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Beyond Financial Reporting: How Accounting Conservatism, Firm Size, and ROA Shape Tax Avoidance Decisions

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Abstract. *This study aims to examine the effect of accounting conservatism, firm size, and return on assets (ROA) on tax avoidance in consumer non-cyclicals manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2023 period. The study adopts a quantitative approach using a causal associative research design. The sample consists of 32 companies selected through purposive sampling, resulting in 128 observations. The data used are secondary data derived from the companies' annual financial reports. The dependent variable in this study is tax avoidance, measured using the Cash Effective Tax Rate (CETR), while the independent variables include accounting conservatism, firm size, and ROA. The data analysis technique employs multiple linear regression, accompanied by classical assumption tests and robust estimation using HAC/Newey-West standard errors. The empirical results indicate that accounting conservatism has a positive and significant effect on tax avoidance, suggesting that higher levels of accounting conservatism are associated with increased tax avoidance practices. In contrast, firm size and ROA have a negative and significant effect on tax avoidance, implying that larger firms and more profitable companies tend to engage in lower levels of tax avoidance. Simultaneously, all independent variables significantly affect tax avoidance, with the model explaining 73.03% of the variation in the dependent variable. These findings confirm that tax avoidance behavior is influenced by accounting policies, firm characteristics, and financial performance, which are closely related to monitoring mechanisms and managerial discretion within the framework of agency theory.*

Keywords: Accounting Conservatism, Firm Size, Return on Assets (ROA), Tax Avoidance, Cash Effective Tax Rate (CETR), Agency Theory.

INTRODUCTION

Tax avoidance has become an important topic in accounting and taxation research, as it may significantly affect government tax revenues and reflects how companies exploit loopholes in tax regulations to legally minimize their tax burden. Taxes represent one of the main sources of state revenue used to finance national development and improve public welfare; therefore, corporate tax avoidance practices may undermine the effectiveness of government revenue collection. According to (Hanlon, 2025), tax avoidance refers to a range of corporate tax planning strategies designed to reduce explicit tax liabilities

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through mechanisms such as transfer pricing, thin capitalization, regulatory loopholes, and earnings management. From the perspective of Agency Theory developed by (Jensen & Meckling, 1976), tax avoidance arises from conflicts of interest between managers and stakeholders, where managers aim to enhance firm performance through tax efficiency, while governments seek to maximize tax revenues. Furthermore, (Koay & Sapiei, 2025) argue that aggressive tax avoidance practices are closely associated with weak corporate governance and may encourage managerial opportunistic behavior. Consequently, understanding the determinants of tax avoidance is increasingly important due to its implications for governments, investors, corporate sustainability, and financial reporting quality.

The importance of examining tax avoidance has become even more relevant in the post-pandemic period, particularly in the consumer non-cyclicals sector, which consists of firms producing essential goods with relatively stable demand. The post-COVID-19 period has been characterized by economic pressure, declining government revenues, and increased regulatory concerns regarding corporate tax avoidance practices. This phenomenon is supported by a report published by (Santoso, 2020) in Kontan.co.id, which estimates that Indonesia loses approximately IDR 68.7 trillion annually due to tax avoidance, a substantial portion of which originates from corporate taxpayers. Such conditions indicate that tax avoidance remains a critical issue in Indonesia's taxation system, especially in the post-pandemic period when many firms faced liquidity constraints and sought to improve efficiency by reducing tax expenses. Moreover, research on the consumer non-cyclicals sector is particularly relevant following the case of PT Tiga Pilar Sejahtera Food Tbk, which was alleged to have overstated its financial statements by approximately IDR 4 trillion, as reported by (Abidin, 2019) in IDX Channel. This case highlights potential weaknesses in transparency and financial reporting quality within the sector, which may theoretically increase the risk of tax avoidance through earnings manipulation and structured transactions. Therefore, examining tax avoidance in the consumer non-cyclicals sector is essential to better understand corporate tax behavior in the post-pandemic environment and to provide empirical evidence for regulators, investors, and academics in strengthening corporate transparency and tax compliance.

Based on these phenomena, this study focuses on accounting conservatism, return on assets (ROA), and firm size as determinants of tax avoidance, driven by the inconsistencies found in previous empirical studies. Accounting conservatism is considered relevant because conservative accounting practices influence earnings recognition and taxable income, thereby affecting corporate tax strategies. However, prior studies have produced mixed results, with (Ardillah & Halim, 2022; Yuniarsih, 2018) finding no significant effect of accounting conservatism on tax avoidance, while (Obiedallah & Mahdy, 2025; Sa'ad et al., 2023) report significant relationships. Similarly, ROA is often associated with tax avoidance, as more profitable firms generally face higher tax burdens and stronger incentives for tax planning; nevertheless, (Eddy & Angela, 2020; Sari et al., 2021) found no significant effect, whereas (Paramita et al., 2022) as well as (Akbar & Thamrin, 2020) documented significant relationships. Firm size is also considered an important determinant, as larger firms tend to have more complex operations and greater opportunities for tax planning; however, empirical evidence remains inconsistent, with (Maula et al., 2019; Warih, 2019) reporting no significant effect, while (Fauzan et al., 2019; Mukin & Oktari, 2019) find significant associations. These inconsistencies indicate a clear research gap and motivate further investigation into the influence of accounting conservatism, ROA, and firm size on tax avoidance, particularly in the consumer non-cyclicals sector in Indonesia during the post-pandemic period.

LITERATURE REVIEW

Agency Theory

Agency theory plays an important role in explaining the dynamics of the relationship between management as agents and company owners as principals, particularly in the context of financial reporting decisions and corporate tax strategies (Suleiman, 2020). Within this framework, potential conflicts of interest arise because managers possess discretion in determining policies that may not always align with the interests of owners, including the optimization of corporate tax burdens through various strategies such as tax planning and earnings management.

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Accounting conservatism is a relevant accounting policy within the agency theory perspective, as it relates to managerial choices in revenue recognition, expense recognition, and accounting estimates that may influence the quality of financial information and the company's tax position. The discretion embedded in conservative accounting practices provides opportunities for managers to shape financial reporting in ways that may affect tax strategies (Musa, 2023; Pamungkas & Setyawan, 2022). In addition, firm size is an important aspect in agency theory because it reflects organizational complexity and the intensity of monitoring mechanisms within a firm. Larger firms generally have more complex governance structures, including boards of commissioners, audit committees, external auditors, and regulatory oversight, all of which may constrain managerial discretion in decision-making.

Meanwhile, return on assets (ROA) as a measure of firm performance is closely related to the level of stakeholder attention and monitoring. Higher profitability typically increases a firm's visibility among investors, analysts, and regulators, thereby strengthening the demand for transparency and accountability in corporate management, including taxation practices (Hasibuan et al., 2023). Thus, agency theory provides a fundamental framework for understanding how accounting characteristics, firm size, and financial performance interact with corporate tax practices through mechanisms of conflict of interest, managerial discretion, and governance oversight.

Hypothesis Development: The Effect of Accounting Conservatism on Tax Avoidance

From an agency theory perspective, managers as agents possess discretion in determining accounting policies and corporate tax strategies, which may create divergence of interests with owners as principals (Suleiman, 2020). This discretion opens the possibility of opportunistic behavior, including the selection of financial reporting policies that influence reported earnings and corporate tax expenses. One relevant accounting policy in this context is accounting conservatism, which is defined as a prudential reporting principle characterized by the tendency to recognize expenses and losses more quickly while delaying the recognition of revenues. This policy not only affects financial reporting quality but also has the potential to influence the tax base through timing differences in income and expense recognition, thereby intersecting with corporate tax planning strategies (Musa, 2023; Pamungkas & Setyawan, 2022; Yahya et al., 2023). Therefore, accounting conservatism can be viewed as an accounting mechanism that may be associated with corporate tax decisions within an agency conflict framework.

Furthermore, the relationship between accounting policies and tax strategies indicates that accounting information functions not only as a reporting tool but also as a basis for corporate tax decision-making. Differences between accounting income and taxable income provide managers with opportunities to engage in tax planning through various accrual-based accounting choices (Hasibuan et al., 2023; Musa, 2023). In this context, accounting conservatism may influence the structure of reported earnings, which in turn relates to efforts to optimize corporate tax burdens (Handoyo et al., 2022; Yahya et al., 2023). Based on these arguments, and supported by agency theory emphasizing conflicts of interest and information asymmetry between managers and owners (Musa, 2023; Suleiman, 2020), the following hypothesis is formulated:

H_1: Accounting conservatism has a significant effect on tax avoidance.

Hypothesis Development: The Effect of Corporate Size on Tax Avoidance

Within the framework of agency theory, the relationship between managers as agents and shareholders as principals creates the potential for conflicts of interest arising from information asymmetry and managerial discretion in corporate decision-making (Suleiman, 2020). One factor that may influence the intensity of agency conflict is corporate size, which reflects operational complexity, organizational structure, and the level of exposure to external stakeholders. Larger firms generally have more complex governance systems, including boards of commissioners, audit committees, and oversight from external auditors and regulators, all of which strengthen monitoring mechanisms over managerial actions (Musa, 2023; Rizkiana & Suripto, 2022). Accordingly, firm size is an important variable in explaining how monitoring mechanisms may constrain managerial discretion, including in tax-related decisions.

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Furthermore, increases in firm size are associated with greater attention from the public, investors, and tax authorities, thereby intensifying pressure to maintain transparency and compliance in both financial reporting and taxation practices (Hasibuan et al., 2023). Agency theory posits that stronger external monitoring mechanisms limit managerial opportunities to engage in opportunistic behavior, including the management of corporate tax burdens. In addition, prior literature suggests that effective oversight by auditors and regulators can reduce aggressive tax avoidance behavior (Handoyo et al., 2022; Musa, 2023). Based on these arguments and agency theory, which emphasizes the role of monitoring in mitigating agency conflicts (Rizkiana & Suripto, 2022; Suleiman, 2020), the following hypothesis is formulated:

H_2: Corporate size has a significant effect on tax avoidance.

Hypothesis Development: The Effect of Return on Assets (ROA) on Tax Avoidance

Within the agency theory framework, managers as agents possess discretion in managing corporate resources to achieve optimal performance, including in determining financial reporting strategies and tax policies (Suleiman, 2020). One key indicator of firm performance is Return on Assets (ROA), which reflects the company's ability to generate profits from its assets. Profitability measured by ROA not only represents economic performance but is also associated with the level of attention and monitoring from stakeholders such as investors, regulators, and auditors. In this context, firms with higher performance tend to face greater scrutiny, which places pressure on management to ensure transparency and compliance, including in tax-related matters (Hasibuan et al., 2023). Therefore, ROA is considered a relevant factor in explaining variations in corporate tax behavior from an agency perspective.

Moreover, higher profitability is associated with increased firm visibility in the market, which strengthens external monitoring mechanisms over managerial actions (Musa, 2023). Agency theory explains that information asymmetry and potential conflicts of interest between agents and principals may encourage opportunistic behavior, including in corporate tax planning decisions. However, stronger external oversight may constrain managerial discretion in engaging in non-compliant or aggressive tax practices. Empirical evidence also indicates that enhanced monitoring mechanisms and tax enforcement contribute to changes in corporate tax behavior (Budyastuti et al., 2023; Hasibuan et al., 2023). Based on these arguments and agency theory, which emphasizes the role of monitoring in limiting managerial opportunism (Musa, 2023; Suleiman, 2020), the following hypothesis is proposed:

H_3: Return on Assets (ROA) has a significant effect on tax avoidance.

METHODS

Research Design

This study employs a quantitative approach using a causal associative research design. The quantitative approach is applied because the study aims to examine the effect of independent variables on the dependent variable through statistical analysis. The causal associative method is used to identify the cause-and-effect relationship between accounting conservatism and firm size on tax avoidance, which is proxied by the Cash Effective Tax Rate (CETR).

Population and Sample

The population of this study consists of all consumer non-cyclicals manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period, totaling 131 companies. The sampling technique used is purposive sampling, based on several criteria: companies must be continuously listed during the observation period, publish complete annual financial reports, provide complete data for all research variables, and report financial statements in Indonesian Rupiah. Based on these criteria, 32 companies were selected as the research sample, resulting in 128 observations over a four-year period.

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Type and Source of Data

This study uses secondary data obtained from the annual financial statements of consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange. The data include information on earnings before tax, tax payments, net income, operating cash flows, and total assets, which are required to calculate the research variables.

Operational Definition of Variables

Dependent Variable

The dependent variable in this study is tax avoidance, measured using the Cash Effective Tax Rate (CETR). CETR is a ratio that compares cash tax payments to earnings before tax. A lower CETR value indicates a higher level of tax avoidance by the company.

The CETR formula is as follows:

CETR = Cash Tax Paid / Earnings Before Tax

CETR is used because it more accurately reflects the actual cash tax burden paid by the company, providing a more realistic measure of tax avoidance behavior.

Independent Variables

The independent variables in this study consist of accounting conservatism, return on assets (ROA), and firm size. Accounting conservatism reflects the prudence of a company in recognizing earnings. ROA is used to measure the company's ability to generate profits from its total assets, while firm size represents the scale of the company based on its total assets. The operational definitions of each independent variable are presented in the following table:

Table 1. Operationalization of Research Variables

Variable	Operational Definition	Measurement	Scale
Accounting Conservatism (CONACC)	Accounting conservatism is a prudential principle in recognizing profits and assets of a company.	Cit = (NIit − CFOit) × (−1) / TAit, where NIit = net income, CFOit = operating cash flow, TAit = total assets	Ratio
Return on Assets (ROA)	Return on Assets is a profitability ratio used to measure a company's ability to generate profit from its total assets.	ROA = (Net Income / Total Assets) × 100%	Ratio
Firm Size (SIZE)	Firm size represents the scale of a company based on its total assets.	SIZE = Ln (Total Assets)	Ratio

Data Analysis Technique

The data analysis technique in this study employs multiple linear regression analysis using statistical software. This method is used to examine the effect of accounting conservatism and firm size on tax avoidance. The regression model used in this study is as follows:

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$$CETR = \alpha + \beta_1 CONACC + \beta_2 ROA + \beta_3 SIZE + e$$

Where:

CETR	= Cash Effective Tax Rate
α	= Constant
β1, β2, β3	= Regression coefficients
CONACC	= Accounting Conservatism
ROA	= Return on Assets
SIZE	= Firm Size
e	= error term

Classical Assumption Tests

Prior to hypothesis testing, the regression model is examined using classical assumption tests to ensure that it satisfies the criteria of the Best Linear Unbiased Estimator (BLUE) (Ghozali & Ratmono, 2017). The classical assumption tests in this study consist of normality, heteroscedasticity, multicollinearity, and autocorrelation tests.

The normality test is conducted to determine whether the residuals are normally distributed using the Jarque-Bera approach, where the model is considered normally distributed if the probability value exceeds 0.05. The heteroscedasticity test is performed using the Breusch-Pagan test to detect the presence of unequal variance in the residuals; the model is considered free from heteroscedasticity if the significance value is greater than 0.05.

The multicollinearity test is carried out using the Variance Inflation Factor (VIF), where a VIF value of less than 10 and a tolerance value greater than 0.10 indicate the absence of multicollinearity among the independent variables. Furthermore, the autocorrelation test is conducted using the Durbin-Watson statistic to detect correlations among residuals. The model is considered free from autocorrelation if the Durbin-Watson value falls within the range $du < DW < 4 - du$.

Hypothesis Testing

Hypothesis testing in this study is conducted using the t-test, F-test, and coefficient of determination (R^2) (Ghozali & Ratmono, 2017). The t-test is used to examine the partial effect of each independent variable on the dependent variable, while the F-test is used to assess the simultaneous effect of all independent variables on the dependent variable.

In the t-test, the hypothesis is accepted if the significance value is less than 0.05, indicating a statistically significant partial effect. In the F-test, the model is considered significant if the F-statistic significance value is below 0.05. In addition, the coefficient of determination (R^2) is used to measure the extent to which the independent variables explain the variation in the dependent variable. A higher R^2 value indicates a stronger explanatory power of the model.

RESULTS AND DISCUSSION

Results of Descriptive Statistics

Descriptive statistical analysis is used to provide a general overview of the characteristics of the research data, which consist of Tax Avoidance (TA), Accounting Conservatism (CONACC), Firm Size, and Return on Assets (ROA). The results of the descriptive analysis are presented in Table 2 below.

Table 2. Descriptive Statistics

Variable	Mean	Std. Dev	Min	Max	N
TA	0.2777	0.3532	-0.0515	4.3130	170
CONACC	0.2577	0.1825	0.0307	0.9100	170
Size	29.6948	1.4430	27.3747	32.8599	170
ROA	0.0977	0.0934	-0.0137	0.6072	170

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The Tax Avoidance (TA) variable has an average value of 0.2777 with a standard deviation of 0.3532. The standard deviation, which is higher than the mean, indicates substantial variation in tax avoidance practices across the sampled companies. The minimum value of -0.0515 and the maximum value of 4.3130 further suggest substantial differences in tax avoidance behavior among firms, reflecting heterogeneity in tax practices within the industry under study.

The Accounting Conservatism (CONACC) variable has a mean value of 0.2577 with a standard deviation of 0.1825. This indicates that, on average, firms in the sample apply a moderate level of accounting conservatism with relatively lower variation compared to tax avoidance. The range between the minimum value of 0.0307 and the maximum value of 0.9100 indicates differences in financial reporting conservatism across firms, although not as extreme as those observed in the dependent variable.

The Firm Size variable has a mean value of 29.6948 with a standard deviation of 1.4430. This suggests that the sampled firms are relatively homogeneous in terms of size, although variations in asset scale still exist across companies. The minimum value of 27.3747 and maximum value of 32.8599 indicate that all firms in the sample fall within the category of large enterprises, albeit with differing levels of scale.

The Return on Assets (ROA) variable has a mean value of 0.0977 with a standard deviation of 0.0934. This indicates that firm profitability within the sample tends to be low to moderate with noticeable variation across companies. The minimum value of -0.0137 suggests that some firms experienced losses, while the maximum value of 0.6072 indicates that certain firms achieved relatively high profitability levels.

Classical Assumption Test Results

The results of the classical assumption tests prior to treatment indicate that the regression model does not yet satisfy the criteria of the classical linear regression model. The summary of the results is presented in Table 3 below.

Table 3. Classical Assumption Tests Before Treatment

Test	Statistic	Value	Criterion	Conclusion
Normality (Shapiro-Wilk)	p-value	0.0000	> 0.05	Not normally distributed
Multicollinearity (CONACC)	VIF	10.9647	< 10	Indication of multicollinearity
Multicollinearity (Size)	VIF	10.9770	< 10	Indication of multicollinearity
Multicollinearity (ROA)	VIF	1.0053	< 10	No multicollinearity issue
Autocorrelation (Durbin-Watson)	DW	0.6429	≈ 2	Positive autocorrelation
Heteroscedasticity (Breusch-Pagan)	p-value	0.0000	> 0.05	Heteroscedasticity detected

The results of the classical assumption tests prior to treatment show that the model does not meet several key requirements of the classical linear regression assumptions. The Shapiro-Wilk normality test yields a p-value of 0.0000 (< 0.05), indicating that the residuals are not normally distributed.

In the multicollinearity test, the VIF values for CONACC and Size are 10.9647 and 10.9770, respectively, while ROA has a VIF value of 1.0053. Based on the commonly used rule of thumb, VIF values greater than 10 indicate the presence of multicollinearity. Therefore, the results suggest multicollinearity problems in CONACC and Size.

The Breusch-Pagan test for heteroscedasticity produces a p-value of 0.0000 (< 0.05), indicating the presence of heteroscedasticity in the model. Meanwhile, the Durbin-Watson statistic of 0.6429, which is far below the ideal value of 2, indicates positive autocorrelation.

Overall, the results show that the initial model violates several classical assumptions, including non-normality, heteroscedasticity, autocorrelation, and indications of multicollinearity in certain independent variables.

Data Treatment and Robust Model

To address the identified issues, a 1% winsorization procedure was applied to reduce the influence of extreme outliers, followed by the use of robust standard errors employing the HAC/Newey-West method.

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This approach is adopted to obtain more stable estimates that are robust to violations of heteroscedasticity and autocorrelation assumptions.

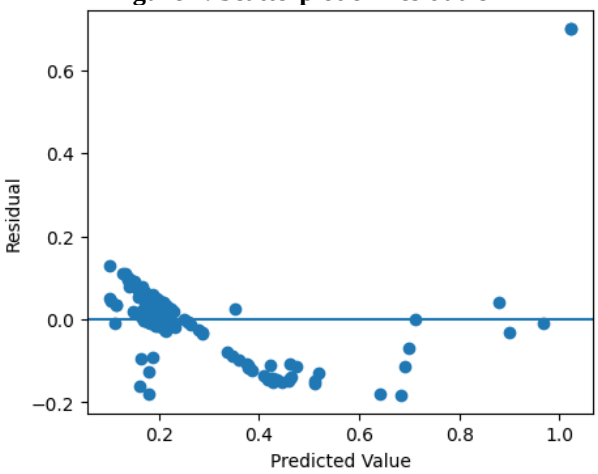
Classical Assumption Tests After Treatment

The results after treatment indicate improvements in several aspects; however, not all classical assumptions are fully satisfied. The summary of the post-treatment classical assumption tests is presented in Table 4 below.

Table 4. Classical Assumption Tests After Treatment

Test	Statistic	Value	Criterion	Conclusion
Normality (Shapiro-Wilk)	p-value	0.0000	> 0.05	Not normally distributed
Multicollinearity (CONACC)	VIF	11.4540	< 10	Slightly high
Multicollinearity (Size)	VIF	11.4680	< 10	Slightly high
Multicollinearity (ROA)	VIF	1.0063	< 10	No issue
Autocorrelation (Durbin-Watson)	DW	0.3528	≈ 2	Addressed using robust (HAC) method
Heteroscedasticity (Breusch-Pagan)	p-value	0.0000	> 0.05	Addressed using HAC

Figure 1. Scatterplot of Residuals



The Shapiro-Wilk normality test indicates a p-value of 0.0000 (< 0.05), suggesting that the residuals are not normally distributed. However, within the context of robust estimation, this violation is not considered critical, as statistical inference does not rely on the normality assumption.

Regarding multicollinearity, the Variance Inflation Factor (VIF) values are 11.4540 for CONACC, 11.4680 for Size, and 1.0063 for ROA. Although two variables slightly exceed the conventional threshold of 10, this condition is still acceptable in empirical research, particularly when explanatory variables are conceptually related.

For heteroscedasticity, the Breusch-Pagan test yields a p-value of 0.0000, indicating the presence of heteroscedasticity. Nevertheless, this issue has been methodologically addressed through the application of HAC/Newey-West robust standard errors. Similarly, the Durbin-Watson statistic of 0.3528 indicates the presence of autocorrelation; however, the estimation remains valid due to the use of the HAC approach, which is robust to both heteroscedasticity and autocorrelation.

Overall, from a methodological perspective, the model satisfies the requirements of robust estimation and is therefore suitable for hypothesis testing, despite violations of classical assumptions in their strict form. The results indicate that although certain assumptions such as normality and homoscedasticity are

statistically violated, the use of HAC/Newey-West adjustments ensures that the model remains econometrically valid, as standard errors are corrected for both heteroscedasticity and autocorrelation. Consequently, the model is deemed appropriate for hypothesis testing.

Regression and Hypothesis Testing (t-Test)

The results of the multiple linear regression analysis after treatment are presented in Table 5 below:

Table 5. Regression Results

Variable	Coefficient	t-statistic	p-value	Remark
CONACC	2.2088	3.9619	0.0001	Significant
Size	-0.1800	-3.1718	0.0015	Significant
ROA	-0.2557	-2.2630	0.0236	Significant

The partial test results indicate that Accounting Conservatism (CONACC) has a positive and significant effect on Tax Avoidance, with a coefficient of 2.2088 and a p-value of 0.0001. This finding suggests that higher levels of accounting conservatism are associated with an increase in tax avoidance practices.

Firm Size has a negative and significant effect on Tax Avoidance, with a coefficient of -0.1800 and a p-value of 0.0015. This result indicates that larger firms tend to engage in lower levels of tax avoidance.

Similarly, Return on Assets (ROA) also has a negative and significant effect on Tax Avoidance, with a coefficient of -0.2557 and a p-value of 0.0236. This finding implies that more profitable firms tend to exhibit lower levels of tax avoidance.

Overall, the t-test results show that all independent variables in this study have a statistically significant effect on tax avoidance, with both positive and negative relationships depending on the characteristics of each variable.

F-Test (Simultaneous Test)

The simultaneous test results indicate that the regression model is statistically significant, with an F-statistic of 22.2825 and a probability value of 0.0000 (< 0.05). This suggests that Accounting Conservatism (CONACC), Firm Size, and ROA jointly have a significant effect on Tax Avoidance.

Coefficient of Determination (R-Square)

The coefficient of determination results show an R-Square value of 0.7303 and an Adjusted R-Square of 0.7254. This indicates that 73.03% of the variation in Tax Avoidance is explained by the independent variables in the model, while the remaining 26.97% is explained by other factors outside the scope of this study.

Discussion

Discussion of The Effect of Accounting Conservatism on Tax Avoidance

The partial test results indicate that Accounting Conservatism (CONACC) has a positive and significant effect on Tax Avoidance. This finding suggests that higher levels of accounting conservatism are associated with increased corporate tax avoidance practices. Conceptually, accounting conservatism reflects a prudential principle in financial reporting, characterized by the earlier recognition of expenses and losses and the delayed recognition of revenues and gains (Handoyo et al., 2022; Hasibuan et al., 2023). In practice, the application of conservatism may influence the timing of income and expense recognition, thereby creating opportunities for managerial accrual management that affects taxable income. This is consistent with (Musa, 2023), who argues that conservatism may operate in parallel with tax planning strategies through the management of accruals and earnings components.

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Accordingly, higher levels of accounting conservatism may increase the likelihood of firms engaging in tax avoidance as part of their tax minimization strategies. However, prior empirical evidence remains inconclusive, as several studies report that conservatism has no significant effect or even a negative relationship with tax avoidance depending on the measurement proxies used, such as ETR, CETR, or book-tax differences (Budyastuti et al., 2023; Rizkiana & Suripto, 2022). Therefore, the results of this study indicate that, within the context of the sample and measurement employed, accounting conservatism tends to be positively associated with corporate tax avoidance behavior.

From an agency theory perspective, these findings suggest that managers as agents possess discretion in determining both financial reporting policies and corporate tax strategies. Agency theory highlights the existence of conflicts of interest between managers and owners, which may encourage managers to make decisions that optimize firm outcomes or personal interests, including tax efficiency strategies (Suleiman, 2020). In this context, accounting conservatism may serve as an instrument for earnings and accrual management that influences the firm's tax position. Although conservatism is fundamentally intended to enhance prudence and financial reporting quality, the results of this study suggest that the discretion embedded within conservative accounting practices may also be utilized to support more aggressive tax planning strategies (Musa, 2023; Pamungkas & Setyawan, 2022).

Thus, agency theory explains that the positive relationship between conservatism and tax avoidance arises from managerial flexibility in selecting accounting policies and tax strategies that can reduce tax burdens. Nevertheless, this relationship remains context-dependent, as it is influenced by institutional characteristics, the level of monitoring, and the tax avoidance measurement proxies employed (Manoel & Moraes, 2022).

The implications of these findings suggest that both firms and regulators should exercise caution in interpreting accounting conservatism solely as an indicator of reporting prudence or compliance. The positive association between conservatism and tax avoidance indicates that conservative accounting policies may be utilized as a mechanism for tax minimization through accrual management and regulatory loopholes (Pasko et al., 2023). Therefore, firms should integrate accounting conservatism policies with tax governance and tax risk management to ensure that tax planning practices remain compliant and do not increase the risk of tax disputes or reputational damage.

From a regulatory perspective, these findings emphasize the importance of strengthening the roles of external auditors, audit committees, and regulators in evaluating the relationship between accounting policies and corporate tax positions. (Budyastuti et al., 2023) emphasize that effective audit quality and oversight can reduce firms' tendency to use conservatism as an instrument for aggressive tax planning. In addition, strengthening tax enforcement and improving tax reporting transparency are necessary to reduce information opacity, which may enable firms to combine conservative accounting practices with tax avoidance strategies (Pasko et al., 2023).

Overall, the main implication of this study is the need for stronger oversight of accounting discretion and corporate tax strategies to ensure that accounting conservatism is not misused as a tool to facilitate tax avoidance practices.

Discussion of The Effect of Firm Size on Tax Avoidance

The partial test results indicate that Firm Size has a negative and significant effect on Tax Avoidance. This finding suggests that larger firms tend to engage in lower levels of tax avoidance. The result is consistent with previous studies indicating that firm size has a negative relationship with tax avoidance among publicly listed companies in Indonesia, where larger firms generally demonstrate higher levels of tax compliance compared to smaller firms (Handoyo et al., 2022; Hasibuan et al., 2023). A similar pattern is reported by (Yahya et al., 2023), who find that larger firms exhibit higher Cash Effective Tax Rate (CETR) values, which operationally indicate lower levels of tax avoidance.

Empirically, large firms are subject to greater scrutiny from the public, investors, government authorities, and tax regulators. As a result, management tends to act more cautiously in implementing aggressive tax policies. This heightened scrutiny discourages excessive tax avoidance practices due to the potential risks of tax audits, penalties, and reputational damage (Hasibuan et al., 2023; Musa, 2023).

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From an agency theory perspective, the findings suggest that larger firms tend to have stronger monitoring mechanisms over managerial behavior. Agency theory posits that managers as agents may act opportunistically to pursue self-interests, including engaging in tax avoidance to enhance after-tax profits. However, in larger firms, agency conflicts are generally mitigated due to more effective governance and monitoring structures, such as boards of commissioners, audit committees, external auditors, and oversight from investors and regulators (Musa, 2023; Rizkiana & Suripto, 2022). Stronger monitoring mechanisms make managers more cautious in adopting aggressive tax strategies, as such actions may increase agency risks and lead to adverse consequences for the firm. Therefore, larger firms tend to exhibit higher tax compliance compared to smaller firms. These findings support agency theory, which argues that effective monitoring mechanisms can limit managerial opportunistic behavior, including tax avoidance practices (Handoyo et al., 2022; Hasibuan et al., 2023).

The implications of these findings suggest that large firms should view their operational scale not as an opportunity to optimize tax avoidance strategies, but rather as a responsibility to enhance tax compliance and strengthen tax governance. High levels of stakeholder scrutiny require large firms to reinforce internal controls, transparency, and tax compliance policies to minimize reputational and financial risks associated with aggressive tax avoidance practices (Hasibuan et al., 2023; Musa, 2023).

From a regulatory perspective, these findings indicate that monitoring mechanisms for large firms are relatively effective in curbing tax avoidance practices. However, regulators should also adopt risk-based supervision for smaller firms, as lower visibility may provide greater opportunities for undetected tax avoidance behavior (Hlastec et al., 2023). In addition, strengthening corporate governance structures is essential, as effective governance can help reduce tax avoidance practices while also mitigating firms' future tax-related risks (Rizkiana & Suripto, 2022).

Discussion of The Effect of Return on Assets (ROA) on Tax Avoidance

The partial test results of this study indicate that Return on Assets (ROA) has a negative and significant effect on Tax Avoidance. This finding suggests that higher levels of firm profitability are associated with lower tendencies to engage in tax avoidance practices. It implies that firms with strong profitability generally have healthier financial conditions, more stable cash flows, and better operational performance, reducing their incentives to adopt aggressive tax avoidance strategies.

In addition, highly profitable firms are typically subject to greater scrutiny from investors, regulators, auditors, and the public. As a result, management tends to exercise greater caution in making tax-related decisions due to the potential risks of regulatory scrutiny, penalties, and reputational damage (Hasibuan et al., 2023). Tax avoidance practices are generally implemented through the exploitation of complex tax regulation loopholes, which may lead to audits, sanctions, and reputational losses if detected by tax authorities.

From an agency theory perspective, the negative relationship between ROA and tax avoidance can be explained through monitoring and supervisory mechanisms. When firms exhibit higher profitability, their visibility among stakeholders increases, thereby intensifying external monitoring pressures. This condition encourages managers to act more cautiously in tax-related decisions to mitigate compliance and reputational risks (Hasibuan et al., 2023). Agency theory posits that managers as agents may have incentives to behave opportunistically, including through tax avoidance; however, effective monitoring mechanisms—such as boards of commissioners, external auditors, and regulatory oversight—can constrain such behavior (Musa, 2023).

Firms with higher ROA naturally attract greater public and regulatory attention, leading managers to prioritize tax compliance in order to reduce agency risks and potential sanctions. International evidence also supports this argument, showing that stronger tax enforcement is associated with lower levels of tax avoidance, reinforcing the notion that higher profitability increases scrutiny and ultimately reduces tax avoidance intensity (Budyastuti et al., 2023; Hasibuan et al., 2023).

The implications of this finding are multidimensional. For corporate management, improved financial performance (ROA) should be accompanied by strengthened tax compliance strategies and tax governance, rather than increased tax aggressiveness, as excessive tax avoidance may trigger regulatory scrutiny and

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legal risks (Hasibuan et al., 2023). For auditors and audit committees, this finding highlights the importance of evaluating the alignment between firm profitability, financial reporting policies, and tax positions, given that audit quality can serve as an effective deterrent against opportunistic tax behavior (Musa, 2023).

For tax authorities, although highly profitable firms tend to exhibit higher compliance, effective policy implementation still requires strengthened tax enforcement mechanisms. Tax enforcement has been shown to reduce tax avoidance behavior through both behavioral and reporting channels, indicating that tax compliance is influenced not only by firm profitability characteristics but also by consistent and credible supervisory mechanisms (Budyastuti et al., 2023; Hasibuan et al., 2023).

CONCLUSIONS

This study aims to examine the effect of Accounting Conservatism (CONACC), Firm Size, and Return on Assets (ROA) on Tax Avoidance. The results indicate that Accounting Conservatism has a positive and significant effect on Tax Avoidance. This finding suggests that higher levels of accounting conservatism are associated with increased tendencies toward tax avoidance practices. It implies that accounting conservatism does not always reflect higher compliance; instead, it may also be utilized as an instrument in tax planning strategies through accrual management and financial reporting policies. From an agency theory perspective, this condition reflects managerial discretion in determining accounting and tax policies that can be used to minimize corporate tax burdens.

Furthermore, Firm Size is found to have a negative and significant effect on Tax Avoidance. This result indicates that larger firms tend to engage in lower levels of tax avoidance compared to smaller firms. Large firms are generally subject to stronger scrutiny from investors, regulators, auditors, and the public; therefore, management tends to be more cautious in implementing aggressive tax policies. This finding supports agency theory, which posits that stronger monitoring mechanisms and governance structures can reduce managerial opportunistic behavior, including tax avoidance practices.

The study also finds that Return on Assets (ROA) has a negative and significant effect on Tax Avoidance. This suggests that more profitable firms tend to exhibit lower levels of tax avoidance. Firms with strong financial performance are generally better able to fulfill their tax obligations without resorting to aggressive and risky tax avoidance strategies. In addition, higher profitability increases stakeholder attention, thereby encouraging firms to maintain tax compliance and protect corporate reputation. This result further reinforces agency theory, which emphasizes the importance of monitoring mechanisms in constraining managerial opportunism.

Overall, this study confirms that tax avoidance is influenced by accounting factors, firm characteristics, and financial performance, all of which are closely related to monitoring mechanisms and agency conflicts. Therefore, firms are encouraged to strengthen tax governance, internal controls, and transparency in financial and tax reporting to ensure that tax planning practices remain within the boundaries of regulatory compliance. In addition, regulators and auditors are expected to enhance oversight of corporate accounting and tax policies in order to minimize tax avoidance practices that may lead to legal, reputational, and economic risks in the future.

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