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Financial Distress, Transfer Pricing, and Inventory Intensity: Their Effects on Tax Avoidance in Mining Companies

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Abstract. This research aims to examine the effect of financial distress, transfer pricing, and inventory intensity on tax avoidance in mining companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2023 period. The research sample consists of 84 companies selected using the purposive sampling method, with secondary data obtained from the IDX and the official websites of the respective companies. Data analysis was conducted using multiple linear regression with SPSS version 27. Several tests were applied, including classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation tests) and model feasibility tests (F-test and t-test). The results indicate that financial distress and transfer pricing do not significantly affect tax avoidance, likely due to strict government oversight and the high risk of audits. In contrast, inventory intensity positively influences tax avoidance because higher inventory levels lead to increased costs that reduce taxable income. These findings emphasize the importance of inventory management in shaping corporate tax strategies. Future research is encouraged to explore other sectors and include additional variables to enhance the generalizability of these results..

Keywords: Financial distress, Transfer pricing, Inventory intensity, Tax avoidance

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Introduction

Tax is an obligation for citizens, but there are differing perspectives between taxpayers and the government in its implementation. Taxpayers often attempt to minimize the amount of tax payable, which naturally contrasts with the government's efforts to increase state revenue from taxes (Jelena & Chandra, 2022). Taxpayers often optimize their tax obligations through legal means by taking advantage of gaps or loopholes in tax regulations to reduce their tax liabilities. A practice commonly known as tax avoidance (Sumantri et al., 2022).

Tax avoidance can be observed through the tax ratio to Gross Domestic Product (GDP), which serves as an indicator of an efficient tax system and good taxpayer compliance. A country's low tax ratio may indicate untapped potential for state revenue or the widespread practice of tax avoidance (Desyana & Yanti, 2020). The following is a table presenting the tax ratios in Indonesia compared to other Southeast Asian countries:

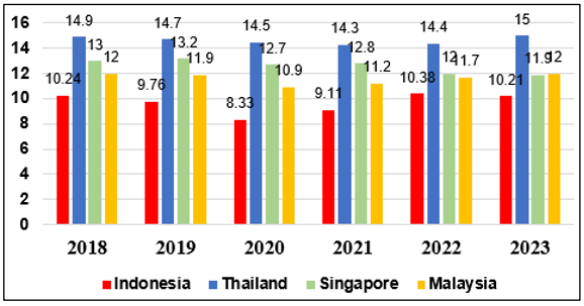

Fig. 1. Tax Ratio to Gross Domestic Product (GDP)
Source: World Bank, 2024

Indonesia's tax ratio to GDP declined from 2018 to 2020. However, it showed an upward trend from 2021 to 2022. In 2023, Indonesia's tax ratio to GDP was recorded at 10.21%, slightly lower than the previous year. The low tax ratio in Indonesia compared to other Southeast Asian countries indicates that the country's tax collection system has not yet operated optimally. This may reflect limitations in the effectiveness of tax policies, the need to improve taxpayer compliance, and the presence of untapped potential for state revenue (Desyana & Yanti, 2020).

Tax revenue plays a crucial role in supporting national development and enhancing the welfare of the Indonesian population. Consequently, when tax revenue realization fails to meet the established targets, the implementation of national development programs may be disrupted. In this regard, the contribution of various economic sectors to tax revenue becomes a critical factor in ensuring the achievement of these revenue targets. The following presents data on the contribution of the mining sector to tax revenue in Indonesia from 2018 to the first half of 2024:

Table 1
Sectoral Contribution to Tax Revenue

Sector/ Year	Contribution to Tax Revenue (%)						
	2018	2019	2020	2021	2022	2023	2024*
Manufacturing Industry	30,0	29,4	23,4	29,6	28,7	26,9	25,2
Trade	19,3	19,9	16,1	22,0	23,8	24,4	24,8
Financial & Insurance Services	13,4	14,2	12,1	12,9	10,6	11,5	15,1
Mining	6,6	5,3	3,0	5,0	8,3	9,4	5,7
Construction & Real Estate	6,9	7,2	5,5	5,9	4,1	4,4	4,8

**First semester data*
Source: Data processed, 2024

According to (Sari et al., 2024), the contribution of the mining sector to economic development is highly significant, especially through the provision of energy resources that serve as the foundation for various industries and other economic activities. However, the contribution of the mining sector to state revenue through taxes has experienced a significant decline, reaching 39.4% in the first quarter of 2024, particularly in the coal and metal ore subsectors (Usman, 2024).

A report by Global Witness titled "Taxing Times for Adaro," released on July 4, 2019, revealed allegations of tax avoidance by PT Adaro Energy Tbk, a mining company in Indonesia. The report claims that Adaro engaged in transfer pricing through its Singaporean subsidiary, Coaltrade Services International, by selling coal to its affiliate at prices significantly below market value between 2009 and 2017. The coal was then resold to a third country at higher prices, leading to a reduction in the taxes owed in Indonesia by US$ 125 million, or approximately Rp 1.75 trillion (Sugianto, 2019).

In 2010, Indonesia Corruption Watch (ICW) reported that PT Bumi Resources Tbk (BUMI) engaged in tax and royalty manipulation related to coal sales from 2003 to 2008. ICW's investigation revealed that BUMI and its subsidiaries, PT Kaltim Prima Coal (KPC) and PT Arutmin Indonesia, manipulated financial data, resulting in a revenue loss of US$ 620.48 million or approximately Rp 5.7 trillion. This estimate significantly differed from the audit conducted by the Directorate General of Taxes, which in 2009 identified a tax shortfall of Rp 2.1 trillion for the 2007 fiscal year, including Rp 1.5 trillion for KPC, Rp 376 billion for BUMI, and Rp 300 billion for Arutmin (Adi, 2010).

Tax avoidance can be influenced by several factors, one of which is financial distress, indicating a situation where a company lacks sufficient financial stability to support its operations and is experiencing a decline in financial performance (Wulandari et al., 2024). Previous research by Pratiwi et al. (2021) found a negative impact of financial distress on tax avoidance, while Laksono & Handayani (2024) observed a positive impact, suggesting that higher financial distress leads to higher tax avoidance. In contrast, studies by (Wulandari et al., 2024) and Taufik & Muliana (2021) concluded that financial distress does not affect tax avoidance.

The second factor influencing tax avoidance is transfer pricing. Companies attempt to reduce tax burdens by shifting profits from Indonesian subsidiaries to affiliated companies in foreign countries with lower tax rates (Restu & Mu'arif, 2024). Through transfer pricing, company management manipulates the reported profits in financial statements. Previous studies on the impact of transfer pricing on tax avoidance include research by Ramadhina et al. (2023), which found a negative impact, while (Herianti & Chairina, 2019) reported a positive impact. In contrast, (Putri & Pratiwi, 2022) concluded that transfer pricing does not affect tax avoidance.

The third factor is inventory intensity, which can affect a company's tax effectiveness. Higher investment in inventory leads to higher costs (Ramadhina et al., 2023). Previous research by Anggriantari & Purwantini (2020) found that higher inventory intensity increases additional costs. This is supported by Ramadhina et al. (2023), who concluded that inventory intensity positively impacts tax avoidance. However, these findings contradict Sonia & Suparmun (2019), who concluded that inventory intensity has no effect on tax avoidance practices.

There are inconsistencies in the findings of previous studies regarding the variables to be examined, which motivates the researcher to investigate these discrepancies further in the study titled "Financial Distress, Transfer Pricing, and Inventory Intensity: Their Effects on Tax Avoidance in Mining Companies:

Literature Review

Agency Theory

The agency relationship is an agreement in which the owner or shareholder (principal) grants authority to management (agent) to control the company on behalf of the principal, thus delegating part of the decision-making power to management (Jensen & Meckling, 1976). The owner expects the management to always make decisions that benefit the company and shareholders. However, management often prioritizes personal interests and employs various strategies to maximize their own gains from management performance. This creates information asymmetry between the principal and agent. One example of this is tax avoidance practices, where management attempts to reduce tax liabilities to increase the company's net profit, a move that could result in financial benefits for management through bonuses or incentives (Firmansyah & Pratiwi, 2024).

Tax Avoidance

Tax avoidance is the practice where taxpayers legally seek ways to reduce their tax burden by exploiting gaps in tax regulations (Sumantri et al., 2022). When companies exploit legal loopholes to decrease their tax liabilities, the state loses a significant source of revenue. Although such actions do not violate any rules, their negative impact on state revenue can be substantial. Tax avoidance is a component of tax planning strategies employed by companies, which involves managing profits to minimize tax obligations and ultimately pay less than what would otherwise be required.

Financial Distress

Financial distress is a condition where a company struggles to manage its finances and meet its obligations, potentially leading to bankruptcy. According to Purwantini et al. (2023), financial distress can arise from both internal and external factors. Internal factors include declining sales due to management errors, decreasing profitability, and heavy reliance on debt. External factors, such as dividend cuts, sustained profit declines, mass layoffs, and unfavorable economic conditions (like a recession), can also push a company toward crisis. Significant financial pressure can drive a company to engage in unethical and aggressive accounting practices, which in turn lead to aggressive tax planning (Rahmana, 2022).

Transfer Pricing

Transfer pricing is a pricing method for internal transactions between business units within a

multinational company (Meiriasari & Nurkholis, 2023). The prices set can be lower or higher than the market rates in similar industries. Management uses this scheme to minimize tax burdens by shifting profits to loss-making affiliates or conducting transactions with affiliates in countries with lower tax rates (Herianti & Chairina, 2019). One method to detect potential transfer pricing practices within a company is by examining the notes to the financial statements, which provide disclosures on transactions with related parties.

Inventory Intensity

Inventory intensity measures the proportion of a company's investment in inventory relative to its total assets (Anggriantari & Purwantini, 2020). Companies that allocate a significant portion of their assets to inventory tend to exhibit high inventory intensity. In the mining industry, inventory may consist of raw materials, work-in-progress goods, or finished products ready for sale. According to Ramadhina et al. (2023), high inventory intensity indicates a company's potential to exploit tax loopholes through effective inventory management. A high level of inventory can also reduce the company's net income due to additional costs, such as storage and maintenance, which ultimately lower taxable income and decrease the company's tax burden.

The Effect of Financial Distress on Tax Avoidance

Financial distress is a critical issue for companies, and if ignored, it can lead to bankruptcy. When bankruptcy risks arise, companies may become more aggressive in seeking ways to minimize cash outflows to maintain financial stability. Financial distress experienced by companies can also lead to conflicts of interest between owners (principals) and management (agents). In the context of agency theory, management, as the agent, may be more focused on personal interests, such as protecting their position and compensation, while owners, as principals, are more concerned with the financial health of the company. To reduce financial burdens and protect personal interests, management often engages in complex transactions. Through these transactions, management attempts to deceive tax authorities and investors by concealing the tax avoidance activities conducted by the company (Duhoon & Singh, 2023). Tax avoidance can serve as an alternative for companies facing financial distress to preserve operational cash flow and avoid bankruptcy.

Research by Laksono & Handayani (2024) concluded that financial distress positively affects tax avoidance, meaning companies under financial strain are more likely to engage in tax avoidance to ensure their survival. In contrast, Pratiwi et al. (2021) found a negative effect, suggesting that companies in financial distress are more likely to comply with tax obligations due to the high risks associated with tax avoidance. Additionally, Lapian & Chandra (2024) noted that the increased audit risk makes companies hesitant to avoid taxes to prevent deeper financial losses. Through the description above, the following hypothesis is stated:
H1: Financial distress affects tax avoidance

The Effect of Transfer Pricing on Tax Avoidance

Transfer pricing is a strategy used by companies to set transaction prices between affiliated entities, shifting profits to countries with lower tax rates to maximize overall gains (Amidu et al., 2019). This allows the parent company to report lower income and reduce its tax obligations, while the affiliate benefits from lower tax rates, minimizing the overall tax burden. The agency theory is also related to transfer pricing when management (the agent) does not act in accordance with the interests of the shareholders (the principal), such as setting lower transfer prices to shift profits to related parties or subsidiaries located in lower-tax jurisdictions. This manipulation of transfer prices leads to reduced profits, which in turn reduces the tax burden, potentially benefitting the agent's personal interests. Indirectly, the decreased profits will affect dividends, which contradicts the desires of the shareholders, as they expect higher returns on their investment. This situation creates a conflict of interest between the agent and the principal, highlighting the agency problem in the context of transfer pricing.

Previous studies by Restu & Mu'arif (2024) and Herianti & Chairina (2019) found a positive relationship between transfer pricing and tax avoidance, indicating that higher transfer pricing increases tax avoidance practices. In contrast, research by Susanto et al. (2022) and Ramadhina et al. (2023) reported a negative relationship between the two. Through the description above, the following hypothesis is stated:
H2: Transfer pricing affects tax avoidance

The Effect of Inventory Intensity on Tax Avoidance

Inventory intensity represents the proportion of inventory within a company's total assets (Pravita et al., 2022). A high level of inventory results in various expenses, such as maintenance costs and raw material expenses, which companies may utilize to reduce their profits and, consequently, lower their tax obligations. Inventory management can also lead to conflicts of interest between management and company owners. Management may exploit high inventory intensity to serve personal interests, such as minimizing the company's tax burden. By intentionally increasing inventory levels, management can raise operational costs and reduce taxable profits, thereby lowering tax liabilities. However, this action contradicts the owners' goal of achieving high company profitability.

Previous studies by Pravita et al. (2022) concluded that inventory intensity has a positive effect on tax avoidance, indicating that companies with high inventory levels tend to engage in tax avoidance practices. However, this finding contrasts with the research of Sonia & Suparmun (2019), which stated that inventory intensity does not influence tax avoidance.

H3: Inventory intensity affects tax avoidance

Research Method

This study uses a quantitative method with data analysis approach conducted using SPSS 27. The quantitative method was chosen because it allows for the analysis of the relationships between variables in an objective manner and produces results that can be generalized. The population of this study consists of mining companies listed on the Indonesia Stock Exchange (IDX) between 2020 and 2023, totaling 80 companies. To select a relevant sample, this study employs purposive sampling technique, resulting in 21 companies that meet the criteria.

Table 2
Sample Selection Based on Criteria

No.	Criteria	Company
1	Mining companies listed on the Indonesia Stock Exchange (IDX) during the study period of 2020-2023	80
2	Mining companies listed on the Indonesia Stock Exchange (IDX) that did not fully publish financial statements during the study period of 2020-2023	(6)
3	Mining companies listed on the Indonesia Stock Exchange (IDX) that incurred losses during the study period of 2020-2023	(39)
4	Mining companies listed on the Indonesia Stock Exchange (IDX) that lacked data for the research variables during the study period of 2020-2023	
Total sample based on criteria		21
Total observation years		4
Total data to be observed is (21 x 4 years)		84

Source: Data processed, 2024

The multiple linear regression analysis method is used in processing this research data. The following is the model used in this study:

$$Y = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \varepsilon$$

Note:
Y = Financial stability
α = Constant
β1-3 = Coefficient
X1 = Financial Distress
X2 = Transfer Pricing
X3 = Inventory Intensity
ε = Error

The independent variables of this study are finansial distress, transfer pricing and inventory intensity Liang et al. (2020) provides a formula to measure the level of financial distress in a company, which is the Altman Z-Score formula as follows:

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$$

Note:
X1 = Working Capital / Total Assets
X2 = Retained Earnings / Total Assets
X3 = Earnings Before Interest and Taxes (EBIT) / Total Assets
X4 = Market Value of Equity / Total Liabilities
X5 = Sales / Total Assets

According to Meiriasari & Nurkholis (2023), the measurement of transfer pricing uses Related Party Transaction (RPT) with the following formula:

$$RPT = \frac{\text{Total Receivables from Related Parties}}{\text{Total Receivables}}$$

An increase in inventory intensity can lead to higher tax expenses for the company due to the costs associated with the inventory. In this study, the level of inventory intensity is measured using the following formula (Sonia & Suparmun, 2019):

$$\text{Inventory Intensity} = \frac{\text{Total Inventory}}{\text{Total Asset}}$$

Results and Discussion

In this study, the researcher found that the data obtained were not normally distributed. To address this issue, extreme data points (outliers) were eliminated, and data transformation was performed. Visually, the residual plot exhibited moderate positive skewness, and thus, the square root (SQRT) transformation was applied (Ghozali, 2018). After eliminating the outliers and performing the transformation, 76 samples were obtained for analysis in this study.

Descriptive Analysis After Data Tranformation

Based on the descriptive statistics, the results show that financial distress (X1) has a minimum value of 0.84, a maximum value of 3.52, an average of 2.0199, and a standard deviation of 0.62961. Transfer pricing (X2) has a minimum value of 0.02, a maximum value of 1.00, an average of 0.4279, and a standard deviation of 0.31018. Inventory intensity (X3) has a minimum value of 0.04, a maximum value of 0.38, an average of 0.2000, and a standard deviation of 0.08079. Tax avoidance (Y) has a minimum value of 0.05, a maximum value of 0.98, an average of 0.5210, and a standard deviation of 0.21919. The average values being greater than the standard deviations indicate that the data in this study exhibits minimal variation.

Table 3
Descriptive Statistical Analysis Results

Descriptive Statistics					
	N	Min	Max	Mean	Std. Deviation
SQRT_FD	76	.84	3.52	2.0199	.62961
SQRT_TP	76	.02	1.00	.4279	.31018
SQRT_IP	76	.04	.38	.2000	.08079
SQRT_CETR	76	.05	.98	.5210	.21919
Valid N (listwise)	76				

Source: SPSS output, data processed 2025

Classical Asumtion Test

Normality Test After Data Transformation

Table 4
Normality Test

One-Sample Kolmogorov-Smirnov Test	
	Unstandardized Residual
N	76
Asymp. Sig. (2-tailed)[c]	.200[d]

Source: SPSS output, data processed 2025

Based on table 4, after eliminating outliers and transforming the data using the square root (SQRT) method, a significance value of 0.200 was obtained, which is greater than 0.05. This result indicates that the data in this study are normally distributed. Furthermore, Table 4 also shows that the sample used consists of 76 observations out of the initial total of 84. This reduction occurred due to the elimination of outliers in the research data.

Multicolinearity Test

Table 5
Multicolinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
SQRT_FD	.649	1.541
SQRT_TP	.938	1.067
SQRT_IP	.653	1.531

Source: SPSS output, data processed 2025

Table 5 shows that the tolerance values for the independent variables financial distress, transfer pricing, and inventory intensity are 0.649, 0.938, and 0.653, respectively, with VIF values of 1.541, 1.067, and 1.531. Since all tolerance values exceed 0.1 and VIF values are below 10, it can be concluded that the regression model is free from multicollinearity. This indicates that the independent variables do not exhibit high correlation with each other, ensuring the reliability of the model's estimates and supporting the validity of the regression analysis.

Heteroscedasticity Test

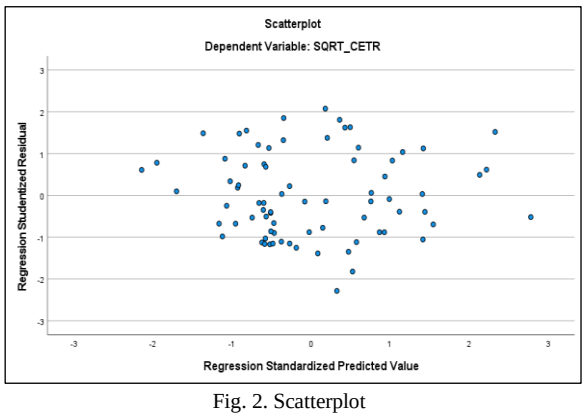

Fig. 2. Scatterplot

Based on Figure 2, the data show a random and even distribution of points around the value of 0 on the

Y-axis, without forming any specific pattern. This indicates the absence of heteroscedasticity in the regression model used in this study, confirming that the model is appropriate for use in this research.

Autocorrelation Test

Table 6
Autocorrelation Test

Autocorrelation Test	
Durbin-Watson	2.096

Source: SPSS output, data processed 2025

Table 6 shows a Durbin-Watson (DW) value of 2.096 with a sample size of 76 (N = 76) and three independent variables (k = 3). Given dL of 1.546 and dU of 1.710, the autocorrelation test meets the condition 1.710 < 2.096 < 2.290. Therefore, the regression model is free from autocorrelation.

Determinant Coefficient Test

Table 7
Determinant Coefficient Test

Model	R	R Square	Adjusted R Square
1	.230[a]	.053	.013

Source: SPSS output, data processed 2025

Based on Table 7, the adjusted R square value is 0.013 or 1.3%. This indicates that the independent variables in this study (financial distress, transfer pricing, and inventory intensity) influence the dependent variable, tax avoidance, by 1.3%. The remaining 98.7% is influenced by other variables not included in the regression model.

Table 8
Partial t Test Results

Model	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	.487	.088	5.554	.000
SQRT_FD	-.056	.050	-1.129	.263
SQRT_TP	-.018	.084	-.213	.832
SQRT_IP	.771	.385	2.002	.049

Source: SPSS output, data processed 2025

Based on Table 8, it is evident that the regression equation model in this study changed after the data was transformed using the square root method. Therefore, the regression equation model in this study can be described as follows:

SQRT CETR = 0,487 - 0,056FD - 0,018TP + 0,771IP + SQRT ε

Based on the results of the multiple linear regression model, it can be concluded that the constant value (α) is 0.487, indicating that when the independent variables (financial distress, transfer pricing, and inventory intensity) remain constant or zero, tax avoidance as proxied by the Cash Effective Tax Rate (CETR) increases by 0.487 or 48.7%. This suggests that without considering these independent variables, companies would pay around 48.7% of their pre-tax income as tax. The regression coefficient for financial distress is -0.056, meaning that a one-unit increase in financial distress leads to a 0.056 decrease in tax avoidance, assuming other variables remain constant. The regression coefficient for transfer pricing is -0.018, indicating that a one-unit increase in transfer pricing results in a 0.018 decrease in tax avoidance. Meanwhile, the regression coefficient for inventory intensity is 0.771, suggesting that a one-unit increase in inventory intensity leads to a 0.771 increase in tax avoidance, with other variables held constant.

Partial t-test results indicate that financial distress (Sig. 0.263) and transfer pricing (Sig. 0.832) have no significant effect on tax avoidance, as their significance values exceed 0.05, leading to the rejection of H1 and H2. In contrast, inventory intensity (Sig. 0.049) significantly influences tax avoidance, with its significance value below 0.05, resulting in the acceptance of H3.

F Simultaneous Test

Table 9
F Similtaneous Test Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.190	3	.063	1.336	.269[b]
Residual	3.413	72	.047		
Total	3.603	75			

Source: SPSS output, data processed 2025

The F test results from table 9 show a significance value of 0.269, indicating a probability greater than 0.05. Therefore, it can be concluded that financial distress, transfer pricing, and inventory intensity, when considered together, do not significantly affect tax avoidance as proxied by CETR.

The Effect of Financial Distress on Tax Avoidance

The results show that the financial distress variable has a significance value of 0.263 > 0.05, indicating no

significant effect on tax avoidance in mining companies. This may be due to strict government oversight through transparent financial reporting, regular audits, and strong regulatory control, minimizing opportunities for tax avoidance despite financial distress.

According to agency theory, financially distressed companies often manipulate financial reports for personal gain due to information asymmetry and weak oversight. However, this study's findings contradict that notion, suggesting that mining companies prioritize maintaining their reputation and avoiding the higher risk of audits and penalties associated with tax avoidance. The results of this study are in line with the findings of Wulandari et al. (2024) and Taufik & Muliana (2021) which show that financial distress in companies does not affect tax avoidance because companies prefer to minimize cash outflows through other means.

The Effect of Transfer Pricing on Tax Avoidance

The results of the test conducted on the transfer pricing variable show a significance value of 0.832 > 0.05, which concludes that transfer pricing does not affect tax avoidance. This may be due to the operational characteristics of mining companies being localized domestically, resulting in minimal transactions with foreign affiliates. In addition, strict regulations and government oversight in the mining sector, along with fluctuations in commodity prices, limit the companies' flexibility in determining transfer prices that can be manipulated.

According to agency theory, management may set lower transfer prices to shift profits to affiliates in low-tax countries, reducing profits and tax liabilities. However, this study finds that transfer pricing does not influence tax avoidance. This may be due to the recent regulation by Ministry of Finance of Republic Indonesia, PMK No.22/PMK.03/2020, which governs transactions between companies with special relationships. The study indicates that this regulation effectively creates legal certainty and prevents manipulation of transaction prices. The results of this study are in line with the findings of Pesak et al. (2022) and Putri & Pratiwi (2022), which state that transfer pricing does not affect tax avoidance practices.

The Effect of Inventory Intensity on Tax Avoidance

The test results for inventory intensity show a significance value of 0.049 < 0.05, concluding that inventory intensity affects tax avoidance in mining companies. In the mining industry, inventory includes raw materials, work-in-progress, and finished products. Higher inventory levels provide opportunities for companies to leverage inventory-related costs (such as storage, maintenance, or depreciation) to reduce taxable profits. Additionally, Article 10, paragraph 3 of Law No. 7 of 1983 regulates inventory valuation methods, allowing only First In, First Out (FIFO) and Average methods. In stable price fluctuations, the average method allows companies to manage profits effectively, as inventory costs are recorded at a certain average, which can reduce taxable profits without violating regulations.

These findings are consistent with agency theory, which suggests that company management may exploit inventory to avoid taxes. Management may intentionally increase inventory levels, leading to higher additional costs such as production, maintenance, and administrative expenses, which in turn reduce taxable profits and the company's tax liabilities. However, this action conflicts with the interests of the owners, who seek higher profitability. The results of this study are in line with the findings of Ramadhina et al. (2023) and Pravita et al. (2022),which state that inventory intensity in companies affects tax avoidance. The additional costs arising from high inventory levels provide opportunities for company management to avoid taxes.

Conclusion

The study found that financial distress does not affect tax avoidance in mining companies listed on the Indonesia Stock Exchange during 2020-2023, as companies experiencing financial difficulties seek alternative ways to manage cash outflows. Additionally, transfer pricing does not affect tax avoidance, as companies do not use it for tax avoidance due to the new regulation in PMK No.22/PMK.03/2020, which ensures legal certainty and prevents manipulation of transaction prices for companies with special relationships. However, inventory intensity does impact tax avoidance, as companies with high inventory levels can take advantage of additional costs to reduce taxable profits.

Future research should consider using subjects from sectors other than mining, extend the observation period to cover more years, including both pre- and post-COVID-19 periods, and include additional independent variables such as sales growth, capital intensity, and profitability. This will provide a more

representative view of normal economic conditions and expand the scope of the study for more comprehensive results.

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