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Earnings Management, Financial Distress, and Profitability: Does the Audit Committee Matter for Tax Aggressiveness?

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A B S T R A C T

This study aims to examine the effects of earnings management, financial distress, and profitability on tax aggressiveness, as well as the moderating role of the audit committee in the relationship between these variables and tax aggressiveness in coal mining companies listed on the Indonesia Stock Exchange during the 2022–2024 period. This research employed a quantitative approach with an associative research design. The sample consisted of 17 companies selected using purposive sampling, resulting in 51 firm-year observations. Secondary data were obtained from the companies' annual reports and financial statements and analyzed using panel data regression and Moderated Regression Analysis (MRA) with EViews software. The results indicate that earnings management has a positive and significant effect on tax aggressiveness, while financial distress has a negative and significant effect on tax aggressiveness. Profitability, however, has no significant effect on tax aggressiveness. Furthermore, the audit committee weakens the relationship between earnings management and tax aggressiveness but strengthens the relationship between financial distress and tax aggressiveness. Meanwhile, the audit committee does not moderate the relationship between profitability and tax aggressiveness. These findings highlight the importance of strengthening the effectiveness of the audit committee as a corporate governance mechanism to mitigate tax aggressiveness.

KATA KUNCI

Agresivitas Pajak, *Financial Distress*, Komite Audit, Manajemen Laba, Profitabilitas

A B S T R A K

Penelitian ini bertujuan untuk menganalisis pengaruh manajemen laba, *financial distress*, dan profitabilitas terhadap agresivitas pajak serta menguji peran komite audit sebagai variabel moderasi pada perusahaan sub sektor pertambangan batubara yang terdaftar di Bursa Efek Indonesia periode 2022–2024. Penelitian menggunakan pendekatan kuantitatif dengan jenis penelitian asosiatif. Sampel penelitian ditentukan menggunakan teknik *purposive sampling* sehingga diperoleh 17 perusahaan dengan total 51 observasi. Data yang digunakan merupakan data sekunder berupa laporan keuangan dan laporan tahunan perusahaan, kemudian dianalisis menggunakan regresi data panel dan *Moderated Regression Analysis* (MRA) dengan bantuan perangkat lunak EViews. Hasil penelitian menunjukkan bahwa manajemen laba berpengaruh positif dan signifikan terhadap agresivitas pajak, sedangkan *financial distress* berpengaruh negatif dan signifikan terhadap agresivitas pajak. Profitabilitas tidak berpengaruh signifikan terhadap agresivitas pajak. Pengujian variabel moderasi menunjukkan bahwa komite audit mampu memperlemah pengaruh manajemen laba terhadap agresivitas pajak, namun memperkuat hubungan antara *financial distress* dan agresivitas pajak. Sementara itu, komite audit tidak mampu memoderasi pengaruh profitabilitas terhadap agresivitas pajak. Temuan ini menegaskan pentingnya penguatan kualitas fungsi komite audit sebagai bagian dari mekanisme *corporate governance* dalam mengendalikan praktik agresivitas pajak.

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1. Introduction

Taxes are mandatory contributions to the state owed by individuals or entities, enforced by law, without receiving direct compensation, and used for state purposes to maximize the people's prosperity. Tax payment is the embodiment of civic duty and the taxpayer's role in directly and collectively fulfilling tax obligations to finance the state and support national development. In accordance with the philosophy of tax law, paying taxes is not merely an obligation but also a right of every citizen to participate in the financing of the state and national development.

The worlds of economics and taxation are closely and complexly intertwined. Taxes are one of the primary instruments used by the government to regulate and manage the economy. The government collects revenue through taxes, and this revenue is used to fund various public programs and services such as education, health care, infrastructure, and security. Taxes are one of the government's primary sources of revenue, and tax rates can directly impact the government's ability to provide these services.

Tax aggressiveness is a strategy to minimize the tax burden through tax planning, using either legal (tax avoidance) or illegal (tax evasion) methods [1]. Tax avoidance is a legal method used to minimize tax costs through means permitted by tax laws or by exploiting loopholes in tax legislation. Tax evasion, on the other hand, is an illegal method that violates tax laws and constitutes a criminal offense.

Taxes paid by a company can be considered an expense that reduces profit; the higher the company's profit, the greater the amount of tax it must pay. Companies, as taxpayers, view taxes as a burden that reduces their profits. This drives companies to seek ways to reduce the tax burden they must bear. Consequently, companies become more aggressive in managing their tax payments [2]. Tax payments that differ in amount from the initial tax liability can lead to a decline in government revenue derived from the tax sector [3]. This reduction in tax revenue received by the government hinders several government programs aimed at improving public welfare and serving the public interest.

One case of tax aggressiveness that has been widely exposed in Indonesia involves PT Adaro Energy Tbk (ADRO), one of the largest coal mining companies in Indonesia. In 2019, an investigative report by Global Witness, an international non-governmental organization focused on corporate transparency and environmental issues, exposed Adaro's tax aggression practices during the 2009–2017 period. The report, titled *Who is Behind Indonesia's Coal Empire?*, analyzed the company's financial statements and found that Adaro systematically shifted profits from the sale of coal produced in Indonesia to affiliated entities in low-tax jurisdictions, such as Singapore and the Netherlands. The primary mechanism used was transfer pricing that did not comply with the arm's-length principle, whereby the sale price of coal between related entities was set below fair market value—for example, coal was sold at USD 50 per metric ton to a subsidiary in Singapore, even though the global market price reached USD 80 per metric ton. Subsequently, that entity resold the product to the end buyer at full price, resulting in significant profits (markup) being recorded overseas, where corporate tax rates range from 0–17%, compared to 25% in Indonesia. This practice also involved inflating commissions and fictitious expenses paid to overseas entities, which surged from USD 4 million per year prior to 2009 to USD 55 million per year during the investigation period, with the aim of reducing taxable income in Indonesia

There is a research gap regarding studies that use earnings management as an independent variable. Previous research has indicated that earnings management influences tax aggressiveness [4], [5], [6]. These studies show that companies with high levels of earnings management tend to be more aggressive in their efforts to legally reduce their tax burden [4]. This contrasts with research findings indicating that earnings management does not affect tax aggressiveness [7].

Divergent results have also been obtained from studies using financial distress as an independent variable. Previous studies have indicated that financial distress influences tax aggressiveness [8], [9]. Companies experiencing financial distress often face challenges such as rising costs, reduced access to funding sources, and an inability to meet obligations by their due dates; consequently, management tends to seek solutions through more active tax strategies. However, other studies have shown that financial distress does not affect tax aggressiveness [10]**.** These findings indicate that companies experiencing financial distress in Indonesia do not always seek to generate additional cash flow through tax reductions. One reason for this is that investors tend to avoid companies with a high risk of bankruptcy, as this could potentially result in the loss of their invested capital.

In addition to earnings management and financial distress, profitability is a ratio that can measure the overall effectiveness of management through a company's ability to generate profits from sales and investments. The higher a company's profitability, the greater its ability to generate profits. Companies with high profitability will automatically have higher tax liabilities. This situation drives management to seek various methods—both legal and those in a gray area—to reduce tax liabilities. The greater the profit earned, the greater the incentive for a company to engage in tax aggressiveness to ensure that net profit after taxes remains high. Therefore, profitability can be considered one of the factors influencing tax aggressiveness.

Previous research on the effect of profitability on tax aggressiveness has also yielded inconsistent results. Several studies have found that profitability has a significant positive effect on tax aggressiveness, indicating that companies with higher profitability tend to adopt more aggressive tax planning strategies to reduce their tax burden [11], [12], [13]. Similarly, other empirical studies have confirmed that profitability encourages firms to engage in tax aggressiveness because higher earnings create stronger incentives to minimize tax payments and maximize after-tax profits [14], [15]. These findings suggest that profitable firms are more likely to exploit available tax planning opportunities in order to improve financial performance [16]. However, other studies argue that profitability does not significantly influence tax aggressiveness, suggesting that highly profitable firms may prioritize regulatory compliance and corporate reputation over aggressive tax avoidance practices [17], [18].

The audit committee is included as a moderating variable due to its primary role as an internal oversight body tasked with ensuring the implementation of good corporate governance. The existence of the audit committee serves as a "check" on the company's various strategic decisions. In relation to earnings management, an effective audit committee is expected to limit management's ability to manipulate financial statements, thereby curbing aggressive tax practices. In relation to financial distress, an audit committee with a high degree of independence and adequate financial expertise is expected to strengthen regulatory compliance and improve the company's risk management. The audit committee also acts as a risk controller that restricts management from adopting tax planning strategies that violate regulations. Such intensive oversight is expected to make management aware that tax penalties and potential future audits could actually worsen the company's financial condition. Thus, a high-quality audit committee is predicted to be able to mitigate the impact of financial distress on the company's tax aggressiveness. Meanwhile, in relation to profitability, the audit committee acts as a compliance guardian, ensuring that—whether the company is generating high or low profits—management does not implement tax strategies that are overly risky or contrary to regulations. Therefore, the audit committee, as a moderating variable, is crucial for testing whether internal oversight functions can weaken a company's inclination toward tax aggressiveness.

Based on the phenomenon of increasing tax aggressiveness practices among coal mining companies in Indonesia, the existence of various tax cases and disputes indicating the exploitation of regulatory loopholes, and the fact that previous research findings remain inconsistent regarding the effects of earnings management, financial distress, and profitability on tax aggressiveness, this study aims to analyze the effects of earnings management, financial distress, and profitability on tax aggressiveness, as well as to test the role of the audit committee as a moderating variable in the relationship between these three variables and tax aggressiveness among companies in the coal mining subsector listed on the Indonesia Stock Exchange for the period 2022–2024. This study is expected to provide empirical evidence that can enrich the literature on the determinants of tax aggressiveness and explain the effectiveness of the audit committee as a corporate governance mechanism in controlling tax aggressiveness practices.

2. Research Method

This study employs a quantitative approach using an associative research design aimed at testing the effects of earnings management, financial distress, and profitability on tax aggressiveness, as well as analyzing the role of the audit committee as a moderating variable in the relationship between these three independent variables and tax aggressiveness. The scope of the study is limited to companies in the coal mining subsector listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. The units of analysis in this study are companies represented by data from financial statements and annual reports published during the study period. The data used consists of secondary data in the form of figures obtained from the companies' financial statements and annual reports.

The study was conducted on companies in the coal mining subsector listed on the Indonesia Stock Exchange (IDX). Data collection was carried out using the documentation method by accessing financial statements and annual reports available on the official website of the Indonesia Stock Exchange (www.idx.co.id) as well as the official websites of each company. All data obtained were subsequently analyzed to measure the variables of earnings management, financial distress, profitability, tax aggressiveness, and audit committee performance in accordance with the indicators established in this study.

The study population consisted of 19 companies in the coal mining subsector listed on the Indonesia Stock Exchange during the 2022–2024 period. The sampling technique used purposive sampling, with the criterion that companies must have been listed continuously and remained active throughout the study period. Based on these criteria, 17 companies were selected as the study sample. With an observation period of three years, the total number of observation units used in this study was 51 firm-year observations.

Earnings management was measured by calculating discretionary accruals (DACC) using the modified Jones model [19]**.** The steps for calculating earnings management using this model are as follows:

Calculate the total estimated accrual amount on Equation (1).

$$\frac{TACC_{it}}{TA_{it-1}} = \alpha_1\left(\frac{1}{TA_{it-1}}\right) + \alpha_2\left(\frac{\Delta REV_{it}}{TA_{it-1}}\right) + \alpha_3\left(\frac{PPE_{it}}{TA_{it-1}}\right) + e \quad (1)$$

Calculating the value of non-discretionary accruals on Equation (2).

$$NDACC_{it} = \alpha_1\left(\frac{1}{TA_{it-1}}\right) + \alpha_2\left(\frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{it-1}}\right) + \alpha_3\left(\frac{PPE_{it}}{TA_{it-1}}\right) \quad (2)$$

Calculating discretionary accruals on Equation (3).

$$DACC_{it} = \left(\frac{TACC_{it}}{TA_{it-1}}\right) - NDACC_{it} \quad (3)$$

DACCit is discretionary accruals of firm i in year t. NDACCit is non-discretionary accruals of firm i in year t 82. TACCit is total accruals of firm i in year t. TAit -1 ` is Total assets of company i in year t-1. ΔREVit is change in revenue of company i in year t. ΔRECit = change in trade receivables of company i in year t. PPEit is fixed assets of company i in year t, and e is error.

Financial distress is measured using the Altman Z-Score; the higher the Z-Score, the healthier the company. Therefore, the result of the Altman Z-Score model calculation is multiplied by -1 to adjust the measurement to other variables. Thus, a higher value reflects a poor financial condition. The formula is as follows on Equation (4).

$$Z = 1{,}2\left(\frac{\text{Working Capital}}{\text{Total Asset}}\right) + 1{,}4\left(\frac{\text{Retained Earning}}{\text{Total Asset}}\right) + 3{,}3\left(\frac{\text{Profit Before Tax}}{\text{Total Asset}}\right) + 0{,}6\left(\frac{\text{Cost Of Good Sold}}{\text{Book Value Of Total Liabilities}}\right) + 0{,}999\left(\frac{\text{Sales}}{\text{Total Asset}}\right) \quad (4)$$

Profitability in this study was measured using the Return on Assets (ROA) ratio on Equation (5). The frequency of audit committee meetings is calculated with KA is Number of audit committee meetings in a year.

$$ROA = \frac{Net\ Income}{Average\ Total\ Assets} \quad (5)$$

The data analysis technique used in this study involves panel data regression analysis using EViews software. Panel data is a combination of time-series data (for the 2022–2024 period) and cross-sectional data (coal mining companies included in the study sample). The analysis was conducted to examine the effects of earnings management, financial distress, and profitability on tax aggressiveness, as well as to examine the role of the audit committee as a moderating variable.

This study employs two regression analysis models. The panel data regression models used in this study are:

a) Model 1 (Without Moderating Variables) to test the direct effect of the independent variable on tax aggressiveness. The equation can be seen on Equation (6).

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \quad (6)$$

b) Model 2 (With Moderating Variables) to test whether the audit committee strengthens or weakens the relationship between the independent variable and tax aggressiveness. The equation can be seen on Equation (7).

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 (X_1\ x\ Z) + \beta_5 (X_2\ x\ Z) + \beta_6 (X_3\ x\ Z) + \varepsilon \quad (7)$$

The analysis steps include selecting a panel data regression model using the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test; testing classical assumptions; testing the coefficient of determination (R^2); conducting simultaneous tests (F-test) and partial tests (t-test); and testing for moderating variables using Moderated Regression Analysis (MRA) by creating interaction terms between the audit committee and each independent variable.

3. Result and Discussion

3.1. Results of the Selection of the Best Panel Data Regression Model

Panel data regression model selection was conducted to determine the most appropriate estimation model among the Common Effects Model (CEM), Fixed Effects Model (FEM), and Random Effects Model (REM). The tests were performed using the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test. A summary of the results of the panel data regression model selection tests is presented in the following Table 1.

Tabel 1. Testing to Select the Best Regression Model for Panel Data

Model	Chow Test Probability (F-Statistic)	Hausman Test Probability (Chi-Square)	Lagrange Multiplier (LM) Probability (Breusch-Pagan)	Selected Model
Model 1	0.0000*** (12.294354)	0.9692 (0.249688)	0.9779 (0.000768)	CEM
Model 2	0.0000*** (8.521513)	0.9890 (1.278191)	0.2411 (1.374372)	CEM

Based on the results of the panel data regression model selection, the Common Effect Model (CEM) is the most appropriate model to use for both Model 1 and Model 2. Although the Chow Test results show a p-value of 0.0000, indicating that the Fixed Effects Model (FEM) is superior to the CEM, the Hausman Test results yield p-values of 0.9692 and 0.9890 (>0.05), respectively, suggesting that the Random Effects Model (REM) is more appropriate than the FEM. Furthermore, the results of the Lagrange Multiplier (LM) Test for both models showed probability values of 0.9779 and 0.2411 (>0.05), indicating no significant difference between the CEM and the REM. Therefore, based on the panel data model testing procedures, the Common Effect Model (CEM) was selected as the estimation model used in this study's analysis.

3.2. Results of the Classical Assumptions Test

Based on the results of the classical assumption tests for both research models, which can be seen on Table 2, it can be concluded that the regression models satisfy the basic assumptions and are therefore suitable for further analysis. The results of the normality test show a p-value of 0.13 for Model 1 and 0.12 for Model 2, which means the data are normally distributed because the p-values are greater than 0.05. Furthermore, the results of the multicollinearity test show that all correlation coefficients between independent variables are below 0.90, indicating that there is no multicollinearity. The results of the heteroscedasticity test also show that all variables in both models have probability values above 0.05, indicating that there is no heteroscedasticity. Furthermore, the Durbin-Watson values of 0.88 in Model 1 and 1.45 in Model 2 indicate that the models do not suffer from autocorrelation. Thus, both regression models have satisfied the classical assumption tests and can be used to test the research hypotheses.

Table 2. Results of the Classical Assumption Tests

Classical Assumption Test	Model 1	Model 2	Conclusion
Normality Test	0.13	0.12	The data are normally distributed (Prob. > 0.05).
Multicollinearity Test	X1–X2 = 0.59	X1–X1_Z = 0.86Z–X2_Z = 0.84X3–X3_Z = 0.78	No multicollinearity is detected, as all correlation coefficients are below 0.90.
Heteroscedasticity Test	X1 = 0.39X2 = 0.39X3 = 0.82	X1 = 0.61X2 = 0.17X3 = 0.73X1_Z = 0.12X2_Z = 0.31X3_Z = 0.96	No heteroscedasticity is detected (Prob. > 0.05).
Autocorrelation Test (Durbin–Watson)	0.88	1.45	No autocorrelation is detected.

3.3. Results Panel Data Regression Model 1

Based on the test results for Model 1 on Table 3, an Adjusted R^2 value of 0.462 was obtained, indicating that earnings management, financial distress, and profitability collectively explain 46.2% of the variation in tax aggressiveness, while the remaining 53.8% is explained by other factors outside the research model. Furthermore, the F-test results showed an F-statistic of 15.324 with a Prob. (F-statistic) of 0.000*, which is smaller than the significance level of 0.01. These results indicate that the regression model used is a good fit, and that earnings management, financial distress, and profitability simultaneously have a significant effect on tax aggressiveness; thus, the research model can be used to test the hypotheses partially.

Table 3. Multiple Regression Analysis Results (Model 1)

Variable	Coefficient	t-Statistic	Probability
Constant	0.318	15.426	0.000***
Earnings Management	-0.262	-3.315	0.002***
Financial Distress	-0.017	-2.560	0.014**
Profitability	-0.050	-1.966	0.055*
R^2	0.494	F-statistic	15.324
Adjusted R^2	0.462	Prob. (F-statistic)	0.000*

Furthermore, the results of the t-test for Model 1 show that earnings management has a probability value of 0.002* with a regression coefficient of -0.262, indicating a negative and significant effect on tax aggressiveness at the 1% significance level. Furthermore, financial distress yielded a p-value of 0.014 with a coefficient of -0.017, indicating that financial distress has a negative and significant effect on tax aggressiveness at the 5% significance level. Meanwhile, profitability has a probability value of 0.055 with a coefficient of -0.050, indicating a negative effect on tax aggressiveness, though it is significant only at the 10% level. Thus, earnings management, financial distress, and profitability are proven to have a negative effect on tax aggressiveness, although the significance levels of each variable differ.

3.4. Moderated Regression Analysis (MRA) Results for Model 2

Based on the test results for Model 2 that can be seen on Table 4, an Adjusted R^2 value of 0.086 was obtained, indicating that earnings management, financial distress, profitability, the audit committee, and the interaction between each independent variable and the audit committee account for 8.6% of the variation in tax aggressiveness, while the remaining 91.4% is explained by other factors outside the research model. Furthermore, the F-test results showed an F-statistic value of 1.676 with a Prob. (F-statistic) value of 0.141, which is greater than the significance level of 0.05. These results indicate that the simultaneous moderation model has not yet been able to explain the effects of all variables on tax aggressiveness; thus, the moderation regression model constructed has not demonstrated an adequate level of fit.

Table 4. Moderated Regression Analysis Results (Model 2)

Variable	Coefficient	t-Statistic	Probability
Constant	0.345	6.357	0.000***
Earnings Management	0.448	2.134	0.039**
Financial Distress	-0.033	-2.145	0.038**
Profitability	-0.010	-0.158	0.875
Audit Committee	-0.008	-1.635	0.109
Earnings Management × Audit Committee	-0.059	-2.178	0.035**
Financial Distress × Audit Committee	0.002	1.716	0.093*
Profitability × Audit Committee	0.002	0.198	0.844
R^2	0.214	F-statistic	1.676
Adjusted R^2	0.086	Prob. (F-statistic)	0.141

Furthermore, the results of the t-test on Model 2 show that earnings management has a positive and significant effect on tax aggressiveness, while financial distress has a negative and significant effect on tax aggressiveness. Meanwhile, profitability and the audit committee do not have a significant effect on tax aggressiveness. Regarding interaction terms, the audit committee was found to moderate the effect of earnings management on tax aggressiveness, as evidenced by a significant interaction effect. Additionally, the audit committee moderated the effect of financial distress on tax aggressiveness at the 10% significance level. Conversely, the interaction between profitability and the audit committee did not show a significant effect; thus, the audit committee was unable to moderate the relationship between profitability and tax aggressiveness. Consequently, the audit committee acts as a moderating variable only in the relationship between earnings management and financial distress on tax aggressiveness, but not in the relationship between profitability and tax aggressiveness.

3.5. Discussion

3.5.1. The Effect of Earnings Management on Tax Aggressiveness

The results of the study show that earnings management has a positive and significant effect on tax aggressiveness; thus, the more a company engages in earnings management practices, the greater its tendency to engage in tax aggressiveness. These findings indicate that management utilizes the flexibility in preparing financial statements as part of a strategy to optimize the company's interests, including in the management of tax liabilities. In coal mining companies, management has relatively broad discretion due to the industry's asset-intensive nature, complex operational activities, and the involvement of various accounting estimates—such as asset depreciation, reclamation provisions, asset impairment, and mine reserve estimates. These conditions provide management with opportunities to manage reported earnings while simultaneously influencing the amount of taxable income, so that earnings management practices tend to go hand in hand with increasing tax aggressiveness.

The findings of this study are consistent with Agency Theory, which explains that conflicts of interest between shareholders (principals) and management (agents) resulting from information asymmetry provide opportunities for management to act opportunistically. Under these conditions, management has the discretion to choose accounting policies that can influence the profit information presented to stakeholders. This flexibility is not only used to achieve financial performance targets but can also be leveraged as part of a tax strategy to reduce the company's tax burden. Thus, the results of this study reinforce the view that earnings management practices and tax aggressiveness are consequences of information asymmetry and divergent interests between management and company owners [20].

These findings are consistent with studies concluding that earnings management has a positive effect on tax aggressiveness. These studies explain that companies engaging in earnings management tend to utilize various accounting policies and tax strategies to minimize their tax burden. The consistency of these findings indicates that the relationship between earnings management and tax aggressiveness holds across various industrial sectors, including coal mining companies. Therefore, strengthening corporate governance through the optimization of audit committee functions, internal controls, and financial reporting transparency is crucial to curbing earnings management practices that could potentially fuel increased tax aggressiveness [4], [5], [6].

3.5.2. The Effect of Financial Distress on Tax Aggressiveness

The results of the study indicate that financial distress has a significant negative effect on tax aggressiveness. These findings suggest that the better a company's financial condition, the lower its tendency to engage in tax aggressiveness. Conversely, companies facing financial pressure are more likely to adopt more aggressive tax strategies in an effort to maintain cash flow and ensure operational sustainability. For coal mining companies, this situation is particularly relevant due to the industry's characteristics, which are heavily influenced by commodity price fluctuations, high operating costs, and regulatory changes that can affect the company's financial stability. When a company experiences financial pressure, management tends to seek various efficiency measures, including through tax burden management.

The findings of this study align with Agency Theory, which explains that conflicts of interest between shareholders (principals) and management (agents) intensify when a company is in poor financial condition. In such situations, management is required to maintain liquidity, sustain company performance, and meet shareholders' expectations regarding business continuity. Such pressures may drive management to make opportunistic decisions, including implementing more aggressive tax strategies to reduce cash outflows through tax burden efficiency. Thus, the results of this study reinforce the view that a company's financial condition is one of the factors influencing management's behavior in determining tax policies [20].

These findings are consistent with studies indicating that financial distress influences tax aggressiveness. These studies explain that companies experiencing financial pressure tend to utilize various tax-saving strategies to maintain liquidity and preserve the company's financial stability. The consistency of these results suggests that financial distress is a key determinant influencing tax aggressiveness across various industrial sectors, including coal mining companies. Therefore, companies need to strengthen their financial risk management and corporate governance to ensure that financial pressure does not drive management to adopt overly aggressive tax policies. Meanwhile, for tax authorities, financial distress can serve as an indicator in prioritizing the monitoring of taxpayers at high risk of engaging in tax aggressiveness [8], [9].

3.5.3. The Effect of Profitability on Tax Aggressiveness

The results of the study show that profitability does not affect tax aggressiveness. This finding indicates that a company's ability to generate profits—whether high or low—is not a determining factor in its tendency to engage in tax aggressiveness. For coal mining companies, profitability is more heavily influenced by external conditions, such as fluctuations in commodity prices, market demand, operational efficiency, and corporate investment policies. Therefore, changes in profitability are not directly followed by changes in the tax strategies implemented by the company. This suggests that a company's decision to engage in tax aggressiveness is more influenced by other factors—such as accounting policies, financial conditions, and corporate governance mechanisms—than by its level of profitability.

When viewed through the lens of Agency Theory, high profitability could theoretically encourage management to optimize after-tax profits through various tax management strategies as an effort to enhance shareholder welfare. Management, as the agent, has an interest in demonstrating good performance to the principal in order to gain trust, compensation, and incentives. However, the results of this study show that this relationship is not empirically supported. This suggests that a company's decision to engage in tax aggressiveness is influenced not only by its ability to generate profits but also by various other factors, such as regulatory oversight, compliance with tax regulations, the company's risk level, corporate governance, and management policies aimed at ensuring business sustainability. Thus, the results of this study do not fully support Agency Theory in explaining the relationship between profitability and tax aggressiveness [20].

These findings align with studies stating that profitability does not affect tax aggressiveness. These studies explain that companies with high profitability do not necessarily engage in tax aggressiveness because tax decisions are influenced by various other factors, such as capital structure, company size, corporate governance, the quality of oversight, and the tax policies implemented by each company. These consistent findings indicate that profitability is not the primary determinant of tax aggressiveness among companies listed on the Indonesia Stock Exchange, including coal mining companies. Therefore, an assessment of potential tax aggressiveness should not be based solely on a company's profitability level but should also consider other factors that better reflect management's behavior in determining tax policies [17], [18].

3.5.4. The Role of the Audit Committee in Moderating the Effect of Earnings Management on Tax Aggressiveness

The results of the study show that audit committees are able to mitigate the influence of earnings management on tax aggressiveness. These findings indicate that the presence of audit committees that effectively carry out their oversight functions can limit the use of earnings management practices as a means of engaging in tax aggressiveness. In coal mining companies, the complexity of transactions, the large value of assets, and the extensive use of accounting estimates provide management with considerable leeway to exercise professional judgment in preparing financial statements. Therefore, the oversight function performed by the audit committee serves as a crucial mechanism to ensure that accounting policies are applied reasonably and are not exploited to support aggressive tax strategies. Consequently, the more effectively the audit committee performs its duties, the smaller the likelihood that earnings management practices will escalate into aggressive tax planning.

This finding aligns with Agency Theory, which explains that conflicts of interest between principals and agents arise due to information asymmetry that enables management to act opportunistically. In such circumstances, the audit committee serves as a corporate governance mechanism tasked with enhancing the quality of oversight over financial reporting, the effectiveness of internal controls, regulatory compliance, and the quality of the audit process. Through this monitoring function, the audit committee can reduce the likelihood that management will exploit the flexibility of accounting policies to engage in earnings management that could potentially lead to tax aggressiveness. In other words, the existence of an audit committee not only improves the quality of financial statements but also strengthens a company's compliance with tax regulations [20].

The findings of this study are consistent with research indicating that the audit committee is an effective corporate governance mechanism for overseeing management actions and improving the quality of a company's internal controls. These studies explain that the oversight provided by audit committees can curb opportunistic management behavior, improve the transparency of financial reporting, and limit tax aggressiveness practices. The consistency of these findings strengthens the empirical evidence that audit committees not only serve as a complement to a company's governance structure but also as an oversight mechanism capable of reducing the negative impact of earnings management practices on tax aggressiveness. Therefore, companies need to continuously improve the quality of their audit committees by strengthening their independence, competence, and the effectiveness of their oversight functions so that the objectives of implementing good corporate governance can be achieved [21], [22].

3.5.5. The Role of the Audit Committee in Moderating the Impact of Financial Distress on Tax Aggressiveness

The results of the study show that the audit committee moderates the relationship between financial distress and tax aggressiveness; however, this moderating role actually strengthens the relationship. These findings suggest that when a company faces financial distress, the presence of an audit committee is not yet able to curb management's tendency to adopt more aggressive tax strategies. This situation indicates that the financial distress faced by the company is a more dominant factor than the effectiveness of the audit committee's oversight function. In other words, although the audit committee is an important part of corporate governance mechanisms, its existence does not necessarily reduce tax aggressiveness when a company is in financial distress. This suggests that the effectiveness of the audit committee is determined not only by its presence within the organizational structure but is also influenced by its competence, independence, the quality of its oversight, and its ability to provide effective recommendations to management.

These findings can be explained through Agency Theory, which states that conflicts of interest between principals and agents intensify when a company faces financial pressure. Under such conditions, management has a stronger incentive to maintain liquidity, ensure business continuity, and meet shareholder expectations, potentially leading them to make riskier decisions—including through tax aggressiveness strategies. Theoretically, the audit committee is expected to perform a monitoring function to curb such opportunistic behavior. However, the results of this study indicate that the oversight function of the audit committee has not been able to mitigate the impact of financial distress on tax aggressiveness. Thus, these findings do not fully support Agency Theory, particularly in explaining the effectiveness of the audit committee as a corporate governance mechanism when a company is under financial distress [20].

These findings align with research indicating that audit committees are unable to moderate the effect of financial distress on tax avoidance. That research explains that when a company experiences financial distress, management's attention is more focused on maintaining liquidity and ensuring business continuity, thereby rendering the oversight function of the audit committee less effective in curbing the company's tax policies. Furthermore, other studies also indicate that financial distress influences tax aggressiveness, as companies facing financial difficulties tend to employ various tax-saving strategies to reduce the company's tax burden and maintain their financial condition. The consistency of these findings suggests that financial distress is a more dominant factor in influencing a company's tax behavior compared to the effectiveness of the oversight mechanisms implemented by the audit committee. Therefore, companies need to strengthen the quality of their audit committees not only through structural aspects but also by enhancing members' competence, independence, the quality of monitoring functions, and follow-up on the recommendations generated so that corporate governance mechanisms can function more effectively in addressing financial distress [23], [24].

3.5.6. The Role of the Audit Committee in Moderating the Relationship Between Profitability and Tax Aggressiveness

The results of the study show that audit committees are unable to moderate the effect of profitability on tax aggressiveness. These findings indicate that the effectiveness of the audit committee's oversight function is not influenced by the company's level of profitability; thus, the committee's existence has not been able to alter the relationship between a company's ability to generate profits and its decisions regarding tax aggressiveness. In coal mining companies, profitability levels are largely influenced by operational factors and external conditions, such as commodity price fluctuations, production costs, government policies, and market demand dynamics. Therefore, changes in profitability are not directly related to the audit committee's effectiveness in overseeing the company's tax policies. Furthermore, the effectiveness of the audit committee is determined not only by the frequency of meetings but also by the competence, independence, and experience of its members, as well as the quality of the oversight functions performed.

In the context of Agency Theory, the audit committee serves as a corporate governance mechanism designed to reduce conflicts of interest between principals and agents by enhancing oversight of financial reporting, internal control systems, and the company's compliance with regulations. Theoretically, this mechanism is expected to curb opportunistic behavior by management, including in decision-making related to taxation. However, the results of this study indicate that the existence of an audit committee has not been able to either strengthen or weaken the relationship between profitability and tax aggressiveness. This indicates that a company's profit level is not a determining factor in the effectiveness of the audit committee's oversight function in controlling tax policies. Thus, the results of this study do not fully support Agency Theory in explaining the role of the audit committee as a corporate governance mechanism capable of moderating the relationship between profitability and tax aggressiveness [20]

These findings align with studies stating that the audit committee's influence on tax avoidance is insignificant because a company's tax decisions are more heavily influenced by management policies, the company's conditions, and various external factors than by the audit committee's oversight function. Other studies also indicate that corporate governance mechanisms are not always effective in moderating the relationship between financial variables and tax avoidance. Furthermore, previous research has found that profitability does not have a significant effect on tax aggressiveness; thus, a company's decision to engage in tax aggressiveness is not solely determined by its level of profitability but is also influenced by other factors, such as leverage, firm size, ownership structure, corporate governance quality, management strategy, operational complexity, and changes in tax regulations. These findings reinforce the evidence that audit committees have not been able to effectively perform a moderating function in the relationship between profitability and tax aggressiveness [18], [25], [26].

4. Conclusion

Based on the research findings, it can be concluded that earnings management has a positive and significant effect on tax aggressiveness, while financial distress has a negative and significant effect on tax aggressiveness. Meanwhile, profitability does not have a significant effect on tax aggressiveness. In the moderation analysis, the audit committee was able to moderate the effect of earnings management on tax aggressiveness by weakening the relationship, indicating that effective oversight mechanisms can reduce management's opportunistic behavior in tax-related decisions. However, the audit committee strengthened the relationship between financial distress and tax aggressiveness, suggesting that financial pressures faced by companies are more dominant than the effectiveness of the audit committee's monitoring function. Furthermore, the audit committee was unable to moderate the effect of profitability on tax aggressiveness, implying that a company's level of profitability does not determine the effectiveness of the audit committee in controlling tax policies. These findings highlight the importance of strengthening corporate governance practices, particularly by enhancing the quality of the audit committee through greater competence, independence, and more effective oversight of financial reporting and tax compliance, rather than relying solely on meeting frequency. For investors and regulators, the results provide valuable insights for assessing the risk of corporate tax aggressiveness by considering earnings management practices, financial conditions, and the quality of corporate governance simultaneously. Future research is recommended to extend the observation period, include broader industrial sectors, employ alternative measures of tax aggressiveness and corporate governance, and incorporate additional variables such as leverage, firm size, ownership structure, audit quality, and capital intensity to provide a more comprehensive understanding of the determinants of corporate tax aggressiveness.

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