ABSTRACT
Tax avoidance is the activity of managing the company's finances to avoid the larger amount of tax burden legally without violating the prevailing laws. This study aims to analyze the effect of financial distress and accounting conservatism on tax avoidance with leverage as moderating variable. The data used in this study was obtained from the annual financial statements of manufacturing companies listed on the Indonesian Stock Exchange during the period of 2015 to 2019 based on the Jakarta Stock Industrial Classification (JASICA) system. This study used 340 samples which obtained through purposive sampling method. The analytical method used in this study is panel data regression analysis. The results of the study which used fixed effect model showed that financial distress and accounting conservatism have a significant negative effect on tax avoidance, while leverage has no effect on tax avoidance, and leverage moderates the influence of financial distress and accounting conservatism on tax avoidance.

KEY WORDS
Tax avoidance, financial distress, accounting conservatism, leverage.

Currently, tax revenue becomes Indonesia's main financial focus. The share of tax revenue in APBN is still very dominant, 76.77% in 2019. However, tax revenue has not been able to pass the target set in the APBN at least in the last five years (LKPP, 2019). The conflict of interest between the government and taxpayers triggers tax planning actions both legally (tax avoidance) and illegally (tax evasion).

One of the factors that affect tax avoidance is financial distress. The result of Swandewi and Noviari (2020) study showed that financial distress has a positive effect on tax avoidance. On the other hand, Nugroho and Firman (2017) find a result that financial distress has no significant effect on tax aggressiveness.

The other variable that affects tax avoidance is accounting conservatism. The result of Swandewi and Noviari (2020) study showed that accounting conservatism has a significant negative effect on tax avoidance. A different result is presented by Trisusanti and Lasdi (2018) through their research showed that accounting conservatism has no effect on tax avoidance.

The next factor influencing tax avoidance is leverage. Previous research conducted by Faizah and Adhivinna (2017) showed that leverage has no effect on tax avoidance. Yet Putri and Putra (2017) stated that leverage has a negative effect on tax avoidance.

So far, research discussing the effect of leverage as a moderating factor on tax avoidance is still very limited. Previous research was conducted by Suryani and Mariani (2019). So, the study about leverage as moderating variable on tax avoidance is an interesting topic and provides new contributions to accounting and taxation research.

Based on the background and phenomenon of the research gap described earlier, the problem formulation in this study is as follows:

- Does financial distress effect on tax avoidance?
- Does accounting conservatism effect on tax avoidance?
- Does leverage effect on tax avoidance?
- Does leverage effect the relationship between financial distress and tax avoidance?
Does leverage effect the relationship between accounting conservatism and tax avoidance?

Based on the problem formulation above, the purpose of this research is to analyze the effect of financial distress and accounting conservatism on tax avoidance and analyze the effect of leverage in moderating the relationship between financial distress and accounting conservatism on tax avoidance.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Richardson et al. (2015) define tax avoidance as the structuring of arrangements or transactions to take advantage of deficiencies in tax laws and regulations of a jurisdiction or differences in tax law between jurisdictions to significantly reduce the amount of corporate taxes payable. Therefore, it can be concluded that tax avoidance is the activity of managing the company's finances to avoid the larger amount of tax burden legally without violating the prevailing laws.

Financial distress usually refers to a situation where the cash inflows of the firm are not sufficient to meet the daily operational expenses (Waqas and Md-Rus, 2018). Previous research studies have used bankruptcy, insolvency, and default as alternative terms in the literature.

Accounting conservatism is principle that requires higher verification standards to be included in book income for gains than for losses. While an asymmetric recognition of gains and losses in book income under conservative accounting provides stakeholders with early and relevant information, it simultaneously shifts taxable income into the future and defers tax payments (Bornemann, 2018).

Leverage is the level of debt used by the company in financing (Suryani & Mariani, 2019). Moreover, The usage of leverage to financing the operations of the company can increase the Return On Equity (ROE) and Earning Per Share (EPS). This occurs because the company does not reduce the income of the owner (investor) on financing from the use of equity (Hidayat, 2019).

Hypothesis:

- H1: Financial distress has positive effect on tax avoidance;
- H2: Accounting conservatism has positive effect on tax avoidance;
- H3: Leverage has positive effect on tax avoidance;
- H4: Leverage moderates relationship between financial distress and tax avoidance;
- H5: Leverage moderates relationship between accounting conservatism and tax avoidance.

METHODS OF RESEARCH

The research on this study uses panel data regression in two models based on research conducted by Richardson et al. (2015). Model 1 without moderating variables and model 2 with moderating variables. The first research model (model 1) examines the effect of financial distress, accounting conservatism, and leverage on tax avoidance that explained as follows:

\[
TA = \alpha + \beta_1 FD + \beta_2 AC + \beta_3 Lev + e
\]

The second research model (model 2) examines the effect of leverage in moderating the relationship between financial distress and accounting conservatism on tax avoidance that explained as follows:

\[
TA = \alpha + \beta_1 FD + \beta_2 AC + \beta_3 Lev + \beta_4 FD*Lev + \beta_5 AC*Lev + e
\]

Where: TA - Tax Avoidance, FD - Financial Distress, AC - Accounting Conservatism, Lev - Leverage.
Tax avoidance is measured by Effective Tax Rate (ETR) which is the ratio used to measure the tax avoidance rate by comparing the total tax expense with pre-tax income. ETR value is inversely proportional to the interpretation of tax avoidance. Therefore, to facilitate the interpretation of measurement results, in this study ETR multiplied by negative one (-1).

\[
ETR = \frac{\text{Tax Expense}}{\text{Pre-Tax Income}}
\]

Emerging Market Score (EMS) is used as a proxy to measure the level of financial distress in developing countries (Elia et al., 2021). The value of EMS is inversely proportional to the interpretation of financial distress. Therefore, to facilitate the interpretation of measurement results, in this study EMS multiplied by negative one (-1).

\[
EMS = 6.56(X_1)+3.26(X_2)+6.72(X_3)+1.05(X_4)+3.25
\]

Where:
- \(X_1\) = Working Capital / Total Asset;
- \(X_2\) = Retained Earning / Total Asset;
- \(X_3\) = Operating Income / Total Asset;
- \(X_4\) = Book Value of Equity / Total Liabilities.

Conserv_accrual is a model in measuring conservatism by dividing non-operating accruals with total assets (Evana & Dewi, 2017). The value of Conserv_accrual is inversely proportional to the accounting interpretation of conservatism. Therefore, to facilitate the interpretation of measurement results, in this study conserv_accrual multiplied by negativeone (-1).

\[
\text{Conserv\_Accrual} = \frac{\text{Non Operating Accrual}}{\text{Total Asset}}
\]

In this study, leverage was projected using the Debt to Equity Ratio (DER). DER is a ratio between total debt and total equity. DER describes the total debt and total equity used by the company to fund its operations and investments (Suryani & Mariani, 2019).

\[
\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}}
\]

The data used in this study is secondary data. While the data source is the company’s annual financial report obtained through www.idx.co.id or by downloading on the company’s page to be used as a research sample. The population in this study is manufacturing companies registered in IDX in 2015-2019 based on the Jakarta Stock Industrial Classification (JASICA) system. The sample selection process using purposive sampling method result of 340 sample data.

RESULTS AND DISCUSSION

Descriptive statistics on the sample data that includes mean, median, maximum, minimum, ans standard deviation of each variable are shown in Table 1 as follows.

| Variable | Mean   | Median  | Maximum | Minimum | Std. Dev. |
|----------|--------|---------|---------|---------|-----------|
| TA       | -0.28186 | -0.25482 | -0.01242 | -0.97121 | 0.12897   |
| FD       | -9.22363 | -8.52603 | -3.28717 | -22.36236 | 3.69050   |
| AC       | 0.00064  | 0.00159  | 0.29637  | -1.19601 | 0.08242   |
| LEV      | 0.91539  | 0.59480  | 13.97686 | 0.07613  | 1.04061   |

Table 1 – Descriptive Statistics
This study uses a large number of sample data (more than 100) so that normality problems were resolved or the data were considered normally distributed (Gujarati dan Porter, 2009). Meanwhile, the problem of heteroscedasticity can be done by using the estimation of Generalized Least Square (GLS) (Gujarati and Porter, 2009) with cross-section weighting due to the amount of cross-section data more than the time series and coefficient approach of White cross-section covariance method (Irawan dan Turwanto, 2020). After correction, there are no longer problems of normality, multicollinearity, autocorrelation, and heteroscedasticity in models 1 and 2.

Based on the Chow test and Haussman test resulted in the fixed-effect model (FEM) approach as the regression model of panel data. Simultaneous Test (F-Test) result of both models indicates that independent variables are simultaneously effect on dependent variables. Therefore, the regression model can be used for partial tests (t-test). The panel data regression test results are shown in table 2.

### Table 2 – Regression Test Results

| Var      | Model 1 Coef | Model 1 Prob | Model 2 Coef | Model 2 Prob |
|----------|--------------|--------------|--------------|--------------|
| FD       | -0.009       | 0.000        | -0.007       | 0.000        |
| AC       | -0.085       | 0.000        | -0.289       | 0.000        |
| LEV      | 0.004        | 0.114        | -0.032       | 0.016        |
| FD*LEV   |              |              | -0.006       | 0.032        |
| AC*LEV   | 0.151        | 0.000        |              |              |
| C        | -0.368       | 0.000        | -0.359       | 0.000        |

**Hypothesis 1.** The results of the regression analysis of model 1 show that financial distress has a coefficient with a negative direction of -0.009 explains that if financial distress rises by 1 unit it will decrease tax avoidance by 0.009 units assuming other variables are considered constant. The probability value of 0.000 is less than 0.05. Thus, financial distress has a significant negative effect on tax avoidance so the first research hypothesis (H1) is rejected.

When companies have a high level of financial distress, there are certainly concerns from the creditors and investors that manifested in the supervision of the company's operational activities. Therefore, companies try to avoid high-risk policies such as tax avoidance. It may happen that initially, management tried to do tax avoidance, but in the end, they do tax evasion. Moreover, if this practice is detected by the tax authority, there will be sanctions or penalties that worsen the company's finances.

**Hypothesis 2.** The results of the regression analysis of model 1 show that accounting conservatism has a coefficient with a negative direction of -0.085 explains that if accounting conservatism rises by 1 unit it will decrease tax avoidance by 0.085 units assuming other variables are considered constant. The probability value of 0.000 is less than 0.05. Thus, accounting conservatism has a significant negative effect on tax avoidance so the second research hypothesis (H2) is rejected.

Companies with high levels of conservatism will have lower current-year profits, which has implications for the low tax burden as well. Companies with already low tax burden are less reasonable to take tax avoidance to reduce their tax burden.

**Hypothesis 3.** The results of the regression analysis of model 1 show that leverage has a coefficient with a positive direction of 0.004 explains that if leverage increases by 1 unit it will increase tax avoidance by 0.004 units assuming other variables are considered constant. The probability value of 0.114 is greater than 0.05. Thus, leverage has no significant effect on tax avoidance so the third research hypothesis (H3) is rejected.

The establishment of PMK-169/2015 is intended to limit the tax avoidance scheme, especially thin capitalization. Therefore, with this regulation, the company tends to comply with it so that the increase in leverage level is not intended to do tax avoidance but only do corporate financing.

**Hypothesis 4.** The results of the regression analysis of model 2 show that the interaction variable FD*LEV has a coefficient with a negative direction of -0.006. The
probability value of 0.032 is smaller than 0.05. Thus, leverage moderates negative relationships of financial distress and tax avoidance so the fourth research hypothesis (H4) is accepted.

Companies that facing financial distress need additional resources that can make the company run its operations effectively and efficiently. Meanwhile, debt can continue to be increased up to an acceptable level and the cost of debt will reduce the amount of corporate tax burden.

Hypothesis 5. The results of the regression analysis of model 2 show that the interaction variable AC*LEV has a coefficient with a positive direction of 0.151. The probability value of 0.000 is smaller than 0.05. Thus, leverage moderates negative relationships of accounting conservatism and tax avoidance so the fifth research hypothesis (H5) is accepted.

Companies with a high level of leverage, get extra supervision from creditors to supervise the company's operational activities. Furthermore, they ask companies to apply the principle of prudence (conservatism) in financial reporting. The extra supervision from creditors also asks that companies present financial statements transparently and no manipulation of financial data such as to conduct tax avoidance.

CONCLUSION

Based on the results of the analysis and discussion earlier, the conclusions of this study are as follows:

- Financial distress has a significant negative effect on tax avoidance;
- Accounting conservatism has a significant negative effect on tax avoidance;
- Leverage has no significant effect on tax avoidance;
- Leverage moderates negative relationships of financial distress and tax avoidance;
- Leverage moderates negative relationships of accounting conservatism and tax avoidance.

This study has some limitations as described below:

- This study does not consider the additional impact of tax amnesty policies from 2016 to 2017 in tax avoidance measurements;
- This study does not analyze companies that have negative profit and negative effective tax rate (ETR) value or more than 1, which may be conducting tax avoidance.

Recommendations:

- For further research can use other proxies in measuring tax avoidance to accommodate research samples that have negative value of profit and tax burden. In addition, measurement of financial distress, accounting conservatism, and leverage can also be substituted with other proxies to increase knowledge in terms of research;
- For tax authorities can increase supervision of companies with low levels of financial distress to prevent and reduce tax avoidance abuse;
- For company can be wiser in making the right decisions related to tax planning.

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