Political Costs, Monitoring Mechanisms, and Tax Avoidance: Case of the Hospitality Industry

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ABSTRACT

This study aimed to examine the causes of tax avoidance in the hospitality sub-sectors based on political costs and monitoring mechanisms. Data were collected from the Indonesia Stock Exchange for the 2014-2021 reporting period, resulting in 168 firm-year observations. Nine hypotheses were tested using variant-based SEM with Partial Least Square. The results showed that political costs, monitoring mechanisms, financing decisions, and financial distress influenced tax avoidance choices in stable conditions. Different results were found during the pandemic, only political costs and financial distress affected tax avoidance. These findings could help stakeholders in decision-making by understanding the indicators of their tendencies. Mediating effects tests found no intervention function in this relationship. The implications in practice regarding the antecedents of tax avoidance in stable or unstable conditions as signals for stakeholders to assess the company's prospects in any situation. As a government, these signals can be used to create a society's interest protector.

Keywords: financing decision, financial distress, monitoring mechanism, political cost, tax avoidance

INTRODUCTION

Tax is government funding sourced from taxpayers' contributions to the state without direct reciprocity. The tax revenues are used for financing to increase people's prosperity (Hasan et al., 2017). From a company's perspective, tax is an expense that reduces net income, driving companies to prefer to remit minimum tax payments. There are efforts for tax avoidance to minimize the expenses charged by the companies and their stakeholder (Matanky-Becker & Cockbain, 2021).

Unlike tax evasion, tax avoidance does not violate the regulations by utilizing loopholes (Wang et al., 2020). Companies widely use tax avoidance to maximize after-tax income. Managers strive to minimize tax expenses without violating laws and regulations (Oats & Tuck, 2019; Wang et al., 2020). The urge to avoid tax increases when the companies experience an unhealthy financial condition. Companies in financial distress risk being aggressive in tax avoidance practices for business continuity (Dang & Tran, 2021). Due to the disruption, the companies' declining financial condition affected tax payments (Kagias et al., 2021; Korže & Škabar, 2021).

One of the sectors that experienced a heavy impact was the hospitality industry. The COVID-19 pandemic had directly affected the performance of the hospitality industry (Crespí-Cladera et al., 2021). Most business activities slowed down, reducing the need for hotels to support accommodation. Several companies closed operations and reduced and rearranged work schedules, decreasing hospitality revenue. Figure 1 shows the extraordinary impact of the pandemic on the Indonesian hospitality industry. From March 2020 to January 2022, there have been quite significant fluctuations in occupancy rate, with the lowest figure in April at 12.7% and the highest in December 2021 at 53.3%.
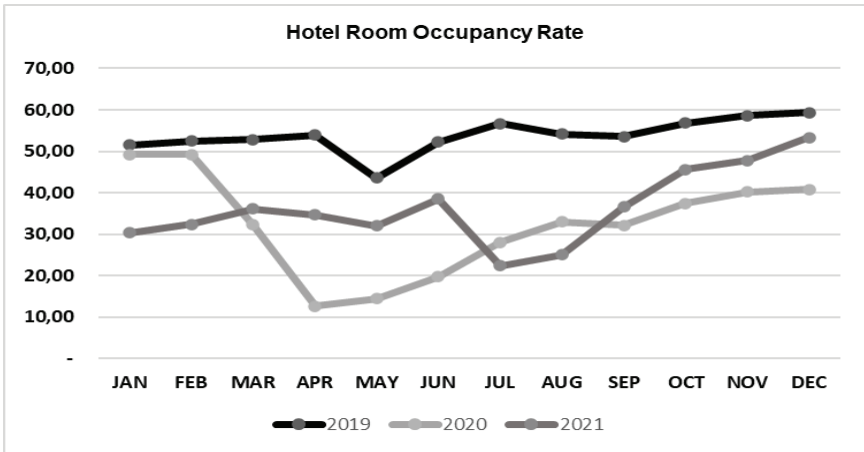
Figure 1: Room Occupancy Rate
(Source: Central Bureau of Statistics (BPS), 2022)

The COVID-19 pandemic has significantly impacted companies' operations by creating market changes. These changes have caused financial distress, which no longer results from political costs, monitoring mechanisms, and financing decisions. Pressure on the hospitality industry is reflected in cancellations and a decrease in bookings due to social restrictions and public reluctance to travel. Consequently, the hospitality industry's revenue has decreased by 40%, threatening its business continuity. Under normal conditions, companies with different political costs face other possibilities of financial distress.

Companies experiencing financial difficulties have few options to stabilize their finances, forcing the management to seek higher net income. Therefore, they consider the tax avoidance strategy to realize higher net income. Maintaining tax avoidance may also increase uncertainty with regard to future tax obligations (Wang et al., 2020).

The choice of company policy is influenced by the conditions described in the Agency Theory and the Political Cost Hypothesis. From the perspective of the Agency Theory, the principal and agent relationship explain a contract to manage the principal's resources. The agent stops acting based on the principal's interests. It requires a cost-monitoring mechanism to align the interests of both parties. The costs for reducing agency conflicts with monitoring activities are conceptualized as a monitoring mechanism (Idris

et al., 2018). It also aligns with the political cost hypothesis, which predicts that firms respond to environmental pressures (Watts & Zimmerman, 1990). The management is selected to secure the companies by selecting specific accounting policies according to the political costs they face.Political cost could determine company policies (Angulo Amaya et al., 2020; Belz et al., 2019; Fazio et al., 2022; Xiong et al., 2020). Companies with high political costs select accounting policies opportunistically to reduce taxable income.

Political costs and monitoring mechanisms will have an impact on a company's financial condition. Both have the possibility of influencing crucial financial decisions. These decisions are directly related to the companies' operational activities, such as capital structure. Debt contains a trade-off as a funding source and increases the risk of financial distress due to interest expenses (Ashraf et al., 2021; Ben-Nasr et al., 2021). Debt is very sensitive to changes in the company's image. As a leverage tool, the proportion of debt shows effective management of existing funding. From another perspective, debt also provides the possibility that the company is in a default condition because it is unable to pay off their debts

This research examined the factors that cause tax avoidance using monitoring mechanisms and political costs. The novelty is that it analyzes the possibility of financial distress and financing decisions as mediating variables and provides a comparison before and after the COVID-19 pandemic. Understanding the impact of independent variables on tax avoidance can help stakeholders reduce the potential for this phenomenon.

LITERATURE REVIEW

The Pecking Order Theory explains the companies' internal or external funding sources or the issuance of new equity. Companies generally use internal funds from retained earnings, while debt is the first choice when external funds are needed (Amendola et al., 2021; Dao & Ta, 2020). Debt is the first consideration because it minimizes agency costs and does not reduce the share ownership for old shareholders.

Determining the funding source creates a dilemma between the agent and the principal. Debt issuances often signal an undervalued stock, while

equity issuance implies a negative signal that the stock is overvalued. The negative signal means the company is seeking funds to dilute the stock. Issuance of shares is the last choice of external fund sources because it is costly and a bad signal from investors' perspectives (Ashraf et al., 2021; Ben-Nasr et al., 2021).

Political costs and monitoring mechanisms influence financing decisions. Political costs are related to the company's response to public oversight and monitoring mechanisms related to policies that protect the interests of shareholders. The Political Cost Hypothesis uses a political dimension to the accounting policy choice made by management. Accounting procedures vary because companies are free to select a technique that minimizes contract costs and maximizes value. Subsequently, the flexibility of the various accounting options and methods creates opportunistic action such as tax avoidance. The monitoring mechanism minimizes agents' opportunistic actions that reduce the principal's welfare. An effective monitoring function improves the companies' control and contributes to goal achievement by the directors.

Hypothesis Development

Companies with high political costs are conservative because they are in the public and government spotlight. High political cost indicates that the companies become close to political attention from external parties. Therefore, companies present less excessive net income to reduce supervision by the government regarding its social responsibility to the community (Wang et al., 2020). Disclosure of understated earnings encourages management to choose policies that do not have a negative impact on the company (Angulo Amaya et al., 2020; Belz et al., 2019). Political costs can describe a company's ability to make timely tax payments.

According to Watts and Zimmerman, firm size contain the concept of the political cost. Large corporations face the political actions of governments, markets, and the social environment. The cost prepared to answer these questions is conceptualized as political cost. Previous studies viewed firm size as a variable and discussed its effect on other variables (Darsani & Sukartha, 2021; Mahmood et al., 2019). The Political Cost Hypothesis explains that large net income is more at the center of market

attention. Therefore, managers could lower their earnings to reduce the taxes collected by the government. When the change in legislation stipulates lower tax rates in the future, the companies must play their net income to save taxes and delay the recognition of income in the last year (Angulo Amaya et al., 2020; Belz et al., 2019; Fazio et al., 2022; Kasasbeh, 2021; Kustono & Effendi, 2016). Companies engineer net income declines to minimize political costs. This strategy implies that higher political cost makes the companies use certain accounting choices that reduce tax payment.

H1: *Political costs affect financial distress.*
H2: *Political costs affect financing decisions.*
H3: *Political costs affect tax avoidance.*

The parties involved in the company's agency relationship seek to maximize their utility. It triggers a conflict of interest between the principal and the agent because each party tries to maximize its interests. The owner wants to achieve ever-increasing profitability, while management optimizes to fulfill needs through compensation contracts.

Companies with high monitoring mechanisms are consistent with the directors' performance in the shareholders' interests (Liu & Tian, 2021). Monitoring cost is incurred when supervising the managers' actions and decisions to act in the principal's interests (Liu & Tian, 2021). A monitoring mechanism could optimize the performance of managers and companies and avoid financial distress. A more functional mechanism for financial policies or using funds minimizes the possibility of financial distress in the companies.

The monitoring mechanism has a vital and strategic role in maintaining the financial reports' credibility (Alhadi et al., 2018; Ben-Nasr et al., 2021; Bruynseels & Cardinaels, 2014; Kazemian et al., 2017; Kustono, 2021). Such credibility aims to preserve the creation of a supervisory system and provide the board of directors input in making decisions that support good corporate governance. Although tax avoidance does not violate laws and regulations, it allows for potential disputes between the companies and the tax authorities. Therefore, monitoring mechanisms could minimize tax avoidance practices.

H4: Monitoring mechanism affects financial distress.
H5: Political costs affect financing decisions.
H6: Monitoring mechanism affects tax avoidance.

The capital structure relates to the companies' sustainability to minimize financial distress due to the additional cash received and the capital cost (Bajramovi, 2017). Companies may experience difficulties paying off higher debt. When this condition lasts long, the leverage ratio increases, and the companies experience financial distress.

Tax avoidance is indicated by the companies' funding policies, which include the debt policy. This policy implies the company's debt level to finance its operating activities. The increase in debt results in higher interest expenses (Adegbite & Bojuwon, 2019; Crespí-Cladera et al., 2021; Dang & Tran, 2021; Dirman, 2020; Shevlin et al., 2020). The interest expense incurred on the debt is a deduction from the company's net income. Companies that rely on debt rather than equity financing have a lower effective tax rate. Therefore, tax avoidance involves shifting tax payment funds to pay debt and finance other companies' activities.

H7: Financing decisions affect financial distress.
H8: Financing decisions affect tax avoidance.

Companies experiencing financial difficulties face increasing capital costs, reduced access to external fund sources, and lower credit ratings, causing management to take more risks. Such companies try to minimize all expenses and maintain their community image.

Tax avoidance is influenced by several factors, including financial distress caused by a decline in the companies' economic activity (Dang & Tran, 2021; Darsani & Sukartha, 2021; Hasan et al., 2017; Oats & Tuck, 2019; Tilehnouei et al., 2018; Wang et al., 2020). Companies experiencing financial difficulties take higher risks and become tax aggressive. Financial distress increases the risk of bankruptcy, forcing companies to avoid taxes for survival. The companies rule out the possibility of a negative reputation for avoiding taxes (Gallemore et al., 2014).

H9: Financial distress affects tax avoidance.

Conceptual Framework

The conceptual framework in Figure 2 shows a causal relationship between political cost, monitoring mechanism, and financing decisions on tax avoidance variables.
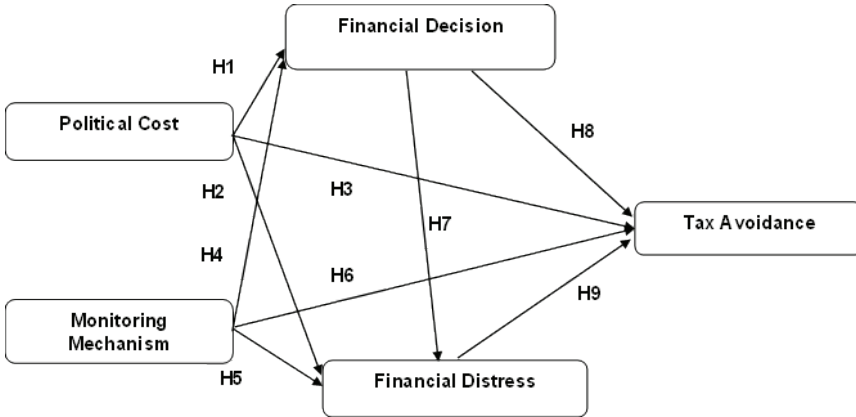

Figure 2: Conceptual Framework

METHODOLOGY

The study population comprised all service companies in the hospitality sub-sector. The samples were selected using purposive sampling with the following conditions: the companies are listed on the IDX until 2021 and publish financial statements and annual reports from 2014 to 2021.

The operational definition explains the variables studied and their measurement indicators. This study used three variables including:

Tax avoidance (TA) was measured using the effective tax rate (ETR), which measures the impact of changes in tax policy on the companies' tax expenses. ETR was used because it comes from income taxes and other expenses charged to the companies. The smaller the ratio indicates that the object is practicing tax avoidance.

TA = Tax Expense/Earnings Before Income Tax   (1)

Financing decision (FINDEC) considered the source of funds used for operational activities. The formula used for financing decisions was equity debt.

$$FINDEC = Debt/Equity \tag{2}$$

Financial Distress (FINDIS). The Altman Z score was used to measure a company's financial distress. The Formula Z score was as follows:

$$FINDIS = 0{,}717 \ WC/TA + 0{,}847 \ RE/TA + 3{,}107 \ EBIT/TA + 0{,}42 \ MVE/BVD + 0{,}998 \ S/TA \tag{3}$$

Where:

WC/TA   = Working capital/total assets
RE/TA   = Retained Earning/total assets
EBIT/TA   = Earnings Before Interest and Taxes/total assets
MVE/BVD   = market value of equity/book value of debt
S/TA   = sales/total assets

Political cost (POLC) was measured using the total assets owned. This measurement is based on Watts and Zimmerman (1990). Large corporations face the political actions of governments, markets, and the social environment. Therefore, the higher the company's total assets, which shows the greater size of the company, the more elevated the political cost (Belz et al., 2019).

$$POLC = \sum Asset \tag{4}$$

The monitoring mechanism (MONMEC) used a proxy for the number of independent commissioners comprising external supervisors. Independent commissioners could increase transparency and contribute to good corporate governance.

$$MONMEC = \sum Independent \ Commissionaires \tag{5}$$

Data Analysis

Hypotheses were tested by variance-based structural equation modeling (SEM) using SmartPLS 4 software. SEM is a multivariate analysis technique that assesses many relationships simultaneously to provide statistical efficiency. Hypotheses were tested using statistical values, with a t-value of 1.96 for alpha 5%. Ha is accepted when the t-statistic > 1.96

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive statistics analysis describes each study variable's mean, maximum, and minimum values. The analysis was conducted for all data without being grouped before and during the pandemic. Data were collected on 21 hospitality sub-sectors companies that met the sample criteria from 2014 to 2021.

Table 1: Descriptive Results

	Minimum	Maximum	Mean	Std. Deviation
Monitoring Mechanism	0.00	3.00	1.45	0.59
Political Cost	24.58	31.01	28.47	1.40
Financing Decision	-39.93	38.80	0.71	5.57
Financial Distress	-0.38	1673.03	38.03	197.31
Tax Avoidance	0.18	0.76	0.25	0.12

Source: Processed Data, 2023

The statistical results in Table 1 showed the minimum and maximum values of the monitoring mechanism were 0 and 3.0, respectively. Moreover, the cost monitoring data had a small variance, indicating that the data was well distributed. The political cost data showed a good distribution, with a mean value of 28.47 and a standard deviation of 1.40. The data were relatively clustered and close to the mean. Furthermore, financing decisions hada minimum and maximum values of -39.928 and 38.797. It indicated the data had a high variance and were not good, meaning that each company's financing decisions differed. Descriptive statistics on tax avoidance showed that the data were distributed relatively well.

The measurement model implies that the unobserved variables defining the same latent variable should have a relatively high correlation. This study used observed variables so that the variables used in this study use direct measurement in one proxy.

Hypothesis Tests

The first stage of hypothesis testing was performed under normal market conditions before the pandemic. The goal was to examine the relationship between each variable in stable and predictable conditions.

Table 2: Hypothesis Testing

	Pre-Pandemic			During Pandemic		
	Original Sample	T-Statistics	P-Values	Original Sample	T-Statistics	P-Values
FINDIS → TA	0.266	2.677	0.008**	0.262	2.375	0.018*
FINDEC → FINDIS	0.112	3.515	0.000**	0.040	1.108	0.269
FINDEC → TA	-0.175	2.516	0.012**	-0.123	1.355	0.176
MONMEC → FINDIS	-0.157	2.242	0.025**	0.135	1.532	0.126
MONMEC → FINDEC	-0.112	1.049	0.295	-0.022	0.114	0.909
MONMEC → TA	-0.081	1.181	0.238	-0.082	0.873	0.383
POLC → FINDIS	-0.243	2.413	0.016**	-0.266	1.858	0.064
POLC → FINDEC	-0.044	0.755	0.450	-0.029	0.752	0.453
POLC → TA	-0.243	3.908	0.000**	-0.307	3.837	0.000**

Note: * $p<0.05$, ** $p < .001$
Source: Processed Data, 2023

The test results in Table 2 showed that the political costs affected financial distress (-0.243; 0.016) and tax avoidance (-0.243; 0.000). Financing decisions didnot relate to political costs (-0.044; 0.450). These findings meant that the first hypothesis was rejected, while the second and third were accepted. Table 2 shows that a monitoring mechanism reduces the possibility of financial distress (-0.157; 0.025). The fifth hypothesis that the monitoring mechanism affects financial distress was accepted. Moreover, the monitoring mechanism failed to show changes in financing decisions (-0.112; 0.295) and tax avoidance (-0.081; 0.238). Therefore, the fourth and sixth hypotheses were rejected. Financing decisions affected the possibility of the companies' financial distress (0.112; 0.000). The debt-to-equity ratio increased the probability of financial distress within companies, supporting the seventh hypothesis. Similarly, the funding policy influenced the management's choice of tax avoidance (0.175; 0.012), supporting the

eighth hypothesis. The companies' financial distress was considered by management to practice tax avoidance (0.266; 0.008). Deteriorating financial conditions increased the possibility of selecting tax avoidance as a savings strategy, supporting the ninth hypothesis.

Comparative Analysis

Comparative analysis before and during the COVID-19 pandemic was conducted to determine each antecedent variable's influence on the dependent variable in stable and unstable conditions. Hypotheses were tested using 42 firm-years data for 2020-2021 during the pandemic.

Table 2 indicates the differences in hypothesis testing compared to before the pandemic. The third and ninth hypotheses that political cost and financial distress promoted tax avoidance during the pandemic were accepted (-0.307; 0.000) and (0.262; 0.018), respectively. The third hypothesis was accepted that political cost affects management's decision to practice tax avoidance. A higher political cost reduces the possibility of tax avoidance. However, political cost dids not affect the companies' financing decisions and financial distress. It meant that the first and second hypotheses were rejected. The monitoring mechanism variable did not influence financing decisions, financial distress, and tax avoidance. The P-values of each path exceed the standard value of 0.05, indicating that the fourth, fifth, and sixth hypotheses were rejected. Financing decision did not affect the financial distress and tax avoidance, showing that the seventh and eighth hypotheses were rejected. Financial distress positively affects the possibility of tax avoidance, with a p-value of 0.000. Therefore, higher financial distress motivates management to practice tax avoidance.

Intervening Variable Analysis

The financing decisions variable was analyzed as an intervening variable in typical situations before the pandemic. The results indicated that financial distress was the intervening variable in the effect of political cost, monitoring mechanisms, and financing decisions on tax avoidance choices. The financing decision was not a mediatorbecause it was not directly related to the political costs and monitoring mechanism. Table 3 shows the testing result of the indirect effect on three possible relationships.

Table 3: Mediating Effect Testing

Mediating effect	P Values (PLS)	P Values (Sobel Test)
Political cost → Financial distress → Tax avoidance	0.059	1.792
Monitoring mechanism → Financial distress →Ta x avoidance	0.119	0.644
Financing decision → Financial distress → Tax avoidance	0.053	0.310

Source: Processed Data, 2023

As shown in Table 3 financial distress did not mediate between independent and dependent variables. It was indicated by the p-values for each variable >0.05, meaning no variable was mediated by financial distress. Political costs, monitoring mechanisms, and financing decisions directly affected tax avoidance.

Indirect effect testing showed a path that closes the significance of 0.05. Financial distress was close to the possibility as an intervening variable. The other tests were conducted to confirm and obtain robust results. We also provide the Sobel test result for robust and consistent mediation effect results. The Sobel test was performed using the Calculator for the Sobel Test developed by Soper (2002). Table 3 (Sobel Test) showed that financial distress did not mediate between the independent and dependent variables.

Discussion

Political costs relates to the companies' environment, where strategic companies with high net income and low competition face high political costs. Companies have a lower probability of bankruptcy and do not expect shareholders to receive financial distress signals. In line with this, companies with political costs face a greater risk of a negative response from the market (Belz et al., 2019; Fazio et al., 2022; Kasasbeh, 2021). The political costs reflect stakeholders' expectations and trust. Companies with high political costs avoid default risk by obtaining emergency funding or issuing shares. The management chooses this action to reduce the risk of bankruptcy.

For three reasons, companies with a considerable potential for political costs have a lower tendency to exercise tax avoidance. First, they are in the spotlight of stakeholders or the government, making them refrain from tax avoidance. Second, companies have adequate human and information resources to manage their taxes more neatly. Third, they maintain an image

from a bad impression that it does not fulfill their tax obligations. The risk of being the object of a tax audit is heavier than the tax rate that must be paid.

The monitoring mechanism represents the companies' operational monitoring function. However, independent supervision or monitoring results are more objective and rational. The monitoring function bridges and balances the interests of shareholders and company agents to avoid conflicts (Ben-Nasr et al., 2021; Bruynseels & Cardinaels, 2014).

An effective monitoring mechanism shields the companies from the possibility of financial distress. In this case, a higher monitoring mechanism reduces the possibility of financial distress. An effective supervisory function makes the management act carefully and according to shareholders' interests. The monitoring mechanism relates to companies' ability to protect themselves against the external environment and reduce uncertainty. It is also the ability to provide many resource choices that increase the companies' capabilities.

The financing decision determines how much funding sources are obtained to finance the companies' operations. Funds are sourced in the form of own capital and debt. Political cost conditions do not cause differences in financing decisions because the companies have funding reserves to run operations. Therefore, the management needs to maintain shareholder trust by keeping optimal financing decisions. A financing decision considers and analyzes the most economical sources of funds for investment needs and operational activities.

Financial managers must consider the nature and costs of each source of funds because they have different consequences. Financing decisions impact the companies' financial condition, net income, or financial distress. When the decisions are successful, the potential for financial difficulties decreases, and vice versa. Moreover, the companies may go bankrupt when the funds are insignificant.

Financing decisions relate to management's choice to practice tax avoidance (Dang & Tran, 2021; Shevlin et al., 2020). Management tends to ignore tax avoidance activities in conditions of high corporate debt. Companies with more debt are subject to tighter scrutiny from creditors

on various terms, making them cautious about tax avoidance options. The companies have an effective tax rate, meaning that companies with large debt have a slight tendency to avoid tax. The cash used to pay corporate taxes is diverted to pay the debt.

Financial distress could be caused by errors in the companies' financial management. It also often occurs in companies that cannot fulfill debtor obligations due to insufficient funds to resume business operations. The financial manager must ensure the company obtains the necessary funds at the minimum cost and on the most favorable terms. Financial distress promotes management to avoid taxes. Companies in financial distress stop factory operations, reduce production volumes, and practice tax avoidance. More intensive financial distress causes the companies to practice tax avoidance to maintain stability. Financial distress contributes to tax avoidance in crisis conditions to reduce tax payments (Tilehnouei et al., 2018).

Pandemic Effect on Tax Avoidance Motivation

Comparing the results during the pandemic, the accepted hypotheses relating to political costs and financial distress directly affected tax avoidance. However, the hypotheses associated with monitoring mechanisms and financial decisions were insignificant. Whereas before the pandemic, monitoring mechanisms affected financial distress. The benefit of testing more to contribute to suggestions to companies in the hospitality industry is that in crisis conditions such as a pandemic, the impact can be minimized by improving their monitoring mechanism. It can potentially reduce the possibility of companies experiencing bankruptcy during a pandemic. When this is practiced, it is in line with the results (after the pandemic) that show financial distress affects tax avoidance. In this respect, when the company does not experience bankruptcy, it will reduce tax avoidance.

Despite being legal because it does not violate the rules, tax avoidance is generally driven by the motive of reducing or delaying tax payments. The avoidance is conducted by engineering accounting or earnings by incurring certain costs or losses. This action can hardly be detected as management opportunistic to benefit the company's net income since the data and transactions are internal information. Tax avoidance reflects the

existence of personal interests by managers in manipulating company net income, resulting in incorrect information for investors.

CONCLUSION

This study examined the motivation for tax avoidance based on political costs, monitoring mechanisms, financing decisions, and financial distress. The variables were tested before and during the COVID-19 pandemic. Six hypotheses were accepted, while three were rejected. The results showed that before the pandemic, (1) Political costs and monitoring mechanisms affected financial distress and tax avoidance, (2) Financing decisions affected financial distress and tax avoidance, and (3) Financial distress affected tax avoidance. Testing during the pandemic found that only political costs and financial distress influence tax avoidance, supporting two hypotheses. This finding showed the pandemic's effect on the companies' condition. The lack of influence on several variables is caused by external pressure on the companies. In pre-pandemic and during pandemic, the mediating test found no intervening function in the relationship between variables.

Implication

Understanding the antecedent variables of tax avoidance can provide early warning to market participants and the government. Companies that conduct tax avoidance are potentially burdened with direct costs, including implementation costs, loss of reputation, and the potential for specific penalties. A company's condition is a signal that investors can use to assess the company's prospects. For the government, these signals can be used to make decisions on supervision and regulation to safeguard the interests of society. The negative effect of political costs indicates that companies under public monitoring tend to be more careful in choosing tax avoidance actions. The monitoring mechanism is a preventive effort to keep the company from making tax avoidance efforts. It is a signal to third parties.

The results have implications in practice regarding the antecedents of tax avoidance. It provides suggestions to companies in the hospitality industry is that in crisis conditions such as yesterday's pandemic, where information asymmetry becomes very large and unavoidable, the impact can

be minimized by improving their monitoring mechanism. It can potentially reduce the possibility of companies experiencing bankruptcy during a pandemic. When this is practiced, it is in line with the results (after the pandemic) that show financial distress affects tax avoidance. When the company does not experience bankruptcy, it will reduce tax avoidance.

Political costs and financial distress impacted tax avoidance before and during the pandemic. Therefore, practitioners must consider both variables when making tax avoidance decisions. The findings also help us understand the importance of determining a reasonable period for testing tax avoidance in external industries. It is because different periods lead to other possible conclusions.

Limitations

This study was only conducted in one country and focused on national companies without considering that organizational behavior is shaped by culture and country. Therefore, the results have limitations because they were only conducted in one country.

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