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Tax Avoidance in Indonesian Infrastructure Companies: Roles of CEO Narcissism, Related Party Transactions, and Audit Quality

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Abstract

Taxation serves as one of the most crucial sources of state revenue for financing various development programs and public services. This study examines the effect of CEO narcissism, related party transactions, and audit quality on tax avoidance. The sample consists of 34 infrastructure companies listed on the Indonesia Stock Exchange (IDX) during the 2018–2023 period. The analysis uses panel data regression with a Fixed Effect model, selected based on Hausman and Chow test results. Findings show that CEO narcissism and related party transactions have a significant positive effect on tax avoidance, while audit quality has a significant negative effect. This study expands existing literature by integrating behavioral, transactional, and governance dimensions into a unified framework for analyzing tax avoidance. It is among the few studies applying a visual-based proxy CEO photo prominence to measure narcissism in the Indonesian context. A noteworthy context of this study is the regulatory exemption from the 4:1 debt-to-equity ratio limit granted to infrastructure firms in Indonesia, allowing them greater flexibility in financing through related party loans. While supporting development goals, this exemption also raises the risk of tax avoidance. By highlighting how personality traits, intra-group financing, and auditor oversight interact, this study offers insights for improving corporate governance and tax policy, particularly in strategic sectors like infrastructure.

Keywords

Audit Quality, CEO Narcissism, Infrastructure Companies, Related Party Transactions, Tax Avoidance.

1. Introduction

Taxation serves as one of the most crucial sources of state revenue for financing various development programs and public services. To support national development, a substantial amount of funding is required through the State Budget (*Anggaran Pendapatan dan Belanja Negara/APBN*), which is sourced from state revenues, grants, and financing receipts. The performance of state revenue is essential to ensure that government programs can effectively stimulate economic growth, drive infrastructure development, and enhance the quality of human resources (Ariyanto, 2020). According to data from Statistics Indonesia, tax revenue constitutes the most significant portion of state income, contributing more than 75% of the state's annual revenue. This suggests that taxation remains the government's primary means of mobilizing state revenue.

According to data from the Organization for Economic Co-operation and Development (OECD), Indonesia records the lowest tax-to-GDP ratio within ASEAN countries, trailing behind Malaysia, Singapore, and Thailand (OECD, 2023). The Indonesian government has undertaken several initiatives to raise this tax ratio, focusing mainly on enhancing tax collection efforts and implementing administrative reforms.

Taxpayer compliance plays a crucial role in Indonesia's tax system, which operates under the principle of self-assessment. This approach places full responsibility on taxpayers to independently calculate, pay, and report their tax liabilities. In contrast, the tax authorities are responsible for providing guidance and overseeing compliance in line with existing tax regulations (Ariyanto, 2020). Nevertheless, the self-assessment system also presents opportunities for taxpayers to potentially exploit gaps in the system and evade their tax responsibilities. However, tax revenue is the central pillar of state income, a persistent phenomenon of tax avoidance persists, particularly among corporations, which aim to reduce their tax burden by exploiting legal loopholes or manipulating financial statements.

Tax avoidance refers to a deliberate set of tax planning actions intended to lower the tax liabilities on a company's pre-tax earnings, thereby improving short-term cash flow and reducing the overall tax burden (García-Meca et al., 2021). The primary motive behind tax aggressiveness is to achieve tax savings that can be redirected toward business expansion (Flamini et al., 2021). Firms are incentivized to maximize profits by reducing corporate tax payments, as taxes represent a significant component of cash outflows (Park, 2018). A company is likely to engage in more aggressive tax practices when it actively seeks to minimize the calculation and payment of tax liabilities on its operations (Martinez & Hartmann, 2020). Multinational companies shift approximately US\$1.38 trillion in profits to tax havens annually, resulting in global governments losing an estimated US\$245 billion in direct tax revenue each year.

Infrastructure development is one of the activities that requires substantial government funding. Tax revenue serves as the primary source of state income used to finance infrastructure projects. A decline in tax revenue may hinder the government's ability to allocate sufficient budgets for infrastructure development. The widespread and massive infrastructure initiatives across Indonesia have been initiated to ensure the availability of essential facilities, aiming to propel the country toward becoming a developed nation. This strategy is also intended to help Indonesia escape the 'middle-income trap' and advance beyond its status as a developing country (Kemsetneg, 2019)

Although tax revenues are essentially fund infrastructure development, some infrastructure companies engage in tax avoidance. A notable case of corporate tax avoidance in Indonesia involved PT Waskita Karya (Persero) Tbk, an infrastructure company that engaged in aggressive tax planning in 2018 by excessively leveraging

debt financing. The high level of debt led to substantial interest expenses, which effectively reduced the company's taxable income. According to Riani et al. (2025), PT Waskita Karya Tbk (WSKT) faced several financial management challenges, including tax avoidance practices, capital structure inefficiencies, and liquidity issues, all of which affected its corporate value.

CEO narcissism is one of the key factors influencing tax avoidance. The personality traits of a CEO can significantly impact a company's tax planning, with narcissistic leaders often taking a more aggressive stance in tax-related decisions (Kalbuana et al., 2023). In a study conducted by Souguir et al. (2023) in France, firms headed by overconfident CEOs were found to engage more frequently in aggressive tax avoidance. Another significant factor is related party transactions. Park (2018) found that companies within South Korea's chaebol groups often utilize intra-group transactions more aggressively to reduce their tax obligations. Furthermore, audit quality also affects tax avoidance behavior. Research by Marzuki and Syukur (2021) indicated that higher audit fees, which reflect better audit quality, are associated with lower levels of tax aggressiveness, suggesting a negative correlation between audit quality and tax avoidance.

The primary objective of this study is to examine the impact of CEO narcissism, related-party transactions, and audit quality on corporate tax avoidance in the Indonesian infrastructure sector. This research aims to investigate how these internal organizational characteristics and governance factors contribute to companies' tendencies to reduce their tax obligations through legal yet aggressive strategies. Thus, the study not only seeks to assess the individual influence of each variable on tax avoidance, but also to explore their combined impact within the context of a strategic sector that plays a vital role in national development.

2. Literature Review and Hypothesis Development

2.1. Agency Theory and Tax Avoidance

Modern agency theory mainly originates from the seminal contributions of Mitnick and Ross, who integrated insights from both political science and economics. In the field of management, the concepts of agency theory were expanded and refined by Jensen and Meckling (1976) and Eisenhardt (1989). An agency relationship involves a principal delegating tasks or responsibilities to an agent. Agency theory focuses on identifying contractual arrangements that can maximize the effectiveness of the relationship between the principal and the agent (Freud, 1914; Delbufalo, 2018).

Building on agency theory, tax avoidance is recognized as a significant behavioral outcome, particularly in situations where agency conflicts arise, as management prioritizes its interests over those of shareholders. Tax avoidance involves legally minimizing tax obligations by effectively using tax rules, such as allowable exemptions and deductions, and exploiting gaps or ambiguities in existing tax legislation (Tarmidi et al., 2020; Susanto et al., 2023). Stiglitz (1986) identifies three key principles of tax avoidance: deferring tax payments, engaging in tax arbitrage between individuals, and exploiting tax arbitrage across different income sources. This practice can impact a company's financial performance in multiple ways and may lead to agency conflicts between management (agents) and shareholders (principals) (Kasibi et al., 2023).

2.2 Narcissistic Personality Disorder and CEO Narcissism

Narcissistic Personality Disorder (NPD) is defined as a personality disorder marked by an exaggerated sense of self-importance, an overwhelming need for admiration and acknowledgment, and a deficiency in empathy toward. Individuals exhibiting narcissistic traits often display arrogance and a persistent desire for praise, frequently overstating their achievements to secure external validation

(Uriawan et al., 2021). Within corporate leadership, CEOs who display narcissistic tendencies typically prioritize short-term results that enhance their personal reputation among stakeholders.

Narcissism is a complex personality trait characterized by feelings of superiority and a tendency to engage in ethically ambiguous behavior. Narcissistic individuals often believe they are above the law and pursue their goals aggressively, driven by a sense of entitlement (Olsen & Stekelberg, 2016). Narcissistic behavior, which combines confidence and extroversion, is frequently perceived by others as indicative of strong leadership (O'Reilly et al., 2018). However, this perceived leadership can mask self-serving actions that may compromise the organization's long-term interests. Narcissism is widely acknowledged as a common trait among individuals in leadership positions, particularly Chief Executive Officers (CEOs) (Rovelli & Curnis, 2021). Narcissistic CEOs consistently seek to assert their dominance and often lack the expression of virtuous traits such as empathy (García-Meca et al., 2021). Narcissism among senior executives significantly influences corporate decision-making and strategic choices, and is frequently linked to unethical and opportunistic behaviors, including tax avoidance (Araújo et al., 2021). Cragun et al. (2020) categorize various approaches to measuring CEO narcissism into five types: CEO narcissism index, self-reported psychometrics, third-party psychometrics, pronoun usage analysis, and signature size measurement.

Ilaboya and Aronmwan (2021) found that a CEO's confidence has a significant influence on corporate tax avoidance behavior. Similarly, Hsieh et al. (2018) found that the propensity for tax avoidance rises when both the CEO and CFO exhibit overconfidence. These results align with Araújo et al. (2021), who demonstrated that narcissistic executives tend to take bold and assertive actions, thereby increasing their likelihood of engaging in tax avoidance. Supporting this view, García-Meca et al. (2021) also found a positive correlation between CEO narcissism and tax avoidance, suggesting that narcissistic traits drive CEOs to adopt these strategies to project success and enhance perceived company performance.

H1: CEO Narcissism has significant effect on tax avoidance.

2.3 Related Party Transactions and Audit Quality

Statement of Financial Accounting Standards (*Pernyataan Standar Akuntansi Keuangan/PSAK*) Number 7, which has been updated to PSAK Number 224 effective January 1, 2024, on related party disclosures, related party transactions are defined as transactions conducted between a reporting entity and parties that have a special relationship with the reporting entity. Related party debt transactions refer to lending or borrowing activities between a company and its related parties, such as parent entities, subsidiaries, associates, members of the board of directors or commissioners, and shareholders. Related party transactions involving intercompany debt are a key factor contributing to the practice of transfer pricing, particularly as part of tax planning strategies. However, not all such strategies are necessarily effective in reducing tax expenses (Ann & Manurung, 2019). A company subject to a heavy tax burden may lower its taxable income by conducting transactions with affiliated entities located in low-tax regions under favorable conditions, aiming to decrease the total tax liability for the entire group (Park, 2018).

Mulyadi (2018) defines audit quality as the level of satisfaction experienced by users of financial statements with the audit outcomes delivered by auditors. This quality is shaped by various elements, including the auditor's competence, independence, objectivity, integrity, and adherence to professional ethics. It reflects the extent to which auditors carry out their responsibilities in line with the Code of Ethics for Public Accountants and the Standards of Professional Public Accountants (*Standar Profesional Akuntan Publik/SPAP*) (Monika & Noviari, 2021). High-quality

audits act as a deterrent against tax avoidance practices (Lestari & Nedy, 2019). Marzuki and Syukur (2021) also suggest that audit fees can be an indicator of the quality of audit services provided, while Yahaya and Onyabe (2022) emphasize that both audit fees and auditor independence are critical factors that contribute to enhanced audit quality.

Research by Nashir et al. (2023), Solikhah et al. (2024), and Firmanzah and Marsoem (2023) indicates that related party transactions significantly influence tax avoidance behavior. Supporting this, Santoso and Utami (2023) found that such transactions increase the potential for management to adopt aggressive tax strategies, indicating that intra-group dealings can be utilized to manipulate taxable income. Lestari and Nedy (2019) found that audit quality, indicated by audit firm size and audit fees, negatively influences tax avoidance. Similarly, Tarmidi et al. (2020) reported that higher audit quality correlates with reduced tax avoidance. Soltani (2022) observed that enhanced audit quality in Tunisia boosts tax compliance and may reduce tax avoidance among Tunisian companies. Supporting these findings, Setia and Sudaryono (2023) demonstrated that both audit fees and audit quality significantly decrease corporate tax avoidance.

H2: Related party transactions have a significant effect on tax avoidance.

H3: Audit quality has a significant effect on tax avoidance.

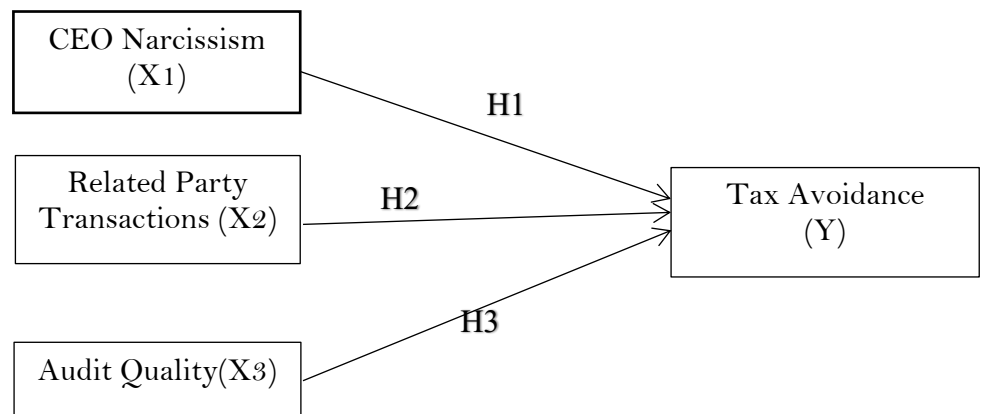


Figure 1. Research Framework

Figure 1 illustrates the relationship between CEO narcissism, related party transactions, and audit quality in relation to tax avoidance. The first hypothesis (H1) explores how CEO narcissism influences tax avoidance. Narcissistic leaders often exhibit dominant, confident, and risk-taking tendencies, which may lead them to adopt aggressive tax strategies to enhance short-term financial performance and personal reputation.

The second hypothesis (H2) examines the role of related party transactions as a tool for tax planning. Firms may exploit intra-group arrangements such as charging high-interest rates on intercompany loans to lower their taxable income. These practices often violate the arm’s length principle, facilitating profit shifting and tax minimization. The third hypothesis (H3) assesses the effect of audit quality on tax avoidance. In this study, audit quality is represented by audit fees, which indicate the level of auditor independence and diligence. Higher-quality audits improve the detection of aggressive tax behavior and promote compliance with tax laws, thereby reducing the likelihood of tax avoidance. This framework integrates behavioral, structural, and governance dimensions to provide a comprehensive view of the factors influencing tax avoidance.

3. Methods

This research employs a quantitative approach to analyze the influence of CEO Narcissism, Related Party Transactions, and Audit Quality, on Tax Avoidance. The study targets companies in the infrastructure sector listed on the Indonesia Stock Exchange (IDX) between 2018 and 2023, utilizing secondary data obtained from annual reports and financial statements available on the official IDX website (www.idx.co.id) and individual company websites. A purposive sampling technique is applied, with selection criteria including being part of the infrastructure sector, listed on the IDX during the 2018–2023 period, having complete annual reports and financial statements, and providing accessible data for all required variables.

CEO Narcissism is evaluated through the photo prominence index found in the annual report. Related Party Transactions are measured by the proportion of related-party liabilities to total liabilities. Audit Quality is indicated by the ratio of audit fees to profit before tax, and Tax Avoidance is calculated based on the difference between the statutory tax rate and the effective tax rate (STR – ETR). The analysis employs panel data regression using STATA software, with the Fixed Effects Model (FEM) selected based on the results of the Chow and Hausman tests. To improve the robustness of the findings, heteroskedasticity and autocorrelation are addressed by applying robust standard errors.

4. Results

Table 1 shows that the descriptive statistics reveal an average CEO narcissism score of 4.13 on a scale of 1 to 5, corresponding to approximately 82.6%. This suggests that CEOs of the infrastructure companies in the sample often feature prominently in annual reports, indicating a relatively high level of narcissistic behavior. This finding supports the notion that narcissistic CEOs tend to prominently feature themselves in corporate communications. The CEO narcissism scores range from 2 to 5, with a standard deviation of 0.96. The relatively low standard deviation compared to the mean indicates that the scores are closely grouped around the average, showing slight variation in CEO narcissism within the sample.

Table 1. Descriptive Summaries

Variable	N	Mean	Std. Dev.	Min	Max
Tax Avoidance	204	0.2516	1.34465	-6.13	15.91
CEO Narcissism	204	4.1323	0.96598	2	5
Related Party Transactions	204	0.1441	0.28369	0.00	0.98
Audit Quality	204	0.0700	0.81713	-3.39	7.81

For the related party transactions variable, the average ratio stands at 0.14, or 14.4%, indicating that affiliated parties account for an average of 14.4% of the companies' total debt. The values range from 0.00 to 0.98, with a standard deviation of 0.28. The fact that the standard deviation is higher than the mean indicates substantial variability in the extent to which firms within the sample rely on related-party debt.

Regarding the audit quality variable, the average value is 0.07 or 7%, measured as the ratio of audit fees to profit before tax. This indicates the financial resources companies allocate for external audit services, which serve as independent oversight. The values vary widely, ranging from -3.39 to 7.81, with a standard deviation of 0.81. The relatively large standard deviation compared to the mean points to significant differences in audit expenditures among firms, likely influenced by factors such as company size, complexity of financial operations, and the degree of dedication to accurate and compliant financial reporting.

The tax avoidance variable has an average value of 0.25, ranging from a minimum of -6.13 to a maximum of 15.91, with a standard deviation of 1.34. The relatively large standard deviation suggests considerable variation in tax avoidance practices among infrastructure companies, which may stem from differences in management approaches, organizational frameworks, or financial motivations.

Table 2. Regression Model

	Test Summary	Prob.	Description	Result
Chow Test	Prob. Cross Section	0.0051	CEM vs FEM	Fixed Effect Model
	Chi-square			
	Test Summary	Prob.		
Hausman Test	Prob. Cross Section	0.0000	FEM vs REM	Fixed Effect Model
	Chi-square			

Table 2 shows the Chow test is utilized to determine whether the Common Effect Model or the Fixed Effect Model better fits the data. According to the table above, the p-value from the cross-section chi-square test is 0.0051, which is less than the 0.05 significance level. Therefore, H1 is accepted, indicating that the Fixed Effect Model (FEM) is the most suitable model for this analysis. Based on Table 2, this test aims to determine whether the Fixed Effect Model or the Random Effect Model through Hausman Test is more appropriate. Based on the table above, the p-value for the cross-section chi-square is 0.0000, which is below the 0.05 significance level. Consequently, H1 is accepted, meaning the Fixed Effect Model (FEM) is the favored model for this research.

Based on Table 2, two model tests that have been conducted, the best model to be used in this study is the Fixed Effect Model (FEM). This study did not perform a normality test. According to Wooldridge (2016) in panel data regression, particularly when robust standard errors are applied, the assumption of normality for the residuals is no longer a crucial requirement for the validity of the estimates. According to Orme & Yamagata (2014), modern econometric approaches in panel data analysis emphasize that, under the Central Limit Theorem (CLT), the ordinary least squares (OLS) estimators of regression coefficients in panel models exhibit asymptotic normality as the cross-sectional dimension (N) becomes large while the time dimension (T) remains fixed. This implies that statistical inference methods, such as t-tests and F-tests, remain valid even when the error terms do not follow a normal distribution. The authors argue that robust standard errors, particularly those corrected for heteroskedasticity, enhance the reliability of inference without requiring normality assumptions, thus making the normality of residuals a less critical concern in large-N panel datasets. This development supports the use of fixed effect models with heteroskedasticity-robust inference procedures as a theoretically sound and empirically reliable approach in panel data econometrics.

Table 3. Multicollinearity Test

Variable	VIF	1/VIF
CEO Narcissism (X1)	1.04	0.959414
Related Party Transaction (X2)	1.03	0.972960
Audit Quality (X3)	1.05	0.950617
Mean VIF	1.04	

Table 3 shows that the VIF values in the regression model are below 10, and the corresponding 1/VIF values exceed 0.1. This indicates that the regression model does not exhibit significant signs of multicollinearity

In this study, the results of the Breusch-Pagan/Cook-Weisberg test for the Heteroscedasticity test showed a Chi-Square value of 451.80 with a probability value of 0.0000, which is smaller than the significance level of 0.05. This indicates that

there is heteroscedasticity in the regression model. This condition means that the residual variance is not constant, so it is necessary to adjust the estimation method or transform the data to obtain more reliable analysis results.

Table 4. Prais Test Results

Statistic	Value	Interpretation
Durbin-Watson Statistic (original)	1.851422	Indicates no strong autocorrelation in residuals
Durbin-Watson Statistic (transformed)	1.910827	Indicates no strong autocorrelation in residuals
Rho (ρ)	0.0417	Suggests low correlation between residuals (autocorrelation is not significant)
Estimation Method	Prais-Winsten Regression with Robust Standard Errors	Corrects for heteroskedasticity and autocorrelation issues

Table 4 shows that to overcome heteroscedasticity and autocorrelation, a Robust test is carried out for heteroscedasticity, and a Prais-Winsten test is used to address autocorrelation. Based on the Prais Test results above, it is evident that the Durbin-Watson statistical value for the original model is 1.85, and for the transformed model, it is 1.91. Both of these values are close to 2, indicating the absence of strong autocorrelation in the residuals. Moreover, the iterative rho value reaches 0.0417, indicating that the correlation between residuals in the data is not significantly high.

The regression results in Table 5 show that the analysis was conducted with correction for standard error, so that the values displayed especially standard error, t-statistic, and p-value have been adjusted to address heteroscedasticity issues. Thus, these results are more reliable for decision making and hypothesis testing.

Table 5. Results of Fixed Effect Model (FEM)

Variable	Coef.	Std. Error	t	P> t	95% Conf.	Interval
CEO Narcissism (X1)	0.37027	0.11664	3.17	0.002	0.139987	0.600564
Related Party Transaction (X2)	3.31169	0.52849	6.27	0.000	2.268297	4.355082
Audit Quality (X3)	-0.38785	0.10879	-3.57	0.000	0.602635	0.173066
Constanta	-1.72868	0.48469	-3.57	0.000	-2.68559	0.771771

Based on the model testing results in Table 5, the Fixed Effect Model (FEM) was found to be the most suitable for this study. Referring to the table above, the panel data regression equation is as follows:

$$Y = 1.728681 + 0.3702758(X1) + 3.31169(X2) - 0.3878506(X3) + e.$$

This equation can be interpreted as follows. The constant value (α) of 1.728681 indicates that when all independent variables CEO narcissism, related party transactions, and audit quality are zero, the predicted level of tax avoidance is 1.728681. The regression coefficient for CEO narcissism (X1) is 0.3702758, meaning that a one-unit increase in CEO narcissism is associated with a 0.3702758 increase in the level of tax avoidance. The coefficient for related party transactions (X2) is 3.31169, suggesting that a one-unit rise in related party transactions leads to a 3.31169 increase in tax avoidance. Meanwhile, the audit quality variable (X3) has a

coefficient of -0.3878506 , indicating that a one-unit increase in audit quality corresponds to a 0.3878506 decrease in tax avoidance.

Based on the test results presented in Table 8, the following conclusions can be drawn that first, CEO narcissism has a significant impact on tax avoidance, with a significance value of 0.002 , which is below the 0.05 threshold, thus supporting Hypothesis 1. The positive regression coefficient of 0.3702758 indicates that higher CEO narcissism correlates with increased tax avoidance. Second, related party transactions have a significant influence on tax avoidance, as indicated by a p-value of 0.000 , supporting Hypothesis 2. The positive coefficient of 3.31169 indicates that greater engagement in related-party transactions is associated with higher tax avoidance. Finally, audit quality also has a significant effect on tax avoidance, as confirmed by a p-value of 0.000 , which validates Hypothesis 3. The negative coefficient of -0.3878506 suggests that improved audit quality is associated with a decrease in tax avoidance.

Table 6. Coefficient of Determination

Model Statistic	Value
R-squared (R^2)	0.1938
Adjusted R-squared	0.1332
Prob > F	0.0000
Number of Observations (N)	204
Model Used	Fixed Effect Model (FEM)

Table 6 shows an R-squared value of 0.1938 , indicating that the ability of CEO narcissism variables, related party transactions, and audit quality to explain tax avoidance is 19.38% , while other variables outside the scope of this study explain the remaining portion. The results of the F test in Table 6 indicate an F-squared value of 0.000 , which suggests that this research model is a good fit because the value is less than 0.05 .

5. Discussion

The results of the partial test (t-test) indicate that CEO narcissism has a significant influence on tax avoidance, with a significance value of 0.002 , which is below the 0.05 threshold. The regression coefficient of 0.3702758 indicates a positive relationship, suggesting that higher levels of CEO narcissism are linked to increased tax avoidance. This outcome can be attributed to typical narcissistic traits such as excessive self-confidence, a strong desire for recognition, and a tendency to prioritize personal interests over those of the organization or stakeholders (Hambrick & Manson, 1984).

Widyasari and Gunawan (2023) note that narcissistic CEOs often pursue tax avoidance to showcase their competence in managing taxes efficiently, using the resulting cash savings for investments or innovation. These individuals are generally more inclined to take risks and engage in controversial strategies, such as aggressive tax planning, motivated by a desire to enhance their image or achieve short-term success. However, such actions can potentially harm the company's long-term reputation or lead to legal risks (Ismail et al., 2023). According to Munthe et al. (2024), narcissistic CEOs view tax management as part of their strategic role to reduce the company's tax burden.

The partial test (t-test) results indicate that related party transactions have a statistically significant impact on tax avoidance, with a significant value of 0.000 , which is well below the 0.05 threshold. The regression coefficient of 3.31169 indicates a positive relationship, meaning that a higher level of related-party transactions is associated with greater tax avoidance. This suggests that such transactions offer companies greater flexibility in implementing aggressive tax strategies, potentially pushing them to cross ethical or legal boundaries.

The strong positive effect highlights how related parties can create opportunities for firms to exploit gaps in tax regulations. By not adhering to the arm's length principle, companies may reduce their reported net income and overall tax burden. This study, using affiliated debt as a proxy, shows that a higher share of related-party liabilities increases the probability of engaging in tax avoidance, primarily because interest payments on such debt can be claimed as tax-deductible expenses even if the terms do not reflect fair market conditions.

According to the Regulation of the Minister of Finance (*Peraturan Menteri Keuangan/PMK*) Number 169/PMK.010/2015, companies are allowed to deduct interest expenses only if their Debt-to-Equity Ratio (DER) does not exceed 4:1. However, this limit does not apply to businesses in the infrastructure sector. While the exemption is intended to stimulate national development, it also opens the door for infrastructure companies to legally minimize tax obligations. In the absence of a DER cap, firms can significantly increase affiliated debt and claim large interest deductions, thereby reducing their taxable income.

The partial test (t-test) results indicate that audit quality has a significant impact on tax avoidance, with a significance value of 0.000, which is below the 0.05 threshold. The regression coefficient of -0.3878506 indicates a negative relationship, meaning that better audit quality is linked to lower levels of tax avoidance. High-quality audits are typically conducted by auditors who possess strong expertise, independence, and professional integrity. Such auditors are better equipped to detect tax avoidance tactics and thoroughly assess financial statements, including identifying transactions that may aggressively reduce tax obligations or potentially breach tax regulations (Jbir et al., 2021)

In this study, audit quality is proxied by audit fees, which serve as an indicator of the standard of audit services provided to a company. Higher audit fees are typically associated with auditors who have greater competence and stronger reputations (Marzuki & Syukur, 2021). Consequently, companies that invest in higher-quality audits benefit from improved transparency and accountability in their financial reporting, which can help curb tax avoidance behavior. Auditors with a high level of professionalism are more likely to implement strict and detailed audit procedures, including a careful review of the company's tax practices. The results indicate that stronger governance is necessary to mitigate tax avoidance associated with CEO narcissism, related-party transactions, and low audit quality. Boards should assess leadership traits in CEO selection. Regulators must tighten GCG rules and close loopholes, such as the DER exemption. Companies should enhance controls, ensure arm's-length compliance, and engage reputable auditors to promote transparency, deter aggressive tax practices, and support long-term sustainability.

6. Conclusion

This study finds that CEOs with higher levels of narcissism are more likely to adopt bold and aggressive tax avoidance strategies, often to enhance their personal image or portray corporate success, highlighting the need for stronger Good Corporate Governance (GCG) guidelines in CEO selection, particularly regarding personality assessment and strategic decision-making in tax management. Firms with a high proportion of affiliated debt also show a greater tendency toward tax avoidance through related party loans that reduce reported profits via inflated interest expenses, sometimes deviating from fair value principles, indicating the need for tighter monitoring by capital market and tax authorities and a reassessment of exemptions such as the 4:1 debt-to-equity ratio rule for infrastructure companies. Moreover, higher audit quality is shown to deter tax avoidance by improving transparency and oversight, with higher audit fees signaling greater auditor diligence; thus, companies are encouraged to engage independent, ethical auditors

from reputable firms recognized for adherence to sound accounting standards and tax compliance.

These findings imply that effective governance through stricter CEO selection processes, tighter regulation of related party transactions, and the engagement of high-quality independent auditors is essential to reducing tax avoidance and safeguarding corporate integrity. However, the study is limited by its reliance on secondary data and proxies such as audit fees for audit quality, which may not fully capture the complexity of these constructs, and by its focus on a specific sector and time period, limiting generalizability. Future research could incorporate primary data, explore additional governance variables, compare across industries or countries, and examine moderating factors such as corporate culture or regulatory environments to provide deeper insights into the mechanisms linking leadership traits, governance practices, and tax avoidance behavior.

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Data Disclosure Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.



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