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The effect of leverage, liquidity, and accounting conservatism on tax avoidance with financial distress as a moderating variable (Food and Beverage Subsector Companies in 2021-2023)

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ABSTRACT

This study investigates how leverage, liquidity, and accounting conservatism impact tax avoidance. This study also investigates whether financial hardship can mitigate the association between tax avoidance and accounting conservatism. Using a purposive sampling technique, 63 food and beverage businesses listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023 constitute the sample for this study, yielding 189 observations in total. Multiple linear regression was used to analyze the data using SPSS PROCESS macro.. The findings indicate that (1) leverage significantly affects tax evasion. (2) Tax evasion is not significantly affected by liquidity. (3) The Effective Tax Rate (ETR) is significantly positively impacted by accounting conservatism, suggesting that conservatism actually lowers tax evasion. (4) It has been demonstrated that the association between tax evasion and accounting conservatism cannot be mitigated by financial hardship. that improves tax compliance, irrespective of the state of the business's finances.The findings suggest that corporate management should more carefully consider the actions taken and their associated risks concerning tax obligations.

Keywords: Tax avoidance, leverage, liquidity, accounting conservatism, financial distress, agency theory, ETR.

1. INTRODUCTION

Taxes play a crucial role as the main source of state revenue used to finance development and improve the welfare of the people (Ijlal Alfarizi et al., 2021) . However, government efforts to optimize tax revenue are often hampered by companies' tax avoidance practices. Although legal, these actions reduce companies net profits, thereby reducing tax payments (Gultom, 2021). The issue of tax avoidance is particularly relevant in the food and beverage subsectors. This sector is an essential primary need and continues to grow (Gunawijaya, 2017), but it also faces challenges such as changing consumer habits, supply chain disruptions, and unstable raw material prices (Sebastian & Jusuf, 2024). Several cases of tax avoidance involving large companies in this sub-sector, such as PT Indofood and PT Coca-Cola Indonesia, demonstrate that this phenomenon is real and has a significant impact on state finances Tax avoidance itself is a legal way to reduce tax burdens, often involving creative tax accounting (Mahdiana & Amin, 2020). This issue is worth studying because, although it does not violate the law, tax avoidance can reduce state cash receipts, which has a negative impact on state finances (Wahyuni & Wahyudi, 2021). Managing this tax burden is part of a company's strategy to achieve cost efficiency and optimal profits (Setyarini et al., 2023). According to agency theory, conflicts of interest between management (agents) and the state (principals) are the primary drivers of this practice (Tanjaya & Nazir, 2021). Management tends to minimize tax burdens to increase profits and personal incentives. This conflict became more complex in the presence of financial distress. Financial pressure can drive companies to engage in tax avoidance to maintain operational sustainability (Putri Simanjuntak & Suranta, 2024).

2. LITERATUR REVIEW

2.1 Agency Theory

Agency theory explains the contractual relationship between principals (owners/shareholders) and agents (managers/administrators) in which principals delegate decision-making authority to agents with the expectation that the company's objectives will be achieved (Hendra, 2019). In practice, principals provide financial and non-financial incentives as rewards for the agents' performance (Sutisna et al, 2024). This relationship often gives rise to agency conflicts due to differences in interests, where agents tend to maximize personal gains, while principals focus on increasing company value (Tanjaya & Nazir, 2021). This conflict is exacerbated by information asymmetry, as agents have deeper operational knowledge than principals and do not always disclose all information (Puspitasari & Wulandari, 2022). In the context of tax avoidance, the principal–agent relationship extends to the interaction between companies as taxpayers and tax authorities as government representatives. The principal encourages strategies that can minimize the tax burden to maximize profits, whereas the agent has operational control to implement these policies. Tax avoidance efforts can be considered legitimate, depending on how they are carried out. Thus, agency theory provides a foundation for understanding the motivations and behaviors of company managers when making decisions that impact tax avoidance practices.

2.2 Tax Avoidance

Tax avoidance is the legal avoidance of taxes in accordance with tax regulations, unlike tax evasion, which is illegal (Wijaya, 2022). Tax avoidance is carried out through tax planning strategies to minimize tax burdens without violating the law, whereas tax evasion is carried out by violating regulations, such as reporting lower profits than the actual amount. Taxes are seen as a burden on companies because they reduce net profits, prompting them to seek legal ways to reduce them. Contractor (2016) identified several common legal methods used by multinational companies, namely: (1) tax exemptions or tax relief for specific purposes, (2) transfer pricing by shifting profits to tax haven countries, (3) intercorporate loans to transfer operations or assets to low-tax jurisdictions, and (4) corporate inversion to countries with low taxes (Matanari & Sudjiman, 2022). The level of tax avoidance can be measured using the effective tax rate

(ETR), which is the ratio of tax expenses to pre-tax profits. A high ETR indicates a low level of tax avoidance, while a low ETR indicates a high level of tax avoidance.

2.3 Leverage

Financial analysts use leverage, or solvency ratios, to determine a company's ability to manage assets financed by debt (Wijaya, 2022). The amount of financing that a business receives from debt is reflected in its leverage. Typically, this debt is used to fund investment and operations. According to (Gultom, 2021), this ratio is believed to be used to assess a company's obligation to meet its long-term or short-term debt if it is liquidated. A good business capital composition is preferable (Sari, 2023). states that the debt-to-equity ratio (DER) is a useful metric for measuring leverage. The DER ratio can indicate how much debt affects asset management, or how much of a company's assets are financed by debt. Debt growth reduces a company's pre-tax profit and increases interest expenses, ultimately resulting in lower tax burdens. This ratio determines the amount of money the company's owners receive from lenders or creditors. This ratio is used to calculate the value of each rupiah of equity pledged as collateral for a loan.

2.4 Liquidity

Liquidity is a ratio that measures a company's ability to meet its short-term obligations using its current assets (Danardhito et al, 2023). This ratio reflects the extent to which current assets such as cash, accounts receivable, and inventory can be used to pay current liabilities over time. Information about liquidity can be obtained from the working capital statement, particularly the current assets and liabilities sections. Management needs to optimally manage cash balances to maximize the company's wealth and utilize excess cash effectively. A high liquidity level indicates a strong financial condition in which the company has a greater ability to meet its short-term obligations. This condition also tends to make a company more confident in disclosing information more transparently in its financial statements. Conversely, low liquidity may indicate financial difficulty. According to Norisa et al. (2022), one common measure for assessing liquidity is the Current Ratio (CR), which is calculated by comparing total current assets to total current liabilities.

2.5 Accounting Conservatism

Accounting conservatism is a principle that emphasizes the careful recognition and evaluation of assets and income, especially since economic and business activities have a high degree of uncertainty (Sumarna & Malatada, 2025). In the context of tax avoidance, this principle can be applied by recognizing greater expenses and reducing profits, thereby lowering the amount of tax owed. However, low tax expenses due to low profits do not always directly reduce the level of tax avoidance (Sakhiya Ellyanti & Suwarti, 2022). The accounting conservatism ratio is used as an indicator of the extent to which a company applies this principle of caution. According to agency theory, accounting conservatism functions as a control mechanism that can minimize conflicts between principals and agents through the slower recognition of profits and faster recognition of losses. This approach aims to provide a more realistic financial picture while also serving as a strategy that has the potential to influence a company's tax burden.

2.6 Financial Distress

Financial distress is a condition in which a company experiences financial difficulties or a crisis prior to bankruptcy (Yussi, 2020). This situation typically occurs when a company is unable to meet its short-term obligations such as liquidity and solvency. Such conditions can affect a company's financing, investment, and operational policies and encourage management to make strategic decisions that differ from those of financially healthy companies. From an agency theory perspective, managers tend to maintain the company's reputation in the eyes of stakeholders, even in difficult conditions, by utilizing tax avoidance strategies to reduce tax burdens and improve cash flow. Financial distress can be measured using the Altman Z-Score (Ningsih & Noviari, 2022). A Z-score of ≥ 2.99 indicates a healthy company, a score between 1.81–2.99 indicates a vulnerable condition, and a score < 1.81 indicates a high risk of bankruptcy.

3. METHODOLOGY

This study uses a quantitative method with causality analysis to examine the relationships between accounting conservatism, leverage, liquidity, and financial distress as moderating variables. This method was chosen to systematically and objectively present facts through the measurement of numerical data from a predetermined population or sample. This quantitative approach allows for hypothesis testing based on previous research findings by utilizing mathematical designs and statistical analysis. The data used are secondary data in quantitative form obtained from the financial reports of companies in the food and beverage subsector listed on the Indonesia Stock Exchange (IDX) for the period 2021–2023, as well as other relevant supporting sources. These secondary data were selected because they are available from official sources and can be used to describe statistics and test the relationship between the research variables.

3.1 Operational Variable

In this study, the variables were divided into independent and dependent. The independent variables include accounting conservatism, leverage, liquidity, and financial derivatives, while the dependent variable is tax avoidance. Additionally, financial distress acts as a moderating variable in certain relationships in the research model. All the formulas are presented in Table 1.

Tabel 1. Variable Measurement

Variable	Measurement
Tax Avoidance	$\text{ETR} = \frac{tax\ expense}{income\ before\ tax}$
Leverage	$\text{DER} = \frac{Total\ liabilities}{Total\ equity}$
Liquidity	$\text{CR} = \frac{current\ assets}{current\ liabilities}$
Accounting Conservatism	$\text{Conservatism} = \frac{(\text{Net income} + \text{depreciation expense}) - \text{operating cash flow}}{\text{total assets}}$
Financial Distress	$Z = 1.2A + 1.4B + 3.3C + 0.6D + 1E$

Source: Processed by the authors (2025)

3.2 Framework

Leverage, liquidity, and accounting conservatism are strategies that can be misused for tax avoidance. Leverage reflects the level of a company's debt use, which can affect interest expenses and tax management strategies. Liquidity indicates a company's ability to meet short-term obligations, which can potentially influence decisions regarding tax avoidance. Accounting conservatism relates to the principle of prudence in financial reporting, which can limit management's ability to engage in tax avoidance. Financial distress is positioned as a moderating variable that strengthens or weakens the relationship between accounting conservatism and tax avoidance. Under distress conditions, companies tend to adopt efficiency measures, including tax strategies, to maintain operational sustainability. Most previous studies, such as Stefani & Paramitha (2022) and Danardhito et al. (2023), only examined the direct effects of leverage, liquidity, or conservatism on tax avoidance, without considering the financial distress experienced by companies. This study examines whether financial distress can strengthen or weaken the relationship between accounting conservatism and tax avoidance. Thus, this framework emphasizes that tax avoidance practices are not only influenced by a company's internal financial conditions (leverage, liquidity, conservatism) but also by external pressures in the form of financial difficulties faced.In this study, the conceptual framework is described as follows (see Figure 1):

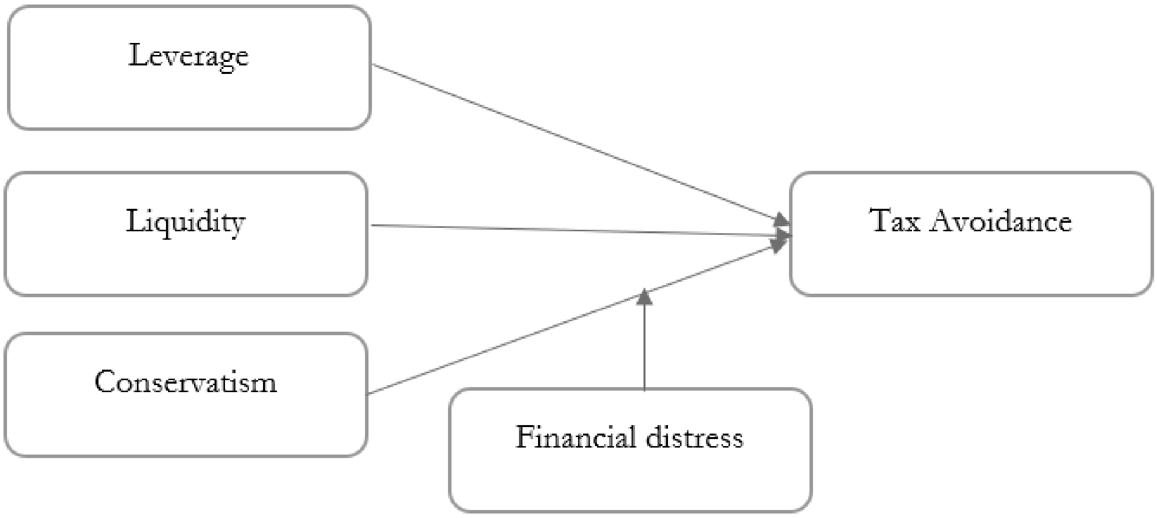

Figure 1. Theoretical framework

3.3 Population and Sample

The research sample was determined using purposive sampling, a technique for determining samples based on specific criteria tailored to the objectives of the research (Sari, 2023). The criteria are listed (Table 2).

Tabel 2. Sample Criteria

NO	Criteria	Total
1	Food and beverage companies listed on the IDX	95
2	Companies that do not have financial statement data for 2021-2023	(29)
3	The company does not report its financial statements in rupiah.	(3)
Total Sample		63
Total sample 63 x 3 years of research		189

Source: Processed by the authors (2025)

Based on the above data, the sample comprises 63 companies for three years of observation during 2021-2023, with a total of 63 annual financial reports used as samples multiplied by three years of observation, which is 189 annual financial reports.

3.4 Data Analysis Techniques

This study used quantitative analysis methods with data processing through Statistical Product and Service Solutions (SPSS) software version 27, as well as the addition of a macro application developed by Hayes. The macro is used to analyze the role of moderating variables in the relationship between accounting conservatism and tax avoidance as well as to test the hypotheses. Model 1 is used in the PROCESS macro, where the moderating variable moderates the direct relationship between the independent variable (X) and dependent variable (Y). The analysis methods included quantitative descriptive and multiple linear regression analyses. Multiple linear regression analysis is used to explain the influence of several independent variables on one dependent variable (Sugiyono, 2018). In this study, the moderated variable is accounting conservatism, while other variables such as leverage and liquidity are analyzed simultaneously but are not moderated. For their arrangement in the PROCESS macro, leverage (X1) and liquidity (X2) variables are included in the covariate column (see Figure 2).

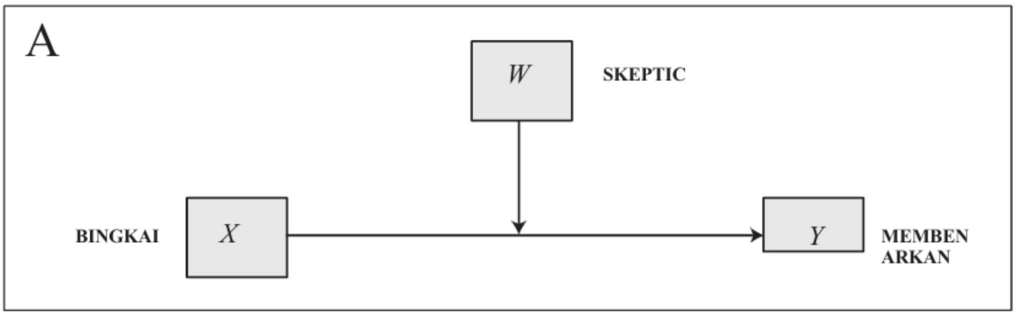

Figure 2. Hayes Process model 1

Source: (Hayes, 2022)

Model 1 was selected based on the research need to test whether financial distress acts as a moderator in the relationship between accounting conservatism and tax avoidance. This model is appropriate because it provides a direct estimate of the interaction between the independent variable (accounting conservatism) and moderator variable (financial distress), thereby showing whether the effect of conservatism on tax avoidance depends on the level of financial distress of the company. In this study, financial distress is only modeled as a moderator in the relationship between accounting conservatism and tax avoidance because, conceptually, conservatism is a reporting practice that is sensitive to a company's financial distress. Conversely, the influence of leverage and liquidity on tax avoidance is more direct through debt structure and cash availability, so it is not relevant to moderate it by financial distress. Classical assumption tests were also conducted in this study. These tests aim to ensure that the OLS linear regression model meets its basic assumptions, so that the research results are accurate, consistent, and unbiased. OLS requires a linear relationship between the variables. If the relationship is nonlinear, this method is not appropriate. Classical assumption tests consist of three stages: normality, multicollinearity, and heteroscedasticity.

3.4.1 Normality Test

The normality test aims to determine whether the residuals (errors) in the regression model are normally distributed. Residual normality is one of the basic assumptions of classical linear regression. In this study, normality testing was performed using the Kolmogorov-Smirnov test (see Table 3).

Table 3. Kolmogorov-Smirnov Test

Statistic	Unstandardized Residual
N	189
Normal Parameters	
Mean	0.0000000
Std. Deviation	0.16046187
Most Extreme Differences	
Absolute	0.296
Positive	0.292
Negative	-0.296
Test Statistic	0.296
Asymp. Sig. (2-tailed)	<0.001

Source: Data processed by researchers using SPSS 27

The normality test using the One-Sample Kolmogorov-Smirnov Test produced a Test Statistic of 0.251 with significance < 0.001, indicating that the residual data were not normally distributed. However, according to (Schmidt & Finan, 2018), violations of normality do not cause bias in coefficients, and in large samples, their impact on standard errors is insignificant. Therefore, the focus of the analysis should be on other assumptions, such as homoscedasticity and the presence of outliers. In line with this, Hayes (2022) recommends the bootstrapping method as an alternative analysis that does not depend on the assumption of residual normality.

3.4.2 Multicollinearity Test

Multicollinearity testing was conducted to ensure that there was no high correlation between the independent variables, which could cause regression coefficients to become unstable or biased. The test used the Variance Inflation Factor (VIF) and tolerance values, with the criteria for multicollinearity freedom as VIF < 10 and tolerance > 0.1. Although Hayes' PROCESS method is capable of handling variable interactions (X × M), multicollinearity among independent variables still needs to be tested because it can affect the stability of regression coefficient estimates (Hayes, 2022)

Table 4. Multicollinearity Test

Variable	Tolerance	VIF
Leverage	0.955	1.047
Liquidity	0.417	2.399
Conservatism	0.996	1.004
Financial Distress	0.425	2.351

Source: Data processed by researchers using SPSS 27

The results of the multicollinearity test show that all independent variables meet the criteria of Tolerance > 0.10 and VIF < 10, so the regression model is free from multicollinearity. The values obtained were leverage (tolerance 0.955; VIF 1.047), liquidity (tolerance 0.417; VIF 2.399), conservatism (tolerance 0.996; VIF 1.004), and Financial Distress (tolerance 0.425; VIF 2.351). Thus, there is no high correlation between the independent variables, and each variable can be validly analyzed in relation to tax avoidance.

3.4.3 Heteroscedasticity Test

A heteroscedasticity test was conducted using the Glejser method, which regresses the absolute value of the residuals against each independent variable. The model is declared free of heteroscedasticity if the significance value (Sig.). for each variable, was > 0.05. This approach is used to ensure that the residual variance is constant so that the regression coefficient estimates remain efficient and the test results are unbiased (see Table 5).

Table 5. Multicollinearity Test

Variable	Sig.
Leverage	0.580
Liquidity	0.618
Conservatism	0.731
Financial Distress	0.758

Source: Data processed by researchers using SPSS 27

The test for heteroscedasticity using the Glejser method is conducted by regressing the absolute residual values against leverage, liquidity, accounting conservatism, and financial distress. The model was considered free of heteroscedasticity if the significance value (Sig.) was > 0.05. The test results show that all the variables have Sig. values above 0.05 (leverage: 0.580; liquidity: 0.618; conservatism: 0.731; financial distress: 0.758). Thus, the residual variance is constant (homoscedastic) and the regression model is suitable for testing the hypothesis.

3.5 Multiple Linear Regression with Process Macro

Linear regression is a statistical method for modeling the relationship between dependent variables (Y) and independent variables (X). This method is called multiple linear regression, if there is more than one independent variable. In this study, it was used to test the effect of leverage, liquidity, and accounting conservatism on tax avoidance, with the help of a macro application (Hayes, 2022). The equation form of multiple linear regression is described below (see Table 5):

$$\boldsymbol{Y = i_y + b_1X_1 + b_2X_2 + b_3X_3 + b_4W + b_5X_3W + e}$$

Description:

Y	= Tax Avoidance
i	= Constanta
$b_1b_2b_3b_4$	= Regression Coefficient of Independent Variables
X_1	= Leverage
X_2	= Liquidity
X_3	= Accounting Conservatism
W	= Financial Distress
e	= Error

Table 5. Multiple Linear Regression Test with Process Macro

R	R²	MSE	F	df1	df2	p
0.3948	0.1559	0.0264	67.593	50.000	1.830.000	0.0000
Variable	**B (coef)**	**SE**	**t**	**p**	**LLCI**	**ULCI**
Constant	-0.2518	0.0181	-139.044	0.0000	-0.2876	-0.2161
X3	0.2703	0.1184	22.830	0.0236	0.0367	0.5038
W	0.0063	0.0026	24.271	0.0162	0.0012	0.0115
Int_1 (X3 × W)	-0.0100	0.0279	-0.3574	0.7212	-0.0651	0.0451
X1	0.0164	0.0041	39.594	0.0001	0.0082	0.0245
X2	-0.0123	0.0068	-18.092	0.0721	-0.0257	0.0011

Source: Data processed by researchers using SPSS 27

Based on the results of multiple linear regression, the following equation was obtained:

$$\mathbf{Y = -0.2518 + 0.0164\, X_1 - 0.0123X_2 + 0.2703X_3 + (–0.0063W) + (–0.100X_3{\times}W) + e}$$

The constant –0.2518 indicates that if all independent variables are zero, the value of tax avoidance will decrease by 0.2518. The leverage coefficient (X_1) is positive at 0.0164, which means that each one-unit increase in leverage will increase tax avoidance by 0.0164, assuming that other variables remain constant. Conversely, a liquidity coefficient (X_2) of –0.0123 indicates that a one-unit increase in liquidity decreases tax avoidance by 0.0123. An accounting conservatism coefficient (X_3) of 0.2703 indicates that a one-unit increase in conservatism increases tax avoidance by 0.2703. Furthermore, a financial distress coefficient (W) of 0.063 indicates that a one-unit increase in financial distress increases tax avoidance by 0.063. The interaction between accounting conservatism and financial distress (X_3×W) has a negative coefficient of − 0.0100, meaning that financial distress weakens the effect of accounting conservatism on tax avoidance.

4. Discussion

The t-test results were obtained from the SPSS output using the Hayes Model 1 PROCESS. The figure also shows the results of the t-tests. Based on the figure, the interpretation of the test results is as follows. Hypothesis 1 (H1). The t-test results indicate that the leverage variable has a significant effect on tax avoidance in food and beverage companies listed on the IDX during the 2021–2023 period, with a significance value of 0.0001 or 0.01% (p-value < 0.05), thus accepting H_1. The direction of the leverage effect is positive on the ETR, meaning that the higher the leverage, the higher the ETR. With ETR as a proxy for the inverse of tax avoidance, companies with high leverage tend to have lower levels of tax avoidance. This finding suggests that businesses with a large proportion of debt relative to equity tend to avoid aggressive tax strategies in order to maintain fiscal compliance and reduce the risk of external scrutiny. These results are consistent with Abdullah (2020), who states that leverage has a significant effect on tax avoidance. According to Agency Theory, companies with large debt burdens face pressure from creditors to maintain financial stability, thereby increasing oversight from principals (creditors). This encourages managers to be more cautious and choose conservative tax policies. Additionally, these findings are consistent with Khairunnisa et al (2023), who show that leverage does not influence tax avoidance, reinforcing the understanding that the influence of leverage can vary depending on industry characteristics and company financial conditions.

Hypothesis 2 (H2). The liquidity variable has a significance value of 0.0721, or 7.21%, which is greater than the 5% threshold. Thus, H_2 is rejected, meaning that liquidity does not have a significant effect on tax avoidance in food and beverage companies listed on the IDX for 2021–2023. The regression coefficient of -0.0123 indicates a negative relationship, meaning that, as liquidity increases, the level of tax avoidance tends to decrease, although this effect is not statistically significant. High liquidity reflects a company's ability to meet short-term obligations and flexibility in cash-flow management. Theoretically, this condition could allow companies to engage in aggressive tax planning. However, the findings indicate that companies with high liquidity are not driven to engage in tax avoidance because they do not face significant financial pressure. These results are consistent with the research by Khasanah & Indriyani (2021), which states that liquidity has a negative and insignificant effect on tax avoidance. From an Agency Theory perspective, managers, as agents, have the potential for conflicts of interest with company owners (principals). Under good liquidity conditions, external and internal pressures to reduce tax burdens are low; thus, managers have no strong incentive to pursue tax avoidance strategies. In other words, high liquidity is not a determining factor of tax avoidance behavior in this study's sample.

Hypothesis 3 (H3). The accounting conservatism variable has a significance value of 0.0236 or 2.36%, which is smaller than the 5% threshold, so H_3 is accepted. This means that accounting conservatism has a significant effect on tax avoidance in food and beverage companies listed on the IDX for 2021–2023. A positive regression coefficient of 0.2703 indicates that an increase in accounting conservatism is followed by an increase in the company's ETR value. This increase in the ETR indicates that the portion of taxes paid is increasing compared to taxable income, so the level of tax avoidance actually decreases. Conceptually, accounting conservatism is the application of the principle of prudence in financial reporting, where losses or expenses are recognized earlier, while revenue is only recognized when it is actually realized. In practice, this approach is often assumed to suppress accounting profits and reduce tax burden. However, the findings of this study indicate that accounting conservatism functions as a governance mechanism that promotes tax compliance, limits opportunistic behavior by managers, and protects companies from reputational risks associated with aggressive tax avoidance practices. These results align with the research of Gunarto & Adi (2022) and Pangesti & Ratnaningsih (2023), who found that accounting conservatism significantly influences tax avoidance. From an Agency Theory perspective, conservatism can serve as a control mechanism to reduce conflicts of interest between managers and shareholders. In companies with high levels of conservatism, managers tend to utilize this principle as a form of compliance, rather than as a means of tax aggressiveness. This suggests that in the context of this study, accounting conservatism reflects good governance quality rather than tax avoidance strategies.

Hypothesis 4 (H4). The accounting conservatism variable has a significance value of 0.0236 or 2.36%, which is smaller than the 5% threshold, so H_3 is accepted. This means that accounting conservatism has a significant effect on tax avoidance in food and beverage companies listed on the IDX for 2021–2023. A positive regression coefficient of 0.2703 indicates that an increase in accounting conservatism is followed by an increase in the company's ETR value. This increase in the ETR indicates that the portion of taxes paid is increasing compared to taxable income, so the level of tax avoidance actually decreases. Conceptually, accounting conservatism is the application of the principle of prudence in financial reporting, where losses or expenses are recognized earlier, while revenue is only recognized when it is actually realized. In practice, this approach is often assumed to suppress accounting profits and reduce tax burden. However, the findings of this study indicate that accounting conservatism functions as a governance mechanism that promotes tax compliance, limits opportunistic behavior by managers, and protects companies from reputational risks associated with aggressive tax avoidance practices. These results align with the research of (Gunarto & Adi, 2022) and (Pangesti & Ratnaningsih, 2023), who found that accounting conservatism significantly influences tax avoidance. From an Agency Theory perspective, conservatism can serve as a control mechanism to reduce conflicts of interest between managers and shareholders. In companies with high levels of conservatism, managers tend to utilize this principle as a form of compliance, rather than as a means of tax aggressiveness. This suggests that in the context of this study, accounting conservatism reflects good governance quality rather than tax avoidance strategies.

5. CONCLUSIONS

Based on the results of testing the effects of leverage, liquidity, and accounting conservatism on tax avoidance with financial distress as moderating variables in food and beverage companies listed on the Indonesia Stock Exchange (IDX) for the period 2021–2023, the following conclusions were drawn. The test results show a t-statistic value of $0.0001 < 0.05$, with a p-value of 0.0164, indicating that leverage has a positive and significant effect on tax avoidance. This finding suggests that the higher the Debt to Equity Ratio (DER), the higher the Effective Tax Rate (ETR), meaning that the company engages in lower levels of tax avoidance. High leverage can serve as an external discipline that discourages tax avoidance. For management, this underscores the importance of maintaining an optimal capital structure, as high debt ratios not only impact financial risk, but also the company's tax compliance strategy. Leverage can be used as an indicator of tax risk and corporate sustainability for creditors and investors. Meanwhile, for regulators and policymakers, these findings suggest that creditor oversight of companies plays a role in improving tax compliance; therefore, corporate capital structures need to be considered in the formulation of fiscal policy and capital market regulations.

The t-statistic value of $0.0721 > 0.05$, with a negative p-value of -0.0123, indicates that neither a high nor low current ratio affects tax avoidance practices. Companies in any liquidity condition do not tend to engage in tax avoidance. For financial managers, these results confirm that, although cash availability provides flexibility, tax compliance remains a rational choice when financial conditions are stable. For investors and creditors, liquidity levels cannot be used as a measure of tax avoidance behavior but rather only reflect a company's ability to meet its short-term obligations. Meanwhile, for regulators and policymakers, these findings suggest that oversight related to tax avoidance needs to focus more on other factors. The test results show a t-statistic of $0.0236 < 0.05$, with a p-value of 0.2703, indicating that accounting conservatism significantly influences tax avoidance. The higher the level of conservatism, the higher is the ETR, resulting in lower levels of tax avoidance by companies. These results confirm that applying the principle of prudence in preparing financial statements not only improves the quality of reporting but also strengthens fiscal compliance and reduces reputational risk arising from aggressive tax practices. For investors and shareholders, accounting conservatism can be a positive signal that a company manages its performance transparently and with a long-term orientation, thereby increasing market confidence. From the perspective of regulators and policymakers, these results support the importance of promoting the consistent application of accounting conservatism in financial reporting standards in Indonesia, as it has been proven to contribute to the control of tax avoidance behavior and support the achievement of better corporate governance objectives.

A t-statistic value of 0.7212 > 0.05, with a p-value of -0.0100, indicates that financial distress does not strengthen or weaken the influence of accounting conservatism on tax avoidance. Companies experiencing financial distress tend to prioritize business continuity, maintain cash flow, and avoid additional risks, such as fines or tax audits, so they do not utilize accounting conservatism for tax avoidance purposes. This confirms that the decision to apply the principle of conservatism in financial reporting and tax compliance is influenced more by internal governance policies than by liquidity pressures or short-term financial difficulties. For investors and creditors, these results indicate that distress indicators cannot be used as the primary benchmark for predicting tax avoidance tendencies but must be understood in conjunction with corporate governance and accounting policy factors. From the regulator's perspective, these findings indicate that fiscal policy and tax supervision should not only focus on distress conditions but should also be directed more toward strengthening conservative reporting practices as a mechanism to prevent tax avoidance.

Ethical Approval

This study was conducted in accordance with the ethical principles outlined in the Declaration of Helsinki. Ethical approval for this study was obtained from Widya Kartika Surabaya Research Ethics Committee.

Informed Consent Statement

All participants were informed of the objectives of the study, and informed consent was obtained prior to data collection. Participation was voluntary and all responses were kept confidential and used solely for academic research purposes.

Authors' Contributions

Vic Vincent – Conceptualization, data collection, statistical analysis, and drafting of the manuscript.
Yulia Setyarini, S.E., M.A. – Supervision, methodological guidance, critical review, and final approval of the manuscript.

Disclosure Statement

The authors declare no potential conflicts of interest with respect to the research, authorship, or publication of this article.

Data Availability Statement

Data supporting the findings of this study are available from the corresponding author upon reasonable request.

Notes on Contributors

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