Tax Aggressiveness in Energy Sector Companies: Does Institutional Ownership Influence Earnings Management and Liquidity?

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ABSTRACT
This research aims to examine the effects of earnings management and liquidity on tax aggressiveness, with institutional ownership as a moderating variable. The study focuses on energy sector companies, where tax aggressiveness remains particularly relevant due to the sector's substantial economic contribution and exposure to tax-planning practices. This research uses secondary data, with a population consisting of all energy sector companies listed on the Indonesia Stock Exchange from 2020 to 2024. The research sample was selected using purposive sampling, resulting in 24 energy sector companies and 120 firm-year observations. This research employs a quantitative approach and moderated multiple regression analysis to test the proposed relationships. The results show that earnings management has a positive and significant effect on tax aggressiveness, indicating that higher levels of earnings management are associated with more aggressive tax practices. Furthermore, liquidity, measured using the current ratio, has a positive and significant effect on tax aggressiveness, suggesting that greater financial flexibility may facilitate aggressive tax-planning strategies. Institutional ownership weakens the relationship between earnings management and tax aggressiveness, indicating its effective monitoring role in constraining opportunistic managerial behavior. However, institutional ownership does not weaken the relationship between liquidity and tax aggressiveness. These findings contribute to the tax aggressiveness literature by demonstrating that institutional monitoring effectiveness depends on the underlying managerial and financial conditions associated with aggressive tax decisions.

1. Introduction

The level of taxpayer compliance in Indonesia over the past five years (2019-2023) shows a significant upward trend. Despite year-to-year fluctuations, taxpayer compliance in Indonesia generally improved during the 2019–2023 period, indicating progress in taxpayers' fulfillment of their formal tax obligations (Eka Krisna Putri & Kurniawan, 2023; Marlina & Kuntadi, 2023). Although tax revenues have shown a significant increase, the tax ratio for the 2024 period in Indonesia remains relatively low, at around 10.08%. The higher the tax ratio, the greater the role of taxes in a country's economy. This indicates that optimizing tax revenue remains a major challenge for the Indonesian government (Nugrahani & Mahi, 2022).

Table 1. Tax Revenue in Indonesia for the 2019-2023 Period

Year	Tax Revenue (In Triliun Rupiah)	Growth
2019	1.332,10	1,5%
2020	1.070,00	-19,6%
2021	1.278,60	19,3%
2022	1.716,80	34,3%
2023	1.869,23	8,9%

Source: Ministry of Finance

The Indonesian government still faces various obstacles in improving or optimizing tax revenue performance. One of the main obstacles is companies exploiting regulatory gap to minimize their tax obligations. On the other hand, companies view taxes as an expense that can reduce revenue or net profit (Djolafo, 2022; Rachman & Putri, 2025). Therefore, companies seek to minimize tax payments through aggressive tax planning activities. The phenomenon of tax aggressiveness in Indonesia causing significant losses to the state. A 2023 report by the Tax Justice Network indicates that Indonesia suffered losses from tax evasion of US$2,736.5 million, equivalent to Rp 44 trillion. Furthermore, the flight of assets abroad also caused state losses of US$69.8 million, equivalent to IDR 1 trillion. This indicates that Indonesia's tax system remains relatively weak, allowing companies to exploit regulatory weaknesses to minimize their tax obligations. The mining sector is particularly susceptible to tax aggressiveness and tax avoidance because of its high profitability, capital intensity, complex financing structures, and opportunities for tax planning (Faradisa & Fahlevi, 2022). A notable case of tax aggressiveness in the mining sector was PT Adaro Energy Tbk. This tax aggressive practice by PT Adaro Energy Tbk was indicated to have occurred from 2009 to 2017, shifting profits to its subsidiary, Coaltrade Service Internasional, in Singapore. PT Adaro Energy Tbk did this to reduce the taxes it owed to the Indonesian government. This practice resulted in lower taxable income in Indonesia than it should have been.

Earnings management may serve as a mechanism associated with aggressive tax planning, as managers can exercise discretion over financial reporting to achieve specific objectives, including reducing taxable income or tax expense. Tax-related incentives may motivate managers to decrease reported earnings when doing so lowers the firm’s tax burden (Serdarević & Muratović-Dedić, 2020). From an agency theory perspective, the separation of ownership and control creates information asymmetry and provides managers with opportunities to pursue private interests through discretionary financial reporting and tax-related decisions. Such information asymmetry can facilitate both earnings management and aggressive tax reporting, particularly when managers are motivated by compensation, career concerns, or other private benefits (Salehi et al., 2024). At the same time, shareholders may benefit from lower corporate tax liabilities because tax savings can increase after-tax cash flows and distributable profits. These potentially divergent interests create an agency problem in which tax avoidance and earnings management may operate as complementary managerial strategies (Abubakar et al., 2021; Chung et al., 2019).

Furthermore, liquidity is a contributing factor to tax aggressiveness. Companies with good liquidity will have the financial flexibility to utilize or develop aggressive tax plans (Astrina et al., 2024). For example, they can exploit gap in weak tax regulations to minimize the tax expense. This problem is reinforced by agency theory, which explains the conflict of interest between agents (management) and principals (shareholders). Agency theory suggests that conflicts may arise because shareholders and managers have different economic incentives. Shareholders generally benefit from higher after-tax returns, which may create incentives for firms to minimize tax payments, whereas managers exercise considerable discretion over corporate financial decisions and may pursue tax strategies that also serve their private interests. Tax avoidance can therefore reflect agency conflicts when managers exploit information asymmetry or organizational complexity for personal benefits (Armstrong et al., 2015). Managerial incentives are also associated with corporate tax avoidance, as stronger equity-based incentives may encourage executives to pursue more aggressive tax strategies (Rego & Wilson, 2012; Wenwu et al., 2023). In this context, greater liquidity may provide managers with greater financial flexibility; however, whether this translates into higher tax aggressiveness is an empirical question rather than a universally established relationship.

Institutional ownership, as a corporate governance mechanism, plays a significant role in influencing tax aggressiveness. Institutional ownership refers to share ownership by institutions such as investment companies, pension funds, insurance companies, or banks that exert significant influence over management policies. These shareholders generally have a long-term orientation and tend to be more active in overseeing company policies, including tax strategies and earnings management. Based on agency theory, institutional ownership can mitigate conflicts of interest between managers (agents) and shareholders (principals) by improving oversight and governance.

Agency Theory

Agency theory explains the relationship between principals (owners or shareholders) and agents (management) in a company. Principals have the power to delegate authority to agents to manage and make decisions related to the company (Gailmard & Patty, 2019). Principals aim to increase their welfare through dividend payments or increased stock prices, while agents seek to achieve welfare through higher salaries. Conflicts of interest arise because it is difficult for principals to track the activities of agents who have a better understanding of the work environment and company conditions. This leads to information asymmetry, which causes managers to act according to specific motives (Kim et al., 2019).

Earnings Management and Tax Aggressiveness

Earnings management is a strategy used by managers to manipulate financial statements for specific purposes, including reducing tax expense (Chen et al., 2025). In practice, when a company reports high profits, its tax liability also increases. Therefore, managers have an incentive to engage in earnings management to suppress taxable profits, thereby lowering taxes paid. While this strategy may benefit the company in the short term, it carries the risk of causing financial statements to misrepresent actual conditions, which can impact the reliability of financial information and investor confidence. Based on type 1 agency theory, a conflict of interest between managers (agents) and shareholders (principals) underlies earnings management practices. Shareholders desire high profits and low taxes to maximize their returns. On the other hand, managers have personal interests, such as bonuses and performance incentives, that encourage them to manipulate earnings to maintain a positive appearance without increasing the company's tax expense. Empirical evidence further shows that earnings management is positively associated with tax aggressiveness, suggesting that firms engaging more intensively in earnings management may also adopt more aggressive tax-planning strategies (Huang et al., 2018). Based on this explanation, the researchers formulated the following hypothesis:

H1: Earnings Management Has a Positive and Significant Effect on Tax Aggressiveness

Liquidity and Tax Aggressiveness

High liquidity indicates that a company has sufficient cash or current assets to meet short-term liabilities. This allows the company to have financial flexibility that can be utilized to implement aggressive tax planning strategies (Pratama & Rizky, 2024). Under these conditions, management has the opportunity to allocate funds through tax avoidance strategies to reduce the company's tax expense (Habib et al., 2024). Based on type 1 agency theory, a conflict of interest arises between the agent (management) and the principal (shareholders) due to differing interests. Shareholders desire high profits with low corporate taxes to increase their returns. Furthermore, management, as an agent, has control over the company's finances for activities that benefit their personal interests. The higher a company's liquidity, the greater the opportunity for management to engage in tax aggressiveness to reduce the company's tax expense and increase net income, which impacts management incentives. Several empirical studies have reported a positive association between liquidity and tax aggressiveness, suggesting that firms with higher liquidity may be more inclined to undertake aggressive tax-planning strategies to minimize their tax burden (Purwantoro et al., 2024). Based on this explanation, the researchers formulated the following hypothesis:

H2: Liquidity Has a Positive and Significant Effect on Tax Aggressiveness

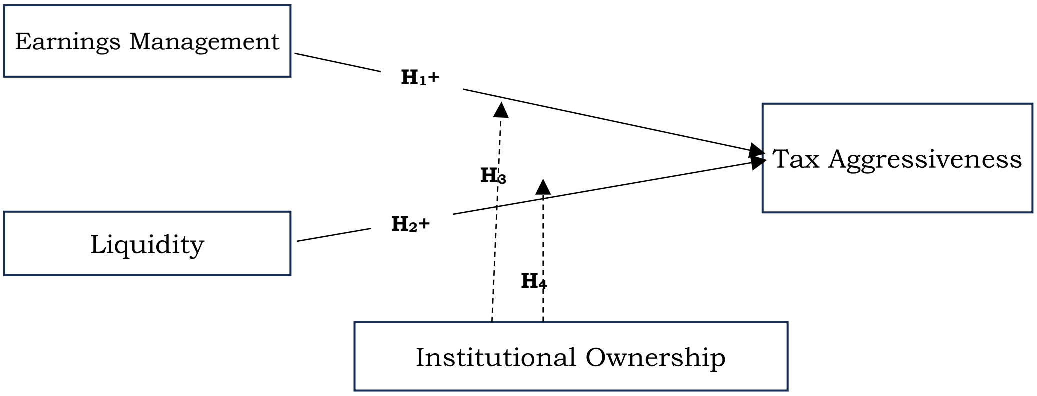

Figure 1: Conceptual Framework

Institutional Ownership and Tax Aggressiveness
Institutional ownership refers to share ownership by institutions such as investment companies, pension funds, insurance companies, or banks, which exert significant influence over management policies. These institutions generally have a long-term orientation and tend to be more active in overseeing company policies, including tax strategies and earnings management. Based on agency theory, institutional ownership can mitigate conflicts of interest between managers (agents) and shareholders (principals) by improving oversight and corporate governance (GCG). The greater the institutional ownership in a company, the tighter the oversight of management, thereby reducing the tendency for management to engage in tax aggressiveness and earnings management (Darsani & Sukartha, 2021). High levels of oversight by institutional ownership, especially when they control a majority of shares, can reduce management's opportunities to legally or illegally reduce tax expense (Tian et al., 2025). This oversight is intended to ensure that management does not use excessive tax aggressiveness to maintain the company's earnings performance. Therefore, institutional ownership acts as a moderating variable that can weaken the relationship between liquidity and tax aggressiveness, as well as the relationship between earnings management and tax aggressiveness. With tighter oversight from institutional ownership, companies tend to be more cautious in using excess liquidity and employ earnings management strategies to avoid legal risks and maintain corporate reputation. Based on this explanation, the researchers formulate the following hypothesis:

H3a: Institutional ownership weakens the relationship between earnings management and tax aggressiveness
H3b: Institutional ownership weakens the relationship between liquidity and tax aggressiveness

2. Methods

This research used data obtained from the financial statement of energy sector companies listed on the IDX for the period 2020-2024. The data source of this study uses secondary data, which is accessed through www.idx.co.id and analyzed with a moderation regression analysis model. Data collection techniques were carried out by the method of documentation. Data was collected by accessing the company's financial statements for the 2020-2024 period published on the IDX through www.idx.co.id. The population in this study is all energy sector companies listed on the IDX for the 2020-2024, which is 87 companies. The research sample was selected using purposive sampling, the sample is determined by certain criteria, namely:

1. Energy sector companies listed on the IDX for the period 2020-2024
2. Aaccessible annual financial statements for the observation period
3. Companies reporting institutional ownership data
4. Companies presenting financial statements in Indonesian rupiah

Operational Definition and Variable Measurement

1. Dependent Variables

The dependent variable is the variable that is influenced by the independent variable. The dependent variable in this research is tax aggressiveness, which is the main concern. Tax aggressiveness is the action of a company because it considers taxes as a burden that can reduce its income, thus forcing the company to try to minimize its tax burden. The tax aggressiveness was measured by the effective tax rate (ETR). Formula ETR as follows:

ETR= (Income Tax Expense)/(Earnings Before Tax) x 100%

2. Independent Variables

An independent variable is a variable that influences the dependent variable in a certain way (positively or negatively). The independent variables used in this study are earnings management and liquidity.

a. Earnings Management

Earnings management is the action taken by management in preparing financial reports by regulating the amount of profit to achieve certain goals, such as reducing the income tax expense. Earnings management is measured using the Kothari (2005) model with a discretionary accrual approach and taking into account company performance, namely Return on Assets (ROA), which is the ratio of profit to total assets. Formula earnings management as follows:

- Calculate the accrual amount using the cash flow approach.

Total Accrual :Net Income – Cash Flow from Operating Activities

- Calculate the coefficient from the accrual regression

$$\left(\frac{TA_{ti}}{A_{it-1}}\right) = a\left(\frac{1}{A_{t-1}}\right) + \beta_1\left(\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}}\right) + \beta_2\left(\frac{PPE_{it}}{A_{it-1}}\right) + \beta_3\left(\frac{ROA_{it}}{A_{it-1}}\right) + e$$

Information:

TA_t	:Total accruals of company i in period t
At-$_1$	:Total assets of company i at the end of year t-1
ΔREV_t	:Change in company i's revenue from year t-1 to year t
ΔREC_t	:Change in company i's receivable from year t-1 to year t
PPE_t	:Fixed assets (gross property plant and equipment of the company in period t
ROA_{t-1}	:Return on Assets of company i at the end of year t-1

- Determining Non-discretionary accruals

$$NDACC_{it} = a\left(\frac{1}{A_{t-1}}\right) + \beta_1\left(\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}}\right) + \beta_2\left(\frac{PPE_{it}}{A_{it-1}}\right) + \beta_3\left(\frac{ROA_{it}}{A_{it-1}}\right) + e$$

Information:

$NDACC_t$	:non-discretionary accruals of company i in period t
α	:fitted coefficient obtained from the regression results on the calculation of total accruals

- Determining Non-discretionary accruals

$$DACC_{it} = \left(\frac{TA_{IT}}{A_{It-1}}\right) - NDACC_{it}$$

Information:

$DACC_t$	:discretionary accruals of company i in period t

b. Liquidity

Liquidity is the ability of a company to meet its current liabilities using its current assets. Liquidity is measured using the current ratio (cr). The current ratio can be determined by comparing a company's total current assets to its total current liabilities. In this case, the current ratio indicates the extent to which current assets can cover the company's short-term liabilities. Formula CR as follows:

CR= (Current Assets)/(Current Liabilities) x 100%

3. Moderation Variables

A moderating variable is a variable that has a contingent influence on the relationship between the independent variable and the dependent variable. The presence of a moderating variable alters the original relationship between the independent and dependent variables (Bougie and Sekaran, 2020; 88). In this study, institutional ownership is a moderating variable that plays a crucial role in minimizing conflict between agents and principals. Institutional ownership is measured by looking at the percentage of company shares owned by institutions such as insurance companies, banks, investment companies, to the total shares outstanding. Formula IO as follows:

IO= (Proportion of shares owned by the institution)/(Outsanding shares) x 100%

Data Analysis Techniques

In this study, the data analysis technique used was Moderation Regression Analysis. In testing and explaining whether independent variables affect dependent variables with moderation variables, you can use the regression equation formulated as follows.

$$Y = \alpha + \beta_1 XI + \beta_2 X2 + \beta_3 X3 + \beta_4 X1.X3 + \beta_5 X2.X3 + e$$

Information:

Y : Effective Tax Rate
α : Constant
β_1-β_3 : Regression Coeffecient
X1 : Earnings Management
X2 : Liquidity
X3 : Institutional Ownership

3. Result

Descriptive Statistical Analysis

The results of the descriptive analysis in Table 2 presents the variable earnings management has a mean value of 0,85 and a standard deviation of 4,73, Liquidity has a mean value of 1,49 and standard deviation1,86, tax Aggressiveness has a mean value 0,16 and standard deviation 0,32; institutional ownership has a mean value of 0,55 and standard deviation 0,26. Overall, the descriptive statistics indicate heterogeneous characteristics among the 120 firm-year observations, particularly in terms of earnings management, liquidity, and tax aggressiveness.

Table 2. Descriptive Statistics

Variable	Mean	Std Deviation
Earnings Management	0,85	4,73
Liquidity	1,49	1,86
Tax aggressiveness	0,16	0,32
Institutional Ownership	0,55	0,26
N = 120		

Source: SPSS Output

Coefficient of Determination (R^2)

The adjusted R^2 value of 0,51 indicates that 51% of the variation in tax aggressiveness explained by the independent variables, earnings management and liquidity. This implies that these two factors significantly account for changes in tax aggressiveness. Meanwhile, the remaining 49% of the variation is attributed to other factors not included in this study. The result of the R^2 test were presented in Table 3.

Table 3. Coefficient of Determination Test Results (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	0,720[a]	0,518	0,501	0,229579679467955

Source: SPSS Output

Simultaneous Significance Test (F-Test)

Table 4 presents the F-test results. It indicates that the significance value (Sig.) is less than 0.001, which is smaller than the alpha level of 0.05. This shows that the independent variables (earnings management and liquidity) simultaneously have a significant effect on tax aggressiveness. Thus, the regression model used in this study is considered fit, meaning that the model can explain the relationship between the independent variables and the dependent variable effectively.

Table 4. Simultaneous Significance Test Results (F Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	6,520	4	1,630	30,926	0.001[b]
Residual	6,061	115	0.053		
Total	12,581	119			

Source: SPSS Output

Partial Significance Test (t-Test)

Table 5. Partial Significance Test (t-Test)

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	0,019	0,029		0,657	0,512
Earnings Management (X^1)	0,035	0,026	0,508	7,468	0,001
Liquidity (X^2)	0,072	0,035	0,414	6,087	0,001
Earnings Management*IO(Z^1)	-0,066	0,033	-0,748	-2,011	0,047
Liquidity*IO (Z^2)	0,137	0,048	0,578	2,873	0,005

Source: SPSS Output

The earnings management variable proxied by discretionary accruals obtained a t-value of 7.468 with a significance level of 0.001. The t-value ≥ t-table (7.468 ≥ 1.658) and the significance level of 0.001 ≤ 0.05 indicate that the earnings management variable influences tax aggressiveness. A positive (+) value on the regression coefficient indicates a positive or unidirectional relationship. Based on this, it can be concluded that earnings management has a positive effect on tax aggressiveness. The first hypothesis in this study is proven true, **H1 is accepted**.

The Liquidity variable obtained a t-value of 6.087 with a significance level of 0.001. The t-value ≥ t-table (6.087 ≥ 1.658) and the significance level of 0.001 ≤ 0.05 indicate that the liquidity variable influences tax aggressiveness. A positive (+) value on the regression coefficient indicates a positive or unidirectional relationship. Based on this, it can be concluded that liquidity has a positive effect on tax aggressiveness. The second hypothesis in this study is proven true, **H2 is accepted**.

The institutional ownership variable that moderates the effect of earnings management on tax aggressiveness obtained a t-value of 2.011 with a significance level of 0.001. The t-value ≥ t-table (2.011 ≥ 1.658) and a significance level of 0.001 ≤ 0.047 indicate that the interaction between institutional ownership and earnings management affects tax aggressiveness. A negative (-) value on the coefficient of the interaction between earnings management and institutional ownership is in the opposite direction. Thus, the interaction between institutional ownership and earnings management will weaken the effect of earnings management on tax aggressiveness. Based on this, the third hypothesis in this study is proven true, **H3 is accepted**.

The institutional ownership variable that moderates the effect of liquidity on tax aggressiveness obtained a t-value of 2.873 with a significance level of 0.005. The t-value ≥ t-table (2.873 ≥ 1.658) and the significance level is 0.001 ≤ 0.047. A positive (+) value on the interaction coefficient of liquidity with institutional ownership is in the same direction. Thus, the interaction of institutional ownership with liquidity does not correspond to the hypothesis that weakens the effect of liquidity on tax aggressiveness. Based on this, the fourth hypothesis in this study is not proven true, **H4 is rejected**.

4. Discussion

4.1 The Effect of Earnings Management on Tax Aggressiveness

This study obtained empirical evidence that the first hypothesis was accepted. This indicates that the higher the level of earnings management practices in a company, the more likely it is that managers engage in tax-aggressive practices (Susanto et al., 2019). Earnings management is a strategy to reduce a company's tax expense by adjusting reported earnings. In this case, managers attempt to show high and profitable profits without increasing the tax expense. The results of this study support agency theory, which explains the conflict of interest between managers (agents) and shareholders (principals). Shareholders desire high profits and low taxes so they receive larger dividends. On the other hand, managers have a personal interest in obtaining bonuses and performance incentives from stable earnings performance without increasing the company's tax expense. This information asymmetry gives managers greater control over financial reporting than the company's owners. As a result, managers can exploit gaps in accounting and tax regulations to engage in tax-aggressive practices, such as delaying revenue recognition or accelerating expense recording to lower taxable profits.

These results support previous research by Chen (Chen et al., 2025) on the effect of earnings management on tax aggressiveness. Companies that engage in earnings management with the aim of reducing their tax burden become increasingly tax-aggressive. This is in line with research conducted by Susanto (2019) which explains that companies with high earnings management tend to be aggressive in taxation.

4.2 The Effect of Liquidity on Tax Aggressiveness

This study obtained empirical evidence that the second hypothesis test was accepted. Liquidity, as proxied by the current ratio, indicates a company's ability to pay its short-term liabilities payable. The higher a company's short-term liabilities, the higher the indication that a company will engage in tax aggressiveness. In this case, managers have the opportunity to allocate funds through tax avoidance strategies to reduce the company's tax expense (Kusumawati et al., 2024; Pratama & Rizky, 2024). Based on agency theory, managers, as agents, have control over the company's finances for activities that benefit them personally. Furthermore, shareholders as principals, expect the company to generate profits with a low tax expense to maximize returns. Differing interests and information asymmetry create opportunities for managers to exploit the company's favorable liquidity conditions to determine tax aggressive strategies (Astrina et al., 2024). Thus, the results of this study align with agency theory, which emphasizes self-interest.

These results support the research of Khasanah et al. (2022) who found that companies with high liquidity ratios tend to be tax aggressive to reduce the tax expense imposed on their profits. This is in line with research by Walah (2023), which explains that companies with high liquidity tend to avoid or delay tax payments. This is achieved by shifting profits to countries with lower taxes or manipulating the timing of tax payments. Therefore, liquidity is a key factor in determining how aggressive a company is in minimizing its tax liabilities.

4.3 Institutional Ownership Moderates the Effect of Earnings Management on Tax Aggressiveness

This study obtained empirical evidence that the third hypothesis was accepted. Institutional ownership is a mechanism for ownership of shares in a company by an institution or agency such as an investment company, pension fund, insurance company, or bank, that has a large influence on management policy. Institutional ownership encourages increased transparency and accountability, reducing agency problems. The higher the proportion of institutional ownership, the tighter the oversight of management, thus reducing the tendency of managers to engage in earnings management strategies and weakening tax aggressiveness (Darsani & Sukartha, 2021). Agency theory explains the conflict of interest between managers as agents and shareholders as principals. The agency relationship between managers and shareholders regarding tax aggressiveness in companies has different levels. Shareholders desire profits with a low tax expense to maximize returns. In this case, institutional ownership can mitigate the conflict of interest between managers and shareholders by increasing oversight. Institutional ownership, as the primary owner of a company, ensures that company policies align with the company's long-term goals.

The results of this study align with previous research by Ramalingegowda (2021), which explains that high levels of oversight by institutional ownership can reduce managers' earnings management practices to lower tax expense. This oversight ensures that management does not employ excessive tax aggressiveness to maintain the company's earnings performance. Giordino et al. (2026) explain that institutional ownership tends to comply with established regulations because institutional ownership concerned about the long-term impact on the company.

4.4 Institutional Ownership Does Not Moderate the Effect of Liquidity on Tax Aggressiveness

The results of the study on the moderating role of institutional ownership in the influence of liquidity on tax aggressiveness indicate no moderating effect for institutional ownership. This finding contradicts the researcher's initial prediction that institutional ownership would weaken the effect of liquidity on tax aggressiveness. This is related to institutional shareholders' suboptimal performance in monitoring the company. Consequently, company management acts in their own interests for profit and is free to engage in tax aggressiveness (Sembiring & Fransiska, 2021). These results indicate that the oversight mechanism by institutional shareholders, as envisioned in agency theory, is ineffective, resulting in persistent conflicts of interest between managers and shareholders. Management behaves opportunistically, motivated by increasing profits to earn higher commissions. Management seeks to maximize net income by reducing company costs, including tax-related expenses. However, it should be noted that the presence of institutional shareholders does not automatically guarantee increased overall effective oversight.

5. Conclusion

This study examines the effects of earnings management and liquidity on tax aggressiveness and the moderating role of institutional ownership among energy sector companies listed on the Indonesia Stock Exchange during 2020–2024. The findings demonstrate that earnings management and liquidity positively affect tax aggressiveness. Higher earnings management is associated with more aggressive tax behavior, suggesting that managerial discretion over financial reporting may also extend to tax-related decisions. Similarly, greater liquidity is associated with higher tax aggressiveness, indicating that financial flexibility may provide firms with greater opportunities to implement aggressive tax-planning strategies. Furthermore, the findings reveal an asymmetric monitoring role of institutional ownership. Institutional ownership weakens the relationship between earnings management and tax aggressiveness but does not weaken the relationship between liquidity and tax aggressiveness. This distinction extends agency theory by demonstrating that institutional ownership does not uniformly constrain tax-aggressive behavior. Its monitoring effectiveness depends on the underlying mechanism through which tax aggressiveness arises. Institutional investors appear more effective in constraining reporting-related managerial discretion than tax strategies associated with firms' liquidity and financial resource allocation.

These findings have practical implications for corporate governance and tax oversight. Institutional investors should move beyond ownership-based monitoring and strengthen their scrutiny of financial reporting discretion and corporate tax strategies. Tax authorities may also consider earnings management and liquidity conditions as complementary risk indicators when identifying firms requiring closer examination, rather than treating them as direct evidence of inappropriate tax behavior. This study is limited to Indonesian listed energy companies and measures tax aggressiveness primarily through the effective tax rate. Future research should examine other industries and institutional settings, employ alternative measures such as cash effective tax rates and book-tax differences, and investigate whether institutional investor characteristics, ownership concentration, board independence, and audit quality strengthen the governance of corporate tax behavior.

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