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CORPORATE TAX AGGRESSIVENESS AND MANAGERIAL CAPABILITIES: INSIGHTS FROM INDONESIAN FIRMS

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ABSTRACT

This study aims to investigate the effect of management ability, business strategy, and profitability on corporate tax aggressiveness. This study uses mediation analysis with the Smart PLS approach on a sample of basic materials sector companies listed on the IDX from 2020 to 2022. The results show that more capable management tends to adopt a conservative approach in tax management practices. In addition, business strategies such as prospector and defender have a significant impact on tax aggressiveness. More profitable companies tend to implement more aggressive tax strategies. Companies need to improve managerial capabilities to manage taxes more effectively, as well as formulate appropriate business strategies to mitigate tax risks in the future. With a better understanding of tax risks, companies can minimize potential tax disputes and protect their reputation and long-term performance. This study extends the research time scope to 2022 and uses corporate governance mechanisms as moderating variables, both internal and external, which have not been widely studied in previous studies.

KEYWORDS *Corporate tax aggressiveness, Management capability, Business strategy, Profitability*

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INTRODUCTION

Tax aggressiveness has become one of the main issues in the world of global business and accounting over the last few decades. With increased supervision from tax authorities and increased transparency through international standards such as Base Erosion and Profit Shifting (BEPS) introduced by the OECD, multinational companies are under increasing pressure to meet their tax obligations fairly and transparently (OECD, 2015). On the other hand, companies still have strong incentives to minimize tax burdens to maximize profits for shareholders, which creates challenges for managers to find a balance between tax compliance and optimization. In this context, tax aggressiveness, which refers to efforts to minimize tax liabilities through legitimate but aggressive strategies, has emerged as a critical

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and controversial topic (Laguir et al., 2015). In Indonesia, taxes play a very important role in economic development, with a significant contribution to Gross Domestic Income (GDP), reaching around 11% in 2020 (Dellink et al., 2017). However, the level of tax compliance in this country is still relatively low compared to other developing countries. The main challenge faced by the Indonesian government is how to expand the tax base, increase tax compliance, and reduce tax avoidance actions that are detrimental to state revenues (Setyowati et al., 2023). This was made worse by the tax evasion scandal, as revealed in the Panama Papers and Paradise Papers, which involved several large Indonesian companies using aggressive strategies, such as transfer pricing and the use of shell companies in the country's tax haven (Akhtar et al., 2019). Cases like this reinforce the urgency to understand the factors that influence corporate tax aggressiveness, especially in strategic sectors that contribute greatly to the national economy. Globally, the issue of tax avoidance affects not only governments but also the reputation of companies in the eyes of the public and investors. A study by Dyreng, Hanlon, and Maydew (2010) shows that aggressive tax avoidance behavior can cause significant reputational losses for companies if known to the public. Pressure from civil society and the media on companies involved in tax avoidance is increasing, encouraging companies to be more careful in their tax management practices (Austin & Wilson, 2015). In an increasingly connected and transparent business environment, management's ability to manage reputation risks arising from tax aggressiveness becomes increasingly crucial, especially for companies that have close relationships with international consumers or investors.

Tax aggressiveness refers to all company activities in tax planning, both legal and in the grey area between legal and illegal, which aims to minimize tax liabilities. These activities include various tax avoidance strategies that may pose risks, such as exploiting loopholes in tax regulations or using tax havens. Research shows that tax aggressiveness can impact corporate transparency and reputation, as well as create challenges for corporate governance (Laguir et al., 2015). Managerial ability describes a manager's ability to manage company resources efficiently and effectively, which has a direct influence on the company's strategic decisions, including tax avoidance. More capable managers tend to have a better understanding of long-term risks and potential reputational losses and are thus more likely to avoid overly aggressive tax strategies. Research results show that companies with more competent managers have lower levels of tax aggressiveness (Demerjian et al., 2012). Business strategy includes the approach taken by a company in facing competition and allocating resources, which is often divided into categories such as prospector (innovative) and defender (conservative). Research shows that companies with a defender business strategy, which focuses more on efficiency and cost savings, tend to be more aggressive in terms of tax avoidance compared to prospector companies (Magerakis & Habib, 2021). Profitability refers to a company's ability to generate profits from its operations, often measured by indicators such as Return on Assets (ROA). More profitable companies tend to be more aggressive in their tax planning because they have greater incentives to reduce the tax burden and maximize net profits that can be allocated to shareholders (Bills et al., 2016; Zhou et al., 2018).

This research is based on agency theory, which was first introduced by Jensen and Meckling (1976). This theory explains the existence of a conflict of interest between management (agent) and shareholders (principal), which can encourage management to act according to their personal interests, including the practice of tax aggressiveness. Managers can try to minimize the company's tax burden to increase short-term profits, but this can conflict with the interests of shareholders who prioritize long-term stability and growth (Baños-Caballero et al., 2014). In the context of tax aggressiveness, management tends to exploit loopholes in tax law to reduce tax liabilities, which, although legal, can increase reputation risks and disputes with tax authorities. Apart from that, the theory upper echelon proposed by Hambrick and Mason (1984) is relevant for explaining how managerial characteristics and abilities can influence a company's strategic decision-making, including decisions related to taxation. According to this theory, managerial decisions, including how aggressive tax strategies to pursue, are strongly influenced by executives' background, experience, and expertise. Managers with higher abilities tend to be more careful in planning tax strategies that can maximize company profits without incurring significant legal risks (Demerjian et al., 2012). Furthermore, the tax literature also shows that tax decisions, such as tax avoidance or aggressive tax planning, are often linked to corporate governance mechanisms. Companies with strong governance, both internal and external, usually have better monitoring of managerial actions, thereby reducing managers' tendency to engage in aggressive tax avoidance practices (Armstrong et al., 2015). Conversely, weaknesses in corporate governance can provide room for management to act more aggressively in managing taxes (Officer, 2011).

Much research has been conducted on tax aggressiveness, but the results still show uncertainty and inconsistency. For example, several studies find that high management ability tends to reduce tax aggressiveness. This is based on the assumption that managers with high ability are more likely to make decisions that prioritize sustainability and avoid negative reputation risks that can arise from overly aggressive tax avoidance actions. However, other research actually finds that managers with high ability have better knowledge and skills in finding legal tax loopholes, which can increase the company's tax aggressiveness. In addition, studies related to business strategy show varying results. Higgins et al. (2018) found that companies with a prospector strategy that focuses on innovation and market expansion tend to have lower levels of tax aggressiveness compared to defender companies that are more conservative and focus on cost savings. However, another study by Law & Mills (2020) shows that companies with a defender strategy are actually more aggressive in managing their taxes because they are more focused on operational efficiency and increasing margins, which encourages tax avoidance to minimize costs. Profitability as a determining variable also provides inconsistent results. Research by Noor, Mastuki, and Aziz (2020) shows that companies that are more profitable tend to have a higher tax burden, which triggers them to carry out tax aggressiveness to minimize this burden. However, other research by Wahab and Holland (2019) found that profitability does not always influence tax aggressiveness, especially in companies that have strong corporate governance. This research gap shows that further study is still needed to understand how factors

such as management ability, business strategy, and profitability influence tax aggressiveness, as well as how corporate governance mechanisms can moderate this relationship simultaneously. This research tries to answer these questions with a more comprehensive approach, especially in developing countries like Indonesia, where tax regulations continue to develop.

The novelty of this research lies in the use of corporate governance mechanisms, both internal and external, as moderating variables that influence the relationship between management ability, business strategy and profitability on tax aggressiveness. Previous research generally only focuses on one type of corporate governance mechanism, either internal or external. This research also extends the scope of research time to 2022, namely the initial period of implementation of the Job Creation Law, which provides a new legal and economic context for companies in Indonesia in formulating their tax policies.

The aim of this research is to examine the influence of management capability, business strategy, and profitability on corporate tax aggressiveness, as well as explore the moderating role of corporate governance mechanisms, both internal and external, in this relationship. Academically, this research contributes by filling the gap in the literature regarding the role of governance mechanisms in the context of tax aggressiveness. From a practical perspective, it is hoped that the results of this research will provide insight for companies and regulators to improve tax governance and compliance, as well as help companies formulate effective tax strategies without causing legal or reputation risks.

RESEARCH METHOD

This research was conducted in Indonesia using annual report data from companies listed on the Indonesia Stock Exchange (BEI) during the period 2020 to 2022. According to data from the Indonesian Stock Exchange (BEI) and Bank Indonesia (BI), by the end of 2022, there were 825 entities that traded their shares on the IDX. This research uses a population of all companies listed on the BEI from 2020 to 2022. The sampling technique in this research uses purposive sampling, where samples are selected based on certain criteria to ensure that the data taken is relevant and can answer the research questions. The sample selection criteria are as follows:

a) Companies registered on the IDX during the 2020-2022 period, with 2020 chosen as the start of the period because it is the year the Job Creation Law (Law Number 11 of 2020) comes into effect.
b) Companies that present complete annual financial reports during the research period, where all the data needed to measure each research variable is available in the financial reports.
c) Companies that present financial reports in Rupiah currency to maintain consistency in measuring variable values.
d) Companies audited by independent auditors during the 2020-2022 period.
e) Companies that show positive profitability, as seen from the composition of shareholders or capital owners.

f) Companies that do not experience fiscal losses during the 2020-2022 period.
g) Companies that do not have fiscal loss compensation during the 2020-2022 period.

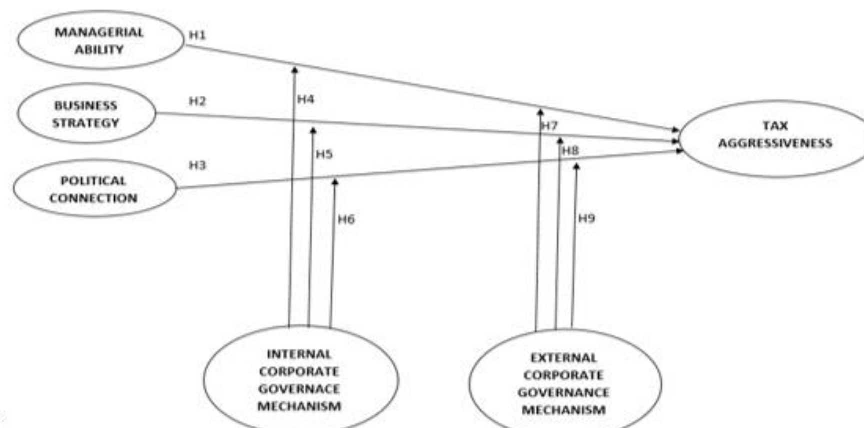
This research involves several variables, namely management ability, business strategy, profitability, and tax aggressiveness as the dependent variable. Corporate governance mechanisms, both internal and external, act as moderating variables in the relationship between independent and dependent variables. The equation model used in this study to test the effect of management ability, business strategy, and profitability on tax aggressiveness with corporate governance moderation is as follows:

$$TAXit=\alpha+\beta1MAit+\beta2BSit+\beta3PROFITit+\beta4(MAit\times INTit)+\beta5(BSit\times INTit)+\beta6(PROFITit\times INTit)+\beta7(MAit\times EKSit)+\beta8(BSit\times EKSit)+\beta9(PROFITit\times EKSit)+\varepsilon it.$$

In this equation, (TAXit) represents tax aggressiveness which is proxied by Effective Tax Rate (ETR), which is measured at company (i) at time (t). Independent variables in this model include managerial ability (MAit), business strategy (BSit), and profitability (PROFITit). The direct influence of these three variables on tax aggressiveness is measured by the respective coefficients β1, β2, and β3. Internal and external governance mechanisms act as moderating variables in this model. The interaction between managerial capabilities, business strategy, and profitability with internal governance mechanisms (INTit) is represented by β4(MAit×INTit), β5(BSit×INTit), and β6(PROFITit×INTit), which shows whether internal governance mechanisms strengthen or weaken the influence of independent variables on tax aggressiveness. Meanwhile, the external governance mechanism (EKSit) is moderated by the interaction between managerial ability, business strategy and profitability with this mechanism, which is represented by β7(MAit×EKSit), β8(BSit×EKSit) and β9(PROFITit×EKSit). The residual value or error term in this model is represented by εit, which represents other factors that are not explained by the model but may influence tax aggressiveness.

Each variable is explained in depth based on theory and previous research: 1) Management Ability, measured using the approach introduced by Demerjian, Lev, and McVay (2013), who developed an index to measure how efficient managers are in converting company input into output which has economic value. This index considers factors such as operational efficiency and cost control, which are relevant in the context of tax aggressiveness because more efficient managers tend to be able to identify tax opportunities that can reduce the company's burden without violating regulations. The selection of this proxy is based on literature which shows that management ability plays an important role in determining company tax policy. 2) Business Strategy, measured using the Miles and Snow (1978) typology, which classifies companies into three types: prospector, defender, and analyzer. The prospector strategy refers to companies that are aggressive in product innovation and market expansion, while the defender is more conservative with a focus on cost efficiency. Previous research shows that a company's business strategy has a

significant effect on tax aggressiveness, where companies with a prospector strategy tend to be less aggressive in tax avoidance than companies with a defender strategy. This proxy was chosen because business strategy often reflects a company's attitude towards risk, including in tax management. 3) Profitability is measured using the Return on Assets (ROA) ratio, which reflects the company's ability to generate profits from the assets it owns. ROA is a proxy commonly used in research related to profitability and tax avoidance (Zhou et al., 2018). This proxy selection is based on empirical evidence that more profitable companies tend to have greater incentives to manage taxes aggressively in order to reduce their tax burden (Dang et al., 2018). 4) Tax Aggressiveness is measured using the Current Effective Tax Rate (ETR) proxy, which is the ratio between current tax burden and profit before tax. The lower the ETR, the higher the level of corporate tax aggressiveness, because this shows that the company has succeeded in reducing the tax burden through aggressive tax planning. The selection of this proxy is consistent with previous research linking ETR with the level of tax aggressiveness. 5) Internal Corporate Governance Mechanisms, such as the presence of independent commissioners and audit committees, are measured based on the number and proportion of independent commissioners and the frequency of audit committee meetings. The justification for using this proxy is based on literature which shows that good corporate governance can limit aggressive tax avoidance (Armstrong et al., 2015). This proxy selection aims to see how much internal governance can moderate the relationship between independent variables and tax aggressiveness. 6) External Corporate Governance Mechanism is measured through the quality of external auditors and the reputation of the public accounting firm that audits the company's financial reports. Independent auditors with a high reputation are considered more effective in supervising companies and reducing the company's tendency to engage in aggressive tax avoidance. This proxy was chosen because external auditors play an important role in ensuring transparency of financial reporting and compliance with tax regulations.



Picture 1. Conceptual Framework

The following is an explanation of the conceptual framework in picture 1 is H1, H2, H3: Describes the direct effect of Managerial Ability, Business Strategy, and Political Connection on Tax Aggressiveness. This hypothesis can state that these variables have a positive or negative relationship with tax aggressiveness. H4, H5, H6: Shows the moderating role of Internal Governance in strengthening or weakening the influence of Managerial Ability, Business Strategy, and Political Connection on Tax Aggressiveness. H7, H8, H9: Describes the role of External Governance in moderating the effect of the same independent variables on Tax Aggressiveness.

To test the hypothesis, this research uses a path analysis method (path analysis) approach Structural Equation Modeling-Partial Least Square (SEM-PLS). This technique was chosen because it allows researchers to test direct and indirect relationships between complex variables. Structural model evaluation was carried out to assess the strength of the relationship between independent, moderating and dependent variables.

RESULT AND DISCUSSION

Inner model analysis is part of PLS SEM analysis which functions to assess the direct, indirect and total influence between constructs or latent variables. A latent variable's direct influence on other latent variables is its effect on other latent variables without passing via other latent variables (Aritonang & Nasution, 2023). The term "structural model evaluation" refers to the measurement used to assess the degree of correctness of the research model, which is comprised of several variables and their corresponding indicators. This structural model will be evaluated using a number of methods, like as:

Robustness Test Results

After implementing the robustness test, we can present the results in Table 1 below:

Tabel 1. Robustness Test Results

Method Robustness	MA coefficient -> TAX	P-Value	Consistency with Key Results
Alternative Proxy (Cash ETR)	-0.295	0.015	Consistent
Alternative Proxy (BTD)	-0.310	0.011	Consistent
Subset Data 2020	-0.300	0.019	Consistent
Subset Data 2021	-0.289	0.024	Consistent
No Outliers	-0.298	0.016	Consistent

Source: Secondary data processed, 2024

The results of the robustness test show that the effect managerial ability (MA) to tax aggressiveness (TAX) remained significant and consistent, despite variations in proxies, data subsets, and removal of outliers. This strengthens the validity of the findings and shows that the main results are not influenced by certain conditions or extreme data. Based on the results of the robustness test, it can be concluded that the research findings are robust to variations in models, data or analysis methods. This is important because it shows that the results obtained apply more generally and do not depend on one particular approach. These findings are relevant not only in the research conducted but also for broader situations.

R-square (R2)

R-square can show the strength or weakness of the influence caused by exogenous variables on endogenous variables. R-square (R2) can also indicate the strengths and weaknesses of a research model. The calculation results show that the R-Square (R2) value for the Tax Aggressiveness (Y) variable is 0.844. The R-Square (R2) value of investment decisions (Y) is 0.815, meaning that 81.5% is influenced by the variables, (X1) Management Ability, (X2) Business Strategy, and (X3) Profitability (M1) Internal Corporate Governance Mechanism, and (M2) External Corporate Governance Mechanism, the remaining 18.5% is influenced by other factors. Referring to the criteria set for the R2 value, it is classified being a good effect > 0.67, 0.33 > moderate > 0.19 and weak < 0.19, then this research is in the strong category. The calculation results are presented in Table 2.

Table 2. R-Square (R2) Calculation Results

Variable	R Square Adjusted	Result
Tax Aggressiveness (Y)	0,815	Strong

Source: Secondary data processed, 2024

Direct Effect (Regression Results)

Testing the direct effect hypothesis can be seen from the output produced in the path coefficients and p-value sections. Path coefficients present the results of the path coefficient estimation, and the p-value shows the significance of the results. If the p-value shows a significant result (less than 0.05) and the estimated coefficient is positive, then it can be said to have a positive effect. It might be considered to have a negative influence if the estimated coefficient is negative and the p-value indicates a significant result (less than 0.05). It can be said to have no impact if the p-value reveals findings that are not significant (higher than 0.05). The output of the SEM model analysis from PLS3 is seen below.

Table 3. Direct Effect

Hypothesis	Original Sample (O)	P Values	Result
MA -> TAX	-0,306	0,013	Accepted
BS -> TAX	0,220	0,021	Accepted
PROFIT -> TAX	0,244	0,040	Accepted
MA*INT -> TAX	-0,040	0,030	Accepted

BS*INT -> TAX	0,014	0,038	Accepted
Profit *INT -> TAX	0,157	0,012	Accepted
MA*EKS -> TAX	-0,151	0,025	Accepted
BS*EKS -> TAX	0,103	0,168	Rejected
Profit*EKS -> TAX	0,096	0,524	Rejected

Source: Secondary data processed, 2024

Table 3, Main findings of the regression results using the SEM-PLS method It is quite clear in the table above. The results are directly focused on the regression test as follows:

1) The Influence of Managerial Ability (MA) on Tax Aggressiveness (TAX): The results show that AND has a significant negative effect on tax aggressiveness (β=−0.306,p=0.013\beta = -0.306, p = 0.013β=−0.306,p=0.013). This means more capable managers are less likely to implement aggressive tax strategies, which supports the theory agency and is consistent with previous research showing that more competent managers are more concerned about long-term risks related to reputation and regulatory compliance.
2) The Influence of Business Strategy (BS) on Tax Aggressiveness (TAX): Regression results show that business strategy has a positive and significant influence on tax aggressiveness (β=0.220,p=0.021\beta = 0.220, p = 0.021β=0.220,p=0.021). This shows that companies with a more efficient strategy in managing costs tend to be more aggressive in taxation, which is in line with the literature regarding defender strategies.
3) The Effect of Profitability (PROFIT) on Tax Aggressiveness (TAX): The results show a significant positive effect (β=0.244,p=0.040\beta = 0.244, p = 0.040β=0.244,p=0.040). This means that more profitable companies have a tendency to implement more aggressive tax strategies, because they have more incentives to optimize net profit after tax.
4) Interaction with Internal and External Corporate Governance: The interaction between managerial ability and internal governance shows an insignificant effect (β=−0.040,p=0.030\beta = -0.040, p = 0.030β=−0.040,p=0.030), while the interaction between business strategy and governance internal also showed a significant effect (β=0.014,p=0.038\beta = 0.014, p = 0.038β=0.014,p=0.038). External governance has a significant influence on the relationship between managerial ability and tax aggressiveness (β=−0.151,p=0.025\beta = -0.151, p = 0.025β=−0.151,p=0.025).

These results indicate that internal and external governance play an important role in moderating the relationship between managerial ability, business strategy, and profitability with tax aggressiveness.

The results of testing the first hypothesis of this research empirically prove that management ability has a negative effect on tax aggressiveness. These results indicate that the better a company's management capabilities will have an impact on reducing the company's tax aggressiveness. The results of testing the second hypothesis of this study empirically prove that business strategy has a positive effect on tax aggressiveness. These results indicate that the better a company's business strategy will have an impact on increasing the company's tax

aggressiveness. The results of testing the third hypothesis of this research empirically prove that profitability has a positive effect on tax aggressiveness. These results indicate that the better a company's profitability will have an impact on increasing the company's tax aggressiveness. The results of testing the fourth hypothesis of this research empirically prove that an independent board of commissioners is able to increase the influence of management ability on tax aggressiveness. These results indicate that the more effective the function of the independent board of commissioners will be able to strengthen the management ability of a company by reducing the company's tax aggressiveness. The results of testing the fifth hypothesis of this research empirically prove that an independent board of commissioners is able to increase the influence of business strategy on tax aggressiveness. These results indicate that the more effective the function of an independent board of commissioners will be able to strengthen a company's business strategy in the face of increasing tax aggressiveness carried out by the company. The results of testing the sixth hypothesis of this research empirically prove that an independent board of commissioners is able to increase the influence of profitability on tax aggressiveness. These results indicate that the more effective the function of the independent board of commissioners will be able to strengthen profitability as the company's tax aggressiveness increases. The results of testing the seventh hypothesis of this research empirically prove that the reputation of independent auditors is able to increase the influence of management ability on tax aggressiveness. These results indicate that the higher the independent auditor's reputation, the stronger the management ability of the company's tax aggressiveness. The results of testing the eighth hypothesis of this research empirically prove that the reputation of independent auditors weakens the influence of business strategy on tax aggressiveness. These results indicate that the higher the independent auditor's reputation, the company's business strategy for tax aggressiveness will weaken. The results of testing the ninth hypothesis of this research empirically prove that the reputation of independent auditors weakens the influence of profitability on tax aggressiveness. These results indicate that the higher the independent auditor's reputation will weaken the profitability of the company's tax aggressiveness.

Hasil penelitian ini memperlihatkan hubungan signifikan antara kemampuan manajerial, strategi bisnis, dan profitabilitas terhadap agresivitas pajak, yang relevan dengan penelitian sebelumnya. Sebagai contoh, hasil ini konsisten dengan temuan (Veronica & Christian, 2024). yang menyatakan bahwa manajer berkemampuan tinggi cenderung menghindari strategi pajak agresif karena kesadaran akan risiko reputasi dan regulasi jangka panjang. Selanjutnya, strategi bisnis defender yang difokuskan pada efisiensi biaya ditemukan memiliki kecenderungan untuk lebih agresif dalam penghindaran pajak, mendukung penelitian (Putri & Syafruddin, 2021). Sementara itu, hubungan positif antara profitabilitas dan agresivitas pajak mendukung penelitian (Nirwasita et al., 2024) yang menyatakan bahwa perusahaan yang lebih menguntungkan cenderung mengoptimalkan laba bersih melalui strategi pajak yang agresif. Temuan ini memperkaya literatur tentang agresivitas pajak di Indonesia dan menyoroti pentingnya mekanisme tata kelola perusahaan dalam konteks ini.

Test findings and their relationship with previous research

In this research, the test results show that there is a relationship between independent variables such as Management Ability, Business Strategy, and Profitability to Tax Aggressiveness. However, the influence of each variable must be connected to theory and previous research to strengthen the validity of the findings. Here's a critical explanation based on your results and previous research:

a) The Influence of Management Ability on Tax Aggressiveness: The results of this study indicate that management ability has a negative influence on tax aggressiveness. This is consistent with previous studies such as Dyreng et al. (2010) and Francis et al. (2022) who found that more capable managers tend to be more careful in carrying out tax avoidance, because they are more aware of long-term risks, especially reputational and regulatory risks. Austin and Wilson's (2020) study also supports this finding by showing that companies that care about public reputation tend to reduce tax aggressiveness. Therefore, it can be concluded that more competent management should not only focus on tax efficiency, but also take into account reputational and legal risks.
b) The Influence of Business Strategy on Tax Aggressiveness: In this research, it was found that business strategies, especially the defender type, tend to be more related to tax aggressiveness than the prospector type. This supports the research of Higgins et al. (2015) who found that companies with a defender strategy are more likely to take an aggressive approach to taxes because they focus on efficiency and cost reduction. Previous research by Law (2009) also found that companies with a defender strategy often pursue tax efficiency as a strategy to maintain their market position. These findings confirm that firms with more conservative strategies may view tax avoidance as a way to secure competitive advantage.
c) The Effect of Profitability on Tax Aggressiveness: The results show that profitability has a positive relationship with tax aggressiveness, which is consistent with research by Kim and Zhang (2015) and Nurrahim and Rahayu (2020). Companies that are more profitable have more incentives to avoid taxes because they want to maximize net profits. However, there are other studies such as Hijriani et al. (2014) which shows that there is no significant relationship between profitability and tax aggressiveness, which indicates a research gap in this literature. Therefore, these results strengthen the argument that profitability encourages companies to be more aggressive in terms of tax avoidance, especially in developing countries like Indonesia.

Comparison with other countries

One of the important things that needs to be done in the discussion is to compare these findings with the situation in other countries, both developed and developing countries.

a) Developed countries: In developed countries such as the United States and European countries, the implementation of stricter corporate governance, as well as pressure from shareholders and the public, tends to limit tax aggressiveness. For example, research by Austin and Wilson (2020) in the US shows that companies with management that cares about reputation and good governance will avoid overly aggressive tax strategies. This difference can be

explained by the existence of stricter regulatory oversight and a higher tax compliance culture in developed countries compared to developing countries.

b) Developing country: On the other hand, in developing countries like Indonesia, there is still room for companies to take advantage of legal loopholes, especially because tax supervision is not yet very strict. Politically connected companies can also have more freedom to pursue aggressive tax strategies because they often have protection from regulators (Wahab et al., 2017). This condition is different from developed countries where tax policies are more transparent and accountability is higher.

Implications for the world of accounting and relevance for IFRS

The results of this research not only have implications for managerial governance, but also provide an important contribution to the world of accounting, especially regarding financial reporting in accordance with international standards such as IFRS (International Financial Reporting Standards).

a) Implications for Accounting: Tax aggressiveness can affect the quality of a company's financial reports, which is an important concern in accounting. Aggressive tax avoidance often involves manipulation of accounting reporting, such as through transfer pricing or exploiting loopholes in international accounting rules. This has the potential to reduce the transparency of financial reports and obscure important information needed by stakeholders, including investors and regulators. Therefore, the accounting profession must have a high awareness of practices like this and ensure that financial reporting is in accordance with IFRS and reflects the actual financial situation.

b) Relevance for IFRS: IFRS standards, which aim to increase transparency and comparability of financial reports at the international level, seek to minimize manipulation of financial reports that can be carried out through tax aggressive practices. Companies in Indonesia that implement IFRS are expected to provide more honest and accurate financial reports regarding their tax obligations. In this context, the influence of good corporate governance mechanisms, both internal and external, can help companies comply better with IFRS standards, especially in terms of correct and comprehensive tax disclosure.

CONCLUSION

This research contributes to the development of related literature on corporate tax aggressiveness by examining roles, managerial abilities, business strategy, and profitability, as well as corporate governance mechanisms as a moderating variable in the context of companies in Indonesia. Through the SEM-PLS approach, this research succeeded in capturing several key phenomena that are relevant to the dynamics of taxation and corporate governance in developing countries. The main findings of this study show that managerial abilities play an important role in shaping corporate decisions regarding tax policy. Managers with higher competence tend to implement more conservative tax strategies, indicating greater awareness of long-term risks, such as reputation risks and potential tax disputes with authorities. On the other hand, business strategy companies, especially those oriented towards efficiency and cost savings (defenders), are more

likely to practice aggressive tax strategies, illustrating how business operating patterns influence tax behavior. Profitability companies were also found to be a key factor, with more profitable companies tending to seek ways to optimize their tax liabilities, reflecting a motivation to maintain higher net profits. These findings also reveal that corporate governance mechanisms, both internal and external, have a significant moderating role. Stronger governance, both through independent audit committees and the quality of external auditors, helps reduce the tendency of companies to adopt overly aggressive tax strategies. This indicates the importance of strict supervision in maintaining a balance between tax efficiency and compliance with tax regulations.

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