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Interaction of Financial Fundamentals with Managerial Ownership in Tax Avoidance Practices

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ABSTRACT : -This study examines the effect of profitability, leverage, capital intensity ratio, and financial distress on tax avoidance in manufacturing companies in Indonesia, as well as the moderating role of managerial ownership. Panel data from 75 companies were analyzed using panel regression using STATA. The results show that profitability and capital intensity ratio increases current ETR, reducing tax avoidance. At the same time, leverage, financial distress, and managerial ownership decrease current ETR, increasing tax avoidance. Managerial ownership strengthens the effect of profitability and capital intensity in suppressing tax avoidance and the effect of financial distress in increasing tax avoidance. However, it weakens the effect of leverage on tax avoidance. The study's implications emphasize the importance of managerial ownership as an internal control that can strengthen or weaken tax avoidance depending on the company's financial condition. These findings provide insight for regulators and management in designing tax policies and corporate governance. This study also provides new contributions using the latest panel data and managerial ownership moderation analysis. It opens up opportunities for further research to include non-financial variables and other industrial sectors to enrich the understanding of the factors that influence tax avoidance.

KEYWORDS - *Tax avoidance, Managerial ownership, Capital intensity, Financial distress*

I. INTRODUCTION

The latest World Bank study also shows that around 25% of companies in Indonesia engage in tax avoidance, especially among businesses facing informal competition and the complexity of tax administration [1]. Ideally, companies with good credibility will routinely and timely pay taxes because delays can damage their reputation and be considered less responsible. Therefore, good tax planning is essential so that companies can manage business transactions and activities efficiently by understanding applicable tax regulations and anticipating changes in tax policies that can affect operations. Paying taxes is an obligation for taxpayers to contribute to the country's economic development while also functioning as a source of state revenue, a regulator of wealth distribution, and a tool to encourage sustainable economic growth and social justice.

However, tax collection in Indonesia faces obstacles, especially tax avoidance and evasion practices that reduce the effectiveness of revenue. Tax avoidance, namely legal tax management through tax planning to minimize the tax burden and increase after-tax profits, often occurs due to weak regulations that open up opportunities for taxpayers to profit. As a result, tax revenues are not optimal due to differences in interests between the government and taxpayers and the high level of evasion. That certainly leads to state losses. Several cases of tax avoidance in Indonesian companies include PT BAPI, which did not submit the Periodic Tax Return for Income Tax Article 4 (2) correctly during 2018-2019, causing a state loss of IDR 2.9 billion; PT Adaro Energy Tbk which is suspected of carrying out transfer pricing by shifting profits to a subsidiary in Singapore, reducing the tax burden by around IDR 1.75 trillion during 2009-2017; PT Toyota Motor Manufacturing Indonesia used affiliate loans to reduce tax obligations; PT Indofood Sukses Makmur transferred assets and debts to a new subsidiary to avoid IDR 1.3 billion in taxes; and PT SMC which manipulated the classification of racing motorcycle spare part costs, reducing the tax burden and ultimately paying a fine of IDR 57.9 billion. These cases show various modes of tax avoidance that are detrimental to state revenues and pose challenges to the Indonesian tax system.

However, tax avoidance strategies are important financial decisions for companies that have also received attention from regulators and policymakers [2], where previous studies have found financial characteristics that influence tax avoidance practices [3]. High managerial ownership creates incentives to increase shareholder value, including through tax avoidance. However, at the same time, managers may avoid high-risk tax practices to protect their interests. Companies in financial distress tend to do more aggressive tax avoidance [4], [5], especially with managerial ownership can strengthen this influence because managers try to maintain liquidity. In addition, high capital intensity allows tax avoidance through depreciation, requiring managerial ownership that ensures this strategy is optimal [4], in contrast to [5], where capital intensity does not

directly affect tax avoidance. However, various previous research results related to the influence of profitability and leverage, which sometimes do not have a significant or indirect effect, such as with managerial ownership, can moderate this relationship. In contrast, high profitability with low managerial ownership encourages tax avoidance.

This Inconclusive Profitability and Leverage is due to the possibility that high Profitability will attract the attention of tax authorities. In addition, high leverage (large debt) makes companies more transparent about their finances, so it is not easy to do tax avoidance [4], [5]. That illustrates the complex role of managerial ownership as a dynamic that can strengthen or weaken the influence of financial factors in carrying out tax avoidance practices; this Dualistic Effect is where, on the one hand, high managerial ownership encourages tax avoidance to maximize profits. On the other hand, managers may avoid legal risks related to taxes for long-term stability. One of the indicators for identifying tax avoidance practices is using the Current Effective Tax Rate (ETR), where this indicator is an important reference in making corporate tax policies [6]. Current ETR can reflect the permanent difference between the calculation of commercial profit and adjusted taxable profit [7]. The lower Current ETR value indicates that the company is implementing a more intensive tax avoidance strategy [8]. This study uses the Current ETR, which is calculated from the current tax burden divided by profit before tax. Current ETR reflects the tax burden that must be paid currently and does not include deferred tax because deferred tax is the tax effect of current transactions that will be paid in the future and is not a tax burden in the current period [9]. Therefore, Current ETR can overcome the weaknesses in calculating ETR based on GAAP by only focusing on measuring permanent Tax Avoidance [10].

Therefore, starting from the diverse phenomena and research gaps, it is exciting to study and become a novelty in this study, such as managerial ownership, which is still rarely studied as a factor that has a complex role in moderating other factors, especially financial fundamentals such as leverage, Profitability, capital intensity and financial distress in carrying out tax avoidance actions. Therefore, this study will be explained in the next section, starting from the literature review and the hypotheses that are built, then the methodology used and the analysis tools to further explain the results of the data analysis carried out on the research sample, namely manufacturing companies listed on the Indonesia Stock Exchange since 2021-2023. Continued the discussion and conclusions of the research on the research findings, implications for practitioners and science, and future research.

II. LITERATURE REVIEW

2.1 Theoretical background

The relationship between managerial ownership, tax avoidance, and financial fundamentals (leverage, profitability, capital intensity, and financial distress), as shown in (Fig. 1), can be explained through several theories. Agency theory [11] can explain Managerial Ownership, which functions as a control mechanism that aligns the interests of both parties (agent and principal), thus influencing decisions related to tax avoidance. Fundamental financial conditions such as leverage and profitability also influence tax avoidance practices, which in this theory are viewed as efforts by managers to maximize company value and personal interests. Research shows that high managerial ownership tends to reduce tax avoidance because managers are more responsible for shareholders and reputation risk [6]; signaling theory [12], where companies use tax practices as signals to the market and stakeholders about the quality of management and the company's financial condition. High managerial ownership can motivate managers to reduce tax avoidance to provide a positive signal about the transparency and integrity of the company. Stewardship Theory [13] emphasizes that managers act as stewards (responsible managers) with goals aligned with the company's owners. With high managerial ownership, managers are more motivated to act in the company's long-term interests, thus tending to reduce tax avoidance practices that risk harming the company's reputation and sustainability. Resource Dependence Theory [14] highlights how companies manage external resources, including relations with the government and tax authorities. Significant managerial ownership can influence a company's strategy in managing tax risks and carefully utilizing tax avoidance opportunities to maintain good relations with regulators. The last theory is legitimacy theory [15], where companies try to maintain their social legitimacy by complying with norms and regulations, including taxation. Companies with strong managerial ownership and stable financial fundamentals tend to avoid tax avoidance, which can damage their image and public trust.

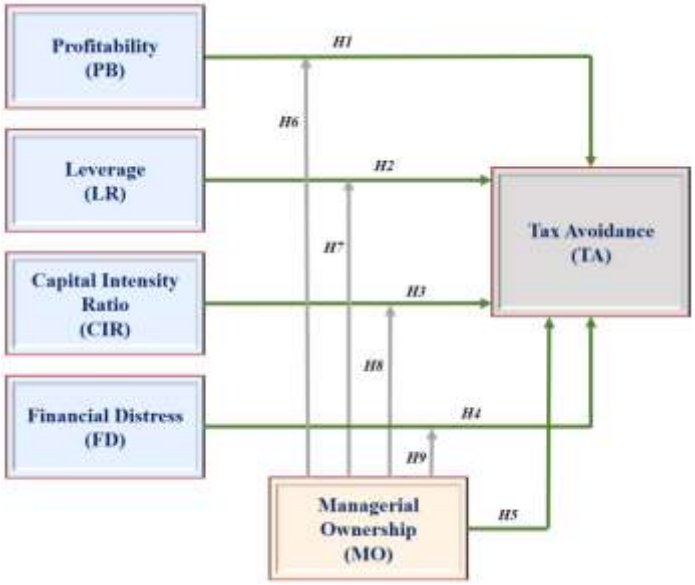

Fig. 1: Conceptual model of the study

2.2 Tax avoidance

Tax avoidance is the practice of legal tax avoidance by exploiting loopholes or imperfections in tax regulations to minimize tax burdens without breaking the law. By the opinion of expert Justice Reddy stated that tax avoidance is simply the art of avoiding taxes without breaking the law. Although legally valid, tax avoidance is often considered unethical because it reduces state tax revenues and is in a gray area between tax compliance and tax evasion. Therefore, another expert opinion, James Kessler, divides tax avoidance into two: acceptable and unacceptable. Tax avoidance is measured by several leading indicators, namely the Effective Tax Rate, which is the ratio of income tax burden to profit before tax, and the Cash Effective Tax Rate, which measures the cash tax paid compared to profit before tax; both reflect the level of tax avoidance, where low values indicate high tax avoidance [16]. In addition, the Book Tax Difference measures the difference between accounting profit and fiscal profit as an indication of tax avoidance. Recent studies often use the Current Effective Tax Rate (Current ETR), which is the percentage of cash tax paid on profit before tax in the current period, because it provides a more accurate picture of the company's real tax liabilities than the ETR, which is based on accounting tax burden. The current low ETR indicates more aggressive tax avoidance practices. This measurement is important to understand and identify legal corporate tax management strategies but can potentially reduce state tax revenues [10] [16].

2.3 Profitability and Tax avoidance

Profitability, one of the indicators of which is Return on Asset (ROA) [17], has a positive effect on Tax Avoidance, according to [6][18][19], this means that the higher the profitability, the lower the company's Effective Tax Rate (ETR), which indicates a higher level of Tax Avoidance. That is because taxes are directly proportional to the company's profit, so increasing profitability and profit will increase the tax burden, encouraging companies to find ways to reduce tax liabilities [6] [20] also supports that companies with high profitability have the opportunity to arrange tax planning to reduce their tax liability burden. [21] specifically found that ROA affects Tax Avoidance because companies can manage their assets by utilizing depreciation, amortization, and research and development costs as a reduction in taxable income and gain benefits from other tax incentives and concessions.

H_1: Profitability affects tax avoidance

2.4 Leverage and Tax avoidance

Leverage describes the proportion of company funding that comes from debt, which has an impact on the company's interest expense and financial risk, where the greater the leverage, the higher the debt and interest expense that must be borne so that it can reduce the tax burden by reducing taxable profit. That is in line with agency theory, which states that companies use leverage to influence the tax burden to benefit internal parties. Empirical research by [6] shows a positive effect of leverage on tax avoidance, meaning that the higher the leverage, the greater the practice of tax avoidance. However, some studies find an adverse effect [22] [23]. The leverage ratio also reflects the company's risk and source of funds in running operations [24] [25].

H_2: Leverage affects tax avoidance

2.5 Capital intensity ratio and Tax avoidance

The theory of political costs in positive accounting states that the greater a company's political costs, the more likely managers are to choose an accounting strategy to reduce profits to avoid government responses such as tax increases [6]. One strategy is to allocate funds to fixed assets to utilize depreciation as a tax deduction [26]. However, research [23] hows that capital intensity positively affects tax avoidance because increasing capital intensity reduces ETR and encourages aggressive tax management. Conversely, [27] found an adverse effect of capital intensity on tax avoidance because the depreciation burden of fixed assets reduces taxable income, so companies tend to avoid greater taxes with high capital intensity.

H_3: Capital intensity ratio affects tax avoidance

2.6 Financial distress and Tax avoidance

Financial Distress is a situation where a company faces liquidity difficulties, which is seen from its declining ability to fulfill its responsibilities to creditors [28]. [29] stated that financial distress occurs due to lack of capital and inefficient management of resources, which can increase the risk of bankruptcy and encourage tax avoidance practices to maintain company stability. However, [30] found an adverse effect of financial distress on tax avoidance because companies that experience losses or low profits have a low tax burden, reducing the incentive to avoid taxes. Companies in financial distress tend to take steps to reduce production and try to avoid taxes. Meanwhile, [31] highlighted that financial distress creates distrust among investors and creditors, adding pressure to the company. Several studies, such as [32], [33] show a positive relationship between financial distress and tax avoidance.

H_4: Financial distress affects tax avoidance

2.7 Managerial ownership and Tax avoidance

Managerial ownership is a condition where managers own shares in a company so that their interests align with those of the company's owners [34]. Research [35], [36], [37] consistently shows that managerial ownership has a negative effect on tax avoidance, meaning that the higher the proportion of shares owned by managers, the lower the tendency of the company to avoid taxes because managers pay more attention to the continuity of the company and investment risks. That is because share ownership by managers tends to make them pay attention to the company's continuity, so they will not want their company to be involved in tax problems. As a result, tax policies will not support the implementation of Tax Avoidance.

H_5: Managerial ownership affects tax avoidance

2.8 The moderating role of managerial ownership

Managerial ownership moderates the effects of profitability, leverage, capital intensity, and financial distress on tax avoidance because the role of managers as major shareholders influences the company's strategic decisions related to profit management and tax liabilities. Managers with significant share ownership tend to pay more attention to corporate sustainability and reputation risk. Hence, they are more careful in conducting tax avoidance even though profitability or leverage is high so that this moderation can weaken or change the direct relationship between these variables and tax avoidance [35]–[37]. In addition, managerial ownership can increase internal supervision that limits aggressive tax avoidance practices, especially when the company experiences financial distress, where managers try to maintain liquidity and business continuity without taking excessive tax risks [30], [32]. However, in some contexts, such as leverage, the moderating effect of managerial ownership is also influenced by external factors and company policies. Thus, managerial ownership functions as a control mechanism that influences how key financial variables impact corporate tax avoidance behavior through risk, incentives, and business sustainability considerations.

H_6: Managerial ownership moderates the effect of profitability on tax avoidance

H_7: Managerial ownership moderates the effect of leverage on tax avoidance

H_8: Managerial ownership moderates the effect of the capital intensity ratio on tax avoidance

H_9: Managerial ownership moderates the effect of financial distress on tax avoidance

III. METHODOLOGY

This study uses a quantitative approach with a causality research type to test the effect of Profitability (PB), Leverage (LR), Capital Intensity Ratio (CIR), and Financial Distress (FD) on Tax Avoidance (TA), as well as the moderating role of Managerial Ownership (MO). The research sample consists of manufacturing companies in Indonesia listed on the Indonesia Stock Exchange for the period 2021-2023, with the criteria of complete financial reports ending December 31, using Rupiah currency, positive profit before tax, and Current ETR between 0 and 1. This approach allows the analysis of the relationship between the influence of independent variables on the dependent variable statistically to obtain valid empirical evidence regarding the factors that influence tax avoidance so the sample data obtained were 225 from 75 companies.

3.1 Variable measurements

Tax avoidance uses the current ETR proxy, which is based on the current tax cost against profit before tax [6]. A company is considered to be avoiding tax if it has a current ETR value that is getting smaller approaching 0, and a current ETR level that is getting bigger approaching 1 indicates that the company's tax avoidance level is getting lower; *Managerial ownership* is measured using the proxy total owned shares by management/total outstanding share [38]; *Profitability* uses the return on asset proxy as an indicator to estimate the company's profitability performance, namely net income compared to total assets [39]; *Leverage* uses the measurement of total debt /total equity [39]; Companies with high fixed assets tend to have a lower tax burden than companies with low fixed assets, while the *Capital intensity ratio* can be calculated using the proxy Total fixed assets/total assets [6]; *Financial distress* measurement method using Altman Z-Score proxy [40]: Z = 1.2A + 1.4B + 3.3C + 0.6D + 1E (A = Current Assets-Current Debt/Total Assets; B = Retained Earnings/ Total Assets; C = Profit before tax/ Total Assets; D = Number of shares x Price per share/ Total debt; E = Sales/ Total Assets). where the potential for bankruptcy is reflected through the Z score. If the Z value reaches 2.99, the company is in the safe zone, meaning it is free from financial difficulties. The company is in the gray zone if the Z value is between 1.81 and 2.99. However, if the Z value is less than 1.81, the company is in the financial distress zone.

3.2 Data analysis method

This study uses STATA software version 17 for panel data regression analysis combining cross-section and time series dimensions, with Chow, Hausman, and Lagrange Multiplier tests to select the best model (Common Effect, Fixed Effect, or Random Effect). Classic assumption tests such as normality, multicollinearity (VIF), heteroscedasticity, and autocorrelation are also performed to ensure the validity of the model. The analysis uses two panel regression models: a direct effect model to test the effect of independent variables on tax avoidance with the equation:

$$TAit=\alpha+\beta1PBit+\beta2LRit+\beta3CIRit+\beta4FDit+\beta5MOit+\varepsilon it;$$

and a moderation model (Interaction Model) to test the moderating role of managerial ownership (MO) on the relationship between independent variables and tax avoidance, that is:

$$TAit=\alpha+\beta1PBit+\beta2LRit+\beta3CIRit+\beta4FDit+\beta5MOit+\beta6(PBit\times MOit)+\beta7(LRit\times MOit)+\beta8(CIRit\times MOit)+\beta9(FDit\times MOit)+\varepsilon it.$$

IV. RESULTS

4.1 Descriptive statistics and Model selection

The regression test results showed that the model was not statistically significant, with a p-value of 0.8189 and a low R-squared of 0.0100, indicating that the independent variables were less able to explain the variation of the dependent variable. A square root transformation was performed on the variables to improve model performance and data distribution, which effectively overcomes non-linearity and reduces skewness, especially in right-skewed data [41]. This transformation is also suitable for data with zero or minimal values that are difficult to process with logarithms and helps smooth data distribution with mild outliers or non-constant variance [42].

The descriptive statistics are shown in Table 1, which is continued with the model selection in its description as shown in Table 2, based on the results of the Chow and Hausman tests, which show a probability value of less than 0.05. The Lagrange Multiplier (LM) test with a probability value of more than 0.05, it can be concluded that the most appropriate model for this panel data analysis is the Fixed Effect Model (FEM). The first two tests consistently reject the null hypothesis and indicate that the FEM is more appropriate than the Common Effect Model (CEM) or the Random Effect Model (REM).

Table 1: Descriptive statistics

Variable	Obs.	Mean	Std. dev.	Min	Max
TAY	225	0.102	0.041	0.026	0.235
PBX1	225	0.361	0.211	0	1
LRX2	225	0.625	0.202	0	0.952
CIRX3	225	0.361	0.204	0	1
FDX4	225	0.639	0.214	0	1
MOZ	225	0.635	0.206	0	1

Table 2: Model selection

No	Test	Results	Selected Model
1	*Uji Chow*	Prob > 0.05	CEM
		0.00 < 0.05	**FEM**
2	*Uji Hausman*	Prob > 0.05	REM
		0.00 < 0.05	**FEM**
3	*Uji Lagrange Multiplier*	Prob > 0.05	CEM
		0.16 < 0.05	**REM**

4.2 Classical assumption test

The results of the classical assumption test indicate that the residual model is usually distributed with a p-value of the Jarque-Bera test of 0.6142 to meet the assumption of normality [41], [43]. The multicollinearity test shows the highest VIF value of 9.94 and an average of 7.38, still below the critical threshold of 10, so there is no serious multicollinearity, although caution is needed [41], [44]. The heteroscedasticity test with a p-value of 0.6718 confirms the absence of heteroscedasticity, meeting the assumption of homoscedasticity [41], [43]. Finally, the Durbin-Watson test of 2.125 indicates no residual autocorrelation, so the assumption of residual independence is also met [41]. Thus, all classical regression assumptions have been met, and the model can be used for further analysis.

4.3 Panel data regression model

Panel Data Regression Model 1, as depicted in Table 3, shows the direct influence of independent variables on Tax Avoidance (TAY) with the equation: TAY = 0.113 + 0.052(PBX1) – 0.021(LRX2) + 0.046(CIRX3) – 0.025(FDX4) – 0.026(MOZ). here profitability (PBX1) and capital intensity ratio (CIRX3) have a significant positive effect, while leverage (LRX2), financial distress (FDX4), and managerial ownership (MOZ) have a significant adverse effect, with the constant (0.113) also significant.

Table 3: Panel data regression model 1

TAY	Coefficient	Std. err.	t	P>|t|	[95% conf. interval]	
PBX1	0.052	0.007	7.47	0.000	0.038	0.066
LRX2	-0.020	0.006	-3.21	0.002	-0.338	-0.008
CIRX3	0.045	0.007	5.86	0.000	0.304	0.061
FDX4	-0.025	0.006	-3.76	0.000	-0.387	-0.012
MOZ	-0.026	0.005	-4.54	0.000	-0.380	-0.014
_cons	0.113	0.008	13.67	0.000	0.096	0.129

Panel Data Regression Model 2, as presented in table 4 tests the moderating role of managerial ownership, has the equation: TAY = 0.112 + 0.027(PBX1) – 0.008(LRX2) + 0.018(CIRX3) – 0.004(FDX4) – 0.013(MOZ) + 0.032(PB_MO) – 0.022(LR_MO) + 0.035(CIR_MO) – 0.033(FD_MO). In this model, profitability (PBX1), capital intensity ratio (CIRX3), and managerial ownership (MOZ) remain significant with their respective directions of influence. Leverage (LRX2) and financial distress (FDX4) become insignificant. The interaction of managerial ownership (MO) with profitability (PB_MO) and capital intensity ratio (CIR_MO) shows a significant positive effect. In contrast, the interaction of MO with leverage (LR_MO) and financial distress (FD_MO) shows a significant adverse effect.

Table 4: Panel data regression model 2

TAY	Coefficient	Std. err.	t	P>|t|	[95% conf. interval]	
PBX1	-0.266	0.005	4.96	0.000	0.016	0.037
LRX2	-0.007	0.004	-1.66	0.100	-0.016	0.001
CIRX3	0.017	0.005	3.00	0.003	0.006	0.029
FDX4	-0.004	0.004	-0.88	0.382	-0.014	0.005
MOZ	-0.012	0.004	-3.00	0.003	-0.020	-0.004
PB_MO	0.032	0.007	4.51	0.000	0.018	0.046
LR_MO	0.021	0.006	5.18	0.002	0.035	0.008
CIR_MO	0.034	0.006	5.21	0.000	0.021	0.047
FD_MO	-0.033	0.006	-4.95	0.000	-0.046	-0.019
_cons	0.011	0.010	11.17	0.000	0.092	0.132

4.4 Adjusted R-Squared

The R-squared (Within) value in Model 1 of 0.7883 indicates that 78.83% of the variation in Tax Avoidance can be explained by independent variables in the same company over time, indicating an excellent explanatory power of the model towards intra-company dynamics [43]. Model 2 has a higher R-squared (Within), which is 0.9017, which means that 90.17% of the variation in Tax Avoidance can be explained by independent variables and interactions in the same entity, indicating a powerful model's ability to explain changes in tax avoidance in each company during the observation period [43]. The R-squared value approaching 1 indicates that the regression model has a delicious fit and that the independent variables contribute significantly to the dependent variable.

4.5 Hypotheses test

Tax Avoidance is measured using the current ETR proxy, then the results of the Model 1 hypothesis test show that profitability and capital intensity ratio has a significant positive effect on current ETR so that they have a negative effect on Tax avoidance, while leverage, financial distress, and managerial ownership have a significant negative effect on current ETR, so that they have a positive effect on Tax avoidance. Therefore, all direct effect hypotheses are accepted. As for the results of the hypothesis test in Model 2, the interaction of managerial ownership with profitability (PB_MO) and capital intensity (CIR_MO) strengthens the positive effect on current ETR so that it has a negative effect on Tax avoidance, while the interaction with financial distress (FD_MO) strengthens the positive effect on tax avoidance so that hypotheses H6, H8, and H9 are accepted. However, the interaction of managerial ownership with leverage (LR_MO) does not strengthen the effect of leverage on tax avoidance but weakens it. All conclusions are based on p-values <0.05 and significant t-statistics.

V. DISCUSSION AND CONCLUSION

5.1 Discussion

Profitability and Capital Intensity Ratio have a significant positive effect on current ETR, so they can be said to have a negative effect on tax avoidance. This happens because manufacturing companies with high profitability usually pay higher taxes in nominal terms, so their current ETR is also high. This is because high profits make it difficult to avoid taxes without incurring audit or sanction risks. Therefore, tax avoidance tends to be low. In addition, companies with a high capital intensity ratio (many fixed assets) utilize depreciation expenses as a legal tax deduction and automatically reduce taxable income without aggressive tax avoidance. Thus, the current ETR remains high, and tax avoidance is low.

Leverage, Financial Distress, and Managerial Ownership have a significant negative effect on current ETR, so it has a positive effect on tax avoidance. Leverage in manufacturing companies with high debt utilizes interest costs as tax-deductible, reducing current ETR and increasing tax avoidance. However, due to strict supervision from creditors, the manager's room for aggressive tax avoidance is limited; Financial Distress experienced by the company is in the interest of tax avoidance to reduce tax burdens and improve cash flow. However, they must also be careful not to cause greater legal or reputational problems. Managerial Ownership, related to a Manager who is also a shareholder, tends to be aggressive in tax planning to maximize the company's value, thus encouraging tax avoidance that reduces current ETR. However, they also consider reputational and legal risks.

The interaction of *Managerial Ownership with Profitability and Capital Intensity* strengthens the positive influence on current ETR (negative on tax avoidance). High managerial ownership encourages managers to be more careful in tax management in profitable companies with large fixed assets. They tend to optimize legal tax strategies such as depreciation and profit management without taking the risk of aggressive tax avoidance, which can drastically reduce current ETR.

The interaction of *Managerial Ownership with Financial Distress* strengthens the positive influence on Tax Avoidance. In financial distress conditions, shareholder managers are more motivated to engage in tax avoidance to reduce tax burdens and improve the company's cash flow, so tax avoidance increases. The Interaction of *Managerial Ownership with Leverage* does not strengthen the effect of Leverage on tax avoidance; It weakens It. Pressure from creditors and debt agreements limit the ability of shareholder managers to engage in aggressive, risky tax avoidance. The conflict of interest between managers as owners and obligations to creditors causes the moderating effect of managerial ownership on leverage to weaken or even weaken the effect of leverage on tax avoidance.

5.2 Conclusion

This phenomenon occurs because in the real practice of manufacturing companies in Indonesia, profitability and capital intensity encourage companies to pay taxes according to profits and assets so that current ETR is high and tax avoidance is low. Conversely, leverage, financial distress, and managerial ownership encourage tax avoidance practices to reduce tax burdens, reducing current ETR. However, managerial ownership strengthens internal control in financially healthy companies (high profitability and assets), suppressing tax avoidance. In contrast, in companies experiencing financial difficulties, managerial ownership encourages tax avoidance. Creditor pressure on highly leveraged companies limits the ability of shareholder managers to carry out aggressive tax avoidance, so this interaction weakens the effect of leverage on tax avoidance. Various real tax avoidance cases in Indonesian manufacturing companies such as PT TMMI, PT Garuda Metalindo, and PT Indofood support this explanation.

Future research opportunity. Adding non-financial variables such as corporate governance, organizational culture, and external factors such as tax policy and government supervision to enrich the model. Expanding the sample to other industry sectors or using more extended periods to see long-term trends. Using qualitative or mixed methods to explore managerial motivations and strategies in tax avoidance in more depth.

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