



THE ROLE OF TAX AUDIT IN SHAPING TAX STRATEGIES

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Introduction

A tax audit is a structured and comprehensive process designed to ensure tax payer compliance with tax laws and regulation. A focus on different aspects of taxation, objective verification, independent examination, and documentation evaluation are among the essential components of a tax audit. The traits of tax auditors have a significant effect on corporate tax avoidance, as evidenced by various studies. The key factors such as audit tenure, audit specialization, audit fees, and audit opinion shape the tax strategies of companies.

Audit Tenure

Audit tenure is the number of years an auditor has audited a company. The independence decreases with length of service. After then, it must be rotated. The rotation, namely audit firm rotation and audit partner rotation. Research shows mixed results: some studies find that longer audit tenure is associated with a significant negative effect on tax avoidance, suggesting that familiarity may lead to more conservative tax practices (Hendi & Sherly, 2024; Kamarudin et al., 2024). Conversely, a study in the manufacturing sector found that longer tenures may lead to more aggressive tax strategies (Dian et al., 2023). Some studies discussed about the risks that come from long term audit terms and the others discuss on possible benefits in terms of tax compliance and how to control tax avoidance. The differences suggest that the effect of audit tenure on tax avoidance might rely on things like regulatory environment and the auditor's personal traits.

Auditor Specialization and Fees

The degree of specialization of an auditor in an industry or accounting area is known as its "specialization." It may enhance the quality of an audit by making it easier for the auditor to find and assess risks and complicated problems regarding certain accounting or industry areas. The audit fee, on the other hand, is the money that accounting companies and auditors get paid for their professional services. Research indicates that auditor specialization can lead to more aggressive tax strategies ("Auditor characteristics on tax avoidance by non-financial companies: Evidence from the Indonesia Stock Exchange," 2023), while higher audit fees might encourage lenient tax positions (Rosalina & Hadi, 2023).

Audit Opinion

An audit opinion is an auditors' expression on the financial statements by referencing the applicable financial reporting framework. The role of auditor opinion is multifaceted. Some studies suggest a positive relationship between the quality of an audit opinion and more aggressive tax strategies. In contrast, some studies state that auditor opinion does not significantly impact tax avoidance, emphasizing other factors such as audit tenure and audit specialization played more vital roles. (Hendi & Sherly 2024; Rosalina & Hadi 2023). In addition, some studies indicating auditor's opinion can influence tax avoidance where it may be moderated by other factor such as auditor independence and gender diversity (Riguen et al., 2021)

Conclusion

The role of tax audit in shaping tax strategies is multifaceted and crucial for ensuring tax compliance and optimize tax revenue collection. Tax auditors should focus on detecting tax avoidance practices, particularly taxpayers who may exploit legal loopholes or engage in transactions with related parties.

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