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Management Compensation, Financial Distress, Accounting Conservatism, Sales Growth on Tax Avoidance with Audit Quality as Moderating Variable

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Abstract

This study investigates the effect of management compensation, financial distress, accounting conservatism and sales growth on tax avoidance with auditor quality as moderating variable. Sample consist of 54 manufacturing firm that list on LQ 45 Indonesian Stock Exchange during 2019-2021. This study used regression analysis to test the hypotheses. The finding suggests that management compensation and accounting conservatism have a positive effect on tax avoidance. Financial distress and sales growth had no effect on tax avoidance. Audit quality strengthens the effect of sales growth on tax avoidance, but audit quality can not moderate the effect of management compensation, financial distress and accounting conservatism on tax avoidance.

Keywords
audit quality; management compensation; financial distress; accounting conservatism, tax avoidance

I. Introduction

As a profit-oriented company, the company will try to get the maximum profit in various ways. One of the company's strategies to increase profits is to carry out tax avoidance, which is a strategy to reduce the tax burden so that the company obtains optimal profits.

This is a dilemma, because taxes are an important source of funding for the country's economy. The progress of a country can be measured from the development progress that occurred during that period. But many companies try to avoid taxes in order to increase profits.

The government uses APBN funds to carry out its programs with the aim of increasing economic growth through the development of infrastructure, public assets and other public facilities. This is done to improve the welfare of the Indonesian people. Tax is a payment obligation by the people to the government. Paying taxes is a form of dedication and support for the government in running the government.

Roostina and Erma (2021) consider that companies paying taxes will be detrimental because they have to incur costs, so companies always try to avoid paying taxes. Weak tax systems and regulations in Indonesia are also a trigger for companies to take tax evasion actions.

The phenomenon of tax avoidance that occurs according to a report issued by Global Witness, one of Indonesia's largest mining companies, namely PT. Adaro Energy Perkasa performs transfer pricing through its subsidiary in Singapore, Coaltrade Services International. This effort is said to have been carried out from 2009 to 2017. Adaro is alleged to have carried out tax planning so that they could pay taxes of US$ 125 million or the equivalent of Rp. 1.75 trillion lower than what should be paid in Indonesia. (www.globalwitness.org/en/)

Alghifari et al. (2020) the provision of high compensation can affect tax evasion, management assesses that the increasing salary that management has must obey the wishes of the corporation. So that many managements care about instructions to implement tax avoidance. Income Tax is a type of subjective tax whose tax obligations are attached to the relevant Tax Subject (Hendayana, 2021). Tax is a requirement that has been established by the state as a civic duty (Marpaung, 2020). Tax is a compulsory levy paid by the people to the state and will be used for the benefit of the government and the general public (Siregar, 2019).

Swandewi and Naniek (2020: 1679), managers as agents always try to make their performance look good and avoid a bad image even though the company is experiencing financial distress. Companies that are trapped in financial distress will try to take any action so that the company can continue to survive. Efforts to maintain the continuity of the company need to be done, because the company is still bound by a contract and has obligations with external parties. Managers become triggered to make decisions by considering how to manipulate their accounting policies. The aim is to increase operating income or their ability to pay obligations to related parties, one of which is by taking tax avoidance measures to reduce the company's burden, namely the tax burden.

Swandewi and Naniek (2020: 1673), Conservatism applied by a company tends to affect the company's financial statements. The financial statements will later be used as a basis for decision making by management related to the company's operational policies. Policies related to the company's operations in question, of course, also contain tax policies.

According to Suryani (2021: 33), higher sales growth will cause tax avoidance practices to increase. High sales growth creates a high tax burden so companies try to reduce it by practicing tax avoidance.

Regina et al. (2021: 703) Audit quality has a role in maintaining the disclosure of information provided by management to shareholders. Transparency can be shown through the submission of sensitive financial information, both related to income or expenses which are informed in the financial statements. Shareholders can obtain actual information about the condition of the company with transparency in financial reports which can be reflected through taxable profits and accounting profits.

Roslita (2019: 215) Users of financial statements view audit opinions about the viability of the company from audit quality as measured by the big four KAP and non-big four KAP projections on financial reports. Big four KAPs (big four KAPs) have a high reputation and will be more independent in conducting their audits because large KAPs tend to maintain market share and public trust, therefore investors will certainly have more confidence in the financial statements audited by the big four KAPs.

This research is an update of research entitled The Moderating Effect of Audit Quality on CEO Compensation and Tax Avoidance: Evidence from Tunisian Context, which was investigated by Ferchichi Jihene and Dabboussi Moez. With a company listed on the Tunisian Stock Exchange in 2013-2016. This study discusses the phenomenon of giving management compensation to tax evasion and the effect of audit quality as a moderating variable on tax evasion on the Tunisian Stock Exchange. This study adds other variables, namely accounting conservatism, financial distress, and sales growth. This research was conducted at LQ 45 companies listed on the Indonesian Stock Exchange in 2019-2021.

The objectives of this study include the following: 1) To find empirical evidence and analyze the significant effect of management compensation on tax evasion. 2) To find empirical evidence and analyze the significant effect of financial distress on tax evasion. 3)

To find empirical evidence and analyze the significant effect of accounting conservatism on tax evasion. 4) To find empirical evidence and analyze the significant effect of sales growth on tax evasion. 5) To find empirical evidence and analyze audit quality in weakening the significant effect of management compensation on tax evasion. 6) To find empirical evidence and analyze audit quality in weakening the significant effect of financial distress on tax evasion. 7) To find empirical evidence and analyze audit quality in weakening the significant effect of accounting conservatism on tax evasion. 8) To find empirical evidence and analyze audit quality in weakening the significant effect of sales growth on tax evasion.

II. Research Method

This research is intended to determine the effect of management compensation, financial distress, accounting conservatism and sales growth on tax avoidance with audit quality as moderation in the LQ-45 group in Indonesia in 2017-2021, so this research is a quantitative study. This study uses secondary data sources (secondary data) where the research data sources are obtained by researchers indirectly through intermediary media (obtained and recorded by other parties), namely the financial reports of the Indonesia Stock Exchange. The type of sampling method is purposive sampling

The sample criteria are as follows:

1. Companies listed on LQ 45 IDX.
2. Companies that have published audited financial statements for the financial year ended December 31.
3. Companies that do not experience losses in their financial statements.
4. Not a financial company.

In this study tax avoidance is the dependent variable as measured by Book Tax Difference. Book tax difference, namely the difference between accounting profit and tax profit is calculated using the equation adapted by Noor and Mastuki (2009).

Table 1. Operational Variable

Variables	Measurements
BTD	(Pre-tax Income – Taxable Income)/ Total Assets
comp	lnTotal Compensation received by the directors
FIN	1.2A + 1.4B + 3.3C + 0.6D + 1E
ka	((Net profit + depreciation) – Operating cash flow (-1))/Total Asset
SALES	(Sales-Sales-t)/Sales-t
AUDITS	Dummy 1 for KAP Big 4, 0 for KAP NonBig 4

Source: Processed data (2022)

The compensation variable is measured by the total compensation received by the directors. Compensation as a whole has the meaning of the form of compensation given in financial and visible form and also includes benefits received by employees in return for their working relationship with the company. The financial distress variable is measured by calculating the direction of bankruptcy with the Altman's Z Score formula, where:

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

If the Z value ≥ 2.99, then the company is in a safe zone, which is free from distress. If the value is 1.81 ≤ Z < 2.99, it means that the company is in the gray zone, and finally, if the Z value is < 1.81, then the company is in the distress zone. The variables of accounting conservatism are recognizing revenues more slowly and recognizing expenses more quickly, valuing assets with lower values and valuing liabilities with higher values. The sales variable is measured by calculating sales from year to year and the audit variable is measured by giving a dummy value of 1 if it is audited by a big 4 KAP and 0 if it is not a big 4.

Regression Models

Regression analysis is used to test the relationship between the independent variables and the dependent variable. The panel regression analysis formula used in this study is as follows

$$TA = \alpha + \beta 1COMP + \beta 2FIN + \beta 3KA + \beta 4SALES + \beta 5AUDIT + \beta 6COMP*AUDIT + \beta 7 FIN*AUDIT + \beta 8 KA*AUDIT + \beta 9 SALES*AUDIT + \varepsilon$$

Information:

TA	= Tax avoidance
comp	= Management compensation
ka	= Accounting conservatism
Sales	= Sales growth
audits	= Audit quality

III. Discussion

3.1 Descriptive Statistics and Correlation Test

Table 2. Descriptive Statistics

	BTD	comp	FIN	ka	SALES	AUDITS
Means	0.053025	19.81508	5.074074	0.017818	0.123317	0.851852
Median	0.038111	25.14711	4,000000	0.011617	0.049381	1.000000
Maximum	0.179423	27.89722	1600000	0.203034	4.425041	1.000000
Minimum	-0.013385	0.000000	1.000000	-0.107551	-0.998733	0.000000
std. Dev.	0.051039	10.74723	3.810868	0.060542	0.635023	0.358583
Observations	54	54	54	54	54	54

Source: Processed data (2022)

The average value of tax evasion for LQ 45 companies listed on the Indonesia Stock Exchange is 0.053025, meaning that LQ 45 companies in Indonesia on average report accounting profit that is smaller than tax profit. The average value of management compensation for LQ 45 companies listed on the Indonesia Stock Exchange is 19.81508, meaning that manufacturing companies in Indonesia on average provide compensation to management of IDR 19.81 billion. The average value of financial distress is 5.074074 meaning that companies listed on LQ 45 are in a safe zone from bankruptcy. The average value of accounting conservatism is 0.017818 meaning that companies at LQ 45 do not use conservative financial reports. The average value of sales growth is 0. 123317 means that every year companies in LQ 45 experience sales growth of 12%. The average value of audit quality for manufacturing companies listed on the Indonesia Stock Exchange is 0.851852, meaning that 85% of the sample is audited by the KAP The Big Four and 15% is not audited by the KAP The Big Four.

Table 3. Hausman Test

	Prob>Chi2
Model 1	0.0000
Model 2	0.9353

Source: Processed data (2022)

Based on table 3, it is known that the Prob>Chi2 values for model 1 and model 2 are 0.0000<0.05 and 0.9353>0.05, respectively. This value is more than 0.05, which means that Ho is accepted, so the selected model is the Random Effect Model (REM).

3.2 Normality Test

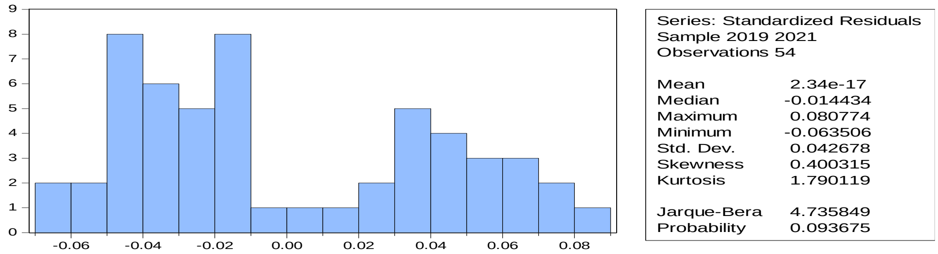

Figure 1. *Normality Test*
Source: Processed data (2022)

From Figure 1 above, the Jarque-Bera value is 4,735 and it is not significant with a p value of 0. or above 0.05. Therefore, it can be concluded that Ho states that the redsidual is normally distributed.

3.3 Multicollinearity Test

Table 4. Multicollinearity Test

	comp	FIN	ka	SALES	AUDITS
comp	1	0.3162300316066947	0.1230501182702091	-0.232558748671976	0.7761118047286082
FIN	0.3162300316066947	1	-0.03755310836054899	-0.1744056973755963	0.3533665737765032
ka	0.1230501182702091	-0.03755310836054899	1	0.1625576740542968	0.0231921699777366
SALES	-0.232558748671976	-0.1744056973755963	0.1625576740542968	1	-0.2963627964384255
AUDITS	0.7761118047286082	0.3533665737765032	0.0231921699777366	-0.2963627964384255	1

Source: Processed data (2022)

It can be seen that there is no multicollinearity problem, this can be seen from the VIF value on the Centered VIF for the three independent variables which is less than 0.08.

3.4 Heteroscedasticity Test

Table 5. Multicollinearity Test

Variables	coefficient	std. Error	t-Statistics	Prob.
C	0.020963	0.012352	1.697104	0.0962
comp	8.84E-05	0.000648	0.136463	0.8920
FIN	0.005062	0.001155	4.381018	0.0601
ka	-0.016768	0.055504	-0.302111	0.7639
SALES	0.006754	0.004979	1.356402	0.1813
AUDITS	-0.020147	0.017628	-1.142893	0.2588

Source: Processed data (2022)

Based on the table above, all variable probs above 0.05, there is no heteroscedasticity.

3.5 Autocorrelation Test

Table 6. Autocorrelation Test

Durbit Watson	**n**	**k**	**Du**	**DL**
2,289	54	5	1.3743	1.7681

Source: Processed data (2022)

The results of the autocorrelation test using the Durbin-Watson test obtained a Durbin-Watson calculated value of 2.289 with the Durbin-Watson table obtained a dl (outer limit) value of 1.7681; du (inner limit) of 1.3473; 4 – dl of 2.7; 4 – du by 2.3. So it can be concluded that the Durbin-Watson value (dw) lies between the upper limit or upper bound (du) and 4-du, then the correlation coefficient is equal to 0, meaning that there is no autocorrelation in this study. The results of the autocorrelation test in this study can be seen in the appendix below

DL DU DW 4-DU 4-DL

0 1.3743 1.7681 2.289 2.2319 2.6257 4

3.6 Empirical Research Findings

Table 7. Multiple Linear Regression Test

Variables	coefficient	t-Statistics	Prob.
C	0.063521	2.565200	0.0135
comp	-0.002527	-2.177559	0.0344
FIN	0.002504	1.901102	0.0633
ka	-0.183154	-3.719606	0.0005

SALES	0.002925	0.699520	0.4876
AUDITS	0.034963	1.897293	0.0638
COMP*AUDIT	0.108854	0.451006	0.6539
FIN*AUDIT	-0.002739	-0.228216	0.8204
HEAD OF AUDIT	-0.348093	-0.920786	0.3616
SALES*AUDIT	0.067589	2.761672	0.0080
Adjusted R-squared	0.291387		
F-statistics	5.358794		
Prob(F-statistic)	0.000542		

Source: Processed data (2022)

Adjusted by 0.291387, which means that a variation of 4 independent variables COMP, FIN, KA, SALES, and 1 AUDIT moderating variable is able to explain 29% of the variation in the BTD variable while the remaining 71 are explained by other variables. The Prob(F-statistic) result is 5.357894 with a probability (Prob F-Statistic) with a probability of 0.000542, because the probability is much smaller than 0.05 it can be concluded that the regression coefficient of management compensation, accounting conservatism, financial distress, sales growth and audit quality simultaneously affect the aggressiveness of the tax.R^2

The results of the analysis of hypothesis testing are interpreted as follows:

3.7 Effect of Management Compensation on Tax Avoidance

The first hypothesis put forward in this study is that management compensation has a positive effect on tax avoidance. Based on the results of the t test, namely the partial test results between management compensation and tax avoidance variables, it shows a t value of 2.565200 with a probability of 0.344, less than 0.05. This shows that management compensation has a positive effect on tax avoidance, so the first hypothesis which states that management compensation has a positive effect on tax avoidance is accepted.

This is in line with research conducted by Indrianti and Putu (2020), Jihene and Dabbousi (2019).

Providing compensation to managers is closely related to the agency relationship between shareholders and managers. Managers as agents want bonuses for their performance which causes managers to tend to be opportunistic (Indrianti and Putu, 2020: 1550).

CEO compensation has a positive effect on corporate tax avoidance because managers are willing to engage in risky activities that provide them with additional compensation. Executive compensation allows them to adopt behavior that is in accordance with the expectations of shareholders (Jihene and Dabbousi, 2019: 138).

Based on the explanation above, the researcher concludes that management compensation makes managers opportunistic, one of which is tax aggressiveness to adopt behavior that is in accordance with shareholder expectations and is willing to engage in risky activities to pursue bonuses.

3.8 The Effect of Financial Distress on Tax Avoidance

The second hypothesis put forward in this study is that financial distress has a positive effect on tax avoidance. Based on the results of the t test, namely the results of partial testing between financial distress and tax avoidance variables, it shows a t value of 1.901102 with a probability of 0.063 greater than 0.05. This shows that financial distress has no effect on tax avoidance, so the second hypothesis which states that financial distress has a positive effect on tax avoidance is rejected.

The results of this study are in line with those conducted by Febbyana and Sudjawoto (2021), the study concluded that financial distress has no effect on tax advoidance. way of tax advoidance to reduce the tax burden but instead choose other alternatives such as borrowing injections of funds from partner companies. Most companies in Indonesia that are experiencing financial distress do not have the habit of seeking additional cash or additional profits by minimizing the tax burden using tax avoidance because it will trigger a decline in investors investing in shares. This occurs due to a misalignment between company management goals and investor goals.

Based on the explanation above, the researchers concluded that financial distress has no effect on tax avoidance because companies that are caught in economic difficulties will not take the risk of carrying out tax avoidance, apart from receiving supervision from the Director General of Taxes, taking tax avoidance actions will trigger a decrease in investors investing in stocks. The company will do other alternatives in saving financial statements such as seeking additional injections of funds from investors.

3.9 The Effect of Accounting Conservatism on Tax Avoidance

The third hypothesis put forward in this study is that accounting conservatism has a positive effect on tax avoidance. Based on the results of the t test, namely the partial test results between accounting conservatism and tax avoidance variables, it shows a t value of -3.719606 with a probability of 0.0005, less than 0.05. This shows that financial distress has a negative effect on tax avoidance, so the third hypothesis which states that financial distress has a positive effect on tax avoidance is rejected.

The more accounting conservatism is applied in companies, the greater the precautionary attitude towards preparing financial reports, so that tax avoidance activities will be less and less to do (Putri and Rina, 2021: 38).

Accounting conservatism is not a variable cause that influences companies to do tax evasion. This shows that the use of conservative accounting methods will not increase the tendency of companies to avoid taxes, because with government regulations the tendency to avoid taxes will be narrower (Lailatus and Adi, 2021: 82).

Based on the explanation above, the researcher concludes that financial distress has a negative effect on tax avoidance, the application of accounting conservatism tends to affect the financial statements, management will take a cautious attitude in preparing financial reports, the existence of outside supervision will also narrow tax avoidance practices.

3.10 Effect of Sales Growth on Tax Avoidance

The fourth hypothesis put forward in this study is that sales growth has a positive effect on tax avoidance. Based on the results of the t test, namely the partial test results between sales growth and tax avoidance variables, it shows a t value of 0.0699520 with a probability of 0.04876 greater than 0.05. This shows that sales growth has no effect on tax avoidance, so the fourth hypothesis which states that sales growth has a positive effect on tax avoidance is rejected.

The results of this study are in line with those conducted by Anastasa (2021), Febbyana and Sudjawoto (2021).

Increased growth or high sales do not guarantee that the company will get high profits, so company management does not need to carry out planning activities to avoid taxes (Anasta, 2021: 1810).

The higher the company's sales growth, the company's profit will increase so that it will be in line with the level of tax burden that will be borne, this increase will be a concern for tax officials who assume that the higher the sales growth, the greater the amount of tax payable that must be paid by the company. (Febbyana and Sudjawoto, 2021:87)

Based on the explanation above, the researcher concludes that companies with high sales growth will not make tax savings, because they have good performance and profits tend to increase, so their tax payments will be high.

3.11 The Effect of Management Compensation is Moderated by Audit Quality on Tax Avoidance

The fifth hypothesis put forward in this study is that audit quality weakens the effect of management compensation on tax avoidance. Based on the results of the t test, namely the partial test results between the moderating variable of audit quality on management compensation and tax avoidance, it shows a t value of 0.451006 with a probability of 0.6539 greater than 0.05. This indicates that audit quality does not moderate management compensation on tax avoidance, so the fifth hypothesis which states that audit quality weakens the effect of management compensation on tax avoidance is rejected.

These results are in line with research conducted by Regina et. Al (2021), this is due to a compensation system that takes into account company performance (pay for performance) in several companies that are the research sample, one of which is PT Barito Pacific Tbk, PT Waskita Beton Precast Tbk, PT Phapros Tbk, and several other companies, so that even though the company is audited by KAP The Big Four managers still have high motivation to make efforts to avoid taxes.

Based on the explanation above, the researcher concludes that the sample in this study is a sample taken during a pandemic, the company will do everything it can to survive during the pandemic, even though the company is audited by KAP The Big Four managers still have high motivation to make tax evasion efforts.

3.12 The Effect of Financial Distress is Moderated by Audit Quality

The sixth hypothesis put forward in this study is that audit quality weakens the effect of management compensation on tax avoidance. Based on the results of the t test, namely the partial test results between the moderating variable of audit quality on financial distress and tax avoidance, it shows a t value of -0.228216 with a probability of 0.8204 greater than 0.05. This shows that audit quality does not moderate financial distress on tax avoidance, so the sixth hypothesis which states that audit quality weakens the effect of financial distress on tax avoidance is rejected.

This is because audit quality is a monitoring mechanism, but it is not proven to reduce tax deduction behavior. However, an auditor must be bound by a code of ethics so that wherever the auditor works, whether in the big four or non-big four KAP, he must still adhere to the accountant's code of ethics and be able to maintain his integrity, even though the company is audited by the Big Four KAP, the manager as an agent will practice tax avoidance to reduce the level of financial distress experienced by the company so that its performance still looks good.

3.13 The Effect of Accounting Conservatism is Moderated by Audit Quality on Tax Avoidance

The seventh hypothesis put forward in this study is that audit quality weakens the effect of accounting conservatism on tax avoidance. Based on the results of the t test, namely the partial test results between the moderating variable of audit quality on accounting conservatism and tax avoidance, it shows a t value of -0.920786 with a probability of 0.3616 greater than 0.05. This indicates that audit quality does not moderate accounting conservatism on tax avoidance, so the seventh hypothesis which states that audit quality weakens the effect of accounting conservatism on tax avoidance is rejected.

Conservatism applied by a company tends to affect the company's financial statements. The financial statements will later be used as a basis for decision making by management related to the company's operational policies. Policies related to the company's operations in question, of course, also contain tax policies (Swandewi and Naniek, 2020: 1673).

Based on the explanation above, the researcher concludes that companies with higher taxes tend to choose conservative accounting policies to reduce their tax payable burden in ways that are permissible. Managers will try to carry out accounting conservatism in ways that are permitted by the Big 4 KAP.

3.14 The Effect of Sales Growth is Moderated by Audit Quality on Tax Avoidance

The eighth hypothesis put forward in this study is that audit quality weakens the effect of sales growth on tax avoidance. Tax is a compulsory levy paid by the people to the state and will be used for the benefit of the government and the general public (Siregar, 2019). Based on the results of the t test, namely the partial test results between the moderating variable of audit quality on sales growth and tax avoidance, it shows a t value of 2.761672 with a probability of 0.0080, less than 0.05. This shows that audit quality moderates' sales growth on tax avoidance, so the eighth hypothesis which states that audit quality weakens the effect of sales growth on tax avoidance is accepted.

Audit quality has a role in maintaining the disclosure of information provided by management to shareholders. Transparency can be shown through the submission of sensitive financial information, both related to income or expenses which are informed in the financial reports. Shareholders can obtain actual information about the condition of the company with transparency in financial reports which can be reflected through taxable profits and accounting profits.

IV. Conclusion

This study aims to determine the effect of tax aggressiveness that occurs in LQ 45 companies for the period 2019 - 2022, with factors including management compensation, financial distress, accounting conservatism, and sales growth moderated by audit quality. Based on the results of data analysis and discussion presented in the previous chapter, the following conclusions can be drawn:

1. Management compensation has an effect on tax aggressiveness in companies listed on LQ 45 for the 2019-2021 period.
2. Financial distress has no effect on tax aggressiveness in companies listed on LQ 45 for the 2019-2021 period.
3. Accounting conservatism influences tax aggressiveness in companies listed on LQ 45 for the 2019-2021 period.
4. Sales growth has no effect on tax aggressiveness in companies listed on LQ 45 for the 2019-2021 period.
5. Audit quality does not moderate the effect of management compensation on tax avoidance in companies listed on LQ 45 for the 2019-2021 period.
6. Audit quality does not moderate the effect of financial distress on tax avoidance in companies listed on LQ 45 for the 2019-2021 period.
7. Audit quality does not moderate the effect of accounting conservatism on tax avoidance in companies listed on LQ 45 for the 2019-2021 period.
8. Audit quality weakens the effect of sales growth on tax avoidance in companies listed on LQ 45 for the 2019-2021 period.

Limitations

This research still has some limitations that must be considered by future researchers. Some of the limitations include:

1. Using data outliers
2. The amount of data is only a small amount of 18 data
3. The moderating variable is only 1 which weakens it

Suggestion

Based on the discussion and conclusions obtained, the researcher makes the following suggestions:

1. Examined all manufacturing samples
2. Using the variable profitability as a moderating variable

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