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Original Research Article

Does Independent Commissioners Play a Moderating Role in Relationship Financial Ratios and Financial Distress with Tax Avoidance?

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Abstract

Indonesia implements a self-assessment system so that taxpayers are trusted to calculate, pay, and report their own taxes in accordance with applicable tax provisions. Companies as taxpayers do tax avoidance by taking the advantage of loopholes in tax regulations without violating applicable regulations in order to pay taxes in the minimum amount. Therefore, this research is conducted to test the effect of profitability, leverage, and financial distress on tax avoidance with independent commissioners as a moderating variable. The population used in this research is all manufacturing companies which are listed in Indonesia Stock Exchange period 2019-2021. The 243 samples are taken by purposive sampling after outliers. The data used are secondary where annual reports and financial statements are obtained from the company's official websites. This research uses SPSS and the analytical techniques are multiple linear regression and moderated regression analysis. The results of this research prove that profitability has a negative significant effect on tax avoidance, leverage has a positive significant effect on tax avoidance, financial distress does not have a significant effect on tax avoidance, and independent commissioners is unable to moderate the effects of profitability, leverage, and financial distress on tax avoidance.

Keywords: Tax Avoidance, Profitability, Leverage, Financial Distress, Independent Commissioners.

INTRODUCTION

Tax is one of the state revenues because it can be a wheel for government to develop the country in a positive direction and as the most important financing country's resource in the state budget. During the Covid-19, the advantage of taxes is the ability to fulfill the society's interest as a government's effort in managing the tax fund which has been paid by the taxpayers.

Indonesia implements a self-assessment system meaning that taxpayers are given a trust to calculate and pay their own taxes in accordance with the tax regulation in Indonesia (Lutfi, 2019). The government always targets the increase of state revenue. This aims as a positive contribution from the society to help and support the government's program. On the other hand, the response from the society is not suitable to what the government expects.

Data show that the state revenue from tax sector has not been optimal yet. Besides, Anis Byarti, a Commission of the House Representative Indonesia Republic member, said that tax ratio in Indonesia was lower compared to the countries in the Pacific region which reached 21%, so further improvements were needed, remembering that the fiscal condition and country's debt kept soaring. According to the data, the realization of tax revenue in Indonesia from 2018 and 2019 has decreased from 92.41% to 84.4% (www.antaranews.com, 2021).

The trigger why the target of state tax revenue is not achievable because of the unawareness of taxpayers in complying with the tax payments and the impact of Covid-19 pandemic. Minister of Finance, Sri Mulyani, told that the deficit of state revenue and spending budget soared was quite drastic. Therefore, the effort of government to overcome the pandemic is recovering the state revenue. Sri Mulyani also told that the realization of tax revenue until December 2020 slumped by 18.8% comparing to the previous year in the same year. In addition, the government also gives tax incentives in order to overcome from Covid-19 pandemic, such as reduction of income tax article 25 installment, reduction of corporate tax income tariff, and more.

Even though tax has an important role in developing the country, tax is still classified as a burden which reduces the corporate's income so that companies tend to minimize their tax payments, both legally and illegally. The effort to minimize the tax payment can be done through tax avoidance.

Tax avoidance is a safe or legal action done by the taxpayers because they utilize the advantage of loopholes from the tax regulation without violating it (Pohan, 2018). Although tax avoidance does not violate the provisions of the applicable tax regulations, it is still not justified because tax avoidance can reduce the source of state revenue, especially from tax sector. Companies feel that tax avoidance gives them benefits that tax avoidance can help them manage their taxations through tax planning so their tax expenses can be more economical.

Related to the practice of tax avoidance, Sri Mulyani told that there were still a lot of companies which had reported losses since 2012 with a total of 9,496 companies in 2015-2019. Moreover, the companies which reported losses are still operating even expanding their businesses in Indonesia (www.cnbcindonesia.com, 2021).

One of the tax avoidance motifs can be found in a fishery company where there were three tax avoidance efforts, such as disguising the origin of the fish in order to cut the entered cost, demeaning the catch to cover up the fact that the result of fishing has exceeded the quota from the ship and avoided the entered cost and income tax, as well as reporting inaccurately the types of fish species that have an impact on import's entered cost and imposed value added tax. The fishery supervisor of Marine and Fisheries Ministry, Yogi Putranto, S.Si, said that the company also did the falsification in labeling the price with the type of fish in order to avoid taxes on high-quality types of fish, hid the sales by preparing two bookkeeping and submitted the manipulated bookkeeping to the Directorate General of Taxes, hid the sales data through lowering the selling prices and committed missing trader fraud (www.news.detik.com, 2021).

Another phenomenon related to tax avoidance is from the palm oil company where there was a land expansion, but the tax revenue was not comparable to the expansion of the business. This was caused by the transfer pricing and thin capitalization as a form to avoid taxes. Deputy Chairman of the Corruption Eradication Commission, Laode M Syarif, told that there were still palm oil companies that have not paid the taxes by 40% (www.tirto.id, 2019).

Based on the phenomena that have been disclosed in the previous paragraphs, there are factors affecting tax avoidance. First, profitability is a financial analysis tool to measure the ability of company to generate the profits (Harahap, 2018). Companies with high profits indicate that they have successfully managed the companies (Kusuma & Ratri, 2018). High profits will make high tax expense, so that companies will minimize it (Ayunanta *et al*., 2020). Previous research conducted by (Asalam & Pratomo, 2020; Darsani & Sukartha, 2021; Pitaloka & Merkusiwati, 2019; Putriningsih *et al*., 2018) stated that profitability positively affects tax avoidance. However, the result was not in line with (Mulyati *et al*., 2019) who stated that profitability does not affect tax avoidance and research by (Janatin & Pardi, 2022; Mudzakar & Sinaga, 2019; Nawangsari *et al*., 2022; Rahmawati & Nani, 2021; Tarmidi et al., 2020) stated that profitability negatively and significantly affects tax avoidance.

Leverage is a financial analysis tool to measure how far companies is able to pay all their debts (Kasmir, 2018). When they fund the companies in leverage, it will impact on high interest expense, so the profit before tax will be low. In line with previous research by (Ardianti, 2019; Faizah, 2022; Putriningsih *et al*., 2018; Wulansari *et al*., 2020) that leverage negatively affects tax avoidance, while research by (Ryandono *et al*., 2020) stated that leverage does not affect tax avoidance, and research by (Silaban, 2020) stated that leverage positively affects tax avoidance.

Financial distress is another reason of tax avoidance. It is about the inability of the companies to fulfill their obligations where there are usually two parties involved in it, namely debtors and creditors (Kristanti, 2019). Companies which experience losses due to the financial distress tend to not pay the taxes and they will receive tax loss compensation (Cita & Supadmi, 2019). In addition, companies which are in financial distress incline not to do tax avoidance because it will make the image of the companies become worse. Previous research by (Cita & Supadmi, 2019; Hasanah & Widiastuti, 2022; Monika & Noviari, 2021; Nurlis *et al*., 2022; Suhaidar *et al*., 2021) stated that financial distress negatively affects tax avoidance. Meanwhile, it is different from the research by (Swandewi & Noviari, 2020) who stated that financial distress positively affects tax avoidance, and (Ari & Sudjawoto, 2021; Gunawan & Darminto, 2021; Khamisan & Christina, 2020; Lukito & Sandra, 2021) stated that financial distress does not affect tax avoidance.

This research adds a moderating variable; corporate governance which is proxied by independent commissioners as a novelty. It is expected that the presence of independent commissioners in a company will be able to monitor, control, and review the company's performance in order to achieve the goals and good corporate governance. Previous research by (Asih & Darmawati, 2022; A. Octaviani & Trishananto, 2022; Rani *et al*., 2021) stated that Independent Commissioners can weaken the effect of profitability on tax avoidance while (Kartikasari & Kresnawati, 2021; Wardani *et al*., 2022) stated that Independent Commissioners cannot moderate the effect of profitability on tax avoidance.

Research by (A. Octaviani & Trishananto, 2022; Wicaksana *et al*., 2021) also found that independent commissionerscan strengthen the effect of leverage on tax avoidance while (Afrianti *et al*., 2022) found that independent commissioners cannot moderate the effect of leverage on tax avoidance.

Research by (Alhady *et al*., 2021) stated that independent commissioners cannot moderate the effect of financial distress on tax avoidance. On the other hand, (Febriyanto & Laurensius, 2022) found that independent commissioners can play its moderating role. Companies which experience financial distress will try its best to defend the liquidity (Alhady *et al*., 2021), so that independent commissioners presents in the company to monitor the its activities to make a good image in investors. The result of research by (Wulansari *et al*., 2020) stated that independent commissioners can reduce the tax avoidance.

This research seeks to open up the research gaps, update the previous studies, and explain the effects of profitability, leverage, and financial distress on tax avoidance with independent commissioners as a moderating variable.

LITERATURE REVIEWS

Agency Theory

Agency theory is a theory which explains about the contractual relationship between one or more to perform multiple services, so that the agent makes the decisions on a behalf of the principal (Jensen & Meckling, 1976). The agency relationship between shareholders and management often causes conflicts, such as a misalignment of interests or goals between shareholders and company management, as well as the difficulties of shareholders to obtain information in order to assess the behavior or company management accurately (Eisenhardt, 1989).

In this research, there is a relevance between agency theory and tax avoidance activity, in the form of the differences or interest conflicts between agents and principals that focus on each other for their own benefit and prosperity. In this case, the company plays as an agent whereas the tax authority and shareholders play as a principal. Tax avoidance is done because there is a willing or desire from shareholders to get high prosperity from the profit generated by the company. On the other hand, companies want to pay the tax in a minimum amount regarding that higher profits will impact the higher taxes. Because of this, companies tend to do tax avoidance by using the loopholes in tax regulations. This action also makes another conflict with a tax authority or fiscus who wants to get maximum tax payment from the companies since this payment will be utilized for the country's development.

Legitimacy Theory

Legitimacy theory is a theory that emphasizes the company's efforts done continuously in getting a valid acknowledgment from external parties, such as investors, society, government, and creditors, that the company has carried out its activities in accordance with the limits of applicable norms (Ghozali, 2020).

In this research, the relevance between legitimacy theory and tax avoidance is that companies as taxpayers must obey to the tax regulations in order to obtain the legitimation from government or public. When companies do tax avoidance, they will not obtain a legitimation, but they will be considered unresponsible for giving their contribution and obligation to the country, so that they will obtain a bad view.

The Relationship among Profitability, Tax Avoidance, and Independent Commissioners

Companies which have high profitability indicate that they have performed very well. In agency theory, companies as agents will endeavor to generate high earnings. The higher earnings they have, the higher amount of tax expense must be paid by them, so that this gives an opportunity for companies to do tax avoidance. The effort to avoid tax makes a conflict between companies and tax authority as a principal, because tax authority wants to receive the maximum of tax payments from taxpayers where companies as agents want to maximize the profits and pay the low tax expense. In line with previous research conducted by (Asalam & Pratomo, 2020; Darsani & Sukartha, 2021; Pitaloka & Merkusiwati, 2019; Putriningsih *et al*., 2018), they stated that profitability has a positive effect on tax avoidance.

In connection with the increase of tax avoidance practice which is triggered by high profit, the necessity of good corporate governance must be implemented effectively, one of them is independent commissioners who have a function to control and supervise the company's management. By having the independent commissioners in a company, the tendency of company to do tax avoidance will be low, as well as companies will be cautious in taking the decision, put the reputation first, and work optimally. Previous research conducted by (Asih & Darmawati, 2022; A. Octaviani & Trishananto, 2022; Rani *et al*., 2021) stated that independent commissioners is able to moderate the positive effect of profitability on tax avoidance. Based on the framework of thinking above, the hypothesis proposed in this research is stated as follows:

H1a: Profitability has a positive effect on tax avoidance.

H1b: Independent commissioners weaken the positive effect of profitability on tax avoidance.

The Relationship among Leverage, Tax Avoidance, and Independent Commissioners

Leverage ratio can give a signal to the stakeholders or investors to see the level of fulfillment of obligations related to debt payments or the insufficient cash flow to pay the company's debt. Companies which finance their capital in debt will create a high interest expense, so that it will impact on the reduction of income before tax (Dewanti & Sujana, 2019). The lower income before tax, the lower tax expense must be paid by the taxpayers, so that the effort to do tax avoidance will be low (Faizah, 2022; Wulansari *et al*., 2020). Previous research conducted by (Ardianti, 2019; Putriningsih *et al*., 2018; Wulansari *et al*., 2020) proved that leverage has a negative effect on tax avoidance.

Since the high leverage can decrease the tax avoidance, therefore independent commissioners are given an authorization to be responsible and monitor the quality of financial statements, debt policy, and company's activities. With the supervision from independent commissioners, the activity for tax avoidance will be more tightened. The results from prior researchers by (A. Octaviani & Trishananto, 2022; Wicaksana *et al*., 2021) found that Independent Commissioners is able to moderate the negative effect of leverage on tax avoidance. Based on the framework of thinking above, the hypothesis proposed in this research is stated as follows:

H2a: Leverage has a negative effect on tax avoidance.

H2b: Independent commissioners strengthen the negative effect of leverage on tax avoidance.

The Relationship among Financial Distress, Tax Avoidance, and Independent Commissioners

Agency theory links the influence between financial distress and tax avoidance that when experiencing financial distress, the company as an agent must be open to the real conditions which are being experienced, as well as trying to save the company in a way to restore the cash flow in order to avoid from the risk of the bankruptcy's occurrence (Suhaidar *et al*., 2021). When the company is in a condition of financial difficulty, the company's image is not good, especially if there are losses that arise in the current year. That loss will not make the company pay the taxes, but the company will obtain a facility of fiscal loss compensation. A company which is suffering because of the financial distress tend to not do the tax avoidance because it will enhance the risk for the company, one of them is making the company's image awful (Monika & Noviari, 2021). Legitimacy theory supports the framework of thinking that as long as the company is in accordance with the contract and social norm, the company will get a legitimation and positive recognition from the external parties, showing that the company has already been responsible for fulfilling the tax obligation. The result from prior researchers by (Cita & Supadmi, 2019; Hasanah & Widiastuti, 2022; Monika & Noviari, 2021; Nurlis *et al*., 2022; Suhaidar *et al*., 2021) summed up that financial distress has a negative effect on tax avoidance.

Independent commissioners who play a role as an external party and does not have an affiliation with controlling shareholders and directors will tightly keep an eye on the company's activities (Pratomo & Rana, 2021). This aims to create the obedience, responsibility, valid information, and positive insights from society. Prior researcher (Febriyanto & Laurensius, 2022) wrote in their research that independent commissioners can moderate the negative effect of financial distress on tax avoidance. Based on the framework of thinking, the hypothesis proposed in this research is stated as follows:

H3a: Financial distress has a negative effect on tax avoidance.

H3b: Independent commissioners strengthen the negative effect of financial distress on tax avoidance.

According to the literature and framework of thinking which have been spelt out in previous paragraphs, the research conceptual model in this study can be drawn as follows in order to assist the understanding among the independent variables in their influences on dependent variable with a moderating variable.

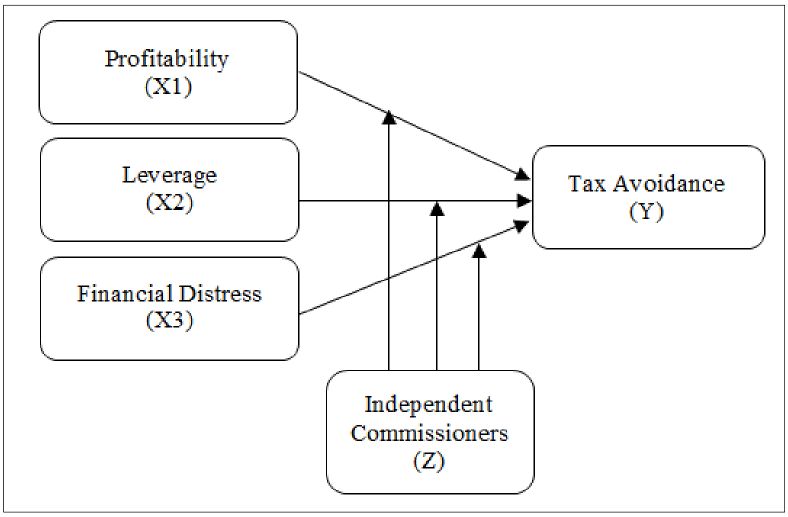

Figure 1. Research Conceptual Model

RESEARCH METHODOLOGY

This is classified as causal research that aims to test the hypothesis or effects of profitability, leverage, and financial distress on tax avoidance with independent commissioners as a moderating variable.

The data used in this research are secondary with a quantitative approach. Presented below is a table which shows how each variable used in this research is operationalized.

Table 1: Variable Operationalization

Category	Variable	Measurement	Scale
Dependent Variable (Y)	Tax Avoidance	CETR = $\frac{\text{Current Tax}}{\text{Profit Before Tax}}$	Ratio
Independent Variable (X)	Profitability	ROE = $\frac{\text{Profit After Tax}}{\text{Total Equity}}$	Ratio
	Leverage	DER = $\frac{\text{Total Liabilities}}{\text{Total Equity}}$	Ratio
	Financial Distress	Altman Z-score = 1.2[(current asset – current liability)/total asset] + 1.4(retained earnings/total asset) + 3.3(profit before tax/total asset) + 0.6[(outstanding shares x price per share)/total liability] + 1[sales/total asset]	Ratio
Moderating Variable (Z)	Independent Commissioners	BIND = $\frac{\text{Total Independent Commissioners}}{\text{Total Commissioners}}$	Ratio

Source: Previous research, 2022

The population used in this research is all manufacturing companies which are listed in Indonesia Stock Exchange (IDX) period 2019-2021. Purposive sampling technique is used with some criteria made, such as manufacturing companies in Indonesia Stock Exchange, consistently publishing the financial statements and preparing financial statements as of December 31, consistently earning profits, and having the positive equity. To test the hypothesis, the researchers use multiple linear regression and moderated regression analysis.

RESULTS

Descriptive Statistics

Table 2: Descriptive Statistics

Variable	Obs	Minimum	Maximum	Mean	Std. Dev
Tax Avoidance	243	0.093	0.387	0.241	0.057
Profitability	243	0.001	0.274	0.106	0.066
Leverage	243	0.067	2.050	0.734	0.472
Financial Distress	243	0.746	9.854	4.043	2.166
Independent Commissioners	243	0.214	0.600	0.402	0.085

Source: Secondary data processed by SPSS, 2022

Tax avoidance is a dependent variable proxied by current effective tax rate. Based on the Income Tax Law article 17 paragraph 1 letter b, the stated corporate income tax tariff is 25% where this tariff is changed into 22% started from the tax year 2020. From the amount of samples, the average value of 24.1% illustrates that companies have paid the tax greater than 22%. The minimum value shows that companies do tax avoidance and vice versa. Moreover, the minimum value of 9.3% might be triggered due to the tax loss compensation facility for the tax year earlier, which might reduce the taxable income in the following tax year (Nurlis *et al*., 2022). Besides, the value of standard deviation 5.7% is lower than the average value 24.1% meaning that the data have been distributed well or tax avoidance variable is homogeny.

Profitability is an independent variable proxied by return on equity. The average of 0.106 illustrates that the company samples in 2019-2021 are able to generate the profits by 10.6% from their own equities. The higher profitability ratio, it can be concluded that the companies have good performance to generate profit in order to satisfy the investor's interest in the investment that has been invested in the company. The standard deviation value 6.6% is lower than the average value 10.6% meaning that the data have been distributed well or profitability variable is homogeny.

Leverage is an independent variable proxied by debt-to-equity ratio. The average value illustrates than company samples in 2019-2021 defray its capital in debt. This can give a review that high leverage reflects how aggressively companies use debts and shows that companies do not have good performance, unhealthy, and have the inability to fulfill its taxation (Pohan, 2018). The standard deviation of 47.2% is lower than the average of 73.4% meaning that the data have been distributed well or leverage variable is homogeny.

Financial distress is an independent variable proxied by Altman Z-score model. The average of 4.043 interprets that the samples of manufacturing companies in this research is overall safe from the bankruptcy risk, considering that the Altman's score is higher than 3.0 (Wahlen *et al*., 2018). The standard deviation of 2.166 is lower than the average of 4.043 meaning that the data have been distributed well or financial distress variable is homogeny.

Independent commissioner is a moderating variable proxied by the proportional ratio of total independent commissioners to total commissioners. Independent commissioners are a part of commissioner board who do not have any relationship with directors, other commissioners and controlling shareholders. The average value of 40.2% indicate that the company samples in this research have fulfilled the Financial Services Authority (OJK) which stated that companies registered in Indonesia Stock Exchange must have independent commissioners with a minimum composition of 30% from the overall commissioners. The higher ratio of independent commissioner, the better their role in applying corporate governance and enhancing their function to supervise the business optimally. Besides, the standard deviation of 8.5% is lower than the average 40.2% meaning that the data have been distributed well or independent commissioners variable is homogeny.

Table 3: Determination Coefficient Test

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.220[a]	0.049	0.037	0.056167
a. Predictors: (Constant), Financial Distress, Profitability, Leverage				

Source: Secondary data processed by SPSS, 2022

The value of adjusted R square is 0.037 meaning that the combination or variant of independent variable is able to explain the tax avoidance by 3.7% while the remaining of 96.3% is explained by other variables which are not observed in this research.

Table 4: Goodness of Fit Test

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.038	3	0.013	4.067	0.008[b]
	Residual	0.754	239	0.003		
	Total	0.792	242			
a. Dependent Variable: Tax Avoidance						
b. Predictors: (Constant), Financial Distress, Profitability, Leverage						

Source: Secondary data processed by SPSS, 2022

The F value is 4.067 with a significance of 0.008, it can be concluded that the research model is feasible and able to predict the tax avoidance variable.

Table 5: Multiple Linear Regression Test

Coefficient[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		β	Std. Error	Beta		
1	(Constant)	0.233	0.013		18.012	0.000
	Profitability	-0.175	0.063	-0.202	-2.795	0.006
	Leverage	0.020	0.009	0.164	2.232	0.027
	Financial Distress	0.003	0.002	0.110	1.336	0.183
a. Dependent Variable: Tax Avoidance						

Source: Secondary data processed by SPSS, 2022

The hypothesis of H1a in this research can be interpreted that the value of calculated t-test is -2.795 with a negative coefficient direction and a significant value of 0.006 smaller than 0.05. Therefore, the hypothesis H1a is not supported. The hypothesis of H2a in this research can be interpreted that the value of calculated t-test is 2.232 with a positive coefficient direction and a significant value of 0.027 smaller than 0.05. Therefore, the hypothesis H2a is not supported. The hypothesis of H3a in this research can be interpreted that the value of calculated t-test is 1.336 with a positive coefficient direction and a significant value of 0.183 larger than 0.05. Therefore, the hypothesis H3a is not supported.

Table 6: Moderated Regression Analysis Test

Coefficient[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		β	Std. Error	Beta		
1	(Constant)	0.233	0.013		17.819	0.000
	Profitability	-0.214	0.311	-0.246	-0.690	0.491
	Leverage	0.007	0.028	0.059	0.258	0.796
	Financial Distress	0.007	0.008	0.266	0.881	0.379
	Profitability_Ind Commissioners	0.110	0.770	0.056	0.143	0.886
	Leverage_Ind Commissioners	0.033	0.067	0.113	0.488	0.626
	Financial Distress_Ind Commissioners	-0.010	0.020	-0.179	-0.534	0.594
a. Dependent Variable: Tax Avoidance						

Source: Secondary data processed by SPSS, 2022

The hypothesis of H1b in this research can be interpreted that the interacted value of calculated t-test is 0.143 with a significant value of 0.886 greater than 0.05. Therefore, the hypothesis H1b is not supported. The hypothesis of H2b in this research can be interpreted that the interacted value of calculated t-test is 0.488 with a significant value of 0.626 greater than 0.05. Therefore, the hypothesis H2b is not supported. The hypothesis of H3b in this research can be interpreted that the interacted value of calculated t-test is -0.534 with a significant value of 0.594 greater than 0.05. Therefore, the hypothesis H3b is not supported.

DISCUSSION

Effect of Profitability on Tax Avoidance

Table 5 concludes that profitability has a negative and significant effect on tax avoidance, meaning that the higher profitability, the lower tax avoidance practice. This result proves that profitability is not a reason or motif for the company to do tax avoidance. When a company earns high return-on-equity, this means that the performance of a company has been good and adequate. A company inclines to be honest in reporting its taxation, tries to manage the revenue and does the tax planning properly, so that a company is able to optimize the burdened tax expense (Janatin & Pardi, 2022). It also confirms that this result is not in line with the agency theory which tells that there is conflict between the agent and principal. High profitability pushes the company to satisfy the tax authority by obeying the tax regulations and keep the tax avoidance away (Nawangsari *et al.*, 2022). Furthermore, this result is also supported from the output of statistic descriptive that interprets the average of tax avoidance is 24.1%, meaning that the whole samples used in this research has been obedient in paying their own taxes, greater than the tax rate in Indonesia which is 22%. Previous research conducted by (Janatin & Pardi, 2022; Mudzakar & Sinaga, 2019; Nawangsari *et al.*, 2022; Rahmawati & Nani, 2021; Tarmidi *et al.*, 2020) support the result of this research which states that profitability has a negative and significant effect on tax avoidance.

Effect of Profitability on Tax Avoidance with Independent Commissioners as a Moderating Variable

The result from table 6 concludes that the interaction of profitability and independent commissioners is not significant, meaning that how many independent commissioners in the company will not rule the possibility out that the company will be free from tax avoidance. The high or low amount of independent commissioners in a company has not been able to run its independency as of the supervising and preventive function are not yet optimal. The inability of independent commissioners in moderating the effect of profitability on tax avoidance is because their presence has not been effective in preventing the tax avoidance and it is still assumed as the fulfillment of the Financial Services Authority (OJK) which obliges that a company must have at least 30% independent commissioners from the grand total of commissioners. Previous research by (Kartikasari & Kresnawati, 2021; Wardani *et al*., 2022) support this result that independent commissioners cannot moderate the effect of profitability on tax avoidance.

Effect of Leverage on Tax Avoidance

Based on the Table 5, leverage is proven to have a positive and significant effect on tax avoidance, meaning that the higher leverage will increase the practice of tax avoidance. Manufacturing companies in this research use leverage as a strategy to avoid the taxes since they are a large-scale company, have a sustainable production, and require large capitals. Due to their high production and sales, this impacts on the high profit and taxes, so manufacturing companies would rather choose finance the business funding through leverage than issue shares, seeing that interest expense which is incurred from leverage can deduct the fiscal income. This result also supports the agency theory that there is a discrepancy between an agent and a principal related to the different prosperity which is felt by the two parties so the agent takes a leverage usage as an action to seek their own advantages (Hamdani, 2016; Walidayni & Fidiana, 2022). This finding is in line with the previous research conducted by (Muliawati & Karyada, 2020; A. Octaviani & Trishananto, 2022; Pitaloka & Merkusiwati, 2019; Silaban, 2020; Wicaksana *et al*., 2021) who stated that leverage is positively and significantly affects tax avoidance.

Effect of Leverage on Tax Avoidance with Independent Commissioners as a Moderating Variable

The interaction of independent commissioners and leverage on tax avoidance which is tested in Table 6 shows that independent commissioners cannot play its moderating role. This result does not support the agency theory which stated that independent commissioners as a part of corporate governance can prevent the opportunistic character of management as an agent to seek the profit for itself. The ineffective of independent commissioners in overseeing the company's business can be also triggered due to the lack of their vital role in monitoring and noticing whether the company does the activity of tax avoidance or not. This research finding is in line with the result of (Afrianti *et al*., 2022) that independent commissioners cannot moderate the effect of leverage on tax avoidance.

Effect of Financial Distress on Tax Avoidance

From the regression result of Table 5, it can be summed up that financial distress does not affect significantly on tax avoidance. This means that the higher financial distress will not influence the company to do tax avoidance. According to the legitimacy theory, this result also indicates that doing a tax avoidance is not a solution to recover its financial condition since it can worsen the company's image, increase the risks, and make the difficulty to find loans. A company who is suffering the financial distress will choose the safe strategy to protect itself from the risk of bankruptcy and liquidation, for instance invoking the loan's extension time to creditors and the action to reorganize the company's management structure with the more skillful individuals (Gunawan & Darminto, 2021; R. R. Octaviani & Sofie, 2019). Previous research conducted by (Ari & Sudjawoto, 2021; Gunawan & Darminto, 2021; Khamisan & Christina, 2020; Lukito & Sandra, 2021) support the result of this research that financial distress does not have a significant effect on tax avoidance.

Effect of Financial Distress on Tax Avoidance with Independent Commissioners as a Moderating Variable

The moderated regression analysis in table 6 proves that independent commissioners cannot strengthen the effect of financial distress on tax avoidance. This result indicates that the independent commissioners cannot implement the task of corporate governance optimally, so no matter how many the amount of independent commissioners in a company will not guarantee that the company will be spared from tax avoidance. Moreover, the result is in line with the previous research conducted by (Alhady *et al*., 2021) who stated that independent commissioners is unable to moderate the effect of financial distress on tax avoidance.

CONCLUSION

After analyzing and testing the data as well as the discussion that have been explained, the conclusions of this research are that profitability has a negative significant effect on tax avoidance, leverage has a positive significant effect on tax avoidance, financial distress does not have an effect on tax avoidance, independent commissioners cannot moderate the effect of profitability on tax avoidance, independent commissioners cannot moderate the effect of leverage on tax avoidance, and independent commissioners cannot moderate the effect of financial distress on tax avoidance.

The results of this research are expected to provide benefits and contributions for the stakeholders. In this case, the next researchers had better conduct reobservation related to tax avoidance as the results in this research have not proven to be in accordance with the hypothesis. It is suggested that the next researchers can add or use other independent variables which are not observed in this research or use another moderating variable since independent commissioners cannot play a moderating role in determining the influence of profitability, leverage, and financial distress on tax avoidance. Further researchers are also recommended to use different proxies in order to reflect the differences of research's results.

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