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Financial Distress, Good Corporate Governance, and Profitability on Tax Avoidance

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Abstract*—Tax avoidance is a complex issue because on the one hand it is permitted, but not desired by the government. For taxpayers, the tax paid is a cost that can reduce net income. However, for the government, taxes are a source of state financing needed in national development. Due to the misalignment of these objectives, taxpayers tend to make efforts to minimize tax costs by taking tax avoidance actions. From the government side, it always tries to increase the state tax revenue targeted in accordance with the state budget. Factors that influence tax avoidance in a country can really help the government later to make good policies. The factor that will be used in this research is financial distress, because tax avoidance can be influenced by the decline in financial capability experienced by the company. The second factor is good corporate governance with an audit quality approach carried out by the company. The last factor used is profitability, the ability of a company to make money that affects the company's tax avoidance. This research uses a quantitative approach that uses quantitative and qualitative data types. The location of this research was conducted at companies in Indonesia by taking the Indonesia Stock Exchange research location using health care sector companies with the observation years 2020 to 2022. The source of data used in the study is secondary data. The data analysis method was multiple linear regression.*

Keywords*— Tax Avoidance, Financial Distress, Good Corporate Governance, Profitability.*

I. INTRODUCTION

Tax is a contribution that must be paid by the rakat to the state and goes into the state treasury (Mardiasmo, 2016:3). In its implementation, taxpayers and the government do not have aligned goals. For taxpayers, the taxes paid are costs that can reduce net profit. However, for the government, taxes are a source of state funding needed for national development. Due to this misalignment of goals, taxpayers tend to make efforts to minimize tax costs by taking tax avoidance actions. Tax avoidance is a complex problem because on the one hand it is permitted, but not desired by the government. The government always tries to increase state tax revenues targeted in accordance with the APBN, while companies always try to keep their tax burdens as low as possible (Ampriyanti & Merkusiwati, 2016). The table for the implementation of the federal tax revenue in the year 2022-2019 is as follows.

Based on the table above, it can be seen that the Indonesian government is making efforts to optimize taxes, which is shown by the positive trend from year to year. Basically, perpetrators who commit tax avoidance only take advantage of things that are not yet regulated in tax laws, so this can greatly support and provide opportunities for companies to carry out tax avoidance (Mangoting, 1999). From the government's side, it will continue to strive to improve the taxation system and regulations to be better in order to increase state revenue from tax payments.

TABLE 1. Tax Revenue Targets and Realization 2019 – 2022
(In Trillions of Rupiah)

Year	Target	Realization	Acceptance Achievement
2019	1,557.56	1,332.06	84.44%
2020	1,198.82	1,069.98	89.25%
2021	1,229.58	1,277.53	103.90%
2022	1,484.96	1,716.76	115.61%

Tax avoidance can be influenced by several factors, one of which is financial distress (financial difficulties) Tax avoidance can be influenced by several factors, one of which is financial distress (Brondolo, 2009). Financial distress is a condition of financial decline experienced by a company for several consecutive years which can lead to bankruptcy (Platt and Platt in Hanifah et al, 2013). Companies experiencing financial distress will immediately respond by taking actions such as stopping factory operations, reducing production volumes, and more generally giving rise to the desire of managers to turn the company around by taking the risk of tax avoidance practices (Valensia & Khairani, 2019). This is in line with research conducted by Feizi, et al., (2016) that the intensification of financial distress in a company will lead the company to carry out tax avoidance practices.

The next factor that can influence tax avoidance is corporate governance, corporate governance also requires how companies implement rules and policies in making decisions so that company performance can be monitored, carried out, and accounted for (Putri, 2020). There is a great opportunity for companies to use tax avoidance techniques, so good corporate governance is required for companies. Good corporate governance was first introduced in stakeholder theory (Freeman, 1984). Freeman (1984) stated in his theory that company management must be able to provide appropriate satisfaction and be responsible to owners, employees, providers of goods or services, the government, customers, and other stakeholders for the success of the company. Fadhilah (2014) said that GCG includes two mechanisms, namely external and internal, so that control and supervision of a company do not only come from within, but also from outside. Therefore, there needs to be awareness for companies to implement a good corporate governance system, because this GCG system is considered to play an important role for the company. Good corporate governance is a mechanism for a good corporate governance system that encourages companies to comply with laws including paying taxes. Weak implementation of good corporate governance in companies is one of the causes of tax avoidance in companies.

Profitability can also be a factor that can influence tax avoidance. Profitability is the ability of a company to make a profit in a certain period at a certain level of sales, assets, and share capital (Ayunanta, et al., 2020). Profitability consists of several ratios, one of which is return on assets (ROA), which functions to measure the effectiveness of the company in using its resources (Kasmir, 2018). The higher the ROA value, the more efficient the company is in utilizing its available resources. When the profit obtained increases, the total income tax will increase according to the increase in the company's profit so that there is a tendency for the implementation of tax avoidance that is company's income increased (Dewinta & Setiawan, 2016).

II. GRAND THEORY

Agency Theory

Agency theory is a theory that explains the relationship between consumers and managers. In this case, the agent is the company manager and the principal is the company owner or shareholder. Agency theory was first proposed by Jensen and Meckling (1976) who stated that the agency relationship is a contract in which one or more people (principals) give orders to another person (agent) to perform a service and give the agent authority to make a decision. If both parties have the same goal of maximizing the value of the company, it is believed that the agent will act in a manner that is in accordance with the interests of the principal (Talitha, 2020).

Agency theory is the basis used by companies to understand good corporate governance. Agency theory, an agent relationship arises when one or more people employ another person to provide a service and then delegate decision-making authority to the agent. Both the principal and the agent are self-interested maximizers, so there is a high probability that the agent does not always act in the best interests of the principal (Jensen and Meckling in Widyasaputri, 2012). Tax interests often conflict with the interests of the company to maximize profits to shareholders, while taxes will erode profits from shareholders.

Financial Distress

Financial distressis a condition of financial decline experienced by a company for several consecutive years which can lead to bankruptcy (Platt and Platt in Hanifah et al, 2013). Khaliq et al (2014) define financial crisis as a situation where a company is unable or has difficulty meeting its obligations to creditors. The opportunity for financial distress increases when the company's fixed costs are high, liquid assets, or income that is very sensitive to economic recession. This condition will force the company to incur high costs so that management is forced to borrow from other parties. Baimwera et al (2014) also defines financial distress as the possibility that a company cannot fulfill its obligations when they fall due. Aghaei in Adi et al (2015). This lack of working capital can be caused by several factors, such as current liabilities and operating costs that are too high. If the company gets into financial trouble and has no other way to improve, the company may go bankrupt or be liquidated. et al., 2011). According to Moleong (2018) financial distress is an abnormal financial situation of a company. This condition is the result of the company's declining marginal profit in several consecutive years. According to Henry (2016:33) financial distress refers to a scenario in which a company cannot fulfill its commitments, namely when the company's income is not enough to cover all of its obligations. In other words, financial distress is a condition in which a company experiences financial difficulties in fulfilling its obligations.

Good Corporate Governance

According to the report of the World Bank in Effendi (2016: 2), the definition of good corporate governance (GCG) is a set of laws, rules and regulations to be followed, which can encourage the use of company assets for productive activities. To generate long-term economic value for shareholders and the surrounding community. Good corporate governance (GCG) is a set of systems that regulate and control companies to create added value for stakeholders (Kusmayadi, Rudiana, & Badruzaman, 2015). Awareness of GCG practices will encourage corporate transparency and investors will appreciate the value of complete information presented by the company to help them evaluate the company's performance and prospects. Transparency requires accurate disclosure of financial statements that have been audited by a Public Accounting Firm. Transparency to shareholders can be achieved by reporting taxation matters on the capital market and shareholder meetings (Eksandi, 2017).

Profitability

Several previous researchers found that profitability is one of the factors that quite influences tax avoidance. All operational activities carried out in the company affect profitability (Sekaran and Bougie 2016). Measuring profit will allow a company to evaluate their income level in relation to the amount of investment or sales volume that is running. The greater the level of profit obtained by the company, the higher the tendency of a company to carry out tax management, so that the company's tax burden can be further reduced (Tavarel and Anggraeni 2021). Profitability can be determined by calculating various related metrics. One of these criteria is the financial ratio, which is one of the analyzes in the analysis of the financial situation, operating results and the level of the company's profit. Profitability ratios are divided into 8 types, namely gross margin (GPM), net profit margin (NPM), return on assets (ROA), return on equity ratio (ROE), return on sales ratio (ROS), return on employee (ROCE), return on investment (ROI), earnings per share (EPS) (Kasmir: 2014: 115).

Tax Avoidance

Hanlon and Heitzman (2010) define tax avoidance as an explicit tax reduction, where tax avoidance is a series of tax planning activities. Tax planning is the process of organizing the efforts of taxpayers or groups of taxpayers in such a way that their tax debts are in the most minimal position, both income tax and other taxes, as long as this is possible both by the provisions of tax laws and commercially, (Zain, 2007: 43). Sunday, 2008 in (Darmadi and Zulaikha, 2013) explains that the motivation for tax planning does not only come from companies that want to reduce their tax burden, but there is also motivation that comes from the three elements of taxation itself. These motivations include: (1) Tax Policy, (2) Tax Law, (3) Tax Administration. A proper tax planning action will result in a minimum tax burden which is the result of tax saving and/or tax avoidance that is acceptable to the tax authorities, and is not at all tax evasion that is unacceptable to the tax authorities or will not be tolerated. Tax avoidance is a completely legal action, in this case there is absolutely no violation of the law committed and instead tax savings will be obtained so as to avoid greater taxation or perhaps not be taxed at all, (Zain, 2007: 49). Annisa and Kurniasih (2012) define that tax avoidance is an aggressive tax strategy carried out by companies in minimizing tax burdens, so that this activity may pose a risk to the company. Meanwhile, Pohan (2013) stated that tax avoidance is an effort that is carried out legally and safely for taxpayers because it does not conflict with tax provisions, where the methods and techniques used tend to exploit weaknesses (grey areas) contained in the tax laws themselves to reduce the amount of tax owed.

Hypothesis

Based on the background and explanation of the librarian study, the following hypothesis can be formulated:

a) Financial distress has a positive effect on tax avoidance
b) Good Corporate Governance has a negative effect on tax avoidance.
c) Profitability has a positive effect on tax avoidance

III. RESEARCH DESIGN

The population in this study is healthcare sector companies data sourced from data from the indonesia stock exchange from 2020 to 2022 obtained 51 data. In this study, there are two variables including the following.

Data analysis

The statistical analysis technique in this study uses Multiple Linear Regression which explains the influence between the dependent variable and several independent variables. Multiple linear regression is a regression that is used to test if the efficacy of the dependent variable can be predicted by its independent variables (Vahed Morni, 2017).

Researchers use SPSS (Statistical Package for Social Science) as a tool to analyze data. This analysis begins with descriptive statistics, and the Classical Assumption Test.

This classical assumption test consists of Multicollinearity Test, Normality Test, Heteroscedasticity Test, and Autocorrelation Test. Furthermore, the collected data is subjected to multiple regression analysis and hypothesis testing in the form of determination coefficient (R2), correlation coefficient (R), f test, and t test.

IV. RESULT

TABLE 2. Statistical Results of Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	28,339	7,283		3,891	0,00
Financial Distress	-1,066	1,897	-0,093	-0,562	0,577
Good Corporate Governance	-10,615	3,077	-0,447	-3,450	0,001
Profitabilitas	49,048	48,459	0,168	1,012	0,317

Based on the table above, the multiple linear regression formula for this research variable is presented as follows:

$$Y = 28.339 -1.066\ X_1 - 10.615\ X_2 + 49.615\ X_3 + e$$

Based on the results of the multiple linear regression equation, it can be explained as follows.

The Influence of Financial Distress on Tax Avoidance in Healthcare Sub-Sector Companies Listed on the Indonesia Stock Exchange (IDX) in 2020-2022

Based on the results of the study, it shows that financial distress does not have a positive and significant effect on tax avoidance in healthcare sub-sector companies listed on the Indonesia Stock Exchange (IDX) in 2020-2022. This shows that financial distress does not have a significant impact on tax avoidance in healthcare companies. In agency theory, it is stated that information asymmetry can occur from both the principal and the agent, because both tend to act in their own interests. Management, in order to maintain the company's image, tries to improve performance even though the company is experiencing financial difficulties. In situations like this, companies tend to make various efforts to survive, which can encourage management to manipulate accounting. One form of such manipulation is tax avoidance, which is reducing the tax burden so that the company can fulfill its obligations to other parties. Contrary to theory, this study reveals that financial distress does not have a positive effect on tax avoidance. This shows that the financial difficulties faced by these companies do not lead to an increase in tax avoidance practices. The results of the current study do not match the hypothesis, so it can be concluded that H1 in this study is rejected. The results of this study are supported by several studies by (Dudi Pratomo, 2021) and (Vinenda Juane Takasanakeng, 2022) which state that financial distress does not have a positive effect on tax avoidance.

The Influence of Good Corporate Governance on Tax Avoidance in Healthcare Sub-Sector Companies Listed on the Indonesia Stock Exchange (IDX) in 2020-2022

Based on the results of the study, it shows that good corporate governance has a negative and significant impact on tax avoidance in small-scale health care companies listed on the Indonesia Stock Exchange (IDX) in 2020-2022. This shows that the increasing good corporate governance, the lower the tax avoidance in healthcare sub-sector companies listed on the Indonesia Stock Exchange (IDX) in 2020-2022. Supervision carried out by the audit committee and good audit quality can reduce tax avoidance activities by companies. This is because managers tend not to be motivated to avoid taxes if they are supervised effectively. Good audit quality usually comes from reputable Public Accounting Firms (KAP), especially those affiliated with the Big Four.

KAPs with a high reputation tend to apply stricter and broader disclosure standards in accordance with applicable regulations, because they risk losing their reputation if they do not. Therefore, they maintain the reputation and trust given by stakeholders. In addition, sanctions related to violations of the public accountant code of ethics are important considerations for auditors to avoid deviant actions. The results of the current study accept H2 and are consistent with the results of previous studies by (Angela Halim & Yuniarwati, 2023) and (Nuramal, Siti Mispa & Sahidah, 2023) stating that good corporate governance has a positive effect on tax avoidance.

The Influence of Profitability on Tax Avoidance in Healthcare Sub-Sector Companies Listed on the Indonesia Stock Exchange (IDX) in 2020-2022

Based on the results of the study, it shows that there is a good profit and a small benefit to avoid taxes in small-scale healthy companies listed on the Indonesia Stock Exchange (IDX) in 2020- 2022. This shows that profitability does not significantly affect tax avoidance practices in healthcare sub-sector companies listed on the Indonesia Stock Exchange (IDX) in 2020-2022. Because tax evasion carries risks, managers tend to be reluctant to take such risks to reduce their investment risk. In addition to the fees that must be paid to tax consultants, the time required to complete tax audits, reputation costs, and fines from the tax authorities, tax evasion can also cause significant financial losses for the company and its managers. The results of the current study do not match the hypothesis, so it can be concluded that H3 in this study is rejected. The results of this study are supported by several studies by (Juhli Edi Simanjuntak & Destriana Helda, 2023) and (Ali Jamaludin, 2020) stating that Profitability does not have a positive effect on tax avoidance.

V. Conclusion

Based on the research results, several important findings can be concluded regarding the influence of certain factors on tax avoidance in healthcare sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020-2022 period:

1) The Effect of Financial Distress: The results of the study indicate that financial distress does not have a positive and significant effect on tax avoidance. Although the company is experiencing financial difficulties, this does not encourage management to increase tax avoidance activities. Thus, the hypothesis that financial distress has a positive effect on tax avoidance is rejected.
2) The Influence of Good Corporate Governance: Good corporate governance has a positive and significant influence on tax avoidance. The implementation of good corporate governance actually increases the tendency of companies to engage in tax avoidance. This shows that strict supervision and good audit quality can affect tax avoidance practices, so the related hypothesis is accepted.
3) Profitability Effect: Profitability does not have a significant effect on tax avoidance. Although corporate profitability increases, it does not encourage companies to be more active in avoiding taxes. Therefore, the hypothesis that profitability has a positive effect on tax avoidance is also rejected.

Overall, this study shows that only good corporate governance has a significant effect on tax avoidance, while financial distress and profitability do not have a significant impact.

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