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Debt, Profit, and Tax: Investigating Corporate Tax Behavior

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Abstract: In the past few years, tax avoidance has been a key concern and has drawn the focus of the Indonesian government. Tax avoidance causes harm to the country's tax revenue, which affects government program financing and infrastructure development. The purpose of this study is to examine the influence of financial distress, profitability, and leverage on tax avoidance among property and real estate firms listed on the Indonesia Stock Exchange during 2019-2023. The data used is collected from the company's financial statements, available on their official websites. This study's results show that financial distress has a significant positive impact on tax avoidance, suggesting that distressed firms tend to adopt aggressive tax avoidance to manage their financial challenges. Otherwise, leverage has a significant negative impact on tax avoidance. The reason is that companies with greater leverage face tighter supervision from creditors and outsiders, which can restrict their engagement in aggressive tax avoidance. Additionally, debt obligations may drive companies to focus more on tax compliance to avoid potential legal and financial repercussions. ROA does not show a significant impact on tax avoidance. The results of this study support agency theory, which emphasizes that external pressures, such as debt obligations and stable financial conditions, reduce managers' tendency to engage in opportunistic actions like tax avoidance. The study offers implications for stakeholders to focus more on internal financial factors and capital structure when overseeing corporate tax compliance.

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

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INTRODUCTION

In Indonesia, taxes serve as a major source of state revenue, which is why the

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government consistently seeks to maximize their collection. To achieve the specified targets, the government plans tax revenue in such a way as to meet the budgeted targets (Monika & Noviari, 2021). According to Indonesia's Ministry of Finance's statistical data, Indonesia's state revenue realization in 2023 amounted to Rp2,774.3 trillion. Of this amount, tax revenue contributed Rp2,155.4 trillion or 67.4% of total state revenue, with a growth of 5.9% compared to the realization in 2022. Meanwhile, the realization of state expenditure reached Rp3,121.9 trillion, resulting in a budget deficit of Rp347.6 trillion (Saptati, 2023). This condition indicates that tax revenue remains a crucial factor in maintaining the country's fiscal sustainability and encourages the government to continue improving taxpayer compliance to optimize state revenue. However, between taxpayers and the government, there are different perspectives regarding taxation. The government considers taxes not only as a primary source of state revenue but also as an obligation that must be fulfilled by taxpayers. The tax a company pays depends on its profit; if a company makes more profit, it must pay higher taxes. On the other hand, many taxpayers see taxes as a financial burden or a deduction from their earnings. These differences in interests encourage companies to engage in tax avoidance with various motivations (Magfira, 2021). Gumono (2021) explains that tax planning is a legal way companies can use to reduce costs efficiently. However, in practice, this strategy can develop into a more aggressive and potentially illegal action, such as tax evasion.

This research examines property and real estate companies, as the sector holds a strategic role in supporting Indonesia's economic growth and infrastructure development. In addition, the real estate industry is highly sensitive to macroeconomic fluctuations and is closely tied to government policies, especially in the areas of taxation and fiscal regulation, making it a particularly relevant context for studying tax avoidance behavior. According to Winisudo & Wijaya (2025), the coronavirus pandemic weakened the global economy due to restrictions on activities, including in Indonesia. However, according to a statement from the President of Indonesia, even during the global economic slowdown from 2018 to 2022, the property and construction sector in Indonesia continued to grow and remained competitive, contributing between Rp2,300 to Rp2,800 trillion, or about 16% of the national Gross Domestic Product (GDP) (Sekretariat Presiden Republik Indonesia, 2023). Although this sector has a major impact on the economy, previous research has found that the property and real estate sector is indicated to be engaging in tax avoidance based on low effective tax rates, meaning the company paid less tax compared to its profit. This finding is supported by Awaliah et al. (2022), noting that PT Metropolitan Land showed the highest

tax avoidance, reflected in its low effective tax rate, where the company paid less tax compared to its earnings.

Previous research has examined multiple factors that may affect tax avoidance, including profitability, the audit committee, corporate governance, leverage, and company size (Eddy et al., 2020; Alafiah et al., 2022; Saputri & Radianto, 2023). According to Dang & Tran (2021) and Sadjiarto et al. (2020), companies that face financial distress are also more likely to avoid taxes, especially when they use aggressive business strategies such as the prospector strategy to reduce their financial difficulties. On the other hand, some studies have found opposite results. Research by Ariff et al. (2023) and Monika & Noviari (2021) suggests that financial distress negatively impacts tax avoidance because the firms are not prepared to design short-term tax strategies, especially during crises like the coronavirus pandemic.

This research uses several variables considered relevant to be studied, including financial distress, return on assets, leverage, and firm size as a control variable, to investigate their relationship with tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange from 2019 to 2023. This research is important because this sector is highly vulnerable to fluctuations in the global economic cycle, especially during the coronavirus pandemic, which caused economic activity to slow down. During this pandemic, some management often uses opportunistic and aggressive financial strategies, such as tax avoidance practices, to maintain their financial stability. This issue has become relevant because the economy hasn't fully recovered yet post-pandemic, so the tax avoidance practices are still being used by some companies. Therefore, this study aims to analyze the influence of financial distress, profitability, and leverage on tax avoidance practices, while also observing managerial opportunism and the motivations behind engaging in tax avoidance to reduce the company's burden and ensure operational sustainability.

The tax avoidance practices that management usually uses to maintain the company's financial stability may conflict with the company owner's interest in maintaining long-term reputation and the sustainability of the company. Agency conflicts are usually caused by the difference in interests and the conflict between managers and owners. In 1976, Jensen and Meckling introduced the agency theory, which is used to coordinate the relationship between company principals who delegate responsibilities and authorities to agents who run the company (Bendickson et al., 2016). The agency problem comes from asymmetric information and the assumption that managers, as agents who are appointed to be in charge of the company, often make decisions that benefit themselves more than the interests of the

principal (Jensen & Meckling, 1976). To reduce risk, principals spend agency costs, which are intended to monitor, bond, and cover residual losses incurred by agents. According to Eisenhardt (1989), conflicts in agency relationships generally arise from imperfect contracts, differences in interests between principals and agents, and weak monitoring mechanisms by principals over agents, as monitoring requires significant costs.

In Indonesia, the rapid development of the capital market and market dynamics has made the issue of agency increasingly relevant, particularly in financial decision-making, including the practice of tax avoidance. When share ownership is widely dispersed through the capital market, challenges arise for stakeholders in maintaining the manager (agents) to act in line with the interests of owners. Managers often take advantage of the information gap between themselves and the owners to make short-term decisions that benefit themselves. Tax avoidance is a legal method to reduce company expenses. Although it may raise short-term profits and benefit managers, it doesn't always align with the owners' long-term goals, which focus on keeping the business sustainable and maintaining a good reputation with the public and regulators. In fact, the benefits of tax avoidance practices are temporary, and in the long term, they can actually pose reputational risks and sustainability issues that harm the company (Bird & Davis-Nozemack, 2018).

Tax avoidance is the practice where firms or taxpayers try to reduce the amount of tax they pay by using tax planning methods. Although these practices typically comply with legal regulations, they often exploit gaps or ambiguities within existing tax laws (Hanlon & Heitzman, 2010). According to Hossain et al. (2024), weak regulations, lack of transparency, poor supervision by tax auditors, and ineffective tax systems contribute to the high level of tax avoidance in developing countries by creating exploitable legal loopholes that facilitate the reduction of tax burdens. Ma'sum et al. (2023) explained the relation of tax avoidance with agency theory, where aggressive tax avoidance practices reflect a tendency for managers to act defensively against pressure from owners. This suggests that tax avoidance can arise from the conflicts of interest between managers and owners.

Financial distress is a condition where a company faces financial difficulties or liquidity issues. These issues can include failure to pay debts to creditors, delays in providing dividends to shareholders, and liquidity crises that can lead to the risk of bankruptcy. The Z-score model is one of the ways to measure the condition of financial distress developed by Altman (1968). This model combines five financial ratios to predict bankruptcy, with an accuracy reaching 94-95% and is widely used by investment companies and investors to assess the health of a company (Srebro et al., 2021). The Z-score model continues to develop

over time and adapts to the conditions of a country. Financial distress is still an interesting topic for research, especially since the outbreak of the coronavirus pandemic, which has weakened the global economy. Financial distress caused by this pandemic can affect both new companies and those that have been established for a long time and may lead to bankruptcy. Therefore, the development of studies on financial distress continues. This is because the bankruptcy of a company can have a significant impact, such as mass layoffs carried out by the company.

Return on assets (ROA) is a fundamental ratio that measures how effectively a company is at generating profit from its assets. This ratio is commonly used to assess the rate of return on investment, the company's financial balance, and the effectiveness of the company in utilizing assets to generate profit (Siminica et al., 2012; Wijaya, 2019). A high ROA means the company uses its assets efficiently and reflects the managers' ability to optimally manage resources (Khaddafi et al., 2014; Saputra & Nofrialdi, 2022). This ratio can also attract the attention of investors as it reflects good financial performance and attractive growth potential for the company in the future. In addition, this ratio can also be used as a comparative performance ratio among firms in the same industry to determine which are more effective in utilizing assets (Panigrahi & Vachhani, 2021).

The debt-to-equity ratio (DER), or leverage, is a financial ratio that compares a company's total debt with its total equity. A high DER value shows a big dependence on debt for operational financing and an increase in financial risk (Dalci, 2018; Sari & Muti'ah, 2024). Companies with high DER also face more financial pressure or even bankruptcy, due to the high interest burden, which can affect profits and reduce the tax obligations paid (Eddy et al., 2020). Conversely, a low DER shows that the company can rely on its equity more than on its debt, so the risks will be relatively smaller.

In agency theory, managers under financial pressure tend to make decisions that benefit themselves, such as exploiting legal gaps to reduce taxes. In some cases, tax avoidance is often used as a short-term strategy to increase profits and maintain cash flow. According to research by Sadjiarto et al. (2020), financial distress has a significant positive effect on tax avoidance, meaning companies in financial trouble often try to lower their tax payments to keep their operations and cash flow running. One common method is to legally use tax loopholes to avoid taxes. Although this is allowed, companies that aggressively avoid taxes may attract attention from tax authorities, which can lead to legal issues and make the company's situation worse. During the coronavirus pandemic, research by Barid & Wulandari (2021) revealed that the government gave more tax incentives to help companies,

but some companies misused these incentives for tax avoidance. Tax avoidance is often used as a way to get internal funding and investment capital when companies face financial distress (Adela et al., 2023). Shareholders and creditors usually recognize financially distressed companies because these companies tend to demand higher capital costs and take riskier actions like aggressive tax avoidance (Dang & Tran, 2021). According to the explanation above, the hypothesis is:
H1: Financial distress has a significant positive effect on tax avoidance.

Agency theory explains that managers, who handle company finances, may use tax avoidance to increase profits, but this may conflict with the owners' goal for tax compliance and transparency. Hermawan et al. (2021) found that return on assets has a significant positive effect on tax avoidance, suggesting that firms with higher profitability are more likely to practice it. When companies successfully minimize their tax payments, their net profits increase. Since net profit is part of the ROA calculation, this makes the profitability ratio look better, which attracts investors. When a company earns high profits, managers often use these profits for the company's internal needs and try to lower the tax burden through legal tax planning strategies, which align with agency theory (Gumono, 2021). Irianto et al. (2017) support this view, indicating that more profitable firms tend to practice tax avoidance by optimizing tax planning to lower their obligations. According to the explanation above, the hypothesis is:
H2: Return on assets has a significant positive effect on tax avoidance.

Based on the agency theory, managers often make opportunistic decisions to increase net income, lower taxes, and keep operations running. However, this action can lead to conflict with shareholders' interests, who prefer safer risk management for long-term success. One way to control the manager's behavior is by keeping external pressure and closer supervision in the use of leverage, which can potentially reduce taxes and the chances for managers to do opportunistic actions, including tax avoidance practices. Hermawan et al. (2021) state that leverage has a significant positive effect on tax avoidance, indicating that firms with greater debt dependence tend to engage in such practices. This finding is supported by Dalci (2018), who explains that interest expenses on debt can function as a tax shield, effectively reducing taxable income and increasing corporate profits. Moreover, this tax shield contributes to improved cash flow to help companies fulfill their debt obligations. This relationship became more relevant during the coronavirus pandemic, when many

companies faced lower demand due to restrictions imposed by the government. Even though the government provides incentives to support affected companies, not all companies were able to fully utilize these benefits. Consequently, tax avoidance emerged as an alternative approach for companies to sustain profitability and preserve liquidity. According to the explanation above, the hypothesis is:
H3: Leverage has a significant positive effect on tax avoidance.

METHOD

This study uses a quantitative approach and uses secondary data from annual reports available on the companies' official websites and official data from the Indonesia Stock Exchange. The population consists of companies listed on the IDX in 2023, with a focus on the property and real estate sector due to its strategic role in national infrastructure development, economic growth, and employment. The population consists of 93 companies in the property and real estate sectors, and with a research period of 5 years (2019-2023), this results in a total of 465 firm-year observations. After using the purposive sampling technique, the sample of this study consists of 21 firms. The research period was chosen because there was a crisis caused by the coronavirus pandemic and economic uncertainty that affected several sectors in Indonesia, including the property sector. In addition, during this period, there were also fluctuations in interest rates that affected the accessibility of mortgages, thereby shaping the direction of the property sector in Indonesia. The criteria were divided into four categories:

Table 1 Number of Observations

Description	Number of Observations
Companies listed on IDX	465
Companies that do not display complete financial statements	(120)
Companies that experienced losses	(215)
Companies that did not pay tax	(25)
Summary of final observation data	105

Measurement of Variables

Dyreng et al. (2008) argue that cash ETR (CETR) is considered more accurate because it uses cash tax payments obtained from cash flow statements, unlike GAAP ETR, which can be influenced by changes in estimates such as tax reserves and other assessments.

According to Ramdiani et al. (2023), the cash ETR can be calculated using the formula below. A lower CETR means that the company pays relatively less tax compared to its income, which can be interpreted as a sign of higher tax avoidance. Conversely, a higher CETR means that the company pays more taxes relative to its earnings, which means lower tax avoidance behavior. The equation below shows the formula for CETR:

$$Cash\ ETR = \frac{Income\ Tax\ Paid}{Profit\ Before\ Tax}$$

Altman (1968) was the first pioneer in creating a formula to predict the possibility of a company experiencing bankruptcy or going bankrupt within 2-3 years. The Z-score calculation continues to develop from what was originally for companies in developed countries, to being able to be used in developing countries with the latest formula developed by Chen and Weston to be used in all companies (Putri & Challen, 2021), in addition this model is also made to adjust non- manufacturing companies and companies in developing countries (Paulina & Ida, 2022). The latest research model is considered to be the most appropriate model for situations in countries with developing economies, namely the EM Z-score model (Srebro et al., 2021). Indonesia is a developing country and is considered suitable for using this latest model with the formula below. The interpretation of this model is that a higher Z-score reflects a healthier financial condition and a lower probability of financial distress, while conversely, a lower Z-score reflects weaker financial performance and a greater likelihood of financial distress. The EM Z-score model is shown below:

$$Z" - Score = 3.25 + 6.56X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4$$

Where:

$$X_1 = \frac{Current\ Assets - Short{-}term\ Liabilities}{Total\ Assets}$$

$$X_2 = \frac{Retained\ Earnings}{Total\ Assets}$$

$$X_3 = \frac{ProFit\ Before\ Tax}{Total\ Assets}$$

$$X_4 = \frac{Total\ Equity}{Total\ liabilities}$$

One measure of profitability is return on assets (ROA) (Mahrani & Soewarno, 2018). According to Ariska et al. (2020) and Syahzuni & Sari (2023), ROA can be calculated using the following formula:

$$ROA = \frac{Net\ Profit}{Total\ Assets}$$

The debt-to-equity ratio (DER) is a financial indicator showing the balance between a firm's debt and its equity. As explained by Dahrani (2021) and Syahzuni & Sari (2023), it can be measured using the formula below:

$$DER = \frac{Total\ Debt}{Total\ Equity}$$

Furthermore, this study includes a control variable, namely firm size, with the aim of considering factors such as the company's physical scale and performance. According to Saraswati & Utami (2023), firm size can be calculated using the following formula:

$$Firm\ Size = ln(Total\ Assets)$$

Method of Analysis

This study employs a multiple linear regression approach to examine the influence of financial distress, profitability, and leverage on tax avoidance. Classical assumptions test includes normality test using the Skewness/Kurtosis test, multicollinearity test using the Variance Inflation Factor (VIF), heteroscedasticity test using the Breusch-Pagan/Cook-Weisberg test, and autocorrelation test using the Durbin-Watson test. The following equation shows the research model used in this study:

$$CETR = \alpha + \beta_1 FDS + \beta_2 ROA + \beta_3 LEV + \beta_4 FSIZE + \varepsilon$$

Where: CETR is defined as an inverse proxy for tax avoidance, FDS as financial distress, ROA as profitability, LEV as leverage, FSIZE as firm size, α as the constant, β as the coefficient of each variable, and ε as error.

RESULTS

The final number of observations is 88, reduced from an initial number of 105 observations due to the removal of outliers to meet the requirements for the normality test. Based on the descriptive statistics presented in Table 2, the CETR variable minimum value of 0.02 by Bakrieland Development in 2022 and a maximum of 0.56 by Repower Asia

Indonesia in 2022. With an average corporate tax payment rate of 19.19%, this indicates significant variation in the estate sector. This suggests that the CETR is low, which indicates a relatively lower tax payment rate compared to pre-tax profit. The Z-score variable (financial distress) has an average value of 21.2243. These scores show there are significant differences in financial conditions between companies, but based on the emerging market Z-score calculation, most of the companies are still considered to be in a healthy financial condition because the Z-score value is well above the threshold value of 5.85. The ROA variable has an average value of 0.0417. This shows that, on average, companies generate a return of around 4.17%, which indicates that the companies' profitability is still quite good but low. The leverage variable has an average of 0.6173. This shows that the company relies more heavily on debt than equity. The control variable, firm size, measured based on total assets, has an average value of Rp12.6 trillion with a standard deviation of Rp15.5 trillion, a minimum value of Rp172 billion, and a maximum value of Rp66.8 trillion. This indicates that there is a relatively low variation in company size within the property & real estate sector.

Table 2 Descriptive Statistics

Variable	Obs	Mean	Std. Dev	Min	Max
CETR	88	0.1919318	0.116371	0.02	0.56
FDS	88	21.22432	61.25153	3.77	459.73
ROA	88	0.0417045	0.048901	-0.13	0.2
LEV	88	0.6172727	0.407791	0	1.74
FSIZE	88	1.26e+13	1.55e+13	1.72e+11	6.68e+13

It is important to fulfill the classical assumption tests to ensure data validity, namely, the multicollinearity test. According to the normality test results presented in Table 3, the average VIF value is 1.24 and is still below 10, indicating that there is no multicollinearity. Furthermore, the heteroscedasticity test with a p-value of 0.2521 > 0.05 indicates no heteroscedasticity issues, and the normality test with a p-value of 0.1002 indicates that the residual errors are normally distributed. The autocorrelation test using the Durbin-Watson test showed a value of 0.0124824. Since this value is below the value listed in the Durbin-Watson table (1.7749), there is evidence of autocorrelation, which was resolved by using robust standard errors.

Table 3 Classical Assumptions Test

Description	Results
Skewness/Kurtosis Test	0.1002
Mean VIF	1.24
Breusch-Pagan/Cook-Weisberg Test	0.2521
Durbin-Watson Test	0.0124824

The F-test was used to determine whether the model was suitable for use. The test results showed a Prob > F value of 0.000, which is less than 0.05. In conclusion, it shows that the model is suitable for use. Based on the Table 4 results, it can be concluded that the financial distress variable measured using the Z-score indicates that financial distress has a significant positive effect on tax avoidance, so the first hypothesis (H1) is accepted. This indicates that a higher level of financial distress increases the likelihood of companies engaging in tax avoidance as an efficiency strategy in dealing with financial distress. Furthermore, profitability, which is measured using the return on assets ratio, does not have a significant effect on tax avoidance, so the second hypothesis (H2) is rejected. This finding indicates that the level of company profitability is not a determining factor for companies in conducting tax avoidance. Meanwhile, leverage has a significant positive effect on CETR, which indicates that higher leverage leads to lower tax avoidance. So, the third hypothesis (H3) is rejected. This means that the higher the proportion of a company's debt, the less likely the company is to engage in aggressive tax avoidance strategies. Companies with higher debt tend to pay higher effective taxes (higher CETR) because they are under stricter supervision from creditors and are more cautious in managing financial risks. R-squared is used to explain how much the model can explain the dependent variable, which is 51.46%.

Table 4 Multiple Linear Regression Results

Variables	Coefficient	P > |t|	Prob > F	R-squared
FDS	0.000099	0.000	0.0000	0.5146
ROA	-0.1159997	0.578		
LEV	0.1609423	0.000		
FSIZE	-0.0186895	0.002		

DISCUSSION

Since the F-test shows a significant result, it indicates that the regression model has passed and is suitable for use. The results of the multiple linear regression test in Table 4

indicate that financial distress (Z-Score) has a significant positive effect on CETR, suggesting that the higher the Z-Score of a company, the healthier its financial condition (Barid & Wulandari, 2021). A high CETR indicates that a company pays taxes more compliantly, which results in lower levels of tax avoidance (Awaliah et al., 2022). Therefore, hypothesis H1 is accepted, confirming that financial distress significantly positively influences tax avoidance. These findings are in line with prior studies by Swandewi & Noviari (2020) and Fadhila & Andayani (2022), which also revealed a significant positive relationship between financial distress and tax avoidance. This is further supported by the descriptive statistics in Table 2, which show an average Z-score of 21.22, far exceeding the healthy threshold of 5.85. This indicates that, on average, companies in this sector are financially stable and able to meet tax obligations without resorting to aggressive tax avoidance. Conversely, financially troubled companies face challenges in fulfilling these obligations. In such situations, agents are driven to engage in tax avoidance to improve liquidity by reducing the tax burden (Siburian & Siagian, 2021). This behavior aligns with agency theory, which shows that managers may act opportunistically to enhance the company's financial position, especially by reducing expenses such as taxes when the company is under financial pressure.

The results of the hypothesis test for H2 show that return on assets does not have a significant effect on tax avoidance, leading to the rejection of H2. This means there is no significant relationship between the level of profitability of the company and its tendency to avoid taxes. These findings support previous research by Ramdiani et al. (2023) and Susilowati et al. (2020), which also concluded that profitability is not a key factor influencing a company's decision to avoid taxes. This condition is particularly relevant for the property and real estate sector in Indonesia, which is marked by a relatively low ROA of around 4%, as shown in Table 2. With the low profitability ratio, the company will have a strong incentive to pursue tax avoidance because the potential benefits do not outweigh the associated risks. This is in line with agency theory, reflecting a cautious managerial approach, especially during the coronavirus pandemic. Managers have prioritized operational stability and tax compliance to ensure business sustainability and protect the company's long-term reputation. As a result, tax avoidance is not a top priority for companies with relatively low profitability. Conversely, they tend to avoid risky tax avoidance strategies and focus on strengthening business fundamentals and building stronger relationships with investors.

The results of the multiple linear regression test in Table 4 show that leverage has a

significant positive effect on the cash effective tax rate (CETR), indicating that higher leverage is associated with lower tax avoidance. Therefore, hypothesis 3 is rejected. This finding is consistent with Sulaeman (2021) and Ainniyya et al. (2021), who also found that firms with higher levels of debt tend to reduce tax avoidance activities. The rationale is that highly leveraged firms already benefit from tax deductions through interest expense and thus prefer to comply with tax obligations to avoid additional financial risks and reputational damage. Sari & Muti'ah (2024) highlight that companies with high debt ratios are considered riskier by investors and therefore are more cautious in avoiding behaviors that could worsen this perception. Leverage in this context serves as a disciplinary mechanism that helps mitigate agency conflicts between managers and owners, reducing the likelihood that managers will engage in tax avoidance. This interpretation is also supported by the descriptive statistics in Table 2, which show that the average leverage of property and real estate companies is 61.77%, indicating a greater reliance on debt financing relative to equity. Agency theory further explains the conflict between managers and creditors, where creditors demand transparency to prevent opportunistic managerial behavior that could threaten the company's financial health. Consequently, high leverage can act as external monitoring, pressuring companies to refrain from tax avoidance to maintain creditor confidence and financial stability.

This study has both theoretical and practical implications. From a theoretical perspective, the findings strengthen the literature on corporate tax behavior by showing that internal financial factors such as leverage and profitability influence the level of tax avoidance, which is consistent with agency theory that explains how managers use strategies to minimize tax burdens. From a practical perspective, the results provide useful insights for policymakers in designing regulations to monitor tax avoidance more effectively, especially for companies with a high level of leverage. For company managers, this study underlines the importance of balancing tax efficiency strategies with regulatory compliance to avoid future legal and reputational risks.

Conclusion, Limitations, and Suggestions

This study found that financial distress has a significant positive effect on tax avoidance, while return on assets does not have a significant effect on tax avoidance. Additionally, leverage has a significant negative effect on tax avoidance. However, this study has several limitations that need to be considered. The sample size used is relatively small because the data had to meet the normality test, which resulted in a limited number of

observations. After filtering and removing incomplete data and outliers, only 88 data points were included in the final analysis. For future research, it is recommended to incorporate additional variables such as corporate governance, firm size, or industry type to provide a more comprehensive understanding of the factors influencing tax avoidance. These variables could provide further insight into how different organizational characteristics and environmental factors impact a company's tax behavior. Moreover, it would be beneficial to explore the influence of tax regulations and government policies on tax avoidance. Tax compliance, regulatory changes, and their enforcement mechanisms could play a crucial role in shaping corporate tax strategies. Understanding the dynamics of these external factors could improve tax compliance and offer valuable insights for policymaking.

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