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FINANCIAL DISTRESS AND TAX AVOIDANCE: FIRM SIZE AS MODERATING VARIABLE

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ABSTRACT

The direction of the research is to see how financial problems affect tax avoidance based on firm size. Manufacturing companies that are legalized on the Indonesia Stock Exchange as the population in this research. Purposive sampling technique to conduct sampling, which resulted in a total of 230 observations. Eviews 10 was used to analyze secondary data used in this study. Tax avoidance is not affected by financial distress, according to regression analysis and descriptive statistics. This shows that the financial distress score does not affect changes in tax avoidance. The effect of financial distress on tax avoidance is reduced by the moderating variable, company size. The larger the company, the less likely it is to experience financial problems and the more likely it is to fulfill its tax obligations.

Keywords: *Firm size, financial distress, tax avoidance*

ABSTRAKSI

Arah dibangunnya riset adalah untuk melihat bagaimana masalah keuangan berdampak pada penghindaran pajak berdasarkan ukuran perusahaan. Perusahaan manufaktur yang terlegalisasi di Bursa Efek Indonesia sebagai populasi dalam riset ini. Teknik *purposive sampling* untuk melakukan pengambilan sampel, yang menghasilkan total 230 observasi. Eviews 10 digunakan untuk menganalisis data sekunder yang digunakan dalam penelitian ini. Penghindaran pajak tidak dipengaruhi oleh kesulitan keuangan, menurut analisis regresi dan statistik deskriptif. Hal ini menunjukkan bahwa skor kesulitan keuangan tidak memengaruhi perubahan penghindaran pajak. Efek dari susahnya aspek finansial atas penghindaran pajak dikurangi oleh variabel moderasi, ukuran perusahaan. Semakin besar perusahaan, semakin kecil kemungkinan mengalami masalah keuangan dan semakin besar kemungkinan untuk memenuhi kewajiban pajaknya.

Kata-kata kunci: Kesulitan keuangan, penghindaran pajak, ukuran perusahaan.

INTRODUCTION

Indonesia, as a developing country, has its largest source of revenue from taxation. Over the five years, tax contributions have been significant, accounting for 81,81% of total revenue in 2022 (Central Bureau of Statistics, 2023). Taxation plays a crucial role in increasing national income, which is used to support various needs, including state-owned companies and government program (Kalbuana *et al*., 2023). Tax policy serves as an important instrument an aiding the implementation of various government policies (Asyik, 2021). However, tax avoidance practices are often employed by some companies to minimize their tax burden. The primary goal of tax avoidance is to reduce tax obligations by using legal loopholes within Indonesia's regulatory framework (Dewianawati, 2021).

The Ministry of Finance has recorded two sectors with largest contributions to tax revenue: the manufacturing and trade sectors, both of which have shown declines. As of May 2024, tax contributions from the manufacturing sector decreased by 14,2% in contrast to the year prior, while tax contributions from the trade sector dropped slightly by 0,2%. Together, these two sectors account for 50% of total revenue. Minister of Finance Sri Mulyani stated that the manufacturing industry experienced a contraction of 14.2%. "The manufacturing sector contributes the most, with 25.6%. Therefore, a 14.2% decline is something to watch closely," she noted. According to the Ministry of Finance, the decrease in tax revenue from the manufacturing sector was due to a reduction in annual corporate income tax payments and an increase in tax refunds from the palm oil, metal, and fertilizer subsectors.

It is suspected that PT. Adaro Energy Tbk engaged in tax avoidance methods, which is what happened in the 2019 tax avoidance case. Since 2009 to 2017, PT. Adaro Energy Tbk has been suspected of engaging in tax avoidance techniques through transfer pricing, which involves moving substantial revenues from Indonesia to businesses in nations with low tax rates or tax exemptions. It is believed that PT. Adaro Energy Tbk engaged in these activities in order to pay taxes that were IDR 1.75 trillion, or US$ 125 million, less than what was required in Indonesia. Depending on the situation, transfer pricing is used to evade taxes (Kompasiana.com).

Ying (2017), describes how managers implement techniques to preserve company continuity when organisations confront significant levels of uncertainty. Tax avoidance is a widely used strategy since it can stabilise cash flow, give shareholders benefits, and serve as an internal source of funding. Taking into account the degree of corporate pressure and the state of the economy as a whole, this study focuses on financial difficulty as a motivator for businesses to engage in tax avoidance. Richardson *et al*. (2014), elucidate how high tax avoidance is linked to extreme financial distress and how this relationship tends to get worse during economic downturns.

A company's decision to evade taxes may be influenced by a number of factors, including financial distress. When a company's cash flow approaches bankruptcy levels, financial turmoil arises. (Alifianti & Chariri, 2017). Tax planning is structured to minimize income tax burdens, making tax avoidance a management strategy during financial hardship (Richardson *et al*., 2014). Some studies indicate that financial distress can facilitate tax avoidance efforts (Hisa & Haq, 2023). However, financial distress also has a negative impact on tax avoidance, as it can create a negative perception of the company among shareholders, indirectly leading to adverse effects (Nadhifah & Arif, 2020).

The first factor that is considered to influence tax avoidance is financial distress. When a business experiences financial distress, the business promises to pay its debts before going bankrupt, indicating that the business is experiencing financial distress. According to (Swandewi & Noviari, 2020), financial problems are a key element that can really encourage businesses to engage in tax avoidance. Financial distress has a beneficial impact on tax evasion, according to research by Swandewi & Noviari (2020), Senapan & Senapan (2021). Contrary to these two research, Suyanto *et al*. (2021), Alifianti & Chariri (2017), and Monika & Noviar (2021) claimed that tax evasion is negatively impacted by financial distress. However, Rani (2017) came to a different result in her research, stating that there is no correlation between tax evasion and financial suffering.

Firm size another element that affects tax avoidance. Researchers use firm size as a moderating variable, reflecting the scale of a business as shown in the audited year-end financial statements (Handayani & Mildawati, 2018). A company with significant assets is often seen as healthy, indicating a favorable long-term outlook (Oktavia *et al*., 2020). Large companies, with higher total assets, are generally perceived as more reliable by investors, creditors, and other financial statement users (Alfiana, 2021). Firm size moderates the relationship, potentially strengthening or weakening the company's engagement in tax avoidance. Company size can be measured by sales and equity levels (Alfiana, 2021). The Moderation Effect of Company Size on Financial Distress with Tax Avoidance According to

Suyanto *et al*. (2022) which states that when a company experiences more financial difficulties, the smaller the tax avoidance carried out because it is considered too risky if detected and will further burden the company's finances. Meanwhile, according to research conducted by Anggara & Pratomo (2021), company size has a positive effect on tax avoidance activities because it is considered too risky if detected and will further burden the company's finances.

The moderating variable in this study is firm size. The size of a company refers to a classification based on scale, which reflects the level of its operational activities and profitability. Large companies may be more stable and generate large profits. Thus, large Chen *et al*. (2016) Firm size does not significantly affect company profitability, because large companies often attract the attention of outside parties, especially tax authorities.

Agency theory is applied in this study. According to agency theory, tax evasion is a sensible tactic for a business in financial trouble to lower agency costs. This is a result of management's initiative to boost shareholder wealth through cost-cutting and cash-reservation measures (Vemberain & Triyani, 2021).

Tax avoidance is considered to increase the value of the company. Tax avoidance is seen as a reduction in the explicit tax obligations of a company. Therefore, tax avoidance includes tax planning strategies, which on one hand are legal activities and on the other hand may involve illegal tax avoidance. Traditionally, tax avoidance is viewed as a tax reduction that transfers benefits from the government to shareholders, with the aim of maximizing shareholder value. Tax avoidance reduces costs, thus enhancing the company's profitability. Profitability and good performance growth are generally correlated with a higher company value. Profitability and company growth have a significant impact on shareholder value (Chen *et al*., 2016).

A corporation is said to be in financial distress if it is experiencing financial difficulties that lead to a deterioration in its economic situation and a higher danger of bankruptcy (Kalbuana *et al*., 2023). Additionally, there is a significant chance that the business may use tax evasion techniques to make sure it can stay in business.

Because a business is a taxpayer, its size is thought to affect its capacity to pay taxes and is taken into consideration as a potential cause of tax evasion. The size of a company's total assets determines its growth stage; the higher the total assets, the better the company's long-term prospects (Andini *et al*., 2021). According to the study by Putra (2016) in Vemberain & Triyani (2021), Company size is a scale that divides, depending on a variety of criteria, such as total revenue, into large and small firms, average revenue rate, market value of shares, and total assets possessed by the business.

Tax evasion is a problem worth revisiting since, according to earlier research findings, there are differences in research outcomes. Indeed, tax evasion is a fascinating topic. This study examines how financial difficulty affects tax evasion by combining results from earlier studies. The current study is not the same as (Ariff *et al.*, 2023) by using the Effective Tax Rate (ETR) to measure tax avoidance and the research period which has different conditions from previous years due to the Covid-19 pandemic. This study also adds company size in accordance with the research recommendations of Anugerah *et al*. (2022) which is intended to determine how big the role of company size is in strengthening or weakening tax avoidance practices so that it is expected to confirm the inconsistency of the empirical results of the influence between financial distress on tax avoidance and company size as a moderator. The purpose of this study is to investigate how financial distress affects tax avoidance while controlling for company size and this findings of research proven that suggestions for business executives on how to manage financial distress without resorting to tax avoidance strategies that could harm the company's reputation.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

When a principal assigns responsibilities to an agent, the relationship between the two parties is described by the agency theory. The investor is the principal in this situation, whereas the company's management acts as the agent. According to the principle, the company's owner, or shareholder, gives the management the resources they need to operate the business. The management is supposed to act in the owners' best interests in exchange. Decision-making power is granted to management (Bertrand, 2016).

Utility maximization applies to both the principal and the agent. As a result, the agent might not always operate in the best interests of the principal (Ng & Phie, 2020) . The principal's objective of maximizing returns on the resources supplied may clash with the agent's frequent pursuit of maximizing personal rewards, such as bonuses. This creates a conflict of interest between the two parties (Bertrand, 2016).

Due to the discovery that the principal and the agent have their own separate interests, this situation often leads to the agent exploiting information asymmetry (Hartadi, 2012). This can result in the agent concealing information from the shareholder (principal) (Dinasmara & Adiwibowo, 2020). This situation may encourage management to engage in undesirable actions such as earnings management. The relationship between management and shareholders can be evaluated through accounting figures in financial reports. Management's performance is monitored, assessed, and supervised by shareholders so they can assess the value being provided to them (Oktavia & Hananto, 2018).

Thus, the perspective of agency theory on tax avoidance is that tax avoidance is considered a sensible plan to save agency expenses in companies facing financial distress (Sadjiarto *et al.*, 2020). This is because management takes the initiative to enhance shareholder wealth by reducing costs and conserving cash. Because the possible costs are frequently less than the potential advantages, tax avoidance is therefore viewed as a suitable strategy to assist a business survive when it faces financial difficulties (Richardson *et al.*, 2014). Furthermore, the approach is less risky than other cost-cutting measures like cutting back on capital projects or firing staff. Companies employ tax evasion tactics to remain afloat, particularly for those in financial difficulties (Sadjiarto *et al.*, 2020).

Agency theory is applicable to taxation in order to comprehend how managers behave while handling company tax liabilities. When management knows more about the state and future of the firm than the owners do, this is known as information asymmetry, and it can lead to chances for management to avoid paying taxes. To reduce the company's tax responsibilities, management can, for instance, falsify financial accounts or take advantage of tax law gaps (Retnaningdya & Cahaya, 2021). This framework is intended to simplify and analyze the issues that need to be addressed. The following represents the conceptual framework used in this study:

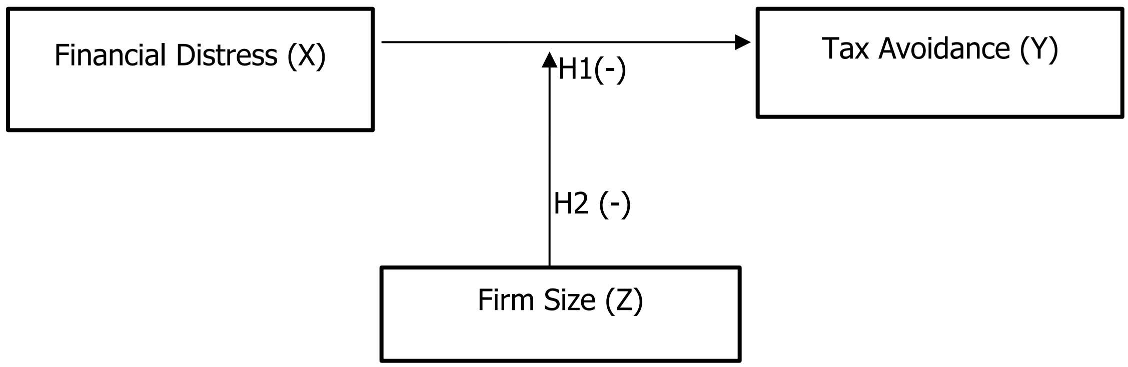

Figure 1: Hypothesis Development Framework

Source: Processed Data, 2024

Financial Distress

When a business struggles to fulfil its responsibilities, it is said to be in financial hardship (insolvency). Financial distress is the beginning of a financial shortfall in a company, which is considered a major disaster for the company, such as bankruptcy. If this condition is left unchecked over time, it will lead to the company experiencing insolvency (Tsaqif & Agustiningsih, 2021). The cause of financial distress is a result of declining financial performance or poor company development. The inability of a business to fulfil its responsibilities is referred to as financial distress. A corporation is considered to be in financial distress when its external liabilities cannot be covered by the total worth of its assets (Nadhifah & Arif, 2020).

Logically, It makes sense that management would prioritize cash flow recovery and the company's financial health in a financial hardship scenario. Tax avoidance poses additional dangers, including penalties from tax authorities and harm to the company's reputation, even though it can temporarily lower tax burdens. In order to reduce these risks, management may decide to boost tax compliance, which can support the company's financial recovery efforts and preserve positive relationships with stakeholders. (suwandini) Corporate management will always act in its own best interests, according to agency theory. When a business has financial difficulties, management tries to keep everything looking good. When a company's financial situation worsens prior to bankruptcy or liquidation, it is said to be in financial difficulty. Due to contractual and third-party commitments, the corporation will do everything in its power to survive in this scenario. Accounting practices are frequently changed by management in an effort to boost income or strengthen its capacity to fulfill obligations. Avoiding taxes is one way to do this, which lowers the tax burden on the business (Putri & Rohman, 2024).

The research findings (Monika & Noviari, 2021) confirm agency theory, which explains that principals focus on efforts to restore cash flow and avoid bankruptcy risks, rather than engaging in tax avoidance practices. This aligns with the delegation of corporate management responsibilities to management, making it obligatory for management to be accountable to the principals. Companies facing financial distress tend to be at risk of engaging in tax avoidance. This is because the company will encounter increasing difficulties in its funding activities. Studies by (Hidayanto *et al.*, 2021), (Dhian Mahardhika & Surjandari, 2022) imply a negative correlation between avoided taxes and financial hardship. Businesses that are struggling financially typically file more taxes. The following theory can be put out in light of this explanation:

H1: Financial distress has a negative effect on tax avoidance

Firm Size

Small businesses are especially susceptible to liquidity challenges during times of financial turmoil since they frequently have fewer financial resources. They are therefore more inclined to try to lower tax obligations and preserve business continuity by engaging in tax evasion (Hidayanto *et al.*, 2021). However, big businesses usually have better access to outside capital sources, more robust corporate governance, and stricter stakeholder and regulatory supervision. As a result, even during difficult financial times, they are more likely to comply with their tax duties in order to preserve their good name and long-term stability (Dirman & Destriana Frizky, 2022). Agency theory (Vemberain & Triyani, 2021) states that the complexity of a company's agency relationships increases with its size. Due to more conflicts of interest between owners and management, large organizations have higher agency costs. This might result in harsher laws and additional supervision from tax authorities and shareholders.

According to research by (Anissa Pujiwaty & Nera Marinda Machdar, 2024), the effect of financial crisis on tax avoidance is lessened for larger companies. Larger businesses have more financial resources and are better equipped to handle financial difficulties. According to a study by (Anissa Pujiwaty & Nera Marinda Machdar, 2024), a corporation is more likely to pay its taxes when it is experiencing severe financial difficulties. According to (Oktawianto & Laksmiwati, 2023), firm size is a scale that classifies a company's size according to

variables like sales volume, total assets, stock value, and so forth. Furthermore, research by (Dirman & Destriana Frizky, 2022) shows a negative correlation between tax avoidance and firm size, indicating that larger businesses are less likely to face financial distress. following hypothesis is put out in this study in light of the explanation above:
H2: Company size weakens the relationship between financial distress and tax avoidance.

METHOD

The character of this research can be measured. Manufacturing businesses comprise the population from 2018 to 2022. The years 2018–2022 cover a range of important economic circumstances, such as those preceding, during, and following the COVID-19 pandemic. This time frame offers a more thorough analysis of the ways in which tax evasion is impacted by financial difficulties in various economic scenarios. Purposive sampling was used to establish the sample size, yielding 230 observations or 46 firms. This study makes use of secondary data, including audit accounting statements and yearly statements of manufacturing firms for the years 2018–2022, which are available to the general public via Indonesia's Industrial Exchange's official website (www.idx.co.id). Tax avoidance is the dependent variable, The effective tax rate (ETR) proxy, which is the ratio of tax burden to before tax profit, is used to measure tax avoidance (Tanujaya *et al.*, 2021).The more the tax avoidance, the lower the ETR (Terhadap & Pajak, 2024), In this study, the independent variable is financial difficulty, and the moderating variable is company size. Table 2 displays the operational descriptions, scales, measures, and referenced variables. With the aid of Eviews 10, a program created especially to facilitate panel data analysis, moderation effect tests are used to analyze the data. Table 1 displays the following sample selection criteria:

Table 1. Sample Criteria

No.	Sample Criteria
1.	From 2018 to 2022, manufacturing firms were listed on the Indonesia Stock Exchange.
2.	manner between 2018 and 2022 Businesses that did not suffer losses between 2018 and 2022.
3.	Businesses that did not suffer losses between 2018 and 2022.

Source: Processed Data, 2024

Table 2. Operational Definition

No	Variable	Operational Definition	Measurement
1.	Dependent Variable: Tax Avoidance	Tax avoidance refers to the activities aimed at legally minimizing the tax burden that a company is obligated to pay, without deviating from the established laws and regulations.	$\mathrm{ETR} = \frac{\text{Tax Expense}}{\text{Earning Before Tax}}$ (Tanujaya *et al*., 2021)
2.	Independent Variable: Financial Distress	Financial distress is a condition in which a company struggles to meet its obligations. It represents the onset of financial shortages for the company, often seen as a significant disaster, such as bankruptcy.	Zi = 1,2 X1i + 1,4 X2i + 3,3 X3i + 0,6 X4i + 1,0 X5i X1i = Working Capital / Total Assets X2i = Retained Earnings / Total Assets X3i = Earnings Before Interest and Taxes / Total Assets X4i = Market Value of Equity / Total Liabilities X5i = Sales / Total Assets (Setyaningrum *et al*., 2020)
3.	Moderating Variable: Company Size	Company size is an indicator that classifies companies based on their operational scale and reflects the operational activities and revenues of the company (Julianty *et al*., 2023).	Firm Size=log (Total Assets) (Anissa Pujiwaty & Nera Marinda Machdar, 2024)

Source: Processed Data, 2024

RESULT AND DISCUSSION

According to Table 3, There is a lowest number for a tax evasion variables of 0.000902 and a maximum value of 4274.205, as indicated by description statistics test's outcomes. These findings show that the effective tax rate ranges from 0.000902 to 4274.205. The data variation within the sample is relatively large, as reflected by the mean value of 18.85625, which is smaller than the standard deviation of 281.8148. For the financial distress variable, the lowest value is 1.087323, while the highest value reaches 3230.527. According to these findings, the z-score falls between 1.087323 and 3230.527. With an average value of 36.66662 and the standard deviation of 229.4978, the sample's data variance is relatively big because the mean is shorter than the standard deviation. The value of the financial distress variable ranges from 338.2030 at the minimum to 2.23313 at the greatest. According to these findings, the z-score falls between 338.2030 and 2.23313. With a mean value of 1.600912 and a standard deviation of 3.55512, the sample's data variance is relatively big because the mean is shorter than the standard deviations.

Table 3. Moderated Regression Analysis (MRA)

Model	Coef.	T	Sig.	R-Squared
(Constant)	18.85529	0.994460	0.3213	0.000
FD	2.610005	0.000273	0.9998	0.196
ETR	2269.921	-5.913939	0.0000	0.325
FD x LNSIZE	2271.026	-0.163743	0.8701	0.326

Source: Research data processing with Eviews 10.0 (2024)

Given the first hypothesis's reliability (p-value) of 0.9998 (>0.05) and t-statistic value of 0.000273, we can conclude that Financial Distress as no appreciable effect on Tax Avoidance The Modified R-Squared value of 0.196 indicates that the financial troubles variable contributes 19.6% to the tax evasion variable. With a test statistic of -5.913939 and a significance (p-value) of 0.0000 (<0.05), it can be said that variable LNSIZE (M) significantly affects variable ETR (Y). The Adjusted R-Squared value of 0.325 indicates that the Z_Score (X) & Moderation variable contributes 32.5% to the ETR (Y) variable.

Regarding the second hypothesis, With a t-statistic value of -0.163 and a significance (p-value) of 0.870 (>0.05), the variable Z-SCORE-LNSIZE (Interaction of variable X with Moderation) indicates that the Moderation variable does not substantially moderate the influence of Z_SCORE (X) on the ETR (Y) variable. The Z_SCORE (X) and Z-SCORE_LNSIZE variables together contribute 32.6% to the ETR (Y) variable, according to the Adjusted R-Squared value of 0.326.

Table 4. Hypothesis testing

Variable	Regression Coefficient	Sig.	Conclusion
Constant	18,855	0,000	-
Independent Variable			
ZSCORE	1,670	0,774	Not Significant, Ha1 rejected
Moderating Variable			
ZSCORE*FSize	-0,0006	0,001	Weakens Negatively, Ha2 accepted

Source: Research data processing with Eviews 10.0 (2024)

Table 5. Rebustness Test

	First Equation	Second Equation	Robustness Test
Adjusted R-Squared	0.962316	0.941724	283.0510

The model robustness test is a model robustness test. The robustness of the model can be known by using Table 5. Equation 1 which shows the effect of financial distress on tax avoidance has an Adjusted R-Squared value of 0.962316 or 96,23% percent. Equation 2, which shows the impact of financial crisis on tax evasion modulated by firm size, has an Adjusted R-Squared value of 0.941724, or 94.17%. During the Robustness Test, the Adjusted R-Squared value was 283.0510. There was no discernible change in the results during the robustness test or before and after the moderating variable was added. This shows that the model durability test was passed by the data.

Financial Distress on Tax Avoidance

According to the findings of the regression study, financial difficulty has no bearing on tax evasion; the regression coefficient was 1.67E-05 with a significance value of 0.7742 (>0.05). Consequently, the first hypothesis (H1) is disproved. This suggests that the degree of financial hardship has no bearing on whether tax evasion rises or falls.

This result is consistent with a study by Fauzan *et al*. (2021) that found no link between tax evasion and financial distress. Businesses that are having financial difficulties are less likely to avoid taxes because they frequently lose money or don't make any. A business that suffers losses could be compensated without taking tax obligations into account, which lessens the temptation to evade taxes.

Table 6. Empirical Data Analysis

Company	Year	Z-Score	ETR
PT. Alaska Industrindo (ALKA)	2018	1.2827	0.2632
PT. Mark Dynamics Indonesia Tbk	2022	3230.53	0.2633

Sourced: Processed 2024

PT Alasaka Industrindo Tbk (ALKA) in 2018 Had a Z-SCORE of 1.2827, indicating a relatively weak financial position. Despite financial distress, the ETR value was 0.2632, suggesting moderate tax compliance. PT Mark Dynamics Indonesia Tbk in 2022, Had a significantly high Z-SCORE of 3230.53, suggesting a very stable financial position. However, its ETR was still low at 0.2333, indicating continued tax avoidance behavior.

Financial distress has no discernible effect on tax evasion behaviour, according to the research. The results imply that other elements like corporate governance, regulatory supervision, and strategic financial planning continue to have an impact on tax avoidance regardless of a company's financial stability or hardship. While distressed corporations may not always dodge taxes because of loss compensation benefits, even financially strong companies may continue to engage in tax avoidance. This study supports the claim that strategic factors other than financial hardship are what motivate tax evasion.

Firm Size Moderates the Relationship Between Financial Distress and Tax Avoidance

According to the aforementioned regression test results, firm size reduces the detrimental impact of the financial crisis on tax avoidance, with a Prob. T-Statistic value of 0.0015 (<0.05) and a regression coefficient of -0.000682. The second hypothesis (H2) is thus chosen to be accepted. Within result of this research has same position as a study by Anissa Pujiwaty and Nera Marinda Machdar 2024, which found that the impact of financial crisis on tax evasion is less pronounced for larger businesses. Greater financial resources and the ability to handle financial difficulties are correlated with the size of the company.

Table 7. Empirical Data Analysis

Variable	Value	Interpretation
Firm Size (Total Assets)	IDR 1,393,079,542,074	Indicates a large-scale company
Z-Score	6.7266	High score suggests strong financial stability
Effective Tax Rate (ETR)	0.5646	A higher ETR value indicates greater tax compliance

Sourced: Processed 2024

Supporting evidence is drawn from PT Wilmar Cahaya Indonesia Tbk (CEKA) in 2019, demonstrating that firm size correlates with financial stability and tax compliance. The company appears to be financially solid and less likely to face financial difficulties, as shown by the high Z-SCORE (6.7266). The corporation does not engage in aggressive tax evasion, as indicated by its ETR value of 0.5646, which is closer to 1. Because of its size, the company has more financial resources and is therefore less reliant on tax evasion tactics to stay afloat.

According to the study, a company's size has a significant impact on lowering tax evasion amid financial crises. Due to factors including governance, reputation, and financial health, larger businesses typically adhere to tax laws more closely. This implies that since mid-sized and smaller businesses are more likely to use tax evasion tactics when they are experiencing financial difficulties, corporate tax policy should concentrate on tightening restrictions for them.

The study's findings, which are supported by agency theory, show that big businesses have superior governance, which makes them more likely to pay taxes even in times of financial distress. In order to preserve the stability and long-term reputation of the business, principals (shareholders) frequently put pressure on agents (management) to refrain from high-risk behaviors, such aggressive tax avoidance. This result is in line with earlier research (Desai & Dharmapala, 2006) , who discovered that aggressive tax avoidance is less likely when company governance is robust. In a similar vein, (Hanlon & Heitzman, 2010) highlighted that because of increased stakeholder monitoring, companies with stronger governance frameworks are more likely to implement conservative tax tactics. Furthermore, because they are subject to more regulatory scrutiny and reputational hazards, larger companies with more financial resources are less likely to engage in tax evasion, according to study by (Richardson *et al*., 2016).

In contrast to other nations, Indonesia is still working to improve tax governance in order to prevent tax evasion. Because of openness, stringent laws, and reputational risks, countries with superior governance—like the US, Germany, and Singapore—show that big businesses are more likely to comply https://www.iras.gov.sg/. Nonetheless, nations with more lax laws, like the Netherlands and Ireland, continue to be prime destinations for businesses looking to evade taxes.

CONCLUSIONS

According to this study, tax evasion in manufacturing firms listed on the IDX between 2018 and 2022 is not directly impacted by financial difficulties. Financially troubled businesses typically lose money or make little, which lessens their motivation to evade taxes. Companies sometimes obtain tax compensation when they incur losses, which lessens the necessity of putting tax avoidance methods into place. Firm size, however, has a moderating effect. Larger businesses are subject to more external scrutiny from investors, authorities, and the general public, as well as greater financial resources, according to agency theory. As a result of increased reputational risks and possible conflicts of interest with shareholders, management is less motivated to participate in tax evasion. Larger companies can handle financial strains more openly and without turning to tax evasion tactics if they have greater access to capital. Practically speaking, these results emphasise how crucial good financial management is to overcoming economic challenges. To guarantee tax compliance and safeguard the company's reputation, business executives should take advantage of financial stability and heightened scrutiny. This study has certain limitations, particularly in considering only financial distress as the independent variable. Future research could explore additional factors such as ownership structure, corporate governance quality, and more complex tax management strategies. Additionally, the measurement of financial distress and tax avoidance could be refined to better capture the complexity of these issues.

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