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Tax Avoidance As Variables Moderation, Influence Profitability, Leverage, Size Of Business, And Growth Sales To Financial Distress

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Profitability, Leverage, Company Size, Sales Growth, Financial Distress, Tax Avoidance.

ABSTRACT

The purpose of this empirical study, which involved 199 manufacturing companies listed on the Indonesian Stock Exchange from 2018 to 2022, is to determine how profitability, leverage, company size, and sales growth influence financial distress. Tax avoidance is used as a moderating variable. A total of 154 companies were purposively sampled. Panel data regression and moderation regression analyses were used in the research process. This study used Eviews 13. The results show that financial distress is influenced by profitability, leverage, and sales growth. On the other hand, financial distress is not influenced by company size or tax avoidance. In addition, tax avoidance does not reduce the impact of profitability, leverage, company size, and sales growth on financial distress.

INTRODUCTION

As Indonesia's economy continues to grow each year, all industries compete to improve their performance. However, companies often face unstable financial conditions due to future uncertainties, and some even go bankrupt. In the second quarter of 2021, the manufacturing industry grew by 6.91%, contributing 7.07% to Indonesia's economic growth, and in the third quarter of 2021, it grew by 3.68%, contributing 0.75% to economic growth. Manufacturing companies saw a decline in net profit growth from 2018 to 2019, even before the COVID-19 pandemic. In 2020, the pandemic further reduced profit acquisition. This means the manufacturing industry's financial performance must improve further to remain stable.

A case of financial distress occurred when a company listed on the IDX was forced to delist. In 2018, PT Dwi Aneka Jaya Kemasindo Tbk (DAJK) was delisted from the market on May 18, 2018. On November 23, 2017, DAJK was declared bankrupt by the Central Jakarta Commercial

Court, resulting in negative equity and raising concerns regarding business sustainability. Consequently, the Stock Exchange enforced DAJK's delisting. According to the consolidated financial report up to Q3-2017 (DetikFinance.com, 2018), the company owed Rp. 870.17 billion to several banks.

Profitability is a ratio used to measure overall management effectiveness, assessing a company's ability to generate profits from its assets. Profitability and financial distress are related because, with sufficient profits, the company can finance its operations and address financial distress.

Because funds come from substantial debt, high leverage can cause financial distress. Leverage and financial distress are negatively related, as greater reliance on external funding sources makes it easier for companies to diversify. As long as the company manages its strategy for using external funds, the likelihood of financial loss is reduced.

Company Size describes the information available to internal and external parties about the company. Assets owned give the company more opportunities to pursue purposeful endeavors to increase performance, finance them, and reduce the risk of financial distress. Larger companies are more financially stable, so they are expected to be able to handle financial distress. Financial

Financial distress in a company can be influenced by sales growth, as it can be used to predict future company performance. Sales growth reflects the company's performance in selling its products, both in optimizing sales volume and frequency. The higher a company's sales growth rate, the greater its profits and the lower its risk of financial distress.

In addition, tax avoidance can negatively impact a company's financial situation. Tax avoidance is closely related to companies seeking to maximize profits from their resources. If a company chooses to engage in tax avoidance, it may face challenges in managing its assets and could potentially reduce production.

Research by Kusumawardhani et al. (2020) found that both activity ratios and profitability negatively affect financial stress. However, the moderating variable of tax avoidance can strengthen the negative impact of activity ratios and profitability on financial distress. Conversely, tax avoidance can also weaken this negative impact.

LITERATURE REVIEW

Agency Theory

Jensen & Meckling (1976) introduced agency theory, which holds that the relationship between a principal and an agent arises because the principal grants the agent the authority to make decisions. Shareholders hire management to protect their interests. This creates an information imbalance, as the information between the principal and the agent is unequal. Since both have different interests but work together, agency problems can happen.

Signaling Theory

Based on the idea that each party receives different information. This shows there is an information gap between those interested and company managers. They lower the company price because there is no outside information. Reducing information gaps can increase business value. Giving signals to outsiders helps reduce information gaps. Financial reports send good or bad signals to customers.

Financial Distress

According to Liana & Sutrisno (2014), financial distress refers to a company's deteriorating financial condition prior to liquidation or bankruptcy. Financial distress not only worsens the company's financial health but also leads to additional effects, such as negative

assessments of management performance, employee departures due to potential wage reductions, supplier credit refusals, and creditors' reluctance to provide loans.

Profitability

Agustini & Wirawati (2019) state that the profitability ratio is used to evaluate a company's ability to generate profits, reflecting management's efficiency and effectiveness as indicated by revenue from sales and investments. Effective asset utilization reduces costs, ensuring sufficient funds for continued operations.

Leverage

As described by (Shafarani et al. (2022), leverage is the ratio used to determine an organization's capacity to meet long-term obligations. The debt-to-equity ratio compares a company's debt to its equity, indicating its ability to meet its obligations with its own capital.

Company Size

According to Hery (2015:35) in Suryani (2020), company size is a primary factor influencing the choice of accounting method. Total company assets indicate size. Companies with more assets can expand business opportunities and improve performance. Larger businesses generally have more stable financial positions, better enabling them to address financial difficulties.

Sales Growth

Company sales can be measured by sales growth. To determine sales levels, companies calculate the difference in sales over a specific time period. Companies with low sales growth may encounter financial difficulties. Kasmir (2014) notes that sales growth is measured by comparing increased sales over set periods.

Tax Avoidance

Kurniasih and Sari (2013) stated that tax avoidance is not a tax violation Kurniasih and Sari (2013) stated that tax avoidance is not a tax violation because businesses must pay taxes by using methods permitted by tax law to reduce, avoid, minimize, or relieve the tax burden.e the tax burden while considering the resulting tax consequences.

Influence Profitability on *Financial Distress*

Evaluating a company's performance depends on its ability to generate profits from its operations. Profitability also indicates future business prospects, encouraging efforts to enhance performance and signal positive opportunities to investors. Highly profitable companies achieve target profits and maintain financial stability. Agustini and Wirawati (2019) found that profitability negatively impacts financial distress. Indria et al. (2019) also report significant negative effects of profitability on financial difficulties.
H 1: Profitability is influential to *financial distress*

Influence *Leverage* Against *Financial Distress*

Companies possess leverage ratios reflecting the proportion of debt financed by assets. Creditors may view a high leverage ratio as a warning against lending, as excessive debt reduces the company's ability to fulfill obligations. Firms with more debt than assets may face payment difficulties. Jaya Saputra & Salim (2020) reported that leverage does not affect financial distress, whereas Indria et al. (2019) and Suryani (2020) found that leverage does affect financial distress.
H 2: *Leverage* is influential in *financial distress*

Influence Company Size Against *Financial Distress*

The amount of assets owned by a company can be seen from its size. Companies with very small assets may face a Possible financial problem. Suryani (2020) stated that businesses with a large scale have greater capacity. To utilise the source of Power, they aim to reach a certain objective. The company can own more Lots and have more opportunities to utilise the source Power to pursue purposeful endeavors that improve financial performance, thereby reducing the risk of financial problems. According to research conducted by Setyowati & Sari in 2019, company size influences financial stress levels.

H 3: Company size has an effect on *financial distress*

Influence *Sales Growth* on *Financial Distress*

High sales growth can increase a company's income over a certain period. This signals to investors and creditors that high-growth sales will influence the company's assets and profits, making them more interested in investing and providing credit to the company. Growth in positive sales shows improved business performance, and when combined with effective management, the company's profitability will be more optimal. The higher a company's growth rate, the lower its likelihood of financial problems. Research conducted by Setyowati & Sari in 2019 found that improved sales have an impact on financial difficulty levels.

H 4: *Sales growth* is influential to *financial distress*

Influence Avoidance Tax on *Financial Distress*

Avoidance tax is the effort to legally and safely avoid paying taxes that must be paid because they are not in conflict with the taxation provisions. This technique usually utilizes weak laws and regulations to reduce the amount of tax owed. According to Alfianti (2017), companies are less likely to take sufficient action to prevent tax evasion when they experience high financial stress. Investors view the tax deferral as very risky when they face financial difficulty. Research by Ningsih & Noviari (2022) shows that avoidance tax affects the financial situation of those who are financially unstable.

H_5: Tax Avoidance has an effect on *financial distress.*

Moderating Tax Avoidance Influence on Profitability To *Financial Distress*

One measure of a company's performance is profitability, which shows the ability to generate profit over a given period at a given level of sales, assets, and share capital. Profitability measures a company's performance by showing the profit it generates from its management assets, also known as return on assets (ROA). According to Dewinta and Setiawan (Dyah, 2019), an increasingly high return on assets indicates Good performance for a financial company.

H 6 Moderating Tax Avoidance Influence Profitability To *Financial Distress*

Moderating Tax Avoidance Influence on *Financial Distress*

Leverage shows how much debt a company has to finance its operations (costs). The company must pay interest because its debt has increased. The company will experience a decline in profits, cash flow, and its ability to pay higher taxes, driven by debt-related interest. Companies with high leverage levels must rely on external financing to finance their assets. According to Shafarani et al. (2022), a company faces significant risk when it uses large amounts of big data. Therefore, management will be careful and avoid high-risk debt to avoid taxes.

H 7: Moderating Tax Avoidance Influence on *Financial Distress*

Moderating Tax Avoidance Influence on Company Size Against *Financial Distress*

Cost planning taxes more on big companies than on small companies, which can use tax avoidance strategies to manage their tax bills. In terms of capital, the company of large size owns many meaningful assets. It has a strong capital structure because it finances its operations with

assets rather than debt. Thus, the company with large assets has many advantages, allowing it to generate greater profits.
H 8: Moderating Tax Avoidance Influence on Company Size Against *Financial Distress*

Moderating Tax Avoidance Influences *Sales Growth* To *Financial Distress*

Companies can estimate how much profit they can make if sales increase significantly. If a growth-oriented business increases year over year, it shows it has strong prospects. One of the key components of achieving profit for a company is sales; increasing sales shows improved performance, and when combined with effective management, the company's profit will be more optimal. The higher a company's growth rate, the greater the likelihood it will produce large profits. For reach, matter, this company will plan. For planning, the better it gets.
H 9: Moderating Tax Avoidance Influence *Sales Growth* To *Financial Distress*

METHODS

Analysis Statistics Descriptive

Sugiyono (2017:147) states that descriptive statistical analysis is a type of analysis used to describe data collected, providing a description or explanation of the data without producing general conclusions.

Heteroscedasticity Test

The heteroscedasticity test determines whether a regression model is homoscedastic and whether heteroscedasticity varies across observations.

Multicollinearity Test

A multicollinearity test, according to Ghozali (2018:107) Ghozali, is conducted to determine whether the regression model shows multicollinearity among the independent variables. In a good regression model, there should be a correlation between variables.

Coefficient Determination

Basically, the coefficient test, represented by R-Square, shows how well the model explains variation in the dependent variable. The value is close to 1, indicating that the independent variables contain almost all the information needed to predict the dependent variables (Ghozali, 2018:97).

F Statistical Test

The F-test is used to determine whether each variable in the regression model simultaneously influences the dependent variable (Ghozali, 2018:98).

t-statistic Test

The t-test is used to test the second hypothesis. The t-test is used to assess the influence of one variable on another, independent of the dependent variable, with the independent variable held constant (Ghozali, 2018:98).

Regression Model Analysis: Moderation

This study uses regression-moderation analysis. The following shows Moderating Regression Analysis.

Research Sample

The population in this study consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2018–2022 period. The sample selection method used in this

study is purposive sampling, which involves selecting samples based on specific criteria in accordance with the objectives of the research.

Table 1 Research Sample

Criteria	Amount
Registered Manufacturing Company in a way consistent on the Indonesia Stock Exchange (IDX) in 2018-2022	199
Manufacturing Companies that do not publish consecutive *annual reports* participate from 2018-2022	(13)
Manufacturing Companies that IPO during 2018-2022	(28)
Manufacturing Companies that *were delisted* during 2018-2022	(4)
Manufacturing companies that experience bankrupt during 2018-2022	(0)
Number of Companies that meet condition as a Sample	154

Table 2 Operational Variables

Variables	Measurement	Scale
Financial Distress	Using the Zmijewski X Score, namely with classify companies that experience condition Healthy or experience *financial distress.* 1. If the value of X< 0 then company No experience *financial distress*. 2. If the value of X > 0 then including companies that experience *financial distress*	Ratio
Profitability	Use *Return on Asset*(ROA),that is withcomparetotalprofitclean after tax with total assets .	Ratio
Leverage	Use *Debt Ratio,* namely with compare total debt with total assets	Ratio
Company Size	Use natural *logarithm to total assets,* namely with measure total assets owned company	Ratio
Sales Growth	*Sales growth* in research Thiscounted with use *salesgrowth*	Ratio
Tax evasion	Use *Cash Effective Tax Rate,* ie with compare payment tax with profit before tax .	Ratio

RESULTS

Table 3 Descriptive Statistical Analysis

	Y	X1	X2	X3	X4	Z
Mean	1.998546	0.031159	1.075792	28.60614	0.106889	0.294279
Median	-0.020009	0.030443	0.777006	28.42498	0.074322	0.195910
Maximum	133.4090	0.920997	24.13690	33.65519	11.99973	18.25967
Minimum	-176.0107	-1.049837	-30.15344	25.31018	-1.000000	-37.94396
Std. Dev.	18.27091	0.120288	3.034039	1.567865	0.681895	2.086214
Observations	770	770	770	770	770	770

The following table shows a number of related matters with descriptive testing statistics:

1. In the sample company study, this pressure finance reaches a minimum value of -176.01 and a maximum of 133.4. This shows that the company sample with the lowest value has poor financial conditions, and the company sample with the highest potential has the lowest bankruptcy risk. The number stress average financial 1.99. This shows that a large Indonesian manufacturing company may face financial problems.
2. The company's sample study shows profitability ranging from -1.05 to 0.92. The average value is 0.03. The industry ROA standard for manufacturing is lower than the number.
3. The results show that businesses' performance is currently declining, with a minimum value of -30.15 and an average of 1.07. Because the company's DER value is above the 100% DER standard, indicating the company has high debt; its debt is larger than its capital.
4. The average company size of 28.6 indicates that companies listed on the Indonesia Stock Exchange during 2018–2022 have substantial assets. In this situation, finance is difficult; more companies are focusing on their own stability and financial well-being, so they are expected to overcome financial problems.
5. Growth rate: average sales of 11% per year, indicated by the average value of 0.11, which shows that the company sample is capable of maintaining its position in the economy and sustaining its operations, and it is hoped that it can overcome financial challenges.
6. Sample company study. This company has a mark-to-market minimum tax of -37.94 and a value-at-avoidance average tax of 0.29. Manufacturing companies listed on the IDX reduced their tax avoidance efforts by 29% between 2018 and 2022. This is very important for companies that want to maximize profit. In the situation of a crisis in finance, with increasingly low CETR values, the higher the level of tax avoidance by the company.

Table 4 R^2 Test (Coefficient Of Determination)

R-squared	0.957070	Mean dependent var	0.927033
Adjusted R-squared	0.897660	S.D. dependent var	16.50807
S.E. of regression	0.065919	Sum squared resid	3.302479
F-statistic	5358497.	Durbin-Watson stat	1.192257
Prob(F-statistic)	0.000000		

Based on the table, the value of the customized square of 0.897 indicates that profitability, leverage, company size, and growth sales contribute 89.8 percent to the financial distress variable, while 10.2 percent is caused by other variables not discussed in this study.

Table 5 F-Test

R-squared	0.957070	Mean dependent var	0.927033
Adjusted R-squared	0.897660	S.D. dependent var	16.50807
S.E. of regression	0.065919	Sum squared resid	3.302479
F-statistic	5358497.	Durbin-Watson stat	1.192257
Prob(F-statistic)	0.000000		

From the results above, it can be concluded that variables are simultaneously related to finance: profitability, leverage, company size, sales improvement, and variable moderation. With a level significant F-table of 0.05 (5%), the value of df1 (k-1) is (6-1 = 5), and the value of df2 (nk-1) is (770-6-1 = 763), and the value of the probability of the F-statistic is 0.0. In other words, the model used in the study is already in accordance with the study's objectives.

Table 6 t-Test

Variable	Coefficient	Std. Error	t-Statistic	Try.
C	-4.482105	0.091782	-48.83406	0.0000
ROA	-4.501586	0.028586	-157.4738	0.0000
DER	5.700362	0.000825	6908.009	0.0000
SIZE	0.005705	0.003208	1.778510	0.0757
SG	0.002426	0.004332	0.560054	0.0356
CETR	0.011665	0.026247	0.444408	0.6569
ROA*CETR	0.016110	0.059250	0.271901	0.7858
DER*CETR	-2.37E-05	0.000866	-0.027398	0.9781
SIZE*CETR	-0.000370	0.000900	-0.411051	0.6812
SG*CETR	-0.000705	0.007934	-0.088871	0.9292

1) Profitability (X1) has a negative and significant effect on Financial Distress; therefore, H1 is accepted.
2) Leverage (X2) has a positive and significant effect on Financial Distress; therefore, H2 is accepted.
3) Firm Size (X3) has no significant effect on Financial Distress; therefore, H3 is rejected.
4) Sales Growth (X4) has a positive and significant effect on Financial Distress; therefore, H4 is accepted.
5) Tax Avoidance (Z) has no significant effect on Financial Distress; therefore, H5 is rejected.
6) Tax avoidance does not moderate the relationship between profitability and Financial Distress; H6 is rejected.
7) Tax avoidance does not moderate the relationship between leverage and Financial Distress; H7 is rejected.
8) Tax avoidance does not moderate the relationship between firm size and Financial Distress; H8 is rejected.
9) Tax avoidance does not moderate the relationship between sales growth and Financial Distress; H9 is rejected.

Table 7 Moderated Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Try.
C	-4.482105	0.091782	-48.83406	0.0000
ROA	-4.501586	0.028586	-157.4738	0.0000
DER	5.700362	0.000825	6908.009	0.0000
SIZE	0.005705	0.003208	1.778510	0.0757
SG	0.002426	0.004332	0.560054	0.0356
CETR	0.011665	0.026247	0.444408	0.6569
ROA*CETR	0.016110	0.059250	0.271901	0.7858
DER*CETR	-2.37E-05	0.000866	-0.027398	0.9781
SIZE*CETR	-0.000370	0.000900	-0.411051	0.6812
SG*CETR	-0.000705	0.007934	-0.088871	0.9292

a) The constant (-4.482105) indicates that FD equals -4.482105 when all independent variables are zero.
b) Profitability (-4.501586) has a negative effect on FD.
c) Leverage (5.700362) has a positive effect on FD.
d) Firm size (0.005705) has a positive effect on FD.
e) Sales growth (0.002426) has a positive effect on FD.
f) Tax avoidance (0.011665) has a positive effect on FD.
g) Tax avoidance positively moderates the relationship between profitability and FD (0.016110).
h) Tax avoidance negatively moderates the relationship between leverage and FD (-2.370005).
i) Tax avoidance negatively moderates the relationship between firm size and FD (-0.000370).
j) Tax avoidance negatively moderates the relationship between sales growth and FD (-0.000705).

Table 8 Interpretation of Results

Hypothesis	t-test	Signification	Information
H1	-157.47 < 2.22	0.00 < 0.05	H1 Accepted
H2	6908.01 > 2.22	0.00 < 0.05	H2 Accepted
H3	1.77 < 2.22	0.08 > 0.05	H3 Rejected
H4	0.56 < 2.22	0.03 < 0.05	H4 Accepted
H5	0.44 < 2.22	0.65 > 0.05	H5 Rejected
H6	0.27 < 2.22	0.78 > 0.05	H6 Rejected
H7	-0.02 < 2.22	0.98 > 0.05	H7 Rejected
H8	-0.97 < 2.22	0.68 > 0.05	H8 Rejected
H9	0.65 < 2.22	0.57 > 0.05	H9 Rejected
T table	2.225825		
A	0.05		

DISCUSSION

Influence Profitability on Financial Distress

Variables' profitability has a significant negative impact on the condition of finances that are not stable. This result is in accordance with the theory signal, which states that executives who know about the financial performance conditions and the company will push to give potential investors. Thus, the company can increase its value by giving a positive signal through its annual report. According to Agustini & Wirawati (2019), profitability is influential to stress finance. In addition, previous research found that profitability is influential on stress finance (Indria et al., 2019).

Influence Leverage to Financial Distress

The leverage factor has a significant positive effect on the level of financial difficulty. Creditors can request a loan with high leverage. Companies that have a larger amount of debt will find it more difficult to pay off debt before the due date. A business has a risky experience, faces difficulty in making future payments , because its debt is greater than its assets. The

company may face financial problems. Other research (Suryani, 2020) shows that leverage has an impact on financial stress.

Influence Company Size vs. Financial Distress

Factors that influence the difficulty of finance. Not too many are influenced by the size of the company. These results show that many businesses can use all their assets as effectively as possible to generate profits. Companies with more Lots assets are more likely to leverage them to pursue purposeful endeavors that increase financial performance, thereby reducing the risk the company faces in a financial crisis. According to a previous study (Rahayu & Sopian, 2017), company size is not influential on financial distress. However, another study (Suryani, 2020) found that company size is not associated with financial distress.

Influence Sales Growth against Financial Distress

Increase the factor sales influence on the financial condition. These results show that the company has good financial performance and has the ability to reduce financial stress. Sales level must improve if the business wants to reduce financial stress. According to the theory of signals, a company in a growth phase will be more conservative in exercising its power. The company will utilise the source Power, with a focus on improving performance and development in the field economy, so that it can give a positive signal to investors in its annual report. This shows that growing businesses tend to focus on improving economic factors to achieve large financial profits. A study (Setyowati & Sari, 2019) found that improving sales affects the unstable financial situation.

Influence Tax Avoidance against Financial Distress

The results show that the variable-avoidance tax has no significant effect on financial distress. Discovery: Companies that experience greater financial distress also exhibit higher tax avoidance. This result contradicts the findings of previous studies, which show that avoidance tax is influential in financial distress (Ningsih & Noviari, 2022).

Tax Avoidance moderates the relationship between profitability and financial distress.

Avoidance factors tax No can balance the connection between profitability and financing difficulty. This is due to low profitability, which encourages the company to avoid paying taxes. In addition, economic decline puts companies under financial stress, increasing the risk of bankruptcy. According to other research (Kusumawardhani et al., 2020), avoidance tax can reduce the impact on profitability and financial stress.

Tax Avoidance moderates the influence of leverage against financial distress.

The influence between leverage and crisis finance can be balanced by variable avoidance tax. This shows that the company will face significant risk if it takes on large debt. Therefore, management will be careful not to take on risks or incur large debts to avoid taxes. If a company's debt ratio increases, it is worse. This is because companies with high leverage levels tend to concentrate on improving financial performance. In terms of this company, it engages in tax avoidance and prioritizes financing distressed companies. As a result, the source power and attention company is more focused on maintaining sustainability finance companies to avoid financial difficulties.

Tax Avoidance moderates the effect of company size on financial distress.

Avoidance factors tax No cannot balance the connection between the size of the business and the level of difficulty in finance. The amount of assets a company owns indicates its future prospects, so it will try to increase its asset base. The more assets a company has, the

bigger it is. This shows that the effort-avoidance tax depends on whether the company is large or small. Tax rates are higher for larger companies. Big and small companies, both, want support from stakeholders to ensure the continuity of their businesses. With this method, this big company can protect its reputation for the interests of its stakeholders. In this case, this company, which implements practice avoidance tax, will notice the difficult financial conditions experienced by companies, big and small.

Tax Avoidance moderates the relationship between sales growth and financial distress.

Avoidance factors tax No can balance the connection between growth and financial difficulties. This is a significant improvement in sales compared to the company's manufacturing. Officers will notice improved growth and significant sales because they believe that greater sales growth means greater profitability for the company. In this situation, crisis finance, the company deliberately avoids paying taxes to reduce its tax payments and improve sales, thereby maintaining its financial condition

CONCLUSION

Based on the findings and discussion previously, the first conclusion is that only profitability, leverage, and growth partially influence sales in the face of financial distress. Size of companies and avoidance tax. No significant influence. Second, each variable is independent in the study. This can be moderated by avoidance variables, such as tax, as a form of moderation.

LIMITATION

1) Many companies did not publish annual reports consecutively from 2018 to 2022. As a result, the sample was reduced from 199 to 154 companies used in this study.
2) This study only includes the variables profitability, leverage, firm size, sales growth, financial distress, and tax avoidance. Other variables that may influence financial distress were not included in this research.

RECOMMENDATION

Research result. This result can serve as a basis for updating existing regulations and developing new ones in line with business needs. Researchers are also expected to consider other factors that moderate the avoidance tax

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