

ABSTRACT

This study aims to examine the effect of financial distress and transfer pricing on tax avoidance, and the effect of tax avoidance on tax risk. The study tested whether tax avoidance is a variable that mediates the effect of financial distress and transfer pricing on tax risk.

This study used a sample of 590 data on manufacturing companies listed on the Indonesia Stock Exchange (IDX) consecutively from 2019 to 2023. The research data was processed and analyzed using Structural Equation Modeling (SEM) with the smartPLS 3.0 application.

The results of the study showed that financial distress had a significant positif effect on task risk, while transfer pricing did not have a significant effect on tax risk. This study also examined the effect of financial distress and transfer pricing on tax avoidance, and the effect of tax avoidance on the tax risk. The results showed that the financial distress and transfer pricing had a significant positif effect on task avoidance, and the tax avoidance had a significant positif effect on the tax risk. The results prove that tax avoidance mediates and strengthens the effect of financial distress and transfer pricing on the tax risk. Theoretically, this study contributes to the understanding of how financial distress and transfer pricing will be stronger if done through tax avoidance. Even transfer pricing has no significant effect on tax risk, and only has a significant effect if done through tax avoidance.

Keywords : financial distress, transfer pricing, tax risk, and tax avoidance.