



EFFECT OF FINANCIAL DISTRESS ON TAX AGGRESSIVENESS WITH COMPANY REPUTATION AS A MODERATING VARIABLE

Suparna Wijaya^{1*}, Naili Luthfi Syarifah²

1) suparnawijaya@upnvj.ac.id, Universitas Pembangunan Nasional Veteran Jakarta

2) naililuthfie@gmail.com, Kementerian Keuangan

*Corresponding author

Abstract

One of the obstacles faced in collecting tax revenues is the practice of tax aggressiveness by the company. In conditions of financial constraints, the strategy of saving cash for taxes is the manager's main choice to maintain company cash because it does not have a bad impact on company operations. The company's reputation is an intangible asset that is seen as important to improve the company's performance so as to encourage business sustainability and the quality of the company's future. The purpose of this study was to examine the effect of financial distress on tax aggressiveness with the company's reputation as moderating. The method used is quantitative with the object of manufacturing companies listed on the Indonesia Stock Exchange (IDX). The results of the study indicate that financial distress has a positive effect on tax aggressiveness. The company's reputation is not able to weaken the positive influence of financial distress on tax aggressiveness.

Keywords: Company Reputation, Financial Distress, Tax Aggressiveness

INTRODUCTION

Tax is an important instrument in national development as the main source of state revenue. However, the realization of tax revenue within 14 years from 2006 to 2019 did not succeed in achieving the target that had been set (Ministry of Finance, 2020). According to the 2019 Central Government Financial Report, the realization of tax revenue only reached 86.55% (Ministry of Finance, 2020). The failure to achieve this target has received the attention of OECD (Organization for Economic Co-operation and Development) which reported that Indonesia from 2007 to 2018 had not succeeded in increasing the tax ratio significantly. The tax ratio of Indonesia only ranged from 11% to 13% (OECD, 2020). The 2018 Asia Pacific country revenue statistical report released by the OECD also placed Indonesia in the last position with a tax ratio of 11.9%.

One of the obstacles faced in collecting tax revenue is the practice of tax aggressiveness by companies. Tax aggressiveness often refers to tax avoidance which is done to reduce corporate tax obligations (Balakrishnan et al., 2019; Hanlon & Heitzman, 2010). The tendency of corporate management to engage in tax aggressive practices is driven by the negative stigma of those who perceive taxes as a burden (Nugroho & Firmansyah, 2017). The manager as an agent is given the authority by the company owner (principal) to determine the best policies for the sake of the company owners, including corporate tax policies. Management decision to practice tax aggressiveness is based on a trade-off for the marginal benefits and marginal costs arising from these actions (Chen et al., 2010). The marginal benefits include tax savings and management compensation, while the marginal costs incurred include costs for transactions and potential penalties from government agencies.

Various reports have been released to reveal indications of tax aggressiveness such as indications of aggressive tax avoidance practices by six US technology companies (DDTCNews, 2019), allegations of tax evasion by PT Adaro Energy Tbk (Friana, 2019), and indications of tax avoidance by PT Bentoel Internasional Investama (Prima, 2019). Wier (2020) reports that the world has lost US \$200 billion in global tax revenue due to tax avoidance practices by diverting the profits of multinational companies to tax-free countries. Meanwhile, Cobham & Janský (2018) reported that estimated global income losses due to tax avoidance practices reached US \$ 500 billion each year and Indonesia ranked 11th out of a total of 30 countries as the country that suffered the biggest losses due to tax avoidance practices. In



order to reduce losses due to tax avoidance practices, various countries have implemented tax amnesty programs (Ispriyarso, 2019), including Indonesia. However, the programs held by Indonesia in 2016 and 2017 were not able to encourage many taxpayers to participate or withdraw their assets into the country. The low realization of repatriation and the low number of participants during tax amnesty program indicate that there are still many taxpayers who are trying to avoid taxes (Gloria, 2018).

One of the studies related to tax aggressiveness was conducted by Richardson et al. (2014) to examine the effect of financial distress on tax aggressiveness. The results showed that one of the factors influencing tax aggressiveness is financial distress. Financial distress is the final stage of financial decline faced by a company prior to bankruptcy or liquidation (Platt & Platt, 2002). In conditions of financial constraints, a strategy to save cash for taxes is the main choice of managers to maintain company cash because it does not have a negative impact on company operations (Edwards et al., 2013). Therefore, companies in financial distress have a tendency to practice tax aggressiveness.

One of the triggers for companies to experience financial distress is economic pressure (Wruck, 1991). Indonesia's economic condition had worsened during the Asian financial crisis in 1997-1998. This crisis resulted in companies experiencing a drastic increase in foreign debt, decreasing profits, decreasing working capital and production volume, as well as increasing layoffs to workers (Susilo & Mada, 2002). In 2020, Indonesia's economic conditions worsened again. Economic growth contracted deep enough to reach its lowest point since the first quarter of 1999 (Thomas, 2020). In line with these conditions, various business sectors experienced a decline in performance and experienced the phenomenon of financial distress, such as the downgrading of credit ratings by debt rating agencies in Indonesia. According to Brondolo (2009), the financial distress which is triggered by the economic downturn increases the risk of company non-compliance in paying taxes, including the implementation of aggressive tax policies. Various empirical studies have been conducted on the relationship between financial distress and tax aggressiveness in Indonesia. The results of research conducted by Nugroho & Firmansyah (2017) show that financial distress has no effect on tax aggressiveness. Meanwhile, the results of research by Sadjarto et al. (2020) regarding the effect of financial distress on tax avoidance shows a significant positive effect.

Based on the phenomena, facts, and differences in results from previous researches on the effect of financial distress on tax avoidance activities, the authors are interested in examining the effect of financial distress on tax aggressiveness. This study is distinguished from previous research by including the company's reputation as a moderator. Previous research related to the use of reputation as a moderator was conducted by Haska et al. (2017) who successfully used reputation to moderate the effect of investment risk, ROE, and Proceeds on stock price underpricing. Furthermore, reputation is also used by Yogi et al. (2019) which succeeded in moderating the effect of company size on audit report lag. Based on these previous studies, researchers are interested in using reputation to moderate the effect of financial distress on tax aggressiveness.

The company's reputation is an intangible asset which is considered important to improve company's performance so as to encourage business sustainability and the quality of the company's future (Iwu-egwuonwu, 2011). Various studies have been conducted to examine the relationship between corporate reputation and corporate tax-related behavior. Research by Graham et al. (2014) show that companies that prioritize company reputation tend not to avoid tax. In Indonesia, the research conducted by Lina et al. (2018) showed the negative effect of company reputation on tax avoidance behavior. Therefore, the company's reputation is expected to hinder and prevent companies from doing tax aggressiveness.



LITERATURE REVIEW

The Effect of Financial Distress on Tax Aggressiveness

Based on agency theory, management has more information related to the company than the principal, including financial performance. Financial performance is important for principal in assessing company's performance and taking further economic action on the wealth they invest in the company. Therefore, management through the delegation of authority given by the principal will carry out various strategies when it receives a sign that the company is experiencing financial distress which has an impact on the decline in company's performance.

One strategy that management may consider is tax aggressive planning. Research by Richardson et al. (2014) show that financial distress has a positive effect on tax aggressiveness. Richardson et al. (2014) argued that financial distress experienced by companies would increase risk transfer by both shareholders and management as agents. According to Richardson et al. (2014), financial distress is an early warning sign that a company has the potential to go bankrupt. The risk of bankruptcy increases the shareholder's risk of preference for the company's wealth or assets because creditors get priority over the company's assets when the company goes bankrupt. Such condition urges shareholders to transfer risk by using company assets on high-risk investment projects to obtain a higher probability of return. This condition can encourage creditors to appreciate the debt owed to the company more. In the end, companies in financial distress must bear high capital costs and encourage management to take riskier policies to improve the company's financial condition.

During financial distress with a high increase in the cost of capital and a low credit rating, management will be more willing to take risks by engaging in tax aggressiveness (Edwards et al., 2013). For companies with deteriorating financial conditions, the cash outflow to pay taxes becomes more significant at reducing company profits. Management may feel more that the risk of tax aggressiveness tends to be small compared to the potential benefits obtained (Richardson et al., 2014). By saving taxes, companies can finance company operations, maintain credit ratings, and mitigate bankruptcy risks (Brondolo, 2009). Thus, the hypothesis taken is as follows.

H1: financial distress has a positive effect on tax aggressiveness

The Effect of Corporate Reputation in Moderating the Effect of Financial Distress on Tax Aggressiveness

Based on agency theory, management as an agent bear the cost of the engagement (bonding costs) to maximize its competence in order to improve the company's performance. For most companies, reputation is the most important intangible asset and is able to bring various potential benefits so that maintaining and developing a reputation is crucial for the company (Axjonow et al., 2016). The company's reputation provides a competitive advantage (Fombrun & Shanley, 1990). Moreover, it has a positive impact on the company's performance and the company's business sustainability.

Góis et al. (2020) in their research shows that companies with good corporate reputations have a lower risk of bankruptcy. Góis et al. (2020) argue that the company's reputation has a positive impact on stakeholder behavior such as attracting and retaining talented employees, attracting investors, outperforming competition, getting more resources, and increasing trust in the company. In addition, the company's reputation encourages perceptions of lower credit risk from suppliers and higher customer loyalty (Gatzert, 2015). These various benefits make it easier for companies to obtain funding and increase revenue, thereby minimizing the risk of financial distress.

A good reputation being built and the ability to mitigate the risk of financial distress lead the company to avoid actions which can damage the reputation such as tax aggressiveness. A study conducted by Graham et al. (2014) shows that the company's reputation has prevented



management from implementing aggressive tax planning strategies, especially for companies whose shares are traded to the public and which concern about consumer reactions. Hardeck & Hertl's (2014) research also shows that consumers are only willing to pay lower prices for companies that carry out tax aggressive planning. In addition, pressure and public scrutiny of company's behavior which not fulfilling its tax obligations according to the provisions has the potential to cause damage to the company's reputation (Dyrenge et al., 2016). Based on the description above, the hypothesis is as follows.

H1: The company's reputation weaken the positive effect of financial distress on tax aggressiveness

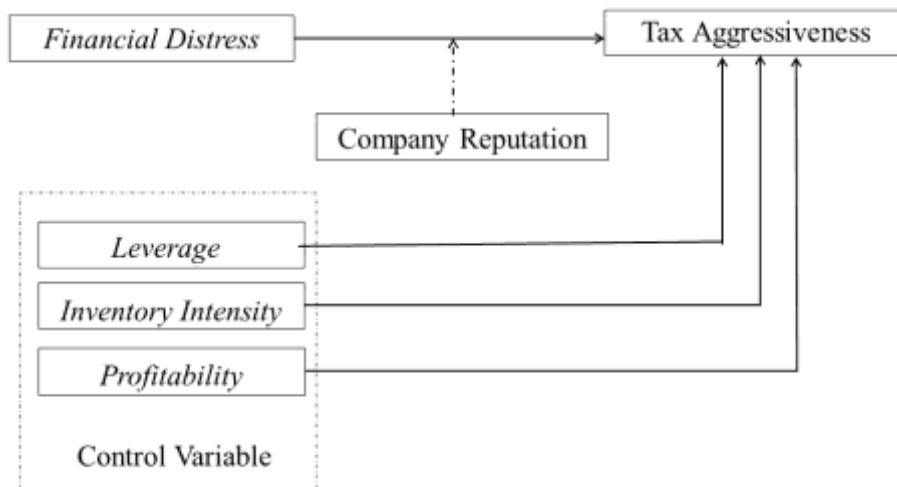


Figure 1. Framework of Thinking

The control variables used are firm size, leverage, capital intensity, inventory intensity, and profitability. The control variable was used because of the prevalence of its use in previous research on tax aggressiveness (Richardson et al., 2015; Nugroho & Firmansyah, 2017; Sadjarto et al., 2020). The control variable is a variable that does not want to be studied but is measured and kept constant so as not to affect the relationship between the independent variable and the dependent variable (Saunders et al., 2015).

METHODS

This study is sort of quantitative research and uses multiple regression analysis model to determine the significance of the relationship between independent variables and dependent variables, and to interpret the test results. This study uses secondary data namely company's financial reports obtained from the official website of Indonesia Stock Exchange (IDX) and related companies, as well as Corporate Image Index (CII) published by the Frontier Consulting Group on the official page of the IMAC Award.

Using companies listed on the IDX as a population, this study uses the purposive sampling technique based on the following criteria to obtain a research sample.

- 1) The company is engaged in the manufacturing sector. The reason is that the manufacturing sector is the highest contributor to tax revenue. In addition, Astuti & Aryani's (2016) research shows that there is a high trend of tax avoidance practices in manufacturing sector companies.
- 2) The company has been registered on the IDX (conducted an Initial Public Offering) before January 1, 2015 to ensure the availability of company's financial statement data.
- 3) The company obtains Corporate Image Index (CII) for at least one period during 2014—2019. This criterion is applied to minimize the domination of company reputation variable data owned by companies that have no reputation value at all, which has the potential to



cause bias in interpreting the results of this study.

- 4) The company has a fiscal year ending on December 31st to support comparability of the research sample data.
- 5) The company has complete data related to variables used in this study.

Based on the criteria set, this study used 43 samples of companies over a period of 6 years (2014- 2019) in order to obtain 258 observations (company-year).

The dependent variable in this study is tax aggressiveness which is measured using discretionary permanent differences (DTAX). According to Frank et al. (2009), DTAX can capture tax aggressiveness that does not come from temporary differences that do not certainly reflect tax avoidance. DTAX in this study uses measurements that have been adjusted to accounting standards and tax regulations in Indonesia by Rachmawati & Martani (2017).

$$PERMDIFF_{it} = \beta_0 + \beta_1 INTANG_{it} + \beta_2 \Delta NOL_{it} + \beta_3 LAGPERM_{it} + \varepsilon_{it}$$

Description:

$PERMDIFF_{it}$ = Total book-tax difference minus temporary book-tax difference [$PTBI_{it} - (CTE_{it} / STR_{it})$

- (DTE_{it} / STR_{it})], scaled to total assets t-1

$PTBI_{it}$ = Accounting profit before tax

CTE_{it} = Current tax expense

STR_{it} = Income tax rate according to the Income

Tax Law DTE_{it} = Deferred tax expense

$INTANG_{it}$ = Goodwill and other intangible assets scaled to total assets t-1

ΔNOL_{it} = Change in net operating loss carryforwards scaled to total assets t-1

$LAGPERM_{it}$ = $PERMDIFF$ one year before for i company and t year, scaled to total assets t-1

ε_{it} = DTAX for i company in t year

The independent variable in this study is financial distress. This study uses the Altman Z Score (1968) model which was developed to predict the bankruptcy of public manufacturing companies. The Altman Z Score (1968) model uses five financial ratios and becomes a discriminant function as described below.

$$Z = 1,2X_1 + 1,4X_2 + 3,3X_3 + 0,6X_4 + 0,999X_5$$

Where:

Z = index of financial distress

X_1 = Working Capital / Total Assets

X_2 = Retained Earnings / Total Assets

X_3 = Earnings Before Interest and Taxes / Total Assets

X_4 = Market Value of Equity / Book Value of Total Liabilities

X_5 = Sales / Total Assets

The greater the Z value indicates the lower level of financial distress. Therefore, according to the research by Nugroho & Firmansyah (2017), the Z value in this study is transformed by multiplying the Z value by the number -1 so that the transformed Z value describes the level of financial distress in the same direction.

The moderation variable in this study is company reputation. In this study, the measurement of the company's reputation variable is replicated by Lina et al. (2018) using Corporate Image Index (CII) data on the website of IMAC Award.

This study uses three control variables, namely leverage, inventory intensity, and profitability. Leverage becomes a control variable, because interest as a tax deduction should have a positive effect on tax planning (Cheng et al., 2012 in Richardson et al., 2014). Leverage is calculated by dividing long-term liabilities by total assets. Inventory intensity is measured by



comparing inventory to total assets. According to Stickney & McGee (1982) in Richardson et al. (2015), companies with high inventories tend to have less aggressive tax policies. Meanwhile, profitability is included as control variable, because companies which are more profitable tend to have the potential for greater tax savings (Richardson et al., 2014). Profitability is calculated by dividing profit before tax to total assets.

This study used a panel data regression model, so that the model specification test for each model was carried out first using the Chow test, the BP-LM test, and the Hausman test. The first regression model was developed to test the effect of financial distress on tax aggressiveness as hypothesized 1.

Model 1 (without moderation)

$$DTAX_{it} = \beta_0 + \beta_1 FDISTRESS_{it} + \beta_2 LEV_{it} + \beta_3 INVINT_{it} + \beta_4 ROA_{it} +$$

The second regression model examines the role of company reputation in moderating the effect of financial distress on tax aggressiveness as hypothesized 2.

Model 2 (with moderation)

$$DTAX_{it} = \beta_0 + \beta_1 FDISTRESS_{it} + \beta_2 REPUT_{it} + \beta_3 (FDISTRESS_{it} * REPUT_{it}) + \beta_4 LEV_{it} + \beta_5 INVINT_{it} + \beta_6 ROA_{it} + \epsilon_{it}$$

Where:

$DTAX_{i, t}$ = corporate tax aggressiveness i company in t

$FDISTRESS_{it}$ = level of financial distress of i

company in t year $REPUT_{it}$ = company reputation index

(CII) i company in t year LEV_{it} = Leverage i company in

t year

$INVINT_{it}$ = Inventory intensity i company in t year

ROA_{it} = Company i company in t year

ϵ_{it} = Error

RESULTS AND DISCUSSION

The model specification test on the two regression models in this study results the random effect model as the most appropriate model to be used in both model 1 and model 2 of the study. The results of the Chow test show that the fixed effect model is more appropriate for the regression model 1 and model 2 of the study than the common effect model. Furthermore, based on the B-P LM test, the random effect model is more appropriate to use both for model 1 and model 2 of the study compared to the common effect model. The choice between the fixed effect model and the random effect model was carried out using the Hausman test and resulted in a random effect model as a more appropriate model for the two research models. Therefore, the regression model chosen to test model 1 and model 2 of this study is a random effect model. The results of the panel data regression test are presented in Table 1.



Table 1. Regression Test Results of

Variabel	Estimated Direction	Model 1		Model 2	
		Coefficient	Prob.	Coefficient	Prob.
Cons.		0,0120	0,0805*	0,0104	0,138
FDISTRESS	+	0,0026	0,000***	0,0012	0,1645
REPUT	+			0,0009	0,420
FDISTRESS*REPUT	+			0,0007	0,1145
LEV	-	-0,0435	0,007***	-0,0409	0,0105**
INVINT	-	-0,0352	0,1155	-0,0446	0,0695*
ROA	+	0,1908	0,000***	0,1889	0,000***
R-squared			0,5137		0,5173
Adj. R-squared			0,5041		0,5038
Prob > chi2 (F-Stat.)			0,0000		0,0000
Note :		* Significant for α 0,1			
		** Significant for α 0,05			
		*** Significant for α 0,01			

The table shows the value of the coefficient of determination (R²) of 0.5117 for model 1 and 0.5169 for model 2. This indicates that variations in the dependent variable, namely tax aggressiveness, can be explained by the independent variable in model 1 of 51.17% and in model 1 2 of 51.69%. Variations in the tax aggressiveness variable in model 1 of 48.83% and in model 2 of 48.31% are explained by variables that are not included in this study.

Model 1 in this study was compiled based on the following regression equation. $DTAX_{it} = 0 + 1FDISTRESS_{it} + 2SIZE_{it} + 3LEV_{it} + 4CAPINT_{it} + 5INVINT_{it} + \beta_6ROA_{it} + \epsilon_{it}$ The regression equation formed in model 1 of this study after regression testing was carried out is as follows.

$DTAX_{it} = -0.0935 + 0.0030(FDISTRESS_{it}) + 0.0041(SIZE_{it}) - 0.0467(LEV_{it}) - 0.0260(CAPINT_{it}) - 0.0466(INVINT_{it}) + 0.1904(ROA_{it}) + \epsilon_{it}$ The interpretation of the regression equation is described as follows.

- 1) The regression equation constant 0 has a coefficient of -0.0935. This shows that if all independent variables and control variables are 0, the value of tax aggressiveness is -0.0935.
- 2) 1 is the coefficient of the financial distress variable (FDISTRESS), has a coefficient value of 0.0030. This value shows the positive effect of financial distress on tax aggressiveness. The value of the tax aggressiveness variable increases by 0.0030 if there is an increase in the value of the financial distress variable by 1 unit with other variables being constant.
- 3) 2 is the coefficient of the firm size variable (SIZE) with a value of 0.0041. The positive value of the coefficient indicates the positive effect of the firm size variable on the tax aggressiveness variable. The increase in the value of the firm size variable by 1 unit has an impact on increasing the value of the tax aggressiveness variable by 0.0041 with the value of other variables constant.
- 4) 3 is the coefficient of the leverage variable (LEV) with a value of -0.0467. This value shows the negative direction of the influence of the leverage variable on the tax aggressiveness variable. With other variables being constant, increasing the value of the leverage variable by 1 unit will reduce the value of the tax aggressiveness variable by 0.0467.
- 5) 4 is the coefficient of the variable capital intensity (CAPINT), has a value of -0.0260. The effect of the capital intensity variable has a negative direction on the tax aggressiveness



variable. Therefore, increasing the value of the capital intensity variable will reduce the value of the tax aggressiveness variable by 0.0260 (with the other variables constant).

- 6) 5 is the coefficient of the variable inventory intensity (INVINT) with a value of -0.0466. This value shows the negative effect of the inventory intensity variable and a decrease in the value of the tax aggressiveness variable by 0.0466 on an increase in the value of the inventory intensity variable by 1 unit with other variables being constant.
- 7) 6 is the coefficient of the profitability variable (ROA) with a value of 0.1904. The profitability variable has a positive effect on the tax aggressiveness variable and an increase in the value of the profitability variable by 1 unit has an impact on the increasing value of the tax aggressiveness variable by 0.1904 with other variables being constant.

Model 2 in this study has the following regression equation. $DTAX_{it} = 0 + 1FDISTRESS_{it} + 2REPUT_{it} + 3(FD_{it}*REPUT_{it}) + 4SIZE_{it} + 5LEV_{it} + \beta_6CAPINT_{it} + \beta_7INVINT_{it} + \beta_8ROA_{it} + \epsilon_{it}$ The regression equation formed in the model 2 research after testing is as follows.

$$DTAX_{it} = -0.1115 + 0.0017(FDISTRESS_{it}) - 0.0021(REPUT_{it}) + 0.0006(FD_{it}*REPUT_{it}) + 0.0048(SIZE_{it}) - 0.0445(LEV_{it}) - 0.0294(CAPINT_{it}) - 0.0590(INVINT_{it}) + 0.1884(ROA_{it}) + \epsilon_{it}$$

- The regression equation can be interpreted as follows.
- 1) The constant of the regression equation 0 has a coefficient of -0.1115. This shows that if all independent variables and control variables are 0, the value of tax aggressiveness is -0.1115.
 - 2) 1 is the coefficient of the financial distress variable (FDISTRESS) with a coefficient value of 0.0017. This value shows the positive effect of financial distress on tax aggressiveness and an increase in the tax aggressiveness variable of 0.0017 if there is an increase in the value of the financial distress variable by 1 unit with other variables being constant.
 - 3) 2 is the coefficient of the company's reputation variable with a value of -0.0021. The coefficient value cannot be explained because the company reputation variable has no significant effect on the tax aggressiveness variable.
 - 4) 3 is the coefficient of financial distress variable moderated by the company's reputation variable with a value of 0.0006. This variable also has no significant effect on tax aggressiveness so that the coefficient value cannot be explained.
 - 3) 4 is the coefficient of the firm size variable (SIZE) with a value of 0.0048. The positive value of the coefficient indicates the positive effect of the firm size variable on the tax aggressiveness variable. The increase in the value of the firm size variable by 1 unit has an impact on increasing the value of the tax aggressiveness variable by 0.0048 with the other variables constant.
 - 4) 5 is the coefficient of the leverage variable (LEV) with a value of -0.0445. This value shows the negative direction of the influence of the leverage variable on the tax aggressiveness variable. With other variables being constant, increasing the value of the leverage variable by 1 unit will reduce the value of the tax aggressiveness variable by 0.0445.
 - 5) 6 is the coefficient of the variable capital intensity (CAPINT), has a value of -0.0294. The effect of the capital intensity variable has a negative direction on the tax aggressiveness variable. Therefore, increasing the value of the capital intensity variable will reduce the value of the tax aggressiveness variable by 0.0294 (with the other variables constant).
 - 6) 7 is the coefficient of the variable inventory intensity (INVINT) with a value of -0.0590. This value shows the negative effect of the inventory intensity variable and a decrease in the value of the tax aggressiveness variable by 0.0590 on the increase in the value of the inventory intensity variable by 1 unit with other variables being constant.
 - 7) 8 is the coefficient of the profitability variable (ROA) with a value of 0.1884. The



profitability variable has a positive effect on the tax aggressiveness variable and an increase in the value of the profitability variable by 1 unit has an impact on the increasing value of the tax aggressiveness variable by 0.1884 with other variables being constant.

Table 1 shows that the probability of p-value of FDISTRESS variable in model 1 is 0,000 which means that at the significance level of $\alpha = 0.05$, financial distress has a positive effect on tax aggressiveness. The results of this study are in line with the study by Richardson et al. (2014) and confirms the results of research by Sadjarto et al. (2020).

Based on Table 1, the probability of the p-value of the FDISTRESS * REPUT variable in model 2 is 0.1145. The test result of the second hypothesis indicate that the company's reputation is not able to weaken the positive effect of financial distress on tax aggressiveness.

The Effect of Financial Distress on Tax Aggressiveness

Based on the risk transfer relationship, the positive effect of financial distress on tax aggressiveness is built (Richardson et al., 2014). Companies in financial distress need additional cash to finance operations and maintain company solvency (Edwards et al., 2013). Management has an alternative to financial restructuring by changing the dividend payment policy to save the company's cash (Koh et al., 2015). However, dividend policy tends to affect the level of investor confidence and assessment of the company's prospects and risks in the future (Lestari et al., 2016) so that these changes can actually hinder the acquisition of external funding through investment. In addition, companies in financial distress tend to face the risk of downgrading their credit rating and increasing the cost of capital. Management has an alternative to financial restructuring through renegotiating debt contracts (Koh et al., 2015). However, these efforts are less effective in recovering financial distress because it tends to be difficult to do in companies with more than one creditor in which each creditor has an incentive to prioritize debt payments (Hotchkiss et al., 2008). The results of this study confirm the results of study conducted by Richardson et al. (2014) which states that companies with a credit rating downgrade tend to reduce their taxable income and taxes paid.

Another alternative to increase the company's liquidity is to restructure assets by selling the company's non-current assets. However, the sale of assets by companies suffering from financial distress tends to be appreciated in lower prices (Hotchkiss et al., 2008) so that they are at risk of experiencing losses. In addition, shareholders can encourage management to undertake high-risk investment projects that have a high probability of return in order to maintain their preference for corporate wealth (Richardson et al., 2014). The increase in the cost of capital due to the risk of loss of asset sales and the risk of investment projects tends to encourage management to take tax aggressiveness policies (Edwards et al., 2013). Another effort to recover financial distress is operational restructuring to generate internal funding. However it also tends to be less effective due to the risk of decreasing product demand and the risk of increasing production costs due to the imposition of strict credit requirements and an increase in material prices by suppliers (Wruck, 1991). In a deteriorating economic condition, companies are also at risk of facing sluggish levels of consumer purchases leading to a low level of product sales.

During financial distress, management has an alternative to sell products at a lower price in order to meet the minimum product sales target and generate cash quickly. The lower selling price causes the company to gain lower income. Moreover, the spending on taxes may change so significantly that it encourages management to reduce their taxable income (Richardson et al., 2014). This reduction makes the company be able to minimize cash for paying taxes so that the company can still finance the company's operations (Brondolo, 2009). This explanation contradicts the research by Nugroho & Firmansyah (2017) which states that the deteriorating condition of the company is not able to trigger companies to increase their tax aggressiveness. Literally, taxes are the company's burden so that management has a tendency to carry out tax



avoidance efforts. The worsening financial condition makes the company's cash become priority of management's quick strategy in saving the company from the possibility of being unable to pay off debts to creditors, the inability to operate and to produce, and the worst possibility namely bankruptcy. The decision to save cash through tax aggressiveness increases the availability of cash to recover the company from financial distress. Thus, in line with the results of this study, the financial distress has a positive effect on tax aggressiveness.

The Effect of Company Reputation in Moderating the Effect of Financial Distress on Tax Aggressiveness

In this study, financial distress has a significant positive effect on tax aggressiveness. Meanwhile, reputation ownership tends to prevent companies from carrying out tax aggressiveness (Graham et al., 2014; Hanlon & Slemrod, 2009) because reputation is considered a valuable company asset that has a positive influence on company's performance (Gatzert, 2015). The contradiction between the nature of financial distress and the company's reputation in giving effect to tax aggressiveness is thought to cause insignificant moderation of the company's reputation on the effect of financial distress on tax aggressiveness.

Research by Góis et al. (2020) and Casado et al. (2017) shows that a company's reputation tends to reduce the risk of company bankruptcy. In crisis conditions to a certain extent, companies with good reputations may experience a lower decline in shares value (Jones et al., 2000). However, in conditions of deep economic crisis, the company's reputation tends not to be able to withstand the fall of the company (Jones et al., 2000) and the deterioration of corporate finances increases the risk of corporate tax non-compliance (Brondolo, 2009). During financial distress, the risk of bankruptcy becomes a much greater risk for the company than the risk of reputation damage. Even though it has the potential to reduce the impact of a company's economic loss, reputation is not a significant factor that can protect a company from losses. In addition, the research of Gallemore et al. (2014) confirmed the insignificant effect of company reputation on tax avoidance. This is likely due to the existence of stakeholders who choose to do tax avoidance, prefer risk-taking actions by managers in business activities including tax avoidance, and / or do not view tax avoidance as a mistake (Gallemore et al., 2014). Thus, the company's reputation tends not to be able to inhibit the tendency of companies experiencing financial distress to engage in tax aggressiveness.

The next possibility that causes the insignificant moderation of company reputation is the reliability of company reputation measurement. Several previous empirical studies have questioned the reliability of company reputation measurement as the result of testing the effect of company reputation on financial performance is insignificant (Caliskan et al., 2011; Inglis et al., 2006). Reliability measurement of company reputation leads to the accuracy of the factors and dimensions of reputation measurement and how much reputation measurement reflects the actual reality of the company. The assessment of corporate image index (CII) which is the proxy for the company's reputation variable in this study was carried out by averaging the values of the four assessment dimensions used and giving different weights to each group of respondents. Although the factors included in the assessment dimension are quite representative of the company's reputation assessment, what is questioned in this study is the weighting of each dimension, whether each of the assessment dimensions contributes the same percentage to the company's reputation building or not. Furthermore, the representation of stakeholders through selected respondent groups and the weighted percentage of the assessment of each respondent group are also considered to determine the reliability of the company's reputation measurement.

Another question is whether the corporate image index (CII) represents the company's reputation or the image of the company. The company's reputation in various literatures is different from the company's image. The company's image is defined as what comes to the mind of external stakeholders when they hear the name or see the logo of a company (Barnett



et al., 2006), which internal stakeholders expect as a positive perception. Meanwhile, reputation leads to the aggregate perception of all stakeholders on the development of corporate identity viewed from the perspective of employees (Barnett et al., 2006) accompanied by the growth of the company's image which in turn can be compared with competitors, previous reputations, or the average similar industry reputation (Dowling, 2004; Walker, 2010). Thus, reputation requires a much higher valuation aspect of the company compared to image. The lack of reliability of CII as a proxy for company reputation in this study is thought to have an effect on the insignificance of company reputation in weakening the positive effect of financial distress on tax aggressiveness.

CONCLUSION

The test results show that financial distress has a significant positive effect on tax aggressiveness. It indicates that financial distress increases the company's tendency to engage in tax aggressiveness. Through tax aggressiveness, the company makes cash savings for taxes that are considered significant to maintain liquidity and company solvency in order to fulfill maturing obligations, to maintain credit ratings, and to maintain the company's operations. Meanwhile, the company's reputation is not able to weaken the positive effect of financial distress on tax aggressiveness. The first possibility that causes such condition is the contradiction between the nature of financial distress and the company's reputation in giving effect to tax aggressiveness. Financial distress encourages the tendency for companies to engage in tax aggressiveness, while the reputation of the company inhibits this tendency. The insignificant role of the company's reputation in inhibiting the positive effect of financial distress on tax aggressiveness is caused by the insignificance of the company's reputation as an instrument to recover financial distress and the presence of stakeholders who tend to accept tax aggressiveness. The second possibility is the lack of reliability of the company reputation measurement used in this study. The consideration of reliability measurement of company reputation is related to the percentage of contribution on each dimension of the CII assessment, the representation of each respondent's perception by the selected group of respondents, the weighted percentage for each group of respondents, and the perceived meaning of CII as company reputation or company image.

Based on the above conclusions, the tax authorities can formulate policies to close the gaps in existing tax aggressiveness regulations and compile tax incentives and sanctions packages to stimulate the recovery of financial distress by companies, especially for companies affected by the worsening economic conditions. Furthermore, the company is motivated to implement recovery strategies that minimize losses for various stakeholders such as tax authorities and other stakeholders during financial crisis.

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