



The Influence of Financial Distress, Earnings Management and Corporate Governance on Tax Aggressivity in Mining Sector Companies Listed on IDX During 2020 - 2023

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ABSTRACT

The purpose of this study is to examine how tax aggressivity practices in mining companies listed on the IDX over the 2020–2023 impacted by financial distress, earnings management, and corporate governance. The study's population consists of 58 companies, and a quantitative technique was used to choose a sample of 16 companies using the purposive sampling method. The results showed that financial distress has a negative influence on tax aggressivity. Meanwhile, earnings management measured using operating cash flow did not affect tax aggressivity. While the corporate governance examined in this study shows a significant negative influence on tax aggressivity. The study then discovered that businesses with a lot of assets tend to be tax aggressivity

INTRODUCTION

This research examines the influence of financial distress, earnings management, and corporate governance on tax aggressivity in mining sector companies listed on the IDX from 2020 to 2023. Taxes as a source of state income are the main source of income to finance the government's needs in carrying out each program. The percentage of tax contribution from various sectors of the year 2023 shows that the manufacturing sector makes the largest tax contribution 26,9%, mainly from goods production activities such as electronics and cars, followed by the trade sector amounted to 22.7%, especially from retail and wholesale businesses service sector finance and insurance amounted to 11.5% which came from banking and business insurance. Furthermore, the mining sector is in fourth position at 8.2%, followed by the real estate sector at 4.3%, transportation and warehousing, and information and communications, at 3.2% and 3.5% respectively. In 2023 the data shows extraordinary growth in tax revenues, especially from the mining sector. This sector is growing tremendously extraordinarily reaching 113.6% compared to the previous year. Although mining sector companies occupy the fourth position in the list of sectors with the largest contribution to state revenue from taxes, This sector showed very significant growth from the previous year. So research This is there to find out what the Financial Distress and Earnings variables are Management, the Independent Board of Commissioners, and the Audit Committee influence companies to practice Tax Aggressivity.

Research results are expected to provide theoretical contributions with understandable and empirical evidence applied in a practical context. His practical contributions involve management companies that can make wiser tax decisions, governments in determining effective tax policies, and into literature useful for academics. The research context includes companies mining with dispersed assets, face environmental risks and operational. The focus is on optimizing the understanding of variables that influences Tax Aggressivity practices in the context of the mining sector in Indonesia.

LITERATURE REVIEW

Trade-off theory

Trade-off theory is a theory resulting from the development of MM theory coined by Modigliani and Miller in 1963. Trade-off theory is capital structure theory which states that companies exchange benefits tax (Tax Shield) with debt financing against the problems caused by potential bankruptcy, Fadhila (2022). This is due to interest payments debt is carried out by reducing Earnings Before Interest and Taxes (EBIT), namely income that has not been reduced by taxes. Interest payments are not affected by taxes so that funding is made using debt is more profitable compared to ordinary shares or preferred shares that companies must share their ownership of with other people. Thus, increasing the portion of debt will increase the flow of income which is then given to investors and making stock prices increase (Nadhifah & Arif, 2020). According Astika (2023), Increased value company or the share price of a company because this debt only reaches a certain debt portion limit is referred to as the optimal point because it also considering the Cost of financial distress which will be even greater as the

company's debt increases. After passing point optimal capital structure, company value or company share price will be decreases gradually.

Stewardship theory

According to Oktavian, 2022 stewardship theory describes a situation where management is not motivated by individual goals but more focused on their key outcome goals for interest organization. The theory assumes the existence of a relationship strong relationship between satisfaction and success of an organization. Success organization that describes the maximization of group utility principal and management. Maximization of the utility of this group will ultimately maximize individual interests are in that group of organizations (Dang,el al, 2021).

According to Kalbuana el (2023), theory stewardship implies a strong connection between success organization with owner satisfaction. According Handoyono (2022), the government will try its best to implement it government to achieve government goals, namely the region or area it occupies because the country is organizations whose ownership is shared. improve people's welfare. It can be concluded that government as the leader who has authority within it control and direct every activity in territory of his government. Controls carried out by the government it is intended that every citizen can experience the facilities provided by the government. Nevertheless controlled by the government, the community has rights in it the region or area it occupies because the country is organizations whose ownership is shared, Donaldson el (1991).

Agency Theory

The principal and the agent are the two main subjects of agency theory. The agent is given decision-making authority by the principal. Despite their inability to discern rewards from preferences, beliefs, and information, the principle and the agent are presumed to be self-interested, rational, and economic beings. A mutual employment agreement that is profitable outlines the principal's and agent's responsibilities.

Determine whether information systems and work contracts will optimize functionality for the principal's advantages while addressing behavioral restrictions brought on by the agent's interests. A few restrictions on modeling agencies' ability to make observations. According to Nugroho (2020), there are three restrictions that can lessen the positive outcomes of the agency model when it comes to forgiveness. First, it is possible to discuss the descriptive validity of behavioral representations that maximize benefits. Second, only three persons can use the model. Third, some scholars contend that many businesses cannot be analyzed from the perspective of formal agreements.

Financial Distress

According to Altman, el (2017) Financial Distress can be caused by exercise several factors both internal and external to the company, such as lack of precisely a policy issued, the company's lack of ability to manage finances, and the presence of encouragement from the external environment such as changes in government policies in terms of taxes, changes in regulations, and also there is a recession or an unstable economy.

Earnings Management

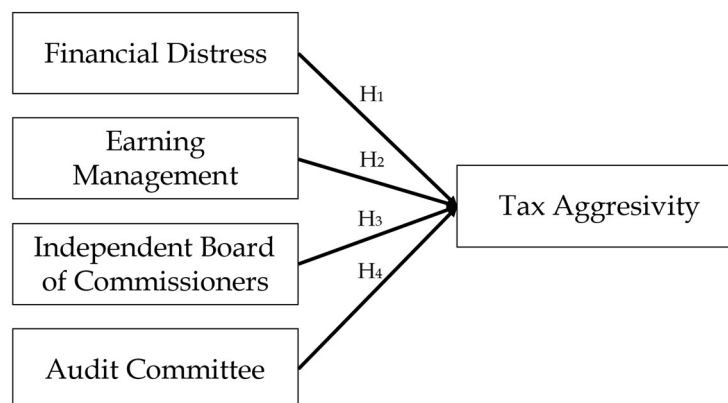
According to Detthamrong, el (2017), Earnings Management means the strategy carried out by a management company to manage the company's net profit, this is intended to be able to fulfill the wishes or expectations of investors or can be interpreted differently to influence the decisions of external parties such as internal auditors or regulators make decisions. Apart from that, Earnings Management can also occur in various ways such as adjusting future estimates, manipulating costs or income, etc. Companies can using earnings management as a tool to change the tax burden. Earnings management refers to management decisions made by the main goal is to achieve the company's profit goals by deviating from applicable business norms.

Corporate Governance

According to Ilham (2022), Corporate Governance was created as a reference for company management professional and transparent based on principles that include transparency, accountability, responsibility, independence, fairness and equality. With implementing good corporate governance, it is hoped that the company can optimize its performance, reduce risk, and maintain trust shareholders and society (Thalita, 2022). Corporate Governance is also expected to be able improve the quality of decision making, minimize conflict interests, as well as ensuring the fulfillment of legal and regulatory obligations applies, Abdelfattah, T., & Aboud, A (2020). Good Corporate Governance can help improve investor confidence and is a factor that influences company value. In this research, the focus is on measuring tools for implementing Corporate Governance will focus on the Independent Board of Commissioners and Audit Committee.

To test this relationship, the following hypothesis of this research:

- H1: Financial distress has a significant relationship with tax aggressivity.
- H2: Earning management has a significant relationship with taxaggressivity.
- H3: Independent Board of Commissioners has a significant relationship with tax aggressivity.
- H4: Audit Committee has a significant relationship with tax aggressivity.



Picture 1. Conceptual Framework

METHODOLOGY

Mining companies registered on the IDX in 2020 to by 2023 there will be 58 companies, their activity is material extraction economically valuable mines from within or from beneath the earth's crust, with using mechanical or manual methods. Types of materials that can be taken including oil and gas, silver, coal, tin ore, nickel, bauxite, copper, iron, gold and manganese sand. This activity can be carried out below the surface earth, on the surface of the earth, or below the surface of the water.

This research is quantitative research with the independent variable in Financial Distress measured by Altman Z-Score, Earnings Management using cash operation method, Independent Board of Commissioners and Audit Committee with number of members. Meanwhile the dependent variable is Tax Aggressivity is measured using the Effective Tax Rate (ETR). Data was sourced from the annual financial reports of mining sector companies 2020-2023 and secondary data from the company's official website and literature. The research population was 58 registered mining companies on the IDX, and the research sample is 16 companies that meet the criteria purposive sampling method. Data analysis used descriptive statistics, classical assumptions, and multiple linear regression. Partial test (t-test) and simultaneous test (Ftest) are used to evaluate the influence of independent variables on dependent variable. The Adjusted R² coefficient of determination test is used for measuring the quality of the regression model.

RESULTS

The analysis uses Multiple Linear Regression to investigate the relationship between main variables, including financial distress, earning management, board of commissioners, and audit committee to tax aggressivity.

Table 1. Multiple Linear Regression

Model	Unstandardized Coefficients		Standardized Coefficients		Sig
	B	Std. Error	Beta	t	
(Constant)	.575	.062		9.127	.000
FD	-.004	.004	-.412	-3.012	.003
EM	-.012	.056	-.031	-.318	.830
IBC	-.200	.066	-.289	-2.579	.012
AC	-.055	.018	-.444	-3.876	.003

Table 2. F Test

Model	Sum of Squares	df	Mean Square	F	Sig
Regression	.147	4	.038	6.807	.000
Residual	.321	59	.005		
Total	.457	63			

Table 3. R² Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.555	.312	.274	.07328

The results of the analysis show different levels of significance in the relationships between the variables studied as follows:

1. **H1:** Financial Distress (X1) with Tax Aggressivity has a value significance probability 0.003 (probability < 0.05) and coefficient value - 0.004, which means it has a negative and significant effect on Tax Aggressivity.
2. **H2:** Earnings Management (X2) variable with Tax Aggressivity has a value significance probability 0.830 (probability > 0.05) and coefficient value - 0.012, which means negative but not significant influence on Tax Aggressivity.
3. **H3:** Independent Board of Commissioners (X3) with Tax Aggressivity has a significance probability value 0.012 (probability <0.05) and coefficient value -0.200, which means it has a negative and significant effect on Tax Aggressivity.
4. **H4:** Audit Committee variable (X4) with Tax Aggressivity has a value significance probability 0.003 (probability < 0.05) and coefficient value -0.055, which means it has a negative and significant effect on Tax Aggressivity.

DISCUSSION

The Financial Distress (X1) with Tax Aggressivity has a value significance probability 0.003 (probability < 0.05) and coefficient value - 0.004, which means it has a negative and significant effect on Tax Aggressivity, This means that companies tend to reduce Tax Aggressivity practices when experiencing financial difficulties to focus on business continuity and risk management. This finding is in line with trade-off theory.

The Earnings Management (X2) variable with Tax Aggressivity has a value significance probability 0.830 (probability > 0.05) and coefficient value - 0.012, which means negative but not significant influence on Tax Aggressivity, although not significant, this relationship shows a tendency that Earnings Management can influence Tax Aggressivity in that direction lower. Companies tend to comply with tax regulations as part of a long-term sustainability strategy. This finding is in line with Stewardship Theory.

Independent Board of Commissioners (X3) with Tax Aggressivity has a significance probability value 0.012 (probability <0.05) and coefficient value -0.200, which means it has a negative and significant effect on Tax Aggressivity means the number of Independent Commissioners more greater, the company possibility is involved in Tax Aggressivity. This finding is in line with Agency Theory and is not in line with Stewardship Theory, because it exists tendency of tax aggressivity practices depends on number of Independent Commissioners members.

Audit Committee (X4) with Tax Aggressivity has a value significance probability 0.003 (probability <0.05) and coefficient value -0.055, which means it has a negative and significant effect on Tax Aggressivity means more larger number of Audit Committees, the company's chances of being engaging in Tax Aggressivity. This research is in line with Agency Theory and is not in line with Stewardship Theory, because it exists a tendency of tax aggressivity practices depending on the number of committee members Audits are increasing.

CONCLUSIONS AND RECOMMENDATIONS

Financial Distress has a negative significant influence on Tax Aggressivity. Companies tend to reduce Tax Aggressivity practices nowadays experiencing financial difficulties. This research also shows that the company with large assets more often engage in tax aggressivity. Company need to consider a focus on business continuity and risk management finances during Financial Distress conditions, which can lead to a decline Tax Aggressivity practices.

Earnings Management has a negative but not significant relationship against Tax Aggressivity. Earnings Management tends not to significantly influence a company's tendency to carry out Tax Aggressivity. Companies tend to comply with tax regulations as part of their strategy long-term sustainability, even when engaging in Earnings practices Management.

The Independent Board of Commissioners has a negative significant influence on Tax Aggressivity. The number of Independent Commissioners, most likely to be involved in Tax Aggressivity. Companies need pay attention to the role and number of the Board of Independent Commissioners because it exists tendency to practice Tax Aggressivity when their numbers increase.

The Audit Committee has a negative significant influence on Tax Aggressivity, which conflicts with their ideal role in supporting compliance taxation. It is important for companies to ensure the effectiveness of the Committee's role Audit in monitoring and assessing company policies, including taxation policies, to minimize tax aggressivity practices.

Overall, the findings of this study provide important insights for managers, regulators, and tax practitioners in designing company policies and more effective tax regulations. In addition, this research contributes to the accounting and taxation literature by illustrating complex dynamics between certain factors and Tax Aggressivity practices in the mining sector.

FURTHER STUDY

This study acknowledges several limitations, including its focus on a single financial institution and the use of quantitative methods. Future research could broaden the scope by:

1. Future researchers are expected to use Earning Management in companies other than mining companies. Because the influence of each variable may be different in each sector.
2. Future researchers can consider Earning Management using Abnormal Discretionary Expenses or Abnormal Production Costs.
3. It hoped that further research can expand the spatial coverage by increasing the sample so that the influence of each variable can be seen more visible.
4. Future researchers are advised to expand the scope of research on the factors that influence the correlation between Finance Distress and Tax aggressiveness, as well as exploring analysis of alternative approaches for a deeper understanding. It is hoped that this effort will be successful help manage the risk of Financial Distress and reduce potential negative impact of Tax Aggresivity practices.

The hope is that future researchers will consider variables independent addition that has a correlation with Tax Aggresivity, such as profitability and leverage so as to expand the findings related to existing Tax Aggresivity..

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