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THE EFFECT OF FINANCIAL DISTRESS, ESG DISCLOSURE, SALES GROWTH, AND PROFITABILITY ON TAX AVOIDANCE

Amalia Wahyu Anita
Accounting Study Program, Kediri Islamic University, Kediri, Indonesia
amaliawahyuanita09@gmail.com

Imarotus Suaidah
Accounting Study Program, Kediri Islamic University, Kediri, Indonesia
imarotus@uniska-kediri.ac.id

Fitria Magdalena S.
Accounting Study Program, Kediri Islamic University, Kediri, Indonesia
fitria.magdalena@uniska-kediri.ac.id

Abstract

This study aims to examine the relationship between tax avoidance and several factors, including financial distress, environmental, social, and governance (ESG) disclosure, sales growth, and profitability, in raw material and energy manufacturing companies listed on the Indonesia Stock Exchange from 2021 to 2024. This research employs quantitative methods and utilizes secondary data obtained from financial and sustainability reports. Sixteen companies were selected through purposive sampling. The results show that financial difficulties positively affect tax avoidance, whereas profitability negatively affects it. Tax avoidance is not significantly impacted by sales growth or ESG disclosure. But then, when analyzed simultaneously, financial distress, ESG disclosure, sales growth, and profitability all contribute to shaping corporate tax avoidance practices. These findings suggest that companies facing financial pressure or demonstrating high profitability may be more inclined to avoid taxes. On the other hand, sales growth and ESG transparency appear to have limited impact, indicating that ESG initiatives do not automatically prevent such practices. Overall, this study broadens our understanding of corporate tax avoidance and informs governments in formulating more effective policies to curb it, such as risk-based monitoring systems.

Keywords: *ESG, Financial Distress*, *Profitability*, *Tax Avoidance*, *Sales Growth*

1. Introduction

Tax avoidance is an important issue in corporate governance practices in Indonesia. Although carried out within the legal framework, this practice raises concerns because it can reduce fiscal transparency and indicate weak managerial accountability. Suaidah & Puji Rahayu (2025) argue that low tax literacy and awareness among the public lead to

*Corresponding author : amaliawahyuanita09@gmail.com
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insufficient public attention to fiscal transparency, thereby making opportunistic behavior, including tax avoidance, more difficult to detect. Several cases involving large companies in the energy and mining sectors show that tax avoidance remains a significant problem in the business world. According to research by PwC Indonesia, 70% of the 40 largest mining companies still fail to maintain transparency in their tax reporting. PwC experts assess that the mining industry often engages in tax avoidance, despite the importance of tax transparency for good governance, environmental protection, and public accountability. Approximately 485 million tons of coal are produced annually in Indonesia, accounting for 7.2% of global production, and the country exports around 80% of its coal, making it the second-largest producer and exporter after Australia.

Despite its comparatively low tax contribution, the mining industry significantly affects the country's economy (Suwiknyo, 2021). In the energy sector, according to Global Witness in "Taxing Times for Adaro," PT Adaro Energy Tbk reduced its tax payments to the Indonesian government between 2009 and 2017 by using transfer pricing techniques through its Singaporean subsidiary. Additionally, it was found that PT Arutmin, PT Kaltim Prima Coal (KPC), and PT Bumi Resources had avoided paying Rp 2.176 trillion in taxes in 2009. PT Bumi Resources had the largest tax liability of Rp 1.5 trillion, followed by PT Arutmin with Rp 376 billion and PT KPC with Rp 300 billion (Hasibuan & Gultom, 2021). This condition confirms that tax avoidance is a strategic issue that warrants further study, particularly with respect to the financial and non-financial factors that influence this behavior.

In recent years, companies in Indonesia have faced considerable pressure due to post-pandemic economic changes. The COVID-19 pandemic caused declines in sales and liquidity for many companies, resulting in a rise in financial distress across various sectors, including transportation and hotels and tourism, where 9 out of 21 transportation companies and 4 out of 27 hotel, restaurant, and tourism companies in 2019–2021 experienced financial distress and two companies had higher Z scores (Safitri et al., 2023). In such situations, companies tend to focus on cost efficiency and cash flow, so tax burden management strategies may be among the steps taken. This is consistent with the agency theory perspective, which holds that managers will select tactics, such as tax avoidance, to preserve the company's financial stability (Swandewi & Noviari, 2020).

Amidst these conditions, public demand for sustainable practices has led to the increasing importance of Environmental, Social, and Governance (ESG) disclosure as a measure of a business's commitment to ethical and accountable operations. ESG disclosure is linked to transparency and good governance and is believed to influence companies' decisions to comply with tax regulations. Nevertheless, in Indonesia, the implementation of ESG often does not fully reflect actual sustainability performance, as some companies use it as a tool for image-building or greenwashing, which occurs when companies portray an overly environmentally friendly image without supporting it with concrete

actions. This practice of greenwashing can undermine the credibility of ESG, obscure governance transparency, and enable companies to conceal opportunistic behavior, including tax avoidance. Apart from ESG, business performance, including sales growth and profitability, is also relevant in explaining tax behavior. A company's capacity to raise sales volume within a given time frame is measured by sales growth (Ayustina & Safi'I, 2023). According to Mahdiana & Amin (2020), sales growth indicates the extent of the increase in sales and can describe recent business developments and prior performance. Therefore, it is anticipated that businesses with significant sales growth will be better able to pay their taxes. However, research findings indicate that sales growth can be positively or negatively associated with tax avoidance; for example, Alfarasi & Muid (2022) report that reduced tax avoidance is associated with higher sales growth. Accordingly, tax avoidance is more probable during periods of low sales and less probable during periods of high sales. However, this contradicts the findings of Ayustina & Safi'I (2023), so the direction of this relationship remains inconsistent.

Profitability is also an important indicator in explaining corporate tax behavior. According to agency theory, management is more motivated to maintain high after-tax profits, including through tax avoidance, when a company's profits are higher. Research by Prasetya & Muid (2022) found that profitability can increase a company's tendency to avoid taxes. However, these findings are inconsistent with results from other studies, which show that profitability does not always influence tax avoidance behavior (Kartika et al., 2023). These conflicting findings suggest that further investigation is required to understand the relationship between tax avoidance and financial performance fully.

The inconsistent findings in research on the relationships among ESG, financial distress, sales growth, profitability, and tax avoidance create opportunities for new research. In addition, increasing public attention to sustainability and widespread indications of greenwashing require research to assess whether ESG disclosures truly reflect a commitment to sustainability or merely serve to legitimize tax avoidance. Manufacturing firms in the raw materials and energy sectors, which have substantial environmental effects and high regulatory risk, need to comprehend this. This study examined the impact of financial distress, ESG disclosure, sales growth, and profitability on tax avoidance among Indonesian manufacturing enterprises, especially those in the raw materials and energy industries. This study is expected to provide theoretical contributions by clarifying relationships among variables that have yielded inconsistent results, and practical contributions to stakeholders by improving corporate governance and minimizing the risk of greenwashing in ESG disclosure.

2. Literature Review

2.1 Financial Distress

According to Tira Febbyana Ari and Sudjawoto (2021), financial distress occurs when a company lacks sufficient funds to meet its obligations, which can lead to operational

disruption and possibly insolvency. To continue operating, companies often resort to tax avoidance strategies (Arif & Nadhifah, 2020). A company is categorized as experiencing a financial crisis when its performance declines and it is unable to repay its debts to creditors or other stakeholders. Several analytical models, such as the Altman Z-Score, Zmijewski, Springate, and Grover, can be used to detect signs of a financial crisis. Based on agency theory, financial pressure increases managers' incentives to take actions aimed at maintaining business continuity and maximizing short-term shareholder value, including the implementation of tax avoidance strategies (Swandewi & Noviari, 2020). In addition, trade-off theory states that under pressure, companies will weigh the costs and benefits of actions that reduce expenses, so that tax avoidance can be an option to maintain cash flow. Previous research by Laili & Raphael (2025) indicates that firms facing financial distress are more prone to engage in tax avoidance.

2.2 ESG (Environmental, Social, and Governance) Disclosure

Environmental, Social, and Governance (ESG) principles encourage sustainable investment, growth, and corporate operations (Oktiani & Sanulika, 2024). Additional insights into how companies apply ESG principles can be gained from their initiatives to disclose details on environmental, social, and governance elements. These ESG components, along with other non-financial indicators, serve as a reference for evaluating company performance beyond what is stated in traditional financial reports (Anggraini & Wahyudi, 2022).

ESG (Environmental, Social, and Governance) disclosure allows businesses to obtain tax incentives for socially and environmentally responsible investments, including green technologies and renewable energy, which can influence tax avoidance practices. Companies may employ greenwashing techniques due to existing tax rules. This allows companies to implement tax avoidance strategies to lower their tax obligations (Swandewi & Noviari, 2020). Additionally, because ESG (Environmental, Social, and Governance) disclosure allows companies to claim tax benefits for socially and environmentally responsible investments, such as renewable energy or green technology, it can also affect tax avoidance strategies. Due to current tax laws, companies can implement greenwashing strategies. Companies often claim to be involved in socially or environmentally conscious initiatives, but their actions are merely symbolic and have little impact. According to one expert, their operational practices remain unsustainable and harmful to the environment, and the label “environmentally friendly” is used solely to enhance their reputation or secure tax benefits. Previous research by Oktiani and Sanulika (2024) argues that, because they prioritize ethical and sustainable business practices, organizations that are transparent and accountable in their ESG reporting typically do not engage in tax avoidance. Companies that fulfill their social and environmental responsibilities and operate honestly and transparently have been shown to have high-quality ESG

disclosures. Therefore, these businesses are typically more compliant with tax laws and employ fewer tax avoidance strategies.

2.3 Sales Growth

The increase in a business's revenue over a specified period is known as sales growth. According to Mahdiana & Amin (2020), sales growth indicates the extent of the increase in sales and can illustrate recent business developments and prior performance. To see sales growth, compare current sales values with sales values in the previous period. If a company's sales volume increases, this may indicate favorable financial conditions and performance. As a result, the company's profits also increase (Rahmi et al., 2020). When sales revenue increases, the company is better positioned to reduce its tax burden (Ayustina & Safi'I, 2023). According to Alfarasi & Muid (2022), Tax avoidance is positively correlated with sales growth. This suggests that the probability of tax avoidance increases in direct proportion to sales volume and vice versa.

2.4 Profitability

The ability of a business to generate profit from sales, equity, and assets over a specific period is referred to as profitability (Kusumaningrum & Iswara, 2022). This ratio is often expressed as Return on Assets (ROA). Additionally, ROA shows a company's potential for future revenue generation (Rahmawati & Nani, 2021). The ROA ratio evaluates a company's capacity to generate profits from its assets, including stock and loans. When a company reports a high ROA, this indicates effective asset utilization, which may encourage managers to engage in tax avoidance to reduce financial obligations (Prasetya & Muid, 2022). Profits also have a favorable impact on tax avoidance, according to research by Prasetya & Muid (2022). This implies that a company's level of tax evasion tends to increase with its profits. Agency theory posits that agents seek to maximize the firm's earnings.

3. Research Methods

This study uses a quantitative causal-explanatory methodology to examine how financial distress, ESG disclosure, sales growth, and profitability affect tax avoidance. The causal approach was chosen because this study not only seeks to describe the phenomenon but also to identify the determinants that are theoretically and empirically believed to influence tax avoidance behavior. The study is well-suited to addressing research questions on the drivers of corporate tax behavior because it employs a causal model to assess the extent to which changes in independent variables affect tax evasion levels. This study uses financial reports from the same period available on the official Indonesia Stock Exchange (IDX) website, as well as secondary data from selected companies' sustainability reports for 2021–2024. The population and sample of this study comprise manufacturing firms in the energy and basic materials sectors that were listed on

the IDX between 2021 and 2024. The following criteria were employed while using purposive sampling:

a. Energy and raw materials manufacturing companies listed on the IDX in 2021-2024
b. Energy and raw materials manufacturing companies that publish financial reports for 2021-2024
c. Energy and raw material manufacturing companies listed on the IDX that use foreign currency (dollar) in 2021-2024
d. Energy and raw material manufacturing companies that publish Sustainability Reports in 2021-2024
e. Energy and raw material manufacturing companies that prepare Sustainability Reports using GRI Standards in 2021-2024.
f. Energy and raw material manufacturing companies that generate profits in 2021-2024.

Table 1. Sample Selection Procedure

No.	Sample Criteria	Total
1.	Energy and raw material manufacturing companies not listed on the IDX in 2021-2024	159
2.	Energy and raw materials manufacturing companies that did not publish consecutive financial reports from 2021 to 2024	(22)
3.	Energy and raw material manufacturing companies that do not use foreign currency (dollar) in 2021-2024	(79)
4.	Energy and raw materials manufacturing companies that did not publish a Sustainability Report in 2021-2024	(20)
5.	Energy and raw materials manufacturing companies that compile Sustainability Reports using GRI Standards in 2021-2024	(19)
6.	Energy and raw materials manufacturing companies that did not generate profits in 2021-2024	(3)
	Research Sample Total	16

Source: www.idx.com, 2025

As shown in the table above, 16 manufacturing companies in the energy and raw materials sector were sampled during the 2021–2024 period of this study, and 64 data points were collected through calculations over 4 years (2021–2024). The data from this study will be analyzed using SPSS. The following are the stages of analysis:

1) Classical Assumption Test
   a. A significance value of > 0.05 shows that the data are regularly distributed, according to the Kolmogorov-Smirnov test, which is used to determine normality.
   b. Tolerance and Variance Inflation Factor (VIF) values are examined when conducting a multicollinearity test. Data are considered free of multicollinearity if tolerance> 0.10 and VIF < 10.

c. The autocorrelation test uses the Cochrane-Orcutt method. There is no autocorrelation if the DW value is in the range of 2 to 4-dU.
d. The heteroscedasticity test was performed using the Gletser test. There is no evidence of heteroscedasticity if the p-value is > 0.05.

2) Multiple Linear Regression Analysis

The impact of financial distress, ESG disclosure, sales growth, and profitability on tax avoidance was examined using a multiple linear regression model using the following equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Di mana:

Y = Tax Avoidance (ETR)
X_1 = Financial Distress (Grover Score)
X_2 = ESG Disclosure (ESG Index)
X_3 = Sales Growth
X_4 = Profitabilitas (ROA)
α = Constant
$\beta_1, \beta_2, \beta_3, \beta_4$ = regression coefficient
ε = error

The Grover technique was used in this study to measure the financial distress variable, which evaluates the financial health and bankruptcy risk of businesses. The Grover method achieves 80% accuracy with a Type I error rate of 20% (Firdausi & Hendratno, 2019). The Grover method is used to predict financial distress among energy-sector companies, as in the study by Fara Salsabila & Zulfikar (2023). The Grover model formula is:

$$\text{Z-Score} = 1{,}650(X1) + 3{,}404(X2) - 0{,}016(X3) + 0{,}057$$

Source : Firdausi & Hendratno, 2019

Information :

$$X1 = \frac{Working\ Capital\ (Current\ Assets - Current\ Liabilities)}{Total\ Asset}$$

$$X2 = \frac{Earning\ Before\ Interest\ and\ Taxes}{Total\ Asset}$$

$$X3 = \frac{Net\ Income}{Total\ Asset}$$

This study uses the ESG Guide Reporting indicator, which is linked to the Global Reporting Initiative (GRI) indicator framework. ESG Guide Reporting calculations are performed by assigning a value of 1 for disclosure indicators and a value of 0 for non-disclosure indicators. Next, the total number of ESG Guide Reporting items is divided by the number of disclosed indicators (Ruan & Liu, 2021). The following formula is used to determine the ESG index:

$$\text{ESG Indeks} = \frac{\text{Number of ESG indicators disclosed}}{Total\ ESG\ Indicators\ Required}$$

The rate at which a company's sales fluctuate from year to year, indicating its prospects and profitability, is known as sales growth. A company's sales growth rate is often calculated by comparing its current year's sales to those of the previous year. If a company's sales growth rate increases, profitability will also rise, and the company's performance can be interpreted as improving, as higher profitability yields year-over-year profit growth (Rahmi et al., 2020). The following formula is used to determine sales growth:

$$\text{Sales Growth} = \frac{\text{Sales}_t - \text{Sales}_{t-1}}{\text{Sales}_{t-1}}$$

Source : Astuti et al., 2020

The ability of a business to generate profit from sales, equity, and assets over a specific period is referred to as profitability (Kusumaningrum & Iswara, 2022). This study assesses a company's capacity to generate net income using Return on Assets (ROA), computed from total assets. A higher ROA reflects greater company profitability and indicates more effective asset management (Randyantini & Shieto, 2021). The company's tax burden increases with a higher tax rate, leading to greater tax avoidance (Kartika et al., 2023). The formula for ROA is as follows:

$$\text{Return On Asset (ROA)} = \frac{\text{Net Income After Taxes}}{\text{Total Assets}}$$

Source : Adelia & Asalam, 2024

Tax avoidance refers to a method by which a company minimizes its tax liability by utilizing gaps or ambiguities in the tax laws of a country. However, the nation's tax revenue is significantly affected by this activity. The ETR unit is used to measure tax avoidance. The ETR unit is used to measure tax avoidance. The ETR calculation unit is used because it does not affect estimates of tax protection (Ayustina & Safi'i, 2023). The Effective Tax Rate (ETR) formula is as follows:

$$\text{ETR} = \frac{\text{Tax Expense}}{\text{Earnings Before Tax}}$$

Source : Ayustina & Safi'i, 2023

4. Results and Discussion

4.1 Result

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std.Deviation
Financial Distress	64	-.665	2.868	.5907	.533681
ESG Disclosure	64	.208	.990	.70909	.203069
Sales Growth	64	-.736	3.005	.23025	.587220

Profitability	64	.001	.454	.07300	.081449
Tax Avoidance	64	.008	.839	.29919	.179432
Valid N (listwise)	64				

Source: *processed SPSS data, 2025*

The financial distress variable had a mean of 0.590 in Table 1, indicating that most enterprises in the sample did not experience substantial financial distress. However, the maximum value of 2.868 indicates that some businesses were in severe financial distress, whereas the minimum value of -0.665 indicates that some were in significant financial hardship. The standard deviation of the financial distress data (0.533) is less than the mean, indicating relatively stable conditions. Based on GRI guidelines, organizations disclosed, on average, 70.9% of ESG indicators, as reflected by the ESG disclosure variable's mean value of 0.709. Companies with the lowest levels of ESG disclosure have a minimum value of 0.208, whereas those reporting nearly all indicators reach a maximum value of 0.990. The standard deviation of 0.203, which is lower than the mean, indicates that the ESG disclosure data exhibit relatively limited dispersion and a high degree of homogeneity.

The mean value of 0.230 for the sales growth variable indicates that most businesses experienced an increase in sales. However, some firms recorded exceptionally high sales growth of 3.005, while others faced a significant decline of –0.736. The standard deviation of 0.587, which exceeds the mean, indicates considerable variation in sales growth across the companies in the sample. The mean value of 0.073 (7.3%) for the profitability variable indicates that the sampled companies generally have a relatively low capacity to generate profits. Businesses with nearly no profits are represented by a minimum value of 0.001, and businesses with significant revenues are represented by a maximum value of 0.454. The companies' profitability varies significantly, as indicated by a standard deviation of 0.081, which exceeds the mean.

The average value of the tax avoidance variable is 0.299, indicating that businesses do not employ highly aggressive tax-minimizing tactics. The highest value, 0.839, corresponds to firms that pay relatively high taxes, whereas the lowest value, 0.008, corresponds to firms that benefit from tax incentives, such as fiscal losses or government subsidies. The standard deviation of 0.179, which is less than the mean, suggests that the tax evasion data are generally consistent.

4.1.1 Normality Test

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test	
	Unstandardized Residual
N	64

Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.15836489
Most Extreme Differences	Absolute	.087
	Positive	.087
	Negative	-.075
Test Statistic		.087
Asymp. Sig. (2-tailed)		.200[c,d]

Source: *processed SPSS data, 2025*

The data are normally distributed, as shown in Table 2, as the p-value from the normality test is below the significance level. The necessary cutoff of 0.05 is exceeded by the 2-tailed significance value of 0.200.

4.1.2 Autocorrelation Test

Table 3. Autocorrelation Test With Cochran's Orutt Test

Model Summary

Model	R	R Square	Adjusted R-Square	Std. Error of the Estimate	Durbin-Watson
1	.486[a]	.236	.184	.15642	2.015

Source: *processed SPSS data, 2025*

The Cochrane-Orcutt autocorrelation test findings are shown in Table 3, with a Durbin-Watson (DW) value of 2.015, which corresponds to the Durbin–Watson table value for a sample size of 64 at a 0.05 significance level. The results show that 4–dU is 2.2697, with dL = 1.1659 and dU = 1.7303. The Durbin-Watson value (1.7303 <2.015 < 2.2697) falls between dU and 4-dU, indicating the absence of autocorrelation.

4.1.3 Heteroscedasticity Test

Table 4. Heteroscedasticity Test With Gletser Test

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.223	.041		5.405	.000
	Financial Distress	.007	.035	.039	.193	.847
	ESG	-.100	.055	-.220	-1.810	.075
	Sales Growth	-.025	.019	-.160	-1.327	.189
	Profitabilitas	-.317	.227	-.280	-1.397	.168

Source: *processed SPSS data, 2025*

The standard deviation of 0.179, which is less than the mean, shows that the tax avoidance data exhibit comparatively consistent fluctuation. In addition, the test results indicate significance at 0.847 for financial distress, 0.075 for ESG disclosure, 0.189 for sales growth, and 0.168 for profitability. Since all p-values exceed 0.05, the Glejser

heteroscedasticity test is satisfied, indicating that the data do not exhibit heteroscedasticity.

4.1.4 Multicollinearity Test

Table 5. Multicollinearity Test

Coefficients[a]			
		Collinearity Statistics	
	Model	Tolerance	VIF
1	Financial Distress	.359	2.784
	ESG	.977	1.023
	Sales Growth	.994	1.006
	Profitabilitas	.359	2.786

a. Dependent Variable: Tax Avoidance

Source: *processed SPSS data, 2025*

Table 5 presents the multicollinearity diagnostics, which indicate that multicollinearity is absent in the regression model. For the financial crisis, the Tolerance and Variance Inflation Factor (VIF) is 2.784; for ESG disclosure, 1.023; for sales growth, 1.006; and for profitability, 2.786. There is no multicollinearity, as all VIF values exceed 0.1.

4.1.5 Panel Data Regression Analysis

Table 6. Beta Coefficient

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
	Model	B	Std. Error	Beta	t	Sig.
1	(Constant)	.449	.077		5.842	.000
	Financial Distress	.165	.064	.491	2.560	.013
	ESG	-.194	.103	-.219	-1.888	.064
	Sales Growth	-.016	.035	-.053	-.456	.650
	Profitabilitas	-1.456	.422	-.661	-3.445	.001

a. Dependent Variable: Tax Avoidance

Source: *processed SPSS data, 2025*

The constant (a) value, as seen in the preceding table, is 0.449, with a financial distress (β1) value of 0.165, ESG (β2) of -0.194, Sales Growth (β3) of -0.016, and profitability (β4) of -1.456, resulting in the following multiple linear regression equation:

$$Y = 0{,}449 + 0{,}165\ (X1) - 0{,}194\ (X2) - 0{,}016\ (X3) - 1{,}456\ (X4) + \varepsilon$$

It is clear from the equation above that:

1. The tax avoidance value is 0.449 when financial distress (X1), ESG disclosure (X2), sales growth (X3), and profitability (X4) are all zero, according to the tax avoidance constant (Y) of 0.449.
2. A one-unit increase in financial distress is linked to a 0.165 increase in tax avoidance when all other variables are held constant, according to the regression coefficient for financial distress, which is 0.165.
3. The coefficient of -0.194 for ESG disclosure suggests that a one-unit increase in ESG disclosure results in a 0.194 decrease in tax evasion, all other things being equal.
4. The sales growth variable's regression coefficient is −0.016, which indicates that for every unit increase in sales growth, tax avoidance falls by 0.016 while all other factors remain the same.
5. The profitability coefficient of −1.456 means that for every unit increase in profitability, tax avoidance decreases by 1.456, assuming all other factors stay the same.

4.1.6 Partial Hypothesis Test (t-test)

Table 7. Partial Hypothesis Test (t-test)

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
	Model	B	Std. Error	Beta	t	Sig.
1	(Constant)	.449	.077		5.842	.000
	Financial Distress	.165	.064	.491	2.560	.013
	ESG	-.194	.103	-.219	-1.888	.064
	Sales Growth	-.016	.035	-.053	-.456	.650
	Profitabilitas	-1.456	.422	-.661	-3.445	.001

a. Dependent Variable: Tax Avoidance

Table 7's partial test (t-test) results indicate that tax avoidance is positively affected by financial distress, with a t-value of 2.560 and a significance level of 0.013. However, a t-value of -1.888 and a p-value of 0.064, both exceeding the 0.05 threshold, indicate that ESG disclosure has no statistically significant impact on tax avoidance. Similarly, sales growth does not significantly affect tax avoidance, with a t-value of −0.456 and a p-value of 0.650. On the other hand, profitability has a negative and significant impact on tax evasion, with a t-value of −3.445 and a p-value of 0.001.

4.1.7 Simultaneous Hypothesis Test (F-test)

Table 8. Simultaneous Hypothesis Test (F-test)

ANOVA[a]						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.448	4	.112	4.185	.005[b]
	Residual	1.580	59	.027		
	Total	2.028	63			

a. Dependent Variable: Tax Avoidance

b. Predictors: (Constant), Profitabilitas, Sales Growth, ESG, Financial Distress

Source: *processed SPSS data, 2025*

Table 8 shows that the simultaneous hypothesis test (F-test) yields an F-statistic of 4.185 at the 0.005 significance level. Financial distress, ESG disclosure, sales growth, and profitability significantly affect tax avoidance, as indicated by p-values < 0.05.

4.2 Discussion

4.2.1 The Effect of Financial Distress on Tax Avoidance

Financial distress has a partially positive relationship with tax avoidance. This indicates that companies facing financial problems or crises tend to implement more aggressive tax-reduction strategies to maintain operations. When facing economic pressure, companies need higher profits and may be willing to take greater risks to reduce their tax liabilities. Financial distress is indicated by declining credit ratings and increased capital expenditures.

This relationship is even more evident among manufacturing companies in the energy and raw materials sectors, which differ in their characteristics from those in other sectors. These industries are capital-intensive, dependent on international commodity prices, and subject to high income volatility stemming from global market fluctuations. Capital-intensive industries are characterized by substantial fixed assets, owing to high investment requirements in production facilities and technology, which make companies less flexible in the face of sudden market changes, such as increases in raw material costs or declines in demand (Ramadhani et al., 2025). High operating costs and volatile revenues make companies in the energy and raw materials sector more vulnerable to financial distress. Companies under financial strain are compelled to engage in tax evasion to preserve cash flow, thereby diverting tax revenue toward debt service or operating requirements. Thus, the high-risk characteristics of the energy and raw materials sector help explain why financial distress can positively affect tax avoidance behavior.

The study's findings are consistent with positive accounting theory, which holds that management is motivated to change accounting rules to increase profits and reduce debt. By leveraging their accounting expertise, management seeks to reduce various corporate expenses, including tax expenses (Fadhila & Andayani, 2022). Therefore, management often engages in tax avoidance to reallocate funds that should be used for tax payments to debt repayment. The study’s findings align with legitimacy theory, which contends that businesses seek to preserve operational sustainability by gaining credibility from a range of stakeholders, including the community, workers, investors, clients, and business associates. Therefore, to preserve public support and the company's long-term viability, management typically takes a variety of steps to improve its financial position, including tax avoidance. Companies are encouraged to take more risks through more

aggressive tax avoidance during times of financial difficulty because they have fewer options, even when doing so could harm their reputation (Yuliana et al., 2021).

These results align with the findings of Fadhila & Andayani (2022), Putri Simanjuntak & Suranta (2024), Yuliana et al. (2021), and Swandewi & Noviari (2020). This suggests that tax avoidance is positively impacted by financial distress. This study, however, runs counter to Arianata et al. (2025), who think that financial distress does not affect tax avoidance. According to them, tax avoidance efforts can increase the risk of sanctions, thereby worsening the company's financial condition. Therefore, management tends to act more prudently in financial decision-making to minimize additional risks that could further deteriorate the company's condition. Investors and creditors are also more vigilant in monitoring corporate policies to prevent risky tax-avoidance actions from eroding stakeholder confidence. In addition, companies in financial distress are more focused on seeking alternative funding, such as loans or financial restructuring, rather than pursuing tax avoidance strategies that could incur tax penalties and worsen the company's liquidity. Therefore, a company's likelihood of engaging in tax avoidance decreases as financial distress increases.

4.2.2 The Effect of Environmental, Social, and Governance (ESG) Disclosure on Tax Avoidance

Research shows that tax avoidance is unaffected by ESG disclosure. Stakeholders generally expect companies to act responsibly in managing their social, environmental, and economic impacts through ESG-related efforts. Even if a company devotes substantial resources to ESG initiatives, it is not expected to engage in tax avoidance. Although some ESG activities may require adjustments to specific tax rules, ESG principles ultimately emphasize ethical behavior and transparency rather than strategic tax planning. However, manufacturing companies in the energy and raw materials sectors exhibit distinct industry characteristics compared with other manufacturing companies. This sector is capital-intensive, high-risk, and has a significant environmental impact; therefore, ESG disclosure is frequently done to uphold a company's reputation and comply with regulations, rather than as a reflection of a deep ethical commitment. To put it another way, ESG disclosure in this sector is mostly concerned with compliance and ignores the company's tax behavior.

Furthermore, the energy and raw materials sector is greatly affected by commodity price volatility, high operating costs, and global market pressures. These conditions have led companies to prioritize cash-flow stability and operational sustainability over the integration of ESG values into their tax policies. In such periods of financial pressure, management decisions regarding tax avoidance are typically driven by the need to maintain cost efficiency and performance, rather than by ESG disclosure levels. These findings are consistent with research by Nurjanah & Romadhina (2025), Laili & Raphael (2025), Indri Pratiwi et al. (2024), and Anggraini & Wahyudi (2022), which also concluded that ESG disclosure does not significantly affect tax avoidance.

4.2.3 The Effect of Sales Growth on Tax Avoidance

The partial t-test results indicate that tax avoidance is not affected by sales growth. Data from the last four years, which demonstrate that sales of manufacturing firms in the raw materials and energy sectors listed on the Indonesia Stock Exchange either decreased or stayed constant, lend credence to this. During the two- to four-year study period, many companies experienced declines in both sales and profits. When sales increase, but profits decline, the tax burden naturally decreases, thereby reducing the incentive for companies to avoid taxes. These results are consistent with the findings of Arifah Dwi Wahyuni et al. (2023) and Putri et al. (2025), who also concluded that sales growth does not affect tax avoidance. As company sales increase, company size and total assets also increase, making tax planning more difficult, as noted by Astuti et al. (2020). Therefore, higher sales do not automatically prompt management to engage in tax avoidance.

4.2.4 The Effect of Profitability on Tax Avoidance

The partial t-test demonstrates that profitability inhibits tax avoidance, indicating that higher ROA is associated with a lower ETR. Because a lower ETR indicates greater tax avoidance, firms with higher profitability are generally more aggressive in implementing tax-minimization strategies. In addition, high profitability in the energy and raw materials sectors is often accompanied by stringent reporting requirements, primarily because large companies in these sectors are typically national or international strategic players. With this position, companies have a reputational incentive to maintain tax compliance. Profitability is negatively correlated with tax avoidance because companies with higher profits can meet their tax obligations without resorting to risky tax avoidance strategies. These findings are consistent with those of Putri et al. (2025) and Fadhila & Andayani (2022), who also found that profitability negatively affects tax avoidance.

These results support the agency hypothesis. Management, as the agent, tends to make decisions that benefit it. Consequently, an increase in a company's profitability makes managers less inclined to pursue tax avoidance practices. This is because tax avoidance entails significant risks, including reputational damage, the possibility of sanctions or fines from the tax authorities if the practice is detected, and the costs of implementing such a strategy (Napitupulu et al., 2020). The magnitude of the risks that may be incurred encourages management to exercise greater care in decision-making and in preparing financial reports that are reasonable and consistent with the company's actual condition, without excessive deviations (Fadhila & Andayani, 2022).

5. Conclusions

From the findings and analysis, only two variables, namely profitability and financial distress, were found to influence tax avoidance partially. Tax avoidance and financial distress are positively correlated, indicating that businesses in financial distress typically pay lower taxes. However, profitability has a negative impact: more profitable

businesses typically engage in greater tax evasion to reduce their tax obligations. Meanwhile, ESG disclosure and sales growth do not impact tax avoidance. This implies that businesses have not yet fully integrated ESG factors into their tax planning. Although these four variables collectively influence tax avoidance, none has an individual effect. These results highlight that multiple factors shape tax avoidance behavior, including external influences not analyzed in this study.

It is recommended that future research include more variables, such as corporate governance, long-term leverage, audit quality, ownership structure, and litigation risk, as these elements may either increase or decrease the correlation between internal firm characteristics and tax avoidance, offering a more precise and thorough understanding of the factors that influence tax avoidance. In addition, because financial distress can lead to tax avoidance, the government should enhance its risk-based monitoring system, particularly for manufacturing companies in the energy and raw materials sectors that are prone to such distress. Reducing the potential for tax avoidance arising from financial instability requires tightening restrictions on tax-reporting transparency and monitoring high-risk businesses.

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