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# DETERMINANTS OF TAX AGGRESSIVENESS WITH CORPORATE GOVERNANCE AS A MODERATION VARIABLE IN PUBLIC COMPANIES IN INDONESIA

## ABSTRACT

This research examines how corporate governance moderates the impact of financial derivatives, executive pay, executive traits, and family ownership on tax aggressiveness in manufacturing firms listed on the Indonesia Stock Exchange between 2021 and 2023. Independent commissioners are used as a proxy for corporate governance. A total of 86 companies were included in the study using purposive sampling. The data analysis method employed was moderated regression analysis (MRA). The findings indicated that tax aggressiveness was impacted by financial derivatives, executive compensation, and executive behaviour but not by family ownership. These findings suggest that the level of family ownership does not dictate the degree of tax avoidance. Corporate governance as a moderating factor can influence executive compensation and executive behaviour but does not influence financial derivatives and family ownership concerning tax aggressiveness.

**Keywords:** tax aggressiveness, financial derivatives, executive compensation, executive character, family ownership, corporate governance

**JEL Classification:** G00, G34, G39, H24, H25, H26, M12

## INTRODUCTION

State revenues and components of the state income and expenditure budget (APBN) consist of taxes, non-tax revenues, and grants. The APBN is formed by the state's needs and capabilities in collecting revenue; the primary source of APBN revenue is taxes. Tax revenue sources account for the most significant proportion of state revenue sources compared to other revenue sources. Therefore, a country's tax sector receives excellent attention (Sastrodiharjo et al., 2024).

Table 1 shows that tax revenue in Indonesia is the revenue that makes the highest contribution during the 2021-2023 period compared to non-tax revenue and grants. This makes the success of income tax collection an essential reference in matters relating to state revenues. There are conflicting perceptions about tax issues between the Government and Taxpayers. The government will strive to continue to increase its tax revenues. Still, let us look at it from the taxpayer's perspective. Tax is a burden that will reduce the taxpayer's income or profit, whether individual or corporate (Ngelo A. et al., 2022).

**Table 1. Realization Level of Indonesian State Revenue 2021-2023 (in IDR billions).**

Source of Revenue - Finance	Realization of State Revenue		
	2021	2022	2023
I. Acceptance	2.006.334,00	2.435.867,10	2.443.182,70
Tax Revenue	1.547.841,10	1.924.937,50	2.016.923,70
Non-Tax Revenue	458.493,00	510.929,60	426.259,10
II. Grant	5.013,00	1.010,70	409,40
Amount	2.011.347,10	2.436.877,80	2.443.592,20

For companies, taxes can be a burden that can reduce company profits, and business decisions are also influenced by taxes directly or indirectly; therefore, companies can be more aggressive in taxation. The coercive nature of taxes leads companies to engage in tax resistance, which encompasses both active and passive forms. These two types of tax resistance play a significant role in a company's efforts to evade taxes. Active tax resistance can be implemented through tax aggressiveness. The company tries to minimize the tax burden that must be paid by legal means (tax avoidance) or illegal means (tax evasion), and taking advantage of opportunities in tax regulations is an act of tax aggressiveness. Companies want minimal tax payments, thus motivating them to be more creative by carrying out tax challenges so that they are processed as if reported profits are more significant than they are without violating tax accounting rules and policies. With tax savings, managers accelerate cost recognition and delay revenue recognition (Khan et al.; S., 2023)

Machdar, N. M., & Nurdiniah, D. (2021) argue that there is a difference between calculating accounting profit (profit in the company's financial statements for the benefit of external parties to the company) and calculating fiscal profit (profit used as the basis for calculating taxes). Accounting profits in company financial reports are calculated based on standards prepared based on Financial Accounting Standards (SAK). In contrast, fiscal profits in financial reports according to taxation are calculated based on Tax Legislation (KPPH) provisions. This difference in calculations results in temporary differences (temporary differences), which results in deferred tax (deferred tax) as an effect of these temporary differences. Deferred taxes can be in the form of deferred tax assets or deferred tax liabilities. Deferred tax assets are overpaid taxes, which will be replaced later. In contrast, deferred tax liabilities are underpaid taxes that will be paid when temporary differences are recovered.

Machdar, N. M., & Nurdiniah, D. (2021) also stated that deferred tax assets and liabilities will generate deferred tax income or expenses. By using the deferred tax method, there will be a kind of income tax savings because taxable income will appear smaller than pre-tax income, considered a deferred tax credit, which will then be allocated to subsequent years. When the temporary difference is recovered, it will result in a decrease in the tax burden. Deferred tax assets and liabilities have an impact on tax expenses. When deferred tax assets increase, the tax burden is reduced. Meanwhile, if deferred tax liabilities increase, the tax burden will also increase.

According to PSAK No. 46 (revised 2010) regarding income tax, tax expense is the aggregate amount of current and deferred tax calculated in the profit and loss statement. Current tax is the income tax payable (paid) on taxable profit (tax loss) for a period. The current tax calculation in financial statements is based on the tax rate imposed on the company multiplied by the company's fiscal profit. The company will report an accounting profit report for each period, which the tax officer (fiscus) will then compare with the fiscal profit report. The differences that arise are sometimes significant because commercial profits appear greater than fiscal ones. This difference will be included as a deferred tax expense that the company must pay. This could be due to the tax aggressiveness carried out by company managers who are reported to increase company profits to minimize taxes. Efforts to maximize profits can be by increasing income and reducing costs to produce significant profits. Tax aggressiveness is achieved through the manager's freedom in choosing the measurement and recognition model of accounting profits and operating cash flow, which is based on PABU (Generally Accepted Accounting Principles), which is used to achieve specific manager objectives (Sutopo et al., P., 2021).

However, the public views negatively on companies that practice tax avoidance. This view is caused by the possibility of limiting income transfer from the tax sector to society (Oktaviani et al.; S., 2023). The community believes that every company should play a role in improving the welfare of the surrounding community by paying taxes. However, companies tend to see that tax aggressiveness can generate large profits (Kusbandiyah, A., 2021). There are two different views on tax avoidance from each company stakeholder. This has led to research on tax avoidance, considering the complex relationships involved in this phenomenon. Kusbandiyah, A. (2021) stated that agency problems between principals and company agencies are caused by the principal's desire to maximize profits by reducing the tax burden. Anggraini, Y., & Widarjo, W. (2020) mention that shareholders (principal) require the creation of tax aggressiveness in an appropriate measure, not less (can reduce profits), and not more (there is a threat of sanctions and tarnish of sound reputation).

Meanwhile, agents also have personal interests regarding company resources. Alkausar, B., Lasmana, M. S., & Soemarsono, P. N. (2020) explain that if managers decide on corporate tax aggressiveness, it can provide an opportunity for managers to carry out tax avoidance to achieve profits shortly, not to achieve profits in the future, as desired by the shareholders. Just looking for earnings shortly is very risky for the continuity of business operations.

The Indonesian government's enforcement of a self-assessment system to carry out its tax calculations and reporting allows agents to avoid tax by calculating the minimum taxable income possible. Agents can carry out this action because there is a discrepancy in information with shareholders (shareholders). Through tax aggressiveness, the agent will gain benefits other than those obtained by the agent from collaborating with shareholders (Alkausar et al.; P. N., 2020).

Tax aggressiveness is undoubtedly a frightening spectre for Indonesia. A report from the Tax Justice Network states that due to tax aggressiveness, Indonesia is estimated to lose IDR 68.7 trillion per year. The relevant report noted that the loss figure, 98.34% or the equivalent of IDR 67.6 trillion, resulted from tax aggressiveness carried out by corporations in Indonesia. The report indicates that individual taxpayers contributed the remaining IDR 1.1 trillion. It is reported that multinational corporations channel their profits to nations recognized as tax havens during their operations. This strategy prevents companies from disclosing their actual profits in the countries where they operate, allowing them to pay less taxes than required.

Conversely, wealthy individual taxpayers conceal their assets and income overseas beyond the jurisdiction of the law. According to The State of Tax Justice 2020: Tax Justice, during COVID-19, low-income countries lost 5.5% of their tax revenue, while high-income countries lost 1.3% due to corporate tax abuse. For instance, the Ministry of Finance (Kemenkeu) aimed to collect IDR 1,198.82 trillion in tax revenue for 2020. This suggests that the estimated tax evasion equals 5.7% of the 2020 final target, comparable to 5.16% of the 2019 tax revenue realization, amounting to IDR 1,332 trillion.

The burden of taxes prompts companies to act to lessen their tax obligations, as taxes can eat into the profits generated by the company. The study is based on data from manufacturing firms in the consumer goods industry, detailing that this sector encompasses food and beverage, tobacco, pharmaceuticals, beauty products, and household goods and appliances. The economic growth in Indonesia is expanding due to globalization, particularly in sectors that contribute to the Indonesian economy, such as the consumer goods industry. This sector is quite fascinating as it produces essential products that are constantly needed by the public. Indonesia, a large country with a significant population, is a crucial market for these products. The consumer goods industry manufactures items popular within the community, including food, beverages, medications, and more. The consumer goods industry comprises six sub-sectors: food and beverages, cigarettes, pharmaceuticals, cosmetics and household essentials, household equipment, and other consumer goods (Pratama et al., 2022).

According to Ganiarti, A. (2022), the phenomenon of tax aggressiveness in the consumer goods industry sector has often occurred, one of which is the case of PT Coca-Cola Indonesia, which was accused of committing tax evasion of Rp. 49.24 billion. The results of investigations by the Directorate General of Taxes found that cost overruns reduced taxable income, automatically reducing PT Coca-Cola's tax burden. In 2019, the consumer goods sector stock index (consumer goods) experienced the most significant downturn, with a 20.11% correction. This was a more severe drop compared to 2018 when it was corrected by 10.21% year-to-date. The decline is consistent with the findings of Bank Indonesia's (BI) consumer confidence index (IKK) survey, which reported a continuous decrease in IKK from June to October 2019. By October 2019, the IKK had reached its lowest point in the past two years, at 118.4. In 2019, the stock market experienced pressure, primarily from the decline of shares in several companies.

The decline in UNVR shares is in line with declining performance; until the third quarter of 2019, UNVR's profits fell 25% annually. Meanwhile, HMSP and GGRM fell more due to negative sentiment in the form of plans to increase excise rates. Even though throughout 2019, the consumer goods sector was still under pressure, this is in line with the IKK in November 2019, which rose again to the level of 124.2. Apart from that, positive sentiment comes from increased agricultural commodities, which can indirectly trigger increased consumption. Meanwhile, consumer goods sector shares in 2020 were still quite challenging, as seen by higher-than-expected inflation. However, from 2020 until now, year to date (YTD), the consumer goods industry stock index (consumer goods) fell 12.68%. The decline in this sector index was caused by the shares of cigarette issuers, which fell quite sharply due to negative sentiment in the form of plans to increase excise rates by 23% in 2020. The stock index is primarily bolstered by the shares of cigarette companies like PT Hanjaya Mandala Sampoerna Tbk (HMSP) and PT Gudang Garam Tbk (GGRM) (Pratama et al., 2022).

Financial derivatives are an essential factor determining a company's tax aggressiveness practices. The Government Accountability Office (Government Auditing Standards, 2011) states that using derivative instruments is the main reason for non-compliance practices of multinational companies by taxpayers to avoid the obligation to pay taxes. Government Auditing Standards (2011) identified that companies utilize derivative financial instruments that can be restructured to enable taxpayers to benefit from state tax regulations on derivative instruments (Firmansyah et al.; A., 2020).

In Indonesia, the use of derivative instruments in public companies has been growing, primarily since Statement of Financial Accounting Standards (PSAK) No. 55 of 1999 concerning the recognition and measurement of financial instruments was implemented; it was recorded that there was an increase in transaction volume from IDR 17,472.53 billion in 2001 to IDR 60,705.55 billion in 2009 (pajak.go.id, 4 November 2020). However, the Indonesian Tax Law has not regulated the rules regarding derivative instruments. The problem is, after the issuance of Government Regulation Number 31 of 2011 regarding the revocation of Government Regulation Number 17 of 2009 concerning Income Tax on Income from Derivative Transactions, this resulted in the absence of specific tax regulations regarding derivative transactions (Firmansyah & Yuni-dar, 2020). Companies can also use the lack of clarity in tax regulations for derivative transactions to avoid tax. This can

certainly be detrimental to state revenues, especially revenues from the tax sector (Darussalam & Septriadi, 2007). The research results of Firmansyah, A. & Yunidar, A. (2020) show that the level of use of financial derivatives in a company can influence a company's tax avoidance, which means that financial derivatives positively affect tax aggressiveness. The results of other research from Firmansyah, A., and Purnama, E. B. D. (2020) show the influence of financial derivatives on tax avoidance.

The research on the use of financial derivatives for earnings management has progressed quickly. Despite the potential for financial derivatives to be used as a tax avoidance tool, there needs to be more research on this aspect compared to their use for earnings management (Donohoe, 2012; Raskolnikov, 2011). Donohoe (2012) conducted a study on a group of US companies, demonstrating that financial derivatives can be a method for avoiding taxes. Donohoe (2012) suggests that the ambiguity in tax regulations on derivative transactions drives the use of financial derivatives as a tax avoidance tool. Using derivatives, companies can exploit this ambiguity as a loophole to avoid taxes. Even though Donohoe (2012) demonstrated that financial derivatives could serve as a means of tax avoidance, his research findings may only apply sometimes to countries with varying tax systems, like Indonesia.

In addition, when implementing tax aggressiveness, the company's choice to evade taxes is ultimately determined by the company's top management, specifically the executive team. An executive has the most critical position in a company because he has the authority and power to manage company operations. Therefore, as operational leaders, executives will decide on actions that can benefit them when making decisions. Executives will feel benefit when they receive high compensation. Therefore, companies will try to provide high compensation to improve executive performance (Dewi et al.; 2020).

Compensation is a reward for employees through financial payments as a form of recompense for services rendered and as an incentive to carry out activities in the future (Fatimah et al., 2017). Compensation given to executives is a form of appreciation to executives for their efforts to improve company performance, one of which is the efficiency of tax payments. When executives receive higher compensation, research conducted by (Fatimah et al., 2017) suggests that they are more likely to engage in aggressive tax avoidance strategies. However, this does not align with research from Kurniawan and Trisnawati (2019), which states that executive compensation does not influence tax avoidance. Compensation is provided to executives only to improve performance and cost efficiency, not to encourage tax avoidance.

In making decisions, executives are motivated by compensation and based on the executive's character. The executive's decision-making character is split into two types: those who take risks and those who avoid risks. Risk-takers are executives who display exceptional courage when making business decisions, leading to substantial profits for the company. Temporary risk-averse, or risk avoidance, is the nature of executives who usually prefer to avoid risk, so they avoid significant risks, meaning they are not more determined to make significant business decisions (Prastiwi & Ratnasari, 2019). The character of the executive described previously can be reflected through company risk.

Company risk can be used as an illustration of executive character because it illustrates the strategy carried out by company executives, so it can illustrate whether the executive is a character risk taker or risk averse (Paligorova, 2011). Executive nature risk takers will be brave enough to make decisions with more significant risks and braver to make decisions to get greater profits, too. This characteristic also does not hesitate to use financing through debt to accelerate the company's growth, so the higher the company's risk value, the more executives it is risk-taker; companies are increasingly daring to avoid taxes (Prawati & Hutagalung, 2020). However, this statement does not align with research (Widjaja & Indrawati, 2018), which states that tax avoidance will decrease when executives have risk takers. This is because when the company's risk is low or executive in nature risk averse, then the company will present financial reports in a closed manner, which means the company will avoid higher taxes. Meanwhile, when the company risk is high or an executive nature risk taker, the company will present financial reports openly, so the motivation to avoid taxes will also be low.

One of the factors that can impact a company's aggressive behaviour is the ownership structure within the family. The problems in family companies are more significant conflict between majority shareholders and minority shareholders and more minor conflict between owners and managers (Khelil et al.; H., 2023). Aggressive tax actions or corporate tax aggressiveness can also be supported by the presence of the company founder as the majority shareholder (Chen et al., 2010). Several Asian countries have a Fan pyramid-shaped family ownership structure et al. (2004), as does Indonesia (Oktavia & Martani, 2013).

In Indonesia, research on the influence of family ownership on tax aggressiveness has been conducted by Sari (2010) and Masripah (2014). The results of Masripah's (2014) research align with Chen's research et al. (2010), who found that the increase in costs from aggressive tax management activities was more significant than the increase in benefits received by the company. The same results were also shown by research conducted by Badertscher (2013), who conducted similar

research in Brazil. This is by Chen's research results et al. (2010), who suspect that family companies bear more significant costs if they take aggressive tax action due to ownership of a more significant proportion of shares and a more extended investment period. Different results were obtained by Andhari and Sukartha (2017) on companies in Indonesia, which showed that companies owned by families tend to take more aggressive tax actions than non-family companies.

Masripah (2014) mentions several reasons that can be used to explain this phenomenon, one of which is through the argument put forward by Badertscher (2013) that when ownership is concentrated in one party, there will be a tendency for decision-making to be centred on a handful of parties, in this case namely the party's family. The family, as previously explained, has unique characteristics, namely deep concern for the good name and reputation of the company (Cheng, 2014). This makes the family even more risk-averse compared to other shareholders. More attitude risk averse. This is reflected in one of the family's efforts as a controller in directing company policy away from aggressive tax management activities that could damage the company's reputation.

In 2006, the National Committee for Governance Policy stated that companies need to enhance their national and international competitiveness to boost market confidence, which could attract investment and support sustainable economic growth. As part of this program, the Indonesian government, in collaboration with the International Monetary Fund (IMF), has introduced the idea of good corporate governance (GCG). Companies that adopt efficient corporate governance practices anticipate positive outcomes consistent with fulfilling tax obligations (Sartori, 2011).

Tax aggressiveness is part of tax management and is a company's right to control the tax burden based on implementation decisions determined by managers. However, companies still have to monitor negative public responses to protect the company's good name and sustainability. Corporate governance will influence tax management decisions in the company it runs. In companies with less corporate governance, tax aggressiveness tends to reduce or cannot provide value for shareholders. On the other hand, companies with good corporate governance show a greater level of tax aggressiveness (Halioui et al., 2016).

To date, corporate governance is an interesting issue that continues to be studied by business people, academics, and policymakers. Views on the practice of corporate governance continue to develop over time. Corporate governance becomes a benchmark for a company's performance. In addition, corporate governance guarantees that corporate taxation adheres to legal tax avoidance rather than illegal tax evasion. Application corporate governance is motivated by the structure of the company. Application of concepts of corporate governance. The maximum is considered capable of being a moderator in this research. Corporate governance: The principles of transparency, accountability, independence, responsibility, and justice are appropriate variables for moderators.

Variable corporate governance influences aggressive tax actions as measured by the effective tax rate (ETR); this condition occurs because the company has high levels of corporate governance. Companies with high levels of corporate governance those who are high can identify aggressive tax planning within the company and will be more controlled and comply more with existing regulations within the company so that the company will be more obedient in paying taxes to the government rather than damaging the company's good name and lowering the company's shares.

## LITERATURE REVIEW

Jensen & Meckling's (1976) agency theory concerns contractual relationships between company members. This contractual relationship occurs when one or more people (principals) employ other people (agents) to provide a service based on the delegation of authority in making the best decisions for the principal. In this relationship, the management agent will do what the owner/leader as principal asks. One of them is to gain profits; the principal asks the agent to carry out tax management through tax avoidance. Of course, what is requested by the principal is with the aim of his or her welfare agent.

In the contractual relationship, there are two interests and a separation of functions between the owner as principal and management as principal agent who manages the company. So, this can give rise to two agency problems (agency problem), namely the occurrence of asymmetric information (information asymmetry) and the occurrence of conflicts of interest (conflict of interest). Asymmetric information is a condition where management generally has more information about self-capacity and environmental variables corporate governance influence on aggressive tax actions as measured by the effective tax rate (ETR); this condition occurs because the company has levels of corporate governance tall one. Companies with high levels of corporate governance can identify the presence of aggressive tax planning in the company. They will be more controlled and comply more with existing regulations within the company so that the company will be more obedient in paying taxes to the government rather than damaging its good name and lowering its shares.

The arrangement of family ownership can impact a company's assertive behaviour. In family-owned businesses, major conflicts often arise between majority and minority shareholders, while minor conflicts occur between owners and managers (Fan, 2004). The presence of the company founder as the majority shareholder can support aggressive tax strategies or corporate tax aggressiveness. Chen (2010) states that in Asia, the family ownership structure has a pyramid ownership structure (Fan et al., 2004), similar to the country Indonesia Rusydi and Martani (2014). Hidayanti and Laksito (2013) tested a sample of manufacturing companies listed on the Indonesia Stock Exchange (BEI) in 2008-2011 and found that family ownership did not affect tax aggressiveness. This is by Chen's research results et al. (2010), who suspect that this is because family companies bear more significant costs if they take aggressive tax action due to ownership of a more significant proportion of shares and a more extended investment period. Different results were obtained by Kartika and Martani (2010) and Andhari and Sukartha (2017) on companies in Indonesia, showing that companies owned by families tend to take more aggressive tax actions than non-family companies.

The issue of agency problems occurs when the principal needs help to guarantee that the agent works to maximize the principal's well-being rather than solely focusing on the manager's interests (Yushita, 2010). Management tends to be indifferent to risk, but management is responsible for risk for a certain fee. The conflict of interest between the principal and the agent can increase if the principal cannot continuously monitor the activities carried out by management to ensure that management acts according to the principal's wishes. The conflict of interest between the principal and the agent triggers agency costs (agency cost). Jensen and Meckling (1976) define agency cost as the amount of costs incurred by the principal to supervise the agent. It is almost impossible for companies to own zero agency cost to guarantee that managers will make optimal decisions according to the principal's view.

Agency problems occur when the company leader as principal wants to make tax payments efficiently to gain profits by avoiding taxes by tax regulations. However, this was done by management as an agent without looking at whether the steps taken to pay taxes efficiently violated the provisions of tax laws and regulations. Even though this can pay taxes efficiently and the company gets the expected profits, it will negatively impact the company if it violates tax laws and regulations. This was done by management solely to gain its benefit without thinking about the impact the company would have in the future.

Agency theory plays a role and underlies company business practices that will improve decision hedging by maximizing shareholder prosperity by utilizing derivative transactions within the company as a means of tax avoidance (Donohoe, 2015). The unclear definition of whether a derivative transaction is speculative or not is used by companies to use financial derivatives as a means of tax avoidance (Orlando et al., 2022). Therefore, it is necessary to test further the relationship between the level of tax avoidance and the level of use of financial derivatives. This research uses the net fair value of derivative instruments as a proxy for the use of financial derivatives (Oktavia et al., 2019).

### **H<sub>1</sub>: Derivative Instruments have a positive effect on tax aggressiveness.**

Agency theory states that one effort to eliminate agency problems is by arranging for agents to continue acting in harmony with the principal's interests through compensation or other rewards. Jabir et al. (2021) argue that employee compensation is essential for maintaining good relations between employees and capital owners. Watts and Zimmerman (1990) explained that companies implementing bonuses will encourage managers to prefer accounting methods that benefit themselves. If rewards are determined based on the company's pre-tax profits, managers think increasing profits this year will result in more significant bonuses. Several researchers have examined executive compensation's effect on tax aggressiveness (Armstrong et al., 2015). They state that companies will use after-tax performance to calculate manager compensation if the expected benefits of tax aggressiveness exceed the predicted costs. Desai et al. (2007) found that the greater the compensation incentive, the lower the tax aggressiveness. 2012 Rego and colleagues discovered a connection between executive pay and a company's future performance. According to their findings, companies are unlikely to incentivize managers if the financial drawbacks of aggressive tax strategies outweigh the resulting profits.

### **H<sub>2</sub>: Executive Compensation Negative Effect on tax aggressiveness.**

The characteristics of executives play a crucial role in their approach towards tax aggression. Based on the company's level of risk, the executive character can be categorized as either inclined to take risks or avoid risks. Executives with a risk-taking disposition are more likely to opt for higher company risks and make bold decisions involving high levels of risk. Executives who are cautious about risk tend to be more hesitant regarding decisions aimed at reducing tax liabilities and maximizing income, as indicated by Hanaf et al. (2018). This is a viewpoint supported by several researchers, including Ardillah & C (2021), Kartajumen et al. (2021), and Oktamawati (2017). These studies revealed that the personality of

executives has a notably positive impact on tax avoidance. The more risk-tolerant the executive's character, the more inclined they are to take bold risks to boost company profits, leading to higher tax assertiveness.

**H<sub>3</sub>: Executive Character has a positive effect on tax aggressiveness.**

Companies with family ownership have more minor agency conflicts between owners and managers. The company's actions to carry out tax aggressiveness are supported by the majority shareholder, who acts as the founder (Chen et al., 2010). Asian family ownership structure is a pyramid, as in Indonesia (Rusydi & Martani, 2014). In Indonesia, the phenomenon shows that most family-owned companies act aggressively toward taxes (Wirawan & Sukartha, 2018). Company management can be influenced by the majority shareholder, which allows managers to act according to the owner's wishes, which does not rule out the possibility of reducing the tax burden and taking aggressive action on taxes. Sirait & Martani's (2013) research on companies in Malaysia and Chen et al. (2010) on companies in the United States shows that family ownership does not affect tax aggressiveness. In contrast to research conducted by Kartika & Martani (2010) and Praptidewi & Sukartha (2016), which showed that family ownership has a significant effect on tax aggressiveness, the difference in these results is visible with the country's tax ratio being above Indonesia. Apart from that, the majority owner is the family; of course, they have greater voting rights so that the owner can determine the company's policy direction.

**H<sub>4</sub>: Family Ownership has a positive effect on tax aggressiveness.**

In this hypothesis, the role of agency theory is to consider using financial derivatives from a company in expecting profits. Previous research shows that derivative instrument activities are ineffective in corporate governance characteristics, such as the absence of formal rules regarding hedging, lack of monitoring of risk management, and overconfidence managerial (Adam & Fernando, 2006; Zeidan, 2015) Meanwhile, research on the relationship between the level of disclosure and tax avoidance, Oktavia & Martani (2013) found that companies with low disclosure of financial derivatives had a higher level of tax avoidance than companies with disclosure of financial derivatives tall one. In previous research, the implementation of poor governance was positively associated with using derivatives for speculation or ineffective hedging (Zeidan, 2015). Alternatively, derivative instruments tend to be used for effective hedging as part of risk management in companies with good governance. Moreover, the reduction in tax burden arising from practical hedging activities is not an act of tax avoidance (Donohoe, 2011; 2015). So, by looking at the influence of governance on the decision to use derivatives and the level of tax avoidance, it is predicted:

**H<sub>5</sub>: Corporate Governance moderates the positive relationship of derivative instruments to tax aggressiveness.**

According to agency theory, the board of commissioners can better fulfil its role in supervising and controlling the actions of executive directors if there is a higher number of independent commissioners. Agency theory posits that having independent commissioners on the board is essential for supervising and controlling directors' actions related to opportunistic behaviour (Jensen & Meckling, 1976). In Minnick & Noga's (2010) research, it is explained that there is a positive value to the company's value after tax, increasing shareholder wealth and providing a significant performance driver—Bottom line. As per Scott (2003), an executive remuneration scheme represents an agreement between a firm and its leadership aimed at aligning the interests of owners and managers by linking manager compensation to their performance in the company's activities. Jensen and Meckling (1976) suggest that compensation is a service from a company owner to its management.

**H<sub>6</sub>: Corporate Governance moderates the positive relationship between executive compensation tax aggressiveness.**

Agency theory is referenced, and it elucidates the conflict of interest between executives and shareholders. Executives are inclined to take risks to minimize the company's tax burden and maximize profits. In contrast, top executives have a specific character when carrying out their company activities to achieve the goals set by the company. These executive characteristics reflect the risks that the company will face. Low (2008) suggests that executive characteristics consist of a risk taker and risk-averse. In their research, Saputra et al. (2015) proved that the more executives there are risk-takers, the higher the level of tax aggressiveness will be. This happens because executives have risk-taking traits. Those who are high will be more willing to take risky actions. This shows that the character of company executives has a significant influence on tax aggressiveness.

**H<sub>7</sub>: Corporate Governance moderates the positive relationship between executive character and tax aggressiveness.**

A company's agency problems are based on how much costs and benefits are obtained after taking aggressive tax actions, especially for company owners with family ownership or managers' impact on non-family companies (Sari & Martani, 2010). Claessens et al. (2000) show that the ownership structure of companies in nine Asian countries shows that public companies in Asia have a family ownership structure. These companies are typically owned by specific families or concentrated within certain families. Family-owned companies make up most company types in Indonesia. Over fifty per cent of companies in Indonesia are family-owned (Carney & Child, 2013). Siregar (2007) shows that the family is the central controller in 56% of companies. Sanjaya's research (2010) also shows that the majority of controlling shareholders in manufacturing companies in Indonesia are families.

**H<sub>8</sub>: Corporate Governance moderates the positive relationship between family ownership and tax aggressiveness.**

By the explanation of the previous framework and hypotheses, the research model can be seen in Figure 1.

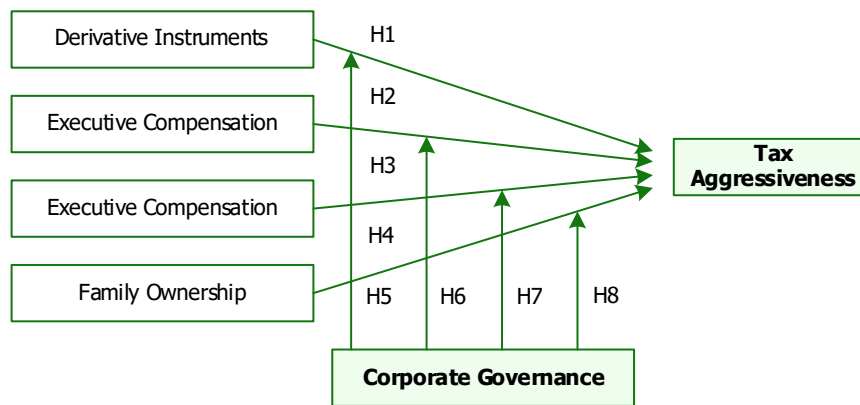


Figure 1. Research model image.

**AIMS AND OBJECTIVES**

The article is aimed at studying the impact of corporate governance, financial derivatives, executive remuneration, family ownership on tax aggressiveness in manufacturing firms listed on the Indonesia Stock Exchange between 2021 and 2023.

**METHODS**

The research employs a quantitative method and an explanatory research design. Explanatory research is a technique that seeks to elucidate the relationship between the variables under study and the impact of one variable on another. The researcher primarily utilizes explanatory research methods to assess the stated hypothesis, aiming to clarify the connection and influence between the independent and dependent variables in the hypothesis.

The research population comprises all publicly traded companies listed on the Indonesia Stock Exchange (BEI) from 2021 to 2023. This study utilizes non-probability sampling, specifically purposive sampling, for sample selection. Purposive sampling was chosen due to the lack of sample criteria that matched the studied phenomenon. The sample selection criteria used in this research are as follows:

1. Manufacturing companies listed on the Indonesian Stock Exchange in 2021-2023.
2. Companies that publish financial reports for 2021-2023.
3. Companies that have complete information required regarding the calculation indicators used as variables in this research.

The research encompasses three key variables: the independent variable denoted as (X), the dependent variable as (Y), and the moderating variable as (Z). Within this study, the independent variables (X) employed consist of financial deriva-

tives (X1), executive compensation (X2), executive character (X3), and family ownership (X4). The measurement of financial derivative variables (options, swaps, forwards) by prior research (Donohoe et al., 2012; Oktavia & Martani, 2013; Prahartadi & Sari, 2020) involves using the absolute value of the recorded fair value of derivative instruments as either a derivative asset or liability. This value is then divided by the company's total assets in the previous year. The total compensation received by directors in a year is used as a basis for measuring executive compensation through the natural logarithm proxy, as stated by Putri (2014). As Paligorova (2010) measured, corporate risk is calculated by dividing the standard deviation equation of EBITDA by the company's total assets. To determine family ownership in the study, the number of shares owned by the family is divided by the total shares outstanding.

Tax aggressiveness is the dependent variable (Y) in this study. The author utilized the effective tax rate (ETR) to assess tax aggressiveness. ETR is calculated as the ratio of net tax expense (total tax expense) to company profits before income tax (pre-tax income) found in the company's profit and loss report for the current year.

This study examines corporate governance as the moderating variable (Z). The research utilizes the proportion of independent commissioners as the corporate governance mechanism under investigation. The characteristic of corporate governance that a company must have been an independent commissioner whose function is to carry out supervision, support good company management, and make financial reports more objective. Independent commissioners act as mediators between company management and company owners in making policies to avoid violating the law, including determining strategies related to tax payments (Windaswari & Merkusiwati, 2018).

Multiple regression equations and Moderated Regression Analysis (MRA) are employed in the data analysis process, facilitated by the SPSS Statistics software. Model feasibility tests carried out included: (1) Normality test using the Kolmogorov-Smirnov (K-S) test; (2) The multicollinearity test is carried out by looking at the Tolerance and VIF (Variance Inflation Factor) values of each variable; (3) Heteroscedasticity test using the Gletsjer Test; (4) Autocorrelation test is detected using the Durbin-Watson Test (DW-test). The regression equation used in the MRA test in this research is as follows:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5Z + \beta_6X_1*Z + \beta_7X_2*Z + \beta_8X_3*Z + \beta_9X_4*Z + e \tag{1}$$

where *Y*: Tax Aggressiveness; *α*: Constanta; *β1-β9*: Regression Coefficient; *X1*: Derivative Instruments; *X2*: Executive Compensation; *X3*: Executive Character; *X4*: Family Ownership; *Z*: Corporate Governance; *X1\*Z*: Interaction of Derivative Instruments with Corporate Governance; *X2\*Z*: Interaction of Executive Compensation with Corporate Governance; *X3\*Z*: Interaction of Executive Character with Corporate Governance; *X4\*Z*: Interaction of Family Ownership with Corporate Governance; *e*: standard error.

The test was carried out using the coefficient of determination test (R2), F test, and t-test. Testing was carried out in two stages. The initial stage is a statistical regression test to determine whether variables X and Y have an influence or not. The next stage, path analysis, determines whether the model and variables have a direct influence.

## RESULTS

Table 2 shows the results of sampling using a purposive sampling technique. Only 86 companies out of 166 companies met the sample criteria.

No	Criteria	Amount
1	Manufacturing companies listed on the Indonesian Stock Exchange in 2021-2023	166
2	Companies that do not publish financial reports during 2021-2023	18
3	Companies that have complete information required regarding the calculation indicators used as variables in this research	62
4	Number of sample companies studied	86
5	The final number of samples in 3 periods (86x3)	258

Table 3 presents the descriptive statistical analysis results, showing the average value (mean), standard deviation, minimum value, and maximum value.

**Table 3. Descriptive Statistics.**

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Tax Aggressiveness	258	-7.65	1.28	-1.6380	1.54673
Financial Derivatives	258	-5.22	.60	-.2962	.69265
Executive Compensation	258	.04	1.25	.4465	.28193
Executive Character	258	6.60	23.93	16.8435	5.96019
Family Ownership	258	-.36	.62	.0317	.12723
Corporate Governance	258	.00	.51	.1232	.15218
Valid N (listwise)	258				

### **Classic assumption test**

The classical assumption tests provided all the results that meet the feasibility test of the multiple regression model. The normality test results obtained a KS value of 0.671 and a probability of  $0.200 > 0.05$ , so the data is standard. The results of the multicollinearity test for all variables X have tolerance values  $> 0.10$  with  $VIF < 10$ . Therefore, the regression model can be said to be non-multicollinear. Autocorrelation test with running test  $0.758 > 0.05$ , there is no sign of autocorrelation in the data. The heteroscedasticity test using a scatter plot shows that the residual points are distributed around 0, and there is no pattern. Therefore, there is no heteroscedasticity in the regression model.

### **Hypothesis testing**

**Table 4. Hypothesis Test Results.** (Source: Output SPSS (2024))

	<b>B</b>	<b>T</b>	<b>Sig.</b>	<b>Information</b>
Adjusted R Square				0.482
Uji F				0.000
Uji t				
(Constant)	0.393	4.464	0.000	
Financial Derivatives	0.351	3.126	0.003	Influential
Executive Compensation	1.522	3.166	0.002	Influential
Executive Character	0.554	3.563	0.001	Influential
Family Ownership	-0.162	-1.380	0.172	No

The data presented in Table 4 indicates that the Adjusted R Square value is 0.482, suggesting that 48.2% of tax aggressiveness is influenced by independent variables and other factors, leaving 51.8% unaccounted for. The F test indicates that the calculated F is 0.000, which is less than 0.05, indicating that the independent variables have the potential to impact tax aggressiveness. The t-test results reveal that financial derivatives, executive compensation, and executive character are three variables that influence tax aggressiveness.

Table 5 shows the results of the Sobel test. Corporate governance can only mediate the influence of compensation and executive character on Tobin's Q, and it cannot mediate the influence of financial derivatives and family ownership variables.

**Table 5. Sobel Test Results.**

	<b>t count</b>	<b>t table</b>	<b>Information</b>
DK-CG-TOBIN'S Q	0.116	1.96	No
YOU-CG-TOBIN'S Q	3.136	1.96	Mediate
KAE-CG-TOBIN'S Q	3.161	1.96	Mediate
KK-CG-TOBIN'S Q	0.023	1.96	No

## DISCUSSION

### *The influence of financial derivatives on tax aggressiveness*

The data from the hypothesis test indicates an impact of the Financial Derivatives factor on tax aggressiveness. The table reveals that the beta coefficient is 0.351, with a significance level of 0.003. Since the significance level is less than 0.05, indicating acceptance of H1, it is concluded that Financial Derivatives affect Tax Aggressiveness. Based on these findings, it is evident that a company's tax avoidance can be impacted by the extent to which financial derivatives are utilized. Companies exploit the ambiguous classification of derivative transactions as speculative or non-speculative to engage in tax avoidance through derivative usage (Donohoe, 2012). A more extensive utilization of financial derivatives, as indicated by a more substantial DER coefficient, leads to a more significant variance between accounting and fiscal profits (Oktavia & Martani, 2013). Using more significant derivative transactions leads to greater profits, which are taxable and incentivize companies to engage in more aggressive tax avoidance strategies. This study's findings align with Oktavia and Martani's (2013) research, which indicates a substantial correlation between financial derivative variables and tax avoidance, as well as Nadya Putri's (2018) revelation that financial derivatives have a meaningful impact on tax avoidance. Furthermore, it is consistent with Nenti and Angga's (2020) research, which asserts that financial derivatives substantially influence tax avoidance.

### *The effect of executive compensation on tax aggressiveness*

The examination of the hypothesis testing results reveals that executive compensation has an impact on tax aggressiveness. The table indicates a beta coefficient value of 1,522, statistically significant at the 0.003 level. This level of significance is below 0.05, indicating acceptance of H2. Therefore, executive compensation influences tax aggressiveness. This shows that the greater the compensation the company provides to executives, the greater the level of tax avoidance. So, if an executive gets high profits from the company, then the executive will be willing to make decisions or policies that can minimize taxes. This research shows that there is harmony with agency theory, which explains that providing compensation is a solution to suppressing executive opportunistic behaviour. Providing compensation influences suppressing corporate tax aggressiveness. This observation is in line with Meilia & Zulaikha (2018) and Sugiyarti (2021), who stated that executive compensation affects tax avoidance because high compensation given to executives can increase the company's level of tax avoidance to a large extent.

### *The influence of executive character on tax aggressiveness*

The results of hypothesis testing indicate that executive character has an impact on tax aggressiveness. Looking at the table, it is evident that the beta coefficient value is 0.554, which is significant at the 0.001 level. The significance level of less than 0.05 indicates the acceptance of H3, thus suggesting that executive character influences tax aggressiveness. According to agency theory, a relationship exists between the principal and the company's agent. As the primary holder in determining decisions, the principal will try to make decisions to get the maximum profit even though this must be faced with risks (Elwisam, 2022).

Meanwhile, in tax management theory, company management policy in paying taxes is one of the many policies made. This is because tax aggressiveness is a challenge management must face. Every risk that must be taken as a company's steps reflects the characteristics of management when deciding on future tax planning. The managerial nature of management determines the results of operational management on company operating costs so that the high and low taxes can be determined and planned by management. Tax aggressiveness can be assessed by how many companies take advantage of loopholes in existing tax rules. Although not all aggressive tax actions violate the rules, the more tax avoidance methods a company uses, the more aggressive the company becomes. Collaboration correctly between executives with a risk-taker character and competent professionals will achieve a company's primary mission and vision, namely sustainable business continuity. The results of this research are in line with and support research (Ajie, 2015).

### *The effect of family ownership on tax aggressiveness*

According to the findings of the hypothesis test, it is evident that family ownership does not influence tax aggressiveness. The table indicates that the beta coefficient is -0.162, with a significance level of 0.172. With a significance level exceeding 0.05, it can be concluded that hypothesis 4 is not supported. The conclusion is that the family ownership variable does not influence tax avoidance practices. These results indicate that the size of family ownership does not determine the extent of tax avoidance. Family ownership tends to view tax avoidance as a risky act. Although tax avoidance can reduce tax payments to the government, the negative impact is riskier. These risks involve dealing with tax authorities, scrutiny by the public, and damage to the company's reputation and image. Therefore, family firms avoid tax avoidance practices to maintain their integrity and reputation (Brune et al., 2019). In line with López-gonzález et al. (2019), companies that place

great importance on control and corporate identity will always guard against anything that could damage the family name in the eyes of the public. The results of this research are also in line with research conducted by Oktavia (2018), which revealed that family ownership does not affect tax avoidance.

#### ***Corporate governance can moderate the relationship of financial derivatives to tax aggressiveness***

The Sobel test results indicate that the t value of 0.116 is less than the table value of 1.96, suggesting that corporate governance does not mediate the connection between financial derivatives and tax aggressiveness. There is no evidence to support the idea that good corporate governance can minimize variations in tax avoidance levels among companies utilizing derivative instruments. The findings of this study align with those of Oktavia and Martani (2013), who concluded that there is no substantial disparity in tax avoidance levels between companies utilizing derivative instruments and those that do not use them. This suggests that the current governance mechanisms may have yet to conduct thorough monitoring and oversight regarding using derivative instruments for tax avoidance purposes.

#### ***Corporate governance can moderate the relationship of executive compensation to tax aggressiveness***

According to the findings from the Sobel test, it is evident that the t-value of 3.136 exceeds the t-table value of 1.96, leading to the conclusion that executive compensation's relationship with tax aggressiveness can be moderated by corporate governance. This inference is in line with the principles of agency theory, which stipulates that corporate governance is aimed at safeguarding shareholders' concerns. Shareholders avoid tax aggressiveness if it is not profitable for them. Thus, more and more independent commissioners will assess tax aggressiveness strategies more objectively and reject them (Zhou, in Halioui, 2016). Halioui (2016) explains that compensation incentives will help align the interests of managers and shareholders. In their research examining the relationship between CEO and CFO remuneration and tax reporting management, Halioui (2016) found a relationship between agent compensation and future company performance. They predict that firms will not reward managers if the costs of tax aggressiveness are more significant than the profits generated.

#### ***Corporate governance can moderate the relationship between executive character and tax aggressiveness***

According to the findings of the Sobel test, it is evident that the obtained t value of 3.161 exceeds the t table value of 1.96, indicating that corporate governance may act as a mediator in the connection between executive character and tax aggressiveness. This is to the theory that executive characteristics are higher. It is Taking risks regarding company decisions, including aggressive tax actions strengthened by corporate governance.

#### ***Corporate governance can moderate the relationship between family ownership and tax aggressiveness***

The Sobel test results indicate that the t value of 0.023 is less than the critical t table value of 1.96, concluding that corporate governance does not mediate the association between family ownership and tax aggressiveness. These findings suggest that the level of independent commissioners representing corporate governance needs to play a moderating role in influencing the connection between family ownership and aggressive tax strategies. The explanation for this is probably because, in Indonesia, the implementation of corporate governance is still relatively low. The aim of implementing good corporate governance for public companies is to meet regulatory demands alone.

## **CONCLUSIONS**

The study results indicate that financial derivatives influence tax aggressiveness, which means that companies use the unclear definition of speculative or non-v derivative transactions to use derivatives as a tax avoidance tool. Executive compensation influences tax aggressiveness, which means that the greater the compensation the company gives to executives, the greater the level of tax avoidance. Executive character influences tax aggressiveness, which means that every risk that must be taken as a company step reflects the characteristics of management when deciding on future tax planning. Meanwhile, family ownership does not influence tax aggressiveness, which means that the amount of family ownership does not determine the extent of tax avoidance. The moderating variable of corporate governance can moderate the effect of executive compensation and executive character but cannot moderate financial derivatives and family ownership on tax aggressiveness.

The novelty in this research lies in the independent variables used, namely derivative instrument variables, executive compensation, executive character, and family ownership, which are the main focus of the research, which is a significant difference from previous research. The approach used to analyze the impact of independent variables on the phenomenon under study has also been updated. In contrast, many previous studies generally use multiple regression analysis methods

to measure the relationship between these variables; this research takes a step further by applying the method of Moderated Regression Analysis (MRA) or moderated regression analysis. This novelty allows researchers to examine the influence of the leading independent variable and explore possible interactions between the primary variable and one or more moderating variables. This opens up opportunities for a deeper understanding of how these variables may influence each other in the research context, thereby providing more comprehensive insights in answering the research questions.

Recommendations for further research can be carried out with different time periods in subsequent studies in order to provide different influences on research samples, by combining additional independent variables that are estimated to influence tax aggressiveness.

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## ADDITIONAL INFORMATION

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### AUTHOR CONTRIBUTIONS

All authors have contributed equally.

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### CONFLICT OF INTEREST

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## ДЕТЕРМІНАНТИ ПОДАТКОВОЇ АГРЕСИВНОСТІ З КОРПОРАТИВНИМ УПРАВЛІННЯМ ЯК ПОМІРНОЮ ЗМІННОЮ В ПУБЛІЧНИХ КОМПАНІЯХ ІНДОНЕЗІЇ

Це дослідження розглядає, як корпоративне управління пом'якшує вплив фінансових деривативів, оплати праці керівників, виконавчих рис і сімейної власності на податкову агресивність виробничих компаній, зареєстрованих на Індонезійській фондовій біржі в період із 2021 по 2023 рік. Незалежних комісіонерів використовують як довірених осіб для корпоративного управління. Всього в дослідженні було включено 86 компаній із використанням цілеспрямованої вибірки. Використаний метод аналізу даних – модерований регресійний аналіз (MRA). Результати показали, що на податкову агресивність упливали фінансові деривативи, винагорода керівникам і поведінка керівників, але не сімейна власність. Ці результати свідчать про те, що рівень сімейної власності не диктує ступеня ухиляння від сплати податків. Корпоративне управління як стримувальний фактор може впливати на винагороду керівників та поведінку керівників, але не впливає на фінансові деривативи та сімейну власність щодо податкової агресивності.

**Ключові слова:** податкова агресивність, фінансові деривативи, винагорода керівників, виконавчий характер, сімейна власність, корпоративне управління

**JEL Класифікація:** G00, G34, G39, H24, H25, H26, M12