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Tax risk, environmental uncertainty, and tax avoidance: Does financial distress matter?

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Abstract
This study examines the effect of tax risk and environmental uncertainty on tax avoidance. In addition, this study also employs financial distress as a moderator of the relationship between tax risk and environmental uncertainty on tax avoidance. This study employs manufacturing company data from the Indonesia Stock Exchange from 2016 to 2021 with a total sample of 65 companies. The total number of observation data in this study is 390. Panel data regression test using the random effect model is employed to test the hypothesis in this study. The results of this study indicate that tax risk cannot influence tax avoidance, while environmental uncertainty has a positive effect on tax avoidance. Furthermore, financial distress cannot strengthen the positive effect of tax risk on tax avoidance, while financial distress can strengthen the positive effect of environmental uncertainty on tax avoidance.

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Abstrak
Penelitian ini bertujuan untuk menguji pengaruh risiko pajak dan ketidakpastian lingkungan terhadap tax avoidance. Penelitian ini juga menggunakan kesulitan keuangan sebagai pemoderasi hubungan antara risiko pajak dan ketidakpastian lingkungan terhadap tax avoidance. Penelitian ini menggunakan data perusahaan manufaktur yang didapatkan dari Bursa Efek Indonesia dari tahun 2016 sampai dengan tahun 2021 dengan jumlah sampel sebanyak 65 perusahaan sehingga jumlah data observasi dalam penelitian ini sebanyak 390 data. Uji regresi data panel dengan menggunakan random effect model digunakan untuk menguji hipotesis pada penelitian ini. Hasil penelitian ini menunjukkan bahwa risiko pajak tidak dapat memengaruhi tax avoidance, ketidakpastian lingkungan berpengaruh positif terhadap tax avoidance. Selanjutnya, kesulitan keuangan tidak dapat memperkuat pengaruh positif risiko pajak terhadap tax avoidance, sedangkan kesulitan keuangan terbukti dapat memperkuat pengaruh positif ketidakpastian lingkungan terhadap tax avoidance.

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Introduction

Taxation is a source of state revenue that has the largest portion compared to other sources (Laksono & Firmansyah, 2020). Government revenue from taxes is a source of funding for community infrastructure and transportation development activities (Mardlo, 2018). Taxes can also slow inflation, encourage entrepreneurs to export, and protect domestically produced goods (Fauzan et al., 2021). One of the indicators to assess the performance of state revenue from taxation is to measure the tax ratio by comparing the percentage of tax revenue to gross domestic product (Kemenkeu RI, 2019). The government targets state revenue from taxes as much as possible, contrary to the taxpayers, especially corporate taxpayers, who expect corporate taxes to be as minimal as possible (Laksono & Firmansyah, 2020).

Tax avoidance practices involving three leading technology companies from the United States, namely Google, Facebook, and Microsoft, have occurred in many developed and developing countries, including Indonesia. The charity ActionAid International stated in its 2020 research that these three companies take advantage of the gray area in the tax system to practice tax avoidance in countries where these companies earn income (Actionaid, 2020). The potential income from taxes that the government should receive is estimated at 2.8 billion United States dollars or around 41 trillion rupiahs (Nurhaliza, 2020). The loss of potential state revenue, especially for Indonesia, is very beneficial for all elements of society. The Ministry of Finance of the Republic of Indonesia recorded state tax ratios from 2016 to 2020, which can be seen below:

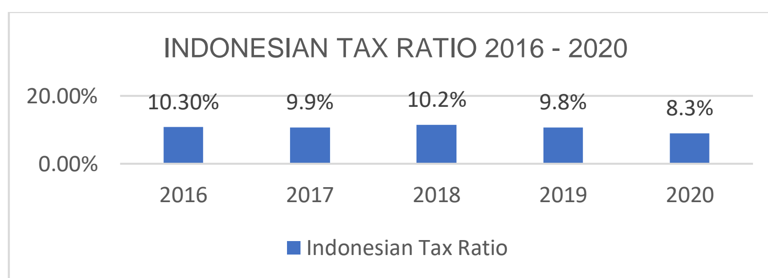

Figure 1. Indonesia's Tax Ratio

Taxpayers in Indonesia are divided into two categories, namely individual taxpayers and corporate taxpayers. Companies do not always respond well to tax imposition from the government. Managers always try to pay as little tax as possible so as not to reduce the company's net profit (Fauzan et al., 2021). Tax is one of the big burdens for most companies where taxes reduce net profit in the current year, thereby giving companies a strong incentive to reduce their tax burden with a practice known as tax avoidance (Kovermann, 2018).

The Tax Justice Network provides information regarding Indonesia in 2020, which is expected to suffer losses of an estimated value of IDR 68.7 trillion as a result of tax avoidance cases committed by corporate and individual taxpayers (Sukmana, 2020). Based on the tax avoidance case, this is very detrimental to the state regarding potential tax revenues that the state should receive. There are differences in interests between the government and companies, giving rise to the intention for companies to practice tax avoidance either by complying with regulations or violating existing regulations (Anastasia & Situmorang, 2021).

Tax avoidance is a company activity in the form of good tax planning following applicable regulations or looking at gaps in the gray area and including illegal actions (Chen et al., 2010). According to Retnaningdya & Cahaya (2021), tax avoidance is an action taken through tax planning that aims to minimize taxes paid by companies in

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legal or illegal ways. Tax avoidance seems beneficial to companies because it saves the resources needed for investment, but on the other hand, tax avoidance may cause further costs for the company (Kovermann, 2018).

Managers should make financial reports based on actual conditions, but many managers manipulate their financial reports, one of which is by saving on tax spending. It contradicts the government's interests, which maximizes revenue from taxation. The practice of tax avoidance describes management's intention to manage the company for personal gain. Managers will tend to make financial reports according to their interests so that there can be a decrease in the actual value of information. It will cause information asymmetry between managers and shareholders.

Managers will reduce company profits to reduce the tax burden, but this will reduce shareholder trust in company management (Listiyana et al., 2019). One of the theories related to this phenomenon is agency theory, which states that tax avoidance is an activity that allows management to manipulate the company's financial statements. Of course, this can harm shareholders as the principal (Marwati, 2018). Many risks will be accepted if the company practices tax avoidance, including the risk of being examined by the tax authorities and decreasing the company's image (Azelita & Prihandini, 2021). Based on the discussion of this problem, thus research on the topic of tax avoidance is still important to be investigated in a study.

Previous research on tax avoidance tested with corporate governance variables has been carried out by Choi & Park (2022), Putri & Chariri (2017) and Trisnawati & Gunawan (2019). Research using the capital intensity variable on tax avoidance has been carried out by Aryatama & Raharja (2021), Darsani & Sukartha (2021), and Puspitasari et al. (2021). The research on institutional ownership on tax avoidance has been conducted by Darsani & Sukartha (2021), Jiang et al. (2021) and Trisnawati & Nasser (2017). Several studies have also examined the effect of leverage on tax avoidance (Anastasia & Situmorang, 2021; Darsani & Sukartha, 2021; Nurdiana, 2021; Pratiwi et al., 2020). Bimo et al. (2019), Laksono & Firmansyah (2020), and Nurdiana (2021) examined the effect of environmental uncertainty on tax avoidance. Furthermore, several studies have previously examined the effect of financial distress on tax avoidance (Ari & Sudjawoto, 2021; Cita & Supadmi, 2019; Nurdiana, 2021).

The tax risk is closely related to the uncertainty of the environment around the company. Tax planning carried out by managers will always take into account the factors in the company's environment so that managers can calculate what tax risks will be received by the company later. Uncertainty in a rapidly changing environment will affect the tax risk that companies receive, so this makes management look for ways to minimize tax payments by companies. Uncertain environmental conditions can affect management decision-making and make predicting tax risk difficult (Abduh et al., 2014). Tax risk is all matters related to corporate taxes accompanied by uncertainty around the company's environment. This uncertainty can be in the form of transactions carried out by the company, operational activities, management decision-making, and the company's reputation (Hutchens & Rego, 2015). In matters related to taxation, tax laws and regulations issued by the Government and tax risks that companies must accept are included in environmental uncertainty.

Along with tax avoidance practices carried out by companies, various kinds of risks can arise, one of which is tax risk (Widodo & Firmansyah, 2021). One of the risks that may arise in the future is additional costs incurred if the company is proven to have carried out tax planning that is too aggressive so that it has the potential to be subject to sanctions and fines by the tax authorities (Widodo & Firmansyah, 2021). Abduh et al. (2014) and Mangoting et al. (2021) found a positive effect of tax risk on tax

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avoidance. The results differ from Choi & Park (2022), Mangoting et al. (2022), and Neuman et al. (2013), which found that tax risk harms tax avoidance. There are still inconsistencies in research results, so testing the tax risk variable on tax avoidance still needs further investigation.

Uncertainty in the company environment will cause managers difficulties planning, so tax avoidance cannot be carried out properly (Abduh et al., 2014). Environmental uncertainty, one of which is due to the pandemic, makes companies vulnerable to experiencing financial distress while companies must continue to fulfill their tax obligations to the state. An environmental situation full of uncertainty will allow managers to practice tax avoidance (Nurdiana, 2021). Several studies found a positive effect of environmental uncertainty on tax avoidance (Laksono & Firmansyah, 2020; Nurdiana, 2021; Ratu & Siregar, 2019; Seviana & Kristanto, 2020). A different result was found by Huang et al. (2017), which proved that there was a negative effect between environmental uncertainty on tax avoidance. While Bimo et al. (2019) and Carolina & Purwantini (2020) concluded that tax avoidance did not affect environmental uncertainty. There are still inconsistencies in previous studies' results, so testing the environmental uncertainty variable on tax avoidance still needs further investigation.

This study aims to examine the effect of tax risk and environmental uncertainty on tax avoidance which is moderated by financial distress. The difference between this research and previous research is the use of independent variables of tax risk and environmental uncertainty, which have rarely been tested simultaneously on tax avoidance, especially in Indonesia. This study includes financial distress as a moderator of the relationship between tax risk and environmental uncertainty in tax avoidance. Using financial distress moderating variables to provide an overview of the phenomenon of financial distress conditions experienced by companies can strengthen the company's tax risk and environmental uncertainty on management's intention to carry out tax avoidance. Previous research on the relationship between tax risk and environmental uncertainty variables on tax avoidance and the use of financial distress variables as moderation is still a small quantity of consideration why this research is important to be re-examined.

Financial distress is when a company's financial condition is unstable due to management's inability to manage company operations (Muttaqin et al., 2020). Financial distress in companies has increased during the global financial crisis, and management is required to save cash outlays to pay the tax burden (Tilehnouei et al., 2018). Poor quality of company financial statements can indicate that the company is experiencing financial distress (Purnamawati, 2021). As the company's owners, the shareholders expect the management to benefit them. The company's financial condition, which is not optimal, can be an impetus for management to practice tax avoidance (Muttaqin et al., 2020). Dang & Tran (2021), Nugroho et al. (2020), and Purnamawati (2021) found a positive effect of financial distress on tax avoidance. The company's unstable financial condition can be seen by analyzing the company's financial statements both by management and company owners. The difference in the information received by management and company owners provides more benefits for management because they can manipulate financial reports according to their interests (Muttaqin et al., 2020). Management will try to make the company's condition look good despite its financial distress (Fauzan et al., 2021).

This study employs manufacturing sector companies' data because they are a sector that is the main support for the Indonesian economy compared to other sectors (Carolina & Handayani, 2019; Mangoting et al., 2021; Muryani & Chiputyani, 2019).

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In the Covid-19 pandemic, the manufacturing industry remains a mainstay as the main driver and supporter of the national economy (Kemenperin, 2021). Thus, the manufacturing sector is very influential on state tax revenues. If tax revenue from the manufacturing sector is not maximized, this will have a major effect on the overall state revenue is not optimal.

Literature Review

Agency relationships occur when there is a contract or agreement between one party as the principal, which involves the other party's role as an agent authorized to work in the principal's interest (Jensen & Meckling, 1976). The existence of an agent's role in carrying out company operations can result in agents working not in line with the interests of the principal. Agents can act by taking advantage of information asymmetries between themselves and their principals, including tax avoidance (Firmansyah & Triastie, 2020). In the face of environmental uncertainty, managers have the discretion and flexibility to develop strategies to achieve maximum returns for shareholders and themselves (Huang et al., 2017). Tax avoidance can generate agency costs, reduce company transparency, and bring uncertainty to the company's future cash flows (Choi & Park, 2022). Agency theory assumes that each party, both agent and principal, thinks rationally and is motivated by their interests so that they have to sacrifice the interests of other stakeholders, in this case, the government, by taking tax avoidance (Trisnawati & Gunawan, 2019).

Legitimacy theory discusses organizational actions that implement behavior that aims to gain social recognition (Zyznarska-Dworczak, 2018). Managers in carrying out tax planning will consider the tax risk that will be received by the company later. If the company is at risk of sanctions or tax fines, this will certainly worsen the company's image in the eyes of the public. Managers will take gaps between tax regulations so as not to violate existing regulations and to minimize the possibility of bad tax risks. Legitimacy theory explains that companies in a state of financial difficulty will attempt to provide a good image for other parties, such as the company's creditors (Swandewi & Noviari, 2020). The practice of tax avoidance without violating tax laws can save tax payments so that companies can use it to pay debts to creditors and investors so that the company will get a positive image even in conditions of financial distress. Creditors will think the company still has good faith in paying off existing debts.

Tax avoidance practices carried out by managers are always followed by tax risks that companies will face in the future (Abduh et al., 2014). Corporate tax payments occasionally change for various reasons, including domestic and international tax laws (Guenther et al., 2013). This change can cause the company's tax risk uncertain, and managers will always try to minimize corporate tax costs by practicing tax avoidance. There is information asymmetry because managers, as operational executors of the company, have more information, especially about taxation, than stakeholders (Firmansyah & Muliana, 2018).

Stakeholders, in this case, the government, want companies to pay as much tax as possible, while company managers only want to pay as little tax as possible. The tax risk that a company will pay is uncertain due to factors such as changes in tax laws regulated by the government. If a company cannot predict its tax risk well, it will affect its cash flow position in the future (Firmansyah & Muliana, 2018). Abduh et al. (2014) and Mangoting et al. (2021) found that tax risk positively affects tax avoidance. Tax avoidance by the company will be ineffective if the tax risk faced by the company is very high (Abduh et al., 2014). High tax rates also influence corporate tax risk, giving

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managers additional intentions to avoid tax. Managers' operational policy and decision making is carried out by considering the various plans and risks that the company will accept in the future. This policy will affect all risks the company accepts, including the tax risk of tax avoidance activities (Abduh et al., 2014).

H_1: Tax risk has a positive effect on tax avoidance

Managers are responsible for managing shareholder assets under any circumstances, including in an uncertain business environment. Under such conditions, managers must maintain shareholder expectations while maximizing existing resources. As a result, managers can use their authority to make decisions regarding the level of company profits through effective tax planning (Arieftiara et al., 2020). Environmental uncertainty refers to the variability of changes that characterize environmental activities relevant to company operations and stochastic and unpredictable (Huang et al., 2017). Environmental conditions with uncertainty encourage managers to save costs, one of which is by avoiding tax obligations.

In responding to an uncertain environment, managers often use flexibility and discretion to better adapt to environmental changes (Huang et al., 2017). When managers cannot predict environmental conditions accurately, they intend to practice tax avoidance to produce financial reports that suit their interests (Carolina & Purwantini, 2020). Several studies found environmental uncertainty's positive effect on tax avoidance (Arieftiara et al., 2020; Laksono & Firmansyah, 2020; Nurdiana, 2021; Ratu & Siregar, 2019; Seviana & Kristanto, 2020; Syarendra & Kristanto, 2020). The company's business environment, which is filled with uncertainty, makes managers face pressure. An uncertain business environment will increase managers' risk in conducting company operations where unexpected costs may arise. Therefore, in uncertain environmental conditions, managers will be more motivated to reduce corporate tax payments than when in stable business conditions (Laksono & Firmansyah, 2020).

H_2: Environmental uncertainty has a positive effect on tax avoidance

Companies experiencing financial distress will increase the possibility of taking tax avoidance actions. The company will attempt to minimize costs, including tax payments. It is because the companies attend to trigger the welfare of shareholders. Financial distress usually refers to a situation in which a company's cash inflow is insufficient to meet day-to-day operating expenses. This situation resulted in the company's failure to fulfill its financial commitments in the long term (Waqas & Md-Rus, 2018). The causes of financial distress are lack of capital due to improper use of capital resources and insufficient savings.

The manager, as the agent, will provide financial statements on the results of the company's performance to the principal. There is information asymmetry where the agent has complete information regarding the company's financial condition and tax planning compared to the principal. It will allow agents to avoid tax by looking for loopholes without violating applicable tax regulations (Muttaqin et al., 2020). Companies that experience financial distress will have a large bankruptcy risk, and the tax risks they will face are increasingly uncertain. Managers will carry out cost-saving strategies that burden the company's finances, one of which is by avoiding tax obligations. Companies experiencing financial distress will try to use existing methods while complying with applicable regulations.

H_3: Financial distress strengthens the positive effect of tax risk on tax avoidance

Conditions around the company's environment are rapidly changing, and these changes can be good or bad. When the company's environmental conditions worsen, it will experience financial distress because it cannot finance operations. On the other

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hand, the company must also think about ways to pay tax obligations. In situations like this, management must think about minimizing the payment of the company's tax obligations by practicing tax avoidance. Financial problems experienced by companies increase the risk of bankruptcy and, therefore, can increase management's intention to practice tax avoidance to maintain company stability (Purnamawati, 2021).

Environmental uncertainty around the company causes different interests between company managers and the government regarding paying taxes. The more uncertain the income the company receives will cause the company to experience financial distress. The uncertainty of income that the company will receive causes the company to minimize costs, one of which is the tax burden so that managers will practice tax avoidance. It is detrimental to the state because the tax revenue received is less than what companies should pay.

H_4: Financial distress strengthens the positive effect of environmental uncertainty on tax avoidance

Method

This study examines the effect of tax risk and environmental uncertainty on tax avoidance with financial distress as a moderator. This study uses secondary data obtained from https://www.idnfinancials.com/id. The research sample uses manufacturing company objects listed on the Indonesia Stock Exchange from 2016 to 2021. The election year starts in 2016, considering the Circular Letter of the Director General of Taxes Number SE-02/PJ/2016 Concerning Making Benchmark Behavioral Models and Their Follow-up. The sample in this study was selected using a purposive sampling method with several criteria, described in the following table:

Table 1. Research Sample

No	Research Criteria	Sample Amount	Total Observation
1.	Manufacturing companies listed on the IDX for the period 2016-2021	223	1.338
2.	Manufacturing companies listed on the IDX after January 11, 2011	(105)	(630)
3.	Manufacturing companies' incomplete data for the period 2011-2021	(6)	(36)
4.	Manufacturing companies that use currencies other than Rupiah	(27)	(162)
Amount of sample before outlier test		85	510
Amount of outlier data		(20)	(120)
Amount of sample after outlier test		65	390

The dependent variable used in this study is tax avoidance. This study's dependent variable, tax avoidance, adapts the ratio calculation in Trisnawati & Gunawan (2019) based on the Circular Letter of the Director General of Taxes Number SE-02/PJ/2016.

$$\textit{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales}} \quad (1)$$

$$\text{Operating Profit Margin} = \frac{\text{Operating Profit}}{\text{Sales}} \quad (2)$$

$$\text{Pretax Profit Margin} = \frac{\text{Profit before tax}}{\text{Sales}} \quad (3)$$

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$$\textbf{corporate tax to the turnover ratio} = \frac{\text{Income tax payable (PPh 29)}}{\text{Sales}} \quad (4)$$

$$\textbf{Net Profit Margin} = \frac{\text{Net profit after tax}}{\text{Sales}} \quad (5)$$

$$\textbf{Dividend payout ratio} = \frac{\text{Payment of cash dividend}}{\text{Net profit}} \quad (6)$$

From these six ratios, factor analysis will be carried out at the data processing stage to obtain this study's most appropriate tax avoidance ratio. The next step is to test the factor analysis to determine the most appropriate proxy for measuring the tax avoidance variable with the results in the following table:

Table 2. Factor Analysis

		TA-GPM	TA-OPM	TA-PPM	TA-CTOR	TA-NPM	TA-DPR
Anti-image Covariance	TA-GPM	.003	-.003	.000	-.009	.000	-.008
	TA-OPM	-.003	.003	.000	.012	.000	.006
	TA-PPM	.000	.000	.000	.008	.000	-.001
	TA-CTOR	-.009	.012	.008	.808	-.008	-.045
	TA-NPM	.000	.000	.000	-.008	.000	.001
	TA-DPR	-.008	.006	-.001	-.045	.001	.970
Anti-image Correlation	TA-GPM	.715[a]	-.969	-.197	-.162	.201	-.142
	TA-OPM	-.969	.668[a]	.398	.236	-.396	.117
	TA-PPM	-.197	.398	.661[a]	.425	-.999	-.034
	TA-CTOR	-.162	.236	.425	.010[a]	-.427	-.051
	TA-NPM	.201	-.396	-.999	-.427	.657[a]	.030
	TA-DPR	-.142	.117	-.034	-.051	.030	.129[a]

Table 2 shows that the Anti-image Matrices have an anti-image correlation value with an "a" sign, namely GPM of 0.715, OPM of 0.668, PPM of 0.661, CTOR of 0.010, NPM of 0.657, and the DPR of 0.129. The conclusion is that the proxy GPM is the only one with a value greater than 0.7; therefore, it is the most appropriate indicator of the dependent variable for this study. The independent variables used in this study are tax risk and environmental uncertainty. Tax risk in this study uses cash ETR volatility measurements which are also used in research by Firmansyah & Muliana (2018), Hutchens & Rego (2015), and Widodo & Firmansyah (2021). Cash ETR is calculated utilizing total tax payments in the last five years divided by profit before tax in the last five years of the manufacturing company.

$CETR_VOL_{it}$ = Annual standard deviation of the company's cash ETR in year t.

$$\textbf{Cash ETR} = \frac{\sum_{t=1}^{N} \text{Cash Tax Paid}_{it}}{\sum_{t=1}^{N} \text{Pretax Income}_{it}} \quad (7)$$

Environmental uncertainty in this study uses a measurement with the sales volatility ratio, which refers to Bimo et al. (2019), Huang et al. (2017), and Laksono & Firmansyah (2020) as follows:

$$CV\,(S_i) = \frac{\sqrt{\sum_{t=0}^{n} \frac{(S_i - S_{mean})^2}{5}}}{S_{mean}} \quad (8)$$

Where:

CV = Coefficient of sales variation

Si = Total sales in the year i divided by total assets in the year i

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Smean = Average sales value divided by total assets for five years previously.

Financial distress in this study is measured by the Altman Z-Score formula, which refers to Altman (1968), which is also then employed by Cita & Supadmi (2019), Fauzan et al. (2021), Nugroho & Firmansyah (2017), Swandewi & Noviari (2020). In this study, the Z value will be multiplied by -1 to show an increase in the value of financial distress (Nugroho & Firmansyah, 2018). The Altman Z-Score formula used in this study is as follows:

$$\mathbf{Z = 1.2\left(\frac{working\ capital}{total\ assets}\right) + 1.4\left(\frac{retained\ earnings}{total\ assets}\right) + 3.3\left(\frac{profit\ before\ tax\ and\ interest\ expense}{total\ assets}\right) + 0.6\left(\frac{market\ value\ of\ equity}{total\ liabilities}\right) + 0.999\left(\frac{sales}{total\ assets}\right)\ (9)}$$

Control variables in this study using profitability, leverage and independent board of commissioners. Profitability is measured using the ratio of return on assets as used in research of Bimo et al. (2019), Ratu & Siregar (2019), and Wardhana et al. (2021):

$$\mathbf{ROA = \frac{Net\ Profit\ After\ Tax}{Total\ Assets}\ (10)}$$

Leverage is measured using the debt-to-asset ratio as used in the research of Laksono & Firmansyah (2020) and Ratu & Siregar (2019):

$$\mathbf{DAR = \frac{Total\ Debt}{Total\ Assets}\ (11)}$$

The independent board of commissioners is measured by dividing the total composition of the board of independent commissioners divided by the total number of members of the board of commissioners as used in the research by Fauzan et al. (2021) and Ningrum & Nurasik (2021).

$$\mathbf{COMIND = \frac{Total\ Independent\ Board\ of\ Commissioners}{Total\ number\ of\ members\ of\ the\ board\ of\ commissioners}\ (12)}$$

Testing the hypothesis in the study was carried out by multiple regression analysis for panel data. By conducting Chow, Hausman, and Lagrange Multiplier tests, regression model testing was carried out to determine the best model among the common, fixed, and random effect models. The model used in this research is as follows:

$$\mathbf{TA_{it} = \beta_0 + \beta_1 TR_{it} + \beta_2 EU_{it} + \beta_3 FD_{it} + \beta_4 (TR * FD)_{it} + \beta_5 (EU * FD)_{it} + \beta_6 PROF_{it} + \beta_7 LEV_{it} + \beta_8 COMIND_{it} + \varepsilon_{it}\ (13)}$$

Where:

TA_{it} = Tax avoidance for firm i in year t
TR_{it} = Tax risk for firm i in year t
EU_{it} = Environmental uncertainty for firm i in year t
FD_{it} = Financial distress for firm i in year t
$PROF_{it}$ = profitability for firm i in year t
LEV_{it} = leverage for firm i in year t
$COMIND_{it}$ = composition of the board of independent commissioners for firm i in year t
ε_{it} = Error

Results and Discussion

Table 3 depicts the descriptive statistical analysis of all the variables in this study.

Table 3. Descriptive Statistics Result

	TA_GPM	TR	EU	FD	ROA	DAR	COMIND
Mean	0.223	0.261	0.137	-4.258	0.051	0.435	0.402
Median	0.184	0.231	0.123	-2.831	0.043	0.435	0.375
Maximum	0.739	0.966	0.530	0.099	0.300	0.931	0.750
Minimum	-0.039	0.000	0.012	-41.331	-0.158	0.063	0.200

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Std. Dev.	0.148	0.167	0.084	4.477	0.068	0.190	0.091
Observations	390	390	390	390	390	390	390

Source: data processed

Tax avoidance has a mean value of 0.223, a max value of 0.739 belonging to PT Delta Djakarta Tbk, and a minimum value of -0.039 to PT Lion Mesh Prima Tbk. Tax risk has a mean value of 0.261, a max value of 0.966 belonging to PT Kabelindo Murni Tbk, and a minimum value of 0.000 to PT Yanaprima Hastapersada Tbk. Environmental uncertainty has a mean value of 0.137. The maximum value of 0.530 belongs to PT Kimia Farma Tbk, and a minimum value of 0.011 belongs to PT Indofood CBP Sukses Makmur Tbk. Meanwhile, the financial distress has a mean value of -4.258, a max value of 0.099 belonging to PT Prima Alloy Steel Universal Tbk, a minimum value of -41.330 belonging to PT Hanjaya Mandala Sampoerna Tbk. Profitability has a mean value of 0.051, a max value of 0.300 belonging to PT Hanjaya Mandala Sampoerna Tbk, and a minimum value of -0.158 belonging to PT Sreeya Sewu Indonesia Tbk. Leverage has a mean value of 0.435, a max value of 0.931 belonging to PT Prasidha Aneka Niaga Tbk, and a minimum value of 0.063 belonging to PT Supreme Cable Manufacturing & Commerce Tbk. Independent board of commissioners has a mean value of 0.402, a max value of 0.750 belonging to PT Suparma Tbk, and a minimum value of 0.200 belonging to PT Kimia Farma Tbk.

Based on the results of testing the panel data regression model of the Chow, Hausman and Lagrange Multiplier tests, the result of the selected model is the random effect model. The summary of the results of hypothesis testing is as follows:

Table 4. Summary of Hypothesis Testing Results

Variables	Coefficient	t-Stat.	Prob	
C	0.1722	7.2342	0.0000	
TR	0.0235	1.3325	0.0918	*
EU	0.1128	2.6110	0.0047	**
FD	-0.0005	-0.3930	0.3472	
TR*FD	0.0015	0.3764	0.3535	
EU*FD	0.0220	2.0931	0.0185	**
ROA	0.8086	16.4885	0.0000	***
DAR	-0.0210	-0.9563	0.1698	
DKI	0.0196	0.7153	0.2374	
R^2	0.4591			
Adj. R^2	0.4477			
F-stat.	40.4214			
Prob(F-stat.)	0.0000			

* Significant at the level (0.10), ** Significant at the level (0.05), *** Significant at the level (0.01)

Sources: data processed

The effect of tax risk on tax avoidance

The result of testing the model in this study suggests that tax risk does not affect tax avoidance because this study employs a significant level of 5%, so H_1 is rejected. The result of this study is not in line with Abduh et al. (2014) and Mangoting et al. (2021), which found that tax risk has a positive effect on tax avoidance. Tax risk is the uncertainty that a company will receive concerning a company's tax transactions and can affect the continuity of a company's business (Firmansyah & Muliana, 2018). The worst possibility is that the manager cannot properly estimate the tax risk that the company can accept.

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Based on these considerations, managers tend to avoid taking tax avoidance actions because they are worried that the decision will harm the company if it is wrong. Tax risk is a future corporate tax payment transaction influenced by external company factors, for example, dynamic changes in tax laws and regulations and investigations by tax officers. The existence of strict tax law enforcement and large sanctions and fines also makes company management tend to avoid tax avoidance. The tax system has been running well, as shown by the rapid infrastructure development and improvement of existing public services, which is profitable for the company. Thus, managers tend not to do tax avoidance so that the country's development can continue properly.

The effect of environmental uncertainty on tax avoidance

The test result in this study suggests that environmental uncertainty positively affects tax avoidance, so H_2 is accepted. This study's result aligns with several previous studies (Arieftiara et al., 2020; Laksono & Firmansyah, 2020; Nurdiana, 2021; Ratu & Siregar, 2019; Seviana & Kristanto, 2020; Syarendra & Kristanto, 2020). However, the result of this study is not in line with Huang et al. (2017). Uncertainty in the company environment will cause managers difficulties planning, so tax avoidance cannot be carried out properly (Abduh et al., 2014). Environmental uncertainty makes companies vulnerable to experiencing financial difficulties while companies must continue to fulfill their tax obligations to the state. An environmental situation full of uncertainty will allow managers to practice tax avoidance (Nurdiana, 2021).

Managers are responsible for managing shareholder assets under any circumstances, including in an uncertain business environment. Under such conditions, managers must maintain shareholder expectations while maximizing resources. As a result, managers can use their authority to make decisions regarding the level of company profits through effective tax planning (Arieftiara et al., 2020). Companies whose environment is full of dynamics of change have the potential to influence managers to have the intention to carry out tax avoidance so that the costs incurred by the company can be minimized (Laksono & Firmansyah, 2020). Managers, as corporate leaders, respond to this environmental uncertainty by choosing to carry out tax avoidance. The greater the tax burden the company pays, the less profit for the company's shareholders (Syarendra & Kristanto, 2020). More volatile environmental conditions will lead managers to seek more cost-saving opportunities to stabilize the company's cash and present a good image for shareholders. Unclear company income and costs in the future will require managers to minimize the tax burden because it can reduce company profits.

The moderating role of financial distress in the association between tax risk and tax avoidance

The test result in this study suggests that financial distress cannot strengthen the positive effect of tax risk on tax avoidance, so H_3 is rejected. Companies in financial distress will have a large bankruptcy risk, and the tax risks they will face are increasingly uncertain. Managers worry that tax avoidance will increase the risk of paying greater tax expenditures in the future. It, of course, will exacerbate the financial condition of companies in a state of financial distress. The tax risk companies face is not only caused by the company's internal financial distress. However, it can also be caused by external factors, namely changes in tax regulations and tax laws both domestically and overseas taxation (Firmansyah & Muliana, 2018).

These changes make managers avoid possible tax risks that can result in losses for companies that will exacerbate financial distress conditions by not carrying out tax avoidance. It means that tax avoidance is not the right action for managers to take against companies experiencing financial distress because it will exacerbate the future tax risks they face (Rani, 2017). Managers must be more careful in estimating the effect of their decision to carry out tax avoidance on tax risks that may be received by the company in the future, even though the company's condition is financial distress.

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The moderating role of financial distress in the association between environmental uncertainty on tax avoidance

The test result in this study suggests that the financial distress variable can strengthen the effect of environmental uncertainty on tax avoidance, which means that H_4 is accepted. The test results align with agency theory which states that in conditions of high environmental uncertainty, managers will tend to use judgments that follow their interests in the decision-making process, especially those related to tax avoidance (Arieftiara et al., 2020). Financial distress amid environmental uncertainty will exacerbate the company's condition, so managers think of the easiest way to save on company expenses, one of which is by carrying out tax avoidance.

Managers took this action because tax avoidance took advantage of a gap in the gray area of applicable tax regulations where companies can save on paying taxes but, on the other hand, do not violate existing tax regulations. The results of this study are also in line with the legitimacy theory, which explains that organizations tend to behave to gain recognition from society. Uncertainty in the business environment surrounding a company in a state of financial distress will increase the potential for managers to carry out tax avoidance. The fund resulting from the tax payment savings will then be allocated to pay the company's creditors (Swandewi & Noviari, 2020). From the creditor's perspective, it will give the company a good image because they are still responsible for paying off their debts.

Conclusion

The results of this study can be concluded that tax risk does not affect tax avoidance. Managers do not dare to take risks in tax avoidance actions because they fear the wrong decisions will harm the company. Furthermore, environmental uncertainty has a positive effect on tax avoidance. When managers cannot predict environmental uncertainties well, they intend to practice tax avoidance to produce financial reports that are in their interests. Financial distress cannot strengthen the effect of tax risk on tax avoidance. Companies experiencing financial distress tend not to take tax avoidance actions because they will later receive tax compensation from the government, so managers will prefer to avoid tax avoidance practices. Also, this study found that financial distress can strengthen the positive influence of environmental uncertainty on tax avoidance. The corporate environment, which is full of uncertainty, is exacerbated by conditions of financial distress, forcing managers to think about the best way to make the company's financial reports as good as possible, one of which is by minimizing tax payments through tax avoidance.

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