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Financial Characteristics and Accounting Conservatism in Explaining Corporate Tax Avoidance: The Moderating Role of Institutional Ownership

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Abstract

Purpose: This study aims to examine the effects of financial characteristics and accounting conservatism on corporate tax avoidance and to analyze the moderating role of institutional ownership in the relationship between accounting conservatism and tax avoidance among Indonesian listed companies.

Research Methodology: This study adopts a quantitative explanatory approach using secondary data from audited annual reports of Indonesian listed companies during 2021–2023. The final sample comprises 204 firm-year observations selected through purposive sampling. Corporate tax avoidance is measured using the Cash Effective Tax Rate (CETR), with independent variables consisting of return on assets, debt-to-equity ratio, firm size, accounting conservatism, sales growth, and capital intensity. Data analysis is performed using Stata through descriptive statistics, diagnostic testing, multiple regression analysis, and moderated regression analysis.

Results: The findings reveal that the debt-to-equity ratio positively affects CETR, while sales growth and capital intensity negatively affect CETR. Meanwhile, return on assets, firm size, accounting conservatism, and institutional ownership show no significant effects. Institutional ownership also fails to moderate the relationship between accounting conservatism and tax avoidance.

Conclusions: Corporate tax behavior appears to be influenced more by financing and operational factors than by accounting conservatism or ownership structures.

Limitations: This study uses a single tax avoidance measure and a limited observation period.

Contribution: This study extends tax avoidance literature by integrating financial characteristics, accounting conservatism, and institutional ownership in an emerging market context.

Keywords: *Accounting Conservatism, Corporate Tax Avoidance, Financial Characteristics, Institutional Ownership, Moderated Regression Analysis*

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1. Introduction

Corporate tax avoidance represents a significant issue within corporate governance, financial reporting, and public policy, reflecting the diverging interests between corporations aiming to maximize shareholder value and governments seeking to sustain tax revenues for economic development. While tax planning that stays within the limits of existing regulations is legally justified, overly aggressive tax avoidance practices have the potential to erode state revenue, weaken the sense of fairness in taxation, and widen the information gap between companies and their stakeholders. This issue is particularly relevant in emerging economies, including Indonesia, where variations in institutional enforcement, corporate governance practices, and financial reporting systems may shape corporate tax behavior. In addition, increasingly complex business transactions and managerial pressure to maintain financial performance may encourage companies to formulate tax strategies aimed at reducing their tax burden while remaining compliant with prevailing regulations (Fauzia, Pambudi, & Febrianto, 2025).

Notwithstanding the considerable body of research on corporate tax avoidance, existing studies have yet to provide a full picture of how firms' financial conditions, accounting practices, and ownership structures work together to shape tax-related decisions. Much of the prior research has considered financial characteristics, accounting conservatism, and corporate governance mechanisms independently, thereby providing limited insight into their simultaneous roles in corporate tax behavior (Kovermann & Velte, 2021). Furthermore, prior empirical evidence on accounting conservatism has yet to reach a consistent conclusion. For example, the findings of Ardillah and Halim (2022) indicate that accounting conservatism is not significantly associated with corporate tax avoidance, whereas other studies suggest that conservative reporting influences managerial tax-planning decisions. This inconsistency suggests that the accounting conservatism–tax avoidance link is likely conditional on specific institutional or governance contexts rather than a uniform, direct relationship.

Similarly, findings regarding institutional ownership remain mixed. In some cases, the presence of institutional shareholders can constrain tax avoidance practices through more rigorous managerial supervision. In other cases, however, institutional investors may actually support tax-efficient strategies when the resulting tax benefits are seen as boosting shareholder value. Another gap in the current body of research relates to how institutional ownership has been positioned in relation to accounting conservatism and corporate tax avoidance(Kirana & Mahaputra, 2023). Much of the prior literature tends to treat institutional ownership either as a direct predictor or as a moderator within other relationships, leaving relatively limited investigation into The study therefore considers whether institutional ownership influences the association between accounting conservatism and tax avoidance. Prior studies by Jumailah (2020) and Sari and Mayangsari (2024) suggest that institutional ownership can act as a moderating factor, differences in the variables studied, the research settings, and the model specifications used indicate that the relationship among accounting conservatism, institutional ownership, and tax avoidance has not yet been firmly established.

Such limitations warrant particular attention in Indonesia, as its institutional framework and regulatory landscape differ considerably from those characterizing developed capital markets. Accordingly, the central issue extends beyond determining whether accounting conservatism or institutional ownership independently influences tax avoidance. A more important question is whether the monitoring function of institutional investors alters the extent to which accounting conservatism is associated with firms' tax-related behavior. Instead of focusing solely on a conventional direct-effect relationship, this study explores the wider set of factors that may influence corporate tax avoidance (Julianta & Simanjuntak, 2023). A firm's tax-related decisions are influenced by several internal characteristics, particularly its financial condition, which can affect managerial incentives and corporate decision-making. Several financial attributes are frequently linked to corporate tax avoidance, particularly profitability, leverage, firm size, sales growth, and capital intensity. Companies generating higher profits may have greater motivation to manage their tax liabilities because increased earnings generally result in greater tax obligations. At the same time, firms with strong profitability may draw closer scrutiny from the public and other stakeholders, which can deter aggressive tax-planning behavior (Harpa & Rasyid, 2026).

Firm size, capital intensity, and sales growth are also considered important determinants of corporate tax behavior. Larger firms generally possess greater resources and tax-planning capabilities; however, their visibility may increase regulatory scrutiny, creating mixed incentives toward tax avoidance (Wang, Xu, Sun, & Cullinan, 2020). Capital intensity influences tax positions through depreciation deductions, while sales growth reflects changes in business performance that may affect tax-planning decisions. The inconsistent empirical findings suggest that the relationship between financial characteristics and tax avoidance requires further investigation in different institutional contexts (Hasna, Zulaihati, & Sumiati, 2023).

Beyond financial factors, accounting practices may also influence tax-related decisions. Accounting conservatism, which emphasizes earlier recognition of losses and expenses, can affect taxable income and managerial reporting behavior (Basu, 1997). While conservative reporting may reduce tax avoidance incentives through greater transparency, it may also create opportunities for lower reported income. Therefore, the relationship between accounting conservatism and tax avoidance remains theoretically ambiguous (Lara, Osma, & Penalva, 2020).

Ownership structure provides an additional governance mechanism in corporate tax decisions. Institutional investors may reduce opportunistic tax behavior through effective monitoring; however, they may also support tax-efficient strategies to maximize shareholder value (Khurana & Moser, 2013). Thus, institutional ownership may influence the relationship between accounting conservatism and tax avoidance depending on monitoring effectiveness and investment objectives.

This study addresses three research gaps. First, previous studies have often examined financial characteristics and governance factors separately, providing limited evidence on the interaction between accounting conservatism and institutional ownership. Second, empirical findings regarding institutional ownership as a moderating mechanism remain inconsistent, particularly in emerging markets. Third, evidence from developed markets may not fully represent Indonesian listed firms due to differences in regulatory and governance environments.

Accordingly, this study examines the effects of financial characteristics and accounting conservatism on corporate tax avoidance and investigates the moderating role of institutional ownership among Indonesian listed companies during 2021–2023. By integrating financial indicators, accounting practices, and governance mechanisms, this study contributes to a broader understanding of corporate tax behavior in emerging markets.

1.1 Theoretical Contribution
This study extends Agency Theory and corporate governance perspectives by integrating financial characteristics, accounting conservatism, and institutional ownership into a unified framework. The insignificant moderation effect indicates that institutional ownership does not necessarily strengthen the influence of accounting conservatism on tax avoidance, highlighting the contextual nature of governance mechanisms in emerging markets.

1.2 Empirical Contribution
The findings provide evidence that leverage, sales growth, and capital intensity are more strongly associated with tax outcomes than profitability, firm size, accounting conservatism, and institutional ownership. Furthermore, the insignificant CONS × INST interaction suggests that institutional ownership does not significantly alter the relationship between accounting conservatism and tax avoidance. These findings contribute additional evidence to the mixed literature on corporate tax behavior in emerging economies.

1.3 Practical Contribution
The results suggest that managers should consider financing and investment decisions in tax planning while maintaining regulatory compliance. Institutional investors need to strengthen active monitoring

rather than relying solely on ownership concentration. For regulators, tax oversight should consider firms' financial and operational characteristics alongside governance mechanisms.

Recent studies in Indonesia also emphasize the importance of governance and ownership structures in explaining tax avoidance. Na, Yuliansyah, and Oktavia (2025) highlight the role of governance mechanisms and foreign ownership, while Muhaimin, Arman, Wahid, Putriani, and Yunus (2025) show that institutional ownership alone may not effectively constrain tax avoidance. Similarly, Sari, Dewi, and Damayanti (2026) demonstrate that financial conditions and ownership characteristics jointly influence tax-related decisions. These findings reinforce the importance of examining financial, accounting, and governance factors within an integrated framework.

2. Literature Review

2.1 Corporate Tax Avoidance

Corporate tax avoidance refers to managerial strategies designed to reduce corporate tax liabilities by utilizing the available tax regulations and planning opportunities. Although tax avoidance differs from illegal tax evasion, aggressive tax avoidance practices remain a major concern because they may reduce government revenue and increase information asymmetry between firms and their stakeholders. From an agency perspective, managers may engage in tax avoidance to improve after-tax earnings and enhance firm value; however, excessive tax avoidance may create agency problems when managerial interests are not aligned with the expectations of stakeholders (Kovermann & Velte, 2019).

Corporate tax avoidance is commonly measured using effective tax rate-based indicators, particularly the Cash Effective Tax Rate (CETR). CETR reflects the amount of cash taxes paid relative to pre-tax income, providing a direct measurement of firms' actual tax payment behavior in the current period. Lower CETR values indicate higher tax avoidance because companies pay a smaller proportion of their earnings in cash taxes (Dyreng et al., 2017). Previous studies have indicated that corporate tax avoidance is influenced by various internal and external factors, including financial characteristics, accounting practices, and corporate governance mechanisms (Khurana et al., 2018; Kovermann & Velte, 2019).

2.2 Financial Characteristics and Corporate Tax Avoidance

Financial characteristics represent internal corporate conditions that influence managerial decisions related to tax planning activities. Firm profitability, leverage, size, sales growth, and capital intensity determine the incentives and opportunities for implementing tax avoidance strategies(Sekaran & Bougie, 2019). Profitability reflects a company's ability to generate earnings from its resource. Firms with higher profitability generally face greater tax obligations, which may encourage managers to implement tax-planning strategies to reduce tax burdens. However, highly profitable firms may also receive greater attention from regulators and stakeholders, potentially limiting aggressive tax-avoidance behavior. Previous empirical findings on the relationship between profitability and tax avoidance remain inconsistent, indicating that institutional and governance factors may influence this relationship (Darsani & Sukartha, 2021).

Leverage represents the extent to which companies utilize debt financing in their capital structures. Debt financing can provide tax benefits because interest expenses are generally deductible from the taxable income. Therefore, firms with higher leverage may have stronger incentives to utilize debt in their tax planning strategies. Recent studies have shown that leverage remains an important financial determinant of corporate tax avoidance, particularly in emerging markets, where companies actively manage financing structures to optimize tax expenses (Asriani et al., 2023).

Firm size also plays an important role in explaining tax-avoidance behavior. Large companies generally possess greater financial resources, more complex transactions, and stronger tax planning capabilities. Nevertheless, larger firms are subject to higher levels of public scrutiny and regulatory monitoring, which may discourage the use of aggressive tax strategies. Recent evidence suggests that the influence of firm size on tax avoidance depends on corporate governance effectiveness and the regulatory environment in which firms operate (Widijaya & Lie, 2026).

Sales growth reflects the expansion of business activities and future performance expectations of the company. Firms experiencing rapid growth may require additional resources for investment and operational development, which may influence their managerial tax strategies. Capital intensity represents investment in fixed assets that generate depreciation expenses. Higher capital intensity can provide tax deduction opportunities through depreciation, potentially affecting firms' incentives to reduce tax liabilities (Janide et al., 2025).

2.3 Accounting Conservatism and Corporate Tax Avoidance

Accounting conservatism is a financial reporting approach that emphasizes caution by recognizing potential losses and expenses earlier than it does gains and revenues. This practice aims to improve the reliability of financial reporting, reduce information asymmetry, and limit managerial opportunistic behavior. In corporate decision-making, accounting conservatism may influence tax avoidance because accounting choices affect reported earnings and managerial discretion in tax planning Accounting conservatism may influence corporate tax avoidance through two competing mechanisms. From a financial reporting perspective, conservatism requires greater prudence in recognizing uncertain losses and gains and can restrict managerial discretion in financial reporting. By reducing opportunities for opportunistic earnings manipulation and increasing reporting discipline, conservative accounting may constrain managers' ability to engage in aggressive tax planning activities. This argument is consistent with the view that accounting conservatism reduces information asymmetry and managerial opportunism (Basu, 1997; Lara, Osma, & Penalva, 2020).

However, the relationship between accounting conservatism and tax avoidance is not necessarily unidirectional. Conservatively recognizing losses and expenses may reduce reported accounting income and potentially affect managers' tax-related incentives. Consequently, accounting conservatism may be associated with greater tax-minimization incentives when managers seek to reduce tax liabilities while complying with accounting and tax regulations. Thus, conservatism may simultaneously function as a constraint on managerial opportunism and as an accounting mechanism that can affect reported income underlying tax-related decisions.

Empirical evidence reflects this ambiguity. Ardillah and Halim (2022) found that accounting conservatism does not significantly affect tax avoidance, whereas other studies report significant relationships between the two variables. Evidence from Indonesian firms remains mixed. For example, Rahmahwati, Widiyana, Wulandari, Hakim, Yahawi, and Yaramah (2025) report a significant relationship between accounting conservatism and tax avoidance when the latter is measured using Cash Effective Tax Rate (CETR). These differences suggest that the effect of accounting conservatism may depend on the institutional environment, measurement approach, and governance characteristics of firms.

Therefore, this study does not assume that accounting conservatism has an inherently negative or positive relationship with corporate tax avoidance. Instead, this study proposes that the relationship may depend on the governance environment in which accounting decisions are made. This perspective provides the basis for examining institutional ownership as a potential moderating mechanism.

2.4 Institutional Ownership and Corporate Tax Avoidance

Institutional ownership refers to the percentage of company shares held by institutional investors, including investment companies, financial institutions, and other professional organizations. Institutional investors are considered important corporate governance mechanisms because they possess greater resources, expertise, and incentives to monitor managerial behavior.

Institutional ownership may moderate the relationship between accounting conservatism and corporate tax avoidance, as institutional investors can influence managerial decisions through monitoring and shareholder incentives. From a monitoring perspective, institutional investors possess greater resources, expertise, and incentives to oversee management than dispersed individual shareholders. Strong institutional monitoring may restrict managerial discretion and opportunistic tax planning. Under this mechanism, higher institutional ownership is expected to strengthen the ability of conservative accounting to constrain aggressive tax-related behavior.

However, institutional ownership may also operate through shareholder value mechanisms. Institutional investors may support tax-efficient strategies when tax savings increase after-tax cash flows and shareholder returns. In this situation, institutional investors may not necessarily reinforce the restrictive effect of accounting conservatism; instead, their emphasis on financial returns may weaken the extent to which conservative reporting constrains tax-avoidance. Evidence that institutional investors can have different effects depending on their monitoring incentives and investment characteristics supports this perspective.

Previous Indonesian evidence also provides inconsistent findings on this moderating role. Jumailah (2020) reports that institutional ownership does not moderate the relationship between accounting conservatism and tax avoidance, whereas Sari and Mayangsari (2024) find that it strengthens this relationship. These contrasting findings indicate that institutional ownership should not be assumed to strengthen the disciplinary effect of accounting conservatism. Rather, its moderating effect may depend on the effectiveness of monitoring and the objectives of institutional investor participation.

Accordingly, institutional ownership is positioned in this study as a contextual governance mechanism that may either strengthen or weaken the relationship between accounting conservatism and Corporate Tax Avoidance (CTA). Therefore, the interaction between accounting conservatism and institutional ownership provides an opportunity to examine whether the governance environment changes the extent to which conservative reporting is associated with firms' tax-related behavior (Oktavia, 2025).

.Empirical studies provide mixed evidence regarding the role of institutional ownership in tax avoidance. Ardillah and Halim (2022) found that institutional ownership does not significantly influence tax avoidance, suggesting that ownership concentration alone may not guarantee effective corporate monitoring. Conversely, Janide et al. (2025) found that institutional ownership influences tax-avoidance decisions, indicating that institutional investors may play an active role in corporate tax strategies.

Furthermore, institutional ownership may affect the relationship between accounting conservatism and tax avoidance. Effective institutional monitoring may strengthen the role of conservative accounting practices in limiting aggressive tax behaviors. However, institutional investors primarily focused on financial returns may support tax efficiency strategies, potentially weakening the restrictive effect of accounting conservatism. Therefore, institutional ownership represents an important governance mechanism for understanding variations in corporate tax avoidance behavior (Saunders, Lewis, & Thornhill, 2019).

3. Research Methodology

3.1 Research Design

This study employed a quantitative explanatory research design to examine the effects of financial characteristics and accounting conservatism on corporate tax avoidance and the moderating role of institutional ownership. An explanatory approach was selected because this study aimed to investigate causal relationships among research variables through empirical hypothesis testing. Quantitative explanatory research is appropriate when researchers seek to examine the relationships among variables through numerical measurements and statistical analyses (Creswell & Creswell, 2023).

The dataset consists of repeated firm-year observations for the same companies during the 2021–2023 period. Accordingly, the data have a panel structure. The main empirical specification in this study uses pooled regression to estimate the average association between the explanatory variables and corporate tax avoidance across firm-year observation. The pooled specification is adopted as the baseline model because the primary objective is to examine the contemporaneous relationships among financial characteristics, accounting conservatism, institutional ownership, and CETR, rather than to model firm-specific dynamics.

Nevertheless, the panel structure of the dataset implies the potential existence of unobserved firm-specific heterogeneities. Therefore, pooled regression should not be interpreted as being automatically superior to fixed-effects or random-effects estimation. The choice between pooled, fixed-effects, and random-effects specifications should ideally be assessed through model-selection procedures, including the restricted F-test for fixed effects, the Breusch–Pagan Lagrange Multiplier test for random effects, and the Hausman test for comparing fixed and random effects specifications.

In the present analysis, the reported regression results are based on a pooled specification with heteroskedasticity-robust standard errors. The use of robust standard errors is particularly relevant because the White test indicates significant heteroscedasticity in the model. Therefore, panel data alternatives are recognized as an important robustness consideration for future analyses.

3.2 Population and Sample

The population consists of companies listed on the Indonesia Stock Exchange (IDX) during the observation period of 2021–2023. The unit of analysis is firm-year observations. The sample was selected using purposive sampling, whereby firms were included only if they met predetermined criteria, such as being continuously listed on the Indonesia Stock Exchange during 2021–2023, publishing complete annual reports and audited financial statements, providing sufficient information to calculate all research variables, not reporting missing values for the study variables, and meeting all data completeness requirements for the empirical analysis. Following the screening process, the final sample comprised 204 firm-year observations, as reflected in the descriptive statistics and the regression outputs. As shown the Table 1 purposive sampling.

Table 1. Purposive sampling

No.	Sample Selection Criteria	Number of Companies	Number of Firm-Year Observations
1	Manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2020–2023	150	450
2	Manufacturing companies that did not consistently publish audited financial statements during 2020–2023	(2)	(6)
3	Manufacturing companies that did not consistently have a December 31 fiscal year-end during 2020–2023	(3)	(9)
4	Manufacturing companies that did not consistently use Indonesian Rupiah (IDR) as the reporting currency in their financial statements during 2020–2023	(26)	(78)
5	Manufacturing companies that did not report positive income during 2021–2023	(40)	(120)
6	Manufacturing companies with CETR values not greater than 0 and less than 1 during 2021–2023	(11)	(33)
Final Research Sample		**68**	**204**

3.3 Data Source

This study relied exclusively on secondary data obtained from companies' audited annual reports and financial statements. Financial information required to calculate the research variables, including profitability, leverage, accounting conservatism, institutional ownership, sales growth, capital intensity, and corporate tax avoidance, was extracted from these reports.

3.4 Variable Measurement

This study consisted of one dependent variable, six independent variables, one moderating variable, and one interaction variable. The operational definitions and measurement approaches for each variable are described below.

3.4.1 Dependent Variable

3.4.1.1 Corporate Tax Avoidance (CETR)

Corporate tax avoidance is measured using the Cash Effective Tax Rate (CETR), calculated as cash taxes paid divided by pre-tax income. CETR is selected because it focuses on the actual cash tax burden incurred by the firm rather than solely on the tax expense recognized in the financial statements. A lower CETR generally indicates that a firm pays a smaller amount of cash tax relative to its pre-tax income and is, therefore, associated with a higher degree of tax avoidance. The cash-based approach is consistent with the tax avoidance literature developed by Dyreng, Hanlon, and Maydew (2008), who use cash effective tax rates to capture firms' ability to maintain relatively low cash tax payments relative to pre-tax earnings.

CETR also has an important advantage over the conventional accounting Effective Tax Rate (ETR). The ETR is generally based on income tax expense relative to pre-tax accounting income and may therefore reflect accounting recognition and deferred tax effects that do not necessarily correspond to current cash tax payments. The CETR provides a closer representation of a firm's actual cash tax burden in a given period. However, CETR has some limitations. The annual CETR can be affected by temporary differences, tax refunds, tax payments related to prior periods, loss carryforwards, and other timing effects. Dyreng et al. (2010) further show that one-year cash effective tax rates are not necessarily reliable proxies for long-run tax avoidance, which motivates the use of longer-horizon cash ETR measures when the research objective is to capture persistent tax avoidance in the long run.

An alternative measure is the Book-Tax Difference (BTD), which captures the differences between accounting income and taxable income. BTD can provide information on the divergence between financial and tax reporting; however, it may also reflect legitimate differences arising from accounting standards, temporary differences, and other factors that are not necessarily attributable to tax avoidance. Accordingly, CETR is retained as the primary proxy in this study because the research focuses on firms' cash tax burdens during the observation period. Nevertheless, the use of a single annual CETR measure limits the ability to capture the multidimensional and persistent nature of corporate-tax avoidance. Therefore, future research should consider alternative measures, including the ETR, BTD, and long-run CETR, to assess the robustness of the findings.

3.4.2 Independent Variables

3.4.2.1 Return on Assets

Return on Assets (ROA) measures a company's ability to generate profits from its total assets. Higher ROA values indicate better profitability and reflect the effectiveness of asset utilization in generating earnings.

3.4.2.2 Debt-to-Equity Ratio (DER)

The Debt-to-Equity Ratio (DER) measures a company's financial leverage by comparing the proportion of debt financing to shareholders' equity. This variable reflects the extent to which companies utilize external financing for their operational and investment activities.

3.4.2.3 Firm Size (SIZE)

Firm size represents the scale of company operations and is measured using the natural logarithm of the total assets. Larger firms generally have greater resources, more complex activities, and different levels of regulatory monitoring than smaller firms.

3.4.2.4 Accounting Conservatism (CONS)

Accounting conservatism represents the degree of caution applied to financial reporting, particularly in recognizing economic losses and gains. This study measures accounting conservatism using a cash flow-based measurement approach that captures conservative financial reporting practices based on operating cash flow, earnings, and accrual components.

3.4.2.5 Sales Growth (SG)
Sales Growth (SG) measures the growth of company sales between periods. This variable reflects changes in business expansion and operational development that may influence managerial decisions, including tax-planning strategies.

3.4.2.6 Capital Intensity (CI)
Capital Intensity (CI) measures the proportion of fixed assets owned by a company relative to its total assets. This variable reflects investment decisions and the potential utilization of depreciation benefits to reduce taxable income.

3.4.3 Moderating Variable

3.4.3.1 Institutional Ownership (INST)
Institutional Ownership (INST) represents the proportion of company shares held by institutional investors. This variable reflects the monitoring role of institutional shareholders in influencing managerial decisions and corporate governance practices.

3.4.4 Interaction Variable

3.4.4.1 Accounting Conservatism x Institutional Ownership (CONS x INST)
The interaction variable is developed by multiplying accounting conservatism by institutional ownership. This variable is used to examine whether institutional ownership strengthens or weakens the relationship between accounting conservatism and tax avoidance.

3.5 Empirical Model

The empirical model estimated in this study is presented in Figure 1.

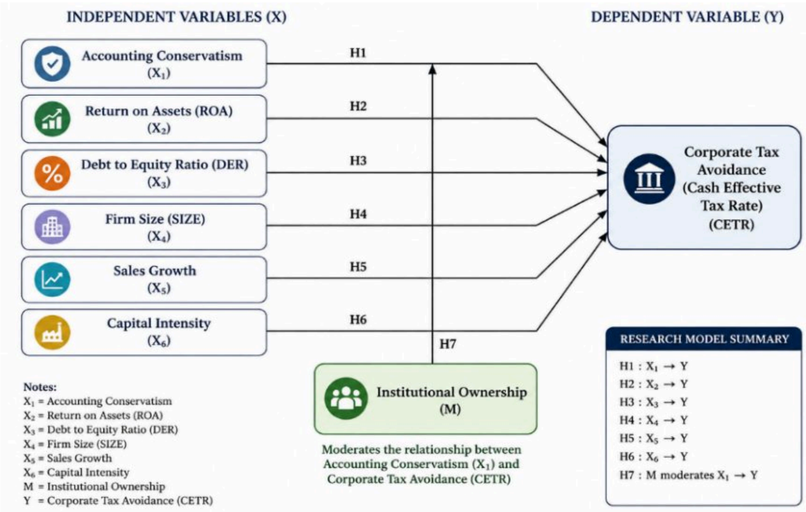

Figure 1. The empirical model

This specification corresponds to the conceptual framework and regression model presented in the uploaded research material.

3.6 Data Analysis Technique

Data analysis was performed using Stata software. The analytical procedure comprised several stages. escriptive statistics to summarize the characteristics of each variable; Pearson correlation analysis to examine bivariate associations; multicollinearity assessment using the Variance Inflation Factor (VIF); classical assumption testing, including normality and White's heteroskedasticity test; multiple regression analysis to evaluate the direct effects of the independent variables on corporate tax avoidance; and Moderated Regression Analysis (MRA) by incorporating the interaction term (CONS × INST) to test the moderating role of institutional ownership. The sequence of analyses follows the outputs documented in the uploaded research material.

3.7 Statistical Decision Criteria

The hypotheses were evaluated based on the estimated regression coefficients and associated probability values. A relationship was considered statistically significant when the p-value was < 0.05. The overall explanatory power of the model was assessed using the coefficient of determination (R^2 and adjusted R^2), and the F-statistic was used to evaluate the overall significance of the regression model.

4. Results and Discussions

4.1 Descriptive Statistics

Table 2. Descriptive statistics of research variables

Variables	Obs	Mean	Std. Deviation	Minimum	Maximum
CETR	204	0.2440712	0.1339064	0.0045658	0.8544934
ROA	204	0.0912081	0.0684073	0.0051812	0.3636199
DER	204	0.6425468	0.6659601	0.0337637	3.9283980
SIZE	204	28.99062	1.6236450	25.16100	33.73062
CONS	204	-0.0344391	0.0911392	-0.8222245	0.1851783
INST	204	0.6549887	0.2621606	0.0000000	0.9942964
SG	204	0.1124110	0.1733522	-0.3207493	1.1107590
CI	204	0.3921453	0.1912302	0.0182090	0.8144160
CONSINST	204	-0.0203437	0.0569931	-0.3447130	0.1611427

Table 2 presents the descriptive statistics for all variables included in this study. The dataset consists of 204 firm-year observations collected from Indonesian listed companies during 2021–2023. The descriptive statistics indicate considerable variation across firms in terms of their financial characteristics and tax-related variables. The mean value of Corporate Tax Avoidance (CETR) is 0.2441, with a minimum value of 0.0046 and a maximum value of 0.8545, suggesting substantial differences in cash tax payments relative to pre-tax income among the sampled firms. Variations in CETR values indicate that companies adopt different tax planning strategies depending on their financial conditions, operational characteristics, and governance mechanisms (Kovermann & Velte, 2019; Wang et al., 2020).

The average Return on Assets (ROA) is 0.0912, indicating that the sampled firms generated an average return of approximately 9.12% on total assets. The Debt-to-Equity Ratio (DER) has a mean value of 0.6425, although the maximum value reaches 3.9284, implying considerable differences in capital structure across firms. Differences in leverage levels may influence corporate tax strategies because debt financing provides tax advantages through deductible interest expenses, making leverage an important financial characteristic associated with tax avoidance (Asriani et al., 2023). Firm size, measured as the natural logarithm of total assets, has a mean of 28.9906, reflecting a moderate variation in the company scale. Differences in firm size may affect tax planning opportunities because larger firms generally possess greater resources and engage in more complex business activities (Darsani & Sukartha, 2021).

Regarding governance and reporting quality, the mean value of Accounting Conservatism (CONS) is −0.0344, indicating differences in conservative reporting practices among the sampled firms. Meanwhile, Institutional Ownership (INST) averages 0.6550, suggesting that institutional investors hold a substantial proportion of outstanding shares. A relatively high level of institutional ownership may indicate the presence of stronger monitoring mechanisms, although its effectiveness in influencing corporate tax decisions depends on investor objectives and governance conditions (Ardillah & Halim, 2022). Sales Growth and Capital Intensity also exhibit relatively wide ranges, suggesting heterogeneous operational characteristics among firms, which may lead to differences in tax planning incentives.

Overall, the descriptive statistics demonstrated sufficient variability among the variables, supporting the suitability of the dataset for regression analysis. The variation across financial characteristics, accounting practices, and ownership structures provides an appropriate basis for examining the determinants of corporate tax avoidance through further empirical testing

4.2 Correlation Analysis

Table 3. Pearson correlation matrix among research variables

Variables	CETR	ROA	DER	SIZE	CONS	INST	SG	CI	CONSINST
CETR	1.0000								
ROA	-0.0789	1.0000							
DER	0.1383	0.0611	1.0000						
SIZE	0.0253	-0.0041	0.0869	1.0000					
CONS	0.0215	-0.1462	0.1110	0.0448	1.0000				
INST	0.0647	0.0971	0.0969	0.1194	0.0931	1.0000			
SG	-0.2635	0.1161	-0.0114	0.0153	-0.1590	0.0050	1.0000		
CI	-0.1117	-0.2054	0.0390	-0.0610	0.0773	0.0867	-0.0593	1.0000	
CONSINST	-0.0085	-0.1700	0.1078	0.0650	0.9058	-0.0375	-0.2026	0.1038	1.0000

Table 3 reports the Pearson correlation matrix for the study variables. Overall, the pairwise correlations were relatively low to moderate, indicating that the explanatory variables were not highly correlated with each other. The correlation coefficients do not approach the levels commonly associated with severe multicollinearity, providing preliminary evidence that the variables capture distinct dimensions of firm characteristics. This condition is important in regression analysis because high correlations among independent variables may distort coefficient estimates and reduce the reliability of the statistical inference. Therefore, examining the correlation structure among variables provides an initial assessment of whether the regression model is likely to produce stable estimates (Gujarati and Porter, 2020).

The correlation matrix shows that DER is positively correlated with CETR, whereas Sales Growth and Capital Intensity are negatively correlated with CETR. Although these simple correlations are informative, they do not control for the simultaneous effects of other explanatory variables; therefore, regression analysis provides a more reliable basis for inference. In corporate tax avoidance research, financial characteristics such as leverage, growth opportunities, and asset composition may influence tax planning decisions through different mechanisms, making multivariate analysis necessary to identify their independent effects (Wang et al., 2020). Furthermore, governance-related variables, such as institutional ownership, may interact with accounting practices and financial decisions, meaning that their effects should be evaluated within a comprehensive regression framework rather than through bivariate relationships alone (Kovermann & Velte,2019).

4.3 Multicollinearity Test

Table 4. Variance Inflation Factor (VIF) test results

Variables	VIF	1/VIF
CONSINST	6.35	0.157411
CONS	6.22	0.160666
INST	1.16	0.861158
ROA	1.10	0.910776
CI	1.08	0.926766
SG	1.06	0.946702
SIZE	1.04	0.961553
DER	1.03	0.966666
Mean VIF	2.38	

Before estimating the regression model, multicollinearity was assessed using the Variance Inflation Factor (VIF), as presented in Table 4 . The mean VIF was 2.38, which was well below the commonly accepted threshold of 10. Although the interaction term (CONSINST) and Accounting Conservatism

(CONS) record VIF values above six, these values remain below the critical threshold generally used to indicate serious multicollinearity. Accordingly, the results suggest that multicollinearity is not severe and is unlikely to bias the estimated regression coefficients.

The VIF values for the remaining explanatory variables were relatively low, ranging from 1.03 to 1.16, with tolerance values above 0.80. These results indicate that the independent variables do not exhibit strong linear relationships that could distort the parameter estimation. According to Gujarati and Porter (2020), a regression model with acceptable VIF values provides more reliable coefficient estimates because the explanatory variables contribute unique information to explain variations in the dependent variable.

The slightly elevated VIF values observed for CONSINST and CONS are expected because the interaction variables are constructed from the multiplication of the constituent variables, which may naturally increase the correlation among related predictors. Previous methodological studies have noted that higher VIF values in moderation models do not necessarily indicate problematic multicollinearity when the interaction term is theoretically justified and the overall model remains below the critical threshold. Therefore, the regression model in this study is considered statistically appropriate for further hypothesis testing and for examining the effects of financial characteristics, accounting conservatism, and institutional ownership on corporate tax avoidance.

4.4 Classical Assumption Tests

Table 5. White's test for heteroskedasticity

Test Component	Chi-square	df	Prob.
Heteroskedasticity	72.53	43	0.0032
Skewness	11.28	8	0.1863
Kurtosis	2.52	1	0.1127
Total	86.32	52	0.0020

The normality assessment based on the skewness and kurtosis tests, as presented in Table 5, indicates that several research variables deviate from a normal distribution. However, deviations from normality are commonly observed in corporate financial datasets because of differences in firm characteristics, operational scale, and financial conditions. In regression analysis, especially with sufficiently large observations, moderate departures from normality do not necessarily invalidate the estimation results, as the robustness of statistical inference is often more dependent on the estimation technique and sample characteristics (Gujarati and Porter, 2020).

The White test indicates the presence of heteroskedasticity in the regression model ($\chi^2(43) = 72.53$; $p = 0.0032$), leading to the rejection of the null hypothesis of homoskedasticity. Heteroskedasticity implies that the variance of the regression disturbances is not constant across observations and may cause conventional ordinary least squares standard errors to become unreliable.

To address this issue, regression models were estimated using heteroskedasticity-robust standard errors in Stata [regress ..., vce(robust)]. This estimator does not change the estimated regression coefficients; rather, it adjusts the estimated variance-covariance matrix so that the reported standard errors, t-statistics, confidence intervals, and p-values are more reliable in the presence of heteroskedasticity. Consequently, the statistical inference in the regression and moderation analyses is based on heteroskedasticity-robust standard errors rather than conventional Ordinary Least Squares (OLS) standard errors. This procedure is consistent with the methodological recommendation that robust variance estimation should be used when the constant-error-variance assumption is violated (Gujarati & Porter, 2020; Wooldridge, 2020).

4.5 Main Regression Results

Table 6. Regression analysis results

Variables	Coefficient	Std. Error	t-value	p-value	95% Confidence Interval
ROA	-0.2082571	0.1371941	-1.52	0.131	-0.4788319 – 0.0623176
DER	0.0298767	0.0136791	2.18	0.030	0.0028987 – 0.0568547
SIZE	0.0006746	0.0056256	0.12	0.905	-0.0104021 – 0.0117694
CONS	0.2114613	0.2451750	0.86	0.389	-0.2720739 – 0.6949964
INST	0.0268973	0.0368159	0.73	0.466	-0.0457111 – 0.0995057
SG	-0.2154143	0.0531016	-4.06	0.000	-0.3201416 – -0.1106871
CI	-0.1043222	0.0486522	-2.14	0.033	-0.2002742 – -0.0083702
CONSINST	-0.4995663	0.3960993	-1.26	0.209	-1.280755 – 0.2816223
Constant	0.2689368	0.1645767	1.63	0.104	-0.0556422 – 0.5935157

Table 6 presents the results of the multiple regression analysis that examines the determinants of corporate tax avoidance.

4.5.1 Return on Assets and CETR

Return on Assets (ROA) has a negative coefficient of −0.2083 but is statistically insignificant (p = 0.131). Thus, the results do not provide sufficient evidence that profitability is systematically associated with the CETR in the observed sample. From an agency perspective, higher profitability could increase managerial incentives to reduce tax payments, as profitable firms face greater tax liabilities. However, profitable firms may simultaneously face greater scrutiny from investors, regulators, and other stakeholders, which may discourage aggressive tax planning strategies. These competing mechanisms may offset each other and result in an insignificant net relationship. Therefore, this finding suggests that profitability alone does not necessarily determine firms' cash tax burdens. This interpretation is consistent with the mixed evidence concerning profitability and tax avoidance documented in the research materials

4.5.2 Firm Size and CETR

Firm Size (SIZE) has a coefficient of 0.0007 with a p-value of 0.905, indicating no statistically significant relationship with CETR. The absence of a significant effect suggests that larger firms in the sample do not systematically report higher or lower cash effective tax rates than smaller firms after controlling for other variables. Theoretically, firm size can create opposing tax incentives for R&D investment. Large firms generally have greater financial resources and tax-planning capabilities; however, they are also more visible to regulators, investors, and the public and may therefore face stronger monitoring. These competing effects may offset each other, resulting in an insignificant statistical association. Therefore, the result is consistent with the broader literature's view that firm size does not necessarily produce a uniform effect on corporate tax avoidance.

4.5.3 Accounting Conservatism and CETR

Accounting Conservatism (CONS) has a positive coefficient of 0.2115 but is statistically insignificant (p = 0.389). Thus, this study does not find sufficient evidence that accounting conservatism is directly associated with CETR. This result is theoretically plausible because accounting conservatism can operate through different mechanisms. Conservative reporting may restrict managerial discretion and reduce opportunistic tax planning opportunities. However, conservative recognition of losses and expenses may affect reported income and potentially alter managerial incentives for tax planning. These opposing effects may reduce the observable net association between conservatism and CETR.

This finding also contributes to the inconsistent empirical evidence identified in the literature. The research materials report that previous studies have produced different conclusions regarding the relationship between accounting conservatism and tax avoidance, including evidence of insignificant effects in some settings. Therefore, the insignificant coefficient observed in this study does not necessarily contradict Agency Theory; rather, it indicates that the disciplinary effect of accounting conservatism may not be sufficiently strong to translate into a measurable difference in firms' cash tax burdens within the observed sample.

4.5.4 Institutional Ownership and CETR

Institutional Ownership (INST) has a positive coefficient of 0.0269 and a p-value of 0.466, indicating that institutional ownership does not have a statistically significant direct association with CETR. Agency Theory predicts that institutional investors can monitor management and reduce opportunistic behavior. However, the absence of a significant effect suggests that institutional ownership, when measured only by the proportion of shares held by institutional investors, may not adequately capture the effectiveness of monitoring. Institutional investors may differ in their investment horizons, monitoring incentives, engagement, and objectives. Some may actively monitor management, whereas others may prioritize investment returns without becoming directly involved in operational or tax decisions.

This finding is consistent with the mixed evidence reported in the research materials, including evidence that institutional ownership does not automatically reduce tax avoidance. Thus, the insignificant coefficient does not imply that institutional ownership is theoretically irrelevant; rather, it suggests that ownership may be insufficient to produce a measurable effect on corporate tax behavior.

4.5.5 Moderating Effect: CONS × INST

The insignificant interaction between accounting conservatism and institutional ownership provides an important qualification for the monitoring argument in Agency Theory. If institutional ownership is uniformly effective in monitoring managerial behavior, a stronger institutional presence is expected to change the relationship between accounting conservatism and tax-related decisions. However, the insignificant interaction suggests that this mechanism does not operate uniformly across sampled firms. This result is consistent with the possibility that institutional ownership varies in terms of monitoring intensity and investment objectives. It also supports the view that ownership-based governance should be examined together with other governance mechanisms rather than being treated as a standalone indicator of monitoring effectiveness.

This result is particularly relevant because prior evidence was inconclusive. Jumailah (2020) reports no moderating effect of institutional ownership, whereas Sari and Mayangsari (2024) find a moderating role in a related research setting. Therefore, the present finding adds to the empirical debate by showing that, among the firms and observation periods examined, institutional ownership does not significantly condition the relationship between accounting conservatism and CETR.

4.6 Moderation Analysis

The moderating effect of institutional ownership is examined by introducing the interaction term between accounting conservatism and institutional ownership (CONS × INST) into the regression model. As reported in Table 6, the interaction coefficient is negative ($\beta = -0.4996$), but statistically insignificant ($p = 0.209$). Therefore, empirical evidence does not support the hypothesis that institutional ownership significantly moderates the relationship between accounting conservatism and CETR.

The insignificant interaction effect may be explained by the fact that institutional ownership does not necessarily represent effective monitoring in all firms. Although institutional investors are theoretically expected to constrain managerial opportunism, the existence of institutional shareholders does not automatically imply the active monitoring of accounting and tax-related decisions. The effectiveness of monitoring may depend on investors' engagement, investment objectives, ownership characteristics, and broader corporate governance environment. The evidence in this study suggests that institutional ownership, measured solely by the proportion of shares held by institutional investors, may not adequately capture the intensity or effectiveness of institutional monitoring.

The second possible explanation concerns the competing objectives of institutional investors. Institutional investors may monitor management to reduce opportunistic behavior, but they may also support tax-efficient strategies when tax savings contribute to shareholder values. Consequently, institutional ownership may simultaneously create monitoring pressure and incentives for tax efficiency, producing an overall moderating effect that is statistically indistinguishable from zero. This interpretation is consistent with the mixed evidence in the literature on the role of institutional ownership in corporate tax avoidance. The research materials identify evidence that institutional ownership does not automatically reduce tax avoidance and that governance effectiveness may depend on broader arrangements.

This finding is also consistent with the Indonesian evidence reported by Jumailah (2020), who found that institutional ownership does not moderate the relationship between accounting conservatism and tax avoidance. In contrast, Sari and Mayangsari (2024) report the moderating effect of institutional ownership in a related model. These contrasting findings indicate that the moderating role of institutional ownership is context-dependent rather than universal.

Accordingly, the insignificant interaction should not be interpreted as evidence that institutional ownership has no governance function. This suggests that institutional ownership alone may be insufficient to change the relationship between accounting conservatism and corporate tax behavior in the observed sample. More specific characteristics of institutional investors, such as ownership concentration, investment horizon, foreign versus domestic ownership, and monitoring engagement, may be necessary to identify the conditions under which institutional ownership becomes an effective moderator.

5. Conclusions

5.1 Conclusion

This study examined the effects of financial characteristics and accounting conservatism on corporate tax avoidance and investigated whether institutional ownership moderates the relationship between accounting conservatism and corporate tax avoidance. Using 204 firm-year observations of Indonesian listed companies from 2021 to 2023, this study provides evidence that the determinants of corporate tax behavior are not uniform across financial, reporting, and ownership characteristics.

Regarding the individual hypotheses, the results show that Return on Assets (ROA) does not have a statistically significant effect on CETR ($\beta = -0.2083$; $p = 0.131$). Thus, H_1 is not supported in this study. The debt-to-equity Ratio (DER) has a positive and statistically significant effect on CETR ($\beta = 0.0299$; $p = 0.030$), supporting H_2. Firm Size (SIZE) does not significantly affect CETR ($\beta = 0.0007$; $p = 0.905$), and therefore H_3 is not supported. Accounting Conservatism (CONS) also does not significantly affect CETR ($\beta = 0.2115$; $p = 0.389$), resulting in no support for H_4. Institutional Ownership (INST) has no statistically significant effect on CETR ($\beta = 0.0269$; $p = 0.466$), so H_5 is not supported.

Sales Growth (SG) has a negative and statistically significant effect on CETR ($\beta = -0.2154$; $p < 0.001$), supporting H_6. Capital Intensity (CI) also has a negative and statistically significant effect on CETR ($\beta = -0.1043$; $p = 0.033$), supporting H_7. Because CETR is inversely related to the degree of tax avoidance, the negative coefficients of SG and CI indicate that firms with higher sales growth and greater capital intensity tend to exhibit lower cash effective tax rates and, consequently, a higher tendency for tax avoidance.

Finally, the interaction between Accounting Conservatism and Institutional Ownership (CONS × INST) is negative but statistically insignificant ($\beta = -0.4996$; $p = 0.209$). Therefore, H_8 is not supported in this study. Institutional ownership does not significantly moderate the relationship between accounting conservatism and CETR in the observed sample. Overall, the findings indicate that financing and operational characteristics particularly leverage, sales growth, and capital intensity are more consistently associated with CETR than accounting conservatism and institutional ownership.

5.2 Research Limitations

This study had several limitations. First, the observation period covers only 2021–2023, which limits the ability to capture long-term changes in corporate tax behavior and changes in the regulatory environment. Second, the sample is restricted to the selected Indonesian listed companies that met the predetermined criteria; therefore, the findings may not be generalizable to privately held firms, other industries, or firms in other countries.

Third, corporate tax avoidance is measured using only the annual Cash Effective Tax Rate (CETR). Although CETR captures a firm's cash tax burden relative to pre-tax income, it represents only one dimension of corporate tax avoidance and may be affected by tax payment timing and temporary tax differences. Fourth, the model explains a relatively limited proportion of the variation in CETR, with an R-squared of 0.1276 and an adjusted R-squared of 0.0918. This indicates that the current model does not capture other determinants of corporate tax behavior.

Finally, the data have a firm-year structure, while the reported baseline estimation uses a pooled regression. Although heteroskedasticity-robust standard errors are employed to address non-constant error variance, future research should further assess firm-specific and time-specific heterogeneity using panel data estimation techniques and appropriate model selection tests.

5.3 Suggestions and Directions for Future Research

Future research can extend this study in several ways. First, a longer observation period can be employed to capture persistent tax planning behavior and changes in regulatory and economic conditions. Second, future studies should consider multiple measures of corporate tax avoidance, including ETR, BTD, and long-run CETR, to assess whether the findings are robust across alternative definitions of tax avoidance.

Third, future research should incorporate additional governance variables, such as board independence, audit committee effectiveness, audit quality, managerial ownership, ownership concentration, and institutional investor characteristics. In particular, distinguishing between domestic and foreign institutional investors, passive and active investors, and short- and long-horizon investors may provide a more precise test of the monitoring mechanism.

Fourth, given the firm-year structure of the data, future studies should compare pooled regressions with Fixed Effects and Random Effects specifications using appropriate panel model selection tests. Such analyses may provide additional evidence of unobserved firm-specific heterogeneity. Finally, future research should continue to investigate the moderating mechanisms that may explain when accounting conservatism becomes more or less relevant to corporate tax avoidance.

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Author Contributions

SP contributed to the conceptualization, research design, data collection, methodology development, statistical analysis, interpretation of findings, and preparation of the original manuscript draft. MM contributed to the validation of the research framework, literature review, critical revision of the manuscript, refinement of the analysis, and supervision of the overall research process. Both authors contributed to reviewing and editing the manuscript and approved the final version of the article for publication.

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