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The Effect of Profitability and Leverage on Financial Distress

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ABSTRACT

Purpose: This study aims to examine the effect of profitability and leverage on financial distress among manufacturing companies listed on the Indonesia Stock Exchange (IDX). The study focuses on identifying whether internal financial characteristics represented by profitability and leverage can explain variations in companies' financial distress conditions.

Methodology: This research employs a quantitative approach using secondary data obtained from annual reports and financial statements of manufacturing companies listed on the IDX. The sample selection was conducted using purposive sampling based on predetermined criteria. Data analysis was performed using multiple linear regression to examine the relationship between profitability, leverage, and financial distress.

Results: The findings indicate that profitability and leverage have significant effects on financial distress. Companies with stronger profitability tend to have lower risks of experiencing financial distress due to their ability to generate earnings and maintain financial stability. Meanwhile, higher leverage increases financial pressure because greater dependence on debt may reduce the company's ability to fulfill financial obligations.

Conclusions: The study concludes that profitability and leverage are important financial indicators in predicting financial distress among manufacturing companies. Effective profitability management and prudent debt utilization are essential to maintaining corporate financial sustainability.

Contributions: This study contributes empirical evidence for managers, investors, and policymakers in assessing financial risk and improving corporate financial management strategies.

Limitations: The study is limited to manufacturing companies listed on the IDX and considers only profitability and leverage as explanatory variables. Future research is encouraged to include additional financial and non-financial factors.

Keywords: *Financial Distress, Financial Risk, Leverage, Manufacturing Companies, Profitability*

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1. Introduction

Indonesia, as a developing country, requires substantial and sustainable state revenue to finance both routine expenditures and long-term development programs. Tax revenue represents one of the

most significant sources of government income and plays a central role in supporting national development and public welfare. Under Law Number 7 of 2021 concerning the Harmonization of Tax Regulations, taxation is defined as a compulsory contribution imposed on individuals or entities by law, without direct compensation, and allocated for the greatest prosperity of the people. This legal framework reinforces the strategic importance of taxes in strengthening fiscal capacity and economic stability. Despite its crucial function for the state, taxation is often perceived by corporations as a financial burden that reduces net income ([Tarigan & Yuliansyah, 2025](#)). As a result, companies may seek strategies to minimize their tax obligations. One such strategy is tax avoidance, which refers to efforts to reduce tax liabilities through legal means that comply with existing regulations. Although tax avoidance does not violate the law, it presents a complex dilemma. On the one hand, it is legally permissible, on the other hand, it may undermine government revenue targets and raise ethical concerns regarding corporate responsibility ([Mulia, Helmy, & Setiawan, 2019](#)).

Indonesia adopts a self-assessment tax system, under which taxpayers are responsible for calculating, paying, and reporting their own tax liabilities. While this system enhances efficiency and taxpayer autonomy, it also creates opportunities for aggressive tax planning. The persistence of tax avoidance practices has contributed to recurring shortfalls in tax revenue realization ([Rasyid, Sumbiharsih, & Utama, 2021](#)). Several high-profile cases illustrate this phenomenon. For instance, PT Adaro Energy Indonesia was alleged to have engaged in transfer pricing practices through a Singapore-based subsidiary to shift profits abroad, thereby reducing domestic tax liabilities. Reports suggested that coal was sold at below-market prices to affiliated entities overseas and later resold at higher prices, potentially resulting in substantial tax losses for Indonesia. Another case involved PT Rajawali Nusantara Indonesia, which reportedly relied heavily on affiliated debt financing from a Singapore-based parent entity. By structuring capital as debt, the company was able to reduce taxable income through interest deductions, despite generating significant revenue. These cases highlight how corporate structures and cross-border transactions may be used to manage tax exposure.

Prior empirical studies indicate that tax avoidance is influenced by various factors, including profitability, leverage, institutional ownership, fiscal loss compensation, company risk, firm size, and transfer pricing practices. However, findings remain inconsistent, particularly regarding firm size and transfer pricing. Firm size, commonly measured by total assets, reflects the scale and resources of a company. Larger firms are often assumed to possess greater expertise and resources to engage in sophisticated tax planning strategies, potentially leading to lower effective tax rates ([Fanani & Zahidi, 2026](#)). Some studies report a positive relationship between firm size and tax avoidance, while others find no significant effect. Transfer pricing represents another important determinant. It refers to the pricing of transactions between affiliated entities, especially within multinational corporations. While transfer pricing is a legitimate business practice, it may be manipulated to allocate profits to jurisdictions with lower tax rates. Empirical research also produces mixed results, such as some scholars find that transfer pricing significantly increases tax avoidance, whereas others report negative or insignificant relationships ([Kartobi & Gustiawaty, 2026](#)).

These inconsistent findings motivate further investigation into the relationship between firm size, transfer pricing, and tax avoidance. This study therefore focuses on manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2024 period. By examining these variables within a specific industrial and temporal context, the research aims to provide clearer empirical evidence regarding their influence on tax avoidance practices. Accordingly, the study seeks to address two primary research questions, such as does firm size significantly affect tax avoidance among manufacturing firms listed on the Indonesia Stock Exchange during 2020–2024? and does transfer pricing significantly influence tax avoidance within the same context? The objective is to analyze and evaluate the individual effects of firm size and transfer pricing on corporate tax avoidance behavior. Through this investigation, the research is expected to contribute to the existing literature by clarifying inconsistent empirical results and offering insights for policymakers,

regulators, investors, and corporate management in understanding the determinants of tax avoidance in Indonesia manufacturing sector.

2. Literature Review and Hypotheses Development

2.1 Agency Theory

Agency theory explains the contractual relationship between shareholders as principals and managers as agents entrusted with operating the firm. [Fitriani, Djaddang, and Suyanto \(2021\)](#) argue that when ownership is separated from control, conflicts of interest are likely to arise because each party seeks to maximize its own utility. Principals expect managers to enhance firm value and generate optimal returns, while managers may pursue personal incentives such as bonuses, compensation, or career advancement. This divergence creates what is commonly referred to as the agency problem. Within this framework, managers are obligated to act in the best interests of shareholders by exercising due care, good faith, and rational decision-making. However, as [Fitriani et al. \(2021\)](#) note, conflicts occur because shareholders prioritize long-term profitability and firm value, whereas managers may emphasize short-term performance indicators that directly influence their rewards. Such differences in objectives can encourage opportunistic behavior, including earnings management or aggressive tax planning, when these actions are perceived to benefit managerial interests. In the taxation context, monitoring mechanisms are therefore important because corporate tax strategies may reflect managerial decisions shaped by agency relationships and organizational performance ([Debora, Ponziani, Kanti, & Wijaya, 2026](#)).

Agency theory is also closely associated with information asymmetry. [Solehah and Afandi \(2023\)](#) explain that managers typically possess more comprehensive and timely information about company operations than shareholders. This imbalance allows managers to selectively disclose information or obscure certain activities. [Barli \(2022\)](#) emphasizes that individuals act in their own self-interest, which may motivate managers to exploit informational advantages. Information disclosure is therefore important because adequate financial reporting can reduce information asymmetry between principals and agents and strengthen accountability ([Juliyanti, 2023](#)). In the context of corporate taxation, information asymmetry creates challenges for shareholders and regulators in evaluating whether managerial decisions comply with ethical and regulatory standards. Managers may have greater knowledge regarding tax planning strategies, affiliated transactions, and financial structures that are not fully visible to external stakeholders. This condition provides opportunities for managers to implement aggressive tax planning practices, including the use of complex transactions or arrangements aimed at reducing tax obligations. Although tax avoidance is generally conducted within legal boundaries, excessive tax avoidance may reflect managerial opportunism because it prioritizes short-term financial benefits while potentially reducing corporate contributions to public revenue. Recent evidence also indicates that managerial characteristics and governance-related factors can shape corporate tax avoidance behavior under particular organizational conditions ([Debora et al., 2026](#)).

To reduce the negative consequences of information asymmetry, effective monitoring mechanisms are required to ensure that managers' actions remain aligned with shareholders' interests. Corporate governance mechanisms, transparency practices, and regulatory oversight play important roles in limiting opportunistic behavior and improving accountability. Financial reporting serves as a key instrument for reducing information gaps by providing stakeholders with relevant information regarding company performance, financial position, and strategic decisions. [Juliyanti \(2023\)](#) similarly emphasizes that financial statement disclosure can reduce information asymmetry between agents and principals by providing relevant information to stakeholders. In addition, tax authorities require adequate disclosure and documentation to ensure that corporate tax planning activities comply with applicable regulations. [Debora et al. \(2026\)](#) further demonstrate that monitoring mechanisms and corporate performance are closely related to corporate tax strategies within an agency-theory framework, while [Debora et al. \(2026\)](#) show that executive characteristics may also influence the relationship between corporate conditions and tax avoidance. Therefore, agency theory provides an important foundation for understanding how managerial incentives, information advantages, and monitoring mechanisms influence corporate decisions, including tax avoidance

behavior. This perspective highlights that the relationship between management and shareholders requires effective control systems to maintain transparency and protect stakeholder interests.

2.2 Financial Statements

Financial statements represent the end product of the accounting process and serve as a primary source of financial information for stakeholders. [Dewi \(2019\)](#) defines financial statements as reports summarizing a company's past financial performance and position. [Dewinta and Setiawan \(2021\)](#) describes them as essential tools for assessing financial condition and operational results, enabling users to make informed economic decisions. Similarly, [Fitriani, Djaddang, and Suyanto \(2021\)](#), emphasize that financial statements are intended to support financial decision-making for investors, creditors, management, and regulators. The objectives of financial reporting are outlined in various accounting standards. The Financial Accounting Standards Board states that financial reports aim to provide useful information for current and potential investors, creditors, and other users in making economic decisions. The Indonesian Financial Accounting Standards highlight that financial statements should present information about financial position, performance, and changes in financial position. In addition, the Indonesian Banking Accounting Guidelines (*Pedoman Akuntansi Perbankan Indonesia/PAPI*) stress managerial accountability in reporting the use of entrusted resources.

To fulfil these objectives, financial statements must meet qualitative characteristics such as understandability, relevance, reliability, comparability, neutrality, timeliness, completeness, and verifiability ([Surjaweni, 2021](#)). [Hidayat, Ajengtiyas, and Ginting \(2022\)](#) further identify four core components of corporate annual reports: the statement of financial position (balance sheet), income statement, statement of shareholders' equity, and statement of cash flows. These reports collectively provide the data necessary to assess profitability, liquidity, solvency, and tax obligations, thereby forming the basis for measuring tax avoidance and related financial variables. Financial statements also function as an important communication mechanism between companies and external stakeholders by providing information regarding financial performance, operational activities, and management accountability. High-quality financial reporting enables investors, creditors, regulators, and other stakeholders to evaluate the company's economic condition and make appropriate decisions. In the context of taxation, financial statements provide essential information for assessing corporate tax obligations, identifying potential tax planning strategies, and evaluating the extent to which companies comply with applicable tax regulations.

Furthermore, the reliability and transparency of financial statements are crucial in reducing information asymmetry between management and stakeholders. Accurate financial reporting limits opportunities for managers to manipulate accounting information or conceal activities that may affect tax assessments. Since tax avoidance strategies often involve complex financial arrangements, the information presented in financial statements becomes an important basis for regulators and investors to assess corporate behavior. Companies with transparent and accountable financial reporting practices are more likely to maintain compliance with taxation requirements and avoid excessive tax planning practices that may create reputational risks. Therefore, financial statements are not only historical records of business transactions but also strategic instruments that support corporate governance, decision-making, and regulatory supervision. The financial information contained in annual reports provides the foundation for measuring key corporate characteristics, such as firm size, profitability, leverage, and tax-related activities. Consequently, the quality of financial reporting plays a significant role in understanding corporate financial behavior, including decisions related to tax avoidance practices.

2.3 Tax Avoidance

Tax avoidance refers to legally minimizing tax liabilities by exploiting gaps or ambiguities in tax regulations. [Kalbuana \(2021\)](#) defines it as an effort to reduce tax payments without violating statutory provisions. [Mulyani, Darminto, and Endang \(2021\)](#) similarly explain that tax avoidance involves utilizing loopholes within tax laws to lower the tax burden. [Sari and Artati \(2021\)](#) emphasize that such practices remain within legal boundaries, distinguishing tax avoidance from tax evasion, which is illegal. Although lawful, tax avoidance is often viewed as ethically

controversial because it may reduce government revenue. The Organisation for Economic Co-operation and Development (OECD) Committee on Fiscal Affairs identifies several characteristics of tax avoidance, including artificial arrangements, exploitation of legal loopholes, and structured planning facilitated by tax consultants. [Panjalusman, Nugraha, and Setiawan \(2022\)](#), adds that strategies may include shifting income to low-tax jurisdictions, engaging in formal tax planning while preserving economic substance, or utilizing mechanisms such as transfer pricing and thin capitalization. [Rahma, Pratiwi, Mary, and Indriyenni \(2022\)](#) outline corporate tactics such as reclassifying income and expenses, overstating operational costs, or manipulating accounting treatments to reduce taxable income.

Measurement of tax avoidance varies across studies. [Hanlon and Heitzman \(2010\)](#) identify multiple proxies, including Generally Accepted Accounting Principles (GAAP) Effective Tax Rate (ETR), Current ETR, Cash ETR, Book-Tax Differences (BTD), and other indicators. [Dyreng, Hanlon, and Maydew \(2008\)](#), explain that Cash Effective Tax Rate (CETR) calculated as cash tax payments divided by pre-tax income captures the actual cash outflow related to taxation and is particularly useful in assessing real tax burdens over time. Long-run cash ETR extends this concept to multi-year periods for greater stability. In this study, CETR is selected as the primary proxy because it reflects the company's actual cash commitment to tax payments, thereby providing a clearer picture of tax avoidance behavior.

2.4 Firm Size

Firm size reflects the scale of a company's operations and resources. [Cahyadi and Merkusiwati \(2021\)](#) describe it as a metric used to classify firms as large or small, typically based on total assets. [Siregar and Widyawati \(2022\)](#) argue that larger firms generally possess greater asset bases, more complex transactions, and broader operational networks. [Afifah, Sunarta, and Fadillah \(2021\)](#) add that larger firms tend to exhibit more sophisticated operational activities, which may influence financial reporting and tax planning practices. [Effendi \(2022\)](#) categorizes firms into large, medium, and small entities based on asset ownership and annual sales. Indonesian Law No. 20 of 2008 further classifies enterprises into micro, small, medium, and large categories by considering asset value and revenue levels. In the Indonesian corporate context, firm size has also been widely examined as an important financial characteristic because differences in corporate scale may influence financial performance and managerial decisions ([Razak, Guritno, & Putra, 2021](#)). Larger firms often demonstrate higher levels of operational maturity and resource availability, enabling them to engage in more structured financial and tax management strategies. Consequently, firm size is frequently associated with variations in effective tax rates and tax planning intensity.

Measurement of firm size commonly employs total assets, total sales, or the number of employees. [Sembiring and Sa \(2021\)](#) suggest that total assets provide a stable indicator of corporate scale. Therefore, many studies use the natural logarithm of total assets to reduce data skewness and improve comparability among firms. Studies involving Indonesian listed companies have similarly incorporated firm size as an important corporate characteristic in empirical financial analysis ([Razak et al., 2021](#)). In this research, firm size is proxied by the natural logarithm of total assets because it reflects corporate capacity, operational complexity, and the potential influence of organizational scale on tax avoidance strategies. The measurement of firm size is important because it represents the economic capacity, operational scope, and resource availability of a company. Larger firms generally have greater financial resources, more complex business activities, and wider operational networks than smaller firms. These characteristics may influence managerial decision-making, including strategies related to financial management and taxation. Companies with substantial assets often have more sophisticated organizational structures, professional personnel, and access to advanced financial systems that enable them to manage business activities more efficiently, including tax planning activities.

From the perspective of agency theory, firm size may influence the relationship between managers and stakeholders because larger companies generally receive greater attention from investors, regulators, and the public. The high level of external monitoring may encourage large firms to maintain transparency and comply with applicable regulations. Empirical evidence from Indonesian

mining companies indicates that company size has a negative effect on tax avoidance, suggesting that larger firms may face greater monitoring and regulatory scrutiny ([Sidauruk & Putri, 2022](#)). [Sani, Dewi, and Ridwansyah \(2026\)](#) found that firm size negatively and significantly affects tax aggressiveness among energy-sector companies, indicating that larger companies tend to exhibit less aggressive tax behavior due to stronger public scrutiny. However, large firms may simultaneously possess greater resources and expertise to implement sophisticated tax planning strategies because of their complex transactions and broader business operations. Therefore, firm size may have different implications for tax avoidance behavior depending on the company's governance structure, regulatory environment, and managerial objectives. The use of the natural logarithm of total assets as a proxy for firm size helps reduce extreme differences among companies and improves comparability across observations. This measurement approach provides a more consistent representation of corporate scale because asset values generally reflect the long-term capacity and operational strength of a company. Consequently, firm size measured through total assets remains an important variable in examining corporate behavior, particularly in relation to tax avoidance practices.

2.5 Transfer Pricing

Transfer pricing refers to the pricing of transactions between related parties. According to the Directorate General of Taxes Regulation No. PER-32/PJ/2011, it involves determining prices for transactions between entities with special relationships. [Wardana and Asalam \(2022\)](#) defines transfer pricing as a managerial tool for allocating revenue and costs among responsibility centers, while [Dewi and Suardika \(2021\)](#) emphasize its role in maximizing corporate profits within affiliated transactions. Although transfer pricing is legitimate, it may be misused to shift profits across jurisdictions. [Dewinta and Setiawan \(2021\)](#) explains that multinational enterprises often use transfer pricing to coordinate internal decision-making and optimize global tax burdens. [Kalbuana \(2021\)](#) highlight objectives such as profit maximization, market penetration, performance evaluation of subsidiaries, and tax minimization. [Dewi \(2019\)](#) identifies motivations including reducing income tax exposure, mitigating exchange rate risks, and preserving competitive positioning. Transfer pricing methods recognized internationally include the Comparable Uncontrolled Price (CUP), Resale Price Method (RPM), Cost Plus Method (CPM), Profit Split Method (PSM), and Transactional Net Margin Method (TNMM), each designed to comply with the arm's length principle.

Indonesian regulations, including Law No (1). 36 of 2008 on Income Tax and Minister of Finance Regulation No. 213/PMK.03/2016, require transactions between related parties to adhere to the arm's length principle and maintain proper documentation. Relationships are defined based on ownership, control, or family ties. Empirical measurement of transfer pricing often uses the proportion of related-party receivables to total receivables, as suggested by Dewi and Suardika (2021). This ratio reflects the intensity of affiliated transactions and serves as a proxy for potential transfer pricing activities that may influence tax avoidance.

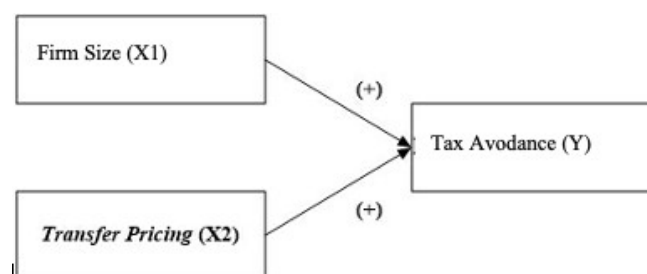


Figure 1. Research framework

Figure 1 shows the research framework of this study, which examines the effect of firm size (X_1) and transfer pricing (X_2) on tax avoidance (Y). Firm size and transfer pricing are positioned as independent variables, while tax avoidance serves as the dependent variable. The framework proposes that both firm size and transfer pricing are expected to have positive relationships with tax

avoidance, indicating that increases in company size and transfer pricing activities may potentially increase tax avoidance practices. These relationships are formulated into two hypotheses (H_1 and H_2) that are empirically tested in this study. Based on the theoretical framework described above, the research hypotheses are formulated as follows:

H_1 : Firm size has a positive effect on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period

H_2 : Transfer pricing has a positive effect on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period

3. Methodology

This study focuses on manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period and examines the effects of firm size and transfer pricing on tax avoidance. Firm size is measured using the natural logarithm of total assets, while transfer pricing is proxied by the proportion of related-party receivables to total receivables. Tax avoidance is measured using the Cash Effective Tax Rate (CETR), calculated as cash tax payments divided by pre-tax income. The population consists of 200 manufacturing companies, from which 69 companies were selected using proportionate stratified random sampling to ensure adequate representation across manufacturing subsectors. The unit of analysis consists of annual reports and audited financial statements obtained from the official IDX website and the respective company websites. The use of secondary financial data is consistent with previous studies examining tax avoidance and related corporate determinants among Indonesian listed companies ([Ardiles et al., 2024](#); [Baharudin et al., 2026](#); [Muhammad Daniel et al., 2025](#); [Yantri, 2022](#)). [Ardiles et al. \(2024\)](#), for example, investigated transfer pricing and other corporate determinants of tax avoidance using panel data from IDX-listed companies, while [Baharudin et al. \(2026\)](#) examined firm size as a determinant of tax avoidance.

The study employs a quantitative approach using secondary data collected through documentation methods ([Sugiyono, 2021](#)) and applies descriptive and verificative research designs to describe the variables and empirically test the proposed hypotheses. Data analysis is conducted using EViews and includes descriptive statistics such as the mean, standard deviation, minimum, and maximum values, followed by multiple linear regression analysis to examine the effects of firm size and transfer pricing on tax avoidance. Prior to regression analysis, classical assumption tests consisting of normality, multicollinearity, heteroscedasticity, and autocorrelation tests are performed to assess the suitability of the regression model. Correlation analysis is also conducted to determine the strength and direction of the relationships among variables. Hypotheses are tested using the t-test for partial effects and the F-test for simultaneous effects at a 5% significance level, while the coefficient of determination (R^2) is used to assess the explanatory power of the independent variables ([Ghozali, 2021](#)). This analytical framework is consistent with recent tax-avoidance research published by Goodwood Publishing, which has applied quantitative methods and secondary financial data to investigate transfer pricing, corporate governance, firm characteristics, and other determinants of corporate tax behavior ([Ardiles et al., 2024](#); [Muhammad et al., 2025](#); [Yantri, 2022](#)).

4. Results and Discussion

4.1 Results

This study examined 69 manufacturing companies listed on the Indonesia Stock Exchange over the 2020–2024 period, resulting in 345 firm-year observations. The sample was selected using proportionate stratified random sampling across three subsectors: basic and chemical industries, consumer goods industries, and miscellaneous industries. Data were obtained from audited annual reports published on the official IDX website and each company's website. Descriptive statistics indicate that firm size showed a gradual upward trend during the observation period, with the highest average recorded in 2024. Transfer pricing fluctuated, peaking in 2021 and declining steadily afterward. Meanwhile, tax avoidance, measured using Cash Effective Tax Rate (CETR),

was highest in 2020, decreased in 2021–2022, slightly increased in 2023, and declined again in 2024, suggesting overall moderate levels of tax avoidance among manufacturing firms.

The classical assumption tests revealed that the data were not normally distributed. However, no multicollinearity, heteroscedasticity, or autocorrelation problems were detected, indicating that the regression model met the required assumptions. Correlation analysis showed a very weak positive relationship between firm size and tax avoidance, and a very weak negative relationship between transfer pricing and tax avoidance. Multiple regression analysis demonstrated that both firm size and transfer pricing have negative but statistically insignificant effects on tax avoidance, both individually and simultaneously. The F-test confirmed that the independent variables jointly do not significantly influence tax avoidance. Furthermore, the coefficient of determination (R^2) was 0.51%, indicating that firm size and transfer pricing explain only a very small proportion of the variation in tax avoidance, while the remaining 99.49% is influenced by other factors not included in this study. Overall, the findings suggest that firm size and transfer pricing are not strong determinants of tax avoidance in Indonesian manufacturing companies during the study period.

4.2 Discussion

The study finds that both simultaneously and partially, firm size and transfer pricing do not have a significant effect on tax avoidance among manufacturing companies during the observed period. The F-test results indicate that, collectively, the independent variables fail to explain variations in tax avoidance, while the t-test results show negative and insignificant coefficients for both firm size and transfer pricing. The negative direction suggests that larger firms tend to engage less in tax avoidance, possibly due to greater public scrutiny, regulatory monitoring, and long-term strategic objectives that prioritize reputation and sustainability over short-term tax savings. Similarly, transfer pricing does not significantly influence tax avoidance, which may reflect stricter government regulations and tax policies that limit its effectiveness as a tax-minimization strategy. Theoretically, these findings are consistent with several previous studies reporting no significant relationship between firm size, transfer pricing, and tax avoidance. Practically, the results suggest that companies can improve performance through efficient resource management without relying on tax avoidance practices. Firms are therefore encouraged to implement tax planning strategies that comply with prevailing regulations to avoid sanctions and maintain investor trust. However, this research is limited by its relatively small sample size, the use of only two independent variables that explain a minimal portion of tax avoidance variation, and time constraints that may have restricted a more comprehensive analysis.

5. Conclusions

5.1 Conclusion

This study examined the impact of firm size and transfer pricing on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Using proportionate stratified random sampling, 69 firms were selected from a population of 200, and the data were analyzed through descriptive statistics and multiple linear regression with EViews 10. The findings indicate that neither firm size nor transfer pricing has a significant effect on tax avoidance. Contrary to the proposed hypotheses, both variables show a negative and insignificant relationship with tax avoidance. The results suggest that larger companies do not necessarily engage more in tax avoidance, as their substantial assets are generally allocated to operational financing rather than tax minimization strategies. Similarly, transfer pricing does not significantly influence tax avoidance, possibly due to regulatory policies and tax reforms that limit its effectiveness as a tax-saving mechanism. Overall, the study concludes that these two factors alone are insufficient to explain corporate tax avoidance practices.

5.2 Research Limitations

This study has several limitations that should be considered when interpreting the findings. First, this research focuses only on manufacturing companies listed on the Indonesia Stock Exchange (IDX), which may limit the generalizability of the results to companies operating in other sectors with different financial characteristics and business environments. Second, the study only examines profitability and leverage as determinants of financial distress, while other internal and external

factors, such as liquidity, company growth, cash flow, corporate governance, macroeconomic conditions, and market factors, may also influence financial distress conditions. Third, the study relies on secondary data obtained from annual reports and financial statements, which may limit the ability to capture qualitative aspects of managerial decisions and operational conditions that could affect financial difficulties. Therefore, the findings should be interpreted within the scope of the variables, sample characteristics, and observation period applied in this research.

5.3 Suggestions and Directions for Future Research

Future research is encouraged to expand the research scope by including companies from various industrial sectors and extending the observation period to provide more comprehensive evidence regarding the determinants of financial distress. Researchers may also consider incorporating additional variables, such as liquidity, cash flow, company size, sales growth, corporate governance mechanisms, ownership structure, and macroeconomic indicators to improve the explanatory power of the research model. Furthermore, future studies may apply alternative analytical approaches, such as panel data regression, logistic regression, or machine learning methods, to obtain deeper insights into predicting financial distress. Future researchers are also encouraged to use different measurements of financial distress and compare various prediction models, such as the Altman Z-Score, Springate, or other financial distress indicators, to evaluate the consistency of findings. Expanding the sample size and integrating both financial and non-financial factors would provide a more comprehensive understanding of the causes and prevention strategies of financial distress among companies.

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