

# Financial Distress and Corporate Tax Avoidance: Does Profitability Matter?

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## ABSTRACT

This study explores the association between financial crisis and business tax avoidance, utilizing profitability as a moderating variable and audit committee effectiveness as a governance device. There is conflicting evidence in previous research about whether financially troubled companies act aggressively when it comes to taxes. This study uses a random effect regression model to examine the suggested associations using panel data from 121 listed businesses throughout the 2022–2024 period. The effective tax rate measures corporate tax evasion, whereas financial distress indicators and return on assets measure financial distress and profitability. The data show that financial difficulty does not affect corporation tax evasion. However, profitability considerably moderates the link between financial distress and tax avoidance, showing that financially distressed firms with higher profitability are more likely to dodge taxes. Furthermore, tax evasion is significantly impacted negatively by audit committee effectiveness, underscoring the importance of internal governance in preventing opportunistic tax conduct. These data imply that business tax avoidance is driven by financial capacity and governance supervision rather than financial pressure alone.

**Keywords:** Financial distress, profitability, tax avoidance, audit committee.

## INTRODUCTION

company tax dodging continues to garner attention due to its influence on state revenue and public trust in company compliance (Karlinah, Meutia, et al., 2025). In recent years, many firms have faced increasing financial pressure caused by economic uncertainty, rising operational costs, and market volatility. Despite these challenges, corporate tax contributions do not always move in line with firms' financial conditions (Kalbuana et al., 2023). Some companies experiencing financial difficulties remain compliant, while others with relatively stable performance continue to seek ways to reduce their tax burden. This phenomenon suggests that financial pressure alone may not fully explain corporate tax avoidance behavior.

In practice, firms encountering financial distress are often assumed to have stronger incentives to conserve cash, including through tax-saving strategies (Kacem & Brahim Omri, 2022). However, empirical observations show that not all distressed firms engage in aggressive tax avoidance. Certain firms appear cautious, possibly due to reputational concerns, regulatory scrutiny, or internal governance mechanisms. Conversely, firms that remain profitable despite financial pressure may possess greater flexibility to manage tax obligations strategically. These contrasting behaviors raise questions about whether financial distress uniformly affects tax avoidance or whether its impact depends on firms' financial capacity (Wahyuda et al., 2025).

Prior research have thoroughly studied the association between financial distress and business tax avoidance (Karlinah et al., 2024b; Li, 2022), However, the findings remain inconclusive. Several studies document a positive relationship, suggesting that financially distressed firms intensify tax avoidance to preserve cash flows. In contrast, other studies report insignificant or even negative associations, arguing that distressed firms tend to behave more conservatively due to heightened monitoring and reputational concerns. These contrasting results indicate that financial distress does not operate uniformly across firms. One limitation of prior research is the tendency to treat financial distress as a standalone determinant without considering how internal firm conditions may alter its impact on tax behavior.

Profitability reflects a firm's financial capacity and strategic flexibility. While some studies include profitability as a control or independent variable, limited attention has been given to its potential role in shaping how financial distress affects tax avoidance (Kalash, 2023; Zhang et al., 2022). In highly profitable firms, financial pressure may be accompanied by sufficient resources to engage in tax planning strategies. Conversely, less profitable firms may lack both the incentive and capacity to pursue aggressive tax behavior. The limited integration of profitability as a conditional factor represents a gap in the literature, particularly within emerging market settings where financial constraints and governance structures vary considerably.

In addition to financial aspects, corporate governance systems have a key role in molding managerial decisions. In particular, the audit committee functions as an internal monitoring system designed to curb opportunistic conduct, such as aggressive tax methods. Previous research generally supports the idea that effective audit committees are associated with decreased tax avoidance. However, governance variables are often analyzed separately from firms' financial conditions, leaving limited understanding of how governance functions alongside financial pressure.

Based on these data, an obvious research gap appears. Despite prior research on financial distress, profitability, and business governance and tax avoidance, the conditional significance of profitability in understanding how financial crisis promotes tax avoidance has received little attention. This study examines the audit committee as a governance instrument and if profitability moderates the financial crisis-corporate tax evasion relationship to reduce this gap. Financial difficulties does not necessarily lead to tax evasion, but rather depends on businesses' profitability, according to this research. This study differs from prior research by explicitly examining profitability as a moderating variable rather than as a direct determinant. By integrating financial pressure, financial capacity, and governance mechanisms within a single framework, this study provides a more comprehensive explanation of corporate tax avoidance behavior.

## LITERATUR REVIEW

### Agency Theory

The contractual relationship between principals (shareholders) and agents (managers) (Farooq et al., 2020) involves agents making choices for principals. When managers seek personal advantages over shareholder interests, delegation can cause conflicts. Information asymmetry further intensifies this conflict, as principals cannot fully observe or control managerial decisions (Chouaibi et al., 2022; Supriatiningsih et al., 2023).

Corporate tax evasion can be seen as a type of managerial discretion in the context of taxes. To accomplish earnings goals, maintain cash flows, or enhance short-term financial performance, managers may use tax evasion techniques. While such activities may boost corporate value in the near run, they may also expose enterprises to regulatory risk and reputational consequences. Consequently, tax avoidance reflects an agency-related decision in which monitoring mechanisms play a crucial role.

Financial conditions may amplify agency problems. Firms experiencing financial distress face greater pressure to maintain liquidity, which may increase managers' incentives to engage in opportunistic behavior, including aggressive tax planning. However, agency theory also argues that

management discretion can be controlled by governance structures, demonstrating that the influence of financial difficulty on tax avoidance is not always consistent among organizations.

### **Financial Distress and Corporate Tax Avoidance**

When businesses struggle to fulfill their financial commitments, it's referred to as financial hardship. (Toumi et al., 2022; Uzliawati et al., 2023). Distressed firms are often assumed to face strong incentives to conserve cash and reduce outflows, including tax payments. According to this logic, when businesses try to relieve financial strain, financial difficulty is predicted to raise the possibility of tax evasion.

However, empirical data contradicts statements about financial crisis and commercial tax dodging. While some research indicates that struggling companies use more aggressive tax techniques, other studies show no or unfavorable correlations. These results imply that company tax dodging behavior may be explained by factors other than financial difficulty, such as regulatory scrutiny, reputational concerns, and long-term sustainability.

### **Profitability as a Moderating Variable**

A company's ability to make money from its operations and assets is reflected in its profitability. Profitable firms generally possess greater financial flexibility and capacity to absorb financial pressure (Karlinah et al., 2024a; Zhang et al., 2022). In tax-related decisions, profitability may influence both the incentives and the ability of managers to engage in tax avoidance strategies (Karlinah, Sari, et al., 2025).

Prior research generally study profitability as an independent determinant of tax avoidance, however its significance as a moderating variable remains underexplored. From an agency perspective, profitability may modify how financial crisis affects managerial behavior. While businesses with low profitability might take more cautious tax measures, distressed businesses with high profitability might still have the resources to seek tax evasion. This implies that the association between financial crisis and company tax evasion may be dependent on profitability.

### **Audit Committee and Corporate Tax Avoidance**

The audit committee oversees financial reporting, internal control, and regulatory compliance in its capacity as an internal governance instrument (Karlinah et al., 2023; Mousavi et al., 2022). An effective audit committee can reduce information asymmetry and limit managerial opportunism, including aggressive tax behavior.

Stronger audit committees are often associated with lower levels of tax avoidance, according to prior empirical research. By improving monitoring and responsibility, audit committees can discourage managers from engaging in tax tactics that may expose the firm to legal or reputational concerns. The audit committee is seen in this study as a governance tool that has a direct impact on corporate tax evasion.

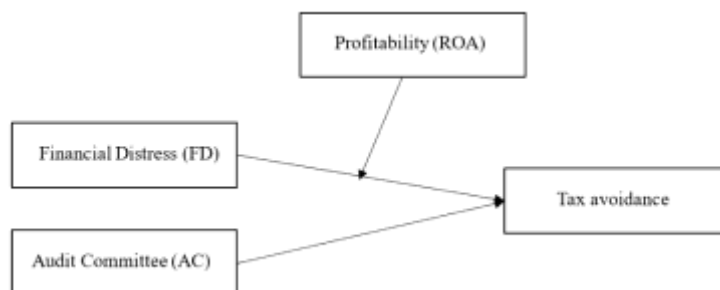
### **Conceptual Framework**

Agency theory states that conflicts of interest between managers and shareholders influence managerial actions, especially under financial pressure and inadequate supervision. In the context of corporate taxation, tax avoidance constitutes a discretionary managerial activity that may be influenced by firms' financial conditions, performance capabilities, and governance procedures.

The conceptual framework of this study posits financial suffering as a crucial explanatory variable affecting corporate tax avoidance. However, the effect of financial crisis is not considered to be uniform among enterprises. Instead, it is expected to vary depending on firms' profitability, which reflects their financial capacity to respond to pressure. Profitability is therefore viewed as a moderating factor that modifies the association between corporate tax evasion and financial hardship.

In addition, the audit committee is incorporated as a corporate governance instrument that directly influences tax evasion behavior. As an internal monitoring body, the audit committee is expected to constrain managerial opportunism and reduce aggressive tax practices. The conceptual

framework outlining the relationships among financial crisis, profitability, audit committee, and corporate tax avoidance is illustrated in Figure 1.



**Figure 1. Conceptual Framework**

### Hypotheses Development

#### Financial Distress and Corporate Tax Avoidance

Financial distress reflects a firm's inability to meet its financial obligations and often signals increased pressure on management to maintain liquidity and operational stability (Oware & Appiah, 2022). Under such conditions, managers may consider various strategies to reduce cash outflows, including tax-related decisions. From an agency perspective, financial distress may influence managerial discretion in tax planning, as managers attempt to protect short-term firm performance. However, financial difficulty may also lead organizations to adopt more conservative behavior due to heightened scrutiny from creditors, auditors, and regulators. Given these contrasting theories, the effect of financial difficulty on business tax avoidance remains an empirical topic.

**H1:** "Financial distress has an effect on corporate tax avoidance."

#### Audit Committee and Corporate Tax Avoidance

The audit committee serves as a crucial internal governance structure responsible for analyzing financial reporting and ensuring compliance with rules (Putri et al., 2025). An effective audit committee can reduce information asymmetry and constrain managerial opportunism, including aggressive tax behavior. Strong scrutiny by the audit committee is expected to limit managers' capacity to participate in tax avoidance tactics that may expose the firm to regulatory and reputational concerns. Accordingly, audit committee effectiveness is predicted to influence corporate tax avoidance.

**H2:** "Audit committee effectiveness has a negative effect on corporate tax avoidance."

#### The Moderating Role of Profitability

Profitability reflects a firm's financial capacity and level of managerial discretion in responding to financial pressure (Sari et al., 2024). From an agency theory perspective, managers are more likely to exercise discretion when firms possess sufficient financial resources. While financial distress may create incentives to preserve liquidity, the ability to implement tax planning strategies depends on whether firms have adequate profitability to support such decisions. In other words, financial pressure alone may not directly translate into tax avoidance without the financial capacity to execute strategic responses.

Prior empirical studies frequently examine profitability as an independent determinant of tax avoidance. However, limited research considers profitability as a conditional factor that alters the impact of financial distress. Profitable firms facing financial distress may have both the incentive and the capability to engage in tax planning strategies, whereas less profitable distressed firms may lack such flexibility. Therefore, profitability is expected to moderate the relationship between financial distress and corporate tax avoidance

**H3:** “Profitability moderates the relationship between financial distress and corporate tax avoidance.”

## METHOD

### Research Design

This quantitative study examines how financial difficulties affects firm tax evasion, utilizing profitability as a moderating variable and audit committee effectiveness as a governance device. The quantitative technique is considered appropriate as this study intends to investigate predicted correlations among variables using empirical data and statistical analysis.

### Data and Sample Selection

The study uses secondary data from listed company annual financial reports. The sample comprises of 121 enterprises monitored over a three-year period (2022–2024), resulting in 363 firm-year observations. A balanced panel dataset is adopted to ensure uniformity across observations. The sample selection is based on the following criteria:

1. Firms are consistently listed during the observation period.
2. Firms publish complete financial statements required for measuring the research variables.
3. Firms have available data on tax expense, profitability, financial condition, and audit committee characteristics.

### Variable Measurement

#### Corporate Tax Avoidance (TA)

Corporate tax avoidance is legitimate tax planning to reduce tax payments. This research quantifies company tax evasion using the Effective Tax Rate (ETR), which compares tax cost to accounting income. Determine the ETR:

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

A lower ETR suggests a higher amount of corporate tax avoidance, as it reflects a less portion of income being paid as tax. This measure is commonly employed in earlier tax evasion research due to its ability to reflect firms' overall tax burden.

#### Financial Distress (FD)

A financing war arises when a company's finances deteriorate and economic concerns worsen. This scenario increases the risk of insolvency and encourages businesses to violate tax laws to survive (Selistiaweni et al., 2020). Financial collapse signals a critical period of operational efficiency reduction and insolvency (Pfister et al., 2022). A company in financial trouble may have more obligations than assets, revenue, and market share. Limited cash input restricts a business's capacity to maximize operational outcomes, decreasing earnings or worsening losses.

#### Profitability (ROA)

Profitability indicates a firm's ability to generate earnings from its assets and meet operational and financial needs. This research uses Return on Assets (ROA) to measure profitability:

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

The relationship between financial distress and corporate tax avoidance is examined in regard to firms' financial capacity using ROA as the moderating variable.

#### Audit Committee (AC)

The audit committee oversees financial reporting, internal control, and regulatory compliance as internal governance. This study measures audit committee effectiveness by member

count (Karlinah et al., 2023). It is anticipated that a larger audit committee will improve the quality of monitoring and decrease managerial discretion in tax-related choices, which will impact the degree of corporate tax avoidance.

### Model Specification

To test the proposed links, this study applies a panel data regression model. The following is the specification of the empirical model:

$$TaxAvoidance_{it} = \beta_0 + \beta_1 FinancialDistress_{it} + \beta_2 ROA_{it} + \beta_3 (FinancialDistress_{it} \times ROA_{it}) + \beta_4 AuditCommittee_{it} + \varepsilon_{it}$$

where *i* denotes firm and *t* denotes year.

### Panel Data Estimation Technique

Panel data regression compares time-series and cross-sectional data. Common, Fixed, and Random Effect Models are initial estimation methodologies. Chow and Hausman tests determine the optimal model.

Based on these experiments, the Random Effect Model (REM) is the best estimating method. The Generalized Least Squares (GLS) method estimates REM efficiently and impartially, accounting for firm heterogeneity.

### Data Analysis Method

Hypothesis testing is conducted using t-statistics to evaluate the significance of individual variables and F-statistics to assess the overall model fit. The significance level in this study is 5%. Financial distress and ROA interaction term examines profitability's moderating influence.

## RESULTS

The study's descriptive statistics, panel data model selection, regression findings, and coefficient of determination are shown here. The following section discusses these findings.

### Descriptive Statistics

The descriptive statistics for the variables utilized in this study—corporate tax avoidance (TA), financial distress (FD), profitability (ROA), and audit committee (AC)—are shown in Table 1. 363 firm-year observations from 121 listed businesses between 2022 and 2024 make up the sample.

**Table 1. Statistics Descriptive**

	TA	AC	FD	ROA
Mean	0.233196	3.077135	0.140033	0.087954
Median	0.222247	3.000000	0.000000	0.071822
Maximum	0.542923	7.000000	0.700000	0.528688
Minimum	0.010423	2.000000	0.000000	0.001126
Std. Dev.	0.080077	0.413315	0.174430	0.071796
Skewness	1.118942	4.526018	1.144352	1.795916
Kurtosis	6.852740	33.23543	3.543611	8.227989
Jarque-Bera	300.2573	15066.32	83.69693	608.5261
Probability	0.000000	0.000000	0.000000	0.000000
Sum	84.65023	1117.000	50.83200	31.92740
Sum Sq. Dev.	2.321246	61.84022	11.01420	1.865993
Observations	363	363	363	363

(Source: Eviews Software Processing Results)

The effective tax rate (ETR), which measures corporate tax evasion, ranges from 0.010 to 0.543, with a mean of 0.233 and a standard deviation of 0.080. This shows that, on average, businesses pay taxes equal to 23.3 percent of their pre-tax income, with comparatively little variation amongst businesses.

The audit committee variable has 2–7 members, an average of 3.077, and a standard deviation of 0.413. This illustrates that most companies have similar-sized audit committees. Financial distress ranges from 0 to 0.700, with a mean of 0.140 and a standard deviation of 0.174.

Significant variance in the financial situations of enterprises is shown by the comparatively large standard deviation relative to the mean. Profitability, proxied by ROA, ranges from 0.001 to 0.529, with a mean of 0.088 and a standard deviation of 0.072, demonstrating variances in firms' ability to create earnings from their assets.

### Panel Data Model Selection

Panel data regression analysis employed CEM, FEM, and REM estimates. The Chow test compared the Common Effect Model with Fixed Effect Model to determine the best model. Table 2 provides Chow test results. A cross-section chi-square value below 5% suggests that Fixed Effect Model is better than Common Effect Model.

**Table 2. Chow Test with -Test Cross-Section Fixed Effects.**

Effects Test	Statistics	df	Prob.
Cross-section F	3.518196	(120,238)	0.0000
Chi-square cross-section	370.349716	120	0.0000

(Source: Eviews Software Processing Results)

A Hausman test chose between the Fixed Effect Model and Random Effect Model. Table 3 provides Hausman test results. Hausman's 0.2651 probability exceeds 5% significance. This shows the Random Effect Model is superior for this investigation. For analysis, use the Random Effect Model.

**Table 7. Hausman Test with -Test Cross-Section Random Effects.**

Test Summary	Chi-Sq.Statistics	Chi-Sq.df	Prob.
Random cross-section	5.223555	4	0.2651

(Source: Eviews Software Processing Results)

### Regression Results

Table 4 shows the Random Effect Model regression findings for financial hardship, audit committee, profitability, and corporate tax evasion. The entire regression model is statistically significant with an F-statistic of 7.951 and a probability of 0.000. This suggests that independent variables explain company tax avoidance.

**Table 4: Random Effect Model Regression Results**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.340453	0.031878	10.67983	0.0000
AC	-0.023155	0.009777	-2.368317	0.0184
FD	-0.081195	0.044082	-1.841917	0.0663
ROA	-0.400717	0.079389	-5.047529	0.0000
FDXROA	0.768529	0.334303	2.298897	0.0221

Effects Specification			
		S.D.	Rho
Cross-section random		0.052528	0.4606
Idiosyncratic random		0.056840	0.5394
Weighted Statistics			
R-squared	0.081590	Mean dependent var	0.123557
Adjusted R-squared	0.071328	S.D. dependent var	0.059083
S.E. of regression	0.056937	Sum squared resid	1.160558
F-statistic	7.951003	Durbin-Watson stat	2.194555
Prob(F-statistic)	0.000004		
Unweighted Statistics			
R-squared	0.075723	Mean dependent var	0.233196
Sum squared resid	2.145475	Durbin-Watson stat	1.187107

(Source: Eviews Software Processing Results)

Audit committee variable exhibits a significant negative coefficient ( $\beta = -0.023$ ;  $p = 0.018$ ). This implies that improved audit committees reduce corporate tax evasion. Financial pressure, despite a negative coefficient ( $\beta = -0.081$ ), does not significantly impact corporate tax evasion at the 5% level ( $p = 0.066$ ). More profitable firms have lower effective tax rates ( $\beta = -0.401$ ;  $p = 0.000$ ) as evaluated by return on assets (ROA). Interaction between financial hardship and profitability ( $FD \times ROA$ ) is substantial and favorable ( $\beta = 0.769$ ;  $p = 0.022$ ). This suggests that profitability moderates financial difficulty and business tax avoidance.

### Coefficient of Determination

R<sup>2</sup> for the Random Effect Model is 0.0816. This implies that financial difficulties, profitability, audit committee performance, and the interaction between financial hardship and profitability explain 8.16% of company tax evasion. Non-model factors explain the remaining corporate tax evasion variance. The poor R<sup>2</sup> result indicates that corporate tax evasion is impacted by issues outside financial and governance characteristics. The large F-statistic in the regression results shows that the model is statistically valid. Even when firm-specific or external factors explain a lot of variation in corporate tax evasion behavior, the explanatory variables combined do.

Although the R<sup>2</sup> value appears relatively modest, this outcome is not uncommon in studies examining corporate tax avoidance. Tax avoidance behavior is inherently complex and influenced by multiple financial, governance, regulatory, and behavioral factors that extend beyond the variables included in this model. Managerial risk preferences, ownership structure, industry characteristics, political connections, and regulatory enforcement intensity may also contribute to variations in tax behavior. Therefore, the relatively low explanatory power of the model does not undermine its validity but rather reflects the multifaceted nature of corporate tax decision-making.

## DISCUSSION

### Financial Distress and Corporate Tax Avoidance (H1)

Regression findings show a negative coefficient ( $\beta = -0.081$ ) for financial hardship, but it does not significantly affect corporate tax evasion ( $p = 0.066$ ). This study suggests that financially challenged companies do not always evade taxes. Although the negative coefficient shows a propensity toward decreased tax evasion, the effect is not substantial enough to support a causal association between financial suffering and tax avoidance behavior.

From an agency perspective, this result indicates that financial pressure alone is insufficient to drive opportunistic tax behavior. Firms experiencing financial distress may face heightened scrutiny from creditors, auditors, and regulators, which can restrict managerial discretion in tax-

related decisions. In order to prevent further legal or reputational problems that could worsen the company's financial situation, management may choose to use more cautious tax procedures. As a result, financial difficulties may instead encourage caution rather than proactive tax preparation.

This result is in line with earlier research that found no connection between business tax evasion and financial hardship. (Kalbuana et al., 2022; Nataliawati et al., 2024). Several empirical studies suggest that distressed firms tend to prioritize compliance and risk avoidance due to increased external monitoring, rather than pursuing aggressive tax strategies. This finding, however, is at odds with research showing a positive correlation between financial difficulty and tax evasion, which suggests that struggling businesses avoid paying taxes in order to maintain cash flows. The inconsistency across studies underscores the concept that financial difficulty does not operate as a standalone determinant of tax avoidance, but rather depends on contextual and firm-specific factors.

### **Audit Committee Effectiveness and Corporate Tax Avoidance (H2)**

The regression findings show a substantial negative correlation between audit committee effectiveness and corporate tax evasion (coefficient = -0.023, probability = 0.018). This study suggests that stronger audit committees reduce tax evasion.

Despite the coefficient's relatively small magnitude, its statistical significance shows that governance procedures consistently have an impact on tax-related actions. The audit committee serves as an internal monitoring system that lessens the information asymmetry between managers and shareholders, in accordance with agency theory (Krieg & Li, 2021; Oware & Appiah, 2022).

Effective audit committee monitoring increases control over financial reporting and regulatory compliance, while limiting managerial possibilities to engage in aggressive tax techniques. The audit committee's ongoing oversight may deter management from implementing tax strategies that put the company at risk of legal repercussions or harm to its reputation. This study complements a considerable amount of recent empirical research that finds a negative link between audit committee effectiveness and tax avoidance.

Previous research regularly find that corporations with more effective audit committees tend to adopt more conservative tax conduct due to tighter internal scrutiny. The result of this study reinforces those findings and provides additional evidence that governance mechanisms remain effective in constraining opportunistic tax behavior, even when firms face varying financial conditions.

### **Profitability as a Moderating Variable in the Relationship between Financial Distress and Corporate Tax Avoidance (H3)**

Profitability moderates the association between financial distress and corporate tax evasion, according to the interaction term between financial distress and profitability (FD × ROA), which has a positive and statistically significant coefficient ( $\beta = 0.769$ ;  $p = 0.022$ ). This finding implies that enterprises' financial capacity determines how financial difficulty affects tax evasion. While financial difficulties alone does not greatly influence tax evasion, its impact becomes more obvious when enterprises maintain higher profitability.

In addition, profitability on its own reveals a negative and statistically significant relationship ( $\beta = -0.401$ ;  $p = 0.000$ ), showing that more profitable enterprises generally report lower effective tax rates. Taken together, these data show that profitable organizations tend to embrace more compliant tax conduct; nevertheless, when prosperity coincides with financial crisis, managers may utilize available financial resources to participate in tax planning tactics as a response to financial pressure. This reinforces the thesis that financial capability plays a vital role in influencing managerial responses to distress (Kalbuana et al., 2023; Nuswantara et al., 2023).

## **CONCLUSION AND IMPLICATIONS**

### **Conclusion**

This study explores the influence of financial difficulty on business tax avoidance, utilizing profitability as a moderating variable and audit committee effectiveness as a governance tool.

Several significant conclusions can be made using the Random Effect Model and panel data from listed businesses from 2022 to 2024. First, the results show that business tax avoidance is not much impacted by financial difficulties. Although the computed coefficient is negative, the association is statistically negligible.

This conclusion implies that financial difficulty alone is insufficient to explain variations in corporate tax evasion behavior, as firms may respond to financial pressure in different ways depending on their internal and external situations. Second, audit committee effectiveness is demonstrated to have a strong negative effect on company tax avoidance.

This outcome emphasizes how crucial corporate governance practices are in preventing opportunistic tax conduct. Firms with higher audit committee scrutiny tend to exhibit more conservative tax strategies, demonstrating the role of internal monitoring in reducing agency concerns.

Third, the association between business tax evasion and financial suffering is somewhat mitigated by profitability. The positive and substantial interaction term demonstrates that financial suffering influences tax avoidance behavior when enterprises possess sufficient financial capacity.

This data demonstrates that the influence of financial strain on tax evasion is conditional rather than direct, stressing the necessity of examining interaction effects in tax avoidance studies. Overall, the findings show that more than just financial suffering, company tax avoidance behavior is influenced by a combination of financial pressure, financial capacity, and governance monitoring.

## **Implications**

### **Theoretical Implications**

This study advances business tax avoidance research by showing that financial difficulty does not predict tax avoidance. By adding profitability as a moderating variable, this study gives a more sophisticated view of how financial pressure interacts with firms' financial capability in shaping tax-related actions. The findings further underscore the usefulness of agency theory in explaining tax evasion behavior, particularly the function of governance measures in moderating management opportunism.

### **Practical Implications**

From a regulatory perspective, the findings suggest that tax authorities should not automatically assume that financially distressed firms are more likely to engage in aggressive tax avoidance. Instead, monitoring efforts may need to consider firms that experience financial pressure while maintaining relatively high profitability, as these firms appear to have both the incentive and capacity to implement tax planning strategies. Risk-based audit selection models could incorporate indicators combining financial distress and profitability to better identify potential tax avoidance behavior.

For corporate management, the results highlight the importance of balancing short-term financial pressure with long-term compliance considerations. Managers of financially distressed but profitable firms should carefully evaluate the legal and reputational risks associated with aggressive tax strategies. Transparent tax planning policies and internal compliance frameworks can help firms avoid excessive exposure to regulatory scrutiny.

For audit committees, the significant negative relationship found in this study reinforces the need for active oversight of tax-related decisions. Audit committees may strengthen their monitoring function by regularly reviewing tax risk exposure, ensuring compliance with evolving tax regulations, and encouraging greater transparency in tax reporting practices. Enhanced coordination between internal auditors and tax advisors may also reduce opportunistic tax behavior.

## **Limitations and Future Research**

This study is susceptible to various limitations. First, the explanatory power of the model is quite limited, showing that corporate tax avoidance is influenced by factors beyond those studied in this study. Second, the study's observation period is restricted to listed enterprises. Future

research may extend this work by including additional firm-specific or external variables, different metrics of tax avoidance, or longer observation periods to provide a more thorough picture of corporate tax avoidance behavior.

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