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## ENVIRONMENTAL UNCERTAINTY, DEBT POLICY, TAX AVOIDANCE: DOES MANAGERIAL ABILITY MATTER?

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### ABSTRACT

This study examines the effect of environmental uncertainty and debt policy on tax avoidance. In addition, this study also examines managerial ability as a moderating variable in relationship between independent and dependent variables. The method used in this study is quantitative. This study utilizes secondary data from annual financial reports of property & real estate sector companies listed on the Indonesia Stock Exchange from 2018 to 2020. Based on purposive sampling, the total sample of this study amounted to 77 observations. The data derives from [www.IDX.co.id](http://www.IDX.co.id) and official company website. The analysis technique used is multiple linear regression for the cross-section data. The results of this study suggest that environmental uncertainty is not associated with tax avoidance, while debt policy is negatively associated with tax avoidance and indicates that managerial ability weakens the positive effect of environmental uncertainty on tax avoidance.

Meanwhile, the managerial ability does not moderate the relationship between debt policy and tax avoidance. This research indicates that the Indonesia Financial Services Authority needs to supervise listed companies to increase protection for investors in capital market. In addition, the Indonesian Tax Authority needs to improve the income tax policy for corporate taxpayers related to company's capital structure.

**Keywords:** Environmental Uncertainty, Leverage, Managerial Ability, Tax Planning

## INTRODUCTION

Tax is essential to state revenue because it has the most significant proportion (Falbo & Firmansyah, 2021). In the view of the state, taxes are a source of revenue to finance governance, but for companies, taxes are a burden that will reduce the net profit generated by the company (Ngadiman & Puspitasari, 2014). Company management will take advantage of loopholes in tax regulations to reduce the high tax burden, commonly referred to as the "grey area" (Charisma & Dwimulyani, 2019).

Tax avoidance is an effort made by taxpayers to reduce the tax expenses borne by exploiting the weaknesses of legislation (Ngadiman & Puspitasari, 2014). Tax avoidance is an efficient form of tax payments made by company management and assisted by a few tax staff (Carolina & Purwantini, 2020). Tax avoidance is an issue that is rife in various countries worldwide. Countries have agreed to build an international tax system with the principle of justice. So far, there have been two underlying pillars: the income tax of multinational companies and the tax rate (Liptan6.com, 2021).

The Tax Justice Network reports that the total losses of all countries in the world due to tax evasion reached US\$483 billion, equivalent to IDR 6,873 trillion (Herдона, 2021). In addition, the Tax Justice Network reports that due to tax avoidance, Indonesia is estimated to lose up to US\$ 4.86 billion annually. This figure is equivalent to Rp. 68.7 trillion when using the rupiah exchange rate at the close of the spot market on Monday (22/11/2020) of Rp. 14,149 per the United States (US) dollar (Santoso, 2020). This figure shows as much as US\$ 4.78 billion, equivalent to Rp. 67.6 trillion is part of corporate tax avoidance in Indonesia (Santoso, 2020). The rise of tax avoidance practices carried out by companies will make Indonesia lose significant amounts of tax revenue. On March 8, 2021, Asan, director of PT Extel Communication, was sentenced to 3 years in prison and a fine of Rp. 5.19 billion. Asan was declared to have violated Article 39 paragraph (1) letter c of the Indonesian Act Number 28 the Year 2007 Concerning Third Amendment to Indonesian Act Number 6 the Year 1983. That Concerning General Provisions And Taxation Procedures because he had committed a tax crime by not submitting an Annual Corporate Income Tax Return for three consecutive tax years from 2013 to 2015. As a result of the tax crime committed by Asan through his corporation, the principal PT Extel's unpaid taxes reached IDR 2.59 billion (Wildan, 2021). This tax evasion case is a form of illegal tax avoidance, so the perpetrators of tax evasion will be subject to sanctions.

Taxpayers who obey the tax regulations applied in Indonesia are the ideal conditions expected by the Indonesian government (Arsanti, 2021). One of the benchmarks for measuring the behavior of taxpayers is the level of compliance in carrying out the obligation to fill out and submit an annual tax return correctly and on time (Ibrahim et al., 2020). However, the facts prove that there are still taxpayers who consider taxes a burden, so various efforts are made to avoid these taxes, one of which is taking tax avoidance actions (Noviyanti & Setiawati, 2021). The difference between ideal and actual tax conditions creates a tax gap. The tax gap is an indicator often used to describe tax non-compliance (Saputra, 2021). The difference between financial accounting standards and tax rules can allow companies to manage more significant accounting profits and lower fiscal profits in the same reporting period (Falbo & Firmansyah, 2021). The problem of tax avoidance becomes complicated and complex because, on the one hand, it is permitted and is considered not to violate tax regulations. Still, on the other hand, the amount of state revenue from taxes is not as it should be (Yustrianthe et al., 2021).

Tax avoidance activities can disadvantage shareholders due to certain motives owned by managers. Shareholders certainly do not wish the company to suffer losses. On the other hand, shareholders want managers to be able to increase wealth and maximize profits (R. K. Putri & Syafruddin, 2021). Positive accounting theory argues that firms prefer to avoid the political costs borne by firms (Watts & Zimmerman, 1990). One of the political costs that companies avoid is the existence of corporate tax obligations (Falbo & Firmansyah, 2021). Also, in agency relations, managers, as parties with direct access to company information, have asymmetric information about external company parties, such as creditors and investors (Dinah & Darsono, 2017). Information asymmetry arises because there is an imbalance of information between management as company managers and shareholders as company owners (Charisma & Dwimulyani, 2019). Managers will undoubtedly benefit more from this information asymmetry, encouraging managers to prioritize their interests to obtain greater profits. One way to increase profits is to reduce the company's burden by avoiding tax. The high potential of management in tax avoidance has resulted in research on tax avoidance that needs to be investigated.

Previous research tested tax avoidance used environmental uncertainty (Carolina & Purwantini, 2020; Huang et al., 2017; Laksono & Firmansyah, 2020; L. K. Putri, 2014; R. K. Putri & Syafruddin, 2021), managerial ability (Huang et al., 2017; Laksono & Firmansyah, 2020), investment opportunities (Laksono & Firmansyah, 2020), management compensation (Andawiyah et al., 2019; Nurfauzi & Firmansyah, 2018), bankruptcy risk (Nurfauzi & Firmansyah, 2018), managerial ownership (Charisma & Dwimulyani, 2019), firm size (Andawiyah et al., 2019; Indriani & Juniarti, 2020; Martinus et al., 2021; Siregar & Widyawati, 2016), leverage (Hidayat, 2018; Siregar & Widyawati, 2016), profitability (Andawiyah et al., 2019; Hidayat, 2018; Indriani & Juniarti, 2020; Martinus et al., 2021; Puspitasari et al., 2021; Siregar & Widyawati, 2016; Yulianty et al., 2021), capital intensity (Puspitasari et al., 2021; Siregar & Widyawati, 2016; Vina et al., 2022), inventory intensity (Siregar & Widyawati, 2016; Yulianty et al., 2021), internal control (Carolina & Purwantini, 2020), family ownership (Carolina & Purwantini, 2020; Charisma & Dwimulyani, 2019), institutional ownership (Carolina & Purwantini, 2020; Harianto, 2020), debt policy (Harianto, 2020), sales growth (Carolina & Purwantini, 2020; Hidayat, 2018; Indriani & Juniarti, 2020), politics connections (Carolina & Purwantini, 2020), audit quality (Charisma & Dwimulyani, 2019), thin capitalization (Andawiyah et al., 2019; Anindita et al., 2022; Falbo & Firmansyah, 2018; Utami & Irawan, 2022), and firm age (Indriani & Juniarti, 2020), tax haven (Pramudya et al., 2021; Wijaya & Rahayu, 2021), multinationality (Pramudya et al., 2021), earnings management (Falbo & Firmansyah, 2021; Irawan et al., 2020; Pajriyansyah & Firmansyah, 2017), transfer pricing aggressiveness (Falbo & Firmansyah, 2018; Irawan et al., 2020; Wijaya & Rahayu, 2021), liquidity (Rahayu et al., 2022), business strategy (Aryotama & Firmansyah, 2020), related party transaction (Aryotama & Firmansyah, 2019a), customer concentration (Aryotama & Firmansyah, 2019b), and firm's life cycle (Irawan & Afif, 2020).

Tax avoidance is an action taken by management, but the activity can be influenced by external and internal conditions of the company. An example of an external condition is environmental uncertainty. Environmental uncertainty is a sense of a manager's inability to accurately predict all social and physical factors that will directly impact management behavior in decision-making (Carolina & Purwantini, 2020). High environmental uncertainty is characterized by increased business competition, unpredictable changes in consumer tastes, and other turbulent conditions

(Laksono & Firmansyah, 2020). Based on political accounting theory, managers will take good policies and maximize the company's business value (Wulandari, 2022). Managers will tend to avoid political costs by utilizing their accounting policies. Management also has a responsibility to prepare financial statements. Managers will be faced with a choice to minimize company costs which include political costs, or maximize company profits which may also add to political costs to be incurred by the company. The tax expenses are one example of the political costs that the company must incur. Managers can minimize the tax costs borne by the company by avoiding tax. Tax avoidance is a tax plan that takes advantage of loopholes in the applicable tax regulations to minimize tax expenses and increase earnings (Siregar & Widyawati, 2016).

Environmental uncertainty is one of the factors outside the company that can affect tax avoidance behavior. Management will increase the company's tax planning activities because of the unstable environment. Tax savings could be critical when the external environment becomes uncertain. Huang et al. (2017), Laksono & Firmansyah (2020), L. K. Putri (2014), and R. K. Putri & Syafruddin (2021) suggested that environmental uncertainty is positively associated with tax avoidance. This result differs from Carolina & Purwantini's (2020) finding that environmental uncertainty is not associated with tax avoidance. According to Huang et al. (2017), tax savings help companies stabilize cash flows, benefit shareholders, and portray a less risky image to shareholders. Managers will receive higher incentives or bonuses if the company avoids tax. Thus, environmental uncertainty can cause company management to become increasingly complex.

The debt policy carried out by the company is one of the company's funding options. Previous studies concluded that debt policy positively influences tax avoidance (Harianto, 2020; Lestari & Putri, 2017; Pajriyansyah & Firmansyah, 2017; Siregar & Widyawati, 2016). The higher the proportion of corporate debt, the higher the value of a company, but at a certain point, an increase in debt will be able to reduce the value of the company because the benefits obtained by the company from debt users are smaller than the costs it incurs (Lubis et al., 2018). An example of an internal condition that affects tax avoidance is debt policy. The funding policy that indicates the company is doing tax avoidance is the leverage policy (Dewi & Noviani, 2017). Using leverage or internal debt as a financing activity can result in a tax deduction due to the emergence of interest on the debt. According to Titman et al. (2017), a higher level of debt in the capital structure can benefit firms for two reasons. First, interest on a firm's debt is tax-deductible, whereas dividends to common stock are not. Second, using debt financing can sometimes help align managers' incentives with those of the shareholders.

Meanwhile, Dewi & Noviani (2017) concluded that debt policy is negatively associated with tax avoidance. Furthermore, Hidayat (2018) found that debt policy is not associated with tax avoidance. The company's debt policy in financing activities can minimize tax costs because when the company chooses a debt policy, there will be fixed costs in the form of interest expenses that the company must bear. The interest expense borne by the company can be utilized as a deduction from taxable income and can reduce the tax burden incurred by the company.

This study examines the effect of environmental uncertainty and debt policy on tax avoidance. The difference between this study and the research of Carolina & Purwantini (2020) lies in using proxies for the environmental uncertainty variable. Carolina & Purwantini (2020) used Gong et al. (2009) by comparing the standard deviation of sales with total assets. Meanwhile, this study measures environmental

uncertainty using a sales volatility proxy. Based on Ghosh & Olsen (2009), environmental uncertainty can be measured using sales volatility, income volatility, and technology volatility. Income volatility is not used in this study because the factors influencing income are too complex, so they cannot reflect environmental uncertainty. Technological volatility is a management response to the external environment rather than directly measuring its uncertainty (Laksono & Firmansyah, 2020). According to Laksono & Firmansyah (2020), the proxy for technology volatility is more directed at management policies where managers can cut research and development expenditures or capital expenditures when the environment becomes uncertain. Thus, sales volatility is considered the most suitable to be used as a proxy for measuring environmental uncertainty.

In addition, this study includes managerial ability as a moderating variable in examining the effect of environmental uncertainty and debt policy on tax avoidance which is still rare in previous studies. Managerial abilities are attributes or abilities that an executive must possess to fulfill specific organizational tasks (Jurnal.id, 2022). Several studies concluded that environmental uncertainty is positively associated with managerial ability (Damayanti et al., 2015; Febrianti & Fitri, 2020; L. K. Putri, 2014). Huang et al. (2017) suspected that managers with more remarkable abilities are better at reducing the relationship between environmental uncertainty and tax avoidance because more capable managers are less opportunistic and may engage in less tax avoidance behavior. According to Laksono & Firmansyah (2020), managers are assumed to be less competent in finance and management, especially taxation, and the existence of corporate governance, which is implemented effectively, will limit managerial ability's influence. The close relationship between managerial ability and tax avoidance is why managerial ability is used as a moderator in this study, where managers are essential in a company (Mark & Kristanto, 2020). In the face of environmental uncertainty, managers must develop and implement strategies. The policies made by managers will affect the company in the future. Managerial ability is a skill that managers must increase the value of the company and achieve the company's business goals. The managerial ability factor must be considered since the success of the company's strategy in deciding an action is strongly influenced by management skills (Mark & Kristanto, 2020).

Huang et al. (2017) suggested that managers with more extraordinary abilities are better at reducing the relationship between environmental uncertainty and tax avoidance because more capable managers are less opportunistic and may engage in less tax avoidance behavior. Managerial abilities will significantly affect the policies, strategies, and plans. Good managerial skills are needed to overcome the environmental uncertainty faced by the company. Thus, managerial ability is considered capable of weakening the effect of environmental uncertainty on tax avoidance.

Agency theory examines contracts between managers and shareholders that can have conflicting purposes. Based on the contract in this relationship, shareholders intend a high rate of return, while managers intend a high amount of compensation. This difference in objectives can lead to information asymmetry that is more favorable to the manager. Managers can utilize the existence of this information asymmetry to achieve their goals. Agency theory asserts that financial structure is influenced by the incentives and behavior of decision-makers (management), so the addition or reduction of debt levels has other consequences (Gunawan, 2016). The emergence of agency costs is due to conflicts between the company (owner-manager) and external parties (creditors and investors) or minority shareholders).

The debt policy chosen by the company is one part of the manager's decision. Managers have the authority to determine how much of the proportion of funding comes from debt instruments and equity instruments. The higher the debt-to-equity ratio, the closer the company is to the credit agreement/regulatory limits (Setijaningsih, 2012). Debt has a fixed cost in the form of interest expense which will be a deduction from profit before tax and indirectly become a deduction for tax expense. Because debt policy is closely related to company management, the company's managerial ability is considered capable of strengthening the effect of debt policy on tax avoidance in companies.

This study also employs firm size and profitability as control variables. The use of firm size and profitability as control variables has previously been carried out by several studies (Huang et al., 2017; Laksono & Firmansyah, 2020; Pajriyansyah & Firmansyah, 2017). Firm size influences tax avoidance, where large companies are more at risk of tax avoidance than small companies. At the same time, profitability is measured by comparing the company's profit after tax with total assets. It is considered to influence tax avoidance with the assumption that the higher the profit earned by the company should reduce the risk of the company to do tax avoidance because the company is considered capable of paying taxes. Based on the results of Dewi & Noviani (2017), firm size harms tax avoidance, and profitability positively affects tax avoidance, proving that both variables are suitable to be used as control variables.

This research is expected to contribute in the form of empirical evidence of the implementation of positive accounting theory in explaining the effect of environmental uncertainty and capital policy on tax avoidance with managerial ability as moderating, which is currently still being debated. In addition, this research is also expected to contribute to the Indonesian Financial Services Authority, the Indonesian Institute of Accountants, and the Indonesian Tax Authority as the tax regulator in formulating policies and conducting supervision to increase potential tax revenues.

## **METHOD**

This study employs secondary data from the property & real estate sector company's financial statements from 2018 to 2020. The financial report data is obtained through the official website of the Indonesia Stock Exchange, [www.IDX.co.id](http://www.IDX.co.id), and other pages, such as [www.idnfinancials.com](http://www.idnfinancials.com). The data used in this study is cross-sectional data. In general, medium and long-term property investment is mandatory, prestige, and promising in fulfilling life's needs (Klikpajak.id, 2021). Apart from being owned, the property can also be used as a means of business. The property business can arise with property demand conditions that are always said to exist and relatively limited supply. In its implementation, property entrepreneurs must consider market limitations that may occur so that property market competition becomes more healthy and solid (Klikpajak.id, 2021). Banking policies that support property investment also make it easier for entrepreneurs to sell their property products. In terms of taxation, every transaction in this business will be subject to final property income tax (Klikpajak.id, 2021). Investment in real estate and property experienced volatility in 2018 but increased in 2019 (BKPM RI, 2020). In 2020, real estate and property investment experienced a slowdown and a very significant decline (Setyaningsih, 2021). Thus, this research used data from companies in the real estate property sector from 2018 to 2020 is interesting.

The summary of the research sample based on purposive sampling is as follows:

**Table 1. Research Sample**

Criteria	Amount
Property & real estate sector company listed on IDX as of March 2022	80
Companies listed on the IDX after January 1, 2018	-28
Companies that do not have complete annual reports from 2018 to 2020	-4
Number of companies that can be used for research	48
Number of years of research	3
Total observations before adjustment	144
Companies that have a negative income before tax	-50
Companies that have favorable tax expenses	-11
Data to be excluded from research	-6
Total Observations final	77

Source: Data Processed

The dependent variable used in this study is tax avoidance. In contrast, the independent variables used are environmental uncertainty and debt policy. There are moderating variables, namely managerial ability and control variables in profitability and firm size. This study uses the Effective Tax Rate (ETR) proxy to measure tax avoidance. The use of ETR as a proxy for tax avoidance refers to several previous studies (Carolina & Purwantini, 2020; Indriani & Juniarti, 2020; Mark & Kristanto, 2020; Siregar & Widyawati, 2016). ETR is the tax rate the taxpayer must pay compared to the income generated. The ETR value reflects the value of tax compliance. Thus, tax avoidance will be measured using the ETR value multiplied by -1 because tax avoidance is inversely related to ETR, which is tax compliance. ETR is formulated as follows:

$$ETR = \frac{\text{Current tax expense}}{\text{Earnings before tax}}$$

Where:

Current tax expense : tax expense

Earnings before tax : profit before tax

Environmental uncertainty occurs due to changes in business elements, mainly due to changes in the market for products produced by the company, such as changes in customer consumption patterns and the competitive structure of the products produced (Carolina & Purwantini, 2020). The inability of managers to accurately predict all social and physical factors that will directly impact management behavior in making decisions is also considered environmental uncertainty. Environmental uncertainty can be measured using sales volatility, earnings volatility, and technology volatility. However, sales volatility is considered the most suitable to be used as a proxy in this study. This proxy was also employed in the research of Huang et al. (2017) and Laksono & Firmansyah (2020). The environmental uncertainty formula is conducted through the following equation:

$$CV (S_i) = \frac{\sqrt{\frac{\sum_{i=0}^n (S_i - S_{\text{mean}})^2}{5}}}{S_{\text{mean}}}$$

Where:

- CV (Si) : Sales volatility
- Si : Sales at the company i
- Sean : The average of all total sales

Debt policy describes the company's risk level, which can be calculated using the DAR (debt to asset ratio) proxy by dividing the total debt by the company's total assets. The greater the level of debt owed by the company, the greater the risk that will be borne (Siregar & Widyawati, 2016). DAR has the advantage of describing the funding conditions of companies financed by debt and the magnitude of the risk. The DAR proxy was previously used in several studies (Dewi & Noviari, 2017; Harianto, 2020; Lestari & Putri, 2017; Siregar & Widyawati, 2016).

$$DAR = \frac{\text{Total debt}}{\text{Total asset}}$$

Where:

- DAR : Debt to asset ratio
- Total Debt : Total company debt
- Total Assets : Total assets of the company

Managerial ability in this study follows Nurfauzi & Firmansyah (2018), Permata et al. (2021), and Vito et al. (2022). Managerial ability is measured through 2 stages. The first stage is to calculate efficiency at the company level used the Data Envelopment Analysis (DEA) approach in the same industry with the following formula:

$$\max\theta = \frac{\text{SALES}}{\theta_1\text{COGS} + \theta_2\text{SGNA} + \theta_3\text{PPE} + \theta_4\text{INTAN}}$$

Where:

- SALES : Sales
- COGS : Cost of goods sold
- SGNA : Selling, administrative and general expenses
- PPE : Fixed assets
- INTAN : Intangible Asset

After obtaining a DEA score indicating the company's efficiency, the following step is to find the residual value (managerial ability) from the Tobit regression using the DEA score and the company's characteristic factors with the following model:

$$FE_i = \beta_0 + \beta_1\text{SIZE}_{it} + \beta_2\text{Ms}_{it} + \beta_3\text{FCF}_{it} + \beta_4\text{AGE}_{it} + \beta_5\text{BUSEG}_{it} + \beta_6\text{FCI}_{it} + \sum_{t=1}^T \varphi\text{YEART} + \varepsilon$$

Where:

- FE : Company efficiency score based on DEA measurement
- SIZE : Natural logarithm of total assets
- Ms : The company's revenue divided by the total industry per year
- FCF : Dummy variable, value 1 if free cash flow (FCF) > 0 and 0 if FCF < 0
- AGE : Natural logarithm of the year the company is listed on the IDX until the end of t
- BUSEG : Number of business segments within the company
- FCI : The absolute value of total foreign exchange gain/loss divided by total income
- $\varepsilon$  : Managerial ability scores called MAScore

The proxy of profitability in this study follows Andawiyah et al. (2019), Hidayat (2018), Indriani & Juniarti (2020), and Siregar & Widyawati (2016) used Return on Assets (ROA).

$$ROA = \frac{\text{Net Profit}}{\text{Total Asset}}$$

Firm size is proxied by logarithm total assets as in previous studies (Andawiyah et al., 2019; Hidayat, 2018; Indriani & Juniarti, 2020; Siregar & Widyawati, 2016). It is intended to reduce excessive fluctuations in data without changing the proper proportion and original value (Indriani & Juniarti, 2020). The following formula measures firm size:

$$SIZE = \text{Ln} (\text{Total Aset})$$

This study used Ordinary Least Squares (OLS) to test the hypothesis. This study employs two models. Model 1 is a linear regression model without moderating variables, while model 2 is a linear regression model with moderation variables.

Model 1

$$TAXAVOID_i = \beta_0 + \beta_1 EU_i + \beta_2 DAR_i + \beta_3 ROA_i + \beta_4 SIZE_i + \varepsilon_i \dots \dots \dots (1)$$

Model 2

$$TAXAVOID_i = \beta_0 + \beta_1 EU_i + \beta_2 DAR_i + \beta_3 MA_i + \beta_4 EU_i * MA_i + \beta_5 DAR_i * MA_i + \beta_6 ROA_i + \beta_7 SIZE_i + \varepsilon_i \dots \dots \dots (2)$$

Where:

- TAXAVOID : Tax avoidance
- EU : Environmental uncertainty
- DAR : Debt to Asset ratio
- MA : Managerial ability
- ROA : Return on Assets
- SIZE : Firm size.

## RESULTS

Table 2 summarizes descriptive statistics of the variables used in this study.

**Table 2. Descriptive Statistics**

Var.	Mean	Median	Maximum	Minimum	Std. Dev.	Obs.
TAXAVOID	-0.1124	-0.0503	-0.0001	-0.6784	0.1398	77
EU	0.0847	0.0727	0.6050	0.0006	0.0930	77
DAR	0.3549	0.3370	0.7555	0.0415	0.1772	77
MA	0.0185	-0.1179	6.6705	-1.4579	1.2410	77
ROA	0.0506	0.0346	0.2604	0.0009	0.0548	77
SIZE	29.5477	29.7092	31.7396	25.6870	1.3547	77

Source: Data Processed

Table 2 shows that the TAXAVOID, EU, MA, and ROA variables have a smaller mean than the standard deviation value. This situation indicates that the data is not normally distributed. In contrast, the DAR and SIZE variables have a mean value greater than the standard deviation. This situation indicates that the data is normally distributed.

Furthermore, the summary of the results of hypothesis testing is in table 3.

**Table 3. Summary of Hypothesis Test Results**

Variable	Model 1			Model 2				
	Coeff.	T-Stat.	Prob.	Coeff.	T-Stat.	Prob.		
C	- 0.191	-0.672	0.252	-0.027	-0.077	0.469		
EU	0.119	0.658	0.256	- 0.118	- 0.501	0.309		
DAR	-0.225	-2.163	0.017	**	- 2.755	0.004	***	
ROA	0.836	3.269	0.001	***	0.856	2.963	0.002	***
SIZE	0.004	0.367	0.357	- 0.001	- 0.103	0.459		
MA				0.025	0.553	0.291		
EU*MA				- 0.524	- 2.017	0.024	**	
DAR*MA				0.039	0.535	0.297		
R <sup>2</sup>		0.237			0.322			
Adj. R <sup>2</sup>		0.194			0.2534			
F-stat.		5.588			4.685			
Prob(F-stat.)		0.001			0.000			

Where:

\*\*\*) affects the significance level of 1% or 0.01

\*\* ) affects the significance level of 5% or 0.05

\* ) affects the significance level of 10% or 0.1

Source: Data Processed

Table 3 shows the results of the Partial Test. Model 1. it can be seen that the results of the partial test (t) show that the EU variable, SIZE in model 1, has no effect (probability value < (0.05). In contrast, DAR and ROA have a significant effect (probability value < (0.05). In model 2, EU, SIZE, and MA have no effect (probability value > (0.05). While DAR and ROA have a significant effect (probability value < (0.05). Simultaneously F Test. Model 1. The effect of the independent variable is significant on the dependent variable (Probability: 0.001 <: 0.05). Model 2. The effect of the independent variable is significant on the dependent variable (Probability 0.000 <: 0.05). The contribution of the Independent variable to the dependent variable: Model 1. Contribution of (R<sup>2</sup>) = 23.70% or 19.40% (Adjusted R<sup>2</sup>). Model 2. Contribution of (R<sup>2</sup>) = 32.20% or 25.34% (Adjusted R<sup>2</sup>).

### Discussion on The Effect Of Environmental Uncertainty on Tax Avoidance

The hypothesis testing result suggests that environmental uncertainty is not associated with tax avoidance. This study is in line with Carolina & Purwantini (2020). However, the result of this study contradicts Huang et al. (2017), Laksono & Firmansyah (2020), L. K. Putri (2014), and R. K. Putri & Syafruddin (2021). The difference in the result of this study, compared with Laksono & Firmansyah (2020), may be caused by the difference in the samples used. Laksono & Firmansyah (2020) used a sample of manufacturing companies, while this study employs a sample of companies in the property & real estate sector. Furthermore, the difference between the result of this study and that of R. K. Putri & Syafruddin (2021) occurs due to differences in the samples and proxies used in measuring environmental uncertainty. R. K. Putri & Syafruddin (2021) used proxies of market uncertainty, competition intensity, and technological uncertainty, while this study employs sales volatility as a proxy to measure environmental uncertainty.

Sales volatility should be low in a stable economic condition with no triggers, such as an economic crisis (Kusuma & Sadjiarto, 2014). Based on descriptive statistics, as measured by sales volatility, environmental uncertainty has a low average value of 0.077. This figure shows that sales volatility in the sample companies is low, indicating that environmental uncertainty in the companies tends to be low so that the business

environment of the sample companies tends to be stable. Property & real estate sector companies have unique characteristics that differ from other industries (Gunawan, 2016). The characteristic of the property & real estate sector is that company assets cannot be moved, meaning that land used by a property & real estate company cannot be moved to another location. In addition, companies in the property & real estate sector are also unique because no property company is the same. This uniqueness can create a monopolistic ability to market demand (Gunawan, 2016). These two characteristics make the property & real estate sector companies have a stable business environment. Therefore, companies do not use a tax avoidance strategy to improve company performance because this strategy risks future tax disputes with the government.

Positive accounting theory states that large companies will reduce their earnings using accounting policies. It aims to avoid high tax costs due to high profits, especially in uncertain environmental conditions. However, the test results in this study did not confirm this theory. The result of this study indicates that environmental uncertainty does not affect tax avoidance. It shows that the average sample company still does not have a consistent pattern of competitive strategy. As a result, determining the amount of profit & the amount of tax to be paid is not based on the strategy used. Therefore, whatever strategy the company uses in dealing with environmental uncertainty will not affect the intensity of tax avoidance.

### **Discussion on The Effect of Debt Policy on Tax Avoidance**

The result of hypothesis testing in this study suggests that debt policy is negatively associated with tax avoidance. This research is in line with Dewi & Noviari (2017). However, this research is not in line with Harianto (2020), Hidayat (2018), Lestari & Putri (2017), Pajriyansyah & Firmansyah (2017), Siregar & Widyawati (2016). The difference between this study and the research of Harianto (2020), Lestari & Putri (2017), and Siregar & Widyawati (2016) lies in the difference in the sample used. Meanwhile, the difference between this study and the research of Hidayat (2018) lies in the proxies and samples used. Hidayat (2018) used the debt to equity proxy in measuring debt policy, while this study uses the debt to assets proxy. The sample used by Hidayat (2018) is a manufacturing company, while the sample used in this study is a property & real estate company.

Debt policy is one of the company's funding policy choices to carry out financing. The amount of the company's debt policy has been regulated in the Minister of Finance Decree Number 169/PMK.010/2015 with a maximum debt ratio and capital is four to one. When a company chooses debt as a funding source, fixed costs appear or are commonly referred to as interest expenses that the company must pay. The greater the company's debt policy, the higher the interest expense must be paid. The interest expense that arises from the debt made by the company will be a deduction from taxable income. However, the interest expense paid may be greater than the tax burden avoided by the company.

When property & real estate sector companies have large debts, the company will face the risk of financial difficulties and bankruptcy, so managers focus more on optimizing finances through the company's business strategy. Companies have long life cycles, unlike manufacturing companies, whose styles change over time (Gunawan, 2016). These characteristics make company managers more careful in making decisions. Therefore, companies with more significant debt will avoid tax avoidance activities that risk a dispute with the tax authorities.

### **Discussion on The Influence of Managerial Ability to Weaken Environmental Uncertainty on Tax Avoidance**

Based on the results of hypothesis testing, the interaction between managerial ability and environmental uncertainty harms tax avoidance. It suggests that managerial ability weakens the positive effect of environmental uncertainty on tax avoidance. This study' is in line with Huang et al. (2017), but not in line with Laksono & Firmansyah (2020). The difference between this study and the research of Laksono & Firmansyah (2020) lies in the sample used. Laksono & Firmansyah (2020) used manufacturing companies from 2012 to 2018, while this study used property & real estate companies from 2018 to 2020. Managerial ability is considered one of the main factors of a company's success. Managers with good capabilities can determine a company's best course of action by maximizing large benefits but having small risks that have implications for the company (Mark & Kristanto, 2020). The manager acts as a decision-maker in the company, including in tax planning decisions. Managers with good managerial skills will consider the benefits and risks faced by the company because of their decisions.

When faced with environmental uncertainty, management will try to minimize the costs paid by the company. The tax burden is one of the costs avoided by the company. However, tax avoidance is a high-risk decision. If the Indonesian Tax Authority finds a company evading high taxes and committing tax evasion, the company can be subject to heavy sanctions, creating an additional burden for the company (Mark & Kristanto, 2020). Companies that have managers with good managerial skills will consider ways to minimize a cost without creating a higher cost risk through tax avoidance. The possible burden of sanctions borne by the company due to tax avoidance is higher than the tax expenses. Therefore, managers will not do tax avoidance because it risks causing higher costs.

### **Discussion on The Effect of Managerial Ability to Strengthen Debt Policy on Tax Avoidance**

The hypothesis test result suggests that managerial ability does not strengthen the positive effect of debt policy on tax avoidance. Managers act as decision-makers in the company, including deciding a company's debt policy. The behavior of managers in each company reflects the managerial ability of a company. Agency theory asserts that financial structure is influenced by the incentives and behavior of decision-makers (management), so the addition or reduction of debt levels has other consequences (Gunawan, 2016). The emergence of agency costs is due to conflicts between the company (owner-manager) and external parties (creditors and investors) or minority shareholders). This means that debt policy is one of the decisions taken by managers.

Based on positive accounting theory, managers will tend to avoid tax costs which are one of the political costs. Tax avoidance can be done utilizing tax savings, namely by reducing the amount of tax that must be paid. It can be done through the company's debt policy because the costs incurred due to debt can reduce the company's tax expenses. However, the company's debt policy has been regulated by Minister of Finance Decree No. 169/PMK.010/2015, with a maximum debt and equity ratio of four to one. The existence of this policy makes managers know the maximum amount of debt that needs to be maintained by the company.

The standard business or regular activity of property & real estate sector companies is to sell and buy land and buildings. The company's debt usually funds purchases with high value. The use of debt in the normal activities of companies in this

sector is commonplace because all purchases have a high value. Therefore, using debt policy in companies' business activities in the property & real estate sector is natural, so the managerial ability is not seen much moderating in the association between debt policy and tax avoidance.

## CONCLUSION

This study concludes that environmental uncertainty does not affect tax avoidance. On average, the companies used in this research sample still do not have a consistent pattern of competitive strategies. As a result, determining the amount of profit & the amount of tax to be paid is not based on the strategy used. Furthermore, debt policy harms tax avoidance. When property & real estate sector companies have large debts, the company will face the risk of financial difficulties and bankruptcy, so managers focus more on optimizing finances through the company's business strategy. This study also finds that managerial ability weakens the positive effect of environmental uncertainty on tax avoidance. Still, managerial ability does not moderate the relationship between debt policy and tax avoidance. Managers use their best abilities not to keep the company's business more in the future. Still, these abilities are not related to tax savings by taking advantage of certain company conditions or managers' discretionary policies.

The limitation of this research is that using the criteria of eliminating the effective tax rate, which has a negative value, results in a significant reduction in the study's sample size. Future research can employ the manufacturing, non-financial, or financial sectors for a more extended period to obtain a larger sample so that future research tests obtain more comprehensive results than past tests.

This research indicates that the Indonesian Financial Services Authority needs to supervise and improve policies on implementing good corporate governance to support investor protection in the Indonesian capital market. This study also suggests that the Indonesia Tax Authority improves corporate income tax policies related to the company's capital structure.

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