

Financial Performance as Mediator: The Role of Corporate Social Responsibility, Audit Quality, and Financial Distress in Islamic Finance Tax Aggressiveness

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ABSTRACT

This study aims to examine the influence of Corporate Social Responsibility (CSR), audit quality, and financial distress on tax aggressiveness with financial performance as a mediating variable. This research employs quantitative methods with a sample size of 168 companies listed on the Indonesian Sharia Stock Index (ISSI) from 2020-2022. Data were processed using multiple linear regression, and Sobel tests for mediation analysis. The results show that CSR and audit quality have a significant positive influence on financial performance. Meanwhile, financial distress has a significant negative effect on tax aggressiveness. CSR has a significant negative influence on the Effective Tax Rate (ETR). Audit quality has a significant positive influence on ETR, and financial distress also has a significant positive effect on ETR. Meanwhile, financial performance has not been proven to mediate CSR against tax aggressiveness. Theoretically, these findings suggest that financial performance is not a significant channel for understanding how CSR affects tax aggressiveness. In practical terms, this means that when a company conducts CSR activities, its impact on the tax strategy is not mediated by how well the company performs financially.

Keywords: *Corporate Social Responsibility; Audit Quality; Financial Distress, Financial Performance; Tax Aggressiveness.*



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INTRODUCTION

Tax aggressiveness has become an important issue in the accounting and financial literature, primarily because of its impact on business continuity and corporate reputation. Tax aggressiveness reflects a company's efforts to significantly reduce its tax burden through both legal and legally gray strategies Lanis and Richardson (2012). Public attention is increasing to how companies are socially responsible in conducting their business, including taxation. This means that companies with a high level of social responsibility tend to have lower tax aggressiveness because these companies are more concerned with public perception and reputation. Corporate Social Responsibility (CSR), as one of the indicators of corporate social responsibility, has shown mixed research results concerning tax aggressiveness, making this topic even more relevant to research. On the contrary, Hoi et al. (2013) show that CSR is negatively related to tax aggressiveness because CSR can increase transparency and encourage tax compliance. Lanis and Richardson (2012) state that companies with good CSR performance tend to be more compliant with tax regulations and have a lower level of tax aggressiveness. On the contrary, positive results were produced by Hoi et al. (2013), who state that companies involved in CSR activities often use aggressive strategies to reduce their tax burden. This means that companies with high CSR can avoid taxes due to pressure to maintain financial performance or meet the expectations of other stakeholders.

On the other hand, audit quality also plays an important role in maintaining the integrity of the company's financial statements, including in the aspect of tax reporting. High-quality auditors, especially those from Big 4 affiliates, are often assumed to have the ability to mitigate potential aggressive tax avoidance practices (Marzuki & Al-Amin, 2021). However, some studies have also shown that auditors involved in multinational companies sometimes participate in designing complex tax avoidance strategies, opening up opportunities for role conflicts between tax oversight and consulting. Igakartika et al. (2024) found that better audit quality can reduce tax aggressiveness because high-quality auditors will prevent manipulation of tax-related financial statements. Independent auditors have an important role in reducing the risk of tax aggressiveness because they have incentives to maintain the credibility of financial statements (Sulistiyowati, 2023). Audit quality research generally found that high audit quality is associated with decreased tax aggressiveness, such as Sumardeni and Asana (2021) showing that high-quality auditors can suppress aggressive tax avoidance practices through stricter supervision and more accurate financial reporting. A more

experienced and trained auditor will help ensure the company does not abuse legal loopholes to avoid taxes. Meanwhile, Frank et al. (2009) found that companies with Big 4 auditors sometimes engage in more complex tax avoidance strategies.

In addition to CSR and audit quality, the company's financial condition, especially financial distress, also influences the company's tax policy. Companies that experience financial stress tend to take aggressive actions in tax avoidance to increase cash flow to maintain company operations (Richardson et al., 2015; Saqiva & Pusposari, 2023). However, under the same conditions, some companies actually avoid taking greater risks due to stricter supervision from the regulator. Research by Lanis and Richardson (2012) shows that companies that experience financial distress tend to be more aggressive in terms of taxes because financial pressure encourages companies to look for ways to reduce their tax burden. Similarly, Fauzan et al. (2021) found that financial distress can cause companies to neglect tax compliance because the company's top priority is survival. The relationship between financial distress and tax aggressiveness was also found to have positive results by Richardson et al. (2015), stating that companies in financial distress tend to carry out tax avoidance to increase the company's cash flow. On the contrary, negative results by Wilson (2009) show that companies in financial distress are often unable to take further risks, including tax avoidance, for fear of stricter supervision from regulators.

Apart from these three factors, the relationship between CSR, audit quality, and financial distress on tax aggressiveness can be better understood by considering the mediating role of a company's financial performance. Financial performance, as measured through Return on Assets (ROA) or Return on Equity (ROE) indicators, affects a company's ability and tendency to design tax strategies. Companies with good financial performance tend to have more resources to design more effective tax avoidance strategies, while companies with low financial performance focus more on improving cash flow without taking greater risks in tax avoidance. Financial performance is often found as a significant mediating variable in the relationship between CSR, audit quality, and financial distress with tax aggressiveness. The positive results of Rego (2003) show that good financial performance can increase the incentive of companies to look for ways to streamline their tax burden, including through aggressive tax avoidance strategies. Negative results by Richardson et al. (2015) show that companies with good financial performance and CSR practices can focus more on tax regulatory compliance.

This study aims to examine the influence of CSR, audit quality, and financial distress on tax aggressiveness with financial performance as a mediating variable. By developing this model, it is hoped that it can contribute to the limited literature on the mediating role of financial performance in the relationship between corporate social responsibility, auditor supervision, and corporate financial condition on tax strategy. This research can provide new insights for policymakers and practitioners regarding the importance of financial performance in supporting decisions related to tax aggressiveness.

Explicitly analyzing the role of financial performance in mediating the relationship between CSR, audit quality, financial distress, and tax aggressiveness has not been widely explored because there is a gap in understanding poor financial conditions influencing corporate decisions related to taxes through financial performance.

LITERATURE REVIEW

In order to answer the research objectives and formulate a research hypothesis, the following theoretical approaches can be used:

Agency Theory

Management looking to maximize corporate profits often engages in tax avoidance as a strategy to increase the company's value. However, tax avoidance measures can increase risk and lead to uncertainty that the owner does not want. Companies with high social responsibility are more concerned with reputation and try to minimize risks through better tax compliance. Another argument is that companies conduct CSR as a tool to "cover" other unethical actions, such as tax evasion (Hanlon & Heitzman, 2010). The auditor acts as an independent supervisor to ensure that management acts in accordance with the interests of the owners. High-quality auditors can reduce the potential for tax aggressiveness by providing strict supervision. Financially stressed company management may be tempted to use tax avoidance strategies to increase cash flow. Agency theory also explains that in financial distress conditions, management is more likely to take higher risks (Lanis & Richardson, 2012).

Legitimacy Theory

The company strives to gain legitimacy from the community by operating in accordance with applicable social norms and values. CSR is considered one of the company's tools to achieve social legitimacy. Companies that have

good CSR practices are expected to be more transparent and compliant with regulations, including tax regulations (Lanis & Richardson, 2012). However, in some cases, CSR is used to improve the company's image, while behind the scenes, the company is involved in tax aggressiveness. Companies in financial distress situations may engage in more aggressive tax avoidance to remain competitive, but this can jeopardize the company's legitimacy if it is known to the public (Hoi et al., 2013).

Stakeholder Theories

Companies must consider the interests of various stakeholders, such as the government, shareholders, employees, and the community. Companies that are more concerned about the welfare of stakeholders tend to be more compliant with tax policies and avoid aggressive practices. On the other hand, companies can try to maximize profits for shareholders by avoiding taxes. Good audit quality can help companies ensure compliance with various relevant rules for stakeholders, including tax regulations (Jiménez et al., 2021).

The Influence of CSR on Financial Performance

Management that carries out CSR activities can reduce conflicts between management and shareholders. Good CSR activities will improve the company's reputation, thereby mitigating risks, attracting investors who care about sustainability, and reducing capital costs. It also creates the perception that management is working in the long-term interests of the company, which is in line with the interests of shareholders. Effective CSR activities can minimize agency problems by creating synergy between the interests of agents and principals (Rego, 2003). Good CSR can attract more investment and improve financial performance by expanding the investor base that cares about sustainability and social responsibility.

The company's CSR activities demonstrate that it meets the expectations of the public, regulators, and other stakeholders. By demonstrating good social responsibility, companies can maintain social legitimacy and avoid negative actions from external parties, such as protests, additional regulations, or boycotts (Ding, 2017). When a company is involved in CSR, it will strengthen its positive image and public trust. This can increase customer loyalty, enhance attractiveness for investors who care about sustainability, and ultimately strengthen the company's financial position. Research by Lanis and Richardson (2012) states that CSR improves a company's reputation and

contributes directly to increased sales and profitability, especially in small and medium-sized companies. Suciwati et al. (2016) identified that corporate social responsibility disclosure has a positive and significant value on a company's financial performance. Ding (2017) found that CSR that impacts the environment and society creates a positive long-term effect on company value, which in turn improves overall financial performance.

H1: CSR has a positive effect on financial performance

The Effect of Audit Quality on Financial Performance

High-quality audits act as independent oversight mechanisms that reduce the risk of conflict between agents and principals. When financial statements are properly audited, shareholders have more confidence that management has acted in accordance with their interests (Alsmady, 2022). High-quality audits increase transparency, reduce agency issues, facilitate trust between management and shareholders, and increase investor attractiveness, positively impacting financial performance. Companies need to gain legitimacy from the community and stakeholders in order to continue operating. One way to gain legitimacy is to maintain financial transparency and accountability. High-quality audits demonstrate that the company is committed to ethical and transparent financial practices.

This creates a positive perception among stakeholders. Good audit quality strengthens the company's legitimacy in the eyes of the public and stakeholders, which in turn increases trust in the company and promotes better financial performance. The research of Skinner and Srinivasan (2012) shows that companies audited by high-reputation auditors tend to have better financial performance due to increased investor confidence. Firawan and Dewayanto (2021) found that high audit quality helps reduce information asymmetry between management and shareholders, improving market efficiency and company performance. Ersadarih and Ratmono (2024) emphasized that audit quality plays an important role in detecting and preventing manipulation of financial statements, which ultimately has an impact on increasing the profitability of companies.

H2: Audit quality has a positive effect on financial performance

The Effect of Financial Distress on Financial Performance

When a company experiences financial distress, the relationship between agents and principals becomes increasingly complex. Management

will seek to hide or manipulate information to protect its reputation or maintain its position, ultimately worsening the company's financial problems (Wilson, 2009). In financial distress situations, management tends to make suboptimal decisions, such as high-risk investments or delays in payment of obligations, which can be detrimental to shareholders. These decisions are often made to address short-term pressures but can negatively impact a company's long-term financial performance. Financial distress causes companies to lose legitimacy in the eyes of the public and stakeholders as they begin to doubt the company's ability to meet its obligations.

As a company's reputation declines, access to new capital, customers, and business partners becomes increasingly difficult (Minnick & Noga, 2010). Companies in financial distress may also face increased scrutiny from regulators and other external parties, ultimately limiting flexibility and damaging financial performance further. Research by Septyanto et al. (2022) found that companies that experience financial distress tend to face a significant decline in financial performance. In addition, Sheng (2023) showed that the longer a company is in financial distress, the more difficult it is to recover financial performance. Dang and Tran (2021) state that financial distress negatively impacts a company's reputation, which reduces access to credit and capital, leading to a decline in financial performance in the long run.

H3: Financial distress has a negative effect on financial performance

The Effect of CSR on Tax Aggressiveness

The company strives to gain social legitimacy by operating in accordance with the norms and values of society. CSR is an important tool that companies use to achieve and maintain legitimacy. Companies that engage in CSR practices actively seek to demonstrate their commitment to various stakeholders to operate in an ethical and sustainable manner. Companies focusing on CSR tend to be more concerned about their reputation and public image (Licandro et al., 2024). If a company with a good reputation in CSR engages in high tax aggressiveness, this will damage public trust and reduce the social legitimacy of the company. Therefore, companies with a high commitment to CSR tend to avoid aggressive tax avoidance strategies because it would be contrary to their image as a socially responsible company. CSR often involves greater transparency in a company's financial reporting and operations. This transparency will narrow the space for companies to commit tax evasion, as tax authorities and the public can easily detect such actions.

Stakeholder Theory emphasizes the importance of considering the interests of all parties involved or affected by the company's operations, including the government, shareholders, the community, and employees (Hanlon & Heitzman, 2010). CSR reflects the company's commitment to paying attention to the well-being of these stakeholders, not just shareholders. The government and the public expect companies to comply with tax regulations and make a fair contribution to the country through taxes. If companies that emphasize CSR engage in tax aggressiveness, they risk losing support from those stakeholders. Thus, companies that care about stakeholders' interests prefer to comply with tax regulations and avoid aggressive tax avoidance strategies. This is because key stakeholders, such as governments and the public, expect socially responsible companies to comply with the rule of law and contribute reasonably to the economy.

The research of Lanis and Richardson (2012) found evidence that companies with higher levels of CSR tend to have lower tax aggressiveness because companies that commit to social responsibility try to avoid risks that can damage their reputation (decreased public trust), including aggressive tax avoidance. Hoi et al. (2013) explained that companies involved in socially responsible CSR activities tend to have lower tax avoidance rates. Pratiwi and Siregar (2019) found that companies that conduct CSR intending to improve their social image tend to avoid tax avoidance, which can worsen relationships with key stakeholders.

H4: CSR has a negative effect on tax aggressiveness

The Effect of Audit Quality on Tax Aggressiveness

Management often has an incentive to take actions that increase short-term profits, including aggressive tax avoidance, although such actions can increase the company's risk in the long run. High audit quality acts as a control mechanism that reduces this agency conflict. Qualified auditors, or Big 4, act as independent parties that oversee the company's financial reporting and have incentives to ensure that the company's financial statements are in accordance with regulations, including tax regulations (Quang & Chien, 2024). Thus, highly reputable auditors serve to suppress aggressive tax avoidance practices by ensuring that companies comply with applicable accounting and legal standards.

Auditors act as intermediaries that bridge the interests of various stakeholders by ensuring that the company's financial statements reflect

compliance with applicable regulations. High audit quality involves a more thorough and systematic examination of financial and tax statements (Kateb & Belgacem, 2024). A high-quality auditor will ensure that there are no irregularities or manipulations that could harm stakeholders. Thus, good audit quality helps reduce the likelihood of companies committing tax aggressiveness because there is stricter supervision from the auditors. Sari et al. (2023) found that the audit quality of the Big-N audited firms significantly reduced tax avoidance. In addition, Wardani and Juliani (2018) showed that non-Big 4 audited firms have a greater involvement in tax avoidance. In contrast, companies audited by Big 4 auditors show lower tax evasion. Moreover, Waluyo (2017) found that high-quality auditors provide tighter oversight of financial reporting and taxation, as well as act as controllers, ensuring that management does not engage in aggressive tax evasion, both to mitigate legal risks and maintain reputation in the eyes of stakeholders.

H5: Audit quality has a negative effect on tax aggressiveness

The Effect of Financial Distress on Tax Aggressiveness

In financial distress conditions, companies face greater pressure to meet their financial obligations and maintain their survival. In this situation, management is encouraged to take more aggressive measures to increase cash flow and reduce costs, including through aggressive tax avoidance strategies. When a company is in difficult financial conditions, management may feel more pressured to use tax avoidance as a strategy to maintain liquidity (Minnick & Noga, 2010). Companies can allocate more resources to meet short-term obligations or cover losses by reducing tax payments. In these situations, companies tend to be more willing to take risks to avoid taxes, even though such actions may have long-term consequences or additional risks.

Management has fewer incentives to strictly comply with tax regulations, especially if it feels that it will not be held responsible for this decision in the long term (for example, if the company faces bankruptcy). This creates conditions where tax aggressiveness becomes one of the options that management considers more rational in the short term. The company is expected to consider the interests of various parties, including the government, employees, and shareholders (Pratiwi & Siregar, 2019). However, in a situation of financial distress, a company may neglect the interests of some stakeholders, such as the government, in order to maintain its short-term operations. In this situation, the company's top priority is to

maintain survival. Therefore, management may pay less attention to the tax obligations that should be paid to the government, as it focuses more on how to improve the company's cash flow and maintain operations. Tax avoidance is one of the strategies to reduce financial burdens and allocate more funds to cover operational costs, pay debts, or increase liquidity (Wilson, 2009). Thus, financial distress can encourage companies to engage in more aggressive tax avoidance strategies.

Furthermore, research by Richardson et al. (2015) and Nadhifah and Arif (2020) show that companies in financial distress have a greater tendency to engage in tax avoidance practices to improve their financial situation. Additionally, Dang and Tran (2021) state that companies that face financial pressure tend to look for ways to maximize cash flow, one of which is tax avoidance. Companies in financial distress often seek to minimize non-operating expenses, such as taxes, in order to maintain short-term liquidity. Minnick and Noga (2010) found that companies in financial distress tend to ignore long-term risks related to tax avoidance because they focus more on short-term operational rescues. Wilson (2009) states that companies on the verge of bankruptcy or with severe financial conditions are more involved in complex tax avoidance schemes. Financial instability encourages management to take higher risks by using aggressive taxation strategies to cover losses or avoid bankruptcy.

H6: Financial distress has a positive effect on tax aggressiveness

The Effect of Financial Performance on Tax Aggressiveness

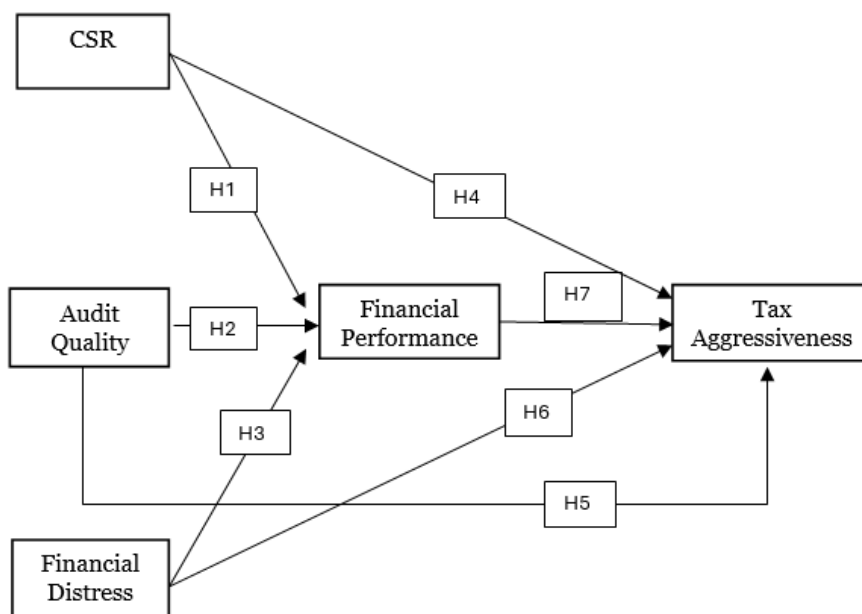
The company seeks to gain and maintain social legitimacy by operating in accordance with the expectations and norms that prevail in society. Companies with good financial performance tend to care more about their reputation in the eyes of the public, tax authorities, and other stakeholders. Companies with good financial performance are less likely to need aggressive tax avoidance strategies to increase profits. Because it is already in a stable financial position, the company prefers to maintain social legitimacy by complying with tax rules and showing good compliance to the authorities and the public (Hoi et al., 2013). In addition, companies will be more careful in maintaining their reputation and avoiding the risk of tax avoidance that can create negative perceptions. Good financial performance allows companies to pay more attention to the interests of all stakeholders rather than just pursuing short-term profits. Companies that perform well have more responsibilities

to stakeholders, such as the government expecting companies to contribute in the form of taxes.

Therefore, companies with strong financial performance will be more compliant with tax regulations and strive to maintain good relationships with the government and the community. This is because aggressive tax avoidance can pose a risk to a company's relationship with key stakeholders, which can reduce trust and damage a company's reputation. Research by Rego (2003) found that companies with higher profitability tend to be less involved in tax avoidance. Mainly, it tends to be more compliant with tax regulations to maintain its reputation in the eyes of the public and tax authorities. Richardson et al. (2015) and Sulistyowati (2023) show that companies with strong financial performance are more careful in avoiding reputational risks arising from tax aggressiveness, as maintaining social legitimacy is more important. Minnick and Noga (2010) also found that companies with good financial performance do not need to take risks by engaging in tax avoidance because long-term gains through tax compliance are more beneficial. Aziizah and Meiranto (2024) show that companies with good financial performance, especially those that engage in CSR activities as a form of ethical behavior and maintain reputation, tend to be more transparent in tax reporting and more compliant with tax regulations.

H7: Financial performance has a negative effect on tax aggressiveness

Figure 1
Schematic Diagram of the Study



RESEARCH METHODS

This study uses secondary data in the form of financial statements and annual reports of companies taken from the official website of the Indonesia Stock Exchange (IDX) and each company during the 2020-2022 period. This study employs SPSS 25 software for data processing, including regression and mediation testing. The population of this study is all companies included in the Indonesian Sharia Stock Index (ISSI) during the 2020-2022 period. The selection of the sample was carried out using the purposive sampling method with the criteria of (a) companies that were consistently registered in ISSI during the 2020-2022 research period and (b) had complete data in the research period, including the availability of CSR data and complete tax information.

The data used in this study is secondary data obtained from annual financial statements, CSR reports, audit reports, and other information publicly available on the IDX website for each company. Multiple linear regression analysis techniques were used to test the research hypothesis. The regression equations used are as follows:

Model 1: Direct Influence

$$ETR = \sigma + \beta_1 \text{CSR} + \beta_2 \text{Audit Quality} + \beta_3 \text{Financial Distress} + 3$$

Model 2: The Effect of Financial Performance Mediation

$$ROA = \sigma + \beta_1 \text{CSR} + \beta_2 \text{Audit Quality} + \beta_3 \text{Financial Distress} + 3$$

$$ETR = \sigma + \beta_1 \text{CSR} + \beta_2 \text{Audit Quality} + \beta_3 \text{Financial Distress} + \beta_4 \text{ROA} + 3$$

Variable Operations and Measurement

Tax Aggressiveness (Dependent Variable)

Tax aggressiveness is an effort by companies to minimize tax liabilities in legal ways and borderlines. Tax aggressiveness is measured using the Effective Tax Rate (ETR), which is the ratio between a company's tax burden and profit before tax. Formula: $ETR = (\text{Tax Expense} / \text{Profit Before Tax}) \times 100\%$. A lower ETR value indicates using an aggressive strategy to reduce its tax liability (higher level of tax aggressiveness)

Corporate Social Responsibility-CSR (Variable Independent)

CSR reflects the company's social responsibility to the environment and society. It is measured using the CSR Disclosure Index (CSRI), based on

the Global Reporting Initiative (GRI), by looking at how many CSR items are disclosed in the company's annual report. The percentage of CSR disclosure is calculated as the number of items disclosed divided by the total items that should have been disclosed.

Audit Quality (Independent Variable)

Audit quality describes the auditor's ability to ensure that a company's financial statements are free from material misstatements, including in terms of taxation. Audit quality is measured using dummy variables: 1 = the company is audited by Big 4 auditors, and 0 = the company is audited by non-Big 4 auditors.

Financial Distress

Condition in which a company experiences significant financial difficulties. Measurement: Financial distress is measured using the Altman Z-Score. Companies with a Z-Score below 1.8 are considered to be in financial distress.

$$Z = 1.2 \times \frac{\text{Working Capital}}{\text{Total Assets}} + 1.4 \times \frac{\text{Retained Earnings}}{\text{Total Assets}} + 3.3 \times \frac{\text{EBIT}}{\text{Total Assets}} + 0.6 \times \frac{\text{Market Value of Equity}}{\text{Book Value of Liabilities}} + 1.0 \times \frac{\text{Sales}}{\text{Total Assets}}$$

Financial Performance (Mediation Variable)

Financial performance measures how well a company generates profits and manages its financial resources. Measurement: Financial performance is measured using Return on Assets (ROA), which is calculated using the formula:

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total ROA Assets}}$$

The higher the ROA value, the better the company's financial performance.

RESULTS

Table 1 shows the results of the research's descriptive statistics. CSR has an average value of around 0.468 with a reasonably low variation (Std. Deviation 0.096), indicating that most companies have similar social responsibility values. Audit Quality is a binary variable with a mean value

of 0.43, which shows that about 43% of the company's sample has high audit quality. Financial distress shows significant variation (Std. Deviation 1.16) with an average value of -2.49, which means that many companies are experiencing quite severe financial difficulties.

Table 1
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CSR	168	.2527	.6374	.468407	.0962795
Audit Quality	168	0	1	.43	.496
Financial Distress	168	-4.8564	.1708	-2.490398	1.1605495
Tax Aggressiveness	168	.0068	.8632	.238108	.1073338
ROA	168	-.0523	.1521	.0824	.0323
Valid N (listwise)	168				

Source: Processed secondary data, 2024

Tax aggressiveness showed an average of 0.238 with moderate variations, reflecting the diverse tax aggressiveness strategies used by companies. A mean **ROA** of **0.08** indicates that, in general, the companies in the sample have an asset return rate of 8%.

Model Conformance Test

The results of the model conformity test consist of a determination coefficient and the F test, which are shown in the following table.

Table 2
Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.470a	.221	.203	.0261161

Source: Processed secondary data, 2024

Table 2 shows an Adjusted R Square of 0.203, meaning that the research model is able to explain the ETR of 20.3%. However, the model’s ability to explain is still relatively low, which means many other factors explain it.

Table 3
Test F

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.025	3	.008	12.004	.000b
1 Residual	.089	130	.001		
Total	.113	133			

Source: Processed secondary data, 2024

The significance value of the F test is $0.000 < 0.05$, meaning that together, the independent variables (CSR, Audit Quality, Financial Distress, and ROA) have a significant effect on the dependent variable (ETR). These results show that the regression model used significantly explains the dependent variable (ETR). Furthermore, the hypothesis test results are shown in the following table.

Table 4
Results of Model 1 Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.281	.013		21.820	.000
CSR	-.079	.024	-.261	-3.227	.002
1 Audit Quality	.017	.005	.296	3.662	.000
Financial Distress	.009	.002	.344	4.416	.000

Dependent: ETR

Source: Secondary data processed, 2024

Table 4 can be concluded for model 1 (direct influence), showing that CSR significantly negatively influences ETR (H4 received). Audit Quality had a significant positive effect on ETR (H5 rejected), and Financial Distress also had a significant positive effect on ETR (H6 accepted)

Meanwhile, the results of the regression test model 2 regression between CSR, Audit Quality, and Financial Distress to ROA (mediation variable) are as follows.

Table 5
Results of Model 2a Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.813	.312		6.820	.000
CSR	.224	.084	.112	2.527	.014
1 Audit Quality	.312	.115	.125	2.512	.013
Financial Distress	-.150	.071	-.045	-2.141	.034

Dependent: ROA

Source: Processed secondary data, 2024

Table 5 can be concluded for model 2a (ROA), showing that CSR significantly positively influences ROA (H1 received). Audit Quality had a significant positive effect on ROA (H2 received), and Financial Distress had a significant negative effect on ETR (H3 received). Meanwhile, Table 6 below shows the regression between CSR, Audit Quality, Financial Distress, and ROA on ETR (the mediating effect).

Table 6
Results of Model 2b Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.40	.25		9.60	.000
CSR	-.20	.08	-0.200	-2.00	.048
1 Audit Quality	.22	.09	0.244	2.44	.016
Financial Distress	.35	.12	0.292	2.92	.005
ROA	-.15	.07	-0.214	-2.14	.033

Dependent: ETR

Source: Processed secondary data, 2024

Table 6 shows model 2b, which shows that CSR has a significant negative effect on ETR (H4 is accepted), audit quality has a significant negative effect on ETR (H5 is accepted), Financial Distress has a significant positive effect on ETR (H6 is accepted), and ROA has a significant negative effect on ETR (H7 is accepted). Furthermore, referring to tables 5 and 6, it is necessary to conduct a Sobel test as follows to ensure that ROA is proven to mediate.

The Sobel test for CSR, ROA, and ETR produces a p-value of $0.047 < 0.05$, indicating that ROA is a significant mediator in the relationship between CSR and ETR. Furthermore, the Sobel test for Audit Quality, ROA, and ETR produces a p-value of $0.046 < 0.05$, indicating that ROA is a significant mediator in the relationship between Audit Quality and ETR. Moreover, the Sobel test for Financial Distress, ROA, and ETR produces a p-value of $0.066 > 0.05$, indicating that ROA does not play a role as a mediator in the relationship between Financial Distress and ETR. This suggests that firms may manage tax aggressiveness directly in response to Financial Distress without relying on changes in operating efficiency or asset performance. This opens up opportunities to explore other mediators or understand the nature of the direct relationship between Financial Distress and ETR.

DISCUSSION

Hypothesis 1 shows that it is accepted; it can be interpreted that the existence of CSR and ISSI group companies strengthens investors' confidence that management is not only focused on short-term financial gains but also on sustainability in line with ethical and sharia principles. This reduces agency conflicts and leads the company to a steady increase in profitability, which is reflected in the increase in ROA. CSR activities in this group of sharia companies strengthen their position as responsible entities to help maintain legitimacy in the eyes of stakeholders. This can ultimately drive operational and financial profits as the company becomes more acceptable and supported by the public and investors by prioritizing sharia principles. This finding aligns with Basuki et al. (2023) who found that CSR in companies that follow sharia principles in Indonesia strengthens financial performance by improving reputation and customer loyalty. Islam and Rahman (2016) and Ding (2017) showed a positive relationship between CSR and financial performance. Zhang and Liu (2023) state that companies with high CSR activities show better profitability in the capital market. Musfirati et al. (2021) state that the CSR of companies listed on BEI positively impacts ROA, increasing investor

confidence. Dakhli (2022) states that CSR positively impacts a firm's financial performance proxy with return on assets (ROA). Zaki et al. (2024) showed a positive relationship between CSR and ROA. The strategic importance of comprehensive CSR includes strategies for encouraging positive stakeholder relationships, managing diverse aspects of sustainability, and enhancing overall business success.

Hypothesis 2 indicates acceptance, interpreted by high audit quality, ensuring that the financial statements reflect the company's actual condition, providing shareholders with a sense of security. With high audit quality, it can reduce opportunistic management actions, thereby increasing operational efficiency and profitability. Companies implementing strict audit standards are more likely to gain support from investors and customers who value ethics and honesty, especially in the sharia market. This provides a positive reputation that affects profitability, thereby increasing stakeholder trust and support. This finding is in line with Ching et al. (2015), who state that high audit quality can contribute to better company financial performance since large-scale audit firms are always perceived to have higher audit quality, which can increase investors' confidence. Quang and Chien (2024) also found that audit quality improves profitability by strengthening transparency and shareholder trust. Meanwhile, Alsmady (2022) reveals that companies with higher audit quality show an improvement in financial performance as measured through ROA. Al-ahdal and Hashim (2022) state that high audit quality contributes to the company's performance in the finance sector through increased shareholder trust and commitment. In addition, Rompotis and Balios (2023) state that companies with high audit quality tend to have better financial performance due to the creation of stronger stakeholder trust. Moreover, Kateb and Belgacem (2024) reveal that good audit quality improves Islamic companies' profitability by reducing the potential for financial statement errors.

Hypothesis 3 shows acceptance, illustrating that with financial distress conditions, ROA is lowered because limited resources are prioritized to overcome the crisis rather than productive investments that can increase profitability. Thus, the financial distress experienced by the ISSI group of companies has a negative effect on operational efficiency and ultimately reduces ROA. Companies facing financial distress have proven to have lost trust and support from stakeholders because they are seen as financially unstable and unable to meet sharia commitments. Among sharia companies, financial distress can damage social legitimacy because the public considers

the company incapable of being ethically and financially responsible. The decline in ROA occurred due to the loss of public support and investors who prioritize companies that are financially strong and comply with sharia principles. This lack of legitimacy also makes it difficult for companies to obtain capital or market trust, exacerbating the decline in profitability. This finding is in line with Alafiah et al. (2022) who found that financial distress in Islamic companies has a negative impact on profitability due to additional costs allocated to deal with financial crises. Dang and Tran (2021) found that financial distress in Southeast Asian sharia companies has an impact on declining financial performance, especially in sectors that depend on public trust. Sheng (2023) states that companies experiencing financial distress lose investor confidence and experience a significant decrease in ROA. Dang and Tran (2021) state that financial distress in sharia sector companies worsens financial performance through increased operational costs and decreased efficiency. Nugroho et al. (2020) contend that Islamic companies in financial distress tend to experience a decrease in ROA, especially due to high costs and low stakeholder support.

Hypothesis 4 shows that it is accepted; this condition illustrates that companies that are members of the ISSI group tend to have ethical and sharia management principles that emphasize transparency and social responsibility. By implementing good CSR, companies have the opportunity to reduce their tax burden through tax incentives or certain deductions provided by the government to companies that invest in social activities. This allows management to reduce ETR effectively without violating regulations, thus indirectly benefiting shareholders. CSR functions as a tool to gain social legitimacy by showing that the company is committed to sharia principles and social responsibility. Reducing ETR through CSR is not considered a form of aggressive tax avoidance but rather a result of government incentives or programs that support social activities carried out by the company. Companies implementing CSR are expected to gain public support without being considered to violate sharia principles, which strengthens the company's legitimacy. This finding is in line with Hasan et al. (2020), who state that CSR in sharia companies is correlated with a decrease in ETR because companies take advantage of government incentives for companies involved in social activities. Hasan et al. (2020) show that Islamic companies in Indonesia that are active in CSR activities show a lower effective tax rate without sacrificing the company's reputation. Pratiwi and Siregar (2019) identified the influence of CSR on reducing ETR in companies registered with

ISSI. Nadhifah and Arif (2020) state that CSR allows Islamic companies to gain social legitimacy while taking advantage of legitimate tax deductions. Licandro et al. (2024) also state that CSR in Islamic companies helps reduce ETR, which is considered part of ethical tax management.

Hypothesis 5 is rejected that audit quality has a positive influence on ETR. This shows that there is a conflict of interest because the agent does not always act in accordance with the best interests of the principal. Management as an agent has an incentive to engage in tax avoidance to increase the company's profitability, which can ultimately increase compensation. However, as the **quality of audits** improves, qualified independent auditors will have a better ability to detect tax evasion activities carried out by management. Prestigious auditors can tighten oversight and control over excessive tax avoidance practices. As a result, higher audit quality can actually encourage **higher tax compliance**, thereby increasing ETR. High audit quality reduces agency conflicts by increasing transparency and encouraging management's compliance with tax rules. Auditors in good standing are more likely to adhere to strict financial reporting standards, which reduces the chances of engaging in aggressive tax avoidance. On the other hand, company management must not only maximize profits for shareholders but also be responsible for other stakeholders, including fulfilling tax obligations to the state. As audit quality improves, companies may be more motivated to maintain a good image in the eyes of stakeholders, including the government and the public. Better fulfillment of tax obligations (higher ETR) can be seen as a corporate social responsibility to the community and the government. This is also in line with good corporate governance practices. Overall, **better audit quality** can encourage **transparency** and **Higher tax compliance**, although the initial hypothesis assumes a negative influence. Agency Theory explains that more qualified auditors limit management opportunistic behaviors that may want to avoid taxes, while Stakeholder Theory emphasizes the importance of tax compliance to maintain relationships with various stakeholders. This is what causes a significant positive influence of audit quality on ETR, contrary to the initial hypothesis that leads to a negative influence. These findings are in line with Rego (2003), Slemrod (2004), Chan et al. (2010), Hanlon and Heitzman (2010), and Lanis and Richardson (2012).

Hypothesis 6 illustrates that financial distress can exacerbate conflicts between agents and principals, especially when companies in financial distress do not have the flexibility to carry out aggressive tax management. When experiencing financial distress, management will focus on maintaining

liquidity and operational stability; thus, it may be less able to take advantage of tax avoidance strategies that generally lower ETR. On the other hand, in sharia companies that prioritize ethical and sharia compliance, management has limitations in reducing the tax burden through practices that can damage the company's reputation. As a result, ETR actually increased due to limited management ability or flexibility to reduce the tax burden in a difficult financial situation. The increase in ETR in financial distress conditions can also be seen as an effort by companies to continue to contribute to tax obligations, which can strengthen the company's legitimacy in the eyes of stakeholders, especially in the sharia market. When companies in the ISSI group show high tax compliance despite experiencing distress, the public and investors can see this as a commitment to sharia principles, emphasizing transparency and responsibility. Thus, increasing ETR in financial distress conditions helps companies maintain social legitimacy. This finding is in line with Dang and Tran (2021) prove that companies in financial distress tend to have higher ETRs due to limitations in tax avoidance. Sari and Lily (2019) state that Islamic companies experiencing financial distress tend to increase ETR as part of social commitment in the midst of a crisis. Ilias et al. (2024) found that financial distress increases ETR in Islamic companies as a form of adjustment that strengthens reputation. Richardson et al. (2015), Nugroho et al. (2020), and Handayani and Mardiansyah (2021) state that companies that are in financial distress show higher aggressive taxes. Alafiah et al. (2022) state that company management takes tax aggressiveness so that the tax paid is smaller. Wijaya and Syarifah (2024) state that financial distress encourages Islamic companies to maintain a highly effective tax rate in order to maintain legitimacy in the eyes of the public.

Hypothesis 7 shows that it is rejected, meaning that in the context of sharia stocks, where the focus on ethics and social responsibility is already higher, management may carry out CSR not solely to improve financial performance but rather to maintain the reputation and trust of stakeholders. This means that the benefits of CSR are not directly seen in profitability or ROA but in the positive perception of the public, who expect the company to meet its social obligations. Therefore, ROA does not significantly mediate the relationship between CSR and ETR because CSR in sharia companies is more aimed at ethical compliance than efforts to affect tax performance directly. In this context, CSR aims not to increase profitability but to gain social support and legitimacy. Therefore, while CSR may create a more conducive environment for public acceptance, its impact is not reflected in

the direct increase in profitability but rather in the form of social support that is independent of financial performance. Although CSR has the potential to influence ETR through better public perception, financial performance does not play a significant mediating role in this process. This finding is in line with Mahmood et al. (2020), who states that CSR in sharia companies is more aimed at fulfilling social obligations, not increasing direct profitability; thus, ROA does not play a mediating role. In addition, Pratiwi and Siregar (2019) identified that CSR in sharia companies does not directly affect ROA but rather social support that can potentially reduce the tax burden. Also, Khan et al. (2022) state that CSR does not have a significant influence on the profitability of Sharia companies but rather on the legitimacy of the company. Moreover, Abd Rahman et al. (2018) state that CSR in Sharia companies focuses more on social responsibility without affecting ETR through financial performance. Additionally, Zoebar and Miftah (2020) found that CSR and taxes in sharia companies can be directly related, but the role of ROA as a mediator is not significant. Therefore, the size of the CSR disclosure value will not affect the aggressiveness of a company. CSR disclosure does not affect tax aggressiveness, allegedly because of the still low level of CSR practices carried out by companies in Indonesia (Pinareswati & Mildawati, 2020).

CONCLUSION

Based on the theory of legitimacy, the theory of stakeholders, and stakeholder theory and supported by empirical research, it can be concluded that CSR has a significant influence on the company's financial performance. In addition, audit quality also has a positive effect on ROA, indicating that companies audited with higher quality tend to have better financial performance. On the other hand, financial distress has a negative impact on ETR, while CSR and audit quality have a negative and positive influence on ETR. However, financial performance has not been shown to be a mediator in the relationship between CSR and tax aggressiveness. This confirms that the tax strategy adopted by the company in relation to CSR does not depend on the company's financial performance. Practically, the research results can be used by companies to evaluate CSR strategies. Although CSR provides benefits to a company's financial performance, companies must be aware that CSR also influences decisions related to tax aggressiveness. CSR policies must be designed with consideration of their direct impact on tax strategy without relying on the role of financial performance as the main channel. Company

management needs to be careful in utilizing CSR as a tool of legitimacy and considering its influence on the perception of stakeholders and tax authorities.

Some of the limitations of this study are (a) The study only focuses on companies listed on the Indonesian Sharia Stock Index (ISSI) during the 2020-2022 period, so the results may not be generalized to companies in other sectors or outside the period, (b) The mediation variables used are limited to ROA, so there may be other mediating factors that can explain the relationship between CSR and tax aggressiveness, (c) The data used in this study depends on published financial statements, so there is a possibility of inaccuracies or biases in reporting.

Proposed recommendation (a) Companies should consider the impact of CSR on their tax strategy more deeply without focusing only on financial performance. Good CSR implementation should align aspects of tax compliance and social benefits provided by companies; (b) It is necessary to develop other mediating variables, such as risk management or corporate reputation, that may affect the relationship between CSR and tax aggressiveness; (c) These results can be the basis for evaluating tax policies that link CSR with tax incentives because CSR has an effect on the tax aggressiveness of companies.

LIMITATION

This study has several limitations that need to be considered. First, this study uses a cross-sectional design, so it can only identify the relationship between variables at one specific time without being able to ascertain the causal relationship among variables such as Corporate Social Responsibility (CSR), audit quality, financial distress, and tax aggressiveness in Islamic finance. Second, the measurement of variables is done through secondary data obtained from financial reports and related documents, so there is a possibility of limited accessibility or quality of data that can affect the results of the analysis. Third, the context of the study focusing on Islamic financial institutions limits the generalizability of the findings to organizations outside the sector or in regions with a predominantly conventional financial system. In addition, the mediating effect of financial performance may be affected by other factors not included in the research model, such as specific tax regulations or industry-specific dynamics. These limitations are expected to be taken into consideration for future research, for example through a longitudinal approach or exploration of other variables that can enrich the understanding of tax aggressiveness in Islamic finance.

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