



Moral Hazard and Fiscal Gambling : An Analysis of Radical Tax Aggressiveness as a Survival Strategy in Multinational Corporations Facing Terminal Distress

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ABSTRACT

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During the period of global economic turmoil from 2020 to 2025, tax avoidance fundamentally transformed from a routine cost-efficiency effort into a vital element for corporate survival. For multinational corporations (MNCs) facing terminal distress, tax management often shifts toward fiscal gambling, where extreme tax aggressiveness is utilized to instantly secure internal liquidity and meet urgent short-term obligations. This research aims to analyze the shift in corporate tax strategies in response to debt market tightening and to identify the trade-off between instant cash savings and the inflated cost of capital resulting from information opacity. Employing a descriptive-analytical qualitative approach, the study positions financial metrics specifically ETR, CETR, BTD, and DTAX as signals of strategic managerial behavior reflecting the tension between fiscal obligations and survival. The results reveal that in emergency situations, supervisory boards may consciously endorse radical tax strategies as part of a restructuring plan to save the company from insolvency, reflecting a manifestation of moral hazard where short-term survival is prioritized over sustainable compliance. However, the study concludes that global regulatory frameworks, such as the OECD's Pillar Two global minimum tax and digital fiscal monitoring, are increasingly constricting the latitude for such aggressive maneuvers. Ultimately, while these desperate maneuvers attempt to forestall insolvency, they often create a "vicious cycle" of heightened legal exposure and the erosion of market confidence, making transparent compliance an existential necessity for MNCs aiming to endure from 2025 onward.

BACKGROUND

During the period of global economic turmoil from 2020 to 2025, tax avoidance fundamentally transformed from a routine cost efficiency effort into a vital element for corporate survival amidst extreme market uncertainty (Kovermann & Velte, 2021). For multinational entities on the brink of bankruptcy or in a phase of terminal distress, tax management is no longer viewed as a component of strategic financial planning; instead, it tends to shift toward a form of fiscal gambling. Under such financial pressure, extreme tax aggressiveness is utilized as a crucial instrument to instantly secure internal liquidity, sustaining minimum operations and meeting urgent short-term obligations (Hanlon & Heitzman, 2022). Theoretically, this phenomenon reinforces the relevance of Prospect Theory, which suggests that decision-makers in a loss frame exhibit a propensity for high-risk behavior to avoid liquidation, even if it requires

disregarding long-term compliance and future corporate reputation. This shift indicates that when survival is at stake, the fear of immediate insolvency far outweighs the perceived threat of future regulatory sanctions or the erosion of stakeholder trust. Consequently, firms often engage in increasingly opaque reporting practices, creating a vicious cycle where short-term cash preservation leads to heightened legal exposure and structural instability. Ultimately, these desperate maneuvers reflect a fundamental breakdown in traditional risk-reward assessments, prioritizing the avoidance of certain failure over the maintenance of sustainable fiscal ethics (Widianti & Prasetyo, 2023).

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The current empirical gap lies in understanding the critical threshold where tax strategies shift from value-enhancing efforts to predatory actions against state revenue (Lusmeida & Wibowo, 2025). While traditional Agency Theory suggests that monitoring mechanisms should align managerial actions with long-term shareholder interests through tax efficiency, this study identifies a theoretical rupture when firms enter terminal distress (Carolina & Oktavianti, 2021). By exploiting information asymmetry, multinational entities often disguise their risk profiles to maintain access to capital, essentially representing a unilateral risk transfer from the private sector to the public sector. This phenomenon reflects an extreme manifestation of moral hazard in corporate governance, where management prioritizes short-term survival over sustainable tax planning and compliance (Girindratama, Nuswantara, & Alnajar, 2024). This contradicts the Going Concern principle in accounting theory, as the pursuit of immediate liquidity through fiscal gambling paradoxically increases the probability of long-term insolvency. Consequently, these practices not only compromise corporate integrity but trigger systemic impacts that directly threaten national fiscal resilience (Lucky Nugroho, Mastur, Harnovinsah, & Aryanti, 2020).

This research analyzes the shift in corporate tax strategies in response to debt market tightening, where international firms paradoxically tend to reduce tax planning to maintain financial reporting transparency (Kharisma, Wardhana, & Sofyan, 2022). This study seeks to distinguish the tipping point at which management pivots toward radical fiscal measures to avoid liquidation. Under conditions of terminal distress, tax decisions are no longer merely a matter of administrative compliance but rather a high risk self-preservation mechanism (Aryani & Sudaryono, 2024). The urgency of this research stems from a critical evolution in corporate fiscal behavior that distinguishes it from past studies. While

prior research has extensively documented tax aggressiveness as a routine instrument for cost-efficiency and shareholder wealth maximization, there is a lack of focus on its role during systemic crises. Past studies often view tax planning through the lens of incremental value enhancement under stable conditions.

In contrast, this research identifies a shift toward 'fiscal gambling', a high-stakes survival mechanism employed by multinational corporations (MNCs) facing terminal distress. This study addresses a contemporary gap by identifying the trade off between immediate cash preservation for survival and the subsequent spike in the cost of capital caused by information opacity. By evaluating these desperate decision-making mechanisms, this study provides a more responsive theoretical foundation for oversight policies that account for extreme funding constraints and moral hazard. The primary focus is to understand how the strengthening of governance and reporting standards, such as the implementation of IFRS, can deter risky managerial behavior and ensure fiscal system stability through more transparent compliance amidst a crisis.

METHODS

This study employs a qualitative research design with a theory-driven, interpretive analytic approach. The qualitative design is selected because the objective is not to estimate causal effects statistically, but to interpret financial reporting metrics as signals of strategic managerial behavior and to explain how corporate debt conditions may interact with tax incentives in shaping aggressive tax positions, consistent with the conceptual logic articulated by Hanlon & Heitzman (2022) (Hanlon & Heitzman, 2022).

In implementing this approach, the analysis proceeds in three steps. First, the study establishes an analytical framework that links financing pressure (corporate debt conditions) to managerial incentives for tax planning, using Hanlon & Heitzman (2022) as the guiding conceptual lens. Second, the study operationalizes managerial aggressiveness through qualitative interpretation of two accounting-based indicators, namely Book–Tax Differences (BTD) and Discretionary Tax Avoidance (DTAX), drawing on Carolina & Oktavianti (2021), who argue that these metrics provide stronger indications of corporate risk and radical avoidance tendencies than alternative measures (Carolina & Oktavianti, 2021). Third, the study applies pattern matching and narrative interpretation: variations in BTD and DTAX are examined as observable manifestations of radical avoidance behavior, and then interpreted in relation to the study's theoretical propositions on debt-related pressure and tax incentives. The output of this method is a set of analytical explanations and propositions regarding how and why radical avoidance behavior emerges under particular strategic and financial conditions.

Table 1. Qualitative Analytical Framework: Financial Metrics as Strategic Indicators of Fiscal Gambling

Financial Metrics	Operational Definition & Analytical Function	Relevance in Distress Conditions
ETR (Effective Tax Rate)	The ratio of Tax Expense to Pre-tax Income. It assesses tax efficiency from an accrual accounting perspective.	Provides a comprehensive overview of how management attempts to suppress accounting tax burdens to maintain an illusion of profitability in the financial statements.
CETR (Cash Effective Tax Rate)	Cash Tax Paid divided by Pre-tax Income. It reflects the firm's ability to preserve cash flow.	Crucial Liquidity Indicator: In critical conditions, CETR reveals tax-saving strategies that have a direct, immediate impact on instant cash availability.
BTD (Book-Tax Differences)	The variance between Accounting Profit and Taxable Income. It captures gaps in both timing (temporary) and permanent differences.	Identifies policy divergence; a widening BTD gap strongly indicates manipulation reporting high profits to investors while reporting low income to fiscal authorities.
DTAX (Discretionary Permanent Diff.)	The discretionary component of permanent differences engineered by management.	Optimal Risk Predictor: Isolates deliberate managerial actions designed for radical tax avoidance and the concealment of actual tax liabilities.

Source: Compiled and analyzed by the Authors (2025)

RESULTS AND DISCUSSION

Book Tax Differences and Discretionary Permanent Differences

The discrepancy between commercial earnings reported in financial statements and the taxable income recognized by tax authorities is formally defined as Book-Tax Differences (BTD) (Chakroun & Ben Amar, 2024). a phenomenon that extends beyond temporary timing differences to include permanent divergences in the economic substance of corporate reporting. Within the field of radical tax research, Discretionary Permanent Differences (DTAX) has emerged as a superior predictive instrument due to its specialized capacity to filter out non-discretionary accounting artifacts, thereby isolating conform tax avoidance practices deliberately engineered by management. To capture these variances empirically, BTD is typically estimated through regression models that control for fundamental firm characteristics, such as fluctuations in fixed assets, sales revenue dynamics, and the strategic utilization of loss carryforwards from prior periods (Carolina & Oktavianti, 2021)

Tax Aggressiveness Mechanisms in Multinational Corporations

With operational structures spanning national borders, multinational corporations (MNCs) hold a strategic position to implement aggressive tax strategies. This phenomenon is frequently manifested through Base Erosion and Profit Shifting (BEPS) schemes, where companies exploit loopholes arising from fiscal regulatory disparities between countries (Thayyib, 2025). Several technical instruments commonly employed in this practice include:

- a. Transfer Mispricing: Setting unfair prices for intra-group transactions to shift profit margins to low tax jurisdictions or tax havens
- b. Thin Capitalization: Engineering capital structures by increasing the proportion of debt relative to equity. The objective is to utilize high interest expenses to reduce total taxable income.
- c. Tax Treaty Shopping: Routing capital flows through conduit entities in specific countries to obtain the most minimal withholding tax rates.
- d. Hybrid Mismatch: Leveraging differences in the classification of financial instruments between two jurisdictions, allowing companies to achieve double tax deductions or avoid income reporting.

The aggressiveness of these strategies is typically indicated by the use of shell companies or entities in tax haven jurisdictions that record significant profits despite a lack of substantive economic activity (Xu, 2019). Furthermore, for MNCs on the brink of bankruptcy (terminal distress) in their home country, optimizing cash flows from foreign entities through these tax loopholes often serves as a last-resort effort to maintain liquidity and forestall corporate insolvency.

Independent Commissioners

The roles of the audit committee and independent commissioners are fundamentally designed as instruments to minimize conflicts of interest between management and capital owners, while ensuring compliance with legal frameworks. In a stable business environment, a significant presence of independent commissioners is typically effective in curbing excessively risky tax activities. However, when a company is on the verge of liquidation or experiencing terminal distress, the effectiveness of this oversight tends to diminish or shift toward supporting corporate rescue measures (Nugroho, Sutrisno, & Mardiaty, 2020). This tendency is reinforced by studies indicating that in firms facing potential bankruptcy, the benefits of rigid corporate governance implementation actually decline. Boards of commissioners often grant management greater leeway to pursue aggressive tax policies if such actions are deemed crucial for maintaining the company's going concern (Dhamara & Violita, 2017). Furthermore, an anomaly exists where the interaction between board independence and financial distress shows a positive correlation with tax aggressiveness. This suggests that in emergency situations, supervisory boards may consciously endorse radical tax strategies as a component of a restructuring plan to save the company from insolvency (Wardhana, Anam, Ivanda, Tjaraka, & Hidayatullah, 2024).

The Influence of International Financial Reporting Standards on Tax Avoidance

Studies focusing on European listed firms reveal a decline in tax avoidance following the implementation of IFRS 15, which has tightened the correlation between accounting estimates and future cash flows. Nevertheless, the influence of IFRS remains inconsistent globally; nations governed by common law systems tend to witness a more pronounced reduction in tax aggressiveness compared to their civil law counterparts post-adoption (Chakroun & Amar, 2024). For entities navigating financial distress, IFRS standardization functions as a double-edged sword: while it enhances transparency, it simultaneously restricts management's latitude for creative accounting maneuvers that are often employed to defer the formal recognition of insolvency (Manyanga, Kanyepe, Chikazhe, & Manyanga, 2023).

The Digital Transformation of Fiscal Monitoring and Tax Administration

The digital transformation of accounting and reporting frameworks has significantly bolstered the capacity of fiscal authorities to monitor compliance in real-time (Hanlon & Heitzman, 2022). By deploying artificial intelligence to identify inconsistencies within BTD and CETR metrics, tax agencies have introduced a new layer of risk for corporations engaged in aggressive fiscal maneuvering. While firms may also leverage AI to refine their tax planning, the prevailing trend indicates that widespread digitalization has elevated the costs

associated with radical tax strategies due to the vastly increased probability of detection (Hanlon, 2025).

Interest Deduction Caps and Thin Capitalization Rules

As part of a worldwide effort to combat base erosion, numerous jurisdictions have instituted thin capitalization mandates and interest deduction caps (R. P. Nugroho, Sutrisno, & Mardiaty, 2020). A case in point is South Korea, where interest expenses surpassing a 2:1 debt to equity threshold are reclassified as dividends, thereby losing their tax-deductible status. Furthermore, a 30% EBITDA limit is imposed on interest originating from related-party foreign loans. For multinational entities navigating financial crises, these regulatory boundaries present a formidable obstacle, severely curtailing their capacity to leverage debt-driven fiscal maneuvers as a means of survival (Girindratama et al., 2024).

The Mechanics of the Global Minimum Tax under the OECD's Pillar Two

The international tax landscape is undergoing a fundamental transformation driven by the OECD's Base Erosion and Profit Shifting (BEPS) project, specifically through the implementation of Pillar Two (Buck et al., 2025). Pillar Two establishes a 15% global minimum tax for multinational enterprises (MNEs) with annual revenues exceeding €750 million. This framework is engineered to ensure that MNEs are subject to a baseline tax rate regardless of their geographic footprint, thereby diminishing the incentives to shift profits to low-tax jurisdictions. Central to these regulations is the top-up tax mechanism, which allows the parent company's home country to impose additional taxes if a foreign subsidiary's effective rate falls below the 15% threshold. For MNEs facing terminal distress, these mandates drastically constrict the latitude for radical tax aggressiveness. Utilizing tax havens as a sanctuary for emergency liquidity has become increasingly ineffective, as supplemental tax liabilities will inevitably be triggered at the global level (Baik, Lee, Lee, & Cho, 2025)

Strategic Implications for Entities in Financial Distress

The execution of Pillar Two introduces intricate compliance hurdles, particularly for enterprises characterized by convoluted holding structures or the utilization of Special Purpose Vehicles (SPVs) (Lusmeida & Wibowo, 2025). Corporations already teetering on the edge of financial instability may lack the requisite resources to invest in GloBE compliant tax tracking technologies; this deficiency, in turn, could incite litigation risks or additional penalties that hasten their insolvency. Conversely, various jurisdictions still offer specific exemptions for tax loss carry-forwards, extending up to 15 years, although their application is frequently capped such as the 80% annual profit limit in South Korea. Notably, special concessions are often granted to firms undergoing formal restructuring or those in legally recognized states of financial distress.

The Finance Curse: Systemic Risks Inherited by Offshore Fiscal Hubs

The tax aggressive maneuvers of multinational corporations (MNCs) extend their influence beyond the firms themselves, significantly impacting the fiscal stability of jurisdictions serving as offshore financial centers (Haberly & Wójcik, 2020). Nations maintaining exceptionally low corporate tax rates, such as Ireland, Cyprus, and the Netherlands, frequently witness a disproportionate expansion of their banking and financial sectors, a phenomenon largely fueled by the tax mitigation activities of MNCs (Haberly & Wójcik, 2020)

The finance curse manifests when the over-dominance of the international financial sector begins to exert a detrimental influence on the host nation's development (Febriyanti & Sudarto, 2023). These jurisdictions face the precarious risk of becoming fiscally accountable for the massive financial volumes channeled across their borders (Thayyib, 2025). When multinational corporations utilizing these jurisdictions encounter terminal distress, the abrupt evaporation of tax revenues or the emergence of liabilities from Special Purpose Vehicles (SPVs) can trigger catastrophic economic repercussions for the state. This vulnerability was starkly demonstrated by the experiences of Ireland and Cyprus during the global financial crisis (Chakroun & Ben Amar, 2024).

A substantial portion of MNC tax-aggressive maneuvers is executed through shadow banking mechanisms and securitization processes centered within offshore jurisdictions (Hanlon, 2025). In the Netherlands, the Special Purpose Vehicle (SPV) industry has flourished specifically to facilitate corporate tax avoidance, subsequently incentivizing domestic banks to engage in similarly hazardous activities (Kovermann & Velte, 2021). The lack of coordination between fiscal authorities and financial regulators in monitoring these vulnerabilities fosters a moral hazard; multinational corporations perceive themselves as insulated by their intricate structural complexities, while the state unknowingly absorbs latent systemic risks (Ogundele & Nzama, 2025)

Corporate Resolution Mechanisms and Strategic Survival under Distress

When an enterprise teeters on the brink of collapse or enters terminal distress, management often faces a strategic quandary: pursuing transparent and legally sanctioned restructuring or engaging in aggressive 'fiscal gambling' to safeguard remaining liquidity (Ugur, Solomon, & Zeynalov, 2022). The trajectory of these policies is typically dictated by the quality of internal governance and the intensity of pressure from creditors demanding capital repayment (Manyanga et al., 2023). Within this framework, auditors bear a critical responsibility to identify early indicators of high-risk tax aggressiveness (DeFond, Qi, Si, & Zhang, 2025)

The specialized tax expertise of the signing auditors is expected to curb management's opportunistic behavior by pinpointing potential sanctions that might be overlooked during internal assessments. In practice, however, auditors are frequently compromised by pressures to endorse going-concern valuations

predicated on overly optimistic and unrealistic tax-saving assumptions (Ogundele & Nzama, 2025). This crisis-driven landscape has spurred stringent regulations, such as the Dodd Frank Act in the United States, which mandates that systemic financial institutions draft self liquidation plans or living wills independent of public assistance. While primarily focused on macroeconomic stability, these resolution documents ought to integrate tax strategies under failure scenarios to prevent the erosion of residual assets caused by tax liabilities from fire-sale liquidations. Absent a sophisticated integration of tax planning within corporate resolution schemes, firms risk falling into a state of 'fiscal panic,' which further exacerbates liquidity shortages and hastens the total collapse of an already vulnerable entity (Zhang, 2025).

CONCLUSION

An analysis of radical tax aggressiveness as a survival mechanism reveals that in states of terminal distress, the distinction between legitimate tax planning and hazardous fiscal gambling becomes exceptionally thin. Moral hazard arises when multinational managers opt for extreme tax risks over the arduous process of restructuring, hoping that the short-term liquidity garnered from tax avoidance will provide a temporary reprieve for an uncertain recovery. The implications for policymakers are unequivocal: robust global harmonization, as pursued through the OECD BEPS Pillar 2, is essential to bridge the loopholes that facilitate such fiscal gambling. Furthermore, reporting transparency through IFRS and GRI frameworks must be continuously enhanced to empower stakeholders including creditors and investors to identify early warning signs of distress-driven tax aggressiveness.

For corporate management, it is imperative to recognize that in today's era of digitalization and global transparency, the cost of radical tax strategies extends beyond mere financial penalties; it involves the erosion of market confidence, which can itself accelerate terminal distress. Sustainable survival strategies must be anchored in operational efficiency and prudent risk management, rather than the exploitation of tax systems that ultimately shifts the burden of corporate failure onto society. Transitioning toward transparent compliance is not merely a regulatory mandate but an existential necessity for MNCs aiming to endure within an increasingly interconnected and scrutinized global economic landscape from 2025 onward.

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