Executive Characteristics: The Effect of Accounting Conservatism, Financial Distress, Transfer Pricing on Tax Avoidance

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ABSTRACT

This study examines the moderating role of executive characteristics in the relationship between accounting conservatism, financial distress, transfer pricing, and tax avoidance. The research utilizes secondary data obtained from the financial statements of companies operating in the Basic Industry and Chemical manufacturing sectors listed on the Indonesia Stock Exchange from 2019 to 2023. The analysis is conducted using moderated regression analysis. The findings indicate that accounting conservatism and transfer pricing do not have a significant effect on tax avoidance, whereas financial distress exhibits a negative relationship with tax avoidance. Furthermore, executive characteristics do not moderate the relationship between accounting conservatism or transfer pricing and tax avoidance. However, executive characteristics positively moderate the relationship between financial distress and tax avoidance.

Keywords: Tax Avoidance; Conservatisme Accounting; Financial Distress; Transfer Pricing, Executive Characteristics

Karakteristik Eksekutif : Pengaruh Konservatisme Akuntansi, Kesulitan Keuangan, Harga Transfer terhadap Tax Avoidance

ABSTRAK

Tujuan penelitian ini untuk menguji peran karakteristik eksekutif sebagai variabel moderasi hubungan konservatisme akuntansi, kesulitan keuangan, dan harga transfer terhadap tax avoidance. Data sekunder digunakan dalam penelitian ini yang diperoleh dari laporan keuangan perusahaan yang bergerak dalam industry manufaktur Basic Industry and Chemical yang terdaftar di Bursa Efek Indonesia periode 2019-2023. Analisis data yang digunakan adalah Moderating Regression Analysis. Hasil menunjukkan bahwa konservatisme akuntansi dan harga transfer tidak berpengaruh terhadap tax avoidance, sedangkan kesulitan keuangan berpengaruh negatif terhadap tax avoidance. Disamping itu, karakteristik eksekutif tidak mampu memoderasi hubungan antara konservatisme akuntansi dan harga transfer dengan tax avoidance, sedangkan karakteristik eksekutif positif dan signfikan memoderasi hubungan antara kesulitan keuangan dengan tax avoidance.

Kata Kunci: Tax Avoidance; Konservatisme Akuntansi; Kesulitan Keuangan; Harga Transfer; Karakteristik Eksekutif

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INTRODUCTION

Tax obligations are a crucial component of a country's tax revenue. In Indonesia, state revenue is derived from tax revenue, non-tax state revenue (PNBP), and grants. However, inadequate tax enforcement and negative public perceptions of taxation have created a sense of distrust among taxpayers. As a result, tax compliance is often viewed as an obligatory burden, leading many individuals and businesses to engage in tax avoidance. This behavior contributes to Indonesia's suboptimal tax revenue performance, with the tax ratio ranging from 8% to 11%, significantly lower than that of OECD, ASEAN, and G20 member countries (Elena, 2024).

Tax avoidance refers to corporate strategies aimed at minimizing tax liabilities (Sari et al., 2017). Traditional perspectives suggest that tax avoidance enhances firm value by allowing companies to reinvest tax savings or distribute them to shareholders. However, it can also lead to wealth transfers from shareholders to managers, creating agency conflicts (Sihono & Febyansyah, 2023). Given its complexity and economic consequences, tax avoidance has become a major concern for regulators. It reduces state revenue, undermines public funding, and negatively affects corporate reputations (Sihono & Febyansyah, 2023). Widespread corporate tax avoidance further exacerbates the government's revenue shortfall, ultimately impacting national development efforts.

Historically, company managers have engaged in tax avoidance to improve firm performance. However, evolving tax regulations compel businesses to continuously adjust their tax planning strategies (Annuar et al., 2014). Tax avoidance exploits legal loopholes, enabling firms to minimize tax payments without violating tax laws (Armstrong et al., 2015). Essentially, tax avoidance involves strategic financial reporting choices that reduce tax liabilities. Firms employ various mechanisms, such as increasing fixed assets, utilizing fiscal loss compensation, managing corporate debt levels, or optimizing net profits, to minimize their tax burdens (Putra et al., 2019).

Armstrong et al. (2015) argue that tax avoidance is a high-risk corporate decision, as companies seek higher returns while assuming greater financial risk (Choi & Park, 2022). Managers with strong personal incentives are more likely to pursue aggressive tax strategies (Armstrong et al., 2015). Although tax avoidance can enhance investment returns in the short term, it may erode future profitability and shareholder wealth (Chung et al., 2018). Choi & Park (2022) further emphasize that tax avoidance is a short-term, high-risk strategy that cannot be sustained indefinitely. Conversely, Sihono & Febyansyah (2023) contend that tax avoidance is not necessarily linked to corporate risk, as it depends on a firm's ability to exploit tax preferences within its operational environment. They argue that a sustainable tax avoidance strategy is feasible, suggesting that tax avoidance does not always constitute a risky investment.

According to Wardhana et al. (2024), tax avoidance is a legal strategy used by managers to minimize corporate tax burdens without violating tax regulations. Indonesia's low tax ratio is partly attributed to widespread tax avoidance practices. The Director General of Taxes (DJP), Suryo Utomo, estimated that tax avoidance results in state revenue losses of up to IDR 68.7 trillion annually. The Tax Justice Network report, The State of Tax Justice 2020: Tax Justice in the Time of COVID-

19, revealed that corporate taxpayers account for IDR 67.6 trillion of these losses, while individual taxpayers contribute IDR 1.1 trillion (Santoso, 2020).

One key factor influencing tax avoidance is accounting conservatism. Several studies, including those by Madia et al. (2023), Saputra & Purwatiningsih (2022), Ellyanti & Suwarti (2022), and Pratiwi & Djajanti (2022), demonstrate that accounting conservatism positively affects tax avoidance. Conservative managers prioritize financial statement reliability, stock price stability, and profit management through stringent controls, resulting in lower reported profits and reduced tax obligations. Conversely, research by Windaryani & Jati (2020), Sa'ad et al. (2023), Swandewi & Noviari (2020), and Nurcholis et al. (2021) suggests a negative relationship between accounting conservatism and tax avoidance. They argue that conservative accounting practices lead to increased company costs, reduced net profits, and lower tax liabilities. Since tax expenses are recognized earlier, while income is deferred, reported profits decrease, thereby reducing the firm's tax burden. Other studies, such as those by Yahya et al. (2023), Pramudito & Sari (2015), and Purwantini (2017), find no significant relationship between accounting conservatism and tax avoidance.

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

Financial distress is another key factor influencing tax avoidance. In recent years, the global economy has faced significant uncertainty due to the trade war and the COVID-19 pandemic, both of which have disrupted economic stability. In Indonesia, the implementation of Community Activity Restrictions (PPKM) to curb the spread of COVID-19 led to widespread financial difficulties for businesses, with many companies, factories, markets, shopping centers, and entertainment venues experiencing severe financial distress, and some ultimately facing bankruptcy. Several studies, including those by Rohmah & Romadhon (2023), Anugerah et al. (2022), Fadhila & Andayani (2022), Swandewi & Noviari (2020), Dang & Tran (2021), Monika & Noviari (2021), and Curry & Fikri (2023), indicate that financial distress has a positive effect on tax avoidance. Rohmah & Romadhon (2023) define financial distress as a state of insolvency where a company struggles to sustain operations due to continuous losses. In response, management may adopt riskier financial strategies, including more aggressive tax avoidance practices, to preserve cash flow.

Contrary to these findings, Ariff et al. (2023), Suyanto et al. (2022), and Nurcholis et al. (2021) argue that financial distress negatively affects tax avoidance. Meanwhile, other studies, such as those by Yahya et al. (2023), Rani (2017), and Kalbuana et al. (2023), suggest that financial distress has no significant impact on tax avoidance.

H_2: Financial distress has a positive effect on tax avoidance.

Transfer pricing is another determinant of tax avoidance. Transfer pricing refers to the pricing of transactions between entities with a special relationship (PMK 172, 2023). With the rise of the Industrial Revolution 4.0, many domestic firms have expanded internationally, leading multinational corporations operating in Indonesia to engage in tax avoidance strategies. By manipulating transfer pricing, companies aim to minimize tax liabilities, which in turn affects state tax revenues (Rohmah & Romadhon, 2023). Studies by Pratomo & Triswidyaria (2021), Kalra & Afzal (2023), Park (2018), Kramarova (2021), and

Maulana et al. (2018) suggest that transfer pricing has a positive effect on tax avoidance.

Conversely, research by Suryanto et al. (2022), Nadhifah & Arif (2020), Mahardhika & Surjandari (2022), Widyasari et al. (2024), Nurhidayah & Rahmawati (2022), Kurniasih et al. (2023), and Apriyani & Muhyarsyah (2021) demonstrates that transfer pricing negatively affects tax avoidance. Meanwhile, other studies, such as those by Rohmah & Romadhon (2023), Wardhana et al. (2024), and Kalbuana et al. (2023), conclude that transfer pricing has no significant effect on tax avoidance.

H_3: Transfer pricing has a positive effect on tax avoidance.

The extent to which companies engage in tax avoidance is closely linked to the characteristics of their executives. According to Pratomo & Triswidyaria (2021), executive characteristics are internal factors that shape corporate policies and decision-making. These characteristics also influence a firm's risk-taking behavior. Executives who are risk-averse tend to adopt conservative financial strategies, whereas risk-taking executives are more likely to engage in tax avoidance (Rohmah & Romadhon, 2023).

Agency theory highlights the principal-agent relationship, where company owners (principals) delegate decision-making authority to managers (agents). Ideally, agents act in the best interests of principals by maximizing corporate profits. One common strategy to achieve this goal is legal tax avoidance, wherein managers exploit loopholes in tax regulations without violating the law.

Accounting conservatism is an accounting approach that emphasizes cautious recognition of profits, lower valuation of inventory, and conservative liability assessment. By deferring profit recognition, companies effectively reduce taxable income, thereby lowering tax liabilities. Firms adopting conservative accounting methods comply with financial accounting standards while simultaneously engaging in tax avoidance (Madia et al., 2023). Pratiwi & Djajanti (2022) suggest that executives with risk-taking tendencies are more likely to implement aggressive accounting conservatism, further reducing corporate tax burdens through tax avoidance strategies.

H_4: Accounting conservatism has a positive effect on tax avoidance, moderated by executive characteristics.

Assessing a company's financial health is crucial for predicting its ability to continue as a going concern. Executives play a key role in evaluating bankruptcy risks and financial distress. Risk-taking executives are more likely to engage in tax avoidance strategies during periods of financial distress (Rohmah & Romadhon, 2023). Firms facing financial distress seek to minimize financial obligations, including tax liabilities, to sustain operations. Through tax avoidance, companies reallocate funds that would have otherwise been paid in taxes to cover other financial obligations (Fadhila & Andayani, 2022).

H_5: Financial distress has a positive effect on tax avoidance, moderated by executive characteristics.

Companies often manipulate profits through transfer pricing schemes by adjusting transaction prices within affiliated entities, thereby minimizing tax obligations. This strategy aligns with executive decision-making, as managers leverage tax loopholes to optimize tax positions. Risk-taking executives are particularly inclined to implement aggressive transfer pricing policies, shifting profits from high-tax jurisdictions (e.g., companies listed on the Indonesia Stock Exchange) to affiliates in low-tax countries. By doing so, firms effectively reduce their overall tax burden. The more risk-seeking the executive, the more aggressive the company is in engaging in tax avoidance through transfer pricing mechanisms (Rohmah & Romadhon, 2023).

H_6: Transfer pricing has a positive effect on tax avoidance, moderated by executive characteristics.

While numerous studies have examined tax avoidance, research findings remain inconsistent. Therefore, this study seeks to reexamine these variables within the Indonesian context, contributing new empirical evidence to either support or challenge prior research findings.

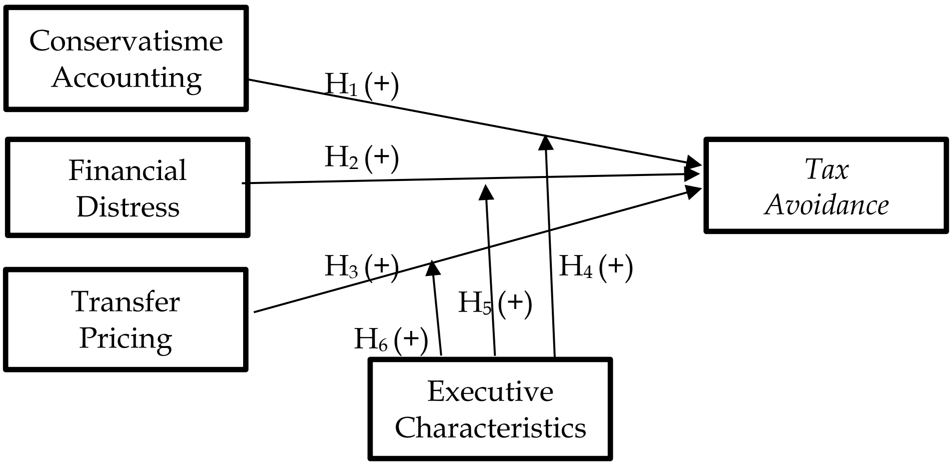

Figure 1. Research Model

Source: Research Data, 2024

RESEARCH METHODS

The population in this study consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX). Indonesia serves as an appropriate setting for this research, as studying tax avoidance in a developing country provides meaningful insights into how firms adopt defensive strategies in response to capital market constraints. In emerging markets, agency conflicts tend to be more pronounced, making tax avoidance a particularly relevant issue.

This study focuses on manufacturing companies within the Basic Industry and Chemical sector, as they contribute the largest share of tax revenue compared to other sectors. The research sample was selected using a purposive sampling method based on the following criteria: (a) manufacturing companies in the Basic Industry and Chemical sector listed on the IDX during the 2019–2023 period, (b) companies within this sector with complete financial data for the same period, and (c) companies reporting negative profits between 2019 and 2023.

This study relies on secondary data obtained from the official Indonesia Stock Exchange website (www.idx.co.id). The data collection process follows an archival research approach, utilizing publicly available financial reports and related disclosures.

Table 1. Research Sampel

	Amount	Percentage (%)
Number of manufacturing companies Basic Industry and Chemical period 2019-2013	355	100%
Reduced :		
Companies that do not have complete data on the IDX for the period 2019 - 2023	(15)	4.2%
A Company that has negative profits period 2019 - 2023	(170)	47.9%
Number of company samples	170	47.9%

Source: Research Data, 2024

The total population of manufacturing companies in the Basic Industry and Chemical sector listed on the Indonesia Stock Exchange (IDX) for the 2019–2023 period is 355. After excluding 15 companies with incomplete data and 170 companies reporting negative profits, the final research sample consists of 170 companies from this sector.

This study employs a statistical approach using moderated regression analysis to examine the relationship between accounting conservatism, financial distress, and transfer pricing in relation to tax avoidance. Additionally, executive characteristics are analyzed as a moderating variable to assess their influence on these relationships.

$$TA = \alpha + \beta_1 KA_{it} + \beta_2 KK_{it} + \beta_3 HT_{it} + \beta_4 KE{*}KA_{it} + \beta_5 KE{*}KK_{it} + \beta_6 KE{*}HT_{it} + e \quad \text{......(1)}$$

Tax avoidance (TA) is a ratio to measure the level of tax avoidance carried out by a company. This ratio can measure a company's compliance in paying income tax using the *Cash Effective Tax Rate (CETR)* proxy (Trisnawati & Gunawan, 2019).

$$CETR = \frac{\textit{Tax paid form cash flow statement}}{\textit{Profit before tax}} \quad \text{..........................(2)}$$

Accounting Conservatism (AC) is a ratio to measure the level of a company's conservativeness, when accountants apply the principle of accounting conservatism to a company, the profits obtained by the company will be managed strictly so that the profits generated will be less which will indirectly reduce the amount of tax that the company still has to pay, accounting conservatism can be measured using the CONACC proxy (Madia et al., 2023).

$$CONACC = \frac{(\textit{Net Income} + \text{Depresiasi}) - \text{CFO}}{\textit{Total Asset}} \times (-1) \quad \text{....................(3)}$$

Financial Distress (KK) is a ratio to measure the level of financial distress of a company. It can be used by management to evaluate the Company's performance and measure early indications of bankruptcy with signs of the Company's inability to pay financial obligations that have matured, financial distress can be measured using the *Altman Z-score* proxy (Suyanto et al., 2022) :

$$Z = 0{,}717\,X1 + 0{,}847\,X2 + 3{,}107\,X3 + 0{,}420\,X4 + 0{,}998\,X5 \quad \text{.............................(4)}$$

Where,

X1 = *Working capital / Total Assets*

X2 = *Retained Earnings / Total Assets*

X3 = *Earning Before Interest and Tax / Total Assets*

X4 = *Total Equity / Total Liabilities*
X5 = *Sales / Total Assets*

Transfer Pricing (HT) is a price used in conducting transactions with parties that have special relationships. To measure the level of transactions with affiliated parties that have special relationships, it can be measured using the transfer pricing proxy (Rohmah & Romadhon, 2023).

$$\text{Transfer Pricing} = \frac{\text{Total Receivables Related Parties}}{\text{Total Receivables}} \quad \text{…………………...(5)}$$

Executive Characteristics (KE) is the difference in character of each executive in making decisions. Executives have two characteristics in carrying out their duties, the character of an executive who dares to take risks is a risk - taker character while a risk average is the character of an executive who avoids risk more. Where executive character can be measured using the CRSIK proxy (Rohmah & Romadhon, 2023).

$$\text{CRISK} = \frac{\text{Standar Deviasi EBITDA}}{\text{Total Assets}} \quad \text{…………………..………(6)}$$

RESULT AND DISCUSSION

Descriptive statistics are used to conduct data analysis through descriptions of data that have been collected according to the actual situation. Descriptive statistical testing shows the minimum value, maximum value, average value and standard deviation for each research variable.

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std Dev.
TA	170	0.00	8.45	0.43	0.893
KA	170	-0.67	0.37	-0.01	0.093
KK	170	0.86	10.66	3.03	1.674
HT	170	0.00	0.95	0.17	0.267
KE	170	0.01	0.50	0.12	0.075

Source: Research Data, 2024

TA = *Tax Avoidance*, KA = Conservatism Accounting, KK = Financial Distress, HT = Transfer Pricing, KE = *Executive Characteristics*

The descriptive statistical analysis was conducted on a sample of 170 companies across the study's variables. Based on the results obtained using EViews 13.0, as presented in Table 2, the dependent variable in this study is tax avoidance, proxied by the Cash Effective Tax Rate (CETR) (Y). The average CETR for Basic Industry and Chemical manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period is 0.43, indicating an increase of 43%, with a standard deviation of 0.893.

The accounting conservatism variable, proxied by CONACC, has an average value of -0.01, suggesting a decrease of 1%, with a standard deviation of 0.093. Financial distress, measured using the Altman Z-score, has an average value of 3.03, indicating an increase of 303%, with a standard deviation of 1.6741. The transfer pricing variable has an average value of 0.17, reflecting a 17% increase, with a standard deviation of 0.267. Meanwhile, executive characteristics, proxied by CRISK, have an average value of 0.12, indicating a 12% increase, with a standard deviation of 0.0756.

Before proceeding with the data analysis, this study conducted model selection tests to determine the most appropriate analytical framework.

Table 4. Model selection test

Test	Result	Decision
Chow Test	Prob. 0.007 < 0,05	FEM
Lagrange Multiplier Test	Prob. 0.011 < 0,05	REM
Hausman Test	Prob. 0.473 > 0,05	REM

Source: Research Data, 2024

The results of the model selection test, stated that the most appropriate model for this study is the *Random Effect model* (REM). Because the selected model is the *Random Effect model* that uses the *generalized least square* (GLS) method.

Table 4. Multiple Linear Regression Results

	Koef. Regression	t	Sig.
(Constant)	1.011	2.169	0.032
KA	-1.837	-1.876	0.063
KK	-0.238	-2.387	0.018
HT	0.174	0.293	0.770
KE*KA	10.291	1.030	0.307
KE* KK	2.980	3.191	0.002
KE*HT	-0.957	-0.285	0.776
F Statistic	2.990		
Sig. F	0.003		
R^2	0.096		

Source: Research Data, 2024

TA = *tax avoidance*, KA = Conservatism Accounting, KK = Financial Distress, HT = Transfer Pricing, KE = *Executive Characteristics*

The results for Hypothesis 1 (H1) indicate that accounting conservatism does not significantly affect tax avoidance, as evidenced by a significance value of 0.063, which exceeds the alpha threshold of 0.05. Consequently, the study fails to reject the null hypothesis (H_0). These findings are consistent with previous research by Yahya et al. (2023), Purwantini (2017), and Pramudito & Sari (2015). Some firms may adopt conservative accounting practices not as a means of tax avoidance but rather as a legitimate strategy to manage financial risk and ensure stability. Bornemann (2018) suggests that while accounting conservatism may increase tax avoidance in firms where managers have strong personal financial interests, it generally reflects a higher standard of financial oversight rather than an intentional effort to reduce tax liabilities.

A firm's commitment to providing clear, accurate, and non-misleading financial information to investors significantly influences its level of accounting conservatism. By prioritizing transparency, companies may report lower taxable income due to conservative financial reporting practices, thereby reducing tax obligations. However, conservative accounting is not necessarily a mechanism for tax avoidance, as suggested by Pramudito & Sari (2015). In contrast, studies by

Madia et al. (2023) and Saputra & Purwatiningsih (2022) demonstrate that accounting conservatism has a positive effect on tax avoidance. Managers who adhere to conservative accounting principles play a critical role in ensuring financial statement reliability, stock price stability, and profit management through stringent oversight.

For Hypothesis 2 (H2), the results show that financial distress negatively affects tax avoidance, with a significance value of 0.018, which is lower than the alpha threshold of 0.05. Therefore, the study rejects the null hypothesis (H_0). This finding aligns with research by Suyanto et al. (2022), Andika & Sukartha (2023), Julianty et al. (2023), Pratiwi & Djajanti (2022), and Nadhifah & Arif (2020), who suggest that financially distressed firms are less likely to engage in tax avoidance due to reputational risks. Companies experiencing financial distress may consider tax avoidance too risky, fearing detection by tax authorities, which could lead to financial penalties, increased scrutiny, or even liquidation.

Financial distress poses significant challenges for firms, requiring careful management to avoid exacerbating financial instability. Poorly executed financial strategies can worsen a company's condition and increase the likelihood of bankruptcy, a scenario that neither investors nor stakeholders desire. To mitigate these risks, distressed firms often seek the assistance of financial and tax consultants to navigate economic difficulties, maintain cash flow, and ensure business continuity.

For Hypothesis 3 (H3), the results indicate that transfer pricing has no significant effect on tax avoidance, as reflected in a significance value of 0.770, which exceeds the alpha threshold of 0.05. Consequently, the study fails to reject the null hypothesis (H_0). These findings are consistent with research by Rohmah & Romadhon (2023), Kalbuana et al. (2023), and Wardhana et al. (2024), who argue that government-imposed tax regulations limit the ability of firms to use transfer pricing as a tax avoidance strategy. Regulatory frameworks continuously evolve to prevent tax avoidance through transfer pricing mechanisms, compelling firms to engage in legitimate pricing practices.

Furthermore, the anti-tax avoidance measures embedded within Indonesia's Income Tax Law, including provisions related to transfer pricing and controlled foreign corporations (CFCs), remain relatively underdeveloped. Consequently, multinational corporations may still exploit transfer pricing strategies to shift profits and minimize tax liabilities. However, the findings of this study suggest that, within the examined sample, transfer pricing does not significantly impact tax avoidance.

For Hypothesis 4 (H4), the results indicate that executive characteristics do not moderate the relationship between accounting conservatism and tax avoidance, with a significance value of 0.307, which is greater than the alpha threshold of 0.05. Therefore, the study fails to reject the null hypothesis (H_0). These findings are in line with Pratiwi & Djajanti (2022), who argue that accounting conservatism is not necessarily a driver of tax avoidance, particularly among risk-averse executives who prioritize financial stability over aggressive tax strategies.

Accounting conservatism emphasizes caution and accuracy in financial reporting, requiring managers to defer income recognition while accounting for potential losses. According to Adi & Mildawati (2018), executives adhering to conservative accounting principles are less likely to engage in tax avoidance, as they prefer financial prudence over risk-taking behavior. Executive decision-making plays a critical role in shaping corporate tax strategies, and risk-averse leaders are generally more inclined toward compliance rather than aggressive tax planning.

For Hypothesis 5 (H5), the findings reveal that executive characteristics significantly moderate the relationship between financial distress and tax avoidance, as indicated by a significance value of 0.002, which is below the alpha threshold of 0.05. Therefore, the study rejects the null hypothesis (H_0). These results support prior research by Rohmah & Romadhon (2023) and Pratiwi & Djajanti (2022), which suggests that executive decision-making plays a crucial role in tax strategies, particularly during periods of financial distress.

Executives with either risk-taking or risk-averse tendencies respond differently to financial distress. Risk-taking executives may view tax avoidance as a strategic tool to preserve cash flow and sustain business operations, particularly when the company faces financial difficulties. Conversely, risk-averse executives may avoid tax avoidance due to concerns over potential penalties and reputational damage. Additionally, financial statement analysis, particularly assessments of a company's going concern status, is essential in determining financial health. Executives with risk-taking tendencies are more likely to engage in tax avoidance during periods of financial distress, as they seek to minimize financial obligations and reallocate resources to sustain operations (Fadhila & Andayani, 2022).

For Hypothesis 6 (H6), the results indicate that executive characteristics do not moderate the relationship between transfer pricing and tax avoidance, with a significance value of 0.776, which is greater than the alpha threshold of 0.05. Therefore, the study fails to reject the null hypothesis (H_0). These findings are consistent with the research of Rohmah & Romadhon (2023), who suggest that regulatory measures imposed by Indonesia's Directorate General of Taxes have effectively limited tax avoidance opportunities through transfer pricing.

Strengthened tax regulations have made it increasingly difficult for risk-taking executives to exploit transfer pricing for tax avoidance purposes. Instead, companies may use transfer pricing as a strategy to lower production costs and improve competitiveness rather than for tax-related motives. In financially distressed companies, tax avoidance is perceived as too risky, as it could expose managers to sanctions, further exacerbating the firm's financial instability. Furthermore, risk-averse executives tend to avoid tax avoidance strategies altogether, recognizing that improper financial management during distress can worsen corporate performance and heighten the risk of bankruptcy.

CONCLUSION

This study provides empirical evidence that financial distress negatively affects tax avoidance. Additionally, executive characteristics moderate the relationship between financial distress and tax avoidance. Companies facing financial distress often perceive tax avoidance as a high-risk strategy that could jeopardize managerial positions if detected by tax authorities. The potential for financial penalties and increased scrutiny may further strain a company's financial condition, increasing the likelihood of liquidation. However, executives' risk profiles influence their approach to financial distress—while risk-taking executives may engage in tax avoidance to sustain business operations, risk-averse executives may prioritize compliance and financial stability.

The findings also reveal that accounting conservatism and transfer pricing do not significantly impact tax avoidance. Companies that adopt accounting conservatism tend to exercise greater caution in financial reporting, reducing the likelihood of engaging in tax avoidance activities. Furthermore, the government continually revises tax regulations to prevent companies from using transfer pricing as a tax avoidance mechanism. The study also finds that executive characteristics do not moderate the relationships between accounting conservatism, transfer pricing, and tax avoidance. Risk-averse executives generally avoid aggressive tax strategies, while regulatory improvements by the Directorate General of Taxes have further constrained opportunities for tax avoidance through transfer pricing.

These findings have important implications for investors, as taxation represents a significant financial risk that can directly affect investor welfare. Additionally, the study's R^2 test results indicate that the examined variables explain only 9.6% of the variance in tax avoidance, suggesting that 90.4% is influenced by other factors beyond the scope of this research. Future studies are encouraged to incorporate additional variables, such as capital intensity, and to expand the research sample to include financial firms or companies listed on stock exchanges outside Indonesia. A broader and more diverse dataset could enhance the generalizability and robustness of future research findings.

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