# Executive Character and Financial Distress on Tax Avoidance with Manager's Overconfidence as a Moderating Variable

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## *Abstract*

***Tujuan -*** *Tujuan dari penelitian ini adalah untuk mengetahui pengaruh karakter eksekutif dan financial distress terhadap tax avoidance dengan management overconfidence sebagai variabel moderating.*

***Desain/Metodologi/Pendekatan -*** *Penelitian ini menggunakan sampel Perusahaan BUMN yang terdaftar di Bursa Efek Indonesia pada tahun 2017-2021. Data yang digunakan dalam penelitian ini adalah laporan keuangan dan laporan tahunan. Teknik pengambilan sampel yang digunakan adalah purposive sampling, dimana dari 38 perusahaan BUMN diperoleh sampel sebanyak 10 perusahaan selama 5 tahun sehingga diperoleh total 50 sampel data. Analisis yang digunakan adalah analisis regresi data panel menggunakan data model regresi efek tetap yang diolah dengan bantuan software Eviews9.*

***Temuan -*** *Hasil yang diperoleh menunjukkan bahwa secara bersamaan karakter eksekutif dan kesulitan keuangan mempengaruhi penghindaran pajak. Hasil yang diperoleh menunjukkan sebagian bahwa karakter eksekutif mempengaruhi penghindaran pajak, financial distress tidak berpengaruh pada penghindaran pajak. Hasil yang diperoleh juga menunjukkan bahwa overconfidence manajer tidak mampu memoderasi pengaruh karakter eksekutif dan financial distress terhadap penghindaran pajak.*

***Keterbatasan/Implikasi Penelitian -*** *Variabel independen yang digunakan dalam penelitian ini hanya 2 faktor yaitu karakter eksekutif dan financial distress, serta variabel moderasi yaitu manager overconfident. Hal ini memungkinkan faktor-faktor lain yang mempengaruhi penghindaran pajak dapat diabaikan.*

**Kata Kunci:  Executive Character, Financial Distress, Tax Avoidance, dan Manager Overconfidence**

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## Abstract

**Purpose -** The purpose of this study was to determine the effect of executive character and financial distress on tax avoidance with manager overconfidence as a moderating variable.
**Design/methodology/approach -** This study used a sample of BUMN Companies listed on the Indonesia Stock Exchange in 2017-2021. The data used in this study are financial statements and annual reports. The sampling technique used was purposive sampling, where from 38 BUMN companies, a sample of 10 companies was obtained for 5 years so that a total of 50 data samples were obtained. The analysis used is panel data regression analysis using fixed effect regression model data processed with the help of Eviews9 software.
**Findings -** The results obtained show that simultaneously executive character and financial distress affect tax avoidance. The results obtained show partially that executive character affects tax avoidance, financial distress has no effect on tax avoidance. The results obtained also show that manager overconfidence is not able to moderate the effect of executive character and financial distress on tax avoidance.
**Research limitations/implications -** The independent variables used in this research are only 2 factors, namely executive character and financial distress, as well as a moderating variable, namely manager overconfidence. This allows other factors that influence tax avoidance to be ignored.

Keywords:   **Executive Character, Financial Distress, Tax Avoidance, and Manager Overconfidence**

## Introduction

Taxes are a good indicator of how much the APBN contributes to helping economic expansion in Indonesia. Based on Law Number 16 of 2009, "Tax is a mandatory contribution to the state owed by an individual or body that is coercive based on the law, without direct reciprocity and is used for state needs for the greatest prosperity of the people". The APBN is a tool or instrument used to manage the economy in Indonesia. The State Revenue and Expenditure Budget (APBN) was formed in order to increase and maximize one of the many sources of state revenue and to achieve several goals that have been designed (Noorica & Asalam, 2021).

Various efforts have been made by the Directorate General of Taxes to optimize tax revenues, such as through intensification and extensification programs (Sulistiyanti & Nugraha, 2019). However, if seen from the taxpayer's perspective, the coercive nature of taxes and the lack of direct returns means

that taxpayers want tax payments to be made as low as possible but not in conflict with statutory regulations. One of the tax planning techniques is tax avoidance. The practice of tax avoidance is nothing new in the business world. It is believed that this practice exploits loopholes in tax regulations to reduce the amount of tax owed (Anderson and Ismail, 2023)

Management's decision to carry out tax avoidance causes the Indonesian state to suffer losses amounting to trillions of rupiah per year. This tax avoidance practice phenomenon has occurred in state-owned companies in Indonesia as quoted in the online news www.cnbcindonesia.com where the tax avoidance practice occurred at PT. Perusahaan Gas Negara (PGN) which is a state-owned company or BUMN. PGN was indicated to have practiced tax avoidance twice in 2012-2013 and 2014-2017 for almost the same reasons (Monica Wareza - CNBC Indonesia, 2021).

The first case occurred in 2012, there was a misunderstanding or different

interpretation from the taxpayer's side in interpreting the provisions of the tax law contained in PMK-252/PMK.011/2012 (PMK) regarding the collection of Value Added Tax (VAT) on gas delivery results. earth. Continues next year 2013, PT. Perusahaan Gas Negara (PGN) has a different point of view regarding the billing mechanism. When the rupiah exchange rate against the US dollar weakened, previously gas prices were only in RP/M3. PGN sets the gas price at $/MMBTU and RP/M3, which is the total gas price without VAT. In contrast to this, the Directorate General of Taxes (DJP) believes that the second price is included in VAT collection. Due to the dispute which was considered an attempt to practice tax avoidance, the DJP issued 24 Tax Underpayment Assessment Letters (SKPKB) to PGN with a total value of IDR 4.15 trillion for 24 periods. At the same time, DJP also reissued 25 SKPKBs with a total value of IDR 2.22 billion.

The second case also occurred in 2014-2017 and was similarly related to differences in interpretation of PMK provisions regarding the implementation of the obligation to collect VAT on the delivery of natural gas for the 2014-2017 period. The DJP issued 48 SKPKBs with a total value of IDR 3.82 trillion. On two points of tax disputes that occurred. In the first case, in 2017 PGN tried to file a legal action against the issuance of the 48 SKPKBs, but the DJP rejected PGN's application.

Furthermore, in 2018 PGN again took legal action to appeal through the Tax Court regarding objections to the 48 SKPKBs. However, the tax court was only able to grant the request in 2019. In the same year, the DJP attempted a review with the Supreme Court (MA) regarding the case and the proposed review was granted by the Supreme Court, which resulted in PGN having the potential to have to pay disputed tax amounting to IDR 3.06 trillion along with fines. Meanwhile, in the second case, PGN submitted an objection to the DJP regarding the issuance of 48 SKPKBs. And

as a result, the DJP granted all objection requests and canceled the bill with a total value of IDR 3.82 trillion.

The consequences of the above phenomenon prove that companies in Indonesia are trying to minimize tax payments without violating statutory regulations (Lukito & Oktaviani, 2022). The phenomenon that occurs and is related to tax avoidance is considered a unique and quite complicated phenomenon. This is caused by different points of view regarding tax avoidance itself, where in the first point of view tax avoidance is not considered a violation of the law, but another point of view states that the government does not want taxpayers to carry out tax avoidance. The first factor in this research that influences tax avoidance is the character of the executive. Executives are individuals who are in a very important position in a company because executives have the highest authority and power to manage company operations. Executives determine the direction of the company so that executives must be able to make decisions and policies within the company. In this case, the researcher also believes that executive character is the character possessed by every top-level company leader who is tasked with providing direction when carrying out business activities and making decisions or business policies in accordance with the goals the company wants to achieve (Sulistiyanti & Nugraha, 2019).

The second factor in this research that influences tax avoidance is financial distress. Financial distress is financial or liquidity difficulties that may be a precursor to bankruptcy. The survival of a company can be predicted by analyzing the company's financial reports. This prediction of continuity is very important for management and company owners to anticipate the possibility of bankruptcy. By looking at the company's condition, whether it is in financial distress or not, the risk of bankruptcy can be avoided. Apart from that,

by analyzing the financial health of a company, users of financial reports can also provide an assessment of whether the company is able to cover its short-term obligations with the assets and capital it owns (Haryetti, 2010 in Meilia & Adnan, 2017).

Research has been carried out on tax avoidance with varying and inconsistent results. Therefore, researchers use manager overconfidence as a moderating variable. According to (Rossa, 2022) in Hsieh et al. (2018) overconfidence manager is an important role that is responsible for determining policies and making strategic decisions in the company. Apart from that, manager overconfidence is a manager's tendency to overestimate the company's future. Strategic policies and managers' decisions regarding future company performance use abilities, judgment, skills, and levels of success which are essentially cognitive biases due to managers' tendency to overestimate the company's future performance (Hsieh et al., 2014; Schrand & Zechman, 2012 in Rossa, 2022).

Based on the background of the problem described above, the problem formulation that will be examined through this research is:

1. Do executive character and financial distress influence tax avoidance ?
2. Does executive character influence tax avoidance ?
3. Does financial distress affect tax avoidance ?
4. Is manager overconfidence able to moderate the influence of executive character on tax avoidance ?
5. Is manager overconfidence able to moderate the influence of financial distress on tax avoidance ?

## Literature Review and Hypothesis

### Agency Theory
Jensen & Meckling (1976) who was the first originator of agency theory stated that agency theory is "a theory which states that there is a relationship between the party giving authority (principal) and the party receiving authority (agent)". This theory is used to identify tax avoidance. This relationship can give rise to problems between managers and shareholders, namely a conflict of interest (agency conflict), this conflict occurs because of the management's desire in its own interests to receive company profits beyond the owners and shareholders. The manager decided to avoid taxes because of an agency problem. Managers do this by reducing the burden on taxes, so that they can produce high net profits in the company, and managers will receive rewards from owners, but the company is indicated to be avoiding taxes.

### Tax Avoidance
According to Aprilia et al. (2020), tax avoidance is an activity in saving in the field of taxation through the use of loopholes in tax regulations that are carried out legally to minimize the tax burden. Apart from that, tax avoidance is also a form of activity that has an effect on tax obligations, whether permitted by tax or special activities to reduce tax.

### Executive Character
Executive character is the character possessed by every top-level company leader who is tasked with providing direction when carrying out business activities and making business decisions or policies in accordance with the goals the company wants to achieve. Then executives are individuals who are in a very important position in a company because executives have the highest authority and power to manage company operations. Executives determine the direction of the company so that executives must be able to make decisions and policies within the company (Sulistiyanti & Nugraha, 2019).

The character of an executive in carrying out his obligations as a company leader has one of two characteristics, namely as a risk taker and risk averse (Low, 2006).

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Executives Ekaputra Tj et al. (2020) who have the characteristics of being risk takers will use their abilities to maximize company profits and be braver in making risky decisions. Meanwhile, executives who have risk averse characteristics will tend to avoid risks and therefore tend to be less brave in taking risks (Ryzki & Fuadi, 2019).

**Financial Distress**
Financial distress is a difficulty for a company starting from liquidity difficulties experienced by the company, this type of difficulty is the lightest financial difficulty, to bankruptcy experienced by the company which is the most severe financial difficulty (Hanafi and Halim, 2016 in Anugerah et al., 2022). One important aspect of analyzing a company's financial statements is to predict the company's survival. Prediction of continuity is very important for management and company owners to anticipate the possibility of bankruptcy (Yudawirawan et al., 2022).

**Manager Overconfidence**
Overconfidence is an important role that is responsible for determining policies and making strategic decisions in the company (Hsieh et al., 2018 in Rossa, 2022). Apart from that, manager overconfidence is a manager's tendency to overestimate the company's future. Managers' strategic policies and decisions regarding future company performance use abilities, judgment, skills, and levels of success which are essentially cognitive biases due to the manager's tendency to overestimate the company's future performance. Then companies that have manager overconfidence tend to make higher investments than companies that do not have manager overconfidence (Rossa, 2022 in Brown & Sarma, 2007).

**Hypothesis Development**
**a. The Influence of Executive Character and Financial Distress on Tax Avoidance**
A leader is one of the parties involved in making tax avoidance policies. Leaders have different characters in making decisions and policies within the company. The characteristics of company leaders depend on the size of the risks faced by the company (Budiman et al., 2012 in Meilia & Adnan, 2017).

Apart from that, a company must have financial difficulties which may be a precursor to bankruptcy. One thing that is important in analyzing a company's financial reports is to see the sustainability or viability of the company in the future (Meilia & Adnan, 2017).

In research Meilia & Adnan (2017) which states that the variables of executive character and financial distress jointly or simultaneously influence tax avoidance. Based on the explanation above, the author formulates the hypothesis as follows:
**H₁: It is suspected that executive character and financial distress influence tax avoidance.**

**b. The Influence of Executive Character on Tax Avoidance**
Research Noorica & Asalam (2021) that states that executive character has a negative influence on tax avoidance means that the higher the risk to the company, the result is that executives tend to have risk taker traits. The tendency of executives to be risk takers can be indicated as carrying out tax avoidance actions. Meanwhile, research Sulistiyanti & Nugraha (2019) states that executive characteristics have a positive effect on tax avoidance, which means company leaders tend to be risk averse or afraid so that they are more careful in taking risks. Because executives prefer to avoid existing risks and not commit fraudulent acts in the form of tax avoidance. Based on the explanation above, the author formulates the hypothesis as follows:

**H₂: It is suspected that executive character influences tax avoidance .**

**c. The Effect of Financial Distress on Tax Avoidance**

Financial distress is a condition of financial difficulty where a company is unable to maintain its going concern which is caused by continuous losses, resulting in high debt and reduced cash that can be used to pay debts, resulting in the company being delisted by the Indonesian Stock Exchange. (Nugroho & Firmansyah, 2017 in Fadhila & Andayani, 2022). Apart from that, according to Swandewi & Noviari (2020) conditions of financial distress in companies, tax avoidance practices can occur. Research conducted by Anugerah et al., 2022) states that financial distress has a positive and significant effect on tax avoidance. Apart from that, there is also research Siburian & Siagian (2021) financial distress influences tax avoidance. Based on the explanation above, the author formulates the following hypothesis:

**H₃: It is suspected that financial distress has an effect on tax avoidance.**

**d. The Influence of Executive Character on Tax Avoidance Moderated by Manager Overconfidence**

Companies that have managers who practice tax avoidance can also do so through executive characters who have two characteristics, namely risk averse and risk taker. Company leaders have different characters in terms of decision making and policies within the company. According to Olsen & Stekberg (2015) in Rossa (2022) explains that managers who have overconfidence tend to promote tax avoidance which is reflected through lower effective tax rates. Based on the explanation above, the author formulates the hypothesis as follows:

**H₄: It is suspected that manager overconfidence can moderate character**

**e. The Effect of Financial Distress on Tax Avoidance Moderated by Manager Overconfidence**

Overconfidence is an important role that is responsible for determining policies and making strategic decisions in the company (Hsieh et al., 2018 in Rossa, 2022). In this case, it means that the important role of a manager is to minimize all inefficient activities in order to avoid capital shortages in inappropriate use so that financial distress does not occur. In relation to agency theory, there are two important implications of tax avoidance carried out by company managers, namely (1) increasing the welfare of shareholders through reducing the tax burden owed to increase cash flow, and (2) the behavior of managers to take actions aimed at fulfilling interests by means of controlling the company's tax burden to obtain higher incentives (Hanlon & Heitzman, 2010; Desai & Dharmapala, 2006 in Rossa, 2022). Based on this explanation, the author formulates a hypothesis as follows:

**H₅: It is suspected that manager overconfidence can moderate financial distress on tax avoidance.**
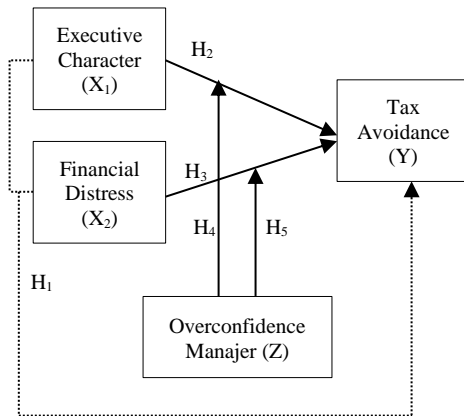
**Framework of Thought**



**Figure 1**
**Framework of Thought**

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## Research Method

### Types of Research
The research conducted aims to analyze executive character and financial distress as independent variables, tax avoidance as the dependent variable, and manager overconfidence as the moderating variable. This type of research uses quantitative methods.

### Research Population
The population used in this research is all state-owned companies listed on the Indonesia Stock Exchange (BEI) for the 2017-2021 period with a total of 38 companies. The sample was selected using a purposive sampling technique, namely the process of selecting a sufficient number of elements from the population, so that research on the sample and understanding its properties or characteristics will enable us to generalize these properties or characteristics to the elements of the population (Sekaran and Bougie, 2016)

### Research Sample
The sample in this study was selected using a purposive sampling method by determining criteria according to research needs. In this research, the number of samples according to the criteria is 10 state-owned companies.

### Research Variable

### Tax Avoidance
This research measures tax avoidance with the Effective Tax Rate (ETR). ETR was chosen because ETR changes in estimates such as tax protection do not affect the size of the ETR. If the ETR value is close to 25%, which is the corporate taxpayer's income tax rate, it is considered that the company has not avoided tax in any form (Sulistiyanti & Nugraha, 2019). Calculating tax avoidance uses the following measurements:

$$ETR = \frac{\text{Tax Expense}}{\text{Profit Before Tax}}$$

### Executive Character
In this research, executive character is measured by corporate risk, namely dividing the results of EBIT (Earnings Before Income and Tax) divided by the company's total assets (Lukito & Oktaviani, 2022). Calculating Executive Character with the following measurements:

$$RISK = \frac{\text{EBIT}}{\text{Total Assets}}$$

### Financial Distress
In this research, financial distress is measured by Operating Cash Flow and Average Total Liabilities (Siburian & Siagian, 2021):

$$FD = \frac{\text{Operating Cash Flow}}{\text{Average Total Liabilities}}$$

### Manager Overconfidence
In this research, manager overconfidence is measured using a sales growth model. The sales growth model can act as a measure of a manager's success in improving operations and is short term (M. Idrus & M. Sudarma, 2011) in nature (Iswahyudi et al., 2021). Calculating Manager Overconfidence with the following measurements:

$$OVMA = \frac{\text{T. Current Sales} - \text{T. Sales Last Period}}{\text{T. Sales Last Period}} \text{ x } 100\%$$

## Research Results and Discussion

### Selection of Panel Data Regression Models
The chow test results are presented in the table below:

**Table 1**
**Chow Test Results Equation I**

| Redundant Fixed Effects Tests<br>Equation: MODEL_FEM1<br>Test cross-section fixed effects | | | |
|---|---|---|---|
| Effects Test | Statistic | d.f. | Prob. |
| Cross-section F | 5.686266 | (9,38) | 0.0001 |
| Cross-section Chi-square | 42.651509 | 9 | 0.0000 |

Source: Processed by Eviews Researchers 9, 2023

The chow test for equation I shows that the cross section probability value F is **0.000 1 <0.05**, so it can be concluded that the best model according to the chow test is the Fixed Effect Model (FEM) which is more appropriate to use. Next, the following are the results of the Chow test with moderation of the second regression equation:

**Table 2**
**Chow Test Results Equation II**

| Redundant Fixed Effects Tests<br>Equation: MODEL_FEM2<br>Test cross-section fixed effects | | | |
|---|---|---|---|
| Effects Test | Statistic | d.f. | Prob. |
| Cross-section F | 4.901711 | (9,35) | 0.0003 |
| Cross-section Chi-square | 40.777975 | 9 | 0.0000 |

Source: Processed by Eviews Researchers 9, 2023

The chow test for equation II shows that the cross section F probability value is **0.0003<0.05** , so it can be concluded that the best model according to the chow test is the Fixed Effect Model (FEM) which is more appropriate to use.

The results of the Hausman test are presented in the image below:

**Table 3**
**Hausman Test Results Equation I**

| Correlated Random Effects - Hausman Test<br>Equation: MODEL_REM1<br>Test cross-section random effects | | | |
|---|---|---|---|
| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
| Cross-section random | 7.561137 | 2 | 0.0228 |

Source: Processed by Eviews Researchers 9, 2023

The Hausman test for equation I shows the cross section chi square probability value is $0.0228 < 0.05$, so it can be concluded that the best model according to the Hausman test is the Fixed Effect Model (FEM) which is more appropriate to use. Next, the following are the results of the Hausman test with moderation of the second regression equation:

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**Table 4**
**Hausman Equation Test Results II**

| Correlated Random Effects - Hausman Test Equation: MODEL_REM2 Test cross-section random effects | | | |
|---|---|---|---|
| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
| Cross-section random | 18.355550 | 5 | 0.0025 |

Source: Processed by Eviews Researchers 9, 2023

The Hausman test for equation II shows the chi random cross section probability value is **0.0025<0.05** , so it can be concluded that the best model according to the Hausman test is the Fixed Effect Model (FEM) which is more appropriate to use.

Based on the results of the Chow and Hausman tests for equations I and II, it can be concluded that the correct data model selected in this research is the Fixed Effect Model (FEM).

**Classic Assumption test**
**Normality Test**



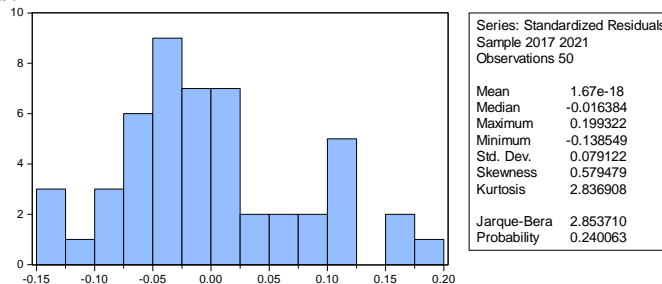| Series: Standardized Residuals Sample 2017 2021 Observations 50 | |
|---|---|
| Mean | 1.67e-18 |
| Median | -0.016384 |
| Maximum | 0.199322 |
| Minimum | -0.138549 |
| Std. Dev. | 0.079122 |
| Skewness | 0.579479 |
| Kurtosis | 2.836908 |
| Jarque-Bera | 2.853710 |
| Probability | 0.240063 |

**Figure 2**
**Normality Test Results**

Based on the results of the Normality Test in Figure 2 above, it shows that the probability value of the Jarque-Bera Test is 0.240063, where the probability value is greater than 0.05, namely **0.240063>0.05** , so it can be concluded that **the data is normally distributed.**

**Multicollinearity test**
The multicollinearity test is presented as follows:

**Table 5**
**Multicollinearity Test Results**

| Variable | Coefficient Variance | Uncentered VIF | Centered VIF |
|---|---|---|---|
| C | 0.015746 | 42.59019 | NA |
| LOG(X1_RISK) | 0.001063 | 28.49597 | 2.432181 |
| X2_FD | 0.016407 | 4.902324 | 2.435706 |
| Z_OVMA | 0.000378 | 1.153255 | 1.019560 |

Source: Processed by Eviews Researchers 9, 2023

Based on the statistical test results in table 6, the results of the multicollinearity test, the Value Inflation Factors (VIF) values for all independent and moderating variables show the numbers 2.432181, 2.435706, and 1.019560. It can be concluded that the VIF value is less than 10 (ten) which means there are no symptoms of multicollinearity.

**Heteroscedasticity Test**

The heteroscedasticity test is presented as follows:

**Table 6**
**Heteroscedasticity Test Results**

| Heteroskedasticity Test: White | | | |
|---|---|---|---|
| F-statistic | 1.965629 | Prob. F(9,40) | 0.0698 |
| Obs*R-squared | 15.33234 | Prob. Chi-Square(9) | 0.0822 |
| Scaled explained SS | 19.08559 | Prob. Chi-Square(9) | 0.0245 |

Source: Processed by Eviews Researchers 9, 2023

The results of the heteroscedasticity test show that the probability chi-square value for Obs*R-squared is $0.0822 > 0.05$, which means that the data does not contain symptoms of heteroscedasticity.

**Autocorrelation Test**

The LM Test values in the autocorrelation test are as follows:

**Table 7**
**LM Test Autocorrelation Test Results**

| Breusch-Godfrey Serial Correlation LM Test: | | | |
|---|---|---|---|
| F-statistic | 2.576774 | Prob. F(2,44) | 0.0874 |
| Obs*R-squared | 5.242294 | Prob. Chi-Square(2) | 0.0727 |

Source: Processed by Eviews Researchers 9, 2023

The results of the autocorrelation test show the prob value. amounting to 0.0727 which is significant at 0.05 or $(0.0727 > 0.05)$, therefore the researcher can conclude that in this test there is no autocorrelation.

**Hypothesis Test Results**

**Table 8**
**t Test Results**

| Variable | Coefficien... | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -0.002018 | 0.100700 | -0.020044 | 0.9841 |
| LOG(X1_RISK) | -0.094095 | 0.029118 | -3.231459 | 0.0025 |
| X2_FD | 0.014122 | 0.127963 | 0.110359 | 0.9127 |

Source: Processed by Eviews Researchers 9, 2023

Based on the results of the partial significance test (t test) in table 8, the following results are obtained:

1. The statistical test results show that the probability value of the executive character variable is smaller than the significance level (0.0025 < 0.05) with a negative coefficient value so it can be interpreted that executive character has a negative effect on tax avoidance.

2. The statistical test results show that the probability value of the financial distress variable is greater than the significance level (0.9127 > 0.05) so it can be interpreted that financial distress has no influence on tax avoidance.

**Table 9**
**F Test Results and $R^2$**

| | | | |
|---|---|---|---|
| R-squared | 0.663601 | Mean dependent var | 0.284674 |
| Adjusted R-squared | 0.566222 | S.D. dependent var | 0.152915 |
| S.E. of regression | 0.100712 | Akaike info criterion | -1.547533 |
| Sum squared resid | 0.385433 | Schwarz criterion | -1.088647 |
| Log likelihood | 50.68831 | Hannan-Quinn criter. | -1.372786 |
| F-statistic | 6.814646 | Durbin-Watson stat | 2.698821 |
| Prob(F-statistic) | 0.000004 | | |

Source: Processed by Eviews Researchers 9, 2023

Based on the results of the simultaneous significance test (F Statistical Test) in table 9, the value of Prob. (F-Statistics) is 0.000004 < 0.05, so it can be concluded that executive character and financial distress together (simultaneously) have a significant effect on tax avoidance .

And the results of the coefficient of determination test obtained an Adjusted R-Square value of 0.566222 or equal to 56.22%. So it can be interpreted that the independent variable is able to influence the dependent variable by 56.22%. Therefore, the variables of executive character and financial distress simultaneously or jointly influence tax avoidance by 56.22%. Meanwhile, the remaining 43.78% is explained by variations in other variables not used in this research model.

**Table 10**
**MRA Test Results**

| Variable | Coefficien... | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -0.019479 | 0.119790 | -0.162608 | 0.8718 |
| LOG(X1_RISK) | -0.102718 | 0.033576 | -3.059264 | 0.0042 |
| X2_FD | -0.024091 | 0.181500 | -0.132735 | 0.8952 |
| Z_OVMA | 0.085759 | 0.148408 | 0.577857 | 0.5671 |
| LOG(X1_RISK)*Z_OVM... | 0.031301 | 0.038514 | 0.812715 | 0.4219 |
| X2_FD*Z_OVMA | 0.033525 | 0.251446 | 0.133330 | 0.8947 |

Source: Processed by Eviews Researchers 9, 2023

Based on table 10 MRA Test Results:

1. The interaction test for the variables Executive Character and Manager Overconfidence shows a significance value of 0.4219 above the significance level of 0.05 or (0.4219>0.05) so it can be concluded that manager overconfidence cannot moderate the

relationship between executive character and tax avoidance.

2. The interaction test of the variables Financial Distress and Manager Overconfidence shows a significance value of 0.8947 above the significance level of 0.05 or (0.8947>0.05) so it can be concluded that manager overconfidence cannot moderate the relationship between financial distress and tax avoidance.

**Hypothesis Discussion**

**a. The Influence of Executive Character and Financial Distress on Tax Avoidance**

It can be seen from the test results that the Prob value obtained (F-Statistics) is $0.000004 < 0.05$, so it can be concluded that executive character and financial distress together (simultaneously) have a significant effect on tax avoidance. Thus, the high and low levels of tax avoidance actions carried out by state-owned companies listed on the Indonesia Stock Exchange for the 2017-2021 period indicate that they are influenced by the independent variables studied, namely executive character and financial distress. This is in line with agency theory where this occurs because there are differences in interests between company executives and tax collectors so a mechanism is needed so that executives can pay attention to the company's tax interests but management wants compensation too.

**b. The Influence of Executive Character on Tax Avoidance**

The results of this research show that executive character has a negative influence on tax avoidance. Executive character in this study is measured by how capable the company is of using its profits to produce assets. The smaller the percentage of profits in production, the company is considered risky and the executive has more of a risk taker character. Executives who have a risk-taking character will tend to be braver in taking risks in reducing the tax payable through tax avoidance.

**c. The Effect of Financial Distress on Taxes Avoidance**

In this study, the test results obtained that financial distress had no effect on tax avoidance, this means that companies experiencing financial distress will always experience losses or not make a profit, so the company does not make the decision to practice tax avoidance to reduce the tax burden but instead chooses other alternatives. such as borrowing an injection of funds from an allied company. Most companies in Indonesia that are experiencing financial distress do not have the habit of seeking additional cash or additional profits by minimizing the tax burden using tax avoidance because this will trigger a decrease in investors investing in shares. This occurs because there is a misalignment between the goals of company management and the goals of investors.

**d. The Influence of Executive Character on Tax Avoidance Moderated by Manager Overconfidence**

In this research, manager overconfidence is examined using the company's sales level in a certain period. The higher the sales level, the more self-confident the manager is considered to be. However, this is not proven from the results of this research where manager overconfidence is unable to moderate the effect on tax avoidance. This shows that companies that have sales growth tend to be stable, indicating that the company has sufficient resources to fulfill its tax obligations, so that executives are considered not to make tax avoidance decisions and tend to make decisions to allocate remaining profits to other posts in the finance report.

### e. The Effect of Financial Distress on Tax Avoidance Moderated by Manager Overconfidence

In these conditions, manager overconfidence is very important, because they have a responsible role in forming an economic strategy and making the right decisions for the company. Because in overconfidence managers need high cash inflows to meet investment capital and innovation needs. According to Hsieh et al. (2018) in Rossa (2022) overconfidence managers have the ability to generate income, and can differentiate between real performance and expectations in managing financial income. So according to researchers, adding manager overconfidence as a moderation in this research should not result in financial distress in a company.

## Conclusion and Recommendation

### Conclusion

Based on the results of the research conducted, then: (1) Executive character and financial distress together (simultaneously) influence tax avoidance, (2) Executive character influences tax avoidance, (3) Financial distress has no influence on tax avoidance, (4) Manager overconfidence is unable to moderate executive character towards tax avoidance. (5) Manager overconfidence is unable to moderate financial distress towards tax avoidance.

### Limitations

The limitations are (1) The sample used in this research is limited, namely only 50 observation data from state-owned companies, (2) The thinking framework used only connects variables that are thought to have a relationship with the dependent variable which is influenced by the moderating variable, so there are still the possibility of other variables not being included in the thinking framework, (3) The independent variables used in this research are only 2 factors, namely executive character and financial distress, as well as a moderating variable, namely manager overconfidence. This allows other factors that influence tax avoidance to be ignored.

### Suggestion

It should: (1) Expand the research population to other sectors and add other variables, (2) Companies should not practice tax avoidance, (3) External parties should be careful in analyzing financial reports.

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