EDUCORETAX
Volume 6 No.6, 2026

THE EFFECT OF AUDIT QUALITY AND INSTITUTIONAL OWNERSHIP ON TAX AVOIDANCE IN INDUSTRIAL SECTOR COMPANIES

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Abstract
This study examines the effect of audit quality and institutional ownership on corporate tax avoidance among Indonesian industrial-sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2024. Grounded in Agency Theory, Compliance Theory, and Corporate Governance Theory, the research employs a quantitative causal design with secondary data sourced from audited annual financial reports. Purposive sampling produced a final sample of 11 companies across five observation years, yielding 55 firm-year observations. Tax avoidance is proxied by the Effective Tax Rate (ETR), audit quality is measured by a Big Four/Non-Big Four dummy variable, and institutional ownership is measured as the proportion of shares held by institutional investors. Multiple linear regression analysis using IBM SPSS Statistics reveals that, individually, neither audit quality ($\beta = -0.003$; $t = -0.658$; $p = 0.513$) nor institutional ownership ($\beta = 0.013$; $t = 1.238$; $p = 0.221$) exerts a statistically significant effect on ETR. However, both variables jointly produce a highly significant effect on tax avoidance ($F = 33.720$; $p < 0.001$; Adjusted $R^2 = 0.548$), indicating that the two governance mechanisms together explain 54.8% of the variation in ETR. These findings support a complementary governance perspective in which external audit oversight and institutional shareholder monitoring reinforce one another to deter aggressive tax planning, even though neither mechanism alone reaches statistical significance.
Keywords: Audit Quality; Institutional Ownership; Tax Avoidance

Abstrak
Penelitian ini mengkaji pengaruh kualitas audit dan kepemilikan institusional terhadap tax avoidance pada perusahaan sektor industrial yang terdaftar di Bursa Efek Indonesia (BEI) tahun 2020–2024. Berlandaskan Teori Agensi, Teori Kepatuhan, dan Teori Tata Kelola Perusahaan, penelitian menggunakan desain kuantitatif kausal dengan data sekunder dari laporan keuangan auditan. Teknik purposive sampling menghasilkan 11 perusahaan sampel dengan 55 observasi firm-year. Tax avoidance diproksikan dengan Effective Tax Rate (ETR), kualitas audit diukur dengan dummy variable Big Four/Non-Big Four, dan kepemilikan institusional diukur dari proporsi saham yang dimiliki institusi. Regresi linear berganda menunjukkan bahwa secara parsial, kualitas audit ($\beta = -0{,}003$; $p = 0{,}513$) maupun kepemilikan institusional ($\beta = 0{,}013$; $p = 0{,}221$) tidak berpengaruh signifikan terhadap ETR. Namun secara simultan, keduanya berpengaruh signifikan terhadap tax avoidance ($F = 33{,}720$; $p < 0{,}001$; Adjusted $R^2 = 0{,}548$), yang menunjukkan bahwa kedua mekanisme tata kelola secara bersama mampu menjelaskan 54,8% variasi ETR.
Kata Kunci: Kualitas Audit; Kepemilikan Institusional; Tax Avoidance

INTRODUCTION

Tax revenue is the backbone of state financing in Indonesia, funding public infrastructure, social programs, and macroeconomic policy. In 2024, Indonesia's tax receipts reached IDR 1,932.4 trillion, surpassing the annual target by 100.5% and posting 3.5% year-on-year growth (Kementerian Keuangan RI, 2025). Despite this achievement, corporate tax avoidance—the legal but deliberate reduction of tax liabilities through permissible transactions and accounting arrangements—continues to erode the fiscal base. The Directorate General of Taxation (DGT) estimates annual losses from tax avoidance and evasion at trillions of rupiah, creating fiscal inequity and straining public trust in the tax system (Herman et al., 2023; Wahyuningtias, 2025).

The Indonesian industrial sector, classified under the IDX Industrial Classification (IDX-IC), presents a particularly acute environment for tax avoidance. Comprising sub-industries such as construction materials, industrial machinery, transportation equipment,

industrial chemicals, and technology-based manufacturing, these firms operate with complex cost structures, broad supply-chain networks, and high capital intensity—all of which expand managerial discretion in expense recognition and income-shifting decisions (Nugroho et al., 2022). The study period of 2020–2024 adds critical context: the COVID-19 pandemic compressed corporate profits, incentivizing aggressive tax-minimization strategies, while the post-pandemic recovery brought renewed regulatory scrutiny under Government Regulation No. 55 of 2022 on tax avoidance prevention (Subhan et al., 2022).

Two governance mechanisms are examined as potential deterrents to tax avoidance. First, audit quality—proxied by the reputational distinction between Big Four and Non-Big Four public accounting firms—reflects the external auditor's competence, independence, and capacity to detect material misstatements including aggressive tax positions (DeAngelo, 1981; Francis, 2004). Second, institutional ownership—the proportion of equity held by pension funds, insurance companies, mutual funds, and other financial institutions—is theorized as an internal governance mechanism that aligns managerial incentives with stakeholder interests and discourages opportunistic behavior (Jensen & Meckling, 1976; Shleifer & Vishny, 1997).

Despite their theoretical plausibility, empirical evidence in Indonesia remains inconsistent. Audit quality is found to be significant in manufacturing contexts (Lestari & Nedya, 2019; Hasbi & Fitriyanto, 2021) but non-significant in the property sector (Damayanti & Susanto, 2021; Maharani, 2022). Institutional ownership shows a significant deterrent effect in some studies (Charisma & Dwimulyani, 2019; Vizandra, 2025) but not others (Nasution, 2025). This heterogeneity underscores the sector- and period-specific nature of governance effectiveness, motivating a focused investigation on the industrial sector during a period of intense economic disruption and regulatory reform. This study therefore asks: (1) Does audit quality significantly reduce tax avoidance in Indonesian industrial-sector firms during 2020–2024? (2) Does institutional ownership significantly reduce tax avoidance in the same context?

LITERATURE REVIEW

Theoretical Foundations

This study integrates three theoretical frameworks. Agency Theory (Jensen & Meckling, 1976) is the primary lens, positing that the separation of ownership and control creates information asymmetries between principals (shareholders) and agents (managers). These asymmetries open space for managerial opportunism, including tax avoidance designed to inflate after-tax earnings or divert resources. External auditors and concentrated institutional shareholders are the canonical Agency Theory mechanisms for constraining such behavior by reducing information gaps and imposing accountability. Scott (2015) emphasizes that without effective monitoring, agents routinely engage in behavior that serves their own interests at principals' expense—a logic that directly predicts audit quality and institutional ownership as deterrents to tax avoidance.

Compliance Theory (Tyler & Lind, 1992; Devos, 2014) complements Agency Theory by explaining that regulatory adherence arises not solely from sanction-based deterrence but also from normative commitment and perceived procedural fairness. In a tax context, high-quality external audits signal that financial disclosures are independently verified, enhancing the credibility of compliance claims. Institutional investors, motivated by reputational risks and fiduciary responsibilities, create normative pressure for management to maintain ethical tax conduct. Corporate Governance Theory (Cadbury Committee, 1992; OECD, 2004) frames both mechanisms as structural pillars of accountability: external audit as a verification tool and institutional ownership as a voting-power-backed monitoring mechanism. Together, these three theories converge on the prediction that stronger governance is associated with lower tax avoidance.

Tax Avoidance

Tax avoidance is defined as the reduction of explicit tax liabilities per unit of pre-tax accounting income through transactions, arrangements, or accounting methods that remain within the legal boundaries of tax law (Frank et al., 2009, p. 467). Hanlon and Heitzman (2010) characterize it as a continuum of planning strategies ranging from straightforwardly legal planning to borderline-aggressive activities. This legal yet ethically contested nature makes it a critical governance issue: while management may frame avoidance as shareholder value creation, it simultaneously reduces state revenue, distorts competitive equity, and exposes firms to reputational and regulatory risks if strategies are later contested by tax authorities.

This study measures tax avoidance using the Effective Tax Rate (ETR), calculated as total income tax expense (current plus deferred) divided by pre-tax accounting income. A lower ETR indicates that the firm pays a smaller proportion of its pre-tax earnings as tax, signaling a higher degree of tax avoidance relative to the statutory 22% corporate rate applicable in Indonesia during 2020–2024. The ETR proxy is widely adopted in corporate tax research (Dyreng et al., 2008; Chen et al., 2010) because it directly captures realized tax burden without relying on estimated or model-derived tax positions.

Audit Quality

Audit quality is defined by DeAngelo (1981, p. 186) as the market-assessed joint probability that an auditor will both detect and report a breach in a client's accounting system—capturing both technical competence and reporting independence. Francis (2004) extends this by emphasizing the auditor's capacity to resist client pressure during the reporting process, a dimension particularly relevant when management's tax decisions are aggressive or legally ambiguous. In Agency Theory terms, high-quality auditors function as informed, independent monitors who verify financial disclosures and indirectly constrain the scope of tax manipulation by ensuring that reported transactions reflect economic substance.

Big Four affiliates—Deloitte, Ernst & Young, KPMG, and PricewaterhouseCoopers—are consistently associated with superior audit quality due to their larger professional workforces, deeper industry specialization, more rigorous internal quality controls, and stronger reputational incentives for independence (Hasbi & Fitriyanto, 2021; Fitriani & Widaryanti, 2025). Prior studies confirm that firms audited by Big Four firms exhibit lower ETRs in aggregate, consistent with greater scrutiny discouraging aggressive tax strategies (Lestari & Nedya, 2019). Sector-specific evidence from property companies, however, shows no significant audit quality effect (Damayanti & Susanto, 2021; Maharani, 2022), highlighting contextual contingency.

Institutional Ownership

Institutional ownership reflects the proportion of a firm's equity held by collective financial entities such as pension funds, insurance companies, mutual funds, and investment institutions. Shleifer and Vishny (1997) argue that large institutional shareholders possess both the analytical capability and the economic incentive to monitor management—resources typically unavailable to dispersed retail investors. Jensen and Meckling (1976) theorize that concentrated institutional ownership aligns managerial incentives with shareholder interests, discouraging opportunistic behavior including aggressive tax avoidance that may generate short-term benefits but impose long-term reputational and regulatory risks.

From a Corporate Governance perspective, institutional investors exercise monitoring through voting rights, shareholder engagement, and the credible threat of divesting holdings if management behavior deviates from accepted standards. Firms with high institutional concentration are thus expected to maintain more conservative, compliant tax strategies to protect the institutional investor's reputational stake in the firm (Charisma & Dwimulyani, 2019; Mashuri, 2023). Evidence from the Indonesian financial sector supports this negative

relationship (Vizandra, 2025), while evidence from broader IDX populations sometimes yields non-significant results (Nasution, 2025), again pointing to context-dependence.

Prior Research and Research Gaps

Table 1. Summary of Prior Empirical Studies

Study	Context / Sector	Key Finding
Lestari & Nedya (2019)	Manufacturing companies on IDX	KAP Big Four usage significantly reduces tax avoidance (negative and significant effect).
Charisma & Dwimulyani (2019)	Public companies in Indonesia	Institutional ownership negatively and significantly reduces tax avoidance.
Hasbi & Fitriyanto (2021)	Multiple sectors, IDX	Audit quality negatively and significantly reduces tax avoidance.
Damayanti & Susanto (2021)	Property & Real Estate sector	Audit quality shows no significant effect on tax avoidance in property sector.
Maharani (2022)	Property & Real Estate sector	Audit quality not significant; sector-specific dynamics limit auditor impact.
Mashuri (2023)	General corporate governance study	Institutional ownership has a negative effect on tax avoidance through GCG mechanisms.
Tiara et al. (2023)	Multiple sectors, IDX	Audit quality and corporate governance jointly reduce tax avoidance.
Vizandra (2025)	Financial sector companies	Both audit quality and institutional ownership significantly reduce tax avoidance.
Fitriani & Widaryanti (2025)	Multinational companies	Audit quality negatively affects tax avoidance; independent auditors enhance tax compliance.
Herman et al. (2023)	Indonesian manufacturing firms	Audit quality improves tax compliance and reduces tax avoidance.

Source: Compiled by the Author from reviewed literature.

Research Hypothesis

Based on the theory and results of previous research, the research hypothesis proposed is as follows:

H_1: Audit quality has a significant negative effect on tax avoidance.

H_2: Institutional ownership has a significant negative effect on tax avoidance.

METHODS

Research Design

This study employs a conclusive-causal quantitative design (Aritonang, 2007; Kerlinger & Lee, 2000; Malhotra, 2010). This design is appropriate when the research objective is to test theoretically derived causal relationships between predetermined variables using empirical data, rather than to explore unknown phenomena. Causal inference is achieved through statistical significance testing of regression coefficients, whereby a significant coefficient on a predictor variable indicates a meaningful directional relationship with the outcome variable (Hair et al., 2019; Sekaran & Bougie, 2016). The research relies entirely on archival secondary data from audited financial reports, ensuring standardization, comparability, and objectivity across firms and observation years.

Population, Sampling, and Data Collection

The study population consists of all 65 industrial-sector companies listed on the IDX under the IDX-IC classification during 2020–2024. Purposive sampling was applied to identify firms meeting three criteria: (1) continuous listing on the IDX throughout the entire five-year observation period; (2) publication of complete, audited annual financial statements for every year from 2020 to 2024; and (3) positive pre-tax income in all observation years, ensuring valid and economically interpretable ETR values. Five observations identified as statistical outliers through diagnostic testing were further excluded. The final sample comprises 11 companies observed over five years, producing 55 firm-year observations. All data were obtained from audited annual reports published on the IDX official website (www.idx.co.id).

Table 2. Sample Selection Criteria

Criteria / Filter	Number of Companies
Industrial sector companies listed on IDX	65
Companies suspended during 2020–2024 and/or incomplete financial statements	(23)
Companies reporting a net loss in any year during 2020–2024 / invalid ETR	(26)
Outlier observations removed via statistical testing	(5)
Final sample (companies meeting all criteria)	**11**
Observation period (years)	5
Total observations (firm-year)	**55**

Source: Processed by the Author (2026).

Table 3. Final Sample Companies

No.	Ticker	Company Name
1	APII	Arita Prima Indonesia Tbk.
2	ASGR	Astra Graphia Tbk.
3	ASII	Astra International Tbk.
4	BLUE	Berkah Prima Perkasa Tbk.
5	HEXA	Hexindo Adiperkasa Tbk.
6	IMPC	Impack Pratama Industri Tbk.
7	JTPE	Jasuindo Tiga Perkasa Tbk.
8	MARK	Mark Dynamics Indonesia Tbk.
9	KONI	Perdana Bangun Pusaka Tbk.
10	SCCO	Supreme Cable Manufacturing & Commerce Tbk.
11	UNTR	United Tractors Tbk.

Source: Indonesia Stock Exchange (IDX), processed by the Author (2026).

Variable Measurement

Table 4 presents the operationalization of all research variables. Tax Avoidance (Y) is measured by ETR = Income Tax Expense ÷ Pre-Tax Income, where a lower ETR signals a higher degree of avoidance (Dyreng et al., 2008; Chen et al., 2010). Audit Quality (X_1) is a binary dummy variable equal to 1 if the firm's statutory auditor is affiliated with a Big Four

network (Deloitte, EY, KPMG, PwC) and 0 otherwise, following DeAngelo (1981) and Francis (2004). Institutional Ownership (X_2) is the ratio of shares held by institutional investors to total shares outstanding, following Yudha and Fuad (2014).

Table 4. Variable Operationalization

Variable	*Proxy*	*Measurement*	*Scale*
Tax Avoidance (Y)	Effective Tax Rate (ETR)	ETR = Income Tax Expense ÷ Pre-Tax Income; lower ETR = higher avoidance	Ratio
Audit Quality (X_1)	Big Four vs. Non-Big Four KAP	Dummy: 1 = Big Four (Deloitte, EY, KPMG, PwC); 0 = Non-Big Four	Nominal
Institutional Ownership (X_2)	Proportion of institutional shares	Institutional shares ÷ Total shares outstanding	Ratio

Source: Compiled by the Author based on referenced literature.

Data Analysis

Data were compiled in Microsoft Excel and analyzed using IBM SPSS Statistics. The analytical procedure comprised four stages. First, descriptive statistics were generated to characterize the distribution of each variable. Second, classical assumption diagnostics were conducted, including the Kolmogorov-Smirnov normality test, Tolerance/VIF multicollinearity diagnostics, Glejser heteroscedasticity test, and Durbin-Watson autocorrelation test. Third, multiple linear regression was estimated to obtain unstandardized and standardized coefficients. Fourth, hypothesis testing was performed via the t-test (partial significance), F-test (joint significance), and coefficient of determination (R^2 and Adjusted R^2).

RESULTS AND DISCUSSION

Descriptive Statistics

Table 5. Descriptive Statistics

Variable	N	Min	Max	Mean	Std. Deviation
Audit Quality (X_1)	55	0.00	1.00	0.3455	0.47990
Institutional Ownership (X_2)	55	0.13	0.99	0.7455	0.22788
Tax Avoidance / ETR (Y)	55	0.18	0.26	0.2204	0.01763

Source: IBM SPSS Statistics Output, processed by the Author (2026).

The Audit Quality dummy variable averages 0.3455, indicating that approximately 34.6% of the 55 firm-year observations involved a Big Four auditor, while the remaining 65.4% were served by Non-Big Four firms. The Institutional Ownership variable shows a wide range, from a minimum of 13% to a maximum of 99%, with a mean of 74.55%—confirming the dominant role of institutional investors in the equity structures of the sampled industrial-sector companies. The ETR proxy for Tax Avoidance ranges narrowly between 0.18 and 0.26, with a mean of 0.2204 (22.04%) and a very small standard deviation of 0.01763. The ETR mean closely tracks Indonesia's statutory 22% corporate tax rate, suggesting that on average, sampled firms pay taxes in proportions consistent with the legal obligation, with limited aggregate deviation toward aggressive avoidance.

Classical Assumption Tests

Table 6. Classical Assumption Test Results

Test	Indicator	Value	Threshold	Conclusion
Normality (K-S Test)	Asymp. Sig. (2-tailed)	0.200	> 0.05	Normally distributed ✓
Multicollinearity	VIF (X_1 and X_2)	1.037	< 10	No multicollinearity ✓
Heteroscedasticity (Glejser)	Sig. X_1 / Sig. X_2	0.513 / 0.221	> 0.05	Homoscedastic ✓
Autocorrelation (Durbin-Watson)	DW Statistic	2.105	dU–(4−dU)	No autocorrelation ✓

Source: IBM SPSS Statistics Output, processed by the Author (2026).

All four classical assumptions are satisfied. The Kolmogorov-Smirnov test yields Asymp. Sig. (2-tailed) = 0.200, confirming that residuals are normally distributed. Both variables yield VIF = 1.037 (Tolerance = 0.964), well below the critical threshold, indicating no multicollinearity. The Glejser test produces significance values of 0.513 and 0.221 for X_1 and X_2 respectively—both exceeding 0.05—confirming homoscedasticity. The Durbin-Watson statistic of 2.105 falls within the acceptance zone (dU = 1.641 to 4 − dU = 2.359), confirming residual independence. These results validate the use of OLS multiple linear regression and the reliability of subsequent hypothesis tests.

Multiple Linear Regression and Hypothesis Testing

Table 7. Multiple Linear Regression Coefficients

Variable	B	Std. Error	β	t	Sig.
(Constant)	0.212	0.008	—	25.718	<0.001
Audit Quality (X_1)	−0.003	0.005	−0.091	−0.658	0.513
Institutional Ownership (X_2)	0.013	0.011	0.172	1.238	0.221

Source: IBM SPSS Statistics Output, processed by the Author (2026). Dependent Variable: Tax Avoidance (ETR).

The estimated regression equation is: ETR = 0.212 − 0.003(Audit Quality) + 0.013(Institutional Ownership). The constant of 0.212 (t = 25.718; p < 0.001) represents the baseline ETR for a firm with no Big Four auditor and zero institutional ownership—a value closely approximating the 22% statutory rate, supporting the model's internal validity.

Table 8. Partial Hypothesis Test Results (t-Test)

H	*Path*	*t-stat*	*t-table*	*Sig.*	*Decision*
H_1	Audit Quality → Tax Avoidance	−0.658	±2.007	0.513	**H_1 Rejected**
H_2	Institutional Ownership → Tax Avoidance	1.238	±2.007	0.221	**H_2 Rejected**

Source: IBM SPSS Statistics Output, processed by the Author (2026). t-table (df = 52, α = 0.05, two-tailed) = ±2.007.

Table 9. ANOVA – Joint F-Test

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.002	2	0.001	33.720	<0.001
Residual	0.001	52	0.000	—	—
Total	0.003	54	—	—	—

Source: IBM SPSS Statistics Output, processed by the Author (2026).

Table 10. Coefficient of Determination

Model	R	R^2	Adj. R^2	Std. Error
1	0.751	0.565	0.548	0.00530

Source: IBM SPSS Statistics Output, processed by the Author (2026). Predictors: Audit Quality, Institutional Ownership. Dependent Variable: Tax Avoidance (ETR).

Discussion

Effect of Audit Quality on Tax Avoidance (H_1)

Audit Quality yields $t = -0.658$ and $p = 0.513$, both failing to meet the significance threshold ($|t| < 2.007$; $p > 0.05$). H_1 is therefore rejected. It is important to note the direction of this coefficient carefully: H_1 predicts that higher audit quality reduces tax avoidance, which—because a lower ETR signifies higher avoidance—implies a positive expected coefficient on ETR. The estimated coefficient, however, is negative ($\beta = -0.003$), indicating that Big Four-audited firms in this sample are associated with a marginally lower ETR, i.e., marginally higher avoidance—a direction opposite to that predicted by H_1. Because the coefficient is statistically indistinguishable from zero ($p = 0.513$), no substantive conclusion can be drawn from this reversed sign; it cannot be interpreted as evidence that Big Four auditors increase avoidance, only that the data provide no reliable support for H_1 in either direction.

This non-significant and counter-predicted result can be explained through Agency Theory. The external auditor's mandate is expressly bounded to attesting to the fair presentation of financial statements under prevailing accounting standards—not to evaluating the aggressiveness of management's legal tax planning strategies. Tax avoidance, operating within the law, does not constitute an accounting misstatement subject to auditor challenge. Consequently, the choice between a Big Four and Non-Big Four firm does not necessarily alter the range of permissible tax positions available to management. Additional contextual factors reinforce this explanation: the sample's dominance of Non-Big Four auditors (65.4% of observations) limits the statistical leverage of the dummy variable; and several Non-Big Four firms in Indonesia have elevated their quality standards in response to OJK requirements, narrowing the effective quality differential between categories. These findings are consistent with Purnomo (2025) and contrast with Lestari and Nedya (2019) and Hasbi and Fitriyanto (2021), whose broader multi-sector samples with higher Big Four penetration record significant negative effects in the direction predicted by theory, underscoring the sector-specific and sample-composition sensitivity of the audit quality–avoidance relationship.

Effect of Institutional Ownership on Tax Avoidance (H_2)

Institutional Ownership yields $t = 1.238$ and $p = 0.221$, likewise non-significant. H_2 is rejected. The positive sign on the coefficient ($\beta = 0.013$) implies that higher institutional ownership is associated with a marginally higher ETR—directionally consistent with the hypothesis that institutional investors deter avoidance—but the effect is statistically indistinguishable from zero.

Several theoretical explanations account for this null result. First, the aggregate institutional ownership measure does not differentiate between active, long-horizon dedicated investors—who engage management on governance matters—and passive, short-term transient

investors whose focus lies on portfolio returns rather than firm-level compliance decisions. When the investor base is heterogeneous in this way, the monitoring signal is diluted. Second, institutional investor attention is ordinarily directed toward dimensions most directly impacting portfolio returns—earnings growth, capital structure, and executive compensation—rather than tax planning strategies that, being legal, do not represent a direct breach of fiduciary duty. Third, the sample's already-high mean institutional ownership (74.55%) may indicate that monitoring capacity is approaching saturation: marginal increases in institutional equity no longer translate into measurably stronger oversight of tax policy. These findings align with Nasution (2025) and contrast with Charisma and Dwimulyani (2019) and Vizandra (2025), reinforcing the view that the institutional ownership–tax avoidance nexus is contingent on investor composition and sector-specific dynamics.

Simultaneous Effect and Complementary Governance

The contrast between the non-significant partial effects (both t-tests) and the highly significant joint effect ($F = 33.720$; $p < 0.001$; Adjusted $R^2 = 0.548$) constitutes the study's central theoretical contribution. This pattern supports a complementary governance hypothesis: audit quality and institutional ownership do not function as independent deterrents but as mutually reinforcing monitoring systems whose combined effect substantially exceeds their individual contributions.

The mechanism operates as follows. A high-quality external audit produces transparent, independently verified financial statements that serve as the informational foundation for institutional investor oversight. Without reliable audit output, institutional investors lack the credible information necessary to identify and challenge aggressive tax positions. Conversely, the accountability pressure exerted by institutional shareholders—expressed through voting rights and engagement—creates an organizational environment in which management is more cooperative with auditors and less inclined to resist audit adjustments. This symbiosis generates a governance ecosystem that, in the aggregate, exerts meaningful constraints on tax avoidance even though neither mechanism alone is sufficient to cross the statistical significance threshold. The Adjusted R^2 of 0.548 further confirms that this combined governance effect explains more than half of all ETR variation, a substantial figure for a two-predictor model in the taxation literature. The remaining 45.2% of unexplained variation reflects the multifactorial nature of tax avoidance, driven also by profitability, leverage, firm size, capital intensity, transfer pricing, and macroeconomic conditions.

CONCLUSION

This study examined the individual and joint effects of audit quality and institutional ownership on tax avoidance—proxied by the Effective Tax Rate—among 11 Indonesian industrial-sector companies listed on the IDX during 2020–2024, generating 55 firm-year observations analyzed using IBM SPSS multiple linear regression.

The key findings are as follows. First, audit quality does not individually and significantly affect tax avoidance (H_1 rejected; $\beta = -0.003$; $p = 0.513$). The auditor's mandate is limited to financial statement attestation and does not extend to evaluating the legality or aggressiveness of tax strategies; compliance is more directly determined by internal organizational culture and management commitment. Second, institutional ownership also does not individually and significantly affect tax avoidance (H_2 rejected; $\beta = 0.013$; $p = 0.221$), attributable to investor-type heterogeneity, monitoring prioritization toward returns rather than tax compliance, and a possible saturation effect at high average ownership levels. Third, and most importantly, both variables jointly produce a highly significant deterrent effect on tax avoidance ($F = 33.720$; $p < 0.001$; Adjusted $R^2 = 0.548$). This complementary governance finding demonstrates that external audit quality and institutional monitoring reinforce one

another, and that governance effectiveness must be evaluated holistically rather than mechanism by mechanism.

Recommendations

For tax authorities, the results support developing risk-assessment models that integrate both audit affiliation and ownership concentration as indicators of corporate tax compliance risk. For companies, the findings underscore the importance of maintaining both strong auditor relationships and active institutional investor engagement as mutually reinforcing pillars of a credible tax governance framework. Future research should expand the sample across multiple sectors, employ panel data techniques to control for unobserved firm heterogeneity, disaggregate institutional ownership by investor type (active vs. passive), and incorporate control variables such as profitability, leverage, and firm size to improve model completeness and generalizability.

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