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HOW CAN FINANCIAL DISTRESS MODERATE FINANCIAL PERFORMANCE RELATIONSHIPS AFFECT TAX AVOIDANCE?

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ABSTRACT

The objective of this study is to collect tangible evidence that illustrates the influence of key financial indicators like return on assets and leverage on tax avoidance while also evaluating the role of financial distress as a moderating variable. It examines the performance of consumer companies, both cyclical and non-cyclical, that are registered on the Indonesia Stock Exchange (IDX) during the timeframe from 2020 to 2022. This current study contributes to the literature through a focus on the less explored relationship between financial distress and tax avoidance, particularly in the consumer sector. The increased economic uncertainty caused by the pandemic has made performance measures even more relevant. Results provide practical implications for corporate executives wanting to optimize financial strategies for policymakers desiring to improve tax compliance. Given this, the focus on this sector, therefore, presents a fresh look into how financial health influences tax approaches, an aspect which has not been deeply analyzed in Indonesia. The research applied purposive sampling techniques and selected 62 companies that satisfied the study's requirements, generating 186 data points across three years. The analysis utilized Eviews 12.0 software to perform panel data regression analysis, complemented by a quantitative examination involving using panel data, chow, and Hausman tests simultaneously. The results suggest that aspects of financial performance, such as return on assets and leverage, have a favourable impact on tax avoidance, but the inclusion of financial distress as a moderating factor appears to weaken this association.

Keywords: financial distress, tax avoidance, return on assets, leverage, panel data

JEL Classification: H26, L11, E22

INTRODUCTION

In developing nations like Indonesia, corporate tax evasion is a common practice, primarily aimed at minimizing costs. This is because corporate taxes are often perceived as a substantial economic burden, potentially threatening the operational viability of businesses. Conversely, taxes levied by the government represent a potential source that could enhance and boost the state's income.

The tax function is so important that everyone must fulfil their tax obligations. Without the tax function, most state activities are challenging to run. Therefore, it is hoped that taxpayers' contribution to carry out their tax obligations will advance development in Indonesia to become a better country. However, it is undeniable that many taxpayers still do not comply with their taxes or reduce what they should pay. For the government, tax is an income; however, the company considers taxes a corporate burden that can reduce net income. This can cause obstacles in the implementation of taxpayer compliance.

Management's lack of compliance and the effect on efforts to avoid corporate taxes will stem from the diverging priorities of the government and the corporation. As a developing nation, Indonesia has relied on taxation as its primary source of national income over the past five years, with tax revenues accounting for 81.81% of the state's earnings in 2022 (Central Statistics Agency, 2024). Taxation's foremost aim is to bolster state finances to meet societal demands and support governmental functions. It also plays a

crucial role in shaping consumption trends and facilitating the execution of governmental policies (Asyik, Muchlis, Riharjo, & Rusdiyanto, 2022; Karlinah, Meutia, Bastian, & Hanifah, 2023).

Participating in tax avoidance involves a legal and strategic set of steps, along with a proactive approach to obtaining tax benefits, leading to a grey area in presenting financial and tax information to outside parties. Research by (Dang and Tran, 2021) indicates that the information landscape of corporations suffers negative consequences due to tax avoidance. Moreover, tax avoidance necessitates intricate frameworks that empower executives to tweak metrics related to firm performance. Additionally, considering the potential for agency conflicts within firms, the detrimental impact of tax avoidance on a corporation's informational milieu enables executives to misappropriate corporate assets over time. (Nuswantara et al., 2023) maintain that, as per their findings, accounting numbers significantly influence the discord among managers, shareholders, and other stakeholders. Thus, the discourse on tax avoidance is torn between viewing corporate tax avoidance as a beneficial strategy that enhances corporate liquidity and shareholder value and condemning it as unethical conduct that deprives society of tax revenues.

The main goal of tax evasion in this research is to diminish tax liabilities and enhance earnings. Profitability and leverage are the principal factors influencing strategies for evading taxes. The Return on Asset (ROA) ratio, indicative of a firm's net income from its assets, is employed to assess profitability. (Tanujaya & Valentine, 2020) study uncovered an inverse correlation between ROA and tax evasion endeavours, suggesting that a rise in ROA, which denotes higher earnings, results in decreased tax evasion efforts. This is attributed to the significant profits derived from the company's assets, which render tax planning unnecessary. On the other hand, research conducted by (Dewinta & Setiawan, 2016) revealed a direct relationship between ROA and tax evasion, indicating that increased profits lead to a greater tax obligation for corporations, which in turn prompts taxpayers to adopt tax avoidance strategies to increase the tax burden shouldered by the company.

Leverage is utilized to measure a company's debt against its assets to achieve earnings that exceed its fixed costs, including a predetermined rate of return. Such fixed costs, like debt interest, can boost returns for shareholders. Nevertheless, a surge in debt might diminish profits. The Debt-to-Equity Ratio (DER) is crucial for analyzing the effects of debt risk on a firm's strategies for minimizing taxes by employing its capital. Tax minimization strategies take advantage of loopholes in Article 6, paragraph (1) of Law No. 36 of 2008 by using debt to generate interest expenses, which in turn reduce the tax burden. Maryani's research (Darsani & Sukartha, 2021; Kalash, 2023) reveals a positive link between leverage and the practice of tax avoidance, indicating that companies with substantial tax liabilities tend to use debt financing to reduce their tax expenses through interest deductions. On the other hand, (Kurniasih, Ratna, Akuntansi, & Ekonomi, 2013) contend that leverage has an insignificant effect on tax avoidance measures, suggesting that an increase in a company's debt does not necessarily correlate with its tax reduction or profit evasion strategies.

In finance, navigating financial distress is a complex and challenging task. This distress often stems from a company's deteriorating financial and economic health, elevating the risk of bankruptcy. In order to maintain their activities, these organizations may turn to interactions with entities known for avoiding taxes (Mousavi, Zimon, Salehi, & Stępnicka, 2022; Shafeeq Nimr Al-Maliki, Salehi, & Kardan, 2023). A firm generally faces financial difficulties when its debts exceed its resources, which depends on the company's scale and the profit margins within its sector. In times of economic instability, both investors and lenders exercise extreme caution before allocating funds or offering loans to such businesses. This typically triggers an adverse reaction from those involved. To tackle these economic issues and prevent insolvency, the management of these corporations must act quickly and decisively.

When a company faces financial challenges, the expense associated with a tax avoidance firm can be substantial for such entities. Financial troubles have a strong and direct correlation with the propensity of a company to engage in tax avoidance. Contrary to earlier research (Uzliawati, Kalbuana, et al., 2023; Xu, Zhao, Qian, Zhou, & Wu, 2022), financial distress does not play a significant or influential role in tax avoidance behaviours.

This current study contributes to the literature through a focus on the less explored relationship between financial distress and tax avoidance, particularly in the consumer sector. The increased economic uncertainty caused by the pandemic has made performance measures even more relevant. Results provide practical implications for corporate executives wanting to optimize financial strategies for policymakers desiring to improve tax compliance. Given this, the focus on this sector, therefore, presents a fresh look into how financial health influences tax approaches, an aspect which has not been deeply analyzed in Indonesia.

This research is a development of previous research conducted by (Sonia & Suparmun, 2019) which used the variables independent commissioner, institutional ownership, managerial ownership, return on assets, company size, leverage, sales growth, capital intensity ratio, and inventory intensity ratio. The difference between this research and previous research

is as follows. The variables used in previous research amounted to 10 variables as mentioned above. Meanwhile, in this study, eight variables are not used: independent commissioner, institutional ownership, managerial ownership, company size, sales growth, capital intensity ratio, and inventory intensity ratio. One new variable is included, namely financial distress, which is a moderating variable (Oware & Appiah, 2022; Rahman, Zhu, & Chen, 2023; Salehi, Mousavi Shiri, & Bolandraftar Pasikhani, 2016).

The study investigates how financial performance influences Corporate tax avoidance, considering financial distress as an intervening variable. Those involved in finance and accounting policy-making must comprehend corporate tax avoidance drivers. Anchored in agency theory, this research seeks to empirically demonstrate the link between financial performance and Corporate tax avoidance, where financial distress acts as a critical moderating element. The assessment encompasses leading non-cyclical and cyclical consumer firms on the Indonesia Stock Exchange (IDX) from 2020 to 2022, distinguished by their highly traded, liquid shares, significant market value, and investor appeal. The emphasis on the non-cyclical and cyclical consumer sectors stems from their vital role in generating tax revenue, with manufacturing firms frequently being the focus of tax inspections by the Directorate General of Taxes.

LITERATURE REVIEW

Agency Theory

The theory of agency emphasizes the importance of sound corporate governance, specifically addressing the interactions between principals and agents. As outlined by (Jensen & Meckling, 1976), the concept of an agency relationship involves a contractual arrangement whereby principals entrust agents with the authority to make decisions on their behalf, which includes carrying out particular tasks, with the expectation that these actions will serve the principals' interests (Supriatiningsih, Safri, Suryaningsih, Husadha, & Kalbuana, 2023; Taqi, Kalbuana, Abbas, & Mayyizah, 2024; Uzliawati, Kalbuana, & Utami, 2024). Moreover, tax avoidance is regarded as a tactic employed solely to minimize tax obligations devoid of any other financial advantages. However, agency theorists contend that tax matters are closely linked to corporate governance due to prevalent agency conflicts, where the inherent divergence of interests between principals and agents gives rise to the development of agency theory (Kalbuana, Kusiyah, et al., 2022; Kalbuana, Taqi, Uzliawati, & Ramdhani, 2022).

The motivation for this research is informed by the persistent need to establish the relationship between financial performance and tax avoidance from the perspective of corporate governance. Agency theory provides the basis on which principal-agent conflict may lead to a decision such as tax avoidance-beneficial to the management at the expense of the shareholders. Although various studies have focused on the relationship between tax avoidance and corporate governance, studies about the role of financial distress in moderating such a relationship remain scant, especially in the emerging market of Indonesia. In the recent period, especially during the post-pandemic period, economic volatility has increasingly demanded an understanding of the relations of financial performance indicators, such as return on assets and leverage, with corporate strategies toward tax avoidance. Therefore, this research will present empirical facts from consumer companies listed on the Indonesia Stock Exchange during 2020-2022.

Positive Accounting Theory

According to (Henry, 2018), positive accounting theory is used by managers when making confident choices, where this theory explains a process that uses abilities, understanding, knowledge, and accounting policies that best suit future conditions (Uzliawati, Taqi, Muchlish, & Kalbuana, 2023). So, managers as decision makers in the company will choose accounting policies that are profitable for them.

Positive accounting theory posits three central hypotheses: Firstly, the bonus plan hypothesis suggests that management within a company is inclined towards adopting accounting practices that maximize profit representation to secure higher bonuses. Secondly, the debt contract hypothesis indicates that managers of highly leveraged companies prefer accounting methods that enhance profits by shifting future earnings to the present, thus maintaining leverage ratios and mitigating default risk over the contract period. Lastly, the political cost hypothesis asserts that larger companies face higher political costs, leading their management to adopt accounting strategies that defer current profits to subsequent years or pre-acknowledge future expenses, aiming to reduce government-imposed political costs.

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Hypothesis Development

1. The Effect of Financial Performance on Tax Avoidance.

Tax Avoidance

Tax avoidance involves strategically exploiting permissible tax regulations to defer tax liabilities from the current year to subsequent years, thereby enhancing a company's liquidity. This practice aligns with agency theory and often mirrors managerial self-interest in tax-related decisions. Consequently, a significant challenge for shareholders and boards is to develop control mechanisms and incentives that curb agency-related expenses. Owners typically advocate for aggressive tax avoidance strategies to reduce tax expenditures.

Financial Performance

The Return on Assets (ROA) is an essential indicator of a company's financial performance, offering a glimpse into how effectively the firm utilizes its assets to generate profits. This metric is a vital measure of financial well-being, showing that a direct relationship exists between the operational achievements of a company and its ROA; superior ROA figures suggest better performance. Essentially, ROA evaluates the capacity of a firm to turn investments in assets into profit, thereby reflecting the company's financial prowess. The connection between ROA and a company's net earnings and tax obligations is significant. As outlined by (Kurnianti et al., 2021), ROA is a profitability indicator that gauges the extent of asset utilization by a company to generate net income. Consequently, an elevation in ROA values indicates enhanced profit levels and more effective asset management by the company (Dalwai & Salehi, 2021; Salehi & Davoudi Pour, 2016).

The Return on Assets (ROA) measure is crucial for assessing how effectively a company employs its resources. It demonstrates management's ability to produce income, showing that superior management of assets by the company results in increased earnings. Consequently, a greater ROA indicates enhanced profitability. Companies with significant profitability can utilize their status in devising tax planning strategies to reduce their tax liabilities (Chen, Chen, Cheng, & Shevlin, 2010).

The empirical research conducted by (Adyani & Drs. R. Djoko Sampurno, 2017) identifies Return On Assets (ROA) as a crucial indicator of profitability, assessing how effectively a company generates profits from its assets. According to Bank Indonesia's standards, a satisfactory ROA level is around 1.5%. A higher ROA indicates better performance of a company, reflecting higher returns.

Firms that carry significant debt often resort to tax evasion strategies. As third-party debt increases, so does the cost of interest payments. Such expenses, arising from obligations to lenders or external entities with whom the firm has no special connections, are subtractable from the firm's taxable earnings. This deduction of high-interest costs decreases taxable income, thereby facilitating a reduction in tax liabilities. Consequently, lower earnings lead to reduced tax payments by these companies.

As a ratio, leverage reflects the degree to which a company depends on debt financing for asset support or operational funding. An increased leverage ratio signifies a higher responsibility for interest payments. (Irawan, Sularso, & Farida, 2017) note that deducting interest expenses from taxable income can act as a managerial strategy to reduce the company's tax obligations, a method often associated with tax avoidance practices, as (Isayas, 2021) discussed.

Thus, the hypothesis that is built is as follows:

- H1: ROA influences Tax Avoidance;
- H 2: Leverage Audit Affects Tax Avoidance.

2. The Effect of Financial Distress Moderating Financial Performance on Tax Avoidance.

A company enters into financial distress due to challenges in obtaining financial resources, frequently a result of deteriorating business and economic environments. This precarious position heightens the threat of insolvency and may lead the organization to evade taxes to continue its business activities (Selistiaweni, Arieftiara, & Samin, 2017). Such distress manifests when the firm's debts exceed its assets, industry size, and revenue. During such financial turmoil, investors and creditors are likely reluctant to invest or extend credit to firms (Dang & Tran, 2021). This scenario typically elicits adverse reactions from stakeholders. In the face of financial adversity, the strategic avoidance of tax by a company becomes a significant cost-saving measure, highlighting a direct and positive correlation between financial struggles and the inclination to evade taxes (Farooq, Hunjra, Ullah, & Al-Faryan, 2023; Nurdiana, 2021).

From the results of previous research, information was obtained regarding the company's management capacity to manipulate taxable income during financial difficulties (Akbari, Salehi, & Bagherpour Vlashani, 2018, 2019; Khamisan & Christina, 2020). The study also states that earnings reports submitted by unhealthy company management will show more significant deviations than healthy companies. Management of companies in financial distress *will* conclude that tax officials pay less attention to their financial reports so that they consider fewer risks and assume that their *tax avoidance* is more acceptable to tax officials and the general public. *Tax avoidance* carried out during periods *of financial distress* will also increase due to the need for more outstanding funds and the importance of maintaining the company's credit rating. In this research, *economic distress* is a moderating variable.

Therefore, the formulated hypotheses are presented as follows:

- H 3: The impact of ROA on Tax Avoidance is moderated by Financial Distress;
- H 4: Financial Distress moderates the effect of Leverage on Tax Avoidance.

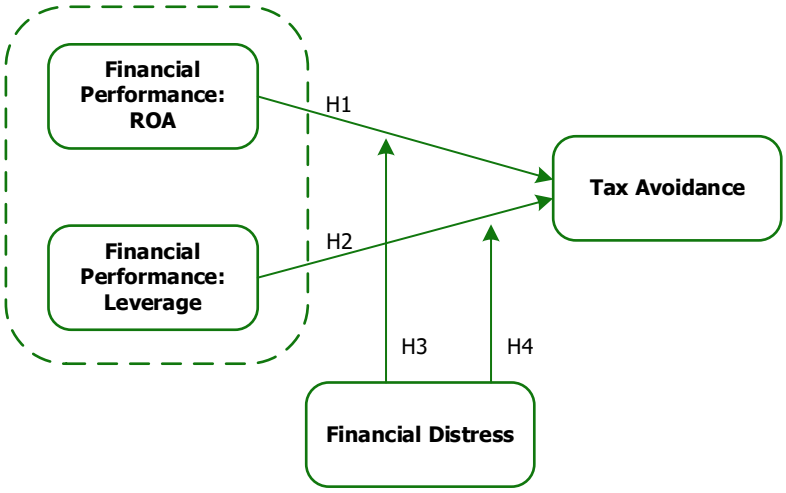

Figure 1. Research conceptual framework.

METHODS

Sample Selection Procedure and Data Source

The study employs a quantitative methodology centred around hypothesis testing as its research design. It focuses on non-cyclical consumer firms and consumer entities that were part of the Indonesian Stock Exchange (BEI) between 2020 and 2022. The research uses purposive sampling to encompass 62 companies and 186 datasets over a three-year span from 2020 to 2022. The selection of non-cyclical and cyclical consumer companies as the focal point is due to their significant presence within the manufacturing sector, which constitutes the largest segment among all entities listed on the BEI. This prominence suggests that these companies possess a relatively high level of expertise. The purposive sampling technique ensures that the chosen samples accurately reflect the broader sample population and align with the research objectives (Kusdiyanti, Febrianto, et al., 2024; Kusdiyanti, Zandra, et al., 2024). The criteria for selecting samples included companies that were not delisted from the Indonesian Stock Exchange (BEI) between 2020 and 2022, along with those that remained profitable throughout this period. Firms that incurred losses were excluded based on the assumption that they do not engage in tax avoidance. Only financial reports presented in the Indonesian rupiah and audited by independent auditors within the specified timeframe were considered. Furthermore, the study ensured the exclusion of outlier data points significantly distant from the rest in a dataset to prevent bias and inaccuracies in representing the phenomena under investigation.

The research period for this study covers a period of 3 years. Using purposive sampling, a total of 62 companies were selected and generated 186 data points. Although the number of respondents seems a bit limited, it is comparable to other studies in this field that focus on and analyze specific sectors, for instance, consumer companies listed on the Indonesia Stock Exchange. This sample size is sufficient to conduct a panel data analysis since it enables one to analyze both cross-sectional and longitudinal data. Besides, the companies selected represent an important consumption sector, and this improves the generalizability of results. It ascertains reliability by utilizing strong statistical methods, including panel data regression and Chow and Hausman tests, among others, to verify consistency and the significance of results.

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In this research, financial distress serves solely as a moderating variable, affecting the intensity of the direct link between independent and dependent variables rather than functioning as an independent variable (Ghozali & Ratmono, 2013).

Measurement of Variables / Measurement Variable

1. Tax Avoidance

This study investigates the tax evasion practices among prominent corporations as they recover from the economic recession caused by the COVID-19 pandemic. The effective tax rate (ETR) is utilized as a measure of tax avoidance, making it the chosen dependent variable, in line with the methodologies of previous studies (Putri & Lawita, 2019; Salehi, Ali Mirzaee, & Yazdani, 2017; Tawang & Sari, 2017). The investigation includes moderating variables evaluated using the ETR specific to tax avoidance, positioning the ETR as a metric for measuring the extent of a company's tax evasion. The ETR is calculated by comparing the taxes a company pays as per tax laws to its taxable earnings. In particular, the current ETR is determined by the ratio of a company's current tax liability to its earnings before taxes (pre-tax income), as detailed by (Kalbuana, Taqi, Uzliawati, & Ramdhani, 2023). The formula for the Current ETR is as follows:

$$\text{ETR} = \frac{\text{Current Tax Expense}}{\text{Pre} - \text{tax Income}}$$

2. ROA

The effectiveness of management in profit generation is indicated by Return on Assets (ROA), with a higher ROA signifying enhanced earnings of the company and more efficient management of assets. (Dewi, Widiasmara, & Amah, 2019) mention that by dividing the net profit by the total assets at the end of the period, ROA is computed, acting as an indicator of the company's ability to generate profits. (Astawinetu & Handini, 2020; Atmaja, 2008) have presented a calculation formula for Return on Assets (ROA), which is described below:

$$\text{ROA} = \frac{\text{Profit (Loss).After Tax}}{\text{Total Assets}}$$

3. Leverage

The function of this ratio is to determine the value of your capital in rupiah, serving as security for borrowing. When a company utilizes greater amounts of debt financing, it incurs higher interest expenses on that debt, consequently lowering the tax liability of the company. As noted by (Astawinetu & Handini, 2020; Atmaja, 2008), the measurement of leverage can be conducted through the application of a specific formula:

$$\text{DER} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

4. Financial Distress

Financial hardship, manifesting as a struggle in funding, results from a decline in a company's financial state and broader economic challenges. This predicament heightens the likelihood of insolvency and magnifies the incentive for firms to evade tax regulations to sustain their operations (Selistiaweni et al., 2017). The reduction in financial capability marks a critical phase leading to a downturn in operational efficiency, ultimately culminating in bankruptcy (Abdu, 2022). Facing fiscal adversity, a firm may find its liabilities surpassing its assets, revenue, and overall market stature. This scenario, characterized by limited cash inflow, hampers a business's ability to optimize its operational outcomes, diminishing earnings or amplifying losses (Siahaan, 2004).

Financial troubles for a company are indicated by a deterioration in its financial health, which precedes either the cessation of its business operations or its declaration of bankruptcy. The Altman Z-Score formula elaborated further below, served as the metric for assessing financial distress in this research (Rahmana, 2022):

$$\text{Z} = 1.2\text{A} + 1.4\text{B} + 3.3\text{C} + 0.6\text{D} + 1\text{E}$$

where: A = Working capital / Total assets; B = Retained earnings / Total assets; C = Income before interest and taxes / Total assets; D = Market value of equity to mark books / Total debt; E = Sales / Total assets; Z = Index whole

The Altman Z-Score's Z value signifies the likelihood of bankruptcy. When a corporation's Z score exceeds 2.99, it is considered to be in a secure position and free from financial distress. Conversely, a Z score below 1.81 suggests the

company is at risk of impending financial troubles. Furthermore, a Z number within the range of 1.81 to 2.99 places the business in an uncertain zone.

Technique Analysis

Eviews 12 will be utilized for data analysis in this study, surpassing all previous evaluations. The analysis will incorporate a range of standard assumption verifications, including checks for normality, multicollinearity, autocorrelation, and heteroscedasticity. The scrutiny of hypotheses will be carried out through multiple linear regression analysis. Moreover, to verify the significant effect of independent variables on the dependent variable, both individual (t-tests) and collective (F-tests) evaluations will be performed. These tests aim to quantify the degree to which independent variables influence the dependent variable, as indicated by the determination coefficient. The study's methodology is grounded in multiple linear regression analysis models, which are structured as follows:

$$TA = \alpha 0 + \alpha 1\, ROAt + \alpha 2 Levt + €it$$

where: TA = Tax Avoidance; ROA = Return on Assets; Lev = Leverage; α 0 = intercept; t = data of time series 2020-2022; i = data of cross-section 62 manufacturing companies; € it = error term

RESULTS

Descriptive Statistics

Results from the descriptive statistical analysis, such as mean, maximum, minimum, and standard deviation, for a group of companies are showcased in Table 1.

Table 1. Statistics Descriptive. *(Source: Eviews Software Processing Results)*

Variables	Obs	Mean	Std. dev.	Min	Max
TA	186	0.253955	0.150330	0.007263	0.853623
ROA	186	0.085572	0.063567	0.002701	0.348851
Leverage	186	0.880544	0.874283	0.057589	7.732195
FD	186	6.006551	4.875294	-0.20804	35.40728

Table 1 displays the summary statistics for a set of companies, such as average, standard deviation, minimum, and maximum values. This dataset contains data on firms within the non-cyclical consumer and consumer cyclical sectors from the Indonesian Stock Exchange (BEI) from 2020 to 2022. Through purposive sampling, information from 62 companies was collected, resulting in 186 observations across the three years. The summary reveals the following: the range for the tax avoidance indicator is between 0.007263 and 0.853623, with an average of 0.253955 and a standard deviation of 0.150330. The Return on Assets (ROA) figures fall between 0.002701 and 0.348851, with a mean of 0.085572 and a standard deviation of 0.063567. Leverage ratios are between 0.057589 and 7.732195, with a mean value of 0.880544 and a standard deviation of 0.874283. Regarding financial distress, the figures span from -0.20804 to 35.40728, with a mean of 6.006551 and a notably high standard deviation of 4.875294.

Classic Assumption Test

1. Normality Test

The normality test aims to evaluate data distribution across various research variables. Generally, data suitable for research adheres to a specific distribution pattern. The Jarque Berra (JB) test is utilized to test the normality assumption of data. When the probability value of the JB test is above 0.05, the data is regarded as normally distributed. Conversely, a probability value below 0.05 indicates that the data does not follow a normal distribution (Ghozali, 2017).

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Table 2. Normality Test with the Jarque-Bera Test. *(Source: Eviews Software Processing Results)*

Series Standardized Residuals	
Sample: 2020-2022	
Observations: 186	
Mean	1.61e-18
Median	0.001205
Maximum	0.411144
Minimum	-0.320667
Std.Dev.	0.099590
Skewness	0.409093
Kurtosis	5.283009
Jarque-Berra	45.58208
Probability	0.000000

From the above outcomes, the Jarque Berra probability value, being 45.58208, exceeds 0.05, indicating that the variables in this research are generally distributed.

2. Heteroscedasticity Test

The Heteroscedasticity Test is designed to assess whether the variances of residuals in a regression model vary across different data points. This condition, called heteroscedasticity, contrasts with homoscedasticity, where the residual variances remain constant. The optimal condition for a regression model is to display neither heteroscedasticity nor homoscedasticity. The emergence of heteroscedasticity in a regression model disrupts the minimal nature of variance, resulting in untrustworthy standard errors and casting doubt on the regression results of the model (Ghozali, 2017). To detect heteroscedasticity, this study utilized the Glejser test. Heteroscedasticity is established when the significance of prob R is below 0.05, and a prob R significance above 0.05 signifies that the model does not suffer from heteroscedasticity.

Table 3. Heteroscedasticity Test with Arch. *(Source: Stata Software Processing Results)*

F-statistic	**0.275894**
Obs *R-squared	0.278490
Prob. F(1.183)	0.6000
Prob. Chi-Square(1)	0.5977

Based on heteroscedasticity test results with lesser is known Prob value. Chi-Square is 0.5977 value the more big of 0.05, then the research model This No happen heteroscedasticity.

3. Non-Autocorrelation Assumption Test

The violation of the autocorrelation assumption, known as autocorrelation, arises due to a correlation between each observation and interference. It is noted that interference from a current period will likely correlate with that from a previous period, leading to autocorrelation. This issue, however, only pertains to data utilized in time series analyses. Presently, autocorrelation has been identified in the ongoing study. The Lagrange Multiplier Test (LM-test) was employed to identify autocorrelation in the model used. Autocorrelation occurs among both unconstrained and constrained variables. If the significance level, denoted by Prob*R, falls below 0.05, the model is determined to exhibit autocorrelation; if it is higher, autocorrelation is absent.

Table 4. Autocorrelation Test with the Breusch-Godfrey Serial Correlation LM Test. *(Source: Eviews Software Processing Results)*

F-statistic	**1.681072**
Obs *R-squared	24.40062
Prob. F(2.561)	0.0589
Prob. Chi-Square(1)	0.0586

Table 4 shows the use of the Lagrange Multiplier Test (LM-test) for evaluating autocorrelation. The recorded *R-squared Chi-Square Prob value is 24.40062, which surpasses the study model's threshold of 0.05. Therefore, there was no auto-correlation.

4. Multicollinearity Test

A multicollinearity test is performed to determine whether there are correlations between independent variables. This study identifies variable relationships by analyzing each variable's Centered VIF. A regression model is considered to exhibit multicollinearity if the value surpasses 0.10. On the other hand, a correlation coefficient among variables below 0.10 suggests the absence of multicollinearity, as illustrated in Table 4 (Ghozali, 2017).

Table 5. Multicollinearity Test. *(Source: Eviews Software Processing Results)*

Variables	ROA	Leverage	Financial Distress
ROA	1,000000	-0.006416	0.473311
Leverage	-0.006416	1,000000	-0.278577
Financial Distress	0.473311	-0.278577	1,000000

Table 5 reveals that the coefficient values for all variables are below 0.8, suggesting the absence of multicollinearity problems in the model.

5. Panel Data Test

▪ Chow Test

The Chow test was employed to determine the optimal panel data regression model, choosing between the Common Effects Model and the Fixed Effects Model, by using Eviews 12 software. The guidelines for executing the F-Stat/Chow Test include:

1. The Common Effect Model (CEM) is chosen, and H0 is accepted if the probability values for Cross-section F and Cross-section Chi-square are above 0.05.
2. The Fixed Effect Model (FEM) is chosen, and H0 is rejected if the probability values for Cross-section F and Cross-section Chi-square fall below 0.05.

Table 6. Chow Test with -Test Cross-Section Fixed Effects. *(Source: Eviews Software Processing Results)*

Effects Test	Statistics	df	Prob.
Cross-section F	2.376511	(61,121)	0.0000
Chi-square cross-section	146.490294	61	0.0000

According to Table 5, choosing a Fixed Effect Model by the Chow test is based on a cross-section fixed effects method guided by the probability value. The Chi-square statistic for the cross-section is greater than the extremely low threshold of 0.0000 but still falls under the 0.05 mark.

▪ Hausman test

The Eviews 12 software executed the Hausman test to assess and decide between the random effect model (REM) and the fixed effect model (FEM). The decision-making criteria for the test are set as follows:

1. If the probability value for the random cross-section is more than 0.05, H0 is accepted, leading to the choice of the REM.
2. If the probability value for the random cross-section falls under 0.05, H0 is rejected, leading to the adoption of the FEM.

Table 7. Hausman Test with -Test Cross-Section Random Effects. *(Source: Eviews Software Processing Results)*

Test Summary	Chi-Sq.Statistics	Chi-Sq.df	Prob.
Random cross-section	11.816138	3	0.0080

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Table 6 indicates that the decision to use a Fixed Effect Model was influenced by the results of the Hausman test, which applied a cross-section random effects test based on the probability value. The probability of the Random Cross-section being below 0.05 yet above 0.0080 played a role in this choice.

- **Discussion of Research Results**

Table 8. Hypothesis Testing. *(Source: Eviews Software Processing Results)*

Dependent Variable: Tax Avoidance		**Total panel (balanced) observations: 186**		
Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	0.428462	0.050388	8.503225	0.0000
ROA	-1.465834	0.402305	-3.643590	0.0004
LEVERAGE	-0.051137	0.022877	-2.235309	0.0273
FINANCIAL_DISTRESS	0.003239	0.006659	0.486367	0.6276
ROA_FD	0.016546	0.038853	0.425864	0.6710
LEVERAGE_FD	-0.008378	0.005178	-1.617897	0.1083
Effects Specification		Cross-section fixed (dummy variables)		
MSE Root	0.098027	R-squared	0.572499	
Mean dependent var	0.253955	Adjusted R-squared	0.335398	
SD dependent var	0.150330	SE of regression	0.122554	
Akaike info criterion	-1.086727	Sum squared resid	1.787311	
Schwarz criterion	0.075235	Log-likelihood	168.0656	
Hannan-Quinn criteria.	-0.615856	F-statistic	2.414578	
Durbin-Watson stat	2.839890	Prob(F-statistic)		
MSE Root	0.098027	R-squared	0.572499	

- **Financial Performance: ROA has a positive effect on Tax Avoidance**

In Table 8, the provided data suggests that the ROA variable significantly influences tax avoidance, as indicated by the Prob (F-statistic) value being less than 0.05, specifically at 0.000. Moreover, the significance of the Adjusted R square in the coefficient of determination (R2) analysis, with a value of 0.335, demonstrates that the independent variable explains 33.5% of the variance in the dependent variable, leaving 66.5% to be explained by other variables not considered in this analysis. Furthermore, the significance of ROA in impacting Tax Avoidance individually is underscored by its prob value, which is also below 0.05.

This investigation's initial focus is profitability, quantified through Return on Assets (ROA). The research reveals a clear link between a company's ROA and its tendency to minimize tax liabilities. In essence, firms that boast higher ROA values are generally less involved in efforts to evade taxes. These results from the hypothesis testing are in harmony with the theoretical model used in this analysis, namely the agency theory. This theory illuminates the fundamentally opportunistic actions of agents, which frequently result in discord between the agent and the principal. Given this dynamic, managers acting as agents are inclined to pursue actions that are in their best interest.

Consequently, as a company's profitability improves, its managers become more prudent in their approach to tax avoidance. Tax evasion comes with significant risks, including damage to reputation, potential penalties, and fines levied by tax authorities upon discovery. Additionally, the expenses associated with tax avoidance measures must be considered (Napitupulu, Situngkir, & Arfanni, 2020). The substantial risks involved call for more prudent decisions from corporate leaders, prompting them to issue financial statements that truthfully represent the actual condition of the company. The results of this analysis align with previous studies conducted by (Eddy, Angela, & -, 2020; Faizah & Adhivinna, 2017), indicating a direct relationship between a company's earnings and its tax avoidance strategies.

From an agency theory perspective (Jensen & Meckling, 1976), the relationship between Return on Assets (ROA) and tax avoidance reflects the dynamics between agents (company management) and principals (shareholders), where agents tend to have different self-interests from those of shareholders. Agency theory suggests that managers may act opportunistically to maximise their personal gains, but when a company's profitability increases as measured by high ROA, they tend to be more cautious in tax avoidance due to significant risks such as reputational damage, potential penalties, and

additional costs borne by the company. Smart managers consider these risks and may avoid aggressive tax avoidance. In addition, companies with high ROA usually have better monitoring and incentive systems to ensure managers act in accordance with the long-term interests of the company and shareholders, reducing conflicts of interest and encouraging more ethical and responsible managerial behaviour. The results of this study are in line with previous research showing that higher profitability can reduce managers' motivation to engage in aggressive tax avoidance, in line with the principles of agency theory.

- **Financial Performance: Leverage has a positive effect on Tax Avoidance**

In Table 8, the results show that the leverage variable significantly influences Tax Avoidance simultaneously, as indicated by a Prob (F-statistic) value of 0.000 below the threshold of 0.05. Moreover, the Adjusted R square value, derived from the coefficient of determination (R2) analysis, stands at 0.335. This indicates that the independent variable explains 33.5% of the variation in the dependent variable, while the unaccounted 66.5% is due to factors not included in this study. The findings also highlight that leverage has a significant partial effect on Tax Avoidance, underscored by its Prob value being less than 0.05.

The findings of this research indicate a clear link between a company's use of leverage (LEV) and its efforts to minimize tax liabilities; a rise in leverage (LEV) correlates with increased tax avoidance. Therefore, Hypothesis 3 (H3) receives empirical support, aligning with the positive accounting theory's premise that management tends to employ accounting tactics that enhance its advantages. Employing borrowing as a means to fund operational activities is based on the concept that higher borrowing levels result in larger interest expenses for a firm. These interest expenses can be deducted, reducing the taxable income for firms that opt for debt financing over equity, leading to a preference for debt financing (Mahdiana & Amin, 2020). This observation aligns with findings from other research, especially the studies conducted by (Riskatari & Jati, 2020; Taufik & Muliana, 2021), which also found a positive correlation between leverage and tax-saving strategies.

From the agency theory point of view (Jensen & Meckling, 1976), the results of this study indicate that corporate leverage (LEV) significantly affects tax avoidance, by the premise that agents (management) may act opportunistically to maximise their personal gains by using certain accounting tactics. The use of high leverage, indicated by deductible interest expenses, allows companies to reduce taxable income, thus providing an incentive for managers to increase the use of debt as a means of financing. This reduces the company's tax liability and potentially increases value for shareholders, but also indicates opportunistic behaviour from managers who seek to exploit tax policy to their advantage. With higher leverage, managers can improve corporate tax efficiency, but they also need to consider the risks associated with increased debt, such as potential financial difficulties and greater interest expenses. This finding is in line with positive accounting theory and supported by previous research, which shows a positive correlation between leverage and tax avoidance strategies, and underscores the importance of effective monitoring mechanisms to ensure managers act in accordance with shareholders' interests.

- **Financial distress does not moderate the relationship between ROA and Leverage on Tax Avoidance**

In Table 8, the findings clearly show that with a Prob (F-statistic) value of 0.000 below 0.05, there is a significant collective impact of Financial Distress on Tax avoidance. Conversely, the probability value tied to the financial distress variable, when it serves as a moderating variable, is above 0.05, suggesting that it fails to act as a moderator in the connection between ROA and tax avoidance.

Dismissing the third and fourth hypotheses reveals that when a company experiences financial distress, it detrimentally affects the relationship between Return on Assets (ROA) and tax avoidance, indicating that severe financial distress results in reduced efforts toward tax avoidance by the company. Financial distress, which stems from a decline in the company's economic performance, is also known as financial difficulties. It is vital to examine a company's financial statements to predict its future sustainability or endurance. These predictions are crucial for both the management and the company owners to brace themselves for the possibility of bankruptcy.

Agency theory, which delves into the contractual relationships between company executives (agents) and owners (principals), underpins the research results. This theory suggests that agents' actions significantly influence the proficiency of business administration. As highlighted by (Jensen & Meckling, 1976) three primary costs are associated with this theoretical framework: monitoring costs, bonding costs, and residual losses. The core premises of agency theory rest on the beliefs that individuals inherently act in their self-interest, society's capacity to foresee future events is inherently limited, and there is a widespread tendency among people to shun unnecessary risks. (Jensen & Meckling, 1976) work further expounded on agency relationships, indicating that these are established when principals remunerate agents for their services, thus transferring the authority to make decisions to them. Agents are entrusted with comprehensive control over

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company operations. Compared to the insights of shareholders, the agents have more accurate forecasts and information regarding the company's prospects. Ensuring agents fulfil their obligations involves providing shareholders with transparent information about the company's status and the importance of meeting these obligations. This study's conclusions are in alignment with those of earlier studies.

The results of this finding are supported by the theory of agency basically discussing the form of agreement among principals and agents in managing the company, the agent carries a great responsibility for the success of the company he manages. Principals enter into agency relationships when they employ agents to provide services for them and subsequently invest in those agents with discretionary authority. Agents, in their capacity as business managers, have access to more confidential and up-to-date information than their employers' principals do (Kalbuana et al., 2023). As a result, the agent must report to the principals on the state of the company.

DISCUSSION

In Indonesia, transactions with related parties are a common practice among conglomerates. Analyzing leverage variables could benefit from a separation between dealings with unrelated entities and related entities, as mandated by Article 18 of the Income Tax Law. However, the challenge arises in this research from its failure to distinguish between debts to related entities and those to unrelated entities. The process of classifying debts requires scrutiny and extensive supportive documentation because of the differences in defining unique relationships according to the Statement of Financial Accounting Standards, which is the basis for financial disclosures on the IDX, and the criteria established by the DJP, elaborated in a specific appendix of the Annual Corporate Income Tax Return (SPT).

The period from 2020 to 2022 serves as the current boundary for the data sourced from the IDX. To enhance the depth of research, it is recommended to include data from the duration that witnessed the economic effects of the COVID-19 pandemic. The Altman Z-score model, which detects different levels of financial distress, makes it difficult for scholars to establish straightforward connections. Subsequent research might delve into the different stages of corporate bankruptcy under the Altman Z-score model, considering elements such as the firm's avoidance of taxes and its financial capability to clear any outstanding taxes owed due to regulatory examinations and audits.

CONCLUSIONS

This research demonstrates a positive relationship between profitability, as gauged by ROA, and tax avoidance. Moreover, leverage also supports tax avoidance effectively, a result of enforcing the Regulation of the Minister of Finance of the Republic of Indonesia No. 169/PMK.010/2015. Setting limits on the debt-to-equity ratio through this regulation reduces companies' tendencies for aggressive tax planning, thereby encouraging managers to explore other tax avoidance methods. The novelty of this research is that it can prove empirically how the regulation of the Ministry of Finance-which is 169/PMK.010/2015-affects the leverage-tax avoidance relationship in Indonesian consumer companies, something that has not been widely discussed in previous studies.

Return on assets influences tax avoidance. These results are the results of research conducted by (Dalwai & Salehi, 2021; Sonia & Suparmun, 2019). While the direction of the relationship is coherent with that from previous research, this study differs in the positive impact of profitability on tax avoidance within Indonesia's regulatory environment, given plenty of prior studies finding a negative or insignificant relationship in other markets. These results are the results of research conducted by (Masrurroch, Nurlaela, & Fajri, 2021), which shows that ROA has no significant effect on tax avoidance. Leverage influences tax avoidance. These results are in accordance with the research results conducted by (Karlinah, Hanifah, & Ismawati, 2023; Pratiwi, Mahaputra, & Sudiartana, 2016). On the other hand, the results of this study are not in line with (Sonia & Suparmun, 2019), who say leverage does not affect tax avoidance.

Financial instability does not markedly influence the effect of profitability on tax avoidance strategies. Furthermore, the connection between profitability and tax avoidance remains mostly unaffected by economic hardship, suggesting that a company's ability to generate profits predominantly dictates its approach to tax avoidance, irrespective of its financial condition. Likewise, the impact of leverage on tax avoidance remains consistent in the face of financial distress. However, a strong financial position, indicated by a high Z-score, intensifies the influence of debt levels on tax avoidance practices. This finding represents new evidence of how financially sound firms use leverage in debt avoidance for tax purposes, an aspect that has received scant attention from prior research. Indeed, most of the earlier studies either have focused on leverage alone or ignored the moderating role of financial distress. In a financially stable situation, management tends to lean towards strategies that favour debt financing.

The research findings, in light of the ongoing economic challenges stemming from the pandemic, recommend that the DJP, in its oversight and examination endeavours, should not only assess debt in isolation but also consider the company's financial health. This approach is vital as debt within financially stable companies can elevate the likelihood of tax evasion activities. Concurrently, Return on Assets (ROA) may serve as a viable indicator for evaluating corporate tax avoidance practices.

These results provide empirical accounting evidence on profitability decision-making and financial distress related to agency theory. This clarifies the agent's role in ROA Profitability and Leverage. The findings of this research also have consequences for company management in various fields, such as making profitability policies with Financial Difficulties. Accounting theory is supported by empirical data, which considers Profitability against Financial Difficulty. It also serves as a benchmark for future accounting studies and provides further empirical depth to existing findings.

Therefore, this study adds to the application of agency theory and positive accounting theory in explaining decision-making on management tax avoidance, which is influenced not only by profitability and leverage but also by the financial condition of a company. This extension also provides more nuance to existing literature, especially in the context of emerging markets like Indonesia.

ADDITIONAL INFORMATION

AUTHOR CONTRIBUTIONS

All authors have contributed equally.

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CONFLICT OF INTEREST

The Authors declare that there is no conflict of interest.

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ЯК ВЗАЄМОЗВ'ЯЗОК МІЖ ФІНАНСОВИМИ ТРУДНОЩАМИ ТА ФІНАНСОВИМИ ПОКАЗНИКАМИ МОЖЕ ВПЛИВАТИ НА УХИЛЯННЯ ВІД СПЛАТИ ПОДАТКІВ?

Метою цього дослідження є збирання фактичних даних, які ілюструють вплив ключових фінансових показників, таких як рентабельність активів і левередж, на ухиляння від сплати податків, а також оцінка ролі фінансових труднощів як помірної змінної. У дослідженні розглянуті результати діяльності споживчих компаній, і циклічних, і нециклічних, які зареєстровані на Індонезійській фондовій біржі (IDX) за період із 2020 по 2022 рік. Це дослідження робить внесок у літературу, зосереджуючи увагу на маловивченому зв'язкові між фінансовими труднощами та ухиляннням від сплати податків, особливо в споживчому секторі. Зростання економічної невизначеності, спричинене пандемією, зробило показники ефективності ще більш актуальними. Результати дослідження мають практичне значення для керівників компаній, які прагнуть оптимізувати фінансові стратегії, а також для політиків, які бажають покращити дотримання податкового законодавства. З огляду на це, фокус на цьому секторі й, відповідно, свіжий погляд на те, як фінансовий стан упливає на податкові підходи, – аспект, який не був глибоко проаналізований в Індонезії. У дослідженні застосовано методи цілеспрямованої вибірки та відібрано 62 компанії, які відповідали вимогам дослідження, що дозволило отримати 186 точок даних за три роки. Для проведення регресійного аналізу панельних даних використане програмне забезпечення Eviews 12.0, доповнене кількісним аналізом, що включав одночасне використання панельних даних, тестів Чоу та Хаусмана. Результати свідчать про те, що такі аспекти фінансової діяльності, як рентабельність активів і левередж, сприятливо впливають на ухиляння від сплати податків, але включення фінансової скрути як пом'якшувального фактора, схоже, послаблює цей зв'язок.

Ключові слова: фінансова криза, ухиляння від сплати податків, рентабельність активів, левередж, панельні дані

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