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The Influence of Financial Constraints, Income Shifting, and Sustainability Reporting on Tax Avoidance with Institutional Ownership as a Moderating Variable

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Abstract

This research analyzes the impact of Financial Constraints, Income Shifting, and Sustainability Reporting on tax avoidance, with Institutional Ownership as a moderating variable. The sample consists of 34 manufacturing companies listed on the Indonesia Stock Exchange from 2021 to 2023, using purposive sampling methods. Data were analyzed using panel data regression with EViews 12. The results indicate that Income Shifting and Sustainability Reporting significantly affect Tax Avoidance, while Financial Constraints do not impact Tax Avoidance. Additionally, Institutional Ownership moderates the effect of Income Shifting on Tax Avoidance but does not moderate the effects of Financial Constraints and Sustainability Reporting on Tax Avoidance. This study meets classical assumption tests and found no issues with multicollinearity, heteroscedasticity, or autocorrelation. The findings highlight the importance of Institutional Ownership in monitoring tax avoidance and the need for transparency in sustainability reporting.

Keywords: *Financial Constraints, Income Shifting, Sustainability Reporting, Institutional Ownership, Tax Avoidance*.

1. INTRODUCTION

Tax avoidance is an important issue that is gaining increasing attention worldwide, particularly in developing countries like Indonesia. As a primary source of state revenue, tax income is crucial for funding various infrastructure, education, health, and public service development programs. In 2024, the contribution of state revenue is estimated to reach IDR 2,801,862.9 billion, indicating hopes for sustainable economic growth and improved community welfare (BPS, 2024). However, data shows that Indonesia's tax-to-GDP ratio was only 10.9% in 2021, significantly lower than the average of 19.8% for Asia and the Pacific (OECD, 2023). his phenomenon highlights that Indonesia faces significant challenges in increasing tax revenue, where widespread tax avoidance practices are a major cause of the low tax contribution to GDP. It is estimated that these practices result in state losses of up to US$ 4.86 billion annually (Cobham *et al.,* 2020).

Tax avoidance practices are not limited to small companies but also involve large corporations that often have sufficient resources to exploit legal loopholes in tax regulations. Real examples include British American Tobacco, which is estimated to cost the state up to US$ 14 million per year through income shifting (Cobham *et al.,* 2020). and PT Indofood Sukses Makmur Tbk, which engaged in tax avoidance worth IDR 1.3 billion by transferring assets to subsidiaries (Saputra & Kusumastuti, 2023). These cases illustrate that the issue is highly relevant in the context of Indonesia's economy and demands serious attention from policymakers.

This study will analyze several factors influencing tax avoidance in depth. First is Financial Constraints. These constraints often arise when companies face difficulties in obtaining external funding, driving them to seek ways to reduce tax liabilities (Jin *et al.,* 2022). In this context, companies may feel compelled to adopt tax avoidance strategies as a way to sustain their operations amid financial limitations. This challenge is exacerbated by an uncertain economic environment, where companies must navigate various financial risks.

Second, Income Shifting represents an intriguing phenomenon in tax avoidance, where profits are shifted to jurisdictions with lower tax rates. This practice is often carried out by multinational companies operating in various countries and significantly contributes to tax avoidance in Indonesia (Maulana, 2024). Income shifting creates challenges for the government in enforcing effective tax regulations, as companies can exploit loopholes to minimize their tax obligations. Weak law enforcement and a lack of international cooperation in tax information exchange further worsen this issue.

Third, Sustainability Reporting is expected to enhance transparency and accountability, which can help reduce tax avoidance. In this context, sustainability reports serve not only as a tool for building reputation but also as a mechanism for managing tax risks and increasing stakeholder trust (Kulsum *et al.,* 2023). By publishing sustainability reports, companies can demonstrate their commitment to ethical and responsible business practices, which can, in turn, enhance investor and customer trust.

Institutional Ownership, as a moderating variable, also plays a crucial role in overseeing tax avoidance practices. Agency Theory explains that institutional shareholders can act as effective monitors, reducing conflicts of interest between management and owners (Ma'sum *et al.,* 2023) The presence of active institutional shareholders can encourage companies to adopt better governance practices and reduce incentives to engage in tax avoidance.

This research aims to explore the relationships between these factors and provide new insights into the dynamics of tax avoidance among companies listed on the Indonesia Stock Exchange. By analyzing the interactions among Financial Constraints, Income Shifting, Sustainability Reporting, and Institutional Ownership, this study aims to make a significant contribution to the development of fair and sustainable tax regulations. The findings of this research will not only enrich academic literature but also provide practical guidance for policymakers in formulating effective strategies to enhance tax compliance in Indonesia.

Additionally, it is important to consider other external factors, such as changes in tax policies, market dynamics, and global trends that may influence corporate behavior in tax avoidance. The application of information technology and big data analytics in taxation can also be an effective tool for improving tax compliance and detecting tax avoidance practices. By understanding these various aspects, this research hopes to provide more comprehensive recommendations for enhancing the tax system in Indonesia.

1.1. Theoretical Framework and Hypotheses

Agency Theory

Agency Theory, proposed by Jensen and Meckling (1976), explains the relationship between principals (owners) and agents (management) in the context of decision-making. Conflicts of interest arise when management, as an agent, has incentives to make decisions that do not always align with the interests of the owners, such as in tax avoidance. In this context, management may choose to minimize taxes through strategies that could harm the company in the long term, such as aggressive tax avoidance. This underscores the need for effective oversight from institutional shareholders to ensure that management decisions align with the company's long-term goals (Ma'sum *et al.,* 2023).

Legitimacy Theory

Legitimacy Theory, described by Dowling and Pfeffer (1975), emphasizes that companies need to obtain legitimacy from society to ensure their operational continuity. Companies that do not comply with tax regulations may lose legitimacy and trust from stakeholders, negatively impacting their reputation and sustainability Puspitaningrum & Indriani, (2021) assert that compliance with tax regulations is a crucial element in building legitimacy. Therefore, companies actively engaged in Sustainability Reporting are likely to pay more attention to their tax compliance.

Tax Avoidance

Tax Avoidance is the effort made by companies to minimize tax burdens without violating existing regulations. This is achieved by exploiting loopholes in tax regulations that allow companies to optimize their tax obligations. Tax avoidance is measured using the Effective Tax Rate (ETR) as the primary indicator (Yuniarwati, 2021). ETR provides a clear picture of how effectively a company manages its tax obligations.

Financial Constraints

Financial Constraints occur when companies face difficulties in obtaining external funding, which can affect their tax decisions. Shafitri *et al.,* (2024). explain that high cash flow sensitivity can hinder investment growth, prompting companies to seek ways to reduce tax liabilities. In this study, cash flow is measured using operating cash flow, which is the total cash flow from operating activities divided by total assets (Salam, 2021). Understanding how financial constraints impact tax avoidance is crucial for designing more effective tax policies.

Income Shifting

Income Shifting, proxied by transfer pricing, refers to the pricing determination in transactions among group members of a company (Amaliah & Triono, 2024). This practice occurs when multinational companies evade taxes by taking advantage of differences in tax rates between countries (Amelia & Usman, 2022). In this study, transfer pricing is measured by the ratio of total receivables from related parties to total company receivables (Maulana, 2024). Understanding this practice is essential for identifying strategies used by companies in tax avoidance.

Sustainability Reporting

Sustainability Reporting serves to evaluate a company's performance from economic and non-financial aspects, focusing on operational disclosures (Sidiq *et al.,* 2021). Measurement is done using a dummy variable, where a value of 1 indicates that the company publishes a sustainability report, and a value of 0 indicates it does not (Kulsum *et al.,* 2023). Indicators include environmental and social dimensions, such as energy consumption and employee training (Hummel & Schlick, 2016). By enhancing transparency through sustainability reports, companies can reduce tax avoidance risks and increase stakeholder trust.

Institutional Ownership

Institutional Ownership refers to shares held by legal entities, which play a role in overseeing management and influencing tax policies. The larger the institutional ownership, the lower the likelihood of tax avoidance, as institutions tend to promote good governance practices (Haloho, 2021). Thus, the active role of institutional shareholders can help prevent aggressive tax avoidance and encourage better tax compliance.

2. RESEARCH METHOD

This quantitative study utilizes secondary data obtained from the official Indonesia Stock Exchange (IDX) website and individual company websites. The sample selection was conducted using purposive sampling, focusing on manufacturing companies listed on IDX within the manufacturing sub-sector during the period from 2021 to 2023.

2.1. Population and Sample

This section outlines the population subject to research and the criteria for selecting the sample from that population.

Table 1: Sample Selection Results

No.	Criteria	Number of Companies
1.	Manufacturing companies continuously listed on IDX from 2021 to 2023	153
2.	Manufacturing companies not meeting qualifications in 2021-2023	-109
3.	Companies delisted from IDX between 2021-2023	-10
Total sample for this research		**34**
Total data for 2021-2023		**102**

The research population consists of 153 manufacturing companies listed on IDX from 2021 to 2023. After applying purposive sampling criteria, 34 companies were selected as samples, resulting in a final sample of 102 data points.

2.2. Variable Operationalization

This study uses several variables measured as follows. Dependent Variable (Tax Avoidance, Y), defined as actions taken by companies to minimize tax payments without violating applicable regulations, utilizing loopholes in tax laws. Tax avoidance is measured using the Effective Tax Rate (ETR), calculated as total income tax expense divided by total pre-tax income.

Independent Variables, Financial Constraints (X1), represents the condition of companies facing limitations in obtaining investment or funding, thus relying on internal funding sources. This variable is proxied by cash flow, measured as operating cash flow divided by total assets**.**

Income Shifting (X2), refers to practices by multinational companies that exploit cross-border transactions through transfer pricing to avoid taxes. This variable is measured using the ratio of receivables from related parties to total receivables.

Sustainability Reporting (X3), measured using the Sustainability Report Disclosure Index (SRDI), which combines disclosures in environmental and social dimensions. SRDI is calculated as the total number of disclosed items divided by the total number of items required according to GRI 4.0.

Moderating Variable (Institutional Ownership, Z), defined as the ownership of shares by legal entities, financial institutions, and other organizations. This variable is measured as the percentage of shares held by institutions relative to total outstanding shares.

2.3. Data Analysis

Data analysis was performed using EViews 12 software. This study employed a quantitative and descriptive approach with panel data regression analysis. The analysis process included descriptive statistical tests and regression models using the Common Effect Model, Fixed Effect Model, and Random Effect Model. Model selection was conducted through Chow, Hausman, and Lagrange Multiplier tests. Classical assumption tests were also performed to check for issues in the regression model, including multicollinearity, heteroscedasticity, and autocorrelation.

Hypothesis testing included t-tests to assess the influence of individual variables, F-tests for overall influence, and the Coefficient of Determination (R^2) to determine the extent of independent variables' influence on the dependent variable. Additionally, Moderated Regression Analysis (MRA) was utilized to test the moderating effects of institutional ownership.

3. RESULT AND DISCUSSION

3.1. Classical Assumption Test

3.1.1. Chow Test

Table 2: Chow Test Result

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.612459	(33,65)	0.0505
Cross-section Chi-square	61.004680	33	0.0021

The Chow test result shows a Chi-square probability value of 0.0021 < 0.05, indicating that the Fixed Effect Model (FEM) is the more appropriate model.

3.1.2. Hausman Test

Table 3: Hausman Test Result

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.770675	3	0.2873

The Hausman test result indicates a probability value of 0.2873 > 0.05, leading to the use of the Random Effect Model (REM).

3.1.3. Lagrange Multiple Test

Table 4: Lagrange Multiple Test Result

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided
(all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	1.703600	0.897709	2.601310
	(0.1918)	(0.3434)	(0.1068)

The Lagrange multiplier test shows a Breusch-Pagan value of 0.1068 > 0.05, indicating the use of the Common Effect Model (CEM).

If the model selection tests yield different results, the final conclusion is that the most suitable model for this research is the Common Effect Model (CEM).

3.1.4. Multikolinearitas Test

Table 5: Multikolinearitas Test Result

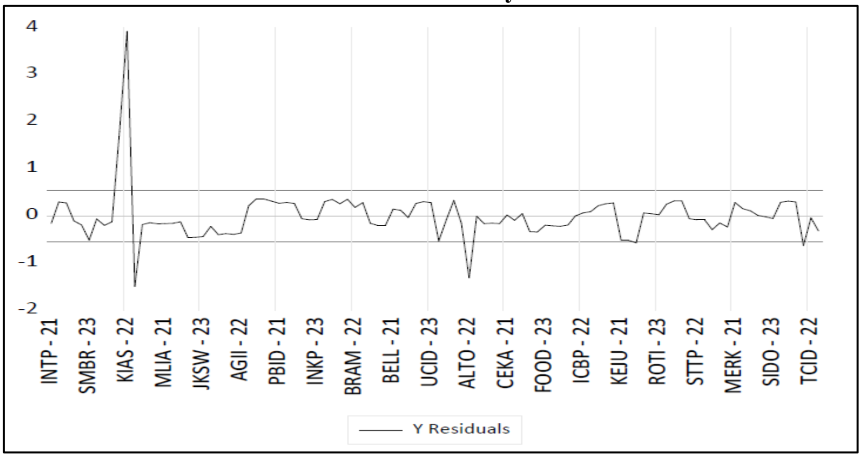
Correlation

	X1	X2	X3
X1	1.000000	-0.101587	0.071248
X2	-0.101587	1.000000	0.068976
X3	0.071248	0.068976	1.000000

The correlation coefficients show values well below 0.85, indicating no multicollinearity issues among the variables.

3.1.5. Heteroscedasticity Test

Table 6: Heteroscedasticity Test Result



Based on the graph above, it is evident that the residuals do not exceed the boundaries of 500 or -500, indicating that the variance of the residuals is constant. Therefore, there are no indications of heteroskedasticity, meaning the model passes the heteroskedasticity test. This suggests that the assumption of homoskedasticity is satisfied.

3.1.6. Autocorrelation Test

Table 7: Autocorrelation Test Result

dU	Durbin Watson	4-dU	Kesimpulan
1,7383	1,9421	2,2617	Tidak terdapat autokorelasi

The Durbin-Watson value of 1.942 falls between dU (1.7383) and 4-dU (2.2617), indicating no positive or negative autocorrelation.

3.2. Panel Data Regression Analysis

Table 8: Panel Data Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.504555	0.743388	4.714302	0.0000
X1	0.298820	0.555484	0.537946	0.5918
X2	0.588727	0.174372	3.376280	0.0011
X3	-3.648423	0.789001	-4.624104	0.0000

Note: X1 = Financial Constraints, X2 = Income Shifting, X3 = Sustainability Reporting

The regression equation is Y = 3,504555 + 0,298820X1 + 0,588727X2 - 3,648423X3

Interpretation of Regression Coefficients:

The constant value of 3.504555 indicates that, in the absence of Financial Constraints (X1), Income Shifting (X2), and Sustainability Reporting (X3), Tax Avoidance (Y) would increase by 350.45%.

The beta coefficient for Financial Constraints (X1) is 0.298820, indicating that a 1% increase in X1 would lead to a 29.88% increase in Tax Avoidance (Y), holding other variables constant.

The beta coefficient for Income Shifting (X2) is 0.588727, meaning a 1% increase in X2 would result in a 58.87% increase in Tax Avoidance (Y).

The beta coefficient for Sustainability Reporting (X3) is -3.648423, suggesting that a 1% increase in X3 would decrease Tax Avoidance (Y) by 364.84%.

3.3. t-Test Result

Table 9: t-Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.504555	0.743388	4.714302	0.0000
X1	0.298820	0.555484	0.537946	0.5918
X2	0.588727	0.174372	3.376280	0.0011
X3	-3.648423	0.789001	-4.624104	0.0000

Based on the table above, the results of the partial significance test or t-test are as follows:

1. The variable X1, Financial Constraints, has a t-statistic of 0.537946 < the t-table value of 1.9840 and a probability value of 0.5918 > 0.05. Therefore, H1 is rejected, indicating that Financial Constraints do not have a significant effect on Tax Avoidance.
2. The variable X2, Income Shifting, has a t-statistic of 3.376280 > the t-table value of 1.9840 and a probability value of 0.0011 < 0.05. Thus, H2 is accepted, meaning that Income Shifting has a significant effect on Tax Avoidance.
3. The variable X3, Sustainability Reporting, has a t-statistic of -4.624104 > the t-table value of 1.9840 and a probability value of 0.0000 < 0.05. Therefore, H3 is accepted, indicating that Sustainability Reporting has a negative and significant effect on Tax Avoidance.

3.4. f-Test Result

Table 10: f-Test Result

R-squared	0.237839
Adjusted R-squared	0.214508
S.E. of regression	0.547402
Sum squared resid	29.36558
Log likelihood	-81.22911
F-statistic	10.19394
Prob(F-statistic)	0.000007

The calculated F-value of 10.19394 > F-table value of 2.3082 and a significance level of 0.000007 < 0.05 indicate that the variables Financial Constraints, Income Shifting, and Sustainability Reporting collectively have a significant effect on Tax Avoidance.

3.5. Coefficient of Determination (R^2)

Table 11: Coefficient of Determination Test Result (R^2)

R-squared	0.237839
Adjusted R-squared	0.214508
S.E. of regression	0.547402
Sum squared resid	29.36558
Log likelihood	-81.22911
F-statistic	10.19394
Prob(F-statistic)	0.000007

The R^2 value of 0.237839 indicates that the model explains 23.78% of the variance in Tax Avoidance, while 76.22% is explained by other variables not included in the model.

3.6. Moderating Regression Analysis (MRA) Result

Table 12: MRA Output 1 Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.132175	0.178547	0.740282	0.4609
M1	0.170715	0.797387	0.214093	0.8309
M2	0.939402	0.256179	3.666983	0.0004
M3	-0.136170	0.304229	-0.447590	0.6554

Table 13: MRA Output 2 Result

R-squared	0.130122
Adjusted R-squared	0.103493
S.E. of regression	0.584807
Sum squared resid	33.51589
Log likelihood	-87.97111
F-statistic	4.886474
Prob(F-statistic)	0.003297

MRA Result:

1. The t-statistic for M1 (Institutional Ownership moderating Financial Constraints) is 0.214093 < t-table value of 1.9840, and the probability value is 0.8309 > 0.05, leading to the rejection of H4.
2. The t-statistic for M2 (Institutional Ownership moderating Income Shifting) is 3.666983 > t-table value of 1.9840, and the probability value is 0.0004 < 0.05, leading to the acceptance of H5.
3. The t-statistic for M3 (Institutional Ownership moderating Sustainability Reporting) is -0.447590 < t-table value of 1.9840, and the probability value is 0.6554 > 0.05, leading to the rejection of H6.
4. The F-statistic of 4.886474 > F-table value of 2.3082 and a significance level of 0.003297 < 0.05 indicate that the moderating effects of Institutional Ownership on Financial Constraints, Income Shifting, and Sustainability Reporting collectively influence Tax Avoidance.
5. The R^2 value of 0.130122 indicates that the moderating model explains 13.01% of the variance in Tax Avoidance, while 86.99% is explained by other variables not included in the model.

3.7.DISCUSSION

Influence of Financial Constraints

The study reveals that Financial Constraints do not impact Tax Avoidance, as companies focus more on operational efficiency. Tests conducted using the ratio of Total Operating Cash Flow to Total Assets indicate that a company's financial condition does not influence Tax Avoidance, measured by the Effective Tax Rate (ETR). In the context of agency theory, managers tend to prioritize profitability and the sustainability of the company's operations over taking risks to reduce tax burdens. These findings align with research by Fitrifiani & Oktris, (2023), which states that financial constraints make companies more cautious in tax decision-making, thereby reducing the tendency to engage in aggressive tax avoidance practices. When facing financial constraints, a company's primary focus is on maintaining liquidity and operational efficiency rather than exploring tax avoidance strategies that could pose legal and reputational risks.

Influence of Income Shifting

Income Shifting significantly affects Tax Avoidance, as managers strive to minimize tax liabilities. The testing results show that Income Shifting, measured by the ratio of Total Receivables from Related Parties to Total Receivables, influences Tax Avoidance as measured by the Effective Tax Rate (ETR). Agency theory explains that managerial decisions can lead to conflicts of interest. These findings are consistent with Amaliah & Triono, (2024), which demonstrate that transfer pricing practices, as a form of Income Shifting, significantly contribute to tax avoidance. Therefore, tighter regulatory oversight is needed to prevent harmful practices and ensure that companies operate within ethical and legal boundaries.

Influence of Sustainability Reporting

Sustainability Reporting influences Tax Avoidance, as more transparent companies tend to be cautious in their tax strategies. The results indicate that Sustainability Reporting, measured by the Sustainability Report Disclosure Index (SRDI), affects Tax Avoidance as measured by the Effective Tax Rate (ETR). Legitimacy theory posits that companies seek to maintain legitimacy through responsible reporting. This finding aligns with Kulsum *et al.,* (2023) , which found that companies actively engaged in sustainability reporting are more likely to manage their tax practices well and uphold corporate reputation. Thus, sustainability reports serve not only as communication tools with stakeholders but also as mechanisms to enhance tax compliance and build public trust.

Moderating Role of Institutional Ownership on Financial Constraints

Institutional Ownership does not moderate the impact of Financial Constraints on Tax Avoidance. Although institutional ownership is expected to act as a monitor that can reduce conflicts of interest in managerial decisions, in this context, managerial decisions are more influenced by pressures to maintain operational sustainability. This indicates that, in situations of financial constraints, a company's primary focus is on survival and fulfilling operational obligations, thereby reducing incentives to engage in more aggressive tax avoidance. The testing results show that the ratio of institutional ownership has no significant impact on the relationship between Financial Constraints, measured by operating cash flow, and Tax Avoidance, measured by the Effective Tax Rate (ETR). These findings are consistent with research by Fatimah & Nurdin, (2024), which states that institutional ownership is ineffective in moderating the impact of Financial Constraints on Tax Avoidance. This highlights that in financial constraint conditions, managers are more likely to make decisions oriented toward the survival of the company rather than exploring tax avoidance strategies that could add legal and reputational risks.

his condition implies that stakeholders, including institutional shareholders, need to realize the importance of providing greater support to management in facing financial challenges. With strong support, institutional shareholders can help encourage more responsible and sustainable decision-making. Therefore, it is essential for policymakers and companies themselves to understand that in difficult financial situations, tighter oversight and support from institutional shareholders are necessary to ensure that managerial decisions align with the long-term interests of the company.

Overall, this research provides valuable insights into the dynamics between institutional ownership, financial conditions, and tax avoidance, emphasizing the need for a more comprehensive approach to managing tax policy and corporate governance.

Moderating Role of Institutional Ownership on Income Shifting

Institutional Ownership moderates the impact of Income Shifting on Tax Avoidance. The testing results indicate that the ratio of institutional ownership significantly affects income shifting, measured by the ratio of Total Receivables from Related Parties to Total Receivables, and also influences Tax Avoidance, measured by the Effective Tax Rate (ETR). In this context, institutional ownership plays a crucial role in enhancing managerial oversight, which can reduce risky profit-shifting practices.

Agency theory explains that managerial decisions can lead to conflicts of interest that harm the company. These findings are consistent with research by Maulana, (2024) and Amaliah & Triono, (2024), which show that institutional ownership is effective in moderating the impact of income shifting on tax avoidance. This indicates that with institutional shareholders, companies tend to be more cautious in tax decision-making and reduce the likelihood of engaging in aggressive tax avoidance practices.

This situation implies that stakeholders, including institutional shareholders, need to recognize their important role in maintaining the integrity and tax compliance of the company. With strong support from institutional shareholders, companies can adopt a more responsible approach to tax policy. Therefore, it is crucial for policymakers and the companies themselves to understand that tighter oversight and support from institutional shareholders are necessary to ensure that managerial decisions align with the long-term interests of the company.

Overall, this research provides valuable insights into the dynamics between institutional ownership, income shifting, and tax avoidance, emphasizing the need for a more comprehensive approach to managing tax policy and corporate governance.

Moderating Role of Institutional Ownership on Sustainability

Institutional Ownership does not moderate the relationship between Sustainability Reporting and Tax Avoidance. The testing results show that the ratio of institutional ownership does not influence the effect of sustainability reporting on tax avoidance, as measured by the Effective Tax Rate (ETR). Sustainability reporting is a performance report regulated by the Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017 on the Implementation of Sustainable Finance for Public Companies and Law No. 40 of 2007 on Limited Liability Companies, aimed at maintaining corporate transparency and accountability. Legitimacy theory states that companies strive to maintain legitimacy through responsible reporting; however, in this context, institutional ownership does not play a role in moderating the effect of sustainability reporting on tax avoidance. These findings are consistent with research by Sidiq *et al.,* (2021) and Hummel & Schlick, (2016), which demonstrate that institutional ownership is ineffective in moderating this relationship.

This condition implies that companies need to enhance the quality of their sustainability reports to build reputation and legitimacy, regardless of institutional ownership. Therefore, it is important for policymakers and companies themselves to understand that greater oversight of sustainability reporting is needed to ensure better transparency and accountability in tax practices.

Overall, this research provides valuable insights into the dynamics between institutional ownership, sustainability reporting, and tax avoidance, emphasizing the need for a more comprehensive approach to managing sustainability reports and corporate governance.

4. CONCLUSION

Based on the findings regarding the impact of Financial Constraints, Income Shifting, and Sustainability Reporting on Tax Avoidance, with Institutional Ownership as a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period of 2021–2023, it can be concluded that Financial Constraints do not affect Tax Avoidance, whereas Income Shifting and Sustainability Reporting have a significant impact on Tax Avoidance. Additionally, Institutional Ownership does not moderate the impact of Financial Constraints on Tax Avoidance but does moderate the impact of Income Shifting. On the other hand, Institutional Ownership also does not moderate the effect of Sustainability Reporting on Tax Avoidance. These findings make a significant contribution to the literature by highlighting the important roles of Income Shifting and Sustainability Reporting in tax avoidance within Indonesia's manufacturing sector. This study also emphasizes that while institutional ownership can strengthen the influence of Income Shifting, it is not effective in moderating the effects of Financial Constraints and Sustainability Reporting. These results provide valuable insights into the factors influencing tax avoidance and underscore the importance of oversight mechanisms in corporate governance within emerging markets.

5. RECOMMENDATIONS

Based on the findings of this study, several recommendations for research and practice include strengthening the integration of Agency Theory and Legitimacy Theory in analyzing tax avoidance to provide a more comprehensive understanding of corporate behavior. The moderation model with Institutional Ownership should be maintained without the addition of new variables to keep the research focus and results consistent. Companies should adopt stricter cash management practices to ensure adequate liquidity without relying on tax avoidance as a financial strategy. Additionally, companies are encouraged to enhance the role of the Audit Committee in overseeing tax avoidance practices to ensure compliance with existing tax regulations. Companies are also advised to utilize sustainability reports as tools to enhance transparency and manage tax risks, thereby building trust with stakeholders. The government can provide fiscal incentives for companies that prepare and publish comprehensive sustainability reports to encourage more transparent and responsible business practices. Tax regulations need to be tightened to address harmful profit-shifting practices that affect state revenue, with stricter law enforcement. Finally, the Indonesia Stock Exchange (IDX) should strengthen Environmental, Social, and Governance (ESG) policies to attract investors and support transparent tax governance, creating a better investment environment. By implementing these recommendations, it is hoped that tax compliance in Indonesia can be improved, fostering a more transparent and sustainable business ecosystem.

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Author Contributions

Both authors contributed equally to this research. The first author designed the study, collected data, conducted statistical analyses, and drafted the initial manuscript. The second author provided theoretical guidance, oversaw the research methodology, reviewed and edited the manuscript, and offered significant input for the discussion and conclusion sections. All authors discussed the results and contributed to the final manuscript

Conflict of Interest

The authors declare that they have no competing interests. This research was conducted independently without any financial or personal relationships that could influence the work presented in this paper.

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