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Exploring Tax Risk: Its Impact on Corporate Risk in Business Tax Strategies

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ABSTRACT
This study aims to explore the influence of tax avoidance, tax risk, and tax reporting aggressiveness on corporate risk in manufacturing companies listed on the Indonesia Stock Exchange for the 2021–2024 period. Using a quantitative approach and panel data regression method, the study analyzes 140 data points from 35 selected sample companies. The results show that tax avoidance significantly reduces corporate risk when the strategy is conducted legally and managed properly, supporting the argument that tax efficiency can enhance a company's financial stability. Conversely, tax risk and aggressive tax reporting do not have a significant effect on corporate risk, indicating that companies with good governance and tax mitigation are able to control fiscal uncertainty without increasing business risk potential.
The study also highlights the importance of transparency, clarity of tax strategy, and continuous training for financial teams in facing regulatory dynamics and maintaining corporate reputation in the eyes of investors and the public. These findings reinforce international research published in reputable journals while providing policy recommendations for corporate management and regulators to integrate tax risk management into business strategies proactively and sustainably. Thus, this study broadens the understanding of the relationship between tax strategies and corporate risk while guiding business practices toward more adaptive and competitive governance amid global business environment volatility.

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INTRODUCTION

In the midst of rapid and complex global economic dynamics, tax management has become a crucial factor in corporate business strategy. There is a significant phenomenon in which companies attempt to take advantage of various forms of tax avoidance to reduce their tax liabilities. While tax avoidance can provide short-term benefits, this practice is often accompanied by considerable tax risks. Tax risks may manifest as audits by tax authorities, sanctions, or reputational losses, all of which can negatively affect overall corporate risk. A study by Smith et al. (2023) found that companies implementing aggressive tax avoidance strategies tend to experience increased audit risks. The research discovered that 30% of entities engaged in high tax avoidance faced audits more frequently than their peers applying more conservative tax policies. This audit risk not only leads to additional costs for companies but also can result in significant fines and loss of stakeholder trust (Smith et al., 2023).

Furthermore, Johnson & Lee (2023) emphasized that uncertainty related to a company's tax position can trigger fluctuations in share value. Research shows that market reactions to tax-related announcements can create high volatility, with stock prices potentially dropping sharply due to mismanagement of tax issues. In this context, firms with clear and transparent tax strategies were found to attract greater investor interest than those relying on overly aggressive tax avoidance. Another phenomenon to consider is the impact of tax risk on corporate leadership. Research by Miller & Chen (2024) reveals that executive turnover often occurs in companies with high-risk tax practices. This is because executives may face increased pressure to change tax strategies in response to audits or threats to the company's reputation. Such managerial instability can disrupt corporate operations and foster uncertainty among investors.

In terms of risk management, Anderson et al. (2022) recommend that companies integrate tax risk management into their overall business strategy. They found that companies adopting a risk-based approach to tax management can reduce the likelihood of sanctions from tax authorities. By identifying and mitigating tax risks early, companies can increase cash flow certainty and improve their overall financial position. Another study by Wang & Zhao (2023) states that tax risk can significantly impact a company's cost of capital. Reasonable investors prefer to lend capital to companies that demonstrate understanding and effective management of tax risks. When a company can show good compliance with tax regulations and manage tax risk effectively, it not only reduces tax costs but also enhances corporate image in the eyes of investors. Isra et al. (2023) found that effective tax avoidance can improve a company's long-term financial performance; however, they noted that companies must maintain a balance between avoidance and compliance. Violating tax laws can bring much greater problems than the short-term benefits of tax savings. This demonstrates that good tax risk management is important not only for compliance but also for corporate sustainability.

Another crucial aspect is the impact of frequently changing tax policies. Ocampo & Rivadeneira (2024) showed that changes in tax regulations often create uncertainty for businesses. This uncertainty affects long-term investment decisions, with companies possibly postponing new investments because of unclear future tax obligations. To address this challenge, companies are advised to involve tax experts in strategic planning and update financial projections regularly. Furthermore, Fernández & López (2022) examined the impact of tax avoidance on corporate reputation, noting that companies involved in prominent tax avoidance may provoke negative reactions from the public and consumers, which can affect customer and market loyalty and ultimately revenue. Therefore, transparency in tax reporting is crucial for maintaining good relations with stakeholders and customers. To manage tax risk and its impact on corporate risk, research by Zhou & Yang (2024) shows that training and education for financial teams is highly valuable. With improved knowledge and skills in tax management, companies can better confront tax-related challenges and reach better decisions.

Conclusions from these various studies indicate a complex relationship between tax avoidance, tax risk, and corporate risk. On one hand, excessively aggressive tax avoidance practices can heighten audit risk and potential sanctions. On the other hand, effective tax risk management can give companies a significant competitive edge and improve stakeholder relationships. This article

will further explore this relationship and provide recommendations for companies to address the challenges encountered in tax risk management.

THEORETICAL FRAMEWORK AND HYPOTHESES

Agency Theory: Description and its Relationship with Tax Risk

Agency Theory is a conceptual framework used to explain the relationship between company owners (principals) and managers (agents). Introduced by Michael Jensen and William Meckling in 1976, this theory emphasizes the potential for conflicts of interest that arise when managers are expected to act in the best interests of owners. In this context, the owners' goal is to maximize company value, while managers—responsible for daily operations—may prioritize short-term incentives that enhance their own performance. One area highly relevant in the context of Agency Theory is tax avoidance. Managers caught up in pursuing aggressive tax avoidance often do so to increase short-term gains, which can entail considerable risks for the company. Research by Brown and Smith (2023) shows that companies involved in tax avoidance are more likely to face audits from tax authorities, along with penalties that can severely damage the company's reputation and value. This creates conflict between the managers' short-term objectives and the owners' long-term goals, highlighting the need to maintain a positive corporate image.

Agency Theory also stresses the importance of managerial responsibility in managing tax risk. Lopez and Martin (2023) find that managers who are not transparent in tax reporting can create losses for shareholders. Companies should implement solid governance policies and oversight mechanisms to ensure managers act in the owners' interest. Training and education about legal and ethical implications of tax decisions are essential steps in risk mitigation (Zhou & Yang, 2024). It is important for companies to create incentives aligned with sustainability and compliance. If managers are rewarded based on long-term performance and tax compliance, they tend to choose more responsible strategies. As noted by Anderson et al. (2022), a proactive approach to managing tax risk encourages managers to maintain corporate stability and reputation in line with ownership objectives.

The Influence of Tax Avoidance on Corporate Risk

Tax avoidance has become an increasingly crucial issue in corporate financial management, especially in relation to corporate risk. Research shows that tax avoidance has a significant impact on corporate risk, in line with the findings of Balakrishnan et al. (2019), who state that complex tax reporting can hide negative information from investors, cause uncertainty, and potentially harm corporate reputation. In this context, companies relying on aggressive tax avoidance strategies tend to produce less transparent financial reports, leading to increased corporate risk.

First, aggressive tax avoidance often involves complex corporate structures, such as profit shifting and offshore schemes. According to Dharmadi et al. (2021), this practice may cause ambiguity in financial reporting, making it difficult for investors to evaluate associated risks. Such information uncertainty can harm investors, triggering changes in market behavior toward the company's shares, including possible stock price drops due to loss of trust. Second, aggressive tax avoidance can attract attention from tax authorities, leading to intensive audits. This aligns with research by Chen et al. (2019) stating that companies heavily involved in tax avoidance are more prone to audits. Frequent audits not only create additional costs but can also lead to significant penalties, potentially undermining financial stability and corporate reputation. Reputation risk is another crucial factor. According to Wong & Luo (2020), companies involved in prominent tax avoidance practices may face negative reactions from the public and consumers, resulting in reduced customer loyalty and market share. Loss of market reputation has significant long-term effects on company value.

Furthermore, aggressive tax avoidance can create uncertainty within company management. Research by Aize & Muniady (2023) highlights that executives may face pressure to alter tax strategies when audit risks rise, leading to higher management turnover and thus affecting operational stability and creating further risk.

Lastly, tax avoidance can affect company capital costs. Zhao et al. (2022) found that investors prefer

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investing in companies that demonstrate tax compliance. Lack of understanding or avoidance behaviors may prompt investors to demand higher returns to compensate for greater risk, ultimately raising the company's cost of capital.
Hypothesis 1: *Tax Avoidance affects Corporate Risk.*

The Influence of Tax Risk on Corporate Risk

Tax risk is a major concern in corporate management as it can impact various operational and financial aspects. However, this study finds that tax risk does not significantly affect corporate risk. This can be attributed to unpredictable tax regulations, which often make it challenging for companies to accurately anticipate tax liabilities. As noted by Firmansyah & Muliana (2018), uncertainty about tax obligations does not always directly increase corporate risk.

Firstly, it is important to understand how tax risk is measured here. Tax risk involves uncertainty related to tax liabilities arising from changes in regulations, tax policies, and legal interpretations that may vary over time. Research by Gupta & Mills (2018) shows that companies engaged in complex tax planning often face confusion about their tax obligations, but this does not always result in increased corporate risk—likely because many companies have strong mitigation strategies.

Secondly, large companies can often manage tax regulatory uncertainty effectively through strategic planning and engaging professional tax consultants. Sadiq et al. (2020) found that companies with strong finance teams and partnerships with major accounting firms are better at handling tax risk and do not experience significant increases in corporate risk. This approach allows rapid adaptation to changing tax policies and ensures better compliance, minimizinganypotentialnegativeimpact. Moreover, access to current and accurate information about tax regulation changes can help mitigate risk. Lubberink et al. (2021) indicates that firms active in market analysis and regularly updating their tax policies have better visibility on upcoming tax risks, enabling proactive measures before regulatory changes impact operations.

Still, some situations exist where tax uncertainty can raise corporate risk. Chen & Chu (2019) argue that companies neglecting potential regulatory changes tend to face higher audit risks, with sudden rule changes possibly leading to substantial penalties—though this mainly affects firms not sufficiently attentive to tax policy. Investor response to tax risk also plays a role. Omidvari et al. (2021) states that investors tend to assess companies based on tax transparency and compliance. Therefore, if a company demonstrates effective management of tax risks, investors may feel more secure and not perceive tax risk as a significant factor in overall corporate risk.
Hypothesis 2: *Tax Risk affects Corporate Risk.*

The Influence of Tax Reporting Aggressiveness on Corporate Risk

Tax reporting aggressiveness refers to the use of more complex and risky accounting techniques to reduce reported tax liabilities, which can contribute to increased corporate risk. Studies show tax reporting aggressiveness has a negative impact on corporate risk, where significant differences between pre-tax income and reported income create uncertainty in the eyes of investors. This supports Carolina et al. (2021)'s finding that higher tax aggressiveness can decrease reported earnings quality and increase risk.

Firstly, large discrepancies between reported income and tax liabilities can raise investor questions about transparency in financial reports. Mills & Newberry (2020) found that when companies use more aggressive tax reporting methods, they often conceal risks associated with tax avoidance, making investors less confident and potentially increasing market risk. This uncertainty may provoke negative investor reactions, such as reduced share prices and fluctuations in firm value.

Secondly, aggressive tax reporting practices tend to attract attention from tax authorities. Chen et al. (2021) found that firms involved in aggressive tax reporting are more likely to be audited, which can be time-consuming and costly, with the potential for significant fines. Lee et al. (2022) showed that companies with high audit risk often experience disruptions in their operations, further increasing corporate risk. Thus, companies should evaluate the long-term risks of aggressive tax reporting. Reputation

impacts are also significant. Salama et al. (2023) found that firms with aggressive tax reporting practices are likely to encounter negative public and stakeholder reactions, which may reduce customer loyalty and investor trust, thus lowering market value. This indicates that short-term benefits from tax avoidance can be outweighed by high reputation risks over the long term.

Moreover, high tax reporting aggressiveness can lead to problems in stakeholder relations. Hsieh & Huang (2022) found that companies perceived as lacking transparency in tax reporting often risk losing support from institutional investors increasingly focused on corporate social responsibility (CSR). When institutional investors withdraw support, companies may face challenges accessing capital, increasing corporate risk. Lastly, aggressive tax reporting can trigger internal volatility within companies. Zhou et al. (2021) found that companies involved in more aggressive reporting practices must deal with complex management decisions around planning and reporting, which can create uncertainty among managers and employees, disrupt daily operations, and reduce efficiency—again raising corporate risk.

Hypothesis 3: *Tax Reporting Aggressiveness affects Corporate*

RESEARCH METHODS

Research Design

This study employs a quantitative method with secondary data collection from online sources such as Investing.com and the Indonesia Stock Exchange (IDX). The research focuses on manufacturing sector companies listed on the IDX during the 2021-2024 period.

Population and Sample

The studied population comprises manufacturing sector companies listed on the IDX. To determine the sample, a purposive sampling technique was used, involving selection based on specific criteria. The sample selection procedure is as follows:

- Manufacturing companies listed on the IDX during the 2021-2024 period: 154 companies.
- Companies that did not present complete annual reports and audited financial statements during the same period: 8 companies.
- Companies that were delisted or suspended: 1 company.
- Companies that did not have positive earnings during the period: 79 companies.
- Companies lacking complete data on tax payments, profit before tax, and stock return: 16 companies.
- Companies that did not have a Corporate Effective Tax Rate (CETR) ≤ 1: 15 companies.

After filtering based on the above criteria, the total sample amounted to 35 companies, and the total analyzed data became 140 after excluding outliers.

Measurement of Research Variables and Regression Model

This study involves several main variables:

- Corporate Risk: Measured by the volatility of each company's stock return, with monthly return data divided over a four-year period. Standard deviation is calculated to obtain the annual volatility value for each company.
- Tax Avoidance: Measured by the Corporate Effective Tax Rate (CETR), which compares cash taxes paid with pre-tax income. Lower values indicate higher levels of tax avoidance.
- Tax Risk: Defined as the variance in tax expenses represented by the standard deviation of CETR, indicating a company's tax uncertainty from year to year.
- Tax Reporting Aggressiveness: Measured by the Effective Tax Rate (ETR). The lower the ETR, the greater the tax aggressiveness, indicating a lower tax burden compared to pre-tax earnings.

Data analysis was conducted using Stata 14 software by applying multiple regression analysis models, with the regression equation as follows:

$$Y=\alpha+\beta_1 TA_1+\beta_2 TR_2+\beta_3 TRA_3+\beta_4 ROA_4+$$

Where:

- Y : Corporate Risk (CR)
- α : Constant
- TA : Tax Avoidance

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- *TR* : Tax Risk
- *TRA* : Tax Reporting Aggressiveness
- *ROA* : Return on Asset
- ϵ : Error

Panel data testing in STATA is a statistical analysis method that utilizes panel-structured data, where repeated observations of analysis units (such as individuals, companies, or countries) are conducted over a certain period. This method offers advantages in analyzing both inter-individual variability and variability over time, enabling a deeper formulation of relationships between dependent and independent variables. In the context of panel data analysis, there are two main approaches: the fixed effects model and the random effects model. The fixed effects model is used when it is assumed that unobserved variables affecting the dependent variable remain constant over time, allowing for control over individual heterogeneity that is not observed. Conversely, the random effects model is applied when unobserved variables are assumed to be uncorrelated with independent variables, which allows for the use of information from all variables in the dataset (Hsiao, 2007).

The choice between the fixed effects and random effects models is typically determined using the Hausman test, which assesses the significance of the coefficient estimation differences between the two models. The results of this test provide a strong indication of the validity of using each model in the analysis (Wooldridge, 2010). The results of panel regression should be interpreted with care. Statistically significant coefficients indicate a substantial relationship between independent and dependent variables, which should be evaluated based on p-values to confirm significance. Thus, a deep understanding of panel data analysis methodology is essential for providing valid and reliable qualitative insights in empirical research.

RESULTS AND DISCUSSION

Descriptive analysis is conducted to provide an overview of the data characteristics for each variable used in this study. Statistical measurements such as mean, standard deviation, range, and skewness are employed to understand measures of central tendency, variability, and the distribution shape of the data. The results of this analysis are important for identifying general patterns emerging in company behavior related to corporate risk, tax strategies, and profitability. Through a deeper understanding of the fundamental characteristics of these variables, researchers can assess the extent to which inter-company variation influences relationships among indicators to be tested in the subsequent inferential analysis stage.

Table 1. Descriptive Analysis

	Y_CR	X1_TAV	X2_TR	X3_TAG	X4_ROA
Count	140	140	140	140	140
Mean	0,092746442	0,280686479	0,290093133	0,267953691	0,08742518
Std	0,060497927	0,146564713	0,904132846	0,116427907	0,081551242
Min	0,021349218	0,003071295	0,006413922	-0,051464651	0,000500133
25%	0,054695594	0,201802817	0,050459746	0,229045722	0,035419134
50%	0,074478146	0,249484156	0,085303082	0,253555856	0,065404087
75%	0,114799362	0,323369153	0,137381285	0,277932275	0,112238423
Max	0,370044698	0,885443294	5,520095735	0,934641562	0,526703553
Skewness	2,257407211	1,707665246	4,864297239	2,612796362	2,524508376
Kurtosis	6,805256602	4,326977011	23,96726593	13,54199159	8,75769257

The descriptive analysis results in Table 1 show diverse data characteristics and indications of distribution asymmetry in most observed variables. Corporate Risk (Y_CR) has a mean of 9.27% with a standard deviation of 6.05%, reflecting a moderate risk level among the sampled companies. However, the positive skewness of 2.26 suggests that a small portion of companies experience much higher risk compared to the average, causing the data distribution to skew to the right and making some companies outliers with extreme risk levels. These conditions may be influenced by differences in

business sectors, capital structures, or managerial conditions of each company. Tax Avoidance (X1_TAV) has a mean of 28.07% and a standard deviation of 14.66%, indicating that tax avoidance practices are common but exhibit wide variation among companies. Larger companies generally have more complex tax planning strategies, leading to a tendency for higher tax avoidance, whereas smaller companies have more limited fiscal maneuverability. Tax Risk (X2_TR) is the variable with the highest variability, with a standard deviation of 90.41% and skewness of 4.86, indicating that there are companies facing very extreme tax risk. This phenomenon signals the need for caution in statistical analysis, as outliers can affect the validity of data interpretation. Tax Aggressiveness (X3_TAG) records a mean of 26.80%, with values ranging from -5.15% to 93.46%, reflecting the diversity of corporate tax policy behavior. Negative values indicate companies that unusually pay more tax than the nominal obligation (overcompliance). ROA (X4_ROA) has a mean of 8.74% and skewness of 2.52, indicating moderate profitability but still showing some companies with extremely high profits as outliers.

Overall, most of the research variables exhibit positive skewness patterns and the presence of companies with extreme characteristics. These findings suggest that subsequent statistical approaches need to account for data adjustments and the use of robust techniques to produce more accurate and representative research results.

Table 2. Correlation Matrix

	Y_CR	X1_TAV	X2_TR	X3_TAG	X4_ROA
Y_CR	1	-0,162431518	0,096695073	0,169872231	-0,229971789
X1_TAV	-0,162431518	1	0,121219527	0,222924931	-0,107769825
X2_TR	0,096695073	0,121219527	1	0,026074396	-0,167236329
X3_TAG	0,169872231	0,222924931	0,026074396	1	-0,179433588
X4_ROA	-0,229971789	-0,107769825	-0,167236329	-0,179433588	1

The correlation results show that Corporate Risk (Y_CR) is negatively correlated with X1_TAV (tax avoidance) at -0.162 and with X4_ROA (return on assets) at -0.230, but positively correlated with X2_TR (tax risk) at 0.097 and X3_TAG (tax aggressiveness) at 0.170. The negative correlations between Y_CR and both X1_TAV and X4_ROA indicate that increases in tax avoidance and profitability tend to follow with reductions in corporate risk. In other words, companies that are able to legally avoid taxes or achieve better profit performance are more likely to face lower business risks, at least within the data population analyzed.

Meanwhile, the positive correlations between Y_CR and X2_TR as well as X3_TAG demonstrate that higher tax risk or more aggressive tax strategies correspond to increased corporate risk. Although these correlation magnitudes are statistically weak (values close to zero), this pattern confirms a tendency that external factors such as fiscal uncertainty and aggressive tax policy may impact the rise in company business risk. X1_TAV has positive correlations with X2_TR (0.121) and X3_TAG (0.223), but a negative correlation with X4_ROA (-0.108). This finding illustrates that tax avoidance behavior is closely related to tax risk and aggressive tax strategies: higher tax avoidance tends to accompany higher tax risk and aggressiveness. On the other hand, companies with high tax avoidance commonly have lower profitability, possibly due to compliance costs or financial strategy adjustments. X2_TR, besides positively correlating with tax avoidance and aggressiveness, also has a negative correlation with ROA (-0.167), indicating that high tax risk is generally found in companies with lower profitability. Tax Aggressiveness (X3_TAG) also exhibits a negative correlation with ROA (-0.179) and positive correlations with the other three variables, although all are relatively weak. The negative relationship with ROA suggests a trade-off between aggressive tax strategies and the company's profit achievement.

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Table 3. Comparrison between Pooled OLS, Fixed Effect (FE), dan Random Effect (RE)

Variable	Pooled_Coef	FE_Coef	RE_Coef
Constant	0,10647255		0,065410881
X1_TAV	-0,097428973	-0,09347561	-0,09360788
X2_TR	0,005735081	-0,005131183	0,001769525
X3_TAG	0,095031114	-0,003354511	0,034598718
X4_ROA	-0,154495047	-0,179354926	-0,17508988

The table above (Table 3) compares the coefficient estimation results of three panel regression models—Pooled OLS, Fixed Effect (FE), and Random Effect (RE)—to examine the influence of X1_TAV (Tax Avoidance), X2_TR (Tax Risk), X3_TAG (Tax Aggressiveness), and X4_ROA (Return on Assets) on Corporate Risk. In the Pooled OLS column, all data are considered homogeneous without accounting for inter-company differences. The FE model incorporates individual company characteristics, thus its results can capture the unique effects that may occur in each entity. Meanwhile, the RE model assumes individual effects as random variables, which is relevant if company characteristics vary but do not dominate the overall pattern.

From Table 3, the coefficients of X1_TAV and X4_ROA are consistently negative across all three models, indicating that tax avoidance and company profitability tend to reduce corporate risk steadily in every approach. Conversely, X2_TR (Tax Risk) has almost no influence, as shown by its very small and nearly zero coefficients in all models. The X3_TAG variable shows positive results in Pooled OLS and RE, but slightly negative in FE, indicating that the FE model captures inter-company variation not reflected in the other two models.

Table 4. Haussman Test

Metric	Value
Chi-square Statistic	13.5174
Degrees of Freedom	4
P-value	0.0090
Decision	Use Fixed Effects

In selecting the best model, the determination usually depends on the characteristics of the panel data, assumptions about individual effects, as well as statistical tests such as the Chow test, Hausman test, and LM test. In general, if there is strong company heterogeneity and a desire to know the unique effects for each entity, the Fixed Effect model is recommended, as shown in Table 4.

\Table 5. Hypotesis Result – Fixed Effect Model

	Coefficient	Std Error	t-statistic	P-value
X1_TAV	-0,09347561	0,036943128	-2,530257092	0,012537642
X2_TR	-0,005131183	0,008774164	-0,584805927	0,559647169
X3_TAG	-0,003354511	0,041112897	-0,081592666	0,93509059
X4_ROA	-0,179354926	0,107900744	-1,662221412	0,098771587

Based on the results in Table 5, only the variable X1_TAV (Tax Avoidance) shows a statistically significant effect on corporate risk at the 5% significance level (coefficient = -0.093, p-value = 0.0125). This negative coefficient indicates that higher levels of tax avoidance practices by a company are associated with lower levels of corporate risk. The reduction in risk can be interpreted as a form of efficient allocation of financial resources, which positively impacts business stability.

Meanwhile, X2_TR (Tax Risk) and X3_TAG (Tax Aggressiveness) do not show significant effects on corporate risk, as indicated by p-values well

above conventional significance thresholds (0.9596 and 0.9359, respectively). Both coefficients are very small, and their t-statistics are close to zero, so neither tax risk nor tax aggressiveness is statistically proven to influence corporate risk magnitude according to this model. X4_ROA (Return on Assets) has a relatively moderate negative coefficient (-0.179) and a p-value of 0.0988, which means it approaches but does not reach the 5% significance level. Although not yet statistically significant, this trend supports the notion that profitability plays a role in reducing company risk.

Overall, this analysis highlights that among all variables tested using the Fixed Effect Model, only tax avoidance plays a significant and important role in reducing corporate risk, while the influences of tax risk, tax aggressiveness, and profitability are not statistically significant in the context of this research data. These results indicate the importance of efficient tax avoidance strategies in managing corporate risk.

CONCLUSION

The findings indicate that tax avoidance has a significant negative effect on corporate risk. This means that the higher the level of legal and well-managed tax avoidance, the lower the company's risk. This aligns with Smith et al. (2023), who found that while aggressive tax avoidance increases audits and costs, efficient tax avoidance helps financial stability. Anderson et al. (2022) and Zhou Yang (2024) also highlight the importance of integrating tax risk management and training finance teams to mitigate risk.

Conversely, tax risk and tax reporting aggressiveness (tax aggressiveness) do not have significant effects on corporate risk. This is consistent with Firmansyah Muliana (2018), Sadiq et al. (2020), and Gupta Mills (2018), who argued that tax uncertainty and aggressiveness can be managed with sound mitigation strategies without significantly increasing corporate risk. Johnson Lee (2023) added that tax position uncertainty can create stock price volatility, while Miller Chen (2024) found that risky tax practices can lead to executive turnover which disrupts management stability. Wang Zhao (2023) and Isra et al. (2023) revealed that good tax risk management reduces capital costs and improves long-term performance. Further, Ocampo Rivadeneira (2024) emphasized regulatory uncertainty affecting corporate investment decisions, and Fernández López (2022) stressed the negative impact of tax avoidance on corporate reputation. Brown and Smith (2023), Lopez and Martin (2023), Adams and Singh (2024), as well as Chen and Liu (2024), underline the need for strong corporate governance and tax compliance to maintain reputation, investor trust, and operational stability.

Based on these findings, companies are advised to optimize legal and well-managed tax avoidance strategies to reduce corporate risk and improve financial resource efficiency. Management should comprehensively integrate tax risk management into business strategy, including training and capacity building for finance teams to address frequent regulatory changes. Additionally, companies should maintain transparency and tax compliance to minimize potential audit issues and reputation risks that can threaten business sustainability. For policymakers and tax authorities, it is recommended to provide legal certainty and stable regulations, enabling companies to plan long-term tax policies without disruptive uncertainty for investment and operations. Future research should broaden the focus to investigate other variables affecting corporate risk, such as corporate governance and other financial risks, and use data from more sectors and regions to enhance the generalizability of the findings.

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