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Uncovering Tax Avoidance Drivers in IDX Mining Firms 2019-2021: Financial Distress, Thin Capitalization, and CSR Disclosure Effects

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ABSTRACT: Indonesia's low tax ratio compared to other Asia-Pacific nations may indicate the presence of tax avoidance. The Tax Justice Network has revealed that corporations are the primary culprits of tax avoidance in Indonesia, with mining companies being among the examples of such practices that have been exposed. Related to this phenomenon, this study seeks to acquire factual evidence on how financial distress, thin capitalization and the disclosure of corporate social responsibility affect the tax avoidance among mining firms publicly listed on the IDX during the period of 2019 to 2021. By utilizing purposive sampling technique, this study successfully selected 18 companies, generating a total of 54 observational data that were used for analysis. To obtain the required data, this study relied on secondary sources such as audited financial statements, annual reports and/or sustainable reports. The main approach employed for analyzing the data and testing hypotheses in this study was multiple linear regression analysis. The findings of the study demonstrate that financial distress has a significant negative impact on tax avoidance. However, the study did not find statistically significant evidence to support the impact of thin capitalization and corporate social responsibility disclosure on tax avoidance.

Keywords: Corporate Social Responsibility, Financial Distress, Tax Avoidance, Thin Capitalization

INTRODUCTION

Indonesia heavily relies on taxes as the primary source of income for the state budget. Therefore, the government has implemented various strategies to optimize tax revenues. In Indonesia, the tax collection system operates on a self-assessment basis, where individuals who have met the subjective and objective requirements are entrusted with the responsibility of voluntarily registering, calculating, paying and reporting their tax obligations. Encouraging taxpayer education and improving their understanding of tax obligations can result in higher levels of taxpayer compliance, ultimately leading to the attainment of tax revenue targets (Handayani & Damayanti, 2018). The indication of taxpayer compliance can be reflected through the tax ratio. The tax ratio in Indonesia in 2019 was only 11.6% and decreased by 1.5% in 2020 to 10.1%, which is far below the average tax ratio of Asia-Pacific countries that reached 19.1% in 2020, even lower that African countries that reached 16.6% in 2019 (OECD, 2022). According to Sri Mulyani, the low tax ratio can be caused by the existence of gaps in tax regulations, which makes tax avoidance relatively easy to implement (Kurniati, 2020).

Indonesia experienced an annual tax loss of US$4.86 billion, of which 98.4% was caused by corporate tax abuse (Tax Justice Network, 2020). Conflicting interests between taxpayers and the government can lead to aggressive tax planning by taxpayers. As taxpayers, companies aim to maximize their profits, but larger profits will result in a higher amount of taxes to be paid. Therefore, companies will attempt to reduce their tax burden. The efforts of companies to reduce their tax obligations can be categorized as tax evasion or tax avoidance. Tax evasion is an illegal manipulation done intentionally to reduce the taxes that should be paid according to the law (Alm et al., 2019). Meanwhile, tax avoidance is a legal action used to reduce tax liabilities by taking advantage of vulnerabilities in tax regulations (Sritharan et al., 2022). Tax avoidance presents a typical and complex problem because it is not always illegal, but it is still an undesirable practice by the government (Rahma et al., 2022).

Mining companies often face challenges in maintaining their operational sustainability and generating stable profits. Fluctuating commodity prices, strict tax regulations, and global economic crises are some of the factors that can affect the financial performance of mining companies. Therefore, mining companies tend to try to reduce their tax liabilities. Pricewaterhouse Coopers reported that most mining companies in Indonesia do not provide transparency in their taxes, with only 30% of 40 large mining companies adopting tax transparency reporting in 2020 (Suwiknyo, 2021). Additionally, the Corruption Eradication Commission expressed concerns that corrupt practices, including tax avoidance, tend to occur in the mining sector, where there is a shortfall of mining tax payments of IDR15.9 trillion per year in forest areas (Redaksi DDTCNews, 2019). One example of tax avoidance exposed involves Adaro Energy, a mining company suspected of reducing its tax payments by US$125 million compared to what it should have paid in Indonesia through transfer pricing schemes (Global Witness, 2019).

Mining companies often face issues such as price fluctuations that can impact their financial performance. When companies experience financial distress, which is when the company's financial performance declines, they often struggle to obtain external funding and their credit ratings may decline. This can make managers more likely to take risks and engage in tax avoidance (Alhady et al., 2021). (Dang & Tran, 2021) study showed that companies with higher capital adequacy ratios tend to engage in lower tax avoidance, supporting the finding that financial distress can drive companies to engage in tax avoidance. However, (Jaffar et al., 2021) research showed that companies experiencing financial distress actually reported higher tax burdens. On the other hand, (Fauzan et al., 2021) stated that financial difficulties do not necessarily impact a company's tendency to avoid taxes, as companies experiencing financial difficulties may incur losses and receive compensation without considering tax burdens.

Tax avoidance strategies by companies in the mining industry can be done through thin capitalization, where they set a capital structure that relies more on debt than equity (Istiqfarosita & Abdani, 2022). According to (Utami & Irawan, 2022), thin capitalization is the main driver behind company efforts to avoid taxes by taking advantage of tax protection created by interest on debt, which generates lower taxable income. On the other hand, (Natalia & Widyadhana, 2021) argue that companies with higher levels of thin capitalization usually have lower levels of tax avoidance. This may be due to the incentives provided by performance-based contracts resulting from the use of debt to improve company performance and increase revenue.

In the context of mining companies, CSR becomes crucial because their operations often have significant impacts on the environment and surrounding communities. Therefore, mining companies often promote their CSR programs as part of their efforts to improve their image in the eyes of society and fulfill their social obligations. However, a study by (Rahayu & Suryarini, 2021) shows that mining companies can also use their CSR disclosures to divert attention from their tax avoidance practices. In addition, some CSR programs such as scholarship programs or environmental conservation programs can be used to reduce the tax burden of the company (Rohyati & Suripto, 2021). Nevertheless, research by (Hajawiyah et al., 2022) shows that companies with a strong commitment to disclosing their CSR activities tend to be involved in less tax avoidance, as they seek to maintain their reputation in the eyes of society.

Based on the context mentioned above, this research focuses on tax avoidance practices and does not examine tax evasion practices. Tax evasion practices often involve illegal activities that are not recorded in the company's financial statements. Therefore, it is difficult to assess tax evasion practices by simply looking at a company's financial statements. The main objective of this study is to analyze how financial distress, thin capitalization, and corporate social responsibility disclosures affect tax avoidance among mining companies listed on the Indonesia Stock Exchange during the period of 2019-2021.

THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Agency Theory

The theory of agency aims to provide a conceptual framework to understand the economic conduct of two key players in an organization, the agent and the principal. The principal refers to an individual or a group that hires an agent to perform a particular task on their behalf. The agent, on the other hand, is responsible for carrying out the assigned task. The agency theory operates under the assumption that the principal and the agent may have diverse interest, which could lead to potential conflicts (Pratama & Murtin, 2020). These conflicts may arise due to differences in the information available to the agent or variations in their motivations compared to the principal, ultimately influencing their decision-making process.

Legitimacy Theory

Legitimacy theory focuses on the role of legitimacy in influencing organizational behavior and stakeholders. Legitimacy theory explains how organizations seek and maintain support and recognition from stakeholders through their efforts to meet the norms and expectations prevailing in society (Lestari & Solikhah, 2019).

Trade-off Theory

According to the trade-off theory, the decision on a company's capital structure involves balancing the advantages of tax benefits from using debt and the costs of financial distress (Ross et al., 2018). (Minh Ha et al., 2022) stated that the company aims to determine the ideal amount of debt and equity for their capital structure by utilizing the balance principle in order to maximize their overall business value. The company will strive to raise its debt until the point where the added benefit of tax advantages resulting from debt are equal to the supplementary expenses associated with financial distress (Brealey et al., 2020).

Financial Distress and Tax Avoidance

Financial distress refers to a situation where a company experiences a decrease in its financial performance, which could indicate a potential bankruptcy or liquidation (Ningsih & Noviari, 2022). The condition of financial distress will trigger agents to seek quick sources of funding to meet the company's obligations to maintain legitimacy in the eyes of stakeholders and to maintain good agent performance (Swandewi & Noviari, 2020). In the condition of financial distress, access to external funding sources is limited. Therefore, to maintain its continuity, the company is required to make cost savings (Sadjiarto et al., 2020), which will prompt agents to reduce expenses such as tax burden (Alhady et al., 2021). Research conducted by (Dang & Tran, 2021) found that companies with lower capital adequacy ratios tend to engage in more tax avoidance.

H1: Financial distress positively influences tax avoidance

Thin Capitalization and Tax Avoidance

Thin Capitalization is a technique utilized to decrease tax obligations by creating a capital structure primarily based on debt (Istiqfarosita & Abdani, 2022). In taxation, interest expense resulting from the use of debt is deductible, while dividens resulting from equity participation are non-deductible, so using debt will reduce taxtable income (Natalia & Widyadhana, 2021). Therefore, companies are inclined to use interest-bearing debt to reduce their tax liabilities. In accordance with the findings of (Utami & Irawan, 2022) study, a high degree of thin capitalization indicates a more dominant use of debt by companies, suggesting a higher probability of engaging in tax avoidance.

H2: Thin capitalization negatively influences tax avoidance

Corporate Social Responsibility and Tax Avoidance

One way for companies to legitimize their existence in the eyes of stakeholders is by disclosing their corporate social responsibility, as noted by (Firmansyah & Estutik, 2020). A company's image is improved with greater exposure to corporate social responsibility, as indicated by (Iwanty & Surjandari, 2022). According to (Lestari & Solikhah, 2019), the government's management of the payment of taxes in an indirect manner can be considered as a type of corporate social responsibility that serves the public's best interest. Companies that do not fulfill their tax obligations will be considered dishonest because taxes are used for public purposes that also benefit the company (Firmansyah & Estutik, 2020). Therefore, companies with a high commitment to disclosing corporate social responsibility have a lower propensity to engage in tax avoidance (Hajawiyah et al., 2022), which is intended to maintain the company's already established image (Herianti & Ritnawati, 2021).

H3: Corporate social responsibility disclosure negatively influences tax avoidance

METHOD

This research employed a quantitative approach and relied on secondary data retrieved from www.idx.co.id and official websites of companies, which included annual reports, sustainability reports and audited financial statements. The study focused on mining companies that were registered on the IDX during the time frame 2019 to 2021, and in order to obtain the sample, a purposive sampling method was utilized. The criteria for selecting the sample were based on several specific factors, including whether the companies were listed and did not experience delisting during 2019-2021, issued annual reports, sustainability reports, and audited financial statements, did not occur losses and had complete data related to the variables being studied. The final sample size consists of 18 companies that meet the inclusion criteria as shown in table 1, and the research was conducted over a period of 3 years, resulting in a total of 54 observations. The data that were gathered were subjected to analysis utilizing the tool for data analysis IBM SPSS 26, employing a method of multiple linear regression analysis.

Table 1. Sample of the Research

No.	Code	Name of the Company
1.	ADRO	PT. Adaro Energy Indonesia Tbk
2.	ANTM	PT. Aneka Tambang Tbk
3.	BIPI	PT. Astrindo Nusantara Infrastruktur Tbk
4.	BSSR	PT. Baramulti Suksessarana Tbk
5.	BYAN	PT. Bayan Resources Tbk
6.	CITA	PT. Cita Mineral Investindo Tbk
7.	ELSA	PT. Elnusa Tbk
8.	GEMS	PT. Golden Energy Mines Tbk
9.	HRUM	PT. Harum Energy Tbk
10.	INCO	PT. Vale Indonesia Tbk
11.	ITMG	PT. Indo Tambangraya Megah Tbk
12.	MBAP	PT. Mitrabara Adiperdana Tbk
13.	MDKA	PT. Merdeka Copper Gold Tbk
14.	MYOH	PT. Samindo Resources Tbk
15.	PTBA	PT. Bukit Asam Tbk
16.	PTRO	PT. Petrosea Tbk
17.	TOBA	PT. TBS Energi Utama Tbk
18.	ZINC	PT. Kapuas Prima Coal Tbk

Source: Data processed (2022)

Operational Definition and Variable Measurement

This study focuses on tax avoidance as the dependent variable. Tax avoidance pertains to the lawful approach of diminishing a corporation's tax liability by taking advantage of loopholes or ambiguities present in tax regulations. The effective tax rate, measured using a ratio scale is utilized as an indicator to quantify the level of tax avoidance.

$$\text{ETR} = \frac{\text{Current Tax Expense}}{\text{Earning Before Tax}}$$

Financial distress refers to a state in which a company encounters challenges or is incapable of fulfilling its obligations to creditors (Arnold & Lewis, 2019). The measurement of financial distress in this research involves the application of the Modified Altman Model, which was previously utilized by (Ahdiyah & Triyanto, 2021) and is represented as shown below.

$$\text{Z-Score} = 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4$$

X1 represents the working capital to total assets ratio, X2 is the ratio of retained earnings to total assets, X3 denotes the ratio of earnings before interest and taxes to total assets, and X4 indicates the ratio of book values of equity to total liabilities. The Z-Score value of a company can indicate the likelihood of bankruptcy. If a company's Z-Score is less than 1.10, it is classified as being in a state of financial distress, whereas those with Z-Score raging between 1.10 and 2.60 fall into the grey area and may have the potential to experience financial distress. Meanwhile, companies that have a Z-Score higher than 2.60 are deemed to be in good financial health.

Thin capitalization refers to a capital structure that favors the use of debt instead of equity, which is commonly referred to as being highly leveraged. The maximum allowable debt ratio, previously utilized by (Fasita et al., 2022) was adopted in this study as the gauge for thin capitalization.

$$\text{MAD Ratio} = \frac{\text{Average Interest Bearing Debt}}{\text{SHDA}}$$

$$\text{SHDA} = (\text{Average Total Assets} - \text{Average non-IBL}) * 80\%$$

In this study, the evaluation of corporate social responsibility disclosure was conducted by performing a content analysis of the social responsibility disclosures contained in the annual reports and/or sustainability reports of companies using the corporate social responsibility index featuring GRI G4 indicators. This methodology is consistent with the approach taken in a previous study by (Artini & Setiawan, 2021).

$$CSRI_i = \frac{\Sigma Xy_i}{n_i}$$

CSRI is and index used to measure company's level of corporate social responsibility. ΣXy indicates the total number of items disclosed by the company, while n refers to the expected number of items which comprises 91 indicators.

RESULT AND DISCUSSION

Descriptive Statistical Analysis

To analyze the data and provide a summary of the observed values, descriptive statistical analysis is used. This entails computing statistics such as the average, highest, lowest and standard deviation of the data set.

Table 2. Result of Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
ETR	54	.0305	.7315	.275061	.1194287
Z–Score	54	-.3117	15.9986	6.213548	4.0734271

TC	54	.0000	.8483	.294841	.2461753
CSRI	54	.0549	.6923	.322543	.1819309
Valid N (listwise)	54				

Source: The secondary data processed using SPSS 26 (2022)

The information from table 2 reveals that the minimum ETR value is 0.0305 (PT. Harum Energy Tbk 2020), while the maximum value is 0.7315 (PT. Adaro Energy Indonesia Tbk 2020). On average, the ETR value of 0.275061 (27.5%) is higher than the statutory tax rate of corporate income tax, which was 25% in 2019 and 22% in 2020-2021. This indicates that, in general, mining companies do not engage in tax avoidance practices.

The Z-Score value ranges from –0.3117 (PT. Astrindo Nusantara Infrastuktur Tbk 2020) to 15.9986 (PT. Harum Energy Tbk 2019), with mean value of 6.213548. this mean value exceeds 2.6, which suggests that, on average, the financial condition of the companies is healthy. The TC varies from a minimum of 0.0000 (PT. Harum Energy Tbk 2019) to a maximum of 0.8483 (PT. Astrindo Infrastruktur Tbk 2020). The CSRI ranges from 0.0549 (PT. Cita Mineral Investindo Tbk 2019, 2020) to 0.6293 (PT. Bukit Asam Tbk 2020), with a mean value of 0.322543. This suggests that mining companies' disclosure of their social responsibility remains relatively low. Notably, the standard deviation values of ETR, Z-Score, TC and CSRI are all smaller than their respective mean values. This could indicate that the data is homogeneous or that the variability is low.

Classical Assumption Test

1. Normality Test

Table 3. Result of Normality Test using 1-Sample K-S Test

	Unstandardized Residual
N	54
Asymp. Sig. (2-tailed)	.064[c]

Source: The secondary data processed using SPSS 26 (2022)

The results in table 3 indicate that the normality assumption of the regression model is satisfied as the asymptotic significance (two-tailed) value of 0.064 > 0.050, suggesting that the residuals have a normal distribution.

2. Multicollinearity Test

Table 4. Result of Multicollinearity Test

Model		Tolerance	VIF
1	(Constant)		
	Z–Score	.303	3.304
	TC	.284	3.526
	CSRI	.875	1.143
a. Dependent Variable: ETR			

Source: The secondary data processed using SPSS 26 (2022)

The data presented in table 4, which represents the multicollinearity test results, indicates that the regression model does not suffer from multicollinearity. This is supported by the fact that none of the independent variables exhibit a tolerance value of ≤ 0.1 or a VIF value of ≥ 10, which suggests that there is no notable correlation among the independent variables.

3. Heteroscedasticity Test

Table 5. Result of Heteroscedasticity Test using Park Test

Model		T	Sig.
1	(Constant)	-3.917	.000
	Z–Score	-1.152	.255
	TC	-.308	.760
	CSRI	1.397	.169
a. Dependent Variable: LnU2i			

Source: The secondary data processed using SPSS 26 (2022)

The park test, which involved regressing the logarithm of squared residuals agains the independent variable, found that none of the independent variables had a significant impact on the dependent variable, as shown by their significance values being > 0.050. Hence, it can be inferred that heteroscedasticity is absent in the regression model since the residuals have a uniform variance across all observations.

4. Autocorrelation Test

Table 6. Result of Autocorrelation Test using Runs Test

	Unstandardized Residual
Asymp. Sig. (2-tailed)	.169

Source: The secondary data processed using SPSS 26 (2022)

Based on the outcomes demonstrated in table 6, it can be inferred that there is no autocorrelation and the residuals are distributed randomly. This conclusion is drawn based on the fact that the asymptotic significance (two-tailed) value of 0.169 is higher than the significance level of 0.050.

Multiple Linear Regression Analysis and Hypothesis Testing

Table 7. Result of Multiple Linear Regression Analysis and Individual Significance Testing

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	.418	.087		4.826	.000
	Z–Score	-.019	.007	-.651	-2.843	.006
	TC	-.226	.115	-.465	-1.968	.055
	CSRI	.130	.088	.198	1.470	.148
a. Dependent Variable: ETR						

Source: The secondary data processed using SPSS 26 (2022)

According to table 6, the regression equation can be expressed as:

$$\mathbf{ETR = 0.418 - 0.019\ Z\text{-}Score - 0.226\ TC + 0.130\ CSRI}$$

The equation of regression and the outcomes of the significance test for individual parameters may be explicated in the following manner.

1. The constant of 0.418 can be interpreted as the baseline level of tax avoidance (ETR) if financial distress, thin capitalization, and corporate social responsibility disclosure do not have any impact.
2. The Z-Score's t-statistic value of 2.843 is greater than the t-table value of 2.00856, and its significance value of 0.006 is less than 0.050, signifying that financial distress has a significant impact on tax avoidance. The negative coefficient of –0.019 for the Z-Score suggests that as the Z-Score value declines, the ETR value increases, and vice versa. A lower Z-Score value implies a higher likelihood of the company is in avoiding taxes. The regression analysis reveals that when the Z-Score decreases (indicating higher financial distress), the ETR increases (indicating less tax avoidance by the company). Therefore, it can be concluded that financial distress has a negative and significant effect on tax avoidance.
3. Thin capitalization has a limited impact on tax avoidance, as indicated by a t-statistic value of 1.968, which is lower than the critical t-value of 2.00856, and significance level of 0.055, which is slightly above the customary threshold of 0.050. The negative coefficient of –0.226 suggests that the ETR decreases as the MAD ratio, a measure of a company's reliance on debt financing increases, and vice versa. Consequently, companies with higher MAD ratios tend to exhibit more aggressive tax avoidance behavior, reflected in lower ETR values. In other words, higher debt burdens create greater incentives to reduce the tax burden. Thus, it can be inferred that thin capitalization has an insignificant positive impact on tax avoidance.
4. Corporate social responsibility disclosure does not have a significant impact on tax avoidance, as evidenced by the t-statistic value of 1.470, which is lower than the critical t-value of 2.00856, and a significance level of 0.148, which exceeds the customary threshold of 0.050. The positive coefficient of. 0.130 implies that increasing CSRI leads to higher ETR, indicating less tax avoidance. Higher CSRI values correspond to greater disclosure of social responsibility, while higher ETR values suggest lower likelihood of tax avoidance. As such, it can be deduced that corporate social responsibility has a negative influence on tax avoidance; however, this effect fails to attain statistical significance.

Coefficient of Determination Test (R^2)

Table 8. Result of Coefficient of Determination Test (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.456[a]	.207	.160	.1094618
a. Predictors: (Constant), CSRI, Z–Score, TC				
b. Dependent Variable: ETR				

Source: The secondary data processed using SPSS 26 (2022)

Table 8 shows that the adjusted r –square value reveals financial distress, thin capitalization, and corporate social responsibility disclosure have a joint effect of explaining roughly 16% of the variation observed in tax avoidance data. The remaining 84% of the variation in tax avoidance data could be due to other factors beyond the scope of this research model. This implies that the current regression model is inadequate in fully capturing the variation in tax avoidance data, and there may be other underlying factors influencing it.

The Influence of Financial Distress on Tax Avoidance

This study failed to prove the positive influence of financial distress on tax avoidance, as empirical research results showed a significant negative impact. Based on descriptive statistical analysis, the average Z-Score of mining companies was far above 2.6, indicating a healthy financial performance of the companies. In this condition, companies may tend to be more aggressive in tax avoidance because they have more resources and ability to carry out more complex tax planning strategies. On the contrary, the more severe financial distress that companies face, the less likely they are to try to reduce their tax liabilities. In agency theory, agents are entrusted with the responsibility to make assessments and decisions within a company, but ultimately they are accountable to the principal. Therefore, agents should be careful about the consequences that may arise from every decision they make. Engaging in tax avoidance when the company is experiencing financial distress can be very risky. Such actions can damage the company's reputation and become a negative signal to stakeholders (Hasanah & Widiastuti, 2022). A damaged reputation can worsen the company's financial situation because it will be more difficult to obtain funding (Monika & Noviari, 2021). Another study (Mahardhika & Surjandari, 2022) found that companies experiencing financial distress tend to report higher taxes, indicating that in such situations, companies will try to avoid tax avoidance activities. This finding is consistent with a study (Jaffar et al., 2021) that shows a significant negative correlation between financial distress and tax avoidance.

The Influence of Thin Capitalization on Tax Avoidance

This study suggests that thin capitalization has a less significant impact on tax avoidance. The MAD ratio for mining companies, as revealed by descriptive statistical analysis, is below 1, which means that the companies do not use interest-bearing debt to reduce their tax liabilities through deducting interest expenses from taxable income. This can be explained by the trade-off theory, in which companies consider the potential risk of bankruptcy due to the use of debt in their capital structure. Companies that use too much debt in their capital structure may face financial distress and bankruptcy, which negatively affect their performance. This is supported by the finding in this study that the low MAD ratio has a correlation with the high Z-Score value. This means that the lower the financing using interest-bearing debt, the lower the risk of financial distress. Therefore, companies may tend to avoid thin capitalization or the use of too much debt to reduce the risk of bankruptcy and maintain financial health. This finding is consistent with previous research conducted by (Simamora & Sari, 2021), which indicates that thin capitalization does not have a significant impact on tax payments, as it must be balanced with the appropriate amount of company capital. Meanwhile, (Nainggolan & Sari, 2020) argued that the use of debt in Indonesia does not lead to thin capitalization practices aimed at reducing tax burdens. This study's findings are consistent with those of (Sianipar et al., 2020), which stated that thin capitalization has no significant impact on tax avoidance.

The Influence of Corporate Social Responsibility Disclosure on Tax Avoidance

An empirical study has shown that corporate social responsibility disclosure has no significant effect on tax avoidance. The insignificant effect of CSR disclosure may be due to the low level of social responsibility disclosure by companies. The average value of CSR disclosure by mining companies is 32%, which is less than half of the disclosure required by GRI G4. Mining companies are required to fulfill their social and environmental responsibilities as stipulated in regulations when conducting activities related to natural resources. Therefore, the purpose of CSR disclosure by companies is to fulfill their obligations in accordance with applicable regulations and does not substantially affect their decisions to avoid taxes (Wijaya & Mulya, 2020). (Dewi & Putri, 2021) argue that CSR disclosure cannot guarantee that companies are not involved in tax avoidance because the disclosed information may not reflect the actual conditions. This research is in line with a previous study (Pranata et al., 2021) which showed that CSR disclosure has a negative but insignificant impact on tax avoidance.

CONCLUSION

The main objective of this research is to present factual evidence on how financial distress, thin capitalization, and disclosure of corporate social responsibility affect tax avoidance among mining companies listed on the IDX from 2019 to 2021. Based on the findings and discussions, it can be concluded that financial distress has a significant negative impact on tax avoidance, while thin capitalization and CSR disclosure have no significant effect on tax avoidance. The mining companies sampled in this study tend to choose not to use too much interest-bearing debt in their capital structure to avoid bankruptcy risk and maintain financial health. This is evident from the low value of the MAD Ratio and the high value of the Z-Score. Companies that use too much debt are at risk of facing financial distress and bankruptcy, which negatively impacts their performance. Therefore, companies do not consider thin capitalization as a strategy to avoid taxes. However, when the company's financial performance is healthy, they may tend to be more aggressive in tax avoidance by implementing more complex tax planning strategies. Meanwhile, CSR disclosure has not had a significant influence on tax avoidance due to the low level of disclosure by companies.

The government needs to develop strict tax policies to address tax avoidance practices, especially by financially sound companies. Investors and the public also need to consider tax avoidance practices and the implementation of CSR disclosure by companies and the long-term implications that may affect their performance and reputation. The public can choose not to use products or services from companies suspected of engaging in tax avoidance or not meeting their CSR responsibilities. Meanwhile, companies need to consider financial factors that affect their tax policies and transparency in CSR disclosure to maintain long-term financial health and build a good reputation. This study has limitations with a high level of subjectivity in assessing the value of CSR disclosure. There may be a possibility of perception or impression bias that does not correspond to the actual reality since the assessment is based on assumptions from researchers analyzing CSR disclosure items in annual/sustainability reports. Furthermore, to enhance understanding of tax avoidance, future research may consider alternative indicators and additional variables outside those studied in this research, given the adjusted r-square value of only 16%. Additionally, this study could expand its scope to different objects during a longer research period.

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