



## The Moral Hazard of Tax Avoidance: A Narrative Review Approach

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### ABSTRACT

*This article explores the phenomenon of moral hazard and its role in corporate tax avoidance practices. Tax avoidance is a deliberate action taken by companies to reduce their tax obligations, both legally and illegally. Due to the unclear boundaries between legal and illegal actions, the legality of corporate tax practices is ultimately determined by the authorities, which define what is permitted and what is prohibited. The purpose of this article is to examine how differences in interests between agents and principals can trigger unethical behavior. This study employs a qualitative research method based on a review of relevant literature concerning ethics and tax avoidance. The results of the study emphasize that a commitment to honest and transparent performance can reduce the risk of moral hazard in corporate tax planning. Therefore, to prevent the occurrence of tax avoidance practices, ethics play a very important role in financial management. The integration of business ethics is crucial to balancing the interests of stakeholders and minimizing regulatory gaps that may be exploited for aggressive tax avoidance. The practical implication of this research is that it can serve as a reference for future studies based on the resulting literature mapping. Practically, it is hoped that this research can serve as the main reference for future studies through mapping the resulting literature, as well as encouraging corporations to be more socially responsible in carrying out their tax obligations.*

**Keywords:** Corporate ethics, Tax avoidance, Moral hazard, Agency theory.

### Introduction

The phenomena of moral hazard and tax avoidance are inevitable in the corporate environment and remain significant and unresolved issues in empirical research and ongoing debates in taxation and accounting studies, both in multinational and domestic companies (Thayyib, 2025; Rodríguez & Bueno, 2026). This is due to persistent indications of tax avoidance practices by taxpayers who exploit opportunities or "loopholes" in accounting standards, financial regulations, and tax legislation within a country. These practices occur because of behavioral tendencies such as cheating, carelessness, and dishonesty, including financial data manipulation, transfer pricing, the use of tax havens, asset diversion, and capital round-tripping, which generate negative impacts for which the actors do not fully assume responsibility. Companies may engage in tax avoidance because such behavior is perceived as opportunistic rather than ethical. Opportunistic profit management can indicate a tendency toward tax avoidance practices (Karhunen *et al.*, 2022; Sastrodiharjo & Mukti, 2024). While businesses continuously seek opportunities or methods to reduce tax burdens, governments simultaneously establish laws and policies to prevent tax avoidance. Sociocultural factors within a country can influence tax avoidance practices, as socioculture encompasses how societies are formed and how cultural values shape ways of thinking and acting. Management quality, regulatory quality, audit quality, national culture, and ethical standards influence the level of tax avoidance activities in companies (Kimea *et al.*, 2023). Pressure to achieve profit targets can lead to tax avoidance behavior, particularly in conditions of declining profitability. This situation can trigger moral hazard among company managers, especially when they conceal negative information that

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may lead to reduced company performance. Managers may engage in earnings manipulation, for example, by controlling the timing of revenue recognition or altering depreciation methods, in order to structure financial reports to support tax avoidance objectives and present the company's current performance more favorably (Li *et al.*, 2025). Studies that explicitly link moral hazard to tax avoidance remain limited. Identifying these factors is expected to help governments increase state revenue and assist company owners in supervising managerial personnel. Furthermore, institutions, laws, and regulations can shape business behavior through coercive and normative isomorphism, thereby influencing how companies engage in tax avoidance (Kimea *et al.*, 2023).

Disclosure of non-financial data is part of a company's ethical responsibility, particularly through the disclosure of Environmental, Social, and Governance (ESG) information and Corporate Social Responsibility (CSR) activities. Such disclosure is intended to fulfill certain requirements that depend on the company, as ESG and CSR reporting represent non-financial information that is inherently associated with business ethics (Pasko *et al.*, 2023; Araújo *et al.*, 2024; Arieftiara *et al.*, 2025). The relationship between corporate tax planning, social responsibility, and ethics is highly complex. This complexity arises from conflicts of interest between maximizing shareholder value through tax strategies and simultaneously meeting societal expectations for ethical behavior and transparency (Araújo *et al.*, 2024). Companies that engage more extensively in socially responsible activities are less likely to adopt aggressive tax practices (Pasko *et al.*, 2023). In contrast, companies that do not implement CSR activities tend to be more aggressive in tax avoidance (Abdelmoula & Chouaibi, 2022). Firms that uphold strong ethical values tend to avoid tax avoidance behavior in order to maintain their reputation and corporate image. In this context, a positive reputation can enhance shareholder value. Therefore, companies are motivated to adopt strong ethical and responsible strategies, as these commitments help sustain a favorable image and corporate reputation (Abdelmoula *et al.*, 2022). These findings are supported by empirical research demonstrating that business ethics significantly influence tax avoidance and have a negative and significant impact on tax avoidance behavior (Chouaibi & Abdessamed, 2022; Alshira'h *et al.*, 2025; Ghorbel & Boujelben, 2025).

The occurrence of tax avoidance is caused by human behavior that has double behavior or inconsistent behavior, namely saying yes but in fact not doing it. Dual behavior is related to a person's ethics in carrying out actions. Therefore, ethics is needed to prevent this behavior from occurring. Likewise, in agency theory, agents have dual interests; namely, their behavior appears to be in the interests of the principal, but in fact only prioritizes their own interests, so that there will be a conflict of interest as explained in agency theory. This happens because the agent has more information compared to the principal, so information asymmetry occurs. For this reason, it is very important for an organization to have a code of ethics that regulates the behavior of organizational members so as to minimize the occurrence of moral hazard.

Studies examining business ethics in relation to tax avoidance behavior continue to attract the attention of researchers. Tax planning practices, which may be perceived as either legal or illegal, often lead to ethical or unethical behavior in both multinational and domestic companies and remain a significant and unresolved empirical issue. Although research on tax avoidance in multinational companies has increased, studies focusing on the factors that influence tax avoidance—particularly those related to business ethics—are still limited (Thayyib, 2025). Based on this gap in the literature, this study proposes the following research questions:

#### *Research Question 1 (RQ1)*

What are the findings regarding the role of business ethics in tax avoidance?

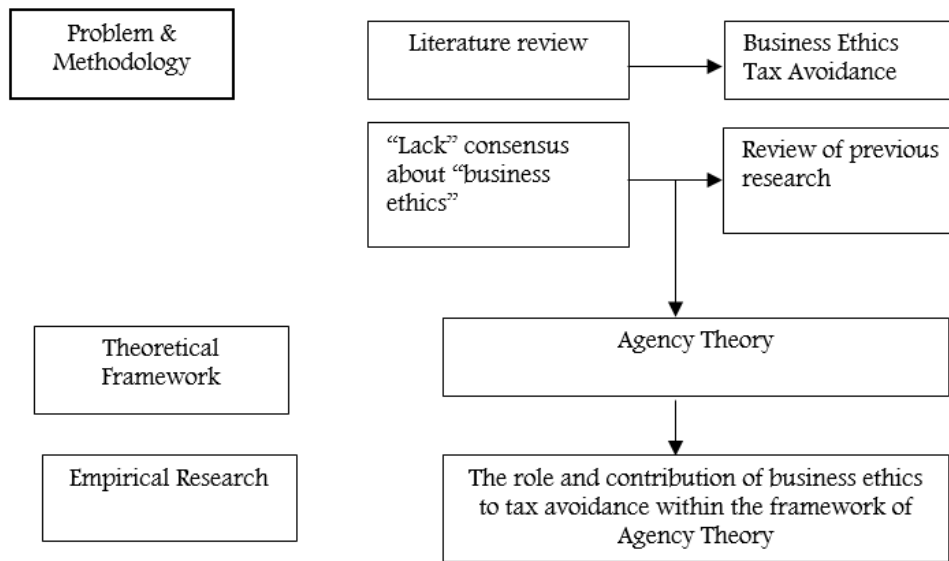
#### *Research Question 2 (RQ2)*

What is the potential contribution of business ethics in the relationship between agents and principals with respect to tax avoidance behavior

#### *Research Framework*

The research framework provides a structured flow that assists researchers in analyzing relevant literature related to *business ethics, tax avoidance, agency theory, and moral hazard*, as illustrated in **Figure 1**.





**Figure 1.** Conceptual Framework

### *Literature Review*

#### *Ethical vs. Non- Ethical Perspectives of Tax Avoidance*

Taxation remains a subject of debate in relation to ethical behavior and formality (Salikhova *et al.*, 2023; Hunt & Doyle, 2025). Moral or ethical assessment is a general concern and is not exclusive to legal systems (Valentinov, 2019). Tax avoidance is a deliberate action undertaken by companies as taxpayers to reduce their tax obligations, either legally or illegally. Due to the unclear boundaries between legal and illegal actions, the legality of corporate tax practices is determined by authorized institutions, which define what is permissible and what is prohibited (Nyamagoud *et al.*, 2024; Kasir *et al.*, 2025). Previous studies have used the terms "business ethics" and "corporate ethics" interchangeably; however, this study focuses specifically on the concept of *business ethics*. The relationship between ethical values and corporate tax avoidance strategies has attracted increasing attention over the past decade. Consequently, taxation has become an important subject within the discipline of business ethics. In this context, ethics can help companies regulate their own tax avoidance behavior (Alfred *et al.*, 2023; Petronis *et al.*, 2025). Nevertheless, contemporary phenomena still reveal cases and empirical findings indicating the occurrence of tax avoidance, driven by existing gaps in tax legislation and taxpayer behavior. Research conducted by Alfred *et al.* (2023) provides evidence that the level of corporate tax avoidance activity in Sub-Saharan Africa (SSA) is influenced by management quality, regulatory quality, audit quality, cultural factors, and national ethical standards. Tax avoidance research has not been limited to public companies but has also extended to family firms. However, there remains considerable debate in the family business literature regarding the extent to which ethical principles and moral values guide family firms' strategies and decision-making processes (Manfredini *et al.*, 2024; Cirillo *et al.*, 2025).

In a broad sense, tax avoidance is defined as a company's ability to pay less tax than its actual tax burden as reflected in its financial statements. This definition implies strategic actions aimed at reducing tax payment obligations or maximizing after-tax profits. Based on this perspective, tax avoidance is not necessarily illegal, as it often refers to complex transactions used by companies to obtain significant tax benefits that may not be explicitly regulated by, or may not directly contradict, existing tax laws. Such transactions may later be detected by tax authorities or courts and evaluated to determine their legality and intent (Cakmak *et al.*, 2024; Cirillo *et al.*, 2025). This occurs due to the existence of income and expense recognition principles that allow for different accounting method choices, provided they do not violate financial accounting standards or applicable tax regulations. Therefore, tax avoidance generally refers to an orientation toward reducing tax burdens and maximizing after-tax income.

Tax avoidance practices may include legal actions, such as the use of amortization methods, as well as illegal actions, such as underreporting income or artificially inflating expenses and deductions. These practices carry legal versus

illegal connotations and relate to compliance or non-compliance with tax laws, while potentially disregarding ethical and moral principles. From an ethical perspective, considering both legal and illegal practices within a single analytical framework is appropriate, as distinguishing actions solely on the basis of legality does not necessarily reflect their ethical implications (Çınaroğlu *et al.*, 2023; Cirillo *et al.*, 2025). As illustrated in **Figure 1**, previous research linking ethics to tax avoidance behavior remains limited, leading to the central research question: *What is the role of business ethics in tax avoidance?* **Figure 2** shows the results of Vos Viewer analysis related to business ethics



**Figure 2.** Visualization Vosviewer Business Ethics

### *Tax Avoidance*

Tax avoidance is defined as an effort by taxpayers to reduce the amount of tax owed through legitimate methods and techniques that do not contradict existing tax provisions. This action is carried out by exploiting weaknesses contained within tax legislation and regulations themselves (Ratnawati *et al.*, 2018; Leadbeater & Tjaya, 2024). In a broader context, tax avoidance refers to the reduction of a company's tax burden through a series of tax planning strategies, ranging from legally compliant arrangements to more aggressive practices. These strategies aim to minimize tax obligations regardless of their legal status or ethical considerations (Dyrenge *et al.*, 2008; Atwood *et al.*, 2012; Bratt & Naimi-Akbar, 2023; Rodríguez & Bueno, 2026). Corporate tax planning reflects the ability of domestic companies and multinational corporations (MNCs) to structure their business activities in such a way that they can legitimately minimize their tax obligations (Ftouhi & Ghardallou, 2020; Muthanandam *et al.*, 2024; Thayyib, 2025).

Previous research has identified a number of key factors that significantly influence corporate tax avoidance practices. Most of these determining factors have been examined using Agency Theory as the primary theoretical foundation (grand theory) (Huata-Panca *et al.*, 2025). Although some studies do not explicitly mention Agency Theory, their main focus remains on exploring the dynamic relationship between shareholders (principals) and management (agents). As shown in **Table 1**, prior research on tax avoidance has commonly applied Agency Theory, Stakeholder Theory, and Stakeholder–Agency Theory to examine corporate tax avoidance behavior.

**Table 1.** Grand Theory that discusses Tax Avoidance

No.	Grand Theory	Relevance with Tax Avoidance
1.	Agency Theory	Agency theory focuses on the contractual relationship between <i>principals and agents</i> , in which the primary objective of the company is to maximize shareholder wealth (Jensen & Meckling, 1976; Alkurdi & Mardini, 2020; Abdelmoula <i>et al.</i> , 2022; Rodríguez & Bueno, 2026). Management often has a short-term orientation, such as achieving performance-based compensation or bonuses, which may differ from shareholders' long-term orientation that emphasizes sustained profitability and firm value. Tax avoidance is one method used



	by management to improve tax payment efficiency by exploiting gaps in tax regulations and legislation. <i>The principal-agent model</i> is frequently employed to explain corporate tax avoidance behavior.
	The likelihood of tax avoidance increases due to the presence of moral hazard, which arises when agents behave opportunistically or dishonestly. Such behavior is closely related to the ethical standards upheld by both <i>principals and agents</i> . Consequently, weak ethical conduct can intensify moral hazard and increase the tendency toward tax avoidance.
2. <b>Stakeholders Interests Theory (Stakeholder Theory)</b>	Developed from the discipline of knowledge management, this theory integrates corporate accountability with the diverse interests of stakeholders, where the legitimacy of stakeholders' interests arises from the significant contributions they make to the company (Freeman & McVea, 2001; Chouaibi & Abdessamed, 2022; Wahab <i>et al.</i> , 2022; Ghorbel & Boujelben, 2025).
3. <b>Theory Stakeholders Stakeholder - agency theory</b>	It is the combination of <i>Stakeholder Theory</i> and <i>Agency Theory</i> (Hill & Jones, 1992; Chouaibi & Abdessamed, 2022).

Source article: processed 2025

*Tax avoidance* remains an important and relevant phenomenon to be investigated, despite the large number of studies that have examined various factors driving companies to reduce their tax obligations. Tax is generally defined as a compulsory levy imposed by the government on public income or wealth without providing a direct reward, and it constitutes a mandatory payment to the state by individuals or entities, as regulated by law. In a country such as Indonesia, taxes play a crucial role as the primary source of revenue for the State Budget (Anggaran Pendapatan dan Belanja Negara—APBN). From a legal perspective, tax avoidance refers to efforts undertaken by companies to minimize their tax burden without violating tax laws and regulations. In contrast, illegal efforts to reduce tax liabilities are referred to as tax evasion or tax fraud (Song & Yarbrough, 1978; Dyreng *et al.*, 2010; Wulandari & Sudarma, 2021).

Although a large body of research exists, there is still evidence suggesting that companies continue to exploit opportunities within existing regulations to apply methods that effectively reduce their tax burdens. These opportunities are supported by financial accounting standards that provide companies with discretion in selecting accounting methods, such as inventory valuation techniques or the determination of depreciation expenses for fixed assets. This discretion is further reinforced by tax regulations that allow taxpayers to apply chosen methods in accordance with applicable rules consistently. In addition, there are fundamental issues related to aggressive tax avoidance that are rooted in technical legal aspects, such as the structure of tax systems and the existence of regulatory loopholes. However, companies operating in countries with strong governance systems and those that adopt International Financial Reporting Standards (IFRS) tend to engage in less tax avoidance compared to companies that apply local accounting standards (Zeng, 2019).

Several terms have been used by previous researchers to describe behaviors related to tax reduction, including *tax avoidance*, *tax evasion*, and *aggressive tax avoidance*. This article primarily focuses on *tax avoidance*, which is defined as efforts by companies to reduce tax payments by utilizing tax provisions through both legal and illegal means. Tax avoidance is often characterized as rational and systematic business planning, which may be conducted either in good faith or bad faith. In some cases, tax avoidance may also involve illegal actions such as tax evasion, fraud, and concealment. The role of legal and tax experts is particularly important, as the interpretation of tax laws significantly influences the distribution of tax burdens among different groups of taxpayers. Tax professionals represent a group with specialized expertise that enables them to interpret tax regulations (Raitasuo, 2024). Tax law is inherently closely related to issues of interpretation. However, interpreting tax regulations requires specialized skills due to their complexity, making them difficult for the general public to understand. As a result, many recent studies have increasingly examined the perspectives of legal experts and tax practitioners in shaping the meaning, application, and limitations of tax regulations (Gracia & Oats, 2012; Mulligan & Oats, 2016). All countries face challenges in increasing tax revenue, and these challenges are exacerbated when companies engage in tax avoidance practices



(Tsakumis *et al.*, 2007). Furthermore, multinational companies tend to engage in tax avoidance more extensively than domestic companies (Yuanita *et al.*, 2020; Carpio-Vargas *et al.*, 2023).

The measurement of tax avoidance in previous studies was examined through a review of articles published in Scopus using the following limitations: (1) subject area—Business, Management, and Accounting; (2) document type—Article; (3) keyword—*Tax Avoidance*; (4) source type—Journal; (5) language—English; and (6) open-access publications only. Using the keyword *Cash ETR*, only one article was identified (Nguyen *et al.*, 2025), whereas the keyword *ETR* yielded 33 articles. Based on these search results, it can be concluded that the Effective Tax Rate (ETR) is the most commonly used measure of tax avoidance in prior research. These findings are consistent with Araújo *et al.* (2024), who reported that of the 47 articles reviewed, 70% employed the Effective Tax Rate (ETR) as a proxy for tax avoidance, as illustrated in **Figure 2**. Furthermore, the Scopus search did not identify any articles using the combined keywords "*Cash ETR*" and "*Business Ethics*". Only one article was found using the combined keywords "*ETR*" and "*Business Ethics*" (Thayyib, 2025). Therefore, research examining the relationship between business ethics and tax avoidance behavior remains highly relevant and warrants further investigation

### *Agency Theory*

*Agency Theory* serves as the foundation of the theory of the ownership structure of the firm, integrating elements of agency theory, property rights theory, and finance theory. Jensen and Meckling (1976) introduce the concept of agency costs and demonstrate its relationship to the issue of the separation of ownership and control, while also examining the nature of agency costs arising from external debt and equity financing. Central issues related to agency costs concern who bears these costs and why they arise. In this context, corporate tax avoidance can be associated with firms' incentives to reduce costs in order to maximize benefits.

*Agency Theory* is a well-established and robust framework for analyzing principal–agent relationships and remains highly relevant, as conflicts of interest between principals and agents continue to persist. One manifestation of such conflicts is related to tax avoidance behavior, where managers and owners may pursue different objectives. Managerial discretion, which arises from the separation of ownership and control, can trigger agency costs when managers act in their own self-interest. These agency costs emerge from conflicts between principals and agents, particularly when agents prioritize personal interests over those of the owners.

Stakeholder interests are also considered crucial to a company's success, as stakeholders possess the ability to control and influence economic resources. Stakeholder Theory provides a useful paradigm for explaining certain aspects of corporate strategic behavior. This paradigm encompasses relationships between management and stakeholders, contractual arrangements, institutional monitoring structures, and the enforcement of contracts between management and other stakeholders (Hill & Jones, 1992). If agents fail to meet stakeholders' expectations, the resulting reactions may cause losses for the company. Therefore, managerial decisions significantly influence and determine the outcomes for all stakeholder groups (Chouaibi & Abdessamed, 2022). Tax avoidance behavior is closely related to ethics. Tax avoidance can be minimized when tax behavior is guided by ethical principles and complies with legal regulations. **Figure 2** illustrates articles that examine the relationship between business ethics and tax avoidance, revealing that substantial opportunities remain to investigate further whether ethical considerations can reduce tax avoidance behavior. Eliminating tax avoidance entirely in the business environment is challenging due to existing opportunities, such as capital round-tripping practices (Karhunen *et al.*, 2022). Furthermore, as shown in **Figure 3**, research that integrates ethical considerations within Agency Theory remains relatively limited.

*Agency Theory* is a well-established and robust framework for analyzing principal–agent relationships and remains highly relevant, as conflicts of interest between principals and agents continue to occur. One manifestation of such conflicts is tax avoidance behavior, where managers and owners often have different interests. Managerial discretion, which arises from the separation of ownership and control, can be considered a trigger of agency costs. This occurs when managers act to maximize their own interests. Agency costs arise from conflicts between principals and agents, particularly when agents tend to prioritize their personal interests.

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## Materials and Methods

The analysis steps in this study follow the Narrative Review method as applied by Saracevic and Schlegelmilch (2026). The literature search was conducted using article data sourced from Scopus (2025), focusing on studies examining the relationship between business ethics, tax avoidance, agency theory, and moral hazard. The selection criteria included: (1) document type—Article; (2) source type—Journal; (3) language—English; and (4) access—Open access only. Researchers analyzed the relevance of keywords such as *Corporate Ethics*, *Business Ethics*, *Moral Hazard*, and *Agency Theory* in relation to *Tax Avoidance*. The conceptual framework of this study is presented in **Figure 1**, while the results of the literature search are summarized in **Table 2**. No publication year restrictions were applied.

**Table 2.** Search results article

No.	Keywords	Document
1.	Corporate Ethics	8,928
	Corporate Ethics and Tax Avoidance	47
2.	Business Ethics	2,800
	Business Ethics and Tax Avoidance	32
3.	Moral Hazard	8,355
	Moral Hazard and Tax Avoidance	4
4.	Agency Theory	47,232
	Agency Theory and Tax Avoidance	72

Source: Scopus 2025

\*Limitation

1. Document type: article
2. Source type: journal
3. Language: English
4. Open access: all open access

## Results and Discussion

Corporate ethics is an important issue in discussions of tax avoidance, as aggressive tax avoidance or the failure to pay a fair share of taxes violates principles of social responsibility, citizenship, and corporate social accountability (Scholz & Pinney, 1995; Shafer & Simmons, 2008). Limited empirical evidence suggests that considerations of social responsibility influence the likelihood of engaging in aggressive tax avoidance. One of the earliest studies on tax compliance behavior found that participants who were made aware of the social responsibility aspects of tax compliance—through exposure to a series of statements—were more likely to report their income honestly (Schwartz & Orleans, 1967).

Research on fiscal non-compliance, particularly tax avoidance, is widespread in the economic literature. Tax avoidance represents a deviation from what is considered legitimate and fair and is commonly associated with losses in state tax revenue. Tax avoidance can be understood as both lawful and unlawful behavior. When associated with violations of the law, tax avoidance arises from gaps created by taxpayer behavior that deviates from established fiscal regulations. Conversely, tax avoidance does not necessarily involve breaking the law; rather, it may constitute a

circumvention of the law. In this sense, taxpayers who engage in tax avoidance challenge the integrity and intended purpose of tax legislation (Deák, 2004).

This article discusses determining factors of tax avoidance that have not been extensively explored in prior research, namely *moral hazard* and *business ethics*. This focus distinguishes the present study from existing literature, as research examining tax avoidance in relation to moral hazard and business ethics remains relatively limited. Identifying these factors can assist governments in increasing tax revenue and in developing solutions to problems associated with tax planning. Furthermore, company shareholders, as principals, can use these insights to enhance supervision of agents who may engage in tax avoidance practices. Tax avoidance issues involve multiple interrelated interests. Although governments establish tax regulations as an expression of regulatory authority, gaps within tax laws may still provide opportunities for taxpayers to engage in tax avoidance. This is particularly evident due to conflicts of interest between principals and agents, as well as the presence of loopholes within tax legislation.

Conflicts of interest frequently arise in principal-agent relationships due to differences in objectives between managers and company owners. Generally, managers tend to have a short-term orientation that may not align with the long-term interests of owners. For example, managers may pursue performance-based bonuses or other short-term incentives. Directors and commissioners are often more focused on short-term outcomes in order to obtain annual performance bonuses linked to financial results. In principle, performance bonuses are awarded when a company is in a profitable condition. However, in practice—particularly in large companies owned by the government, such as State-Owned Enterprises (BUMN)—bonuses may still be granted even when the company reports losses. This situation creates a dilemma between "profit" and "loss" in the context of bonus allocation. To secure bonuses, managers may employ various strategies related to "profit creation" by selecting accounting policies that tend to increase reported net income while remaining compliant with generally accepted accounting principles. Such policies include the choice of depreciation, amortization, or depletion methods, as well as inventory valuation methods. Furthermore, even under loss conditions, bonus distribution may still occur depending on the accounting and compensation policies adopted by the company.

One of the most prominent cases that shook the accounting world was the *Enron scandal*, which has been widely cited in academic articles and research as an example of corporate fraud in a large-scale international energy company. Enron manipulated the presentation of its financial statements by exploiting gaps in revenue recognition, which resulted in the reporting of inflated profits while concealing substantial debt. In reality, the company was operating at a loss, which ultimately led to bankruptcy. As a result, Enron's share price collapsed, causing significant losses for investors, creditors, and employees. The scandal also led to the dissolution of one of the former "Big Five" international public accounting firms, Arthur Andersen, and prompted the enactment of the Sarbanes-Oxley Act in 2002. This legislation was designed to strengthen oversight, enhance corporate accountability and transparency, protect investors, and restore public trust following the Enron scandal.

Beyond accounting data manipulation, it is also important to consider behaviors that contribute to tax avoidance through the exploitation of gaps in accounting standards and tax regulations. Numerous scandals involving managers, owners, and even external auditors suggest that such practices are often driven by intentional incentives to manipulate financial information presented in financial reports. Ironically, executive bonuses are frequently based on reported financial performance, which can intensify conflicts of interest as described in Agency Theory. While agency conflicts have been widely documented in prior research, issues related to *moral hazard*—where individuals act in their own interest at the expense of others—have received comparatively limited attention. To mitigate the occurrence of moral hazard, ethical considerations are essential. In the corporate context, *business ethics* plays a critical role and warrants further academic investigation, particularly in relation to tax avoidance behavior. As illustrated in **Figure 4**, there remains a significant opportunity for research on how business ethics can function as a control mechanism for unethical behavior associated with corporate tax avoidance practices.

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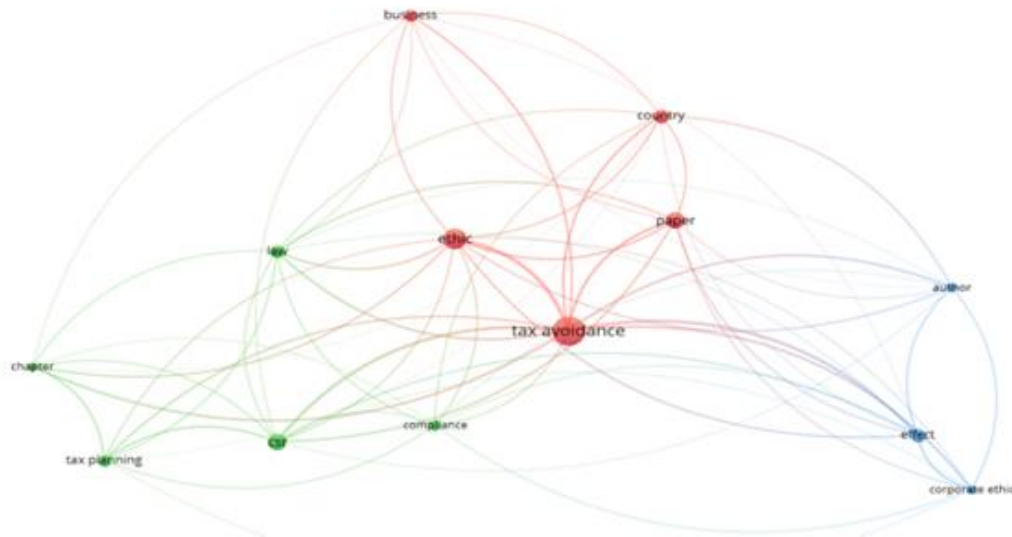
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Pressure to meet performance commitments tends to increase the likelihood of tax avoidance practices, which in turn leads to a decline in earnings quality. *Performance commitment* can be viewed as an ethical dimension that helps reduce the occurrence of moral hazard. With a strong commitment to honest and trustworthy behavior, accountability and transparency can be fostered, leading to greater alignment between individual and organizational interests. Therefore, at the organizational or corporate level, ethics—particularly in the form of *business ethics*—is essential to regulate relationships among all parties within the entity. The expected outcome of implementing business ethics is the control of negative, self-serving behavior. Incentives and corporate policies that are positively oriented and supported by strong performance commitment can encourage organizational actors to behave honestly, rationally, responsibly, and transparently, rather than exploiting access to financial information for fraudulent purposes. In this context, the implementation of a strong business ethics culture helps prevent organizational actors—whether managers, commissioners, or other stakeholders—from abusing authority, financial information, or policy discretion to fulfill personal interests. Business ethics encourages managers and commissioners to uphold responsible performance commitments, thereby enhancing transparency, reducing abuse of authority, and minimizing unethical behavior. As a result, the occurrence of moral hazard—which can lead to significant corporate losses, as evidenced by cases such as the Enron scandal—can be reduced or even prevented. Moreover, business ethics contributes to balancing agent–principal interests by promoting shared organizational objectives. This balance is particularly important given the information asymmetry between agents, who possess greater control over financial data, and principals, who may lack direct oversight over managerial decisions. Through ethical governance, potential losses to principals can be minimized or eliminated.

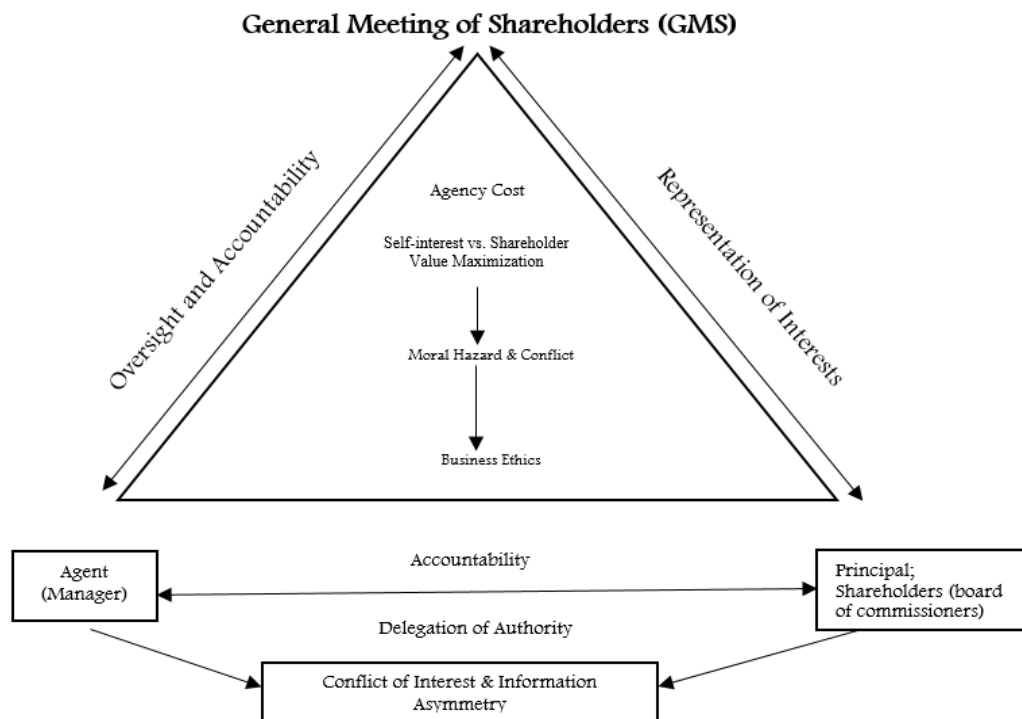
Agency problems frequently manifest in the manipulation of financial reports for "profit creation" aimed at securing managerial bonuses (*tantien*). Notable examples include the PT Garuda Indonesia scandal (2018) and the Enron case, where income recognition gaps and debt concealment were exploited. Moral hazard arises when agents possess superior information compared to principals, resulting in asymmetric information. The implementation of business



ethics serves as a mechanism to restore balance between agents and principals by promoting honest, trustworthy, and accountable behavior, ultimately reducing unethical tax avoidance practices. **Figure 3** shows the results of Visualization Vosviewer Business Ethics and Tax Avoidance. The potential contribution of business ethics in strengthening agent–principal relationships within Agency Theory, particularly in relation to tax avoidance behavior, is illustrated in **Figure 4**.



**Figure 3.** Visualization Vosviewer Business Ethics and Tax Avoidance



**Figure 4.** Business Ethics in the Agency Theory framework



## Conclusion

Ethical and unethical tax planning practices remain a significant and globally unresolved issue in taxation and accounting research, with limited comprehensive empirical investigation. Unethical behavior is closely associated with moral hazard and is particularly likely to occur within agent–principal relationships. Agency Theory explains that conflicts of interest and information asymmetry between agents and principals create conditions that enable unethical behavior, thereby increasing the risk of moral hazard. Although research on *business ethics* has been widely conducted, its direct linkage to tax avoidance behavior remains relatively underexplored. Agency Theory conceptualizes the agent–principal relationship through three key elements. Management often possesses individual interests that differ from those of company owners and holds superior access to both financial and non-financial information. This informational advantage provides opportunities for managers to exploit discretionary accounting choices and regulatory loopholes in tax legislation. Such practices may include manipulating accounting policies or presenting financial reports in a manner that is not fully transparent, with the objective of reducing tax payments to achieve short-term goals, such as performance targets or bonus maximization. Control over business processes within an entity is also influenced by the General Meeting of Shareholders (GMS), which represents strategic decision-making authority on behalf of shareholders. The board of commissioners, as representatives of ownership, may hold interests that differ from those of management, as owners generally prioritize long-term returns on investment rather than short-term managerial incentives. These differing priorities further intensify agency conflicts and increase the potential for unethical tax avoidance behavior.

This article contributes to the literature by emphasizing the importance of ethics in reducing corporate tax avoidance. By understanding how ethical values influence tax avoidance behavior, companies can identify areas for improvement in their business ethics implementation to prevent moral hazard. Ultimately, ethical failures—particularly dishonest behavior—pose significant risks to corporate reputation and sustainability, reinforcing the need for stronger ethical governance in taxation practices.

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