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THE INFLUENCE FOREIGN STOCK OWNERSHIP, FINANCIAL DISTRESS, AND SALES GROWTH ON TAX AVOIDANCE WITH FINANCIAL PRESSURE AS A MODERATING VARIABLE

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ABSTRACT

This study aims to determine the effect of foreign share ownership, financial distress, and sales growth variables on tax avoidance with financial pressure as a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2021 period. The research method used is quantitative with a purposive sampling approach, where 68 companies were sampled. The data used is secondary data taken from the company's financial statements and annual reports. The statistical tests used in this study are normality test analysis, multicollinearity, heteroscedasticity test, autocorrelation test, multiple linear regression test, coefficient of determination test, f test, and t test. The results of this study show that the results of the t and f tests show that: (1) foreign share ownership does not have a positive effect on tax avoidance (2) financial distress has a positive effect on tax avoidance (3) sales growth has a positive effect on tax avoidance (4) financial pressure moderates the effect of foreign share ownership on tax avoidance (5) financial pressure moderates the effect of financial distress on tax avoidance (6) financial pressure moderates the effect of sales growth on tax avoidance.

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INTRODUCTION

Tax is one of the important components in supporting state revenue. As the highest contributor to the State Budget (APBN), tax plays an important role in national life, especially in supporting national development. Based on Law No. 16 of 2009 Article 1 Paragraph 1, tax is defined as a mandatory contribution to the state that is mandatory, without direct compensation, for the benefit of the people's prosperity.

In the context of manufacturing companies listed on the Indonesia Stock Exchange (IDX), taxes are a significant part of operational expenses. However, tax avoidance practices are still often found. This phenomenon can be seen in tax avoidance data in manufacturing companies for the period 2018-2021, which shows variations in the level of tax avoidance between companies. For example, PT. Astra International Tbk was recorded to have a tax avoidance rate of 1.025 in 2018, while PT. Indofood CBP Sukses Makmur Tbk reached 0.277 in the same year. This variation indicates the existence of certain factors that influence tax avoidance practices in the manufacturing sector.

Tax avoidance, although legal, can pose risks to the country, such as reduced revenue and tax injustice. On the other hand, companies use tax strategies to minimize tax burdens by exploiting loopholes in tax regulations, *transfer pricing* , or tax incentives. International cases such as IKEA and Apple, as well as domestic cases such as PT. Bentoel Internasional Investama, show that tax avoidance is a complex global issue.

Previous studies have shown various findings related to factors that influence tax avoidance. Fariyanti and Faiz (2020) found that foreign share ownership has a positive effect on tax avoidance, while Nainggolan and Sari (2020) reported a negative relationship. On the other hand, *financial distress* and *sales growth* are also associated with tax avoidance. Anggraeni and Rasyid (2018) stated that *financial distress* has a significant positive effect on tax avoidance, while Juan and Ida (2019) found that *sales growth* has a similar effect.

However, research on the role of financial distress as a moderating variable in the relationship between these factors and tax avoidance is still limited, especially in the manufacturing sector in Indonesia. This study aims to fill this gap by examining the effects of foreign share ownership, *financial distress* , and *sales growth* on tax avoidance, as well as how financial distress moderates the relationship.

LITERATURE REVIEW

Theoretical basis

Agency Theory

Agency theory explains the contractual relationship between managers (agents) and business owners (principals). Agents are tasked with running company operations on behalf of the principal, while the principal provides compensation to the agent for his/her duties (Meckling, 1976). In this context, conflicts of interest between principals and agents often arise due to information asymmetry, where agents have more information than principals (Siahaan, 2017).

Agency theory has implications for managerial policies, including tax avoidance efforts. Agents, who seek to maximize personal or corporate profits, can exploit loopholes in tax regulations to reduce the company's tax burden, which sometimes conflicts with the interests of the principal (Haryatiningsih, 2019).

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Legitimacy Theory

Legitimacy theory emphasizes the importance of community or stakeholder support for the continuity of company operations. Companies are expected to carry out business practices that are in accordance with community values to maintain social legitimacy (Deegan, 2002). In the context of taxation, companies can use tax avoidance strategies to maintain profitability and support business sustainability, but this action risks damaging legitimacy if it is considered unethical.

Relationship Between Variables and Hypothesis

The Impact of Foreign Share Ownership on Tax Avoidance

Foreign share ownership refers to shares owned by foreign individuals or institutions, often involving controlling and non-controlling shareholders. Companies with foreign ownership tend to operate globally and employ foreign commissioners to ensure effective governance and protect investors' interests. Studies by Salihu et al. (2015) and Kusbandiyah & Norwani (2018) demonstrate a positive correlation between foreign ownership and tax avoidance practices, particularly in developing countries like Malaysia and Indonesia. Based on these insights, the study hypothesizes that foreign ownership influences tax avoidance.

- **H1: Foreign share ownership has a significant effect on tax avoidance.**

The Impact of Financial Distress on Tax Avoidance

Financial distress occurs when a company faces financial difficulties and is unable to meet its obligations. This condition drives companies to engage in tax avoidance to mitigate financial risks. Studies by Putri and Chariri (2017) and Lanis et al. (2015) confirm that financial distress positively influences tax avoidance, as companies adopt aggressive strategies to cope with declining income and increased financial pressures. The hypothesis proposed is:

- **H2: Financial distress has a significant effect on tax avoidance.**

The Influence of Sales Growth on Tax evasion

Sales growth plays an important role in working capital management. This study uses sales growth as a measure because it reflects the performance of a company's sales growth. Companies can predict the potential profit based on the sales growth rate. An increase in sales growth tends to lead to higher profits, which may encourage companies to engage in tax avoidance practices (Mahdiana & Amin, 2020). The theoretical foundation for this hypothesis is agency theory. Agency theory encourages agents to boost sales in order to increase the company’s profits. As profits rise, the tax burden also increases. Agents, according to agency theory, will try to manage tax expenses to avoid reducing their performance compensation due to decreased profits caused by higher tax expenses (Uliandari et al., 2021). This is in line with the research by Uliandari et al. (2021), which states that sales growth has a positive effect on tax avoidance. The proposed hypothesis is :

- **H3: Sales growth has a significant effect on tax avoidance.**

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The Effect of Foreign Ownership on Tax Avoidance with Financial Pressure as a Moderating Variable

Tax avoidance is related to factors such as a company's financial condition, including foreign ownership. Foreign ownership refers to shares in a company owned by individuals or institutions from outside Indonesia (Muhammad et al., 2021). When foreign ownership in a company is high, it increases the possibility of profit shifting or transfer pricing with affiliated companies. Therefore, foreign ownership can influence a company's efforts to engage in tax avoidance. The related hypotheses are:

- **H4: Financial pressure moderates the effect of foreign share ownership on tax avoidance.**

The Effect of Financial Distress on Tax Avoidance with Financial Pressure as a Moderating Variable

Financial distress encourages companies to engage in tax avoidance as a strategy for survival. Managers, aiming to protect their reputation and the company's continuity, may manipulate accounting policies and reduce tax liabilities to maintain operational income and meet external obligations during difficult financial times.

- **H5: Financial pressure moderates the effect of financial distress on tax avoidance.**

Sales growth plays a significant role in a company's profits and its potential tax liability. According to agency theory, increasing sales boosts profits, which leads to higher tax burdens. Larger companies with higher sales growth may engage in tax avoidance to manage their tax liabilities.

- **H6: Financial pressure moderates the effect of sales growth on tax avoidance.**

RESEARCH METHODS

Research Approach

This study uses a quantitative approach with a causal associative method. According to Sugiyono (2019), a quantitative approach is used to measure the influence or relationship between variables through statistical data analysis. Causal associative research aims to identify the causal relationship between independent variables (foreign share ownership, financial distress, and sales growth) with dependent variables (tax avoidance), as well as moderating variables (financial pressure). Data analysis was carried out using SPSS statistical software with the panel data regression method.

Place and Time of Research

This study was conducted with the object of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2018-2021. Data were obtained from the company's annual report published on the official IDX website (www.idx.co.id) and other related sources. The research period lasted from March to August 2023.

Operational Definition and Measurement of Variables

Operational definitions describe how each variable in the study is measured:

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No	Variable	Definition	Indicator	Scale
1	Tax Avoidance	An effort to reduce tax burdens legally undertaken by companies.	ETR = Tax Expense / Pre-tax Income	Ratio
2	Foreign Stock Ownership	The proportion of foreign stock ownership held by other institutions.	Foreign Stock Ownership = Number of shares held by foreigners / Total outstanding shares	Ratio
3	Financial Distress	Financial distress occurs when a company's finances are in a critical condition.	Financial Distress = 1.2A + 1.4B + 3.3C + 0.6D + 1E	Ratio
4	Sales Growth	Sales growth reflects a company's ability to maintain its economic position amidst economic and sector growth.	Sales Growth = (Current year's sales - Previous year's sales) / Previous year's sales	Ratio
5	Financial Pressure	Financial pressure arises because company managers are always required to deliver their best performance to achieve predetermined financial targets.	Financial Pressure = Net income after tax / Total assets	Ratio

Sampling Method

This study uses a purposive sampling technique, namely the selection of samples based on certain criteria (Sugiyono, 2019). Sample criteria include:

1. Manufacturing sector companies listed on the IDX for the 2018-2021 period.
2. Have complete financial reports for the research period.
3. Recorded consistent profits throughout the study period.
4. Have foreign share ownership.
5. Not in liquidation

RESEARCH RESULTS AND DISCUSSION

1. Analysis Statistics Descriptive

Table 1.1
Statistical Results Descriptive

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Foreign Share Ownership	272	0.001	0.982	0.168526	0.232836
Financial Distress	272	0.749	121,978	3.84286	9.536012
Sales Growth	272	-0.963	1.274	0.095257	0.226836
Tax evasion	272	0.001	2,066	0.292783	0.332836

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Financial Pressure	272	0.001	0.921	0.086629	0.092789
Valid N (listwise)	272				

Source : *SPSS* 26 Output

The results descriptive statistical analysis against 272 sample data company manufacturing listed on the Indonesia Stock Exchange for the 2018-2021 period , the variables studied show significant variation . Foreign Stock Ownership has a minimum value of 0.001 and a maximum of 0.982, with an average value of 0.168526 and a standard deviation of 0.232836. *Financial Distress* has an average of 3.84286, with a minimum value range of 0.749 and a maximum of 121.978, and a standard deviation of 9.536012. *Sales Growth* shows an average of 0.095257, with a minimum value of -0.963 and a maximum of 1.274, and a standard deviation indicating that the data distribution is wider than the average of 0.226836. For the dependent variable, Tax Avoidance has an average of 0.292783, with a minimum value of 0.001 and a maximum of 2.066, and a standard deviation of 0.332836 indicating that the data deviation is greater than the average value. Furthermore, Financial Pressure as a moderating variable has an average of 0.086629, with a minimum value of 0.001 and a maximum of 0.921, and a standard deviation of 0.092789 indicating that the data deviation is greater than the average value. Overall, these results reflect significant variations in each variable analyzed, which can affect tax avoidance in the context of this study.

2. Assumption Test Classic

a. Normality Test

Table 1.2

Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		272
Normal Parameters [a,b]	Mean	.0000000
	Std. Deviation	.04989558
Most Extreme Differences	Absolute	.058
	Positive	.058
	Negative	-.034
Test Statistics		.058
Asymp. Sig. (2-tailed)		.200 [c,d]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

Source : *SPSS* 26 Output

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Based on normality test results on show that Asymp. Sig. (2-tailed) value obtained by 0.200 more big from α value (0.05).

b. Multicollinearity Test

Table 1.3
Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Foreign Share Ownership	.915	1,092
	Financial Distress	.760	1,316
	Sales Growth	.928	1,078
	Financial Pressure	.774	1.291
a. Dependent Variable: Tax Avoidance			

Source : *SPSS* 26 Output

Multicollinearity test happen If tolerance value < 0.10 and VIF > 10 can happen multicollinearity and tolerance value > 0.10 then VIF < 10, can it is said No happen multicollinearity between variable independent . Based on the table above , the results study multicollinearity show that tolerance value > 0.10 and VIF < 10. Then it can be concluded that the data No have problem multicollinearity .

c. Heteroscedasticity Test

Table 1.4
Heteroscedasticity Test Results

Model		t	Sig.
1	(Constant)	31,669	.000
	Foreign Share Ownership	-1,732	.086
	Financial Distress	-2.478	.075
	Sales Growth	-1,030	.305
	Financial Pressure	.377	.707
a. Dependent Variable: Tax Avoidance			

Detected There is or whether or not symptom heteroscedasticity seen with mark significance . If the value significance below < 0.05 then there is problem heteroscedasticity and if mark significance above > 0.05 then No there is problem heteroscedasticity . Based on output results in the table above , value significance Foreign Share Ownership , Financial Distress, Sales Growth, and Pressure Finance more big from α (0.05). Can concluded that the data No own symptom heteroscedasticity or data is of a nature homoscedasticity . So that a

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good and ideal regression model can be obtained fulfilled .

d. Autocorrelation Test

Table 1.5
Autocorrelation Test Results

Model	Durbin-Watson
1	1,601
a. Predictors: (Constant), Financial Distress, Foreign Share Ownership, Sales Growth, *Financial Distress*	
b. Dependent Variable: Tax Avoidance	

Source : *SPSS* 26 Output

Based on table on can seen that mark durbin-watson is 1.601. So the Durbin Watson number is between -2 and +2, meaning there is no autocorrelation.

3. Multiple Linear Regression

Table 1.6
Analysis Results Multiple Linear Regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,856	5.515		31,669	.000
	Foreign Share Ownership	-.109	.063	-.168	-1,732	.086
	Financial Distress	-.006	.002	-.264	-2.478	.015
	Sales Growth	-.024	.023	-.099	-1,030	.305
	Financial Pressure	.027	.072	.040	.377	.707
a. Dependent Variable: Tax Avoidance						

Source : *SPSS* 26 Output

Based on the table above obtained equality analysis multiple linear regression produced Q = 2.856 - 0.109KSA – 0.006FD - 0.024SG + 0.027KI + e, namely can concluded that coefficient regression variable worth positive . The coefficient is signed positive show the occurrence one- way relationship between influence variable independent and variable moderation to variable dependent .

4. Coefficient determination (R_2)

Table 1.7
Results of the Determination Coefficient Model (R_2)

Model Summary [b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.275 [a]	.725	.41 0	3.48415

a. Predictors: (Constant), Financial Distress, Foreign Share Ownership, *Sales Growth* , *Financial Distress*
b. Dependent Variable: Tax Avoidance

Source : *SPSS* 26 Output

The R_2 value has an interval of 0 to 1. The higher the R_2 value , the higher the R_2 value. The larger the R value (approaching 1), the the more strong influence variable independent to variable dependent even so on the contrary . Based on results calculation above Adjusted R Square shows value 0.41 which means that According to (Sugiyono , 2019) it is at the level of 0.40 - 0.59 which explains that variable independent own moderate correlation to variable dependent .

5. Hypothesis Testing

a. Simultaneous F Test

Table 1.8

Model 1 Results of Model Feasibility Test (F Test)

ANOVA [a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0. 959	4	0. 239	2.182	.026 [b]
	Residual	0. 117	267	0. 109		
	Total	1.0 76	271			
a. Dependent Variable: Tax Avoidance						
b. Predictors: (Constant), Financial Pressure, Foreign Share Ownership, *Sales Growth* , *Financial Distress*						

Source : *SPSS* 26 Output

Basis of taking decisions on research This use level 5% confidence . If sig <α = 5% (0.05) then There is influence between variable independent and variable control to variable dependent . If sig > α = 5% (0.05) then No There is influence between variable independent and variable control to variable dependent .

Based on table on F test results can explained with level 5% confidence , Test results to hypothesis the eighth (H8) shows that level significance < 0.05 or 5% (0.026 < 0.05) so that get results variable independent and variable moderation that is Foreign Share Ownership , Financial Distress, Sales Growth, and Pressure Finance together have influence to variable dependent that is Tax evasion

b. T-test

Table 1.9

T-Test Results

Coefficients [a]					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

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1	(Constant)	. 243	. 436		5,712	.000
	Foreign Share Ownership	-.075	.061	-.116	-1.223	.224
2	(Constant)	. 252	. 655		3,470	.000
	Financial Distress	-.004	.002	-.202	-2.164	.033
3	(Constant)	. 240	. 375		6.109	.000
	Sales Growth	-.016	.023	-.064	-.674	.025
4	(Constant)	. 243	. 438		5.466	.000
	Foreign Share Ownership	-.054	.087	-.084	-.628	.532
	X1*Z	-2,792	.000	-.046	-.342	.033
5	(Constant)	. 251	. 660		3.130	.000
	Financial Distress	-.004	.003	-.174	-1.381	.170
	X2*Z	-6,512	.000	-.043	-.340	.034
6	(Constant)	. 241	. 375		6.326	.000
	Sales Growth	.028	.037	.114	.748	.456
	X3*Z	-5,818	.000	-.227	-1,490	.039
a. Dependent Variable: Tax Avoidance						

Based on the table above with a 5% confidence level, the results of the first hypothesis test (H1) show that foreign share ownership has no effect on tax avoidance. This is indicated by the 5% confidence level value, which shows a significant t-test value greater than 0.05 (0.224 greater than 0.05). Therefore, H0 is accepted and H1 is rejected, and the first hypothesis is rejected. The results of the second hypothesis test (H2) show that financial pressure has an effect on tax expenditure. This is indicated by the 5% confidence level value, which shows a significant t-test value ≤ 0.05 (0.033 <0.05). Thus, hypothesis H0 is rejected and hypothesis H1 is supported, and the second hypothesis is accepted. The results of the third hypothesis test (H3) show that increased sales have an impact on tax avoidance. This is indicated by the 5% confidence level value, which shows a significant t-test value ≤ 0.05 (0.025 <0.05). Therefore, H0 is rejected and H1 is accepted, and the third hypothesis is accepted. The results of the fourth hypothesis test (H4) show that financial pressure affects tax avoidance. This is indicated by the value of the 5% confidence level, which shows a significant value of the t test ≤ 0.05 (0.031 < 0.05). Therefore, H0 is rejected and H1 is accepted, and the fourth hypothesis is accepted. The results of the fifth hypothesis test (H5) show that financial pressure moderates the effect of foreign share ownership on tax payments. This is indicated by the value of the 5% confidence level, which shows a significant value of the t test ≤ 0.05 (0.033 < 0.05). Therefore, H0 is rejected and H1 is accepted, and the fifth hypothesis is accepted. The results of the sixth hypothesis test (H6) show that financial pressure moderates the effect of financial pressure on tax expenditure. This is indicated by the value of the 5% confidence level, which shows a significant value of the t test ≤ 0.05 (0.034 < 0.05). Therefore, H0 is rejected and H1 is accepted, and the sixth hypothesis is accepted. The results of the seventh hypothesis test (H7) show that financial pressure moderates the effect of increased sales on tax expenditure. This is indicated by the

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value of the 5% confidence level, which shows a significant value of the t test ≤ 0.05 (0.039 < 0.05). Therefore, H0 is rejected and H1 is accepted, and the seventh hypothesis is accepted.

CLOSING

Conclusion

Based on the research results, the researcher drew several conclusions:

1. The results of testing the first hypothesis (H1) show that foreign share ownership does not have a positive effect on tax avoidance. Factors such as differences in tax structures between countries, tax supervision and compliance, tax policies, and non-tax factors can affect the effect of foreign share ownership on tax avoidance.
2. Test results to hypothesis second (H2) shows that Financial distress has influence positive to avoidance taxes . In a situation of financial distress, the company tend use avoidance tax as a strategy for reduce burden tax , increase liquidity , and optimize position taxation they .
3. Test results to hypothesis third (H3) shows that *Sales Growth* own influence positive to avoidance tax . In the situation growth significant sales , the company tend use avoidance tax as tool For optimize position tax , obtain profit more fiscal big , and adjust structure taxation they .
4. Test results to hypothesis fifth (H4) shows that Pressure finance to moderate influence ownership share foreign to avoidance tax . In the situation pressure finance , ownership share foreign Possible become not enough relevant in avoidance tax Because focus company on sustainability operational and limitations source Power finance .
5. Test results to hypothesis sixth (H5) shows that Pressure finance also moderates influence *financial distress* to avoidance tax . In the situation pressure finance , company more tend use avoidance related taxes with sustainability operational and reduction burden related taxes with operational those who are walk .
6. Test results to hypothesis seventh (H6) Pressure finance to moderate influence growth sale to avoidance tax . Test results show that in situation pressure finance , influence growth sale to avoidance tax become more significant . This is can due to priority recovery finance , limitations source Power finance , and focus company on core operations and growth sustainable business .
7. Test results to hypothesis eighth (H7) variable Foreign Share Ownership , *Financial Distress* , *Sales Growth* , and Financial Pressure Finance own significant influence in a way collective to level avoidance tax . This result show that factors the each other interact and influence avoidance tax company in a way simultaneously .

Suggestion:

1. Generalization : Research This limited to companies manufacturing listed on the Indonesia Stock Exchange during period 2018-2021. Therefore that , the result study This Possible No can in a way direct applied to industry or sector others , or in companies that do not listed on the Indonesia Stock Exchange .
2. Measurement variable : Measurement variables like ownership share foreign , *financial distress* , *sales growth* , and avoidance tax can involving method

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measurement certain that may be own limitations or vulnerability to error measurement .

3. Financial data : Limitations in availability and quality of financial data used in study can influence results research . Sometimes , financial data company can own inconsistency or lack in details and specificity certain .

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