




# Tax avoidance in the perspective of diamond fraud theory and its consequences on firm value with mediating variables of financial distress and ethical management

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Article Info	ABSTRACT
<p><b>Article history:</b></p> <p>Received Aug 8, 2024 Revised Aug 20, 2024 Accepted Aug 26, 2024</p> <hr/> <p><b>Keywords:</b></p> <p>Ethical Management; Firm Value; Financial Distress; Fraud Diamond; Tax Avoidance.</p>	<p>The research problem, namely empirical testing regarding fraud diamonds consisting of (a) pressure, (b) opportunity, (c) rationality, and (d) capability, may be the underlying reason for corporate tax avoidance. On the other hand, companies will experience financial difficulties so the intensification of financial distress within a company will lead the company to carry out tax avoidance. Fraud opportunities to commit tax avoidance can be realized if company managers do not carry out ethical management. The aim of the research is to obtain empirical evidence of Tax Avoidance from the Fraud Diamond Theory Perspective, and its consequences for firm value with the Mediation variables of Financial Distress and Ethical Management. The results of financial distress research become a mediating variable. Tax avoidance as Y<sub>1</sub> while Christian (2020) corporate fraud. Even though corporate fraud cases have often been researched in the Asia Pacific region, especially China, in Southeast Asia there is still very little research or literature that examines tax avoidance cases using the fraud diamond approach with moderation of financial distress. Among other things, there is a significant positive influence of tax amnesty on tax avoidance, the influence of tax avoidance has a significant positive effect on firm value, a significant negative effect of tax amnesty on firm value, and tax avoidance is not a mediating variable for the effect of tax amnesty on firm value.</p> <p style="text-align: right;"><i>This is an open access article under the CC BY-NC license.</i></p> 

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## 1. INTRODUCTION

Taxes in various countries are a major source of national income, so a decrease in tax revenues can lead to a decrease in national income. This means that low tax revenues will reduce the company's ability to implement development programs initiated by the Government. This condition is currently a phenomenon that occurs in Indonesia as presented in

In the 2019 State Budget (APBN), the target for state revenues is 1,786.4 trillion rupiah, 15.4 percent higher than the 2018 APBN, and has a tax ratio of 12.2 percent of Gross Domestic Product (GDP). Of the target of 1,786.4 trillion, the Ministry of Finance has released a 2019 tax release that shows that tax revenues have reached IDR 1,643.1 trillion, or 84.4 percent of the target. Although nominal tax revenues increased by IDR 1,518.8 trillion compared to the 2018 realization, tax growth

obtained in 2019 was only 8.2% compared to 13.0% in 2018. Tax avoidance or uncontrolled profit management can lead to tax fraud or financial reporting fraud. Fraud in financial reporting is an intentional or reckless act either intentionally or negligently that results in financial reports that are materially misleading (Marai & Pavlović, 2013; Svetlozarova Nikolova, 2023)

The four-pronged fraud diamond theory explains why some people commit fraud. Three elements are required for fraud or deception according to the fraud triangle theory: perceived pressure, opportunity, and rationalization. According to this theory, there can be no fraud in the absence of any of these three elements, and the strength of each element determines the level of fraud (Kagias et al., 2022).

Pressure or incentives can be used to encourage people to behave unethically (Albrecht, Hill, & Albrecht, 2006). Because of the agency problem, managers are hired by shareholders to maximize their wealth. This puts pressure on corporate managers. Although managers may cite a variety of reasons, research has shown that fraud often occurs in response to economic pressures. These pressures typically consist of financial need, large expenditures or debt, and the inability to meet financial forecasts (Barbera et al., 2020). Specifically, financial pressure is responsible for about 95% of fraud cases, according to Albrecht (Kulmie, 2023).

The second factor required for fraud is opportunity. Decisions made by individuals impact opportunities that exist within the organization. According to Paino et al. (2023), vulnerable individuals may commit fraud if they perceive opportunities due to a lack of or inefficient internal controls and do not have the power or ability to exploit those opportunities.

The attitudes or morally acceptable things are called rationalizations before the fraudulent behavior occurs. It is important to recognize that fraudsters sometimes do not view their actions as unethical; they simply justify their actions as ethical before the fraud occurs (Almagtome & Abo-aljun, 2023). In other words, rationalizations allow for the viewing of prohibited actions as justified. A person is unlikely to engage in fraud, according to Kon et al. (2024), if they cannot justify the unethical action. However, individuals can use a variety of justifications to rationalize the action.

Capacity refers to whether an individual can create or exploit fraud opportunities that are not accessible to others. Kalovya (2023) identified important observable traits that are associated with an individual's ability to commit fraud. They include: (a) a position of authority or function within the organization; for example, a CEO may have the ability to influence and perpetuate fraud because of his or her position within the organization; (b) the ability to exploit accounting systems and internal control weaknesses to the greatest advantage, as well as knowledge of how the systems

## 2. RESEARCH METHOD

### Theoretical basis

#### Agency Theory

In their research, Jensen and Meckling (1976) describe the agency relationship as a contract in which the shareholder (principal) selects and wants a manager or agent to work on his behalf. This includes giving agents the authority to make decisions. However, in agency theory, it is also said that agents ultimately tend to act in accordance with the interests of the agent rather than the principal. The principal can maintain or limit differences in interests with the agent to remain consistent.

#### Tax Avoidance

Most research on the effects of tax avoidance on investors and creditors concentrates on it, according to Özbay et al. (2023). Tax avoidance is broadly defined as the "explicit reduction of taxes". Reducing tax payments is usually done in two ways: reducing income or increasing company costs. As regulated in Income Tax Law No. 10 of 1994, article 6, taxpayers can take advantage of loopholes or loopholes in tax regulations to minimize tax payments. In his research, Mangoting et al. (2024) also explained that tax evasion which has an impact on state losses also has an illegal method called tax aggressiveness. This method is usually done by falsifying documents or creating fake documents, and this is a dangerous method. Therefore, tax evasion which only benefits a few individuals is clearly

detrimental to the state and contrary to society's belief that taxes will improve general welfare (Ermasova & Burke, 2023).

### **Fraud Diamond**

According to Hermanson and Wolfe (2024), the fraud diamond offers a new perspective on why someone commits fraud. research discloses that "many frauds would not have occurred without the right person with the capabilities the details of fraud". The refinement of Cressey's fraud model (in Boyle et al., 2015), which consists of three parts: pressure, opportunity, and rationalization, is known as the fraud diamond. According to Wolfe and Hermanson (2004), there is an update to the Triangle of Fraud to improve fraud detection and prevention. To achieve this, a fourth element, capability, is added. According to Wolfe and Hermanson (2004), when designing a detection system, it is important to consider the company's employees and their ability to work, as stated in their research journal. According to this theory, focusing on specific situations is important in efforts to overcome fraud. In addition, pressure and reason, as well as a combination of ability and opportunity. Perpetrators are motivated to behave unethically through incentives or pressure. It is important to emphasize that stress can be felt by all employees at every level of the organization and can occur for a variety of reasons. If perpetrators believe they are under pressure, it can lead to fraudulent behavior (Zhu et al., 2023).

Probability is the second component required for fraud. An individual's decision to commit fraud is influenced by the opportunities that exist within the organization. According to Rae and Subramaniam (2008), vulnerable individuals can commit fraud if they receive opportunities due to lack or inefficiency of internal controls and do not have the power or ability to exploit these opportunities. According to Adeoti et al. (2021), perceived opportunity is similar to perceived pressure: the perpetrator only needs to feel or think that there is an opportunity to act fraudulently. Morally acceptable attitudes or things that must occur before fraudulent behavior occurs are called rationalization. Fraudsters sometimes do not see their actions as unethical; they only perceive their actions as ethical before the fraud occurs (Sahla & Ardianto, 2023). In other words, rationalization opens the eyes to prohibited actions. According to Koomson and Owusu (2022), someone can't engage in fraud if they cannot justify unethical actions. However, individuals can use various means to rationalize those actions.

If someone has the ability to demonstrate their position or role within an organization, they may have the ability to create or exploit fraud opportunities that others would not have access to. Wolfe and Hermanson (2004) found important observable characteristics that relate to a person's ability to commit fraud. These threats include (a) positions or functions of authority within the organization; for example, a CEO may have the ability to influence and perpetuate fraud due to his position in the organization; (b) the ability to exploit accounting system and internal control weaknesses to the greatest advantage, as well as knowledge of how the system works; and (c) ego and belief that fraudulent behavior will not be detected.

### **Financial distress**

Before a company actually goes bankrupt, financial difficulties occur, which is also known as financial distress. the situation where an organization's financial condition declines before liquidation or bankruptcy is known as financial distress (Aviantara, 2023; Zhou et al., 2022). The inability of a business to pay debts that are due is also one of the definitions of financial distress (Habib et al., 2020)). This means that the company's financial condition is getting worse every year. Bankruptcy conditions indicate that the company can no longer operate, cannot pay its debts or pay its obligations, and must close all its operations. If the company's condition is approaching financial distress, company management usually decides to close all company operations, both production and other operations, before bankruptcy or liquidation (Sari et al., 2022).

Kristjánsson (2022) said that business ethics is the British term for business ethics. In Dutch, "bedrijfsethiek" means "corporate ethics", and in German, "Unternehmensethik" means "business

ethics". In English, the term "corporate ethics" is sometimes used to describe much the same thing. "Economic ethics" or "economic ethics" (rare in English; more common in German *Wirtschaftsethik*). In addition, the terms "management ethics", "management ethics", or "organizational ethics" are found.

Böhm et al. (2022) states that applied ethics or applied ethics is true business ethics. Here, business ethics is a field where general moral principles are applied to human actions in the economic field, especially business. The goal of business ethics is actually how business people who carry out economic activities behave morally. This understanding provides an explanation of how business people act morally when running their business. Alternatively, business ethics refers to the way a business acts in accordance with standards. Theory is a systematic structure in which moral principles are basically related to each other. Both entrepreneurs and society and consumers understand the importance of business ethics.

### **Company Value (Firm Value)**

According to Fama (Horváth & Wang, 2021), the value of a company can be seen from its share price. The stock market price created when a transaction occurs is called the company's market value because the stock price is considered a true representation of the value of the company's assets. Investment opportunities greatly influence the company's value, which is measured by the stock market value indicator. Investment opportunities can provide positive signals about future business growth, which can increase its value.

Rahmadhani et al. (2020) stated that investment opportunities greatly influence company value which is formed by stock market value indicators. Investment spending provides a positive signal about the company's future growth, increasing share prices as an indicator of company value (signaling theory).

### **Hypothesis Development**

#### **The Effect of Pressure on Financial Distress**

Return On Assets (ROA), according to Dhian and Rahmadhani (2020), is an operational performance metric used to show how efficiently assets have been used. ROA is a metric often used to assess manager performance, as well as to determine bonuses and salary increases. Broadly speaking, the ability to fulfill a list of requirements, repayment of debt, and implementation of debt agreements are considered external influences (Dhian & Rahmadhani, 2020). When management faces debt covenant violations, they are more likely to rely on discretionary accruals. Debt levels are then related to increases in income from discretionary accruals. Furthermore, managers will believe that the pressure is caused by the need to acquire additional debt to remain competitive. For example, pursuing financing for research and development or construction of facilities and land that are company assets may require an increase. Research conducted by Rahmadhani and Indriyani (2019) and Sari et al. (2022) found that pressure has an impact on financial distress, namely that financial problems can cause companies to experience financial distress. According to Jiang and Wang (2023) the pressure experienced by company management led by company shareholders can make management more careful and serious in managing the company so that the company does not experience financial distress.

H<sub>1</sub>: Pressure influences financial distress

#### **The Effect of Opportunity on Financial Distress**

Habib et al. (2020) found that companies that implement weak corporate governance are more likely to experience financial difficulties. This is because the company management may not put all their efforts into running the company. Habib et al. (2020) also found that ineffective implementation of corporate governance in the past will result in ineffective implementation of corporate governance in the future. This will open up new opportunities for those who break the law in the future. This can ultimately cause financial problems for the business.

H2: Opportunity influences financial distress

### **The Effect of Rationalization on Financial Distress**

According to the Indonesian Association of Public Accountants (IAPI, 2018) in Auditor Standards Statement No. 70, there is doubt in the relationship between management and external auditors. This shows that sensitive information contained in financial reports can be hidden. External auditors play an important role in ensuring that financial reports are of high quality. External auditors usually find out information about companies that are indicated to be experiencing financial distress through the financial report audit process. Companies experiencing financial distress often change external auditors to cover financial distress information from the old auditor, which tends to reduce the possibility of the new auditor detecting this information (Lou & Wang, 2009). According to research conducted by Abdullahi, Mansor, and Nuhu (2015), auditor resignation increases the likelihood of litigation. Based on theory and previous research findings, changing auditors is one of the components that can be used to detect financial distress. There is a conflict of interest between company management and company owners, according to Haloho and Rahmadhani (2024) and Rosita (2020). Affiliate transactions are usually not done at a fair price, so they may not be profitable for the company's bottom line. In conclusion, affiliate transactions have a negative impact on company finances, which can cause the company to experience financial distress.

H3: Rationalization influences financial distress

### **The Influence of Capabilities on Financial Distress**

Li et al. (2021) found that longer CEO tenure reduces the likelihood of financial distress. There is a significant negative influence between these variables, according to the research results. The findings of this research are in line with the research findings of (Shobandiyah & Rahmadhani, 2024). Their research found a negative relationship between the length of a company's CEO's tenure and financial distress but did not find a significant influence between these two variables. Oware et al. (2023) researched the effect of company CEO tenure on financial distress. They found that there was no significant negative effect between the length of CEO tenure and financial distress. According to Aviantara (2023), people with degrees in business or finance are more likely to have the knowledge and experience necessary to make decisions about managing a company. The results of Zhou et al. (2022) research show that capability influences financial distress. After obtaining this degree, one will gain a better understanding of corporate governance strategies. They will also have the ability to analyze and correct weaknesses in implementing these strategies in the company.

H4: capability influences financial distress

### **The Effect of Pressure on Tax Avoidance**

Agency problems, where managers are hired by shareholders to maximize shareholder wealth, cause pressure on corporate managers to always arise. This pressure leads to motivations that encourage them to behave unethically (Jha & Singh, 2023).

One of the pressure variables is financial pressure on the company. Company managers are always required to perform at their best so that they can achieve certain profits that the company desires to reduce the financial pressure experienced by the company. Debt levels are a form of company financial pressure. The leverage ratio is used to measure management's performance in managing overall debt. The greater the leverage ratio, the greater the level of the company's financial burden to pay interest on the company's debt. Pressure to achieve financial targets to fulfill credit agreement responsibilities, such as getting bonuses for performance and maintaining company performance, can lead to fraudulent financial reporting. If low profits do not meet targets, managers may decide to report lower taxes to increase net income. The research results of (Jhunjhunwala, 2023) and Haloho and Rahmadhani (2024) show that pressure has a positive effect on tax avoidance.

H5: Pressure has a positive effect on tax avoidance

### **The Effect of Opportunity on Tax Avoidance**

An individual's decision to commit fraud is influenced by the opportunities that exist within the organization. According to Rae and Subramaniam (2008), vulnerable individuals can commit fraud if they receive opportunities due to lack of or inefficient supervision and do not have the ability or power to exploit these opportunities. According to Koomson and Owusu (2022), perceived opportunity is similar to perceived pressure: the perpetrator only needs to feel or think that there is an opportunity to act fraudulently. Individual factors such as financial needs and personal problems cannot be addressed by business controls; therefore, the only way a company can use internal control is to decide how to handle these factors (Boulhaga et al., 2022).

Opportunities or opportunities arise due to lack of supervision. Reporting supervision can be carried out by internal auditors and external auditors. The KAP's long vacation period with the company will weaken the supervisory and control power carried out by the KAP. Apart from that, the existence of a non-audit working relationship between the company and KAP will also weaken control over the company's financial reports. The research results of Khurana et al. (2018); (Watson, 2014), Özbay et al. (2023), and Ao et al. (2023) that opportunity has a positive effect on tax avoidance, whereas state that opportunity has a positive effect on tax avoidance.

H6: Opportunity has a positive effect on tax avoidance

### **The Influence of Rationality on Tax Avoidance**

Rationalization is a morally acceptable attitude or thing that must occur before fraudulent behavior occurs. This allows people to see illegal actions as morally acceptable. According to Hashim et al. (2020), someone can't engage in fraud if they cannot justify unethical actions. Using various justifications, managers can rationalize the action. It is important to remember that financial actors sometimes do not see their actions as unethical; they only perceive their actions as ethical before the fraud occurs (Maulidi, 2020). Therefore, managers use discretionary costs to rationalize tax avoidance because discretionary costs will reduce taxable profits. The study conducted by Matute et al. (2021) and Meidijati and Amin (2022) shows that rationalization helps tax avoidance.

H7: Rationalization has a positive effect on tax avoidance

### **The Influence of Capability on Tax Avoidance**

Capacity indicates how well a person can work within a company, which can enable him or her to exploit fraud opportunities that others cannot access. Hermanson and Wolfe (2024) found important things that can be observed from the characteristics of managers who are capable of committing fraud. Business managers will have a greater ability to carry out tax avoidance. Capability factors influence tax avoidance, according to research conducted by Hasan (2022) and Bivianti and Yuniarsih (2022)

H8: Capability has a positive effect on tax avoidance

### **The Effect of Financial Distress on Tax Avoidance**

Because companies have many opportunities to avoid taxes, financial difficulties are usually the main motivation for doing so (Dang & Tran, 2021). Everyone knows that the global economy and the condition of economic actors are never stable. Many businesses will experience financial distress when the crisis begins to hit. According to Rahmadhani et al. (2024), companies will try their best to avoid a detrimental reputation. In accordance with the research findings of Hasan (2022), an increase in the level of financial distress in an organization will encourage the organization to take tax precautions. Research conducted by Hasan (2022) and Bivianti and Yuniarsih (2022) states that financial distress has a significant positive effect on tax avoidance.

H9: Financial distress influences tax avoidance

### The Effect of Tax Avoidance on Firm Value

According to agency theory, management and shareholders function as agents and principals. Because management is contracted by shareholders to work in the interests of shareholders, there is the possibility of a conflict of interest between the two parties. For example, managers want to earn more money, and shareholders want to reduce tax costs. Creditors also want the company to fulfill its debt contracts and pay the principal and interest on time. Managers who are consistent with company goals maximize the owner's prosperity, according to Mayer (2021).

Taxes influence business decisions. Management strategies aimed at reducing corporate taxes through tax avoidance activities are becoming more common in the business environment. Corporate tax barriers have benefits and risks. Aggressive tax reporting practices can also reduce investor confidence, according to Müller et al. (2021). The results of research by Pasiouras et al. (2021), Park and Kang (2020), and Bauer et al. (2020) that tax avoidance influences positively firm value.

H10: Tax Avoidance Influences Firm Value

### The Mediating Role of Financial DistressThe Effect of Fraud Diamond on Tax Avoidance

The fraud diamond theory explains the factors that can cause tax avoidance. This research also uses the financial distress variable as a mediating variable in explaining the relationship between diamond fraud and tax avoidance. Fraud diamond analysis and financial distress can be used effectively to detect the possibility of tax avoidance. This makes it easier for economic actors, academics, the government, and even the public to detect the possibility of tax avoidance in daily economic activities. Tax avoidance in Indonesia can also be used as input and consideration for stakeholders in other countries in the Southeast Asia region, especially for investors and government agencies. With the increasing number of economic collaborations between Southeast Asian countries that facilitate the implementation of cross-border investments, tax avoidance cases in one country will not only have an impact on that country but will also have an impact on other countries. The results of Christian's research (2020) show that financial distress can be a mediating influence on variable aspect pressure, rationalization, and capacity. Still, they cannot be a mediating variable for the opportunity aspect.

H11: The mediating role of financial distress influence of pressure aspects on tax avoidance

H12: The mediating role of financial distress influence of the opportunity aspect on tax avoidance

H13: The mediating role of financial distress influence of the rationalization aspect on tax avoidance

H14: The mediating role of financial distress influence of capability aspects on tax avoidance

### The Role of Ethical Management in Mediating the Effect of Opportunity on Tax Avoidance

In agency theory, each party—especially the agent—is considered to always act in its own interests. Even though the company is caught in a tax violation, the agent manager always tries to make its performance look good and avoid a bad image. Companies caught in tax violations will try to do everything possible to maintain their business. Because the company is still bound by contracts and has responsibilities with external parties, efforts need to be made to maintain business continuity. According to Bauer et al. (2020), managers are forced to make decisions by considering how to change their accounting policies to increase operational income or their ability to pay debts to related parties. One way to do this is by taking tax precautions to reduce the company's tax burden.

H15: The mediating role of financial distress influence of pressure aspects on tax avoidance.

## 3. RESULTS AND DISCUSSIONS

### Descriptive Analysis

Descriptive statistical analysis is used to provide a statistical description of the research variables in the form of minimum-maximum values, average values (mean), and standard deviation. The results of the descriptive analysis can be seen in the following table:

Table 1. Descriptive Statistical Data

	N	Minimum	Maximum	Mean	Std. Deviation
X1_Pressure	60	5,260	8,820	7.03767	,791048
X2_Oppportunity	60	,000	1,000	,56667	,499717
X3_Rationality	60	11,680	14,650	12.59067	,710760
X4_Capability	60	,000	1,000	,55000	,501692
Y1_FD	60	,000	1,000	,56667	,499717
Y2_TA	60	,003	,497	,05129	,113939
Y3_FV	60	,157	6,846	1.80171	1.872290
Z_ME	60	,000	1,000	,55000	,501692
Valid N (listwise)	60				

Source: Secondary Data Processed, 2024

Pressure. The mean/average value is greater than the standard deviation, namely  $7.03767 > 0.791048$ , indicating that the distribution of pressure values is in a good category. Opportunity The average or mean value is  $0.56667$  and the standard deviation is  $0.499717$ . The mean/average value is greater than the standard deviation, namely  $0.56667 > 0.499717$ , indicating that the distribution of opportunity values is in the good category. Rationality The mean/average value is greater than the standard deviation, namely  $12.59067 > 0.710760$ , indicating that the distribution of rationality values is in a good category. Capability The mean/average value is greater than the standard deviation, namely  $0.55000 > 0.501692$ , indicating that the distribution of capability values is in the good category.

*FinancialDistress* The mean/average value is greater than the standard deviation, namely  $0.56667 > 0.499717$ , indicating that the distribution of financial distress values is in a good category. *TaxesAvoidance* The average or mean value is  $0.05129$  and the standard deviation is  $0.113939$ . The mean/average value is greater than the standard deviation, namely  $0.05129 > 0.113939$ , indicating that the distribution of tax avoidance values is in the good category. *FirmValue* The average or mean value is  $1.80171$  and the standard deviation is  $1.872290$ . The mean/average value is greater than the standard deviation, namely  $1.80171 > 1.872290$ , indicating that the distribution of firm value values is in the good category. *Ethical Management* The average or mean value is  $0.55000$  and the standard deviation is  $0.501692$ . The mean/average value is greater than the standard deviation, namely  $0.55000 > 0.501692$ , indicating that the distribution of capability values is in a good category.

### Multiple Linear Regression Analysis

Multiple linear regression analysis is a study related to the dependence of a dependent (dependent) variable on one or more independent variables (independent variables)

Table 2. Results of Multiple Linear Regression Analysis Equation 1

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	1,281	,958		1,338	,186		
1 X1_Pressure	,008	,070	,012	,109	,914	,810	1,234
X2_Oppportunity	,622	,118	,622	5,284	,000	,721	1,387
X3_Rationality	-,090	,078	-,128	-1,157	,252	,821	1,218
X4_Capability	,015	,111	,015	,134	,894	,802	1,246

a. Dependent Variable: Y1\_FD

Source: Processed Secondary Data, 2024

Based on Table 2, it is known that the multiple linear regression equation in this study uses Standardized Coefficients. This is because each variable has units and functions to explain the magnitude of the regression coefficient on each independent variable in explaining the dependent variable, with the following equation formula:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e$$

$$Y = 0.012X_1 + 0.622X_2 + -0.128X_3 + 0.015X_4$$

From the regression equation above, it can be explained that:

- 1) The pressure regression coefficient is 0.012 with a positive coefficient direction, where an increase in the pressure variable is thought to have an effect on an increase in the financial distress variable with the assumption that opportunity, rationality and capability are constant.
- 2) The opportunity regression coefficient is 0.622 with a positive coefficient direction, where an increase in the opportunity variable is thought to have an effect on an increase in the financial distress variable assuming pressure, rationality and capability are constant.
- 3) The rationality regression coefficient is -0.128 with a negative coefficient direction, where increasing the rationality variable is thought to have no effect on increasing the financial distress variable.
- 4) The capability regression coefficient is 0.012 with a positive coefficient direction, where an increase in the capability variable is thought to have an effect on an increase in the financial distress variable assuming pressure, opportunity and rationality are constant.

#### 4. CONCLUSION

This study aims to Companies that are trapped in financial distress will try to take any action so that their companies can continue to survive. Efforts to maintain the continuity of the company need to be made because the company is still bound by contracts and has obligations to external parties. Being a manager is triggered to make decisions by considering how to manipulate their accounting policies to increase operational income or their ability to pay obligations to related parties, one of which is by taking tax avoidance actions to reduce the company's burden, namely its tax burden. The population and sample used in this study were manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2015-2020 period. The selection of samples in this study used the purposive sampling method. The high level of tax avoidance implies that some companies appear to be more successful in paying lower taxes when compared to other companies in their economic and/or industrial fields. In addition, some companies pay less tax than would be expected when roughly doubling the estimated taxable income with the applicable statutory tax rate. However, in the context of this study, it shows that tax avoidance can create good internal control which has been proven to reduce the occurrence of financial reporting. In conducting this research, of course, there are several limitations that should be improved in further research, namely not providing open questions that can strengthen the variable indicators used. The specifications of the atmosphere being tested are still broad, not specific. In preventing financial reporting, companies should not only focus on profit management because they also pay taxes in an orderly manner in order to create good reporting. In further research, other indicators can be used to measure variables in research, and further research samples should be given to workers in the financial sector who really have experience.

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