ABSTRACT

This study examines the effect of Tax avoidance on financial performance and firm risk, and tests tax risk as a moderating variable in both relationships. The issue is relevant given Indonesia's declining tax ratio and fluctuating corporate income tax revenue, while prior studies remain inconsistent and generally test financial performance and firm risk separately. Using a quantitative approach, this study analyzes panel data of industrial and property and real estate firms listed on the Indonesia Stock Exchange for 2021–2025, selected through purposive sampling. Tax avoidance is proxied by the Cash Effective Tax Rate (CETR), financial performance by ROA and ROE, firm risk by ROA volatility, and tax risk by CASH ETR volatility, with firm size, leverage, and sales growth as control variables. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4. The results show that Tax avoidance has a significant effect on financial performance and significant negarive on firm risk. Tax risk significantly moderates the relationship between Tax avoidance and financial performance by weakening its negative effect, but does not moderate the relationship between Tax avoidance and firm risk. These findings support agency theory and trade-off theory, confirming that tax savings do not always outweigh the compliance costs, transaction complexity, and tax uncertainty they generate.

Keywords: *Tax avoidance*; *financial performance; firm risk; tax risk*; PLS-SEM

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