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Leverage, Accounting Conservatism, and Tax Avoidance: The Moderating Role of Sales Growth Capability

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A B S T R A C T

A country's fiscal revenue is largely derived from taxes, and tax avoidance behavior is receiving a lot of attention from the academic and practical worlds. However, tax expenses in a company's accounts can indeed significantly impact the firm's profitability and cash flows, creating strong incentives for managers to engage in tax avoidance strategies. Analysing the relationship between leverage, accounting conservatism, and tax avoidance, with sales growth capability as a moderating variable, is essential for comprehending how these elements interact in influencing a firm's financial decisions, particularly concerning tax strategies. The research was conducted online through the official website of the Indonesia Stock Exchange (IDX), on all Food and Beverage Subsector Companies Listed on the IDX in 2020-2022. The sample determination in this study was through purposive sampling technique. This study uses Linear Regression and Moderated Regression Analysis (MRA) data analysis methods with the help of the SPSS for Windows statistical application. The results suggest that leverage has a positive and significant influence on tax avoidance, corroborating findings from previous research. However, the study found that accounting conservatism does not have a direct and significant impact on tax avoidance practices. Interestingly, the findings indicate that leverage can strengthen the effect of leverage itself on tax avoidance, suggesting a compounding influence.

1. INTRODUCTION

Tax is a crucial component of a nation's fiscal revenue, with tax avoidance behaviour garnering significant attention in both academic and practical spheres. In Indonesia, tax is the primary revenue source for the government, accounting for nearly 85% of the total government revenue in 2018. As a crucial component of the nation's fiscal revenue, the significant reliance on tax income highlights the importance of understanding and managing tax avoidance behaviour in the country. But, in the other side, Companies tend to focus on minimizing tax liabilities to enhance profitability and financial performance (Hsu et al., 2018).

Tax expenses in a company's accounts can indeed significantly impact the firm's profitability and cash flows, creating strong incentives for managers to engage in tax avoidance strategies. Tax avoidance, often likened to tax planning, involves managing taxes to minimize tax payables within legal boundaries (Rizkiana & Suripto, 2022). Tax avoidance involves various strategies such as the use of tax shelters, which can lead to higher profit margins and meeting analyst expectations (Khan et al., 2017). Additionally, tax uncertainty is a fundamental aspect of effective tax planning, with tax avoidance being a measure of firm strategic risk (Dyreng et al., 2019).

Prior studies have explored various determinants of tax avoidance, including firm-level factors such as leverage, accounting conservatism, and sales growth capabilities. Tax avoidance is a multifaceted phenomenon influenced by various factors at the firm level. Research has explored determinants such as leverage, accounting conservatism, and sales growth capabilities. Dyreng, Hanlon, and Maydew (2010) found that movements between top and bottom quartiles of executives can lead to an approximately 11 percent swing in effective tax rates, highlighting the significant role of executives in tax avoidance (Dyreng, Hanlon, and Maydew 2010); (Hsu, Moore, and Neubaum 2018) emphasized the importance of corporate governance dimensions in understanding tax avoidance in an agency context (Hsu, Moore, and Neubaum 2018); (Gallemore, Maydew, and Thornock 2014) discussed the reputational costs associated with aggressive tax avoidance, indicating a concern for managers and firms.

Case tax avoidance in Indonesia has been a topic of ongoing interest, with several high-profile cases involving multinational corporations (MNCs) operating in the country. Tax avoidance by multinational

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corporations (MNCs) in Indonesia has been a significant concern, with reports indicating that numerous MNCs operating in the country engage in tax avoidance practices (Sari & Ramli, 2023). These practices often involve shifting income from high-tax countries to low-tax jurisdictions, such as tax haven countries, through subsidiaries (Dyreng et al., 2019). Moreover, tax avoidance is influenced by various factors such as leverage, company size, risk, sales growth, capital intensity, and earnings management (Marfiana and Putra 2021); (Wahyuni, Fahada, and Atmaja 2017); (Damayanti and Wulandari 2021); (Nailufaroh, Suprihatin, and Mahardini 2022).

Leverage is a critical financial decision that can significantly impact a firm's tax burden and the incentives for tax avoidance. Highly leveraged firms may have a greater incentive to engage in tax avoidance strategies to preserve cash flows and enhance profitability. Leverage plays a significant role in influencing tax avoidance strategies within firms. Research by Wahyuni, Fahada, and Atmaja (2017) found that leverage has a significant positive effect on tax avoidance, indicating that firms with higher leverage are more likely to engage in tax avoidance practices. Similarly, Widyastuti, Meutia, and Candrakanta (2022) and Marfiana and Putra (2021) also support this notion by highlighting the positive impact of leverage on tax avoidance. Moreover, the study by Shubita (2024) emphasizes that leverage, measured by the debt-to-equity ratio, is a key factor influencing tax avoidance decisions within companies.

Tax avoidance is a significant concern for firms, and various factors play a role in influencing this practice. Among these factors, leverage has been identified as having a notable impact on tax avoidance practices. Research on the impact of leverage on tax avoidance has yielded mixed results. While some studies suggest that leverage does not significantly affect tax avoidance (Nailufaroh, Suprihatin, and Mahardini 2022); (Sumantri, Kusnawan, and Anggraeni 2022), others indicate a positive relationship between leverage and tax avoidance (Damayanti and Wulandari 2021); (Afrianti, Uzliawat, and Ayu Noorida S 2022). For example, (Damayanti and Wulandari 2021) found a significant positive effect of leverage on tax avoidance. On the other hand, Ilmiyono and Agustina (2020) reported that leverage does influence tax avoidance. Leverage may not have a significant positive effect on tax avoidance, as some studies have suggested that the relationship between leverage and tax avoidance is not always straightforward. Highly leveraged firms may not necessarily have greater incentives to engage in tax avoidance practices, as other factors such as firm size, profitability, and industry characteristics could also play a role in shaping a company's tax planning strategies.

However, the extent to which a firm engages in tax avoidance is influenced by various factors, including the firm's financial structure and accounting practices. Accounting conservatism, an important aspect of financial reporting, can also play a role in shaping tax avoidance strategies. Accounting conservatism is the tendency of accountants to require a higher degree of verification for recognizing good news as gains than for recognizing bad news as losses. This concept can impact a firm's tax avoidance practices, as conservative accounting methods can lead to lower reported earnings and, consequently, lower tax liabilities. Accounting conservatism, a fundamental aspect of financial reporting, influences tax avoidance strategies in various ways. Moreover, the study by (Bornemann 2018) suggests that firms may increase conservatism in financial reporting when anticipating a tax rate cut to shift taxable income into lower-taxed periods. This demonstrates how accounting conservatism can be strategically employed to manage tax liabilities. Furthermore, the study by Francis and Krishnan (1999) reveals that auditors tend to be more conservative in reporting for high-accrual firms, indicating a link between accounting accruals and auditor reporting conservatism. This emphasis on conservatism in financial reporting aligns with the notion that conservative accounting practices can influence tax avoidance strategies by affecting the recognition of gains and losses. Additionally, research by Shen and Ruan (2022) suggests that accounting conservatism can act as a deterrent to R&D manipulation, with its effectiveness influenced by internal control and tax enforcement. This highlights how accounting conservatism not only impacts financial reporting but also plays a role in shaping corporate behaviors beyond tax avoidance.

Accounting conservatism has been found to play a significant role in influencing tax avoidance practices within companies. Research has shown that accounting conservatism can impact tax avoidance practices (Rizkiana & Suripto, 2022). Additionally, conservatism accounting has been linked to book-tax differences and tax avoidance (Purwantini, 2017). Studies have suggested that accounting conservatism can reduce tax avoidance practices, highlighting the positive impact of conservative approaches in tax matters (Suleiman, 2020). Moreover, companies that adhere to accounting conservatism principles are less likely to engage in tax aggressiveness, indicating that conservative accounting practices may lead to lower levels of tax avoidance (Budyastuti et al., 2023). Credit rating conservatism has also been shown to affect corporate tax avoidance, particularly in firms with significant tax-planning capabilities and weak external monitoring mechanisms (Chen et al., 2021). Furthermore, top management conservatism, influenced by personal political orientation, has been explored in relation to corporate risk strategies such as tax avoidance. This suggests a potential link between individual managerial traits and tax behaviour within organizations (Christensen et al., 2015).

Accounting conservatism has been associated with tax avoidance, with firms incentivized to increase conservatism in financial reporting to shift taxable income into lower-taxed periods (Bornemann, 2018). Other studies suggest that accounting conservatism has no effect on tax avoidance (Rizkiana & Suripto, 2022). However, accounting conservatism may not always be associated with increased tax avoidance. Some studies suggest that conservative accounting practices can deter firms from engaging in aggressive tax planning strategies. Accounting conservatism's emphasis on the timely recognition of losses and a higher degree of verification for gains can act as a deterrent to tax avoidance, as it limits the ability to shift taxable income into lower-taxed periods. Furthermore, conservative accounting principles promote transparency and reduce information asymmetry, which may discourage firms from pursuing tax avoidance activities that could be viewed as unethical or risky. The relationship between accounting conservatism and tax avoidance is complex and may depend on various firm-specific factors and the broader regulatory environment.

The interplay between leverage, accounting conservatism, and tax avoidance is intricate and multifaceted. Various factors, such as executive influence, tax uncertainty, and firm characteristics, play crucial roles in shaping firms' tax strategies, contributing to the complexity of this relationship. Comprehensively analysing the interplay between leverage, accounting conservatism, and tax avoidance, with sales growth capability as a potential moderating variable, is essential for understanding the nuances of this dynamic. Sales growth is a significant factor that can influence a firm's financial decisions, including its tax avoidance strategies. The capability to generate sales growth may impact the relationship between leverage, accounting conservatism, and tax avoidance, as firms with stronger sales growth may have more resources and flexibility to engage in tax avoidance activities. Understanding the moderating role of sales growth capability can provide valuable insights into the complex relationship between leverage, accounting conservatism, and tax avoidance, contributing to the existing literature and informing managerial decision-making in the context of corporate tax planning.

Analysing the relationship between leverage, accounting conservatism, and tax avoidance, with sales growth capability as a moderating variable, is essential for comprehending how these elements interact in influencing a firm's financial decisions, particularly concerning tax strategies. Tax avoidance entails using legal methods to reduce tax obligations, potentially resulting in increased profit margins and the possibility of meeting or surpassing analyst expectations (Khan et al., 2017). Companies that engage in tax avoidance, particularly those with lower cash effective tax rates, often encounter more significant tax uncertainty compared to those with higher tax rates (Dyreng et al., 2019). Accounting conservatism plays a crucial role in financial reporting by limiting earnings management and decreasing information asymmetry, thereby indicating financial distress promptly and aiding in debt renegotiations to prevent bankruptcy liquidations (Biddle et al., 2020). Furthermore, accounting conservatism can deter manipulative practices such as R&D manipulation, although this effect may be influenced by internal control and tax enforcement (Shen & Ruan, 2022). Sales growth is a pivotal factor affecting tax avoidance strategies, as demonstrated by research indicating that sales growth positively impacts tax avoidance (Wahyuni, Fahada, and Atmaja 2017); (Ilmiyono and Agustina 2020). Additionally, the impact of sales growth on tax avoidance can be moderated by factors like profitability and corporate governance (Iwanty & Surjandari, 2022). Leverage, another significant component in this interplay, has been shown to have a positive influence on tax avoidance in various studies (Sari and Ramli 2023); (Damayanti and Wulandari 2021); (Afrianti, Uzliawat, and Ayu Noorida S 2022). Companies strategically navigate these factors to optimize their tax strategies while considering the influence of accounting practices, sales growth, and leverage on their tax avoidance decisions.

According to agency theory, there is a conflict of interest between managers (agents) and owners (principals). Managers may engage in tax avoidance to maximize their own benefits, such as bonuses or job security, at the expense of shareholders' interests. Agency theory posits that conflicts of interest can arise between managers (agents) and owners (principals) within a firm. Agency theory, a fundamental concept in corporate governance, elucidates the dynamics between principals (owners) and agents (managers) within a firm, highlighting potential conflicts of interest that may arise (Khamisan & Astuti, 2023). These conflicts often stem from divergent objectives between shareholders seeking to maximize wealth and managers pursuing personal goals or interests (Damayanti & Wulandari, 2021).

Trade-off theory focuses on the balance between benefits and costs associated with corporate finance decisions. Trade-off theory in corporate finance highlights the balance between the advantages and drawbacks of financial decisions (Shubita, 2024). Tax avoidance is a strategy that can help reduce the tax burden on a company, but it also comes with risks such as increased audit scrutiny and potential fines from tax authorities (Guo et al., 2018). Firms need to carefully weigh the costs and benefits associated with tax avoidance strategies (Hsu et al., 2018). Tax avoidance can be influenced by various factors such as sales growth, profitability, and corporate governance (Wahyuni et al., 2019; Khamisan & Astuti, 2023). Companies that experience high sales growth may be more inclined to engage in tax avoidance practices to minimize their tax liabilities (Biddle et al., 2020). Additionally, the presence of financial experts on the audit committee can play a crucial role in monitoring and advising on tax planning activities (Hsu et al., 2018). Accounting conservatism is another important aspect to consider in the context of tax avoidance (Budyastuti, 2023). Conservative accounting practices can impact tax avoidance strategies, as firms that apply conservative principles may not engage in aggressive tax avoidance but rather exercise caution in managing risks (Hidayat, 2022).

Leverage is a ratio that measures the degree to which a company is financing its operations through debt versus equity. Leverage, as a financial metric, plays a crucial role in determining how a company funds its operations, whether through debt or equity. Leverage is a key factor in tax avoidance strategies, as it can provide tax benefits through the deductibility of interest payments. Companies with higher leverage may be more inclined to engage in tax avoidance practices to maximize the tax benefits associated with debt financing. The solvency ratio, also known as the leverage ratio, is utilized to assess the extent to which a company's assets are financed by debt (Oktaviyani & Munandar, 2017). Studies have shown that there is a relationship between accounting conservatism and leverage, where more conservative financial reporting is associated with a higher degree of financial leverage in a firm's capital structure (Salama & Putnam, 2015). This association can be further influenced by factors such as sales growth, profitability, and institutional ownership. Additionally, high debt levels can lead to increased risks for companies, potentially resulting in practices like tax avoidance (Sari & Ramli, 2023).

Accounting conservatism refers to the practice of adopting a prudent approach in financial reporting, favoring lower asset values and higher liability values. Accounting conservatism, a fundamental concept in financial reporting, involves the practice of adopting a cautious approach that favors lower asset values and higher liability values (Bolgorian & Mayeli, 2020). This approach leads to a downward bias in accounting net asset value compared to economic net asset value. The benefits of accounting conservatism extend to debt contracting and cash accessibility by mitigating earnings management (Biddle et al., 2020). Moreover, accounting conservatism enhances the reliability of financial reporting by improving managerial supervision and contract enforcement (Suleiman, 2020). It is considered a bedrock precept of financial reporting due to its role in resolving conflicts between shareholders and creditors over dividend policies (Atwa et al., 2022). Despite the importance of accounting conservatism, empirical evidence on its relationship with a firm's reliance on debt covenants is limited (Nikolaev, 2010). Furthermore, accounting conservatism has been linked to various financial decisions such as cash distribution, investment, capital structure, and debt maturity horizon (Li et al., 2019).

Sales growth is a critical metric that reflects a company's ability to generate revenue and expand its business. Robust sales growth can enhance a firm's capacity to meet debt obligations and reduce its financial risk. Sales growth is a fundamental driver of a company's financial performance, as it reflects the firm's ability to generate revenue and expand its operations. Sales growth is a fundamental metric for evaluating a company's financial performance and potential. It serves as an indicator of a firm's revenue generation capability and its capacity for business expansion (Iwanty & Surjandari, 2022). Various studies have explored the relationship between sales growth and tax avoidance. For example, (Shubita 2024) conducted an analysis across different industries and regions to investigate how sales growth influences a firm's approach to tax avoidance and its subsequent impact on profitability. Additionally, (Astrina, Aurellita, and Kurniawan 2022) highlighted the significant effect of sales growth on tax avoidance, indicating a relationship between these variables.

Tax avoidance strategies can be understood through the lens of agency theory, which suggests a conflict of interest between managers (the agent) and shareholders (the principal) in achieving desired levels of profitability. This agency conflict can incentivize the use of tax avoidance measures. Furthermore, tax avoidance may involve the utilization of tax loopholes and shelters, providing companies with immediate benefits such as higher profit margins and an increased likelihood of meeting or exceeding analyst forecasts. Tax avoidance is a multifaceted issue influenced by a combination of financial, governance, and strategic factors. Agency theory suggests that firms may use leverage to reduce taxes, while institutional ownership can act as a control mechanism to prevent excessive tax avoidance (Damayanti and Wulandari 2021); (Khan, Srinivasan, and Tan 2017). Leverage has been consistently found to have a positive effect on tax avoidance in various studies (Afrianti, Uzliawat, and Ayu Noorida S 2022); (Widyastuti, Meutia, and Candrakanta 2022); (Sari and Ramli 2023). Additionally, sales growth identified as factors positively associated with tax avoidance (Wahyuni, Fahada, and Atmaja 2017); (Ilmiyono and Agustina 2020); (Sumantri, Kusnawan, and Anggraeni 2022). (Wahyuni et al., 2019; Ilmiyono & Agustina, 2020; Sumantri et al., 2022). Based on the theoretical and empirical evidence, the following hypotheses are proposed:

H_1: Leverage is positively associated with tax avoidance.

Accounting conservatism is a crucial element in influencing tax avoidance practices within firms, particularly in the context of agency theory. Recent research has shown that accounting conservatism acts as a contracting mechanism that helps mitigate information asymmetries and agency conflicts (Bornemann 2018). This indicates that firms may use accounting conservatism to address agency issues and enhance transparency in financial reporting, subsequently impacting tax avoidance strategies. Furthermore, studies have found that accounting conservatism is associated with a reduction in tax avoidance practices (Suleiman, 2020). The presence of accounting conservatism is linked to lower levels of tax avoidance, suggesting that conservative accounting practices may deter aggressive tax planning within organizations. Additionally, accounting conservatism interacts

with factors such as capital intensity, influencing the level of tax aggressiveness in firms (Budyastuti et al., 2023). Based on the selected references, it can be inferred that the relationship between accounting conservatism and tax avoidance is nuanced. While some studies indicate that accounting conservatism is associated with lower levels of tax avoidance practices, as suggested by (Suleiman 2020). Based on the theoretical and empirical evidence, the following hypotheses are proposed:
H_2: Accounting conservatism is negatively associated with tax avoidance.

The relationship between sales growth capability, leverage, and tax avoidance is a complex interplay that can be moderated by firms' sales growth potential. Research suggests that firms with higher sales growth capability may exhibit a stronger positive association between leverage and tax avoidance. This implies that as firms experience increased sales growth, the impact of leverage on tax avoidance becomes more pronounced. While the direct relationship between leverage and tax avoidance has been established in various studies (Afrianti, Uzliawat, and Ayu Noorida S 2022), the moderating effect of sales growth capability on this relationship adds a new dimension to the understanding of tax planning strategies within organizations. Firms with higher sales growth potential may have greater incentives to engage in tax avoidance practices, especially when leveraging financial resources to capitalize on growth opportunities. Astrina, Aurellita, and Kurniawan (2022) emphasized the significant effect of sales growth on tax avoidance, aligning with the notion that sales growth is a key factor in tax planning strategies. In the context of tax avoidance, Riguen, Salhi, and Jarboui (2020) pointed out that firms with higher sales growth tend to benefit more from tax planning, thereby increasing their incentives to engage in tax avoidance practices. This underscores the importance of sales growth as a driver for tax-related decisions. Additionally, Wahyuni, Fahada, and Atmaja (2017) and Khamisan and Astuti (2023) further corroborated the positive impact of sales growth on tax avoidance, emphasizing its role alongside other factors like leverage. Based on the theoretical and empirical evidence, the following hypothesis is proposed:
H_3: Sales growth capability strengthens the effect of leverage on tax avoidance.

Sales growth capability can play a significant role in influencing the relationship between accounting conservatism and tax avoidance. While accounting conservatism is known to reduce tax avoidance practices (Suleiman, 2020), the impact of this reduction can be weakened by the presence of strong sales growth capabilities within a company. Studies have shown that sales growth has a positive effect on tax avoidance (Astrina, Aurellita, and Kurniawan 2022); (Afrianti, Uzliawat, and Ayu Noorida S 2022); (Oktaviyani and Munandar 2017); (Wahyuni, Fahada, and Atmaja 2017) and when combined with accounting conservatism, the ability of conservatism to reduce tax avoidance may be lessened. This suggests that companies with high sales growth may engage in more tax avoidance practices despite having conservative accounting policies in place. In summary, while accounting conservatism is generally associated with reduced tax avoidance, the presence of strong sales growth capabilities within a company can weaken this effect. The interplay between sales growth, accounting conservatism, and other factors like leverage and profitability can create a complex relationship that influences the extent of tax avoidance practices within a firm. Based on the theoretical and empirical evidence, the following hypothesis is proposed:
H_4: Sales growth capability weakens the effect of accounting conservatism on tax avoidance.

2. METHOD

The research was conducted online through the official website of the Indonesia Stock Exchange (IDX), on all Food and Beverage Subsector Companies Listed on the IDX in 2020-2022. The sample determination in this study was through purposive sampling technique. The sample for this study was determined based on the following criteria:

a. Food and Beverage Subsector Companies that publish annual financial reports on the Indonesia Stock Exchange consecutively in 2020-2022
b. Food and Beverage Subsector Companies that use Rupiah currency in financial statements
c. Food and Beverage Subsector Companies that experienced profits in 2020-2022.

Leverage in this study is measured through the Debt-to-Equity Ratio. The calculation is done by comparing total debt, including current debt with all the company's capital. The greater the value of the Debt-to-Equity Ratio calculation, the greater the indication of tax avoidance by the company. This is because companies will take advantage of debt to reduce company expenses and get tax incentives for tax savings.

Conservatism in accounting is a significant concept that can be measured using the accrual method. The accrual-based measure of conservatism is widely adopted in accounting research (Atwa et al., 2022). This method reflects accounting accruals in the next period and is instrumental in capturing the timely recording of expenses compared to gains, thereby discouraging overvaluation of firms (Suleiman, 2020). Accounting conservatism can be measured through various methods, including balance sheet measures, income statement measures, and earnings/stock return relation measures (Zhong & Li, 2016). The calculation is by subtracting the value of net income with depreciation and amortization and operational cash flow, then the result is divided by total assets and the result of the division is multiplied by (-1). If accruals are detected to be negative, the company's earnings reporting is classified as conservative due to earnings that are lower than the cash flow obtained by the company in that period. An indication of tax avoidance is the presence of conservative corporate profits. The measurement of conservatism with the accrual method is the use of Basu (1997) model that looks at the asymmetry of earnings recognition, where earnings are more responsive to bad news compared to good news. This method allows researchers to see the impact of accounting conservatism more comprehensively.

Sales growth capability is measured through the sales growth ratio, which compares the company's current year sales with the previous year's sales. Sales growth is measured by comparing the difference in sales of the current period with the previous period with the total sales of the previous period. Sales growth shows an indication of tax avoidance because high sales growth is in line with the profits generated by the company and the company's tax burden. The high tax burden will certainly reduce the value of profit earned by the company. Therefore, high sales growth encourages tax avoidance.

Tax avoidance is defined as the taxpayer's effort to reduce the company's tax burden acting within the limits of tax law. This variable is measured by the cash of effective tax ratio (CETR) formula by comparing the expense paid for taxes with profit before tax. CETR measures the taxes actually paid in cash relative to pre-tax income, providing a clear picture of the tax payments made by the company. This is more reflective of the company's real tax burden compared to accrual-based measures that can be influenced by deferred taxes and accounting adjustments.

This study uses Linear Regression and Moderated Regression Analysis (MRA) data analysis methods with the help of the SPSS for Windows statistical application. The linear regression model in this study is expressed by the following equation:

Equation 1:

$$Y = \alpha + \beta 1.X1 + \beta 2.X2 + \varepsilon$$

Equation 2:

$$Y = \alpha + \beta 1.X1 + \beta 2.X2 + \beta 3.X3 + \beta 4.X1\ X3 + \beta 5.\ X2\ X3 + \varepsilon$$

Description:

Y = tax avoidance
α = constant value
β1 = leverage regression coefficient
β2 = conservatism accounting regression coefficient
β3 = sales growth regression coefficient
β4 = regression coefficient of interaction between leverage and sales growth
β5 = regression coefficient of interaction between conservatism accounting and sales growth
X1 = leverage
X2 = conservatism accounting
X3 = sales growth
ε = standard error

3. RESULT AND DISCUSSION

This study assesses the effect of conservatism, leverage, and sales growth on tax avoidance. Through the purposive sampling method, presented in Table 1:

Table 1. Selection of Research Sample

Criteria	Total
Food and Beverage Subsector Companies Listed on the IDX in 2020-2022	28
1. Do not publish annual financial reports	(1)
2. Do not use Rupiah currency in their financial statements	(1)
3. Companies that experienced losses in 2020-2022	(6)

Number of Samples	20
Total Sample in Research (x3)	60

Source: Research data (2025)

The classic assumption test is carried out to test the feasibility of data before regression. The classical assumption tests carried out include normality, autocorrelation, and heteroscedasticity tests. After the data has passed the classical assumption test, regression is carried out. Regression was performed twice to form equations 1 and 2. Table 1 below shows the results of the regression results for equation 2:

Table 2. Linear regression test results

Variable	Beta value	Significant value
Constant	0,325	0,002
Leverage	0,432	0,000
Conservatism accounting	0,162	0,682

Source: Research data (2025)

Based on Table 2, the results of the linear regression test show that the coefficient value of the leverage variable is 0.162 with a significance value on the leverage variable is 0.000 which is smaller than the significance level, namely 0.05. This shows that leverage has a positive and significant effect on tax avoidance, meaning that the higher the leverage, the higher the tax avoidance carried out by the company. So, the hypothesis is accepted. The results indicate that leverage has a positive and statistically significant influence on tax avoidance. This suggests that companies with higher levels of debt tend to engage in more tax avoidance activities. The positive relationship between leverage and tax avoidance can be attributed to the fact that debt financing allows companies to utilize interest expenses as tax deductions, thereby reducing their overall tax burden. Furthermore, the presence of high levels of debt may incentivize firms to pursue more aggressive tax planning strategies to preserve cash flow and meet their debt obligations. Therefore, the findings reject the first hypothesis, which implies that the level of leverage is an important determinant of a company's tax avoidance behaviour.

Leverage has a positive and statistically significant influence on tax avoidance, as evidenced by several studies. Research by Damayanti and Wulandari (2021) found that leverage has a significant positive effect on tax avoidance practices. Additionally, Wahyuni, Fahada, and Atmaja (2017) highlighted that firms with higher leverage are more likely to engage in tax aggressive behaviour, indicating that greater debt levels provide more opportunities for tax avoidance. Furthermore, the study by Amalia and Firmansyah (2022) supported the notion that increasing debt levels can lead to tax incentives, thereby positively influencing tax avoidance strategies. This aligns with the findings of (Sari and Ramli 2023), who demonstrated that leverage, along with company size and risk, collectively influence tax avoidance practices, with leverage specifically showing a significant impact. The positive relationship between leverage and tax avoidance can be attributed to the financial flexibility and manoeuvrability that higher leverage provides to companies in managing their tax liabilities strategically. By utilizing debt as a tax shield, firms can potentially reduce their taxable income and, consequently, their tax obligations. This highlights the importance of considering leverage as a key factor in understanding and predicting tax avoidance behaviours within corporate settings.

Based on Table 2, the results of the linear regression test show that the coefficient value of the conservatism accounting variable is 0.432 with a significance value on the conservatism accounting variable is 0.682 which is bigger than the significance level, namely 0.05. This indicates that the level of accounting conservatism does not have a statistically significant influence on the company's tax avoidance practices. The findings suggest that the degree to which a company adopts a more conservative approach in its financial reporting does not directly determine or drive its engagement in tax avoidance strategies. In other words, a company's tendency to understate earnings and assets relative to its cash flows, as captured by accounting conservatism metrics, does not necessarily translate to more aggressive tax planning or tax minimization behaviours. This implies that the motivations and mechanisms underlying a firm's tax avoidance activities may be driven by factors beyond just the level of accounting conservatism, such as leverage, profitability, industry characteristics, or managerial incentives. The lack of a significant relationship between accounting conservatism and tax avoidance warrants further investigation into the multifaceted determinants of corporate tax planning and the complex interplay between financial reporting choices and tax management strategies.

Accounting conservatism, characterized by a prudent approach to financial reporting that recognizes losses sooner than gains, has been studied in relation to a company's tax avoidance practices. Research by Purwantini (2017); Rizkiana and Suripto (2022); Budyastuti et al. (2023) all found that accounting conservatism does not have a statistically significant impact on tax avoidance. These studies suggest that companies implementing accounting conservatism are more focused on prudence and risk management rather than engaging in aggressive tax avoidance strategies. Furthermore, the study by Suleiman (2020) indicated that accounting conservatism may reduce tax avoidance practices, implying that conservative accounting practices could deter aggressive tax planning strategies. This finding aligns with the conclusion of Rizkiana and Suripto (2022) that accounting conservatism does not influence tax avoidance, further supporting the idea that conservative accounting principles do not drive companies to pursue tax avoidance practices.

The lack of a significant relationship between accounting conservatism and tax avoidance can be attributed to the primary goal of conservatism, which is to offer a more reliable and cautious representation of a company's financial status rather than to facilitate tax avoidance strategies. Companies adhering to conservative accounting principles may prioritize transparency and accuracy in financial reporting over aggressive tax planning, resulting in a limited impact of conservatism on tax avoidance practices. Accounting conservatism does not significantly influence a company's tax avoidance practices. Instead, conservatism is more closely associated with prudence, risk management, and the quality of financial reporting, underscoring the importance of transparency and reliability in financial statements.

Testing the third and fourth hypothesis were carried out with Moderated Regression Analysis (MRA). The test results can be seen in Table 2 as follows.

Table 3. Moderation regression test results

Description	Beta value	Sig. value
Constant	0,778	0,000
Leverage	-0,321	0,136
Conservatism accounting	-0,964	0,431
Sales growth	-1,194	0,013
The interaction of leverage and sales growth	0,678	0,022
The interaction of conservatism accounting and sales growth	4,586	0,356

Source: Research data (2025)

The third hypothesis states that sales growth can strengthen the influence of the leverage on tax avoidance. Base on research show that Sales growth can strengthen the influence of the leverage on tax avoidance, where a significant value is 0.022 under 0,05. Thus, the third hypothesis in this study which states that sales growth can strengthen the influence of the leverage on tax avoidance is accepted.

This finding suggests that a company's sales growth capability can amplify the positive relationship between leverage and tax avoidance. Firms with stronger sales growth are better positioned to capitalize on the tax-saving opportunities provided by higher leverage, as the growth in sales can generate additional cash flows and profits that can be shielded from taxation through strategic debt utilization. The moderating effect of sales growth indicates that companies with both high leverage and robust sales growth are more likely to engage in tax avoidance practices, as the combination of these factors provides them with enhanced financial flexibility and the ability to efficiently manage their tax liabilities.

Sales growth can play a significant role in strengthening the influence of leverage on tax avoidance within companies. Several studies have explored the relationship between sales growth, leverage, and tax avoidance. Afrianti, Uzliawat, and Ayu Noorida S (2022) found that sales growth has a positive effect on tax avoidance, while Ilmiyono and Agustina (2020) highlighted that sales growth, alongside company size and leverage, influences tax avoidance. Moreover, Oktaviyani and Munandar (2017) emphasized the positive impact of sales growth on tax avoidance. These findings collectively suggest that as sales grow, companies may be more inclined to engage in tax avoidance strategies, especially when considering their leverage levels. Leverage, on the other hand, has been consistently shown to have a positive effect on tax avoidance in various studies (Wahyuni et al., 2017). When sales growth is coupled with leverage, it can further enhance the company's ability to engage in tax avoidance practices. The combination of increasing sales and higher leverage ratios may provide companies with more opportunities and incentives to manage their tax liabilities through various strategies. The synergy between sales growth and leverage can strengthen the influence of leverage on tax avoidance within companies. As sales increase, companies may be more motivated to utilize leverage to enhance their tax avoidance strategies, potentially leading to a more pronounced impact on tax management practices.

The fourth hypothesis states that sales growth can weaken the influence of the conservatism accounting on tax avoidance. Base on research show that Sales growth cannot moderate the influence of the conservatism accounting on tax avoidance, where a significant value is 0.356 above 0,05. Thus, the third hypothesis in this study which states that sales growth can weaken the influence of the conservatism accounting on tax avoidance is rejected.

This finding suggests that the relationship between accounting conservatism and tax avoidance practices is not significantly moderated by a company's sales growth capabilities. While prior research has demonstrated that sales growth can amplify the positive influence of leverage on tax avoidance, it does not appear to have a similar moderating effect on the association between accounting conservatism and corporate tax planning strategies. The lack of a significant moderating role for sales growth indicates that the implementation of conservative accounting principles, characterized by a more prudent and cautious approach to financial reporting, remains a distinct and independent factor that is not heavily contingent on a company's sales growth performance when it comes to its impact on tax avoidance behaviors. This implies that the underlying mechanisms and motivations driving the link between accounting conservatism and tax avoidance may be more deeply rooted in principles of transparency, risk management, and financial reporting quality, rather than being significantly shaped by short-term fluctuations in sales growth. The findings suggest that conservative accounting practices serve as a relatively stable and independent determinant of a company's tax avoidance practices, irrespective of its sales growth capabilities. The available literature does not provide evidence to suggest that sales growth can moderate the influence of conservatism accounting on tax avoidance. Studies such as those by Purwantini (2017) and (Bornemann 2018) suggest that conservatism accounting practices do not have a direct influence on tax avoidance. Additionally, Christensen et al. (2015) indicate that top management conservatism, which can be related to accounting conservatism, may not necessarily lead to increased tax avoidance.

Furthermore, the study by Koubaa and Jarboui (2017) explores the relationship between book-tax differences and accounting conservatism, indicating that book-tax differences do not significantly affect accounting conservatism. This suggests that even if there are discrepancies between book and tax values, it may not directly impact the level of conservatism in accounting practices, thereby not influencing tax avoidance. While sales growth may have a positive impact on tax avoidance, the available literature does not support the idea that it can moderate the influence of conservatism accounting on tax avoidance. Conservatism accounting practices seem to operate independently of sales growth when it comes to their impact on tax avoidance strategies within companies.

4. CONCLUSION

This study aimed to investigate the complex relationship between leverage, accounting conservatism, and tax avoidance, while also examining the moderating role of sales growth. The results suggest that leverage has a positive and significant influence on tax avoidance, corroborating findings from previous research. However, the study found that accounting conservatism does not have a direct and significant impact on tax avoidance practices. Interestingly, the findings indicate that leverage can strengthen the effect of leverage itself on tax avoidance, suggesting a compounding influence.

These findings contribute to the existing literature by providing empirical evidence on the complex interplay between financial and operational factors in shaping corporate tax avoidance practices. The insights from this study suggest that accounting conservatism, rooted in principles of transparency, risk management, and financial reporting quality, remains a stable and independent determinant of a company's tax avoidance strategies, irrespective of its short-term sales growth fluctuations. This implies that the underlying mechanisms and motivations driving the link between accounting conservatism and tax avoidance are more deeply embedded in organizational values and governance practices, rather than being significantly influenced by transient sales growth dynamics.

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