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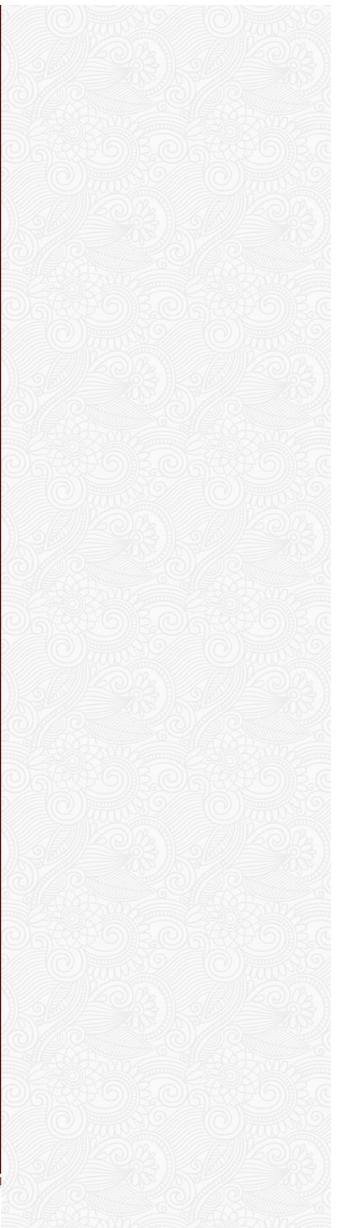
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Does Board Gender Diversity Moderate The Impact of Financial Distress on Tax Avoidance?

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ABSTRACT

This study aims to analyze the role of gender in moderating the effect of financial distress on tax avoidance in consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange (IDX). This study used a quantitative method with a secondary data approach obtained from the company's financial statements. 204 samples of companies in the primary consumption sector in 2019-2024 were analyzed using the panel data moderated regression method. The results showed that financial distress has a significant effect on tax avoidance. Companies that are struggling financially are often also more likely to avoid paying taxes. Gender has been shown to play a role in the connection between financial distress and tax avoidance. Having female directors can reduce the effect of financial distress on tax avoidance, as female directors tend to be risk averse. The implications of this study suggest that increasing the proportion of women in the board of directors can be one of the effective strategies in improving tax compliance and corporate financial transparency. Therefore, the government and relevant authorities may consider implementing policies that encourage gender diversity at the board of directors level. The novelty of this study is the use of gender as a moderating variable with the latest time period, offering valuable insights and contributing to the latest literature on gender, financial distress, and tax avoidance.

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1. INTRODUCTION

Tax avoidance is a tactic to lower corporate tax obligations without breaking the law, however this approach is frequently regarded as unethical since it can hurt state coffers. It is done by taking advantage of tax law loopholes that allow companies to pay lower taxes than they should. Indonesia loses IDR 44 trillion from corporate tax avoidance, and IDR 1 trillion from asset flight overseas ([The State of Tax Justice 2023, 2023](#)). As a prevention effort, the government issued Government Regulation No. 55 Year 2022 (PP No. 55 Year 2022) as a derivative regulation of the Harmonization of Tax Regulations Law (HPP Law) to prevent tax avoidance practices. In Article 32, it is stated that the Directorate General of Taxes is authorized to redetermine the amount of income, deduction, debt as capital, and when dividends are obtained, as well as recalculate the tax payable based on the Fairness and Usuality Principle (PKKU) for transactions affected by special relationships. This proves that tax avoidance practices are still widely practiced by taxpayers in Indonesia so that it is a concern for the government.

One of the factors that encourage companies to do tax avoidance is the existence of financial pressure or financial distress. Because businesses view taxes as a cost that can lower profits and cash flow, they want to reduce the tax burden to protect preserve their financial stability, which is why this pressure is growing stronger. In an attempt to keep their operations running smoothly, businesses that are having financial difficulties frequently search for methods to lower their tax obligations. According to [Alm et al. \(2019\)](#), businesses that are struggling financially are more prone to use tax avoidance as a tactic to keep cash on hand and satisfy internal funding requirements. [Ariff et al. \(2023\)](#) state that companies experiencing financial distress tend to utilize tax avoidance strategies as an effort to maintain business continuity and strengthen internal cash flow. Businesses experiencing financial distress are more prone to engage in tax avoidance actions in order to maintain cash flow and meet capital requirements ([Dang and Tran, 2021](#)). In making strategic decisions such as tax avoidance, companies tend to consider the benefits of reducing tax burdens and increasing cash flow compared to the risk of sanctions, audit costs, and reputational damage ([Aprillia and Purnomo, 2023](#)) that may arise. This condition is further strengthened when the company is experiencing financial distress, where management tries to take higher risks in tax policy as a step to maintain business continuity despite potentially increasing future risks ([Brubakken et al., 2020](#); [Chemmanur and Simonyan, 2010](#)).

Tax policy decision-making is impacted by internal elements like management traits, including gender, in addition to the company's financial situation. The impact of financial distress on tax avoidance can be mitigated by gender since the traits that men and women possess while making company decisions may influence the degree of risk-taking daring displayed by management. According to the Upper Echelons theory, individual traits like gender in upper management can have an impact on strategic choices, especially those pertaining to taxation ([Hambrick and Mason, 1984](#)). Managerial gender is one of the traits that affects decision-making. Assuming that management differences between men and women will impact tax policy decisions, this theory can be utilized to this study to investigate the role that gender plays in reducing the correlation between financial distress and tax avoidance. Female managers tend to have a more conservative, cautious, and low-risk-oriented attitude in making financial decisions, including in tax avoidance policies. Gender diversity in company management is seen as a factor that can influence decision making regarding tax policy. Women tend to have a more conservative attitude in taking risks such as reducing earning management activity in order to achieve financial stability ([Ahiase et al., 2024](#); [Karina et al., 2023](#)), including in decisions related to tax avoidance, so they are more careful in the company's tax strategy. In

addition, research shows that a significant shift in decision-making can occur when women occupy more than 30% of strategic positions in the organization, which can affect overall company policy, including in tax aspects (Bana and Ghozali, 2021; Lefley and Janeček, 2024).

Several studies indicate that the presence of women on the board of directors can moderate the relationship between financial distress and tax avoidance. Corporate tax avoidance activities will rise in proportion to the number of female directors, while they will fall in proportion to the number of female directors (Kalbuana et al., 2023). According to Agustini et al., (2023), the relationship between financial difficulty and tax aggression was not mitigated by the CEO gender variable. To further understand these dynamics, more research is necessary as the findings of studies on the role of gender in affecting the impact of financial crisis on tax avoidance continue to exhibit contradictions. These differences in results can be caused by variations in research methods, observation periods, or sample characteristics used, such as different industry sectors and company sizes. The novelty of this study is the use of gender as a moderating variable with the latest time period, offering valuable insights and contributing to the latest literature on gender, financial distress, and tax avoidance.

The goal of this study is to investigate the ways in which gender affects the connection between tax avoidance and financial distress in consumer non-cyclicals listed on the IDX from 2019 to 2023. Since companies that are struggling financially are more prone to evade paying taxes, the results of this study should assist the government in recommending ways to keep a closer eye on these companies. Given that women's involvement in decision-making may lower the likelihood of tax avoidance, this research is also anticipated to serve as a guide for businesses developing regulations pertaining to the gender distribution of the board of directors.

2. METHODS

Quantitative approach with a causal research design employed in this study. Initially, descriptive statistics will be employed to comprehend the features of the sample data. The panel data regression model that best fits the sample will then be identified through a model fit test. The classical assumption tests, such as the autocorrelation, heteroscedasticity, multicollinearity, and normality tests, will then be performed. Afterward, hypothesis testing will be conducted, namely the panel data moderation regression analysis test.

This research population consists of consumer non-cyclicals sector companies registered on the Indonesia Stock Exchange in 2019-2024 period. Businesses that meet society's basic necessities make up the consumer non-cyclicals sector, which is crucial to the country's economy (Nengse et al., 2023). These companies are listed on the Indonesia Stock Exchange (IDX) and operate in a highly competitive environment. Pressure to maintain profitability and meet shareholder expectations can encourage companies in this sector to engage in tax avoidance practices, especially when facing financial pressures such as rising production costs and market dynamics (Satria and Fernanda, 2022).

The research sample was selected based on several criteria:

1. Companies listed on the IDX in the consumer non-cyclicals sector in the 2019-2024 period.
2. Companies that publish complete annual financial reports regularly during the 2019-2024 period.
3. Companies that present financial statements that record deferred tax expenses.
4. The company presents its financial statements in Rupiah (IDR) for the period 2019-2024.

Tax avoidance is the dependent variable in this study. Tax avoidance is a legitimate strategy for lowering tax obligations that does not involve breaking any laws by attempting to reduce their tax obligations by exploiting regulatory gaps (Rhee et al., 2020). Book Tax Differences

(BTD) are used to quantify tax avoidance. The degree of correlation between tax benefits and accounting-based earnings is known as Book Tax Differences (BTD), and it might reveal details about the caliber of the business's operating income (Elishang et al., 2024). A large Book-tax difference (BTD) not only reflects the existence of earnings manipulation and tax avoidance simultaneously, but also increases the likelihood of companies facing intensive audits from tax authorities and auditors (Pang and Zhao, 2022; Ayers et al., 2010). Thus, BTD can be used as an early indicator to detect potential suspicious tax avoidance. BTD formula according to Hanlon (2005) is:

$$BTD = \text{Deffered Tax Expense} / \text{Total Assets}$$

Financial distress is used as an independent variable in this study. Financial distress occurs when a business lacks the resources to meet its financial obligations, which impedes operations and raises the possibility of bankruptcy (Fadhila and Andayani, 2022). In this study, financial distress was measured using the Altman Z-Score (Altman, 1968). The Z-Score formula is as follows:

$$Zscore = 1,2(X1) + 1,4(X2) + 3,3(X3) + 0,6(X4) + 1,0(X5)$$

Description:

X1 = Working Capital / Total Assets

X2 = Retained Earnings / Total Assets

X3 = EBIT / Total Assets

X4 = Market Value of Equity / Total Liabilities

X5 = Sales / Total Assets

A Z-Score below 1.81 puts the business at risk of going bankrupt. The business is in the gray area if its Z-Score falls between 1.81 and 2.99. The business is doing well if its Z-Score is higher than 2.99.

This study uses gender as a moderating variable measured using the ratio of female directors. The formula for measuring the ratio of female directors used in research Zhang et al. (2022), as follows:

$$\text{Female Directors} = \text{Number of Women in Board} / \text{Total Number of Directors on Board}$$

In this study, two hypotheses are tested:

- Hypothesis 1: Financial distress affects tax avoidance
- Hypothesis 2: Gender Diversity Mederates Financial Distress on Tax Avoidance

Research model stated as follows:

$$1. TA = \alpha + \beta_1 FD + \beta_2 GD + e$$

$$2. TA = \alpha + \beta_1 FD + \beta_2 GD + \beta_3 FD * GD + e$$

Description:

TA = Tax Avoidance

α = Constanta

β = Coeficient of Regression

FD = Financial Distress

GD = Gender Diversity

e = Error

3. RESULTS AND DISCUSSION

3.1 Descriptive Statistics

Table 1. Summary statistics of variables

<i>Variable</i>	<i>Mean</i>	<i>St.dev</i>	<i>Min</i>	<i>Max</i>
TA	0.021326	0.147034	0.00000444	2.068384
FD	4.670294	5.419888	-5.88	34.76
GD	0.1135	0.715677	0	0.60

Notes: TA, Tax Avoidance is Book Tax Differece (BTD); FD, Financial Distress is *Altman Z-Score*; GD, Gender Diversity is proportion of female directors compared to the total number of directors.

Table 2. Annual average of the variables

Tahun	BTD	FD	GD
2019	0.0066	5.6	13.50%
2020	0.0052	4.03	14.20%
2021	0.0083	4.89	15%
2022	0.0114	4.28	15.60%
2023	0.0755	5.15	14.80%
2024	0.0237	4.27	29.47%

Based on the results of annual average in **table 2** and descriptive statistics in **table 1**, it is known that tax avoidance practices increased year on year between 2019 and 2023, although there was a decline in 2024. The average value of *Book Tax Differences* continues to increase, which indicates that companies in the consumer non-cyclicals sector are increasingly aggressive in conducting tax avoidance. In light of potential economic challenges, this increase would suggest that businesses are generally beginning to search for different ways to lower their tax obligations.

Accordingly, the Altman Z-Score, which measures a company's financial health, has actually declined on average over the past few years, indicating that an increasing number of businesses are in poor financial health or are on the verge of going bankrupt (financial distress). Given that financial strains can lead to efficiency measures, including in tax liabilities, this circumstance is one of the reasons why businesses engage in tax avoidance as a survival tactic. In contrast, the descriptive results indicate that the proportion of female directors on the board of directors remains low and does not exhibit a steady upward trend. The percentage of women directors was remained low in 2023 and did not exhibit a steady upward trend, despite a minor gain from 2019 to 2022.

The observation of each company shows that the variation in *gender diversity* is quite diverse, there are companies that have experienced an increase in women's representation, but also not a few that have experienced a decrease or even have no female directors at all for five consecutive years. This indicates that in general, the involvement of women in strategic positions in this sector is still not a top priority for most companies.

3.2 Hypothesis Test

We present **Table 3** to show that there is no relationship between the independent variables, and that there is no heteroscedasticity or autocorrelation.

Table 3. Pearson correlations for independent variables

		1	2	Prob ^a
1	FD	1.000		0.6152
2	GD	-0.0489***	1.000	0.0919

Notes: *** indicate significance 0.01 level; Prob^a is the result of the Glejser test at the 0.05 level; Jarque-Bera Probability is 0.1130, with Durbin-Watson stat 1,8987 (DU = 1,7785).

Table 4 shows that the F-statistic probability values for the two models are 0.012 and 0.0002 respectively. This indicates that the models in this study are appropriate for predicting tax avoidance based on financial distress, with gender moderating the effect.

Table 4. Hypothesis testing

Variable	Model 1 ^a	Model 2 ^b
Const	-5.4852 (0.0000)***	-5.8924 (0.0000)***
FD	-0.0647 (0.0125)**	-0.1481 (0.0934)*
GD		0.1849 (0.6999)
FD*GD		0.2170 (0.0129)**
Adj. R ²	0.0260	0.2287
F Test	6.6244	2.0748
F Sig	0.0120	0.0002
Observation	204	204

Notes: the dependent variable is tax avoidance; ^a is for Random Effect Model and ^b is for Fixed Effect Model; *, **, *** indicate significance at the 0.10, 0.05 and 0.01 level, respectively.

With a t-statistic probability value of 0.0125, the partial regression test (t test) findings for the financial hardship variable demonstrate that the probability value is less than the significance level of 0.05. As a result, H1 is approved, and it can be said that tax avoidance is significantly impacted by financial hardship. In other words, a company's likelihood of engaging in tax avoidance increases with the degree of financial crisis it experiences.

These findings are consistent with studies by [Ha et al., \(2017\)](#); [Sadjiarto et al., \(2020\)](#), which demonstrate that businesses experiencing financial difficulties frequently boost their tax avoidance efforts as a tactic to preserve liquidity and stability. In financial distress, management faces pressure to improve cash flow efficiency in order to meet the company's financial and operational obligations. One strategy that can be used is to minimize tax payments through tax avoidance schemes that are still within legal limits ([Edwards et al., 2016](#); [Richardson et al., 2015](#)), because companies try to maintain liquidity in conditions of financial stress ([Kamayanti et al., 2023](#); [Sadjiarto et al., 2020](#)). Thus, financial distress encourages companies to conduct tax avoidance as a short-term strategy to avoid bankruptcy.

The disagreement of interest between shareholders (the principal) and management (the agent) can be used to describe this relationship from the standpoint of agency theory. According to this theory, management has a tendency to act in accordance with its own interests, especially in situations of high financial pressure. According to [Jensen and Meckling \(1976\)](#), managers are motivated to take measures that can boost the company's short-term profitability during times of financial difficulty, particularly by using tax avoidance techniques.

Thus, from an agency theory perspective, tax avoidance is a way for management to fulfill their personal interests (Kalbuana et al., 2023), but the method used eliminates transparency to stakeholders, which in the long run leads to a loss of company reputation (Wang et al., 2020).

When a business fails to pay its debts on time, it is said to be in financial distress. If this is not addressed right once, it may result in bankruptcy or liquidation (Binesh et al., 2024). This condition generally occurs when the company's cash flow is insufficient to cover operational expenses and debt payments, thus threatening business continuity. Tax avoidance is a legitimate strategy that does not contravene tax laws that aims to decrease business tax payments by exploiting regulatory gaps (Jarboui et al., 2020; Khairunnisa et al., 2023). This practice is done to increase the company's net income and shareholder value, but is often in a gray area that creates an ethical dilemma (Hanlon and Heitzman, 2010).

In conditions of financial distress, shareholders often demand management to improve operational efficiency and maintain profits, which can encourage more aggressive decision making in managing corporate taxes. So that, businesses under a lot of financial strain are more likely to take chances with their tax plans than businesses with more solid financial circumstances (Alm et al., 2019; Dewi and Basyir, 2024; Kamayanti et al., 2023). Although tax avoidance can provide short-term benefits, excessive tax avoidance practices can have negative consequences, such as potential tax penalties, increased scrutiny from regulators, and adverse impacts on company value in the eyes of investors.

Given that financial strain can influence tax avoidance and is influenced by gender. The results of the t regression test indicate that gender diversity and financial distress interact, with a likelihood value of 0.0129, which is less than 0.05. This indicates that gender diversity moderates the relationship between financial distress and tax avoidance. In addition, the regression model in **table 4** shows an increase in Adjusted R-squared from 2.60% (model 1) to 22.87% (model 2), which indicates that the model with moderating variables is better able to explain the variability in tax avoidance than the model before moderation. The favorable correlation between financial difficulties and tax avoidance is weakened when there are female directors. In other words, businesses with a higher percentage of female directors are less likely to participate in tax avoidance during times of severe financial distress than businesses with a lower gender diversity. Therefore, H2 in this study is accepted.

This finding is supported by research by Bzeouich et al., (2019); Rakia et al., (2024) who found businesses with a higher percentage of female directors typically had lower levels of tax avoidance. This results from women's contributions to improving corporate governance and supervision, which makes management more cautious when making strategic choices pertaining to taxation (Barbera et al., 2020; Khaoula and Ali, 2012). Companies may be less inclined to use aggressive tax avoidance tactics if female directors are more likely to promote more moral corporate practices (Riguen et al., 2020).

The results of this study can be attributed to the upper echelons theory, proposed by Hambrick and Mason (1984), where this theory states that the characteristics of individuals in the managerial level and the board of directors such as experience, educational background, and gender diversity can influence strategic decision making in the company. This study suggests that leadership qualities may affect how much a company employs tax avoidance strategies, since the number of female directors on the board of directors moderates the association between financial distress and tax avoidance. Tax avoidance is lower in businesses with a larger percentage of women in management (Budiana and Kusuma, 2022; Jiang et al., 2021). This suggests that company tax policy may be impacted by gender diversity, particularly in key roles like the board of directors. Additionally, prior studies have demonstrated that

gender is a moderating factor that adversely affects tax avoidance behaviors (Hooy and Phua, 2024; Yanti, 2025).

The presence of women on boards can bring different perspectives to decision-making, including in aspects of financial transparency and tax compliance. Women in managerial positions tend to have a more conservative, cautious, and low-risk-oriented attitude in making financial decisions, including in tax avoidance policies (Croson and Gneezy, 2009; Dakhli, 2022; Alm et al., 2019; Rakia et al., 2024) and more likely than men to follow the law and adhere to ethical standards (Sukendar et al., 2022; Vacca et al., 2020). Companies with higher gender diversity in the leadership ranks are more likely to comply with financial regulations compared to companies dominated by male directors (Davis and Garcia-Cestona, 2023; Richardson et al., 2016).

3.3 Robustness Test

In order to avoid endogeneity problems, robustness tests were performed in this research. In the first model, the FD (Financial Distress) variable has a probability value of 0.0125 (significant at the 0.05 level); in the second model, the FD variable has a probability value of 0.0934 (significant at the 0.10 level); and the moderation variable has a probability value of 0.0129 (significant at the 0.05 level). The results of panel data regression testing that has been conducted are in agreement with the results of the robustness test. As a result, it can be said that this study's findings are appropriate and free of endogeneity issues.

Table 5. Robustness test

<i>Variable</i>	<i>Model 1^a</i>	<i>Model 2^b</i>
Const	-5.5013 (0.0000)***	-5.0228 (0.0000)***
FD	-0.0640 (0.0011)***	-0.1612 (0.0000)***
GD		-0.8386 (0.0123)**
FD*GD		0.1391 (0.0111)**

4. CONCLUSION

For the 2019–2024 timeframe, this study looks at how gender influences the relationship between financial difficulty and tax avoidance in consumer non-cyclicals sector enterprises listed on the Indonesia Stock Exchange (IDX). The results of the analysis show that financial distress has a significant effect on tax avoidance, where companies with high financial pressure tend to practice tax avoidance as a strategy to maintain liquidity and financial stability. Agency theory, which argues that managers in financial distress have an incentive to take short-term activities, such as tax dodging, in order to pay financial obligations and preserve investor trust, is consistent with this conclusion. Furthermore, this study shows that a key moderator is the presence of gender diversity on the board of directors. The positive correlation between financial difficulties and tax avoidance can be weakened by a higher percentage of female directors, indicating that women are typically more conservative and focused on following the law when making tax decisions. The upper echelons theory, which contends that personal traits like gender affect the process of making strategic decisions, lends credence to this. The

robustness test results also confirm the resilience of the research model to outliers and heteroscedasticity, strengthening the validity of these findings.

These findings suggest that one way for businesses to improve their governance and lessen aggressive tax dodging practices is to increase the number of women on the board of directors. From a practical perspective, corporate management should consider diversity in leadership as part of a sustainable governance strategy. The findings of this study also have ramifications for policymakers and regulators. The government and relevant authorities can consider implementing policies to encourage gender diversity at the board of directors level, such as regulations that set a minimum quota for women's presence on the board. With this policy, it is expected that companies can be more optimal in carrying out good governance and complying with tax regulations with more discipline.

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