of the relationship between independent variables (such as fiscal loss compensation, independent commissioners, or the audit committee) and the dependent variable (such as tax avoidance). Foreign ownership can be measured by the percentage of common shares owned by foreign investors compared to the total outstanding shares using the following formula:

$$\text{Foreign Ownership} = \frac{Number\ of\ shares\ owned\ by\ foreign\ investors}{Total\ outstanding\ shares}\ x\ 100\% \quad \text{…….....(4)}$$

Foreign ownership is considered an external monitoring mechanism that encourages transparency and better governance, limits opportunistic management actions such as tax avoidance, and increases pressure to comply with international and local regulations, including taxation.

3.5 Data Collection Techniques

This study uses secondary data or information collected through intermediaries in the form of the companies' financial statements. The annual financial statements are accessed through the company's official website and the website www.idx.co.id.

3.5.1 Data Analysis

The collected data will be analyzed using SPSS Statistics 27 for Windows.

1) Descriptive Statistics

Descriptive statistical analysis was used to examine the data of the research variables by checking the mean, maximum, minimum, and standard deviation. This analysis provides an overview of the sample collected and meets the criteria for being used as a research sample (Sugiyono, 2017).

2) Classical Assumption Test

In linear regression using the Ordinary Least Squares (OLS) approach, several classical assumption tests are commonly used, such as the normality, multicollinearity, heteroscedasticity, and autocorrelation tests. However, not all of these tests need to be performed for every OLS regression model.

a) The normality test is not an absolute requirement for the Best Linear Unbiased Estimator (BLUE), and some opinions consider it not mandatory.
b) The multicollinearity test is necessary when regression involves more than one independent variable. If there is only one independent variable, multicollinearity is unlikely to occur.
c) Heteroscedasticity typically occurs in cross-sectional data, while panel data tend to resemble cross-sectional data more than time-series data.
d) The autocorrelation test is only relevant to time-series data. Testing autocorrelation in non-time series data, such as cross-sectional or panel data, is meaningless (Basuki & Khalid, 2021).

In this study, because panel data were used, the tests focused on normality, multicollinearity, and heteroscedasticity.

3.6 Hypothesis Testing

Hypothesis testing will be conducted using Moderated Regression Analysis (MRA). This study runs two regression models: the regression model that includes only the main effect (1) and the regression model (2) that includes the 'interaction effect.' Therefore, there are two research models.

Main Effect $Y = \alpha + \beta_1 KRF + \beta_2 KI + \beta_3 KA + \varepsilon$ … (1)

Interaction Effect $Y = \alpha + \beta_1 KRF + \beta_2 KI + \beta_3 KA + \beta_4 KRF \text{ x } KSA + \beta_5 KI \text{ x } KSA + \beta_6 KA \text{ x } KSA + \varepsilon$ … (2)

Where:

Y	: Tax Avoidance
α	: Constant
$\beta_1 \beta_2 \beta_3 \beta_4 \beta_5$	: Regression Coefficients of Each Variable
KRF	: Fiscal Loss Compensation
KI	: Independent Commissioner
KA	: Audit Committee
KSA	: Foreign Ownership
KRF x KSA	: Interaction Between Fiscal Loss Compensation and Foreign Ownership
KI x KSA	: Interaction Between Independent Commissioner and Foreign Ownership
KA x KSA	: Interaction Between Audit Committee and Foreign Ownership
ε	: Error

1) Coefficient of Determination Test (*Adjusted* R^2)

The coefficient of determination (R2) was used to measure the extent to which independent variables affected changes in the dependent variable. The range of the coefficient of determination is between 0 and 1. A higher R2 value indicates a greater influence of the independent variable on the dependent variable. A small determination percentage indicates that the independent variables have limited ability to explain the dependent variable, whereas an R2 value close to one indicates that the independent variables provide most of the information needed to predict changes in the dependent variable (Kharislam, Pravasanti, & Ningsih, 2022).

2) F Test

The F-test was used to determine whether all independent variables included in the regression model had an overall effect on the dependent variable. This test was performed by examining the significance F value in the regression output with a significance level of 0.05 (α= 5%). The importance of the F-test lies in determining the relevance of the t-test results, which can affect the decision of whether the model is viable. The decision-making basis was determined as follows:

H_0 rejected:	F-Statistic Probability > *a* 0,05 Independent variables do not affect the dependent variable
H_1 accepted:	F-Statistic Probability < *a* 0,05 Independent variables affect the dependent variable

If the F-statistic probability is greater than α 0.05, H0 will be rejected, indicating that the independent variables do not simultaneously affect the dependent variable. Conversely, if the F-statistic probability is less than α 0.05, H1 will be accepted, indicating that the independent variables simultaneously affect the dependent variable.

3) Moderated Regression Analysis (MRA) Test

One of the methods that can be used to test whether a variable acts as a moderating variable is to perform Moderated Regression Analysis (MRA). MRA is a specific application of multiple regression analysis in which the regression equation includes interaction factors generated by multiplying two or more independent variables. In this study, the moderating variable is foreign ownership, which is expected to affect the relationship between fiscal loss compensation, independent commissioners, and the audit

committee on tax avoidance. The steps for making moderation decisions for the panel data are as follows:

H_0 rejected:	Probability Value $> a$ 0,05 The moderating variable cannot moderate the effect of independent variables on the dependent variable
H_1 accepted:	Probability Value $< a$ 0,05 The moderating variable can moderate the effect of independent variables on the dependent variable

If the probability is greater than α 0.05, H0 is rejected, indicating that the moderating variable does not have a moderating effect on the relationship between the independent and dependent variables. Conversely, if the probability is less than α 0.05, H1 will be accepted, indicating that the moderating variable has a moderating effect on the relationship between the independent and dependent variables.

4. Results and discussion

4.1 Research Results

4.1.1 Research Object

This study empirically proves the effect of fiscal loss compensation, independent commissioners, and audit committees on tax avoidance, with foreign ownership as a moderating variable. This research focuses on manufacturing companies listed on the Indonesia Stock Exchange during the period–2020-2024. The sample for this study was selected using purposive sampling, which means that the sample was selected based on specific criteria relevant to the research objectives. Based on the observations made, it was found that there are 65 manufacturing companies that meet the criteria. The sample used in this study is presented in the following table:

Table 5. Research Sample

Description	Quantity
Manufacturing companies listed on the IDX for 2020-2024	228
Manufacturing companies not listed on the IDX for 2020-2024	(51)
Companies that did not report financial statements for 2020-2024	(24)
Companies that did not earn profits (profit before tax)	(79)
Companies that did not use rupiah currency in their reporting	(9)
Total Sample (n)	65
Total Data (n x research period)	325
Total Observation Data (After removing outliers)	280

Source: Processed by Researcher (2025)

4.1.2 Descriptive Statistics

Descriptive statistics were used to view the data for each variable used in this study. The variables in this study are fiscal loss compensation, independent commissioners, audit committees, foreign ownership, and tax avoidance. Based on the statistical tests conducted, the descriptive statistics for the variables in this study are presented in the following table:

Table 6. Descriptive Statistics Results

Variable	Minimum	Maximum	Mean	Std. Deviation
Fiscal Loss Compensation	0.0000	1.0000	0.3214	0.1766
Independent Commissioners	0.1667	1.0000	0.4209	0.1160
Audit Committee	1.0000	4.0000	2.9821	0.1977
Foreign Ownership	0.0000	1.3020	0.2860	0.3338
Tax Avoidance	0.0343	0.3432	0.2227	0.0336

Source: Processed by Researcher (2025)

The variables examined from the descriptive data in the table show significant dynamics in the study. This study used 280 observations (n = 280) with normally distributed data for each variable analyzed. Fiscal loss compensation has a minimum value of 0.0000 and a maximum value of 1.0000, with a mean of 0.0321 and standard deviation of 0.1767. A value of 0 indicates that the company did not experience fiscal losses during the period or did not use fiscal loss compensation. This value is held by many companies, such as Intanwijaya Internasional Tbk (starting 2023), Lautan Luas Tbk (2020, 2022, and 2023), and Emdeki Utama Tbk (2020-2024). A value of 1 indicates that the company had fiscal losses that could be compensated during the period. This value is held by a few companies, including Intanwijaya Internasional Tbk (2020-2022), Lautan Luas Tbk (2021, 2024), Colorpak Indonesia Tbk (2021), Semen Baturaja Tbk (2020-2024), Kadawung Setia Industrial Tbk (2023), and Impack Pratama Industri Tbk (2020). The low mean indicates that most companies in the sample did not utilize fiscal loss compensation, although a few companies used it maximally.

4.1.3 Classic Assumption Test

1) Normality Test

A normality test was conducted to determine whether, in a regression model, the relationship between the independent and dependent variables followed a normal distribution. The results of the normality test are presented in the following table:

Table 7. Normality Test Results 1

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		325
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.29562728
Most Extreme Differences	Absolute	.352
	Positive	.352
	Negative	-.305
Test Statistic		.352
Asymp. Sig. (2-tailed)		.000[c]

Source: Processed by Researcher (2025)

The significance value (Asymp. Sig.) The of 0.000 < 0.05 indicates that the residuals of the model did not follow a normal distribution. Therefore, it is necessary to perform an outlier or extreme data approach on regression residuals. After performing the outlier or extreme data approach, the following results were obtained.

Table 8. Normality Test Results 2

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		280
Normal Parameters[a,b]	Mean	-.0385600
	Std. Deviation	.03447286
Most Extreme Differences	Absolute	.051
	Positive	.051
	Negative	-.041
Test Statistic		.051
Asymp. Sig. (2-tailed)		.070[c]

Source: Processed by Researcher (2025)

The significance value (Asymp. Sig.) of 0.070 > 0.05 indicates that the residuals from the regression model follow a normal distribution. Therefore, the normality assumption of the residuals was met, and the regression model could be continued for further analysis (such as multiple regression tests or MRA).

2) Multicollinearity Test

The multicollinearity test was used to determine whether there was a correlation between the independent variables in the regression model. The results of the multicollinearity test are presented in the following table and figure.

Table 9. Results of Multicollinearity Test

Variable	Tolerance	VIF	Interpretation
Fiscal Loss Compensation	0.976	1.025	No multicollinearity; very safe.
Independent Commissioners	0.989	1.011	No multicollinearity; very safe.
Audit Committee	0.984	1.016	No multicollinearity; very safe.
Foreign Ownership	0.957	1.045	No multicollinearity; very safe.

Source: Processed by Researcher (2025)

All independent variables in the model showed tolerance values > 0.10 and VIF values < 10, so it can be concluded that the regression model does not contain multicollinearity. Therefore, each independent variable in this model can be interpreted independently without interference from other variables, ensuring the reliability of the regression results.

3) Heteroscedasticity Test

The heteroscedasticity test was used to check whether there was unequal variance in a regression model from one study to another. The Glejser test was used, and the results are presented in the following table:

Table 10. Heteroscedasticity Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.073	.078		.941	.347
	Fiscal Loss Compensation	.021	.028	.046	.754	.451
	Independent Commissioners	-.080	.043	-.114	-1.890	.060
	Audit Committee	.004	.025	.009	.149	.882
	Foreign Ownership	.008	.006	.067	1.219	.224

Source: Processed by Researcher (2025)

The Glejser test was conducted to determine whether there was heteroscedasticity in the regression model, which means unequal variance of errors. This test was conducted by regressing the absolute residual values against the independent variables: Fiscal Loss Compensation, Independent Commissioners, and the Audit Committee. Based on the regression results, none of the independent variables had a significant effect at the 5% significance level; therefore, the regression model did not have a heteroscedasticity issue.

4) Autocorrelation Test

An autocorrelation test was conducted to determine whether there was a correlation between residual errors in a linear regression model across periods. The data for this test are presented in the following table:

Table 11. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson

1	.448[a]	.201	.192	.0343161	1.793

a. Predictors: (Constant), Audit Committee, Independent Commissioners, Fiscal Loss Compensation

b. Dependent Variable: Tax Avoidance

Source: Processed by Researcher (2025)

Autocorrelation was tested using the Durbin-Watson (DW) statistic. To formally check, we compared the DW value with the lower (dL) and upper (dU) bounds from the Durbin-Watson table based on 280 observations (n), three independent variables (k), and a 5% significance level ($\alpha = 0.05$). Because $dU < DW < 4 - dU \rightarrow 1.73 < 1.793 < 2.27$, we conclude that there is no autocorrelation, either positive or negative.

4.1.4 Hypothesis Testing

1) Regression Analysis

This study determined the effects of fiscal loss compensation, independent commissioners, and audit committees on tax avoidance and tested whether foreign ownership acts as a moderating variable in moderating the effect of fiscal loss compensation, independent commissioners, and audit committees on tax avoidance. The results of the regression analysis are presented in table below:

Table 12. Results of Multiple Regression and Moderation Analysis Tests

Model		**Unstandardized Coeffisients**	
		B	**Sig.**
Multiple Regression Model	(Constant)	0,468	0,000
	Fiscal Loss Compensation	0,042	0,000
	Independent Commissioners	-0,078	0,000
	Audit Committee	-0,072	0,000
	Foreign Ownership	0,008	0,224
Moderation Regression Model	(Constant)	0,563	0,000
	Fiscal Loss Compensation	0,041	0,001
	Independent Commissioners	-0,122	0,000
	Audit Committee	-0,097	0,000
	Foreign Ownership	-0,384	0,000
	KRF*KSA	0,255	0,227
	KI*KSA	0,136	0,005
	KA*KSA	0,112	0,000

Source: Processed by Researcher (2025)

Based on the regression analysis results in the table, two models are presented: the multiple regression model and the moderation regression model. The multiple regression model tests the direct effects of fiscal loss compensation, independent commissioners, audit committees, and foreign ownership on tax avoidance. The analysis shows that fiscal loss compensation has a coefficient of 0.042, indicating its positive effect on tax avoidance. Independent commissioners have a coefficient of -0.078, showing a negative effect compared to fiscal loss compensation. The audit committee also has a negative effect on tax avoidance, with a coefficient of -0.072. Similarly, foreign ownership plays a positive role in tax avoidance, with a coefficient of 0.008.

The multiple regression model obtained is as follows:

Tax Avoidance = 0,468 + 0,042 (KRF) – 0,078 (KI) – 0,072 (KA) + 0,008 (KSA)

In the moderation regression model, a test was conducted to determine whether foreign ownership moderates the effects of fiscal loss compensation, independent commissioners, and the audit committee on tax avoidance. The analysis shows that fiscal loss compensation has a coefficient of 0.041, indicating its positive effect on tax avoidance. Independent commissioners have a coefficient of -0.112, showing a negative effect compared to fiscal loss compensation. The audit committee also has a negative effect on tax avoidance, with a coefficient of -0.097. Foreign ownership has a negative role in tax avoidance, with a coefficient of -0.384. Additionally, the interaction coefficients KRF * KSA,

KI * KSA, and KA * KSA are 0.255, 0.136, and 0.112, respectively. Therefore, the moderation regression formula obtained is as follows:

Tax Avoidance = 0,563 + 0,041 (KRF) – 0,122 (KI) – 0,097 (KA) - 0,384 (KSA) + 0,255 (KRF*KSA) + 0,136 (KI*KSA) + 0,112 (KA*KSA)

The calculation of KRF × KSA (β = 0.255) shows insignificant results, meaning that foreign ownership does not strengthen or weaken the effect of fiscal loss compensation on tax avoidance. For KI × KSA (β = 0.136), significant results are found, meaning that when foreign ownership increases, the negative effect of independent commissioners on tax avoidance, weakens. Similarly, for KA × KSA (β = 0.112), significant results are found, meaning that when foreign ownership increases, the audit committee's negative effect on tax avoidance decreases.

2) Coefficient of Determination Test (Adjust R^2)

The coefficient of determination (R2) was used to measure the extent to which independent variables affected changes in the dependent variable. The results of this test are presented in table below:

Tabel 1. Hasil Pengujian Koefisien Determinasi

	Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	Multiple Regression Model	0,453[a]	0,205	0,193	0,0342859
2	Moderation Regression Model	0,520[a]	0,270	0,251	0,0330315

Sumber: Diolah peneliti (2025)

The results of the coefficient of determination test on the multiple regression model in the table show an R^2 value of 0.205, or 20.5%, meaning that the independent variables only explain 20.5% of the variation in the dependent variable, while 79.5% is explained by other variables outside the model. In the moderation model, the R2 value increased to 0.270, or 27%, indicating that with the moderating variable, the model's ability to explain the dependent variable increased. The R2 classification criteria were as follows: 0.67 (strong), 0.33 (moderate), and 0.19 (weak). Therefore, based on these criteria, both R Square values in both models are relatively at a moderate level, although the moderation model is more effective in explaining the relationship between the variables being studied, as indicated by the increase in R Square in the moderation model.

3) F Test

In the F test, data are used to determine whether all the independent variables included in the regression model have an overall effect on the dependent variable. The results of this test are presented in table below:

Table 14. F Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Multiple Regression Model	0,083	4	0,021	17,721	0,000
		0,323	275	0,001		
		0,407	279			
2	Moderation Regression Model	0,110	7	0,016	14,379	0,000
		0,297	272	0,001		
		0,407	279			

Source: Processed by Researcher (2025)

The F-test results for both regression models in the table show that the model used in this study is acceptable because the results are significant. In the multiple regression model, the F value of 17.721 with a significance of 0.000 indicates that this model is fit for testing the hypothesis. On the other hand, the F value for the moderation regression model is 14.379 with a significance level of 0.000, further

demonstrating the application of this model. With significance results below 0.05, these findings indicate that both regression models adequately represent the relationship between the variables studied.

4) Moderated Regression Analysis (MRA) Test

One method that can be used to test whether a variable acts as a moderating variable is to conduct a Moderated Regression Analysis (MRA). MRA is a specific application of multiple regression analysis in which the regression equation includes interaction factors generated by multiplying two or more independent variables. The data for this test are presented in the following table:

Table 15. Moderated Regression Analysis (MRA) Test Results

Variable	Coefficient (B)	t-value	Sig. (p-value)	Decision
Fiscal Loss Compensation (KRF)	0.042	3.545	0.000	H1 accepted
Independent Commissioners (KI)	-0.078	-4.339	0.000	H2 accepted
Audit Committee (KA)	-0.072	-6.866	0.000	H3 accepted
Foreign Ownership (KSA)	0.008	1.219	0.224	H4 rejected
KRF × KSA Interaction	0.255	1.210	0.227	H5 rejected
KI × KSA Interaction	0.136	2.844	0.005	H6 accepted
KA × KSA Interaction	0.112	3.963	0.000	H7 accepted

Source: Processed by Researcher (2025)

The coefficient of fiscal loss compensation is 0.042, with a t-value of 3.545 and significance (p-value) of 0.000. Since the significance value is less than 0.05 (0.000 < 0.05), it can be concluded that fiscal loss compensation has a significant positive effect on tax avoidance, thus H1, which states that fiscal loss compensation positively affects tax avoidance, is "accepted." This means that the larger the fiscal loss compensation of a company, the greater the potential for the company to engage in tax avoidance. The regression coefficient for foreign ownership is 0.008, with a t-value of 1.219 and significance of 0.224. Since the significance value is 0.224 > 0.05, it can be concluded that foreign ownership does not have a significant positive effect on tax avoidance, thus H4, which states that foreign ownership positively affects tax avoidance, is "rejected." This indicates that foreign ownership plays a role in internal oversight, where the larger the foreign ownership, the lower the level of tax avoidance by the company.

The interaction between fiscal loss compensation and foreign ownership (KRF_KSA) shows a coefficient of 0.255, a t-value of 1.210, and a significance value of 0.227. Since the significance value is greater than 0.05 (0.227 > 0.05), this interaction is not significant, and thus H5, which states that "foreign ownership moderates the effect of fiscal loss compensation on tax avoidance," is "rejected." Therefore, we conclude that foreign ownership does not moderate the relationship between fiscal loss compensation and tax avoidance.

5. Conclusion

5.1 Conclusion

Based on the analyses and tests conducted, the following conclusions can be drawn:

1. Fiscal loss compensation has a significant positive effect on tax avoidance in manufacturing companies listed on the IDX during the study period, indicating that the greater the fiscal loss compensation of a company, the greater the potential for tax avoidance.
2. Independent commissioners have a significant negative effect on tax avoidance, meaning that the higher the proportion of independent commissioners on the board, the lower the level of tax avoidance by the company.
3. The audit committee has a significant negative effect on tax avoidance, suggesting that an effective audit committee can reduce tax avoidance practices through stricter supervision of policy and financial reporting.
4. Foreign ownership has a significant positive effect on tax avoidance, indicating that the greater the proportion of foreign ownership, the higher the tendency of the company to engage in tax avoidance.

5. Foreign ownership does not moderate the effect of fiscal loss compensation on tax avoidance, indicating that the proportion of foreign ownership neither strengthens nor weakens the relationship between fiscal loss compensation and tax avoidance.
6. Foreign ownership moderates the effect of independent commissioners on tax avoidance, where the direction of moderation indicates that foreign ownership strengthens the role of independent commissioners in curbing tax avoidance.
7. Foreign ownership moderates the effect of the audit committee on tax avoidance, meaning that foreign ownership enhances the effectiveness of the audit committee in overseeing tax practices, thereby reducing the potential for tax avoidance.

5.2 Suggestions

Based on the research conducted, the following suggestions are provided for future studies:

1. Future research should use a longer time frame so that the results can capture long-term trends and reduce the risk of period bias.
2. Future research could involve companies from various industry sectors or regions to make the results more representative and broadly generalizable.
3. To provide a more comprehensive picture, future research should add other relevant independent variables that might affect the dependent variable, thus strengthening the research model.
4. It is recommended to try other statistical or econometric analysis methods, such as dynamic panel data regression, SEM, or nonlinear methods, to check the consistency of the results.
5. Future research could combine secondary data (financial statements and official publications) and primary data (interviews and questionnaires) to enrich the information and minimize data limitations.

5.3 Limitations of the Study

Based on the research conducted, several limitations of the study are as follows.

1. This study only used data within a certain time frame; therefore, the results may not reflect conditions outside this period. Changes in policy, economic trends, or other external situations occurring after the study period were not covered, thus limiting the generalization of the results.
2. The study only uses a sample from companies that meet specific criteria; therefore, the results may not apply to the entire population or other industries. For example, if a study focuses on a specific sector or region, the unique characteristics of that sector or region may affect the results.
3. The independent and moderating variables used are limited; therefore, there may be other factors outside the model that also affect tax avoidance but have not been accommodated in this study.
4. The independent variables used do not cover all the factors that may affect the dependent variable. Other relevant external factors were not included in the model, which could cause the results to not fully reflect existing relationships.
5. This study used certain statistical analysis techniques, each with its own assumptions and limitations. If these assumptions are not fully met, the analysis results could be inaccurate or not fully reflect the actual conditions of the study.
6. The quantitative approach used does not explore the reasons or motivations of management qualitatively; therefore, understanding tax avoidance strategies remains limited.

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