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THE EFFECT OF FINANCIAL DISTRESS, AND EARNINGS MANAGEMENT ON TAX AVOIDANCE

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ABSTRACT

The purpose of this research is to empirically prove the effect of financial distress and earnings management on tax avoidance. The population of this research is infrastructure sector companies listed on the Indonesia Stock Exchange in 2019-2021. The research sampling technique uses the Judgment sampling method, namely a sampling technique by selecting members who must meet several specified criteria. Analysis was carried out on secondary data from 66 observations. Before testing the hypothesis, a classic assumption test is first carried out to ensure that the data is suitable for use. Hypothesis testing is carried out using Multiple Linear Regression Analysis. The research results show that financial distress and earnings management effect tax avoidance

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INTRODUCTION

The Indonesian government's work priority in the 2019 - 2024 period is to accelerate and continue infrastructure development that has infrastructure interconnections with small industrial areas, special economic zones, tourism, rice fields, plantations, and fisheries. This work priority ranks first of the five work priorities (Ministry of State Apparatus Empowerment and Bureaucratic Reform of the Republic of Indonesia, 2019)

To to implement the government's work priorities through the Directorate General of Taxes (DGT) under the responsibility of the Ministry of Finance in the condition of the Indonesian economy which is being affected by the Covid-19 pandemic, of course the DGT must work harder to achieve the planned tax revenue targets set by the government because taxes are the main source of state revenue to move the wheels of government, support economic activities, support national development and carry out operational activities such as providing tax-supported public facilities and infrastructure. In fulfilling an obligation, taxes are the largest income for the state (Sadjiarto et al., 2020).

Based on Law of the Republic of Indonesia Number 28 of 2007 concerning the Third Amendment Regarding Law Number 6 of 1983 concerning General Provisions and Tax Procedures article 1 paragraph (1) states that taxes are an obligation that must be paid because of the amount of tax owed which the state must receive from individuals or entities. According to this law, taxes are used for state needs and are intended as much as possible for the welfare of the people without direct reimbursement. Thus, companies as corporate taxpayers must pay income by applicable tax provisions which are calculated from the amount of profit before tax multiplied by the applicable tax rate.

The tax system in Indonesia adheres to a self-assessment system which gives taxpayers the freedom to calculate for themselves how much tax they will pay. This results in taxpayers being able to regulate the amount of company profits that will be reported in the annual tax return and minimizing the amount of corporate tax. In other words, taxpayers take advantage of loopholes and gaps in the implementation of the tax laws in force in Indonesia. The self-assessment system opens up opportunities for taxpayers to commit tax evasion and fraud (Gunadi, 2020).

According to Alfarasi & Muid (2022) company profits can be reduced due to tax payments so paying income tax is seen as a burden for the company so that companies can potentially take several actions including tax planning, tax avoidance and tax evasion.

To increase the company's profit efficiency and liquidity, companies can reduce the amount of tax by implementing tax avoidance (Kodriyah & Putri, 2019). In research Alharbi et al., (2022). It is said that people tend to carry out aggressive tax management to reduce the amount of tax payment obligations and to increase shareholder wealth using tax avoidance.

In general, reductions in the payment of tax obligations owed by companies are encouraged because the company is in a situation of financial difficulty or financial distress (Swandewi & Noviari, 2020). Apart from financial distress, some things have no less effect on tax avoidance, namely earnings management, namely the manager's actions to increase or decrease the current period profits of the company he manages without causing an increase or decrease in the company's long-term economic profit (Fischer & Rosenzweig, 1995).

Academic and empirical research discussing tax avoidance has been widely carried out in recent years (Kovermann & Velte, 2019). From several previous studies, there are gaps and contradictions, including according to Grace et al. (2022), Alfarasi & Muid (2022), Yuliana et al. (2021), Taufik & Muliana (2021), Dang & Tran (2021) said that tax avoidance was significantly affected by financial distress. According to Dhian Mahardhika & Surjandari (2022), Monika & Noviari (2021), Fauzan et al., (2021), Hidayanto et al. (2021), Nadhifah & Arif (2020), Cita & Supadmi (2019) said that financial distress hurts tax avoidance.

As for earnings management, it is as per previous research conducted by Thalita et al. (2022), Dhian Mahardhika & Surjandari (2022), Gunawan & Surjandari (2022), And Prismanitra et al. (2021) shows that there is a positive effect between earnings management and tax avoidance. However, this is different from the research carried out by Nadhifah & Arif (2020) concluded that earnings management has a negative effect on tax avoidance. This research shows that there are gaps or differences in the research results which constitute a gap, making it an interesting phenomenon for further research.

It cannot be denied that tax avoidance still occurs in Indonesia It is proven that The State of Tax Justice 2020: Tax Justice in the time of COVID-19 positions Indonesia in fourth place in Asia after China, India, and Japan (Kompas.com, 2020). **According to** *Tax Justice Network*, Indonesia is estimated to suffer losses to US$4.86 billion per year or the equivalent of IDR 68.7 trillion when using the rupiah exchange rate at the closing spot market on Monday (22/11/2020) amounting to IDR 14,149 per US dollar due to tax avoidance consisting of corporate taxpayers of 4.78 billion US dollars equivalent to IDR 67.6 trillion and the remainder from individual taxpayers amounting to 78.83 million US dollars or around IDR 1.1 trillion (Kompas.com, 2020). The main purpose of taxpayers not reporting actual profits is to reduce the tax burden that should be paid (Cobham et al., 2020).

Phenomenon **happen** tax avoidance was also revealed in companies listed on the Indonesia Stock Exchange. Cases that become a phenomenon of tax avoidance caused by earnings management, for example, are cases carried out by PT. Bentoel Internasional Investama Tbk (RMBA) based on information from the Tax Justice Network Institute on May 8 2019 which resulted in the state suffering losses of US$ 14 million per year. In this case, the company received a loan of IDR 5.3 trillion or the equivalent of US$ 549 million in 2015 from a related company in the Netherlands, namely Rothmans Far Est BV. This debt is used to refinance bank loans and pay for machinery and equipment (kontan.co.id, 2019). Interest payments on these loans can be deducted from the company's taxable income in Indonesia (Qolbi, 2019). One of the tax avoidance phenomena that occurred in infrastructure sector companies that was detected in early 2016 as carrying out tax avoidance was the company in the "The Panama Papers" case, namely a well-known company in Indonesia called PT. Ciputra Development Tbk which had deliberately hidden wealth reaching US$1.6 billion or equivalent to IDR 21.6 trillion (exchange rate IDR 13,538) with the aim of tax avoidance (tempo.co, 2016).

Meanwhile, the phenomenon of tax avoidance due to financial distress is not expressed in a case phenomenon but is based on empirical research conducted by previous researchers including Dhian Mahardhika & Surjandari (2022), Monika & Noviari (2021), Fauzan et al., (2021), Hidayanto et al. (2021), Nadhifah & Arif (2020), Cita & Supadmi (2019). In these studies, it is stated that financial distress is one of the factors that affect the occurrence of tax avoidance.

Based on the explanation above, the tax avoidance phenomenon that occurs in Indonesia has a negative impact on the state of the country and the world which is currently experiencing the Covid-19 outbreak. Apart from that, there are differences in the results of previous research regarding the effect of financial distress and earnings management on tax avoidance, so this research aims to empirically prove the effect of financial distress and earnings management on tax avoidance.

THEORY AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory initiated by Ross (1973) whose definition was later expanded by Jensen & Meckling (1976) which says that agency theory is a theory that explains the existence of an agency relationship between management (agent) and the company owner (principal), where the authority and responsibilities of the agent and principal have been regulated in a joint work contract for making decisions on behalf of the principal. This means that Agency theory describes an agency relationship where one party (principal) delegates work and decision-making authority to another party (agent) who then completes the work on behalf of the principal (Gunawan & Surjandari, 2022).

Jensen & Meckling (1976) explain agency problems that arise in the relationship between agents and principals in companies. An agent is a party who carries out tasks as mandated by the capital owners. Agents are company management. The principal is the party who provides the trust, entrusting the capital to be run by the agent. Problems in the relationship between the two arise because of information asymmetry between the two parties. Agents have wider access to information about company activities because they directly manage company operations. Due to opportunistic behavior, agents often take advantage of access to this information for their own interests or certain groups.

From the perspective of agency theory, the practice of tax avoidance is affected by a conflict of interest between the agent and the principal which is caused by differences in interests and the efforts of each party who wants to achieve the desired level of prosperity personally or for certain groups (Sari et al., 2021). Agency theory provides an overview of what occurs when authority is given to an agent to carry out a task or authority in making decisions where there are differences in the interests of the agent and the principal, thereby triggering tax avoidance (Anugerah et al., 2022).

The relevance of agency theory's relationship to tax avoidance is that companies that carry out tax avoidance also follow considerations taken by the company manager as the party given the authority to run the company. Motivation for personal or group interests in a company is the agent's reason for carrying out tax avoidance (Dyreng et al., 2010).

In conditions where the company experiences, especially in making payments for short-term obligations, where the agent can lose trust, financial distress can cause the agent to carry out tax avoidance (Anugerah et al., 2022). Likewise, to increase compensation in the form of salary increases, bonuses and high positions as expected, agents can play and carry out earnings management by implementing tax avoidance (Prismanitra et al., 2021).

Positive Accounting Theory

Positive Accounting Theory according to Watts & Zimmerman (1986) is a theory that predicts how to make decisions that will have an impact on stakeholders by choosing the most appropriate accounting system where these decisions will have an impact on the wealth owned. The motivation behind decision-making in selecting an accounting system that has economic consequences is explained in positive accounting theory (Holthausen & Leftwich, 1983), and (Watts & Zimmerman, 1990). Positive Accounting Theory attempts to explain accounting policies, a problem for companies and stakeholders related to financial reports, in choosing accounting policies in certain conditions (Watts & Zimmerman, 1986).

According to the opinion of Watts & Zimmerman (1986) to be able to explain and predict accounting practices Companies need accounting theory. The contracting process or agency relationship between managers and other parties such as investors, creditors, auditors, capital market managers, and the government is explained and predicted in accounting science (Watts & Zimmerman, 1986).

In the context of taxation, the relevance of positive accounting theory is that the large political costs will trigger managers to choose company accounting policies to carry out tax avoidance when the company experiences high financial distress and earnings management. As for the practice of tax avoidance, to reduce the tax burden, companies will take the necessary actions by exploiting weak points in tax regulations (Puspitasari et al., 2021). To minimize the political costs that must be borne by the company, management tends to adopt accounting policies such as adjusting the accounting methods used to minimize the impact and tends to carry out earnings management by engineering a decrease in profits (Puspitasari et al., 2021). This also happens because the tax system in Indonesia adheres to a self-assessment system. According to Wahyuni (2011), the self-assessment system has an impact on tax avoidance (Alfarasi & Muid, 2022).

Tax Avoidance

Tax avoidance is an action taken by exploiting weaknesses in tax provisions legally and safely without violating or conflicting with applicable tax provisions (Pohan, 2016). Lim (2013) defines tax avoidance as a legitimate way to reduce tax payment obligations by exploiting the weaknesses of the tax system. Dyreng et al (2008) believe that tax avoidance is an activity that has an impact on reducing the number of tax liabilities. According to Taylor & Richardson (2013) tax avoidance is an effort carried out by company managers legally and safely through tax planning by utilizing gray areas to minimize the amount of taxable income. Meanwhile, according to Dewinta & Setiawan (2016), tax avoidance is an action to reduce tax obligations, but does not violate applicable tax regulations and is usually through policies taken by company leaders, for example postponing taxes that have not been regulated in tax regulations or taking advantage of permitted exceptions and deductions.

To get the desired profits, company management can implement tax management wrong one way is through tax avoidance, namely minimizing the amount of tax that will be paid in a way that does not conflict with tax law regulations. According to Klasen (1997), efficient tax planning is a transaction design to minimize the present value of tax payments without causing greater non-tax costs to other parts of the organization (Sirait & Martani, 2014).

From the definitions above, it can be seen that tax avoidance is the act of minimizing the amount of tax which is part of the tax management strategy by not violating applicable laws and regulations, so it can be concluded that tax avoidance is one way to legally avoid taxes that does not violate tax laws and regulations (Sari et al., 2021).

Financial Distress

Financial distress is a condition where a company is headed for bankruptcy or liquidation. This can be seen from the decline in financial conditions and the company's inability to fulfill its obligations, especially short-term obligations, liquidity obligations, and obligations in the solvency category (Platt & Platt, 2002). Cita & Supadmi (2019) said that financial distress is a condition when a company cannot fulfill its obligations or when cash flow projections show that the company cannot pay its financial obligations. The company's inability to complete its obligations when payment is due is one sign of financial distress (Beaver, 2010).

From the opinion above, it can be defined that financial distress is a condition where a company experiences financial difficulties so that it is unable to make payments on its obligations, especially short-term obligations that have matured. In other words, the company is experiencing financial difficulties that are serious enough to trigger bankruptcy if these conditions cannot be identified and resolved properly. Financial distress is the beginning of bankruptcy due to a decline in financial conditions (Putri et al., 2022).

To assist management in improving the company's financial condition before bankruptcy occurs, a prediction of financial distress is needed (Hendra et al., 2018). This financial distress condition is an early warning before bankruptcy occurs (Hakim et al., 2021). In other words, financial distress is an early sign of bankruptcy, namely when the company is weak in generating profits or tends to experience a deficit (Maisarah et al., 2018).

Financial distress is a condition that is undesirable for various parties. If financial distress occurs, investors and creditors will tend to be careful in investing or providing loans to the company. Stakeholders will tend to react negatively to this condition. Therefore, company management must immediately take action to overcome the problem of financial distress and prevent bankruptcy. Financial distress is closely related to the informativeness of the annual report. Based on the research results, it shows that shareholders interacted more with financial reports in the last two years and during the financial distress situation compared to the period before the financial distress occurred which was visible in share prices. (Kwon & Wild, 1994).

Earnings Management

Earnings management is an action aimed at selecting accounting policies with certain criteria and objectives to improve management welfare and increase the market value of the business (Scott, 2015). Fahmi (2014) believes that earnings management is an action to regulate profits carried out by management by the wishes of certain parties. Earnings management is also said to be an intervention that aims to provide personal benefits to certain parties in the process of preparing external financial reports (Schipper, 1989).

According to Halim et al. (2005) Earnings management is the selection of accounting policies carried out by management based on existing accounting standards and maximizing benefits for them and/or the market value of the company. Understanding of earnings management can be divided into two perspectives. First, earnings management is understood as an attitude of seeking opportunities for personal gain from managers by maximizing the benefits of compensation contracts, debt contracts, and political costs. Second, earnings management is understood as an efficient contract where earnings management provides flexibility for managers in protecting themselves and the company to obtain profits for the parties involved in the contract so that it is necessary to take steps to anticipate unexpected things.

Earnings management is a manager's action to increase or decrease the current period's profit of the company he manages without causing an increase or decrease in the company's long-term economic profit (Fischer & Rosenzweig, 1995). There are two criteria, namely stock-based insolvency and flow-based insolvency. Stock-based insolvency is a condition where the company's reported financial position experiences negative equity (negative net worth), while flow-based insolvency is a condition where operating cash flow cannot meet the company's current obligations.

Earnings management is management's way of presenting profit information to users of financial reports for the benefit of management (Rahayu et al., 2018). This is one of the factors that can reduce the credibility of financial reports, increase bias in financial reports, and interfere with the use of financial reports that believe manufactured profit figures to be real numbers are earnings management (Zahdjuki et al., 2018).

Based on the explanation above, it can be seen that earnings management is an action carried out to regulate company profits which are presented in financial reports by company managers. This effort made by the manager is a deliberate effort carried out to obtain a higher level of welfare for the manager personally and provide benefits to certain parties (Putri et al., 2022).

The Effect of Financial Distress on Tax Avoidance

In a condition where a company experiences financial distress, where there is a decline in financial conditions which can even result in bankruptcy if it is not managed well, so in conditions like this, company management will look for ways to reduce the company's burden and one of the burdens for the company is the tax burden. One way that is considered legal is to carry out tax avoidance.

Anugerah et al (2022) conducted research on the effect of financial distress on tax avoidance by taking samples of property and real estate companies from companies listed on the IDX during 2016-2019. The test results using Eviews 9.0 software show that based on the t-test or partial test the financial distress variable has a significant value of prob.0.0000 <0.05 (because the significance is smaller than 0.05) then the financial distress variable has a significant effect on tax avoidance.

In research conducted by Yuliana et al (2021) which tested tax avoidance which was effect by financial distress by taking a sample of banking companies from companies listed on the IDX during 2018-2019, showing that financial distress had a probability of 0.006 < 0.05, so it could be seen that tax avoidance was effect by financial distress.

Dang & Tran (2021) also researched the effect of financial distress on tax avoidance from companies in Vietnam. Data was obtained from Thoson Reuters sources at the Center for Economic Analysis and Data Center during 2008 - 2020. This research uses regression according to the FEM and REM methods. Hausman's results with a value of P = 0.0000 indicate that the FEM estimate is more suitable for explaining capital, which means that the more a company is in danger of capital, the more tax avoidance will be carried out so that the empirical results conclude that there is a positive relationship between financial distress and tax avoidance. at a company in Vietnam.

From the research above, it can be seen that companies will strain the relationship between agents and the government to carry out tax avoidance when experiencing financial distress. In the world of investment, shareholders of course only want to invest in healthy companies and will avoid investing in companies that are threatened with bankruptcy. In other words, in agency theory, agents will try a way to save the company and maintain relationships with shareholders so that investors do not take the funds they invested and show good company performance reports by avoiding obligations or delaying payment of company taxes (Alfarasi & Muid, 2022). This is the reason why agents carry out tax avoidance so that the following hypothesis can be formulated:

H_1 : Financial Distress (FD) Effect on Tax Avoidance (TA)

The Effect of Earnings Management on Tax Avoidance

Earnings management is an act carried out deliberately to regulate company profits presented in financial reports by the company manager to obtain a higher level of welfare for the manager personally and provide benefits to certain parties. Regarding tax issues, managers as agents can carry out methods that are not known to shareholders as principals in the tax aspect, namely by avoiding taxes because one of the tax burdens is based on the size of the company's profits.

The relationship between earnings management and tax avoidance has been shown in previous research, namely, research conducted by Thalita et al (2022) to know the effect of earnings management on tax avoidance with the research population in companies manufactured registered on the IDX during the 2016 – 2020 period. From the test results, a positive beta value was obtained of 0.126 with a significance of 0.007 in the current ETR (0.007 <0.05 = significant). The research results show that earnings management has a significant positive effect on tax avoidance. The research results also concluded that the smaller the reported income, the smaller the calculated ETR value and provide a signal about the tax avoidance activities carried out.

Research conducted by Gunawan & Surjandari (2022) trying to test the effect of earnings management on tax avoidance in manufacturing companies listed on the IDX during the 2015 - 2019 period. Using Eviews 9 software shows empirical results that earnings management affects tax avoidance. In this research, it is also said that the higher the earnings management, the higher the tax avoidance carried out by the company. This is by agency theory, namely that management is interested in optimizing profits by carrying out earnings management to affect the amount of tax paid by the company.

Prismanitra et al (2021) in their research to obtain empirical evidence regarding the effect of earnings management on tax avoidance in the mining sector listed on the IDX during the 2016 - 2018 period, shows that earnings management has a positive and significant effect on tax avoidance. Apart from that, the research also revealed that implementing more advanced earnings management will improve tax avoidance practices in companies. From the test results, it is known that the average profit value is 0.0795, indicating that the positive value is an effort to increase profits. However, a value close to 0 indicates that the practices carried out by mining companies are not too high.

From some of the research above it can be known that the higher implementation of earnings management will affect tax avoidance practices in a company. This is of course in line with the view of agency theory which states that the existence of information asymmetry and the existence of conflicts that arise will provide opportunities for tax avoidance behavior and show that the higher the level of earnings management, the smaller the tax burden paid due to the higher level of tax avoidance, so the following hypothesis can be formulated:

H_2 : Earnings Management (EM) Effect on Tax Avoidance (TA).

Based on the theory and hypothesis development above, you can describe the research model as follows:

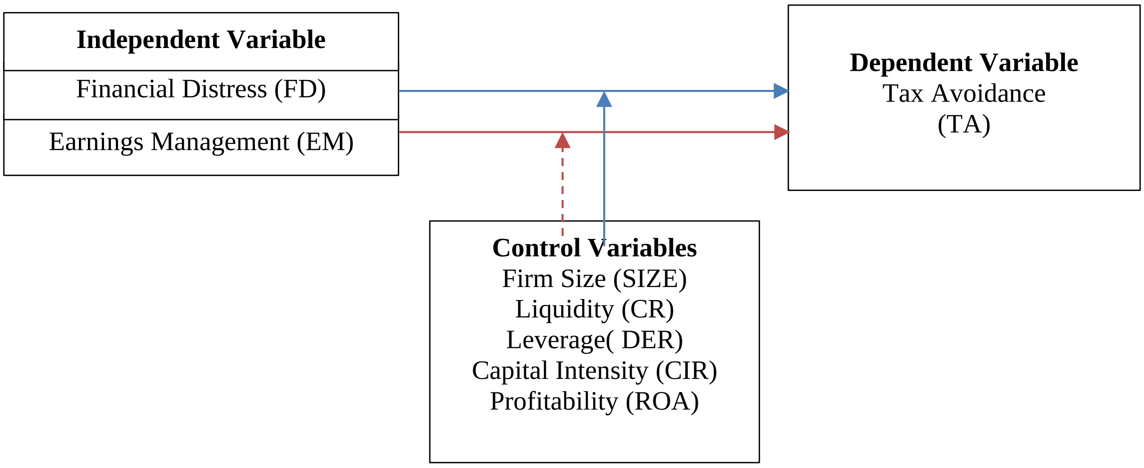

Figure 1
Research Model

RESEARCH METHODS

Research design

The method in this research uses a quantitative descriptive approach. Based on Sugiyono (2018) method quantitative is a research method based on the philosophy of positivism, used to research certain populations or samples, collect data using research instruments, and analyze quantitative/statistical data, to describe and test predetermined hypotheses. The philosophy of positivism views that reality/symptoms/phenomena can be classified, are relatively fixed, concrete, can be observed, can be measured, and the relationship between symptoms is causal. Quantitative research generally uses a representative population or sample. Apart from that, the research process is deductive, where in answering the problem formulation theory, or concepts are used so that a research hypothesis can be formulated, which then collects data and then tests it using descriptive statistical analysis so that conclusions can be drawn or answers can be made from the hypothesis that has been previously formulated.

Population and Sample

Cooper & Schindler (2017) say that population is the total collection of elements from which we will conclude. The population element is the entire subject to be measured, namely, the unit being studied. The population of this research is infrastructure sector companies listed on the Indonesia Stock Exchange (IDX) with an observation period of 3 years (2019 - 2021).

A sample is several elements in a population that are selected to conclude from the entire population (Cooper & Schindler, 2017). In sampling, this research uses a non-probability sampling technique with judgment sampling, namely the sampling technique in selecting members must meet several criteria. Based on this selection, a research sample of 22 of the 52 infrastructure sector companies listed on the Indonesia Stock Exchange was obtained during the research period, resulting in analysis data of 66 observations.

Operational Variables

Operational variables explain the meaning of the variables studied and their assessment indicators so that there are no differences in perception in the research. This research uses one dependent variable, two independent variables, and five control variables. The dependent variable in this research is Tax Avoidance and the independent variable consists of Financial Distress and Earnings Management, and five control variables consisting of Company Size, Liquidity, Leverage, Intensity Capital and Profitability. Research variables can be defined operationally in Table 1 as follows:

Table 1
Operational Research Variables

Variable	Definition	Measurement	Scale
Tax Avoidance	Tax avoidance is an action taken by exploiting weaknesses in tax provisions legally and safely without violating or conflicting with applicable tax provisions (Pohan, 2016)	**Cash ETR** $\text{Cash ETR} = \frac{\sum \text{Cash tax paid}}{\sum \text{Pretax Income}}$	Ratio
Financial Distress	Financial distress is a condition where a company is headed for bankruptcy or liquidation. This matter started with a decline in financial conditions and the company's inability to fulfill its obligations, especially short-term obligations, liquidity obligations, and obligations in the solvency category (Platt & Platt, 2002).	**Springate** S = 1.03X1 + 3.07X2 + 0.66X3 + 0.4X4	Ratio
Earnings Management	Earnings management is an action aimed at selecting accounting policies with criteria certain with the aim of improving management welfare and increasing the market value of the business (Scott, 2015).	**Discretionary Accruals (DA)** $\text{DA}_{\text{it}} = \frac{\text{TA}_{\text{it}}}{\text{A}_{\text{it}-1}} - \text{NDA}_{\text{it}}$	Ratio
Firm Size	Companies with different sizes trying to grow depending on the resources and potential they have (Yurdila et al., 2019).	**Firm Size** $\text{Size} = \text{Ln (Total Asset)}$	Ratio
Liquidity	Wrong one ratio used to measure a company's ability to meet its short-term obligations is the	**Liquidity** $\text{CR} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$	Ratio

Variable	Definition	Measurement	Scale
	liquidity ratio (Supandi et al., 2022)		
Leverage	Leverage is one of the financial ratios that is often used to assess how much of a company's assets or equity is financed by funding sources in the form of debt (Thalita et al., 2022)	**Leverage** $DER = \frac{\text{Total Liabilities}}{\text{Total Equity}}$	Ratio
Capital Intensity	Capital Intensity or what is called the capital intensity ratio, is a measuring tool used to determine the level of company efficiency in managing assets in generating income through sales activities (Bachtiar & Handayani, 2022)	**Capital Intensity** $CIR = \frac{\text{Total Asset}}{\text{Sales}}$	Ratio
Profitability	Profitability is the ability of a business entity to generate profits (Yurdila et al., 2019)	**Profitability** $ROA = \frac{\text{Net Income}}{\text{Total Assets}}$	Ratio

Analysis Techniques

The data analysis technique in this research is descriptive statistics, by testing Multiple Linear Regression Analysis. To determine the condition of the dependent variable on two or more independent variables required Multiple Linear Regression Analysis. The equation model used in this research is as follows:

$$TA = \alpha + \beta 1FD + \beta 2EM + \beta 3SIZE + \beta 4CR + \beta 5DER + \beta 6CIR + \beta 7ROA + \varepsilon$$

Where :
TA : Tax Avoidance
α : Constant
β1 -β7 : Regression Coefficients
FD : Financial Distress
EM : Earning Management
SIZE : Company size
CR : Current Ratio
DER : Dept to Equity Ratio
CIR : Capital Intensity Ratio
ROA : Return on Assets
ε : Error (interference error)

RESEARCH RESULTS AND DISCUSSION

Research result

Descriptive statistics

The results of descriptive statistical tests are presented in Table 2 as follows:

Table 2

Descriptive statistics

Descriptive statistics					
	N	Minimum	Maximum	Means	Std. Deviation
FD	66	-0.001	1,405	0.642	0.367
EM	66	-0.193	0.448	-0.004	0.080
TA	66	0.028	2,183	0.440	0.441
SIZE	66	26,522	33,256	29,806	1,661
CR	66	0.234	4,278	1,398	0.995
DER	66	0.075	6,052	1,593	1,427
CIR	66	0.785	9,790	3,750	2,451
ROA	66	0.001	0.135	0.047	0.037
Valid N (list)	66				

Source: SPSS 25 Output (2023)

Classic assumption test

The first classical assumption test was carried out using the normality test method *Kolmogorov-Smirnov Tests* how the results of Asymp. Sig. (2-tailed) of 0.200, which means that the value is greater than 5% or 0.05 and it can be concluded that the variable data Normal distribution is used so that the data obtained is suitable for further testing. The Normality Test is presented in Table 3 as follows:

Table 3

Normality test (*Kolmogorov-Smirnov Test)*

N	Normal Parameters		Most Extreme Differences			Statistical Tests	Asymp. sig. (2-tailed)
	Mean	Std. Deviation	Absolute	Positive	Negative		
66	0,000	0.198	0.078	0.078	-0.047	0.078	0.200

Source: SPSS 25 Output (2023)

The second test is the multicollinearity test, showing that there are no variables that have a tolerance value of less than 0.10 results the test also shows that there is no VIF value of more than 10.00, so it can be concluded that there are no variables that have a tolerance value of less than 0.10. The multicollinearity test is presented in Table 4 as follows:

Table 4

Multicollinearity Test

Model	Tolerance	VIF
FD	0.266	3.756
EM	0.884	1.131
SIZE	0.393	2.547
CR	0.426	2.345
DER	0.385	2.599
CIR	0.645	1.550
ROA	0.319	3.137

Source: SPSS 25 Output (2023)

The third test is the heteroscedasticity test with the Glejser Test, namely by regressing the absolute residual in this research shows the significance value (sig) between the independent variable and the absolute residual is above the level of 5% confidence or a significance level greater than 0.05 so it can be concluded that there is no heteroscedasticity problem. Test Heteroscedasticity (Glejser) is presented in Table 5 as follows:

Table 5

Test Heteroscedasticity (Glejser)

Model	Standardized Coefficients Beta	t	Sig.
FD	-0.232	-0.993	0.325
EM	-0.140	-1.088	0.281
SIZE	0.256	1.329	0.189
CR	0.195	1.052	0.297
DER	-0.024	-0.126	0.900
CIR	-0.156	-1.039	0.303
ROA	-0.051	-0.237	0.813

Source: SPSS 25 Output (2023)

The Fourth test, the autocorrelation test shows a Durbin-Watson value of 1.761. This value is between -2 to +2 which means it can be concluded that in the Autocorrelation Test, no symptoms of autocorrelation were found. Test Autocorrelation is presented in Table 6 as follows:

Table 6

Autocorrelation Test

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
0.724	0.524	0.467	0.20976733	1.678

Source: SPSS 25 Output (2023)

Hypothesis testing

Coefficient of Determination Test (R2)

The results of the coefficient of determination test (R2) are presented in Table 7 as follows:

Table 7

Coefficient of Determination Test

Model	R2	Adjusted R2
(Hypothesis 1)	0.456	0.400
(Hypothesis 2)	0.459	0.404

Source: SPSS 25 Output (2023)

In hypothesis 1, the Adjusted R2 value is 0.400 or 40.00%, which means that the ability of the independent variable to explain the dependent variable is 40.00% while the rest is explained by other variables. In hypothesis 2 values *Adjusted R2* is 0.404 or 40.40% which means that the ability is variable independent in explaining the dependent variable is 40.40% while the rest is explained by other variables.

Simultaneous Test (F Test)

To find out the effect of all variables independent in research on the dependent variable the F test is simultaneously carried out. Simultaneous test results (F Test) are presented in Table 8 as follows:

Table 8

Simultaneous Test (F Test)

Model	F	Sig.
No Moderating Variable		
(Hypothesis 1)	8,234	0,000
(Hypothesis 2)	8,343	0,000

Source: SPSS 25 Output (2023)

In hypothesis 1 it is known that the value of F_{count} 8.234 > F_{table} 2.257 so that it simultaneously has an effect with a significance of 0.000 (less than 0.05%). In hypothesis 2 it is known that the F_{count} value is 8.343 > F_{table} 2.257 so it simultaneously has an effect with a significance level of less than 0.05, namely 0.0000.

Partial Test (t-test)

A partial Test (t-test) is carried out to know how much effect the independent variable partially has on the dependent variable, namely by comparing the sig-t value with a significance value of 0.05. If the value of its significance is smaller than 0.05 then H_a is accepted, and if it is greater than 0.05 then H_a is rejected. Simultaneous test results (t-est) are presented in Table 9 as follows:

Table 9
Partial Test (T Test)

Variable	t	Sig	Decision
FD	2,235	0.029	H_1 Accepted
EM	-2319	0.024	H_2 Accepted

Source: SPSS 25 Output (2023)

It can be seen that the t_{count} value in hypothesis 1 is 2.235, while the t_{table} value is 2.300, meaning that the t_{count} value ≤ t_{table} so it can be concluded that H_a is accepted and H_0 is rejected with a significance level of 0.029 <0.05. The t_{count} value in hypothesis 2 is -2.319 while the t_{table} value is -2.300, meaning that the t_{count} value ≥ t_{table} so it can be concluded that H_a is accepted and H_0 is rejected with a significance level of 0.024 < 0.05.

The Effect of Financial Distress on Tax Avoidance

Based on the results of statistical testing through simultaneous testing, it can be seen that the F_{count} value is equal to 8,234 > F_{table} 2,257 with level significance 0.000 (less than 0.05%). Through partial testing, namely, t-test it can be seen that the t_{count} value is 2.235, while the t_{table} value is 2.300, meaning that the t_{count} value ≤ t_{table} with a significance level of 0.029 <0.05 so it can be concluded that H_a is accepted and H_0 is rejected.

From the results of testing the research data above, hypothesis 1 proposed in this research shows that financial distress affects tax avoidance in infrastructure sector companies listed on the Indonesia Stock Exchange in 2019-2021. This is proven by the results of simultaneous testing, namely the F_{count} value is greater than F_{table} with a significance level of less than 0.05%, namely at a significance level of 0.000, and also the t-test results show that the t_{count} value is greater than t_{table} at a significance level of less than 0.05%.

This research shows the direction of the research results that financial distress that occurred in infrastructure sector companies in the year of research affected tax avoidance. Descriptive analysis data also shows that the average value of infrastructure sector companies listed on the Indonesia Stock Exchange during 2019 - 2021 experienced financial distress with an average value of 0.643 < 0.862. Meanwhile, the average tax avoidance value during 2019 – 2021 is 0.43963 or 44% (higher than the tax rate) and the minimum tax avoidance value is 0.028 or 2% (lower than the average tax rate) which means that on average companies do not practice tax avoidance, some companies do tax avoidance that tend to carry out tax avoidance to maintain the continuity of the company.

The results of this research support previous research conducted by Anugerah et al (2022) conducted research on the effect of financial distress on tax avoidance by taking samples of property and real estate companies from companies listed on the Indonesia Stock Exchange during 2016-2019. Research conducted by Yuliana et al (2021) tested tax avoidance which was affected by financial distress by taking a sample of banking companies from companies listed on the Indonesia Stock Exchange during 2018-2019, showing that financial distress affected tax avoidance. Dang & Tran (2021) also conducted research on the effect of financial distress on tax avoidance from companies in Vietnam with data obtained from Thoson Reuters sources at the Center for economic analysis and data center during 2008 - 2020, concluding that there was a positive relationship between financial distress and tax avoidance in companies in Vietnam.

From several previous studies from the research above, it can be seen that companies will strain the relationship between agents and the government to carry out tax avoidance when experiencing financial distress. In the world of investment, shareholders of course only want to invest in healthy companies and will avoid investing in companies that are threatened with bankruptcy. In other words, in agency theory, agents will try a way to save the company and maintain relationships with shareholders so that investors do not take the funds they invested and show good company performance reports by avoiding obligations or delaying payment of company taxes. This is in line with what was stated by (Alfarasi & Muid, 2022) and is the reason why agents carry out tax avoidance.

The Effect of Earnings Management on Tax Avoidance

Based on the results of statistical testing through simultaneous testing, it can be known F_{count} value 8.343 > F_{table} 2.257 with a significance level of less than 0.05, namely 0.0000 (less than 0.05%). Through partial testing, namely, t-test it can be seen that the t_{count} value is -2.319, while the t_{table} value is -2.300 with a significance level of 0.024 < 0.05, meaning that the t_{count} value ≥ t_{table} so it can be concluded that H_a is accepted and H_0 is rejected.

From the results testing research data above, hypothesis 2 proposed in this research shows that earnings management affects tax avoidance in infrastructure sector companies listed on the Indonesia Stock Exchange in 2019-2021. This is proven by the results of simultaneous testing, namely the F_{count} value is greater than F_{table} with a significance level of less than 0.05%, namely at a significance level of 0.000 (less than 0.05%) and also results test it is known that the t_{count} value is -2.319 while the t_{table} value is -2.300 with a significance level of less than 0.05%.

This research shows the direction of the research results that earnings management that occurred in infrastructure sector companies in the year of research affected tax avoidance. Descriptive analysis data also shows that the average infrastructure sector company listed on the Indonesia Stock Exchange during 2019 - 2021 is indicated to be carrying out earnings management to reduce the amount of tax that must be paid through an income-decreasing pattern (decreasing profits) with an average calculated value of -0.00405 and the average tax avoidance value is 0.43963 or 44%, which means that on average companies do not carry out tax avoidance but some companies are indicated to carry out tax avoidance. This shows that earnings management with a decreasing income pattern tends to be carried out to reduce the size of the company's tax obligations.

This research is in line with previous research conducted by Thalita et al (2022) with the aim of know the effect of earnings management on tax avoidance with the research population of manufacturing companies listed on the IDX during the 2016 - 2020 period. The research results show that earnings management has a significant positive effect on tax avoidance. Research conducted by Gunawan & Surjandari (2022) trying to test the effect of earnings management on tax avoidance in manufacturing companies listed on the IDX during the 2015 - 2019 period shows empirical results that earnings management affects tax avoidance. In addition, research conducted by Prismanitra et al (2021) predicts empirical evidence regarding the effect of earnings management on tax avoidance in the mining sector listed on the IDX during the 2016 - 2018 period, showing that earnings management has a positive and significant effect on tax avoidance.

From the research carried out and from several previous studies as mentioned above, it can be seen that the increasing implementation of earnings management will affect the practice of tax avoidance in a company. This is of course in line with the view of agency theory which states that the existence of information asymmetry and the existence of conflicts that arise will provide opportunities for tax avoidance behavior and show that the higher the level of earnings management, the smaller the tax burden paid due to the higher level of tax avoidance.

CONCLUSION

Based on the research results and discussion in this research, it can be concluded that financial distress and earnings management affect tax avoidance in infrastructure sector companies listed on the Indonesia Stock Exchange in 2019 – 2021. This proves that the condition of a company that is experiencing Financial Distress has an impact on the practice of tax avoidance, which means that the higher the level of Financial Distress experienced by the company, the higher the incidence of Tax Avoidance carried out by the company. Apart from that, this research also proves that the higher the level of earnings management carried out by the company, the higher the incidence of tax avoidance.

In theory, this research provides implications that support the results of previous research which stated that financial distress and planning management affect tax avoidance. Practically, this research shows that the condition of a company experiencing financial distress, where the company must maintain the continuity of the company and when the company carries out management planning, will affect the occurrence of tax avoidance. This is of course a special concern for the Directorate General of Taxes (DGT) to make more measurable efforts to achieve predetermined tax targets.

This research certainly has limitations in that the data in this research is only taken from companies listed on the Indonesia Stock Exchange (IDX) which are considered representative. However, not all infrastructure companies in Indonesia are listed on the Indonesian Stock Exchange, so the sample used was limited to 22 companies that were included in the sampling criteria. Apart from that, this research only uses two independent variables, namely financial distress and earnings management, one dependent variable, namely tax avoidance, and five control variables, namely size, current ratio, debt to equity ratio, capital Intensity Ratio, and Return on Assets.

Based on the results of the research conducted, the researcher provides suggestions for future researchers to expand data collection from a sample of infrastructure sector companies outside of companies listed on the Indonesia Stock Exchange to add research samples so that the research results are more comprehensive and describe conditions more broadly and also add other variables. including transfer pricing, corporate social responsibility, and audit quality as independent variables. Apart from that, researchers can add moderating variables including good corporate governance, tax incentives, sales growth, or political connections so that they can provide scientific contributions and a more in-depth picture regarding the effect of financial distress and earnings management on tax avoidance.

As a form of responsibility and concern for the state, researchers provide suggestions so that companies can pay taxes without having to carry out tax avoidance because the taxes will return to the state and be used for the prosperity of the people. Likewise, the Directorate General of Taxes to be more optimal in approaching taxpayers and socializing tax programs so that they can raise awareness among the public about the importance of taxes and eliminate taxpayers' feelings of suspicion towards tax officials who have committed tax fraud

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