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DOES A REDUCTION IN TAX RATES INFLUENCE TAX AGGRESSIVENESS? AN ANALYSIS WITH ADDITIONAL FACTORS

Fitri Ilma Wahyuni[1)*], Sri Andriani[2)]

[1, 2)] Maulana Malik Ibrahim State Islamic University Malang

E-mail : 200502110060@student.uin-malang.ac.id [1)*], *sriandriani@akuntansi.uin-malang.ac.id* [2)]

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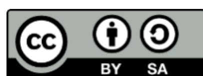

ABSTRACT

This study investigates the effect of reduction tax rates in Indonesia and other factors that may impact tax aggressiveness. This study employs multiple linear regression analysis, using E-Views 12 as analytical software. A sample of fourteen real estate and property companies listed on the Indonesia Stock Exchange (IDX) for 2017 to 2023 was identified through purposive sampling. This study relies on secondary data derived from the company's financial statements. The results showed that the reduction in tax rates and the presence of independent commissioners did not significantly affect tax aggressiveness. In contrast, institutional ownership and profitability factors positively correlate with tax aggressiveness, while leverage shows a negative correlation. It is expected that the results of this study will contribute to the development of taxation policies for companies in Indonesia, aiming to reduce aggressive taxation practices and assist companies in their tax-related decision-making framework.

Keywords: Tax Aggressiveness, Tax Rates, Corporate Governance, Profitability, Leverage

INTRODUCTION

Tax revenue is a crucial pillar of a country's finances. For developing countries like Indonesia, the government's primary source of government funding is taxes, contributing approximately 70% of the total national income (Galla & Asmapane, 2023). Taxes play a crucial role in economic and social development, providing funds for infrastructure,

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healthcare, education, and various other public services (Saputra, 2024). However, taxes represent a significant operational cost for companies that can impact their profits and financial stability. Consequently, shareholders often support tax reduction efforts, including strategies considered aggressive, commonly known as tax aggressiveness, to minimize their tax burden as efficiently as possible (Amri et al., 2023). Taylor & Richardson (2014) define tax aggressiveness as any passive or active transactions that can result in reduced corporate taxes. The tax aggressiveness undertaken by companies can lead to a decrease in tax income received by the state.

Tax aggressiveness is still widely practiced in Indonesia. This is because companies perceive taxes as a burden that does not directly benefit the companies that pay them (Aronmwan & Ogbaisi, 2022). Therefore, companies engage in tax aggressiveness to plan for tax reduction or mitigation (Marzuki & Syukur, 2021). As stated in a Tax Justice Network report, Indonesia's losses, as long as tax avoidance, are estimated to reach 4.86 billion dollars, equivalent to 68.7 trillion rupiahs annually. Based on this report, Indonesia ranks fourth in Asia after India, China, and Japan in tax aggressiveness cases, both by corporate and individual taxpayers. The low tax ratio and its yearly fluctuations prove the effects of Indonesia's tax aggressiveness (Bernhard & Veny, 2024). Data on Indonesia's tax ratio from 2017 to 2023 :

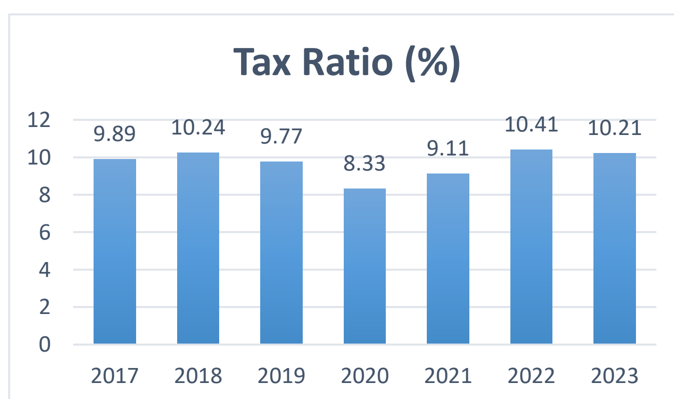

Figure 1. Theoretical Framework
Source: Research Data, 2024

In 2021, Indonesia successfully increased its tax ratio to 9.11%, which aligns with the economic recovery following the COVID-19 pandemic. According to data from Indonesia's Ministry of Finance, this increase continued, with the tax ratio reaching 10.41% in 2022. However, according to Sri Mulyani, in 2023, Indonesia's tax ratio did not increase, remaining at 10.21% of the Gross Domestic Product (GDP). It represents a decrease of 0.20% compared to 2022. Compared to other ASEAN countries, Indonesia has the lowest tax ratio (Panjaitan, 2023). It supports the evidence that tax aggressiveness is still widespread in Indonesia.

According to Jbir et al. (2021), the Effective Tax Rate (ETR) is an effective tool for measuring tax aggressiveness. A lower ETR suggests that the corporation in issue is more proactive with its taxation. Companies in the property and real estate industry continuously had the lowest Effective Tax Rates (ETRs) from 2016 to 2020, according to a review of ETRs. In 2016, PT Bumi Serpong Damai had the lowest ETR. Subsequently, in 2017, 2018, 2019, and 2020, PT Metropolitan Land Tbk had the lowest ETR (Awaliah et al., 2022). It suggests that property and real estate companies were the companies that engaged in the most tax avoidance during that period.

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The Finance Minister's remark, which suggests that tax collection from real estate and property firms is still relatively low compared to other industries, further supports this. Sri Mulyani Indrawati said tax income from several corporate sectors fell in 2020. Property and real estate firms' tax revenue fell by 22.56% (Santoso, 2021). Furthermore, in 2021, property and real estate companies were also among the sectors with below-average tax payments, with a tax ratio reaching only 4.1% of GDP. This figure declined to 3.5% in 2022 (Azzahra & Wulan, 2023).

The "Panama Papers" case revealed aggressive tax evasion involving property and real estate companies. This secret document includes financial transactions of foreign figures and billionaires attempting to hide assets from tax authorities, comprising 2,961 individuals and companies in Indonesia. One of the entities involved is PT Ciputra Development Tbk (CTRA), which is suspected of concealing wealth amounting to US$ 1.48 billion (nearly Rp 19.7 trillion) through PT Juita Ciputra (Sudiarta, 2016).

The government's objectives are at odds with the company's aggressive tax practices. As the principal, the government aims to collect as much tax as possible, while the firm, as the agent, wants to pay as little as possible in taxes. This conflict of interest may cause the business to become aggressive with taxes, which would be bad for the government. In this instance, one of the tax policies implemented by the administration is lowering corporate tax rates revenue. In the 2020 and 2021 tax years, in the fiscal year 2022, the corporate income tax rate was lowered to 20% from a starting rate of 25%. This policy was enacted in government regulation instead of law (Perpu) Number 1 of 2020. However, by Law Number 7 of 2021, Article 17, Paragraph (1), Section B, the tax rate was reverted to 22% effective January 1, 2022. The government also set a tax rate reduction of 3% from the original rate for domestic taxpayers recognized as public businesses and listed on the Indonesia Stock Exchange. This tax rate reduction is also supported to help boost tax revenue and economic recovery after COVID-19.

However, the effectiveness of tax rate reduction policies in curbing tax aggressiveness and boosting government revenue from the tax sector in Indonesia still needs to be investigated. Therefore, this study will analyze the impact of tax rate reduction policies, and other factors predicted to influence tax aggressiveness, specifically in companies that are indicated to have high levels of tax aggressiveness, such as those in the property and real estate sectors. Previous research (Octavia & Sari, 2022) found that tax rate reductions positively affect tax aggressiveness. Another study (Khan & Nuryanah, 2023) investigating the impact of corporate tax rate reductions due to tax amnesty concluded that tax aggressiveness is unaffected by tax rates. The first hypothesis is the following:

H_1 : Tax rate reduction has a positive effect on tax aggressiveness.

The other cause that was found to affect tax aggressiveness is corporate governance. Corporate governance and tax aggressiveness are phenomena related to agency theory within companies (Alkausar et al., 2021). Various corporate governance mechanisms can lessen agency issues related to tax aggressiveness (Armstrong et al., 2015). Corporate governance factors examined in this research will be proxied by independent commissioners and institutional ownership.

According to Jensen & Meckling (1976), in agency theory, institutional ownership is an essential element of good corporate governance that reduces principal-agent conflicts. The percentage of shares held by an institution is called institutional ownership

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by various institutions, namely organizations, governments, and companies. Since companies are accountable to shareholders, investors can ensure that company management makes prudent decisions for the owners' welfare, including tax decisions (Damayanti & Susanto, 2016). With a more significant proportion of institutional ownership, the company is less likely to engage in tax aggressiveness, resulting in a higher ETR. Previous research (Dakhli, 2022; Nugraheni & Murtin, 2019; Qawqzeh, 2023; Ying et al., 2017; Yuliani & Prastiwi, 2021) found that institutional ownership negatively affects tax aggressiveness. Considering this explanation, the hypothesis is :

H_2 : There is a negative impact of institutional ownership on tax aggressiveness.

Next, independent commissioners significantly influence company management's performance monitoring, reducing aggressive tax practices and behaviors. Independent commissioners have no affiliations with shareholders, directors, or the board of commissioners and do not hold directorships in the company (Hidayat & Muliasari, 2020). The presence of independent commissioners is crucial due to their role in overseeing management. Independent commissioners serve as supervisors and mediators to help minimize disputes between shareholders and management (Alkausar et al., 2021). Previous studies (Alkausar et al., 2021; Hidayat & Muliasari, 2020; Mappadang, 2021; Oktaviana & Kholis, 2021) states that independent commissioners negatively impact tax aggression. According to this, the hypothesis is:

H_3 : Independent commissioners harm tax aggressiveness.

The other cause indicated to affect the aggressiveness of taxes is profitability. Profitability reflects a business's capability to maximize its profits effectively and efficiently over a certain period and indicates good financial health (Mariana et al., 2021). This study will measure profitability by the Return on Assets (ROA) ratio. The higher the company's profits, the higher the tax payable, thus increasing tax aggressiveness as the Effective Tax Rate (ETR) decreases (Hossain et al., 2024). Previous research (Anggraeni et al., 2023; Fitriani & Indrati, 2023; Hossain et al., 2024; Marsahala et al., 2020; Susanto, 2022) has shown that profitability positively impacts tax aggressiveness. According to this, the hypothesis is:

H_4 : Profitability has a positive impact on tax aggressiveness.

Leverage is also indicated to influence tax aggressiveness. A ratio called leverage, or debt structure, indicates how much debt a business employs to fund its activities. An increase in debt leads to interest expenses that the company must pay (Fauzan et al., 2019). According to agency theory, managers tend to use debt to lower the tax burden on the business by leveraging the interest expenses associated with the debt. When a business borrows much money, it must pay significant interest expenses to creditors. These interest expenses reduce the company's profit, lowering taxable income. In previous research by (Abidin, 2023; Dewi & Nustini, 2024; Hossain et al., 2024; Khasanah et al., 2022), leverage has been demonstrated to impact tax aggressiveness positively. It leads to the following hypothesis:

H_5 : There is a positive impact of leverage on tax aggressiveness.

This study also includes company size as a control variable. It aligns with research by Khan & Nuryanah (2023) and Utaminingsih et al. (2022), which used company size as a control variable. Company size reflects the magnitude of a company's assets (Kuriah & Asyik, 2016). The larger the company's assets, the higher its productivity, increasing

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profits and influencing tax payments. Large companies tend to have more scope to plan their taxes effectively and implement effective accounting practices to reduce the ETR (Rahayu & Suryarini, 2021).

This study extends the research by Khan & Nuryanah (2023) with similar independent and dependent variables. The research by Khan & Nuryanah (2023) utilized the tax amnesty policy implemented in 2016. However, this study focuses on the latest policy, which involves a reduction in the tax rate from 25% during the research period of 2017-2019 to 22%, effective from the 2020 tax year until the end of the research period 2023. This research period spans three phases: before the COVID-19 pandemic, during, and post-pandemic. It allows for a more comprehensive understanding of how companies engage in tax aggressiveness in the face of declining profits coupled with policy changes that are consequences of the COVID-19 pandemic. This study investigates the impact of tax rate reduction on tax aggressiveness to delve deeper and broaden the scope of previous research using different research objects and software tools. This new approach aims to provide a more comprehensive understanding by exploring various data sources and analytical techniques. Based on the author's observations, there has yet to be a study analyzing the impact of a reduction in tax rates on tax aggressiveness in the same year and subject, making this research novel. Handayani & Rachmawati (2022) and Octavia & Sari (2022) investigated similar policies but were limited to 2019-2020 and with different subjects.

RESEARCH METHODS

The approach adopted in this paper is the quantitative method. The population of this research consists of companies registered as real estate and property on the Indonesia Stock Exchange from 2017 to 2023, based on IDX data. From this population, a sample of companies meeting purposive sampling was utilized to select the research criteria. The following are the purposive sampling criteria used in this study :

Table 1. Sample Selection Criteria

Sample Criteria	Total
Property and real estate sub-sector companies listed on the Indonesia Stock Exchange from 2017 to 2023	57
Property and real estate sub-sector companies that do not publish consecutive annual financial reports on the Indonesia Stock Exchange and do not publish audited financial reports from 2017 to 2023	(15)
Property and real estate sub-sector companies listed on the Indonesia Stock Exchange that have incurred losses from 2017 to 2023.	(28)
Total property and real estate enterprises sampled	**14**
Amount of research data from 2017 to 2023 (14 x 7 years)	**98**

Source: Data Processed, 2024

Based on purposive sampling, 14 companies met the criteria, resulting in 98 observational data points over the 7-year research period. In this study, the measurement of the tax rate was assisted by using a dummy variable, with a code of 1 after the corporate income tax rate change and a code of 0 before the tax rate change. Variables measurement in this study is as follows:

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Tax Aggressiveness = $ETR = \left(\frac{\text{Income Tax Expense}}{\text{Earning Before Tax}}\right) x\ 100\%$

Tax Rates = Dummy Variable (0 for 2017-2019 with 25% tax rate, 1 for 2020-2023 with 22% tax rate)

Institutional Ownership = $IO = \left(\frac{\text{Outstanding Shares}}{\text{Institusional Shares}}\right) x\ 100\%$

Independent Commissioner = $IC = \left(\frac{\text{Independent Commissioner}}{\text{Board of Commissioner}}\right) x\ 100\%$

Profitability = $ROA = \left(\frac{\text{Net Income}}{\text{Total Assets}}\right) x\ 100\%$

Leverage = $DAR = \left(\frac{\text{Total Liability}}{\text{Total Assets}}\right) x\ 100\%$

Firm Size = $LN(\text{Total Assets})$

This research utilizes E-Views 12 data processing software. The tests used descriptive statistical analysis, classical assumption tests (heteroscedasticity, autocorrelation, multicollinearity, and normality tests), and multiple linear regression analysis with t-test and coefficient of determination tests for evaluating hypotheses are all included in this study. The study employs the entry method for regression to examine how independent and dependent variables relate. The following is the model that was utilized in this study:

$$TA_{it} = \alpha + \beta_1 DTR_{it} - \beta_2 IC_{it} - \beta_3 IO_{it} + \beta_4 ROA +_{it} \beta_5 LEV_{it} + \beta_6 SIZE_{it} + \varepsilon$$

Description :

α = Constant
β1,2,3,4,5,6 = Regression Coefficient
TA = Tax Aggressiveness
DTR = Dummy Tax Rate
IO = Institutional Ownership
IC = Independent Commissioners
ROA = Profitability
LEV = Leverage
SIZE = company size
ε = Error

RESULTS AND DISCUSSION

The following are the results of data processing that has been carried out as follows:

Table 2. Results of Descriptive Statistical Analysis

	TA	IO	IC	ROA	LEV	SIZE
Mean	5.708739	59.11962	39.89958	5.077764	35.75777	28.64918
Median	1.307531	66.64279	40.00000	4.258027	33.74589	28.85634
Maximum	107.5020	99.99000	60.00000	17.48142	90.86205	31.83314

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Table 2. Results of Descriptive Statistical Analysis (Continuous)

	TA	IO	IC	ROA	LEV	SIZE
Minimum	0.012937	0.000000	25.00000	0.013999	4.403351	23.87424
Std. Dev.	14.51024	24.77659	8.161764	3.544918	16.59031	2.180938

Source: Data Processed, 2024

The mean value of 4.94 indicates a moderate level of tax aggressiveness in this sample, with a much lower median of 1.22. The very high maximum value (107.50) and significant standard deviation (12.68) suggest that some companies are aggressive in their tax strategies, while most are conservative.

The descriptive statistical analysis results show that institutional ownership averages 59.12%, with a median of 66.64%. It indicates that most companies in the sample have a relatively high level of institutional ownership. The maximum value of 99.99% means that in some companies, institutions almost completely control share ownership. In contrast, the minimum value of 0% suggests that some companies have no institutional shareholders. The standard deviation of 24.78 indicates significant variation between companies in terms of the level of institutional ownership.

Independent commissioners have an average of 39.90%, with a median of 40%. It indicates that most companies in the sample have a relatively high proportion of independent commissioners, and the even distribution of data (the median is almost the same as the mean) indicates consistency in applying the role of independent commissioners in many companies. The minimum value of 25% indicates that some companies do not have the minimum number of independent commissioners by the applicable regulations, which is 30%.

In the descriptive statistics results, the average ROA of 5.08% with a median value of 4.26% indicates that most companies in the sample could earn a net profit of around 5% of their total assets. The maximum value reaches 17.48%, which indicates that there are companies with excellent performance in utilizing their assets to generate profits. In contrast, the minimum value of 0.01% shows that some companies barely profit from their assets. The variation in company performance can be seen from the standard deviation of 3.54, indicating significant differences in profitability between companies.

The average leverage of 35.76% indicates that the average company in the sample has a significant level of debt. The median value of 33.75% indicates that half of the companies have leverage below this figure, while the other half have higher debt levels. The maximum leverage value of 90.86% indicates that some companies rely heavily on debt. The minimum value of 4.40% indicates that some companies have a very conservative capital structure with very low debt. The standard deviation of 16.59% also confirms considerable variation in the use of leverage between companies.

Based on data processing, the regression model in this study passed the classical assumption tests, which include multicollinearity, normality, heteroscedasticity, and autocorrelation as necessary. Table 3 provides the findings of the regression analysis.

Table 3. Results of Partial Significance Test (t-Test)

	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.350359	6.067512	-0.387368	0.6994
DTR	-0.448240	0.268231	-1.671098	0.0982
IO	-0.445009	0.164159	-2.710848	0.0080

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Table 3. Results of Partial Significance Test (t-Test) (Continuous)

	Coefficient	Std. Error	t-Statistic	Prob.
IC	0.394537	0.716719	0.550476	0.5834
ROA	-0.799144	0.135860	-5.882122	0.0000
LEV	0.675427	0.263541	2.56289	0.0120
SIZE	0.561131	1.613219	0.347833	0.7288

Source: Data Processed, 2024

According to the findings obtained from the partial significance test mentioned above, the impact of each independent variable on the dependent variable can be stated. In the initial hypothesis, it is stated that a reduction in tax rates can influence tax aggressiveness. The variable relating to the tax rate reduction shows a t-count value of -1.671098 and a significance value (Prob.) of 0.0982, which exceeds the 0.05 threshold. Hence, the initial hypothesis is rejected. The conclusion that can be drawn from the partial test results regarding the independent variable of tax rate reduction is that it does not influence the dependent variable of tax aggressiveness.

The second hypothesis states a negative correlation between the institutional ownership variable and tax aggressiveness. The institutional ownership variable shows a t-statistic value of -2.710848 and a significance value (Prob.) of 0.0080, below the 0.05 threshold. The coefficient associated with the institutional ownership variable is -0.445, indicating that a one-unit increase in institutional ownership will reduce the Effective Tax Rate (ETR) by 0.445. ETR is one of the tax aggressiveness measurement formulas with a value inversely proportional to tax aggressiveness. If a high percentage of independent commissioners can reduce the ETR value, then on the contrary, a high percentage of independent commissioners is considered to influence to increase the level of tax aggressiveness carried out by the company. Therefore, the results of this study refute the second hypothesis. The conclusion that can be drawn from the partial test results regarding the independent variable institutional ownership reveals a positive effect on tax aggressiveness.

The third hypothesis posits that a negative relationship exists between the independent commissioner and tax aggressiveness. The independent commissioner variable demonstrates a t-statistic value of 0.550476, accompanied by a significance value (Prob.) of 0.5834, which exceeds the threshold of 0.05. Thus, the third hypothesis is deemed rejected. The inference drawn from the partial test outcomes regarding the independent commissioners indicates that it does not influence tax aggressiveness.

The fourth hypothesis states that profitability has a positive correlation with tax aggressiveness. The profitability variable shows a t-count value of -5.882122 and a significance value (Prob.) of 0.0000, less than 0.05. The coefficient value for the profitability variable is -0.799, proving that each increase in one unit of profitability will provide a 0.799 decrease in the effective tax rate (ETR). ETR has a value that is inversely proportional to tax aggressiveness. If high company profitability can reduce the value of ETR, then on the contrary, this high profitability is considered to increase the level of tax aggressiveness carried out by the company. Thus, the fourth hypothesis is accepted. The conclusion drawn from the partial test results regarding the independent variable profitability positively influences the dependent variable tax aggressiveness.

The fifth hypothesis states that there is a positive influence between the leverage variable and tax aggressiveness. The leverage variable has a calculated t value of 2.56289 with a significance value (Prob.) of 0.0120 <0.05. The coefficient value of the leverage

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variable is 0.675, which means that for every one-unit increase in leverage, the ETR value increases by 0.675. ETR has a value that is inversely proportional to tax aggressiveness. If high company leverage can increase the ETR value, then on the contrary, this high leverage is considered to reduce the level of tax aggressiveness carried out by the company. Therefore, the fourth hypothesis is rejected. The conjecture from the partial test results on the independent variable leverage is that it harms the dependent variable tax aggressiveness.

Table 4. Results of Coefficient Determination Test (R^2)

R-squared	0.500696	Mean dependent var	0.297082
Adjusted R-squared	0.467409	S.D. dependen var	1.717814

Source: Data Processed, 2024

The coefficient of determination analysis yielded an R-squared value of 0.500696, equivalent to 50%, indicating that the independent variables considered in this study could explain 50% of the observed variation in the dependent variable. Conversely, other variables not included in the scope of this regression analysis influence the remaining 50%.

The Impact of Tax Rates on Tax Aggressiveness

Hypothesis testing revealed no significant impact of the tax rate on tax aggressiveness, aligning with the findings of previous research (Eichfelder et al., 2024; H. Handayani et al., 2018; Khan & Nuryanah, 2023). Lowering tax rates might not necessarily reduce tax aggressiveness. Their perceptions and actions regarding taxes influence taxpayers more than the tax rates. Many companies already have very effective and legally aggressive tax strategies, so a reduction in tax rates does not provide a strong enough incentive to stop this practice. Companies continue their tax strategies to maximize profits (Duhoon & Singh, 2023). Therefore, even with lower tax rates, companies may still engage in tax aggressiveness or minimization strategies to reduce their tax liabilities, as tax payments would still affect their net income. From an agency theory perspective, lowering tax rates has yet to effectively incentivize corporate taxpayers (agents) to increase their compliance with tax regulations, leading them to continue engaging in tax aggressiveness.

Additionally, several factors may explain why a reduction in tax rates is not always effective in reducing tax aggressiveness. One of these factors is the complexity of modern taxation, which has created many loopholes. This complexity arises from the intricate interaction between accounting standards and tax laws, offering various exemptions, deductions, and inconsistent definitions, providing opportunities for legally reducing tax liabilities (Kluzek, 2024; Picciotto, 2015). Then, the COVID-19 pandemic has intensified competitive pressures, prompting companies to adopt various strategies to maintain profitability, including tax aggressiveness. Research indicates that the pandemic has significantly impacted tax aggressiveness across different sectors. For instance, a study on Indonesian public enterprises by Puspitarini & Rahimi (2024) found that financial distress during the pandemic motivated firms to engage in tax aggressiveness, particularly those involved in digital economy activities, although the pandemic weakened the positive association between digital activities and effective tax rate.

Furthermore, the company's perception of the sustainability of significant tax rate reductions also influences its behavior, particularly regarding long-term tax risk management. If a company believes the tax rate reduction is temporary, it may adopt a

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cautious approach, focusing on minimizing long-term tax risks. This cautious behavior is evident in the findings of Owusu et al. (2024), where the intention of corporate sustainability reporting was driven by perceived benefits and dynamic capabilities, indicating that companies are interested in maintaining stable and transparent tax strategies to ensure long-term success.

Likewise, this tax rate reduction policy will not increase tax aggressiveness compared to the period before the policy was implemented. It is consistent with the research by Arizah et al. (2024), which states that managers do not engage in more aggressive tax strategies even though the tax rate reduction policy creates opportunities for managers to gain more significant benefits. The policy, which came into effect during the pandemic, allows managers to focus less on tax-aggressive strategies as they tend to prioritize increasing company profits as a recovery measure from the impact of the pandemic.

This research presents findings that differ from those previous research by Octavia & Sari (2022), who argued that lowering tax rates positively impacts tax aggressiveness, resulting in a decline in tax aggressiveness with tax rate reduction policies. Different results could be attributed to differences in analytical methods, research period, study focus, sample size, and the specific years in which the studies were conducted.

The Impact of Institutional Ownership on Tax Aggressiveness

The hypothesis testing results indicate that institutional ownership positively affects tax aggressiveness. These findings align with previous research (Alkurdi & Mardini, 2020; Jiang et al., 2021; Kartadjumena & Nuryaman, 2024; Richardson et al., 2016) suggesting that institutional ownership leads to lower ETRs and higher tax aggressiveness. This behavior is likely driven by the legal protection of tax reduction strategies, prompting institutional shareholders to encourage practices that minimize tax obligations by reallocating resources toward tax planning (Annuar et al., 2014).

Interestingly, these findings contradict agency theory, which posits an issue of interest between management and shareholders, leading to potential agency problems. Typically, agency theory predicts that managers engage in opportunistic behaviors to maximize their interests, potentially at the expense of shareholder value. However, in this case, institutional shareholders are actively promoting tax aggressiveness, which could be a way to maximize shareholder value through tax optimization. It suggests that the relationship between institutional ownership and tax aggressiveness might be more complex than predicted by agency theory.

On the other hand, the property and real estate companies sampled in this study have a relatively high percentage of institutional ownership, with an average institutional shareholding of 59.11 percent. According to Jiang et al. (2021), companies with high levels of institutional ownership may experience a concentration of ownership, which restricts institutional investors' participation in corporate governance. Through this mechanism, corporate entities achieve high standards due to the strong decision-making capabilities of their stakeholders. Meanwhile, there has been an increase in the level of corporate tax aggressiveness.

This research presents findings that differ from previous research (Dakhli, 2022; Nugraheni & Murtin, 2019; Qawqzeh, 2023; Ying et al., 2017; Yuliani & Prastiwi, 2021), who argued that institutional ownership negatively impacts tax aggressiveness. The different results in these studies could be attributed to factors such as differences in

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analytical methods, research period, study focus, sample size, and the specific years in which the studies were conducted.

The Impact of Independent Commissioner on Tax Aggressiveness

Based on hypothesis testing results, independent commissioners have no significant impact on tax aggressiveness. It aligns with previous research (Aditiya & Rustiana, 2021; Dhamara & Violita, 2018; Hilmi et al., 2022; Rahma & Firmansyah, 2022; Rizki et al., 2023; Salsabela & Andriani, 2023; Utaminingsih et al., 2022) which implies that independent commissioners do not influence tax aggressiveness. The fact that independent commissioners cannot decide on tax matters and are mainly responsible for overseeing management performance is perhaps the reason for their lack of impact (Rizki et al., 2023). Additionally, insufficient oversight and a lack of solid enforcement in addressing managerial actions might hinder the effectiveness of independent commissioners in preventing tax aggressiveness (Utaminingsih et al., 2022).

These findings contradict agency theory, which posits that a more significant number of independent board members leads to better oversight and control over executive actions, particularly those related to opportunistic behaviors. The lack of impact observed in this study suggests that independent commissioners may not be as effective in mitigating tax aggressiveness as agency theory predicts.

Based on this study's descriptive statistical analysis results, the average percentage of independent commissioners from property and real estate companies is 39.89%. This research shows that corporate governance in the property and real estate sector with a high proportion of independent commissioners is only done to fulfill the Financial Services Authority Regulation (POJK) Number 33/POJK.04/2014. This regulation requires companies to have at least 30% of the total board members as independent commissioners. In addition, the function of monitoring managerial performance by independent commissioners has yet to be entirely carried out perfectly by the company, as described in agency theory.

This study is also different from the findings of previous research (Alkausar et al., 2021; Hidayat & Muliasari, 2020; Mappadang, 2021; Oktaviana & Kholis, 2021), which indicates a negative relationship. The different results of this study indicate a negative relationship between independent commissioners and tax aggressiveness. The different results of this study are attributed to factors such as differences in analytical methods, research period, study focus, sample size, and the specific years in which the studies were conducted.

The Impact of Profitability on Tax Aggressiveness

The hypothesis testing results indicate a positive relationship between profitability and tax aggressiveness. This finding aligns with previous studies (Anggraeni et al., 2023; Fitriani & Indrati, 2023; Hossain et al., 2024; Marsahala et al., 2020; Rosadani & Wulandari, 2023; Susanto, 2022). They suggested that higher profitability is associated with higher tax aggressiveness. The statement indicates that the higher a company's profitability, the greater the effort by managers to maintain profits by employing aggressive tax strategies.

Profitability positively affects tax aggressiveness due to several interrelated factors that drive companies to minimize their tax liabilities as their income increases. First, higher profitability gives companies more resources and incentives to engage in tax

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planning strategies, including tax avoidance and evasion, to reduce their tax burden and maximize after-tax income (Harefa & Gaol, 2024; Krisna & Supadmi, 2023). It is supported by the idea that more profitable companies have more at stake and, therefore, greater motivation to engage in aggressive tax strategies to preserve their income (Alfandia, 2024; Pratama & Rizky, 2024). Additionally, profitability is often correlated with better access to financial and legal expertise, enabling companies to exploit ambiguities and loopholes in tax laws effectively (Marinho et al., 2024).

This phenomenon can be explained by agency theory. Agency theory suggests that managers (agents) are motivated to maximize company profits by strategically managing their tax liabilities through accounting practices. It can lead to reported earnings that are lower than they should be. As the company's profitability increases, managers are more likely to use aggressive tax reduction strategies to enhance their earnings. However, the results of this study contradict the research conducted by Fitri & Munandar (2018), which states that a company's high or low profitability does not affect its tax aggressiveness. This finding also contradicts the previous studies (Amarissa et al., 2023; Khan & Nuryanah, 2023), which suggest a negative influence, indicating that the higher the profitability, the easier it is for a company to pay its tax obligations, thereby reducing tax aggressiveness.

The Impact of Leverage on Tax Aggressiveness

The findings of the hypothesis test show that leverage negatively influences tax aggressiveness. This result is consistent with previous studies (Fitri & Munandar, 2018; Kusuma & Maryono, 2022; Pranata et al., 2021). They were implying that less aggressive taxation is correlated with more leverage. The study's findings suggest that managers are less inclined to employ aggressive tax minimization measures the more debt a firm uses to fund its operations.

Companies with high leverage levels indicate a significant amount of debt, where resource limitations due to the substantial debt burden often hinder the company's ability to engage in complex and costly tax planning. Tax planning, which aims to minimize tax liabilities within legal boundaries, requires substantial financial and human resources, including expertise in accounting, law, and financial management (Qipu, 2024). Companies with substantial debt burdens often face financial constraints that limit their ability to allocate resources to such activities. Additionally, debt agreements involving covenants can restrict a company's flexibility in aggressive tax practices. Debt agreements are designed to protect lenders by imposing restrictions on borrower activities, thereby reducing the risk of default. These agreements can affect a company's financial and operational decisions and tax strategies. For instance, companies with extensive use of covenants in their public debt contracts tend to recognize economic losses in accounting income more promptly, which limits managerial opportunism and restricts the ability to manipulate financial statements for tax benefits.

From the viewpoint of agency theory, this negative impact of leverage on tax aggressiveness can be attributed to the increased oversight by creditors. Creditors who provide loans to companies are highly invested in ensuring the company can meet its debt obligations. Creditors often impose financial covenants and stringent management controls to protect this interest. Tax aggressiveness is one of the hazards that creditors keep a careful eye on since it might result in disagreements with tax authorities and fines or penalties. As a result, businesses with significant leverage levels may lessen their

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aggressive tax policies to preserve goodwill with creditors and guarantee financial stability.

However, these research findings contradict those of previous research (Abidin, 2023; Dewi & Nustini, 2024; Hossain et al., 2024; Khan & Nuryanah, 2023; Khasanah et al., 2022). They state that leverage has a positive effect on tax aggressiveness. According to the study (Khan & Nuryanah, 2023), high leverage is a symptom of substantial debt for a business, which might lead to lower income tax obligations due to interest costs.

CONCLUSION

This study investigates the factors influencing the decision of property and real estate companies listed on the Indonesia Stock Exchange to engage in tax aggressiveness from 2017 to 2023. The research presents empirical evidence that challenges prevailing assumptions regarding the influence of tax rate reductions on tax aggressiveness. Contrary to common expectations, the study reveals that reductions in tax rates do not significantly impact tax aggressiveness among the analyzed firms. This finding introduces a new perspective to the ongoing debate on the effectiveness of tax rate policies, suggesting that merely lowering tax rates may not mitigate aggressive tax practices, particularly in industries where firms employ advanced tax planning strategies. Additionally, the research highlights the affirmative role of institutional ownership in driving tax aggressiveness. Institutional investors, who often hold substantial stakes in firms, appear to pressure corporate management to reduce tax liabilities, promoting more aggressive tax planning. It underscores the importance of considering ownership structures when formulating tax compliance frameworks. The analysis also uncovers a robust positive correlation between profitability and tax aggressiveness, indicating that highly profitable firms use aggressive tax strategies to protect their earnings. This insight helps policymakers and executives understand the link between profitability and tax behavior, emphasizing the need to monitor high-margin firms for potential aggressive tax conduct closely. Finally, the investigation reveals that leverage negatively influences tax aggressiveness, as firms with higher debt tend to avoid such strategies. This outcome aligns with agency theory, suggesting that creditors, through debt covenants, exert control over management, limiting the potential for aggressive tax behavior. This finding contributes to a deeper understanding of how financial structure and creditor relationships shape corporate tax strategies.

This research is limited by its focus on property and real estate companies listed on the Indonesia Stock Exchange, meaning its findings cannot be generalized to other sectors. Future research could overcome this limitation by expanding the sample to include companies from various sectors, leading to broader and more generalizable results. Furthermore, the study solely utilizes the effective tax rate ratio to assess tax aggressiveness. Future research could incorporate other measurement proxies, including the cash effective tax rate (CETR), GAAP ETR, book-tax differences (BTD), and other relevant metrics. Finally, the study could be enhanced by exploring a more comprehensive range of independent variables, particularly by incorporating different proxies for internal governance control mechanisms, such as board of commissioner diversity and family ownership. It would provide a more comprehensive understanding of the factors influencing tax aggressiveness.

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