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The Effect of Tax Incentives, Financial Distress and Leverage on Accounting Conservatism

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ABSTRACT
This study aims to provide empirical evidence of the effects of Tax Incentives, Financial Distress, and Leverage on Accounting Conservatism. This type of research is quantitative. The population in this study is manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2017-2021. The sample used in this study took 175 data from 35 manufacturing companies listed on the Indonesia Stock Exchange. The data analysis technique in this study used the classical assumption test, multiple linear regression analysis, and hypothesis testing with the help of the Statistical Package For Social Sciences (SPSS) version 22 program. Based on the test result,s it was found that partially Financial Distress and leverage did not significantly affect Accounting Conservatism. In contrast, tax incentives had a significant influence on Accounting Conservatism. Simultaneously Tax Incentives, Financial Distress and Leverage affect Accounting Conservatism. The research findings provide practitioners, internal (managers and business owners, both local and multinational organizations), and external (policymakers, foreign investors) new insights into applying conservative accounting policies, which are influenced by various factors.

Keywords: *Tax Incentive, Financial distress, Leverage, Accounting conservatism.*

1. INTRODUCTION

There is a phenomenon related to the need for more attention to the principle of accounting conservatism, namely at PT Garam (Persero), the disclosure of the misuse of imported salt into consumption salt in Gresik, allegedly involving many ministries. It is because PT Garam (Persero) has to obtain approval from the Ministry of Trade and Maritime Affairs and Fisheries (KKP). To obtain a tax incentive in the form of an exemption from tax imposition, on February 13, 2017, PT Garam applied for a consumption salt import permit to the KKP for 226,000 tons for January to June 2017. Furthermore, on February 27, 2017, the KKP, through the Director General of Marine Management, granted an import permit for salt consumption for the first period reaching 75,000 tons of salt with an import entry fee of consumption salt of 10 percent. However, the approval for the import of salt consumption still needs to be implemented by PT Garam. Then, PT Garam proposed changing the import of industrial salt to salt consumption with Na-CL specifications above 97 percent. It shows that the change in salt consumption in this industry is to avoid an entry fee tax of 10 percent. The total loss for the entry fee is Rp 3.5 billion.

The level of financial distress is why PT Garam avoids the 10 percent entrance fee tax. On that basis, the Director General of Foreign Affairs issued an import approval letter different from the KKP's recommendations, with specifications for Na-CL above 97 percent or less than 99 percent with HS Code 2501 0092. There are elements of corruption and money laundering suspected here. It shows that

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the level of corporate debt affects the misuse of imported salt into consumption salt. Inspector General, Setya, said that the import price of consumption and industrial salt differed significantly. The price of industrial salt is between IDR 800 and IDR 1,200 per kilogram. Meanwhile, industrial salt is only IDR 400 per kilogram. (www.tribunnews.com, June 2017).

Several studies have discussed the effect of tax incentives, financial distress, and leverage on accounting conservatism, including research conducted by Marselah (2017) conducted research on the effect of financial distress, company size, and leverage on accounting conservatism. This study states that financial distress, firm size, and leverage significantly affect accounting conservatism. Quljanah, Nuraina, et al. (2017) researched the effect of growth opportunity and leverage on accounting conservatism in manufacturing companies on the IDX. This research states that growth opportunity and leverage simultaneously affect accounting conservatism.

Sari (2016) researched the effect of tax incentives on accounting conservatism with tax planning as a moderating variable in empirical studies on manufacturing companies listed on the IDX. This study states that tax incentives have a significant positive effect on accounting conservatism. Meanwhile, tax planning influences simultaneously and can weaken the relationship between tax incentives and accounting conservatism. Aris (2016) researched the effect of tax incentives, debt levels, and company size on accounting conservatism. This study states that tax incentives significantly adversely affect accounting conservatism. Meanwhile, debt level and company size do not significantly affect accounting conservatism.

Munajat (2015) researched the effect of leverage and financial distress on accounting conservatism in Bakrie companies listed on the IDX for the 2009-2013 period. This study states that leverage has no positive effect on accounting conservatism. Meanwhile, financial distress has no adverse effect on accounting conservatism. Apriani (2015) researched the influence of factors influencing accounting conservatism in manufacturing companies on the IDX for the period 2008-2011. This study states that tax incentives affect accounting conservatism. Meanwhile, the level of debt and political costs do not affect accounting conservatism. Handayani, Darmayanti et. al. (2015) researched the effect of tax incentives and non-tax factors on accounting conservatism in manufacturing companies listed on the IDX. This study states that tax incentives, leverage, and size significantly affect accounting conservatism. Meanwhile, earning pressure and earning bath have no significant effect on accounting conservatism.

Dewi and Suryanawa (2014) researched the effect of managerial ownership structure, leverage, and financial distress on accounting conservatism. This study states that managerial ownership structure and leverage have a significant positive effect on accounting conservatism. Meanwhile, financial distress hurts accounting conservatism. The consideration for choosing the object of this research is manufacturing companies, namely the tendency of manufacturing companies to take advantage of tax incentive policies, especially related to the products they produce. In addition, many companies of this type experience a decline in financial performance due to competitor factors and manufacturing company factors in managing their debts in the framework of business expansion. These things become a phenomenon that occurs in manufacturing companies. Brilliant (2013) researched the effect of managerial ownership, institutional ownership, leverage, and audit committees on accounting conservatism. This study states that managerial ownership, institutional ownership, leverage, and audit committees simultaneously influence accounting conservatism.

The distinction of this research from previous research, such as research conducted by Kiki Marselah (2017), which examined the effect of financial distress, company size, and leverage on accounting conservatism in mining companies listed on the IDX for the period 2010-2016, is that this study discusses the effect of tax incentives, financial distress, and leverage on accounting conservatism in manufacturing companies on the IDX. The difference between this research and previous research lies in the examined object, namely

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manufacturing companies on the IDX, whereas previous studies used mining companies on the IDX. This research also adds the independent variable, namely tax incentives, while the previous research used company size as the independent variable.

2. LITERATURE REVIEW

A conflict of interest between principals as shareholders and agents as managers gives birth to agency theory. The principal hires an agent to administer the company's resources by providing funding facilities for its operations. The agent is responsible for managing the company's sources of funds to increase the company's value and for being accountable for the tasks assigned to him. The principal must compensate the agent for the tasks entrusted to Widayati (2011); and (Sari, 2016). This theory assumes effort and environmental conditions determine work productivity and organizational effectiveness. This theory implies that the principal is risk-neutral while the agent is averse to effort and risk. It frequently occurs because agents have a greater understanding of the company. It creates informational gaps or asymmetry, preventing the principal from determining optimal efforts for the agent (Lubis, 2010).

The problem-solving characteristics of positive accounting theory adapted to the realities of accounting practice. Positive accounting theory employs an economic and behavioral approach. The objective of positive accounting theory is to explain and forecast accounting practice. Positive accounting theory attempts to explain a procedure that employs accounting skills, understanding, knowledge, and accounting policies most suitable for dealing with future circumstances. According to positive accounting theory, accounting theory explains and predicts accounting practices. Accounting policymakers can use positive accounting theory to determine the consequences of these policies (Hery, 2011).

According to the positive accounting theory, managers will reduce the level of accounting conservatism if a company experiences severe financial distress. Due to their inability to manage the company effectively, financial distress can motivate shareholders to replace company management. It will be possible to incentivize managers to change profit, which is one of the success measures for managers, by adjusting the degree of accounting conservatism (Noviantari & Ratnadi, 2015).

Taxes are contributions imposed by the authorities or government on taxpayers based on laws that finance the authorities' or government's requirements. According to Law No. 16 of 2009, concerning the fourth amendment to Law No. 6 of 1983, concerning General Provisions and Tax Procedures, article 1, paragraph 1 states that tax is a mandatory contribution to the state owed by individuals or entities that are compelled by law, without receiving direct compensation, and used for the state's needs for the greatest prosperity of the people (Mardiasmo, 2016). According to these definitions, the inherent characteristics of the tax concept are as follows: The collection of taxes is governed by statutes and implementing regulations. State, central, and local taxes intend for government expenditures; if there is a surplus, they fund public investment. In addition to the water budget, taxes may also serve the regulatory function.

The official definition of conservatism can be found in the Glossary of Concept Statements No. 2 of the FASB (Financial Accounting Statement Board), the private organization responsible for establishing accounting standards in the United States today, which was established in 1973 to define this concept of conservatism: when a loss occurs, all losses. The profit will be recognized even if it is still unrealized, but the deferred profit will not be recognized when realized (Hery, 2011).

In terms of taxation, tax incentives, or what the Indonesian tax code refers to as tax facilities, can be interpreted as government-provided convenience or alleviation. The granting of income tax facilities stipulated in Government Regulation Number 148 in the year 2000 is not limited to new investments in specific fields or areas. However, it also allows expanding capital invested in specific fields or areas. However, it does not include a capital

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deposit in the form of existing assets. It is used for business in Indonesia and abroad or to purchase fixed assets (Waluyo. 2017).

Incentives are incentives presented to employees to perform work to predetermined standards or higher. The tax incentive implies that taxpayers are offered an incentive in the expectation that they will be motivated to comply with tax provisions. Tax incentives include tax exemption (tax holiday) and tax reductions (tax allowance). The PPh Law No. 36 of 2008 reduces the PPh tariff for corporate taxpayers. The purpose of reducing PPh rates is to adjust to the relatively lower PPh rates in neighboring countries, increase domestic competitiveness, reduce the tax burden, and increase taxpayer compliance. Initially composed of three strata (10%, 15%, and 30%), the PPh rate became a single rate of 28% in 2009 and 25% in 2010. Tax planning is a step taxpayers take to reduce their tax burden in current and future years to reduce taxes paid as effectively and lawfully as possible (Wijaya & Martani, 2011).

Leverage refers to the use of assets and sources of funds by companies that incur fixed costs due to using these assets or funds. Loans and personal funds are potential funding sources (Kasmir, 2015). According to Sulistiyowati et al. (2010), leverage is the company's ability to use funds with a fixed obligation to increase the level of income for company proprietors. According to the abovementioned definition, leverage is a company's ability to use its assets and sources of funds when these assets and sources have fixed costs or expenditures.

Typically, leverage ratios depend on the organization's objectives. It implies that companies can utilize the leverage ratio entirely or in part from each leverage ratio type. The ratio as a whole refers to the type of ratio owned by the company. Using some ratios, on the other hand, indicates that the business only employs those ratios that seem essential to understanding. Operating leverage is leverage resulting from investment decisions related to the use of fixed assets, while financial leverage is leverage resulting from decisions to fund using debt. Thus, the use of leverage will increase shareholder profits and may also increase the risk associated with profits. However, leverage will reduce shareholder profits if the company's profit is less than its fixed expenses.

Accounting conservatism motivations can be addressed using positive accounting theory. This theory concentrates on a procedure that employs the ability, understanding, and knowledge of accounting and the most suitable application of accounting policies to deal with future circumstances. According to positive accounting theory, accounting theory seeks to explain and predict accounting practice or what happens and why. Positive accounting theory can provide accounting policymakers with guidelines for determining the consequences of accounting policies (Hery, 2011). Sari (2016) researched the impact of tax incentives on accounting conservatism, with tax planning as a moderating variable in empirical studies of IDX-listed manufacturing companies. According to this study, tax incentives substantially positively influence accounting conservatism. In the meantime, tax planning simultaneously influences and can diminish the connection between tax incentives and accounting conservatism. Consequently, the researcher proposed the following hypothesis:

H_1: Tax incentives affects accounting conservatism.

From the agency theory perspective, the principal (company owner) desires good performance from the agent (company management) following the provided and agreed-upon contract; consequently, management strives to demonstrate good performance, including financial performance. The origin of agency theory is a conflict of interest between principals as shareholders and agents as administrators. The principal hires an agent to administer the company's resources by providing funding facilities for its operations. The agent must manage the company's sources of funds to increase the company's value and be accountable for the tasks assigned to him. Principals are required to compensate agents for work performed on their behalf Widayati (2011); Sari (2016). Marselah (2017) researched the relationship between financial distress, company scale, leverage, and accounting conservatism. According to this

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study, financial distress, firm scale, and leverage substantially impact accounting conservatism. Therefore, the recommended hypothesis is as follows:

H_2: Financial distress affects accounting conservatism.

From the perspective of positive accounting theory, there is a procedure that employs the ability, comprehension, and knowledge of accounting and the most suitable application of accounting policies to deal with future conditions. Positive accounting theory assumes that accounting theory seeks to explain and predict accounting practice or what happens and why. Positive accounting theory can provide accounting policymakers with guidelines for determining the consequences of accounting policies (Hery, 2011). Leverage refers to the use of assets and sources of funds by companies that incur fixed costs due to using these assets or funds. Loans and personal funds are potential funding sources (Kasmir, 2015). According to Sulistiyowati et al. (2010), leverage is a company's capacity to use funds with fixed costs to increase its owners' income. Marselah (2017) researched the relationship between financial distress, company scale, leverage, and accounting conservatism. According to this study, financial distress, firm scale, and leverage substantially impact accounting conservatism. Consequently, the researcher proposed the following hypothesis:

H_3: Leverage affects accounting conservatism.

3. RESEARCH METHOD

The data type used in this study is quantitative, and the data source is secondary. The quantitative research method is a type of research whose specifications are systematic, planned, and structured from the start to the creation of the research design.

3.1. Data Collection Techniques

To obtain data for the issues being investigated in this study, the authors retrieved data from the financial statements of companies listed on the Indonesia Stock Exchange, which has nine sectors, one of which is the Consumer Goods Industry, which can be downloaded at the following link: www.idx.co.id.

3.2 Operational Definitions of Variables

Table 1: Variable Measurement

Variable	Measurement
Accounting Conservatism	$CONNAC = \frac{(NIO + DEP - CFO \times (-1)}{TA}$
Tax Incentives	$TI = \frac{Tax\ Rate \times (PTI - CTE)}{TA}$
Financial Distress	$Z = 1{,}21X1 + 1{,}4X2 + 3{,}3X3 + 0{,}6X4 + 1{,}0X5$
Leverage	$DAR = \frac{Total\ Debt}{Total\ Assets}$

3.2. Sample Collection Techniques

The population in this study were all manufacturing companies on the Indonesian stock exchange. The selection of the research sample was based on the purposive sampling technique. Sugiyono (2018) states that purposive sampling is a sampling technique with specific considerations. The criteria used to select the sample are as follows:

Table 2: Sample Selection

Description	No Of Companies
Listed on the Indonesia Stock Exchange (IDX) as of December, 31 2021	144
Companies using IDR as reporting currency for 2017-2021	(28)
the company suffered no losses during 2017-2021	(29)
Complete data available in the financial reports for 2017 – 2021.	(52)
Number of research samples	35
Total sample data for research five years	175

3.3. Data Analysis Techniques

The dependent variable (Y) in this study is accounting conservatism. Independent

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variables include Tax incentives, financial distress, and Leverage. The descriptive statistical test uses the Statistical Product and Service Solution for Windows version 22.0 (SPSS version 22) program. The classical assumption test ensures that the sample under study is free from multicollinearity, normality, autocorrelation, and heteroscedasticity (Ghozali, 2016). Multiple linear regression analysis is a test used to determine the effect of the independent variables on the dependent variable. All data were analyzed using (SPSS).

The multiple regression analysis equations are:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + e$$

Where:

Y = Accounting Conservatism
α = Constant
β1 = Coefficients
X1 = Tax Incentives
X2 = Financial Distress
X3 = Leverage
e = error

4. RESULTS AND DISCUSSIONS

4.1. Results

Table 3: Statistic Descriptive

Variables	Mean	Standard Deviation	Min	Max
Accounting Conservatism	-0.0173	0.96451	-3.35	3.24
Tax Incentives	-0.0858	0.88333	-1.40	2.46
Financial Distress	-0.0581	0.90191	-2.42	2.10
Leverage	-0.0237	0.89095	-1.81	1.72

Source: Proceed by E-views, 2022

Table 3 describes the descriptive statistics for the data for each variable in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2017-2021 after processing, which was obtained from 175 complete observational data for research purposes which include minimum values, maximum values, average values the mean (mean), and the standard deviation of each variable. The minimum value describes the smallest value from the results of data processing and analysis that has been carried out. The maximum value describes the most significant value. The mean shows the average value of each variable. Meanwhile, the standard deviation is statistical data used to determine how the data is distributed in the sample and how close the data points are to the mean sample value.

The Tax Incentive variable has a mean value of -0.0858 and a standard deviation of 0.8833. It means that the mean value is smaller than the standard deviation, thus identifying the results as undesirable. Because the standard deviation is a very high reflection, the data spread shows abnormal results and causes bias. The minimum value of the Tax Incentive is -1.40, and the maximum value is 2.46. The results of these data show that tax incentives experience relatively minor fluctuations.

The Financial Distress variable has a mean value of -0.0581 and a standard deviation of 0.90191. It means that the mean value is smaller than the standard deviation, thus identifying the results as undesirable. Because the standard deviation is a very high reflection, the data spread shows abnormal results and causes bias. The minimum value of Financial Distress is -2.42, and the maximum value is 2.10. The results of these data show that Financial Distress experienced not too large fluctuations.

The Leverage variable has a mean value of -0.0237 and a standard deviation of 0.89095. It means that the mean value is smaller than the standard deviation, thus identifying the results as undesirable. Because the standard deviation is a very high reflection, the data spread shows abnormal results and causes bias. The minimum Leverage value is -1.81, and the maximum value is 1.72. The results of these data indicate that leverage has mostly stayed the same.

The conservatism variable has a mean value of -0.0173 and a standard deviation of 0.96451. It means that the mean value is smaller than the standard deviation, thus identifying the results

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as undesirable. Because the standard deviation is a very high reflection, the data spread shows abnormal results and causes bias. The minimum value of conservatism is -3.35, and the maximum value is 3.24. The results of these data indicate that conservatism has mostly stayed the same.

Figure 1: Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		125
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,91716110
Most Extreme Differences	Absolute	,042
	Positive	,036
	Negative	-,042
Test Statistic		,042
Asymp. Sig. (2-tailed)		,200[c,d]

Source: Proceed by E-views, 2022

Based on figure 1, the Kolmogorov-Smirnov (K-S) test results show that the data is normally distributed. It can be seen from the significance level of 0.200 and the value above α = Ha is rejected. The data is normally distributed, so this research model meets the classic assumption test of normality.

Table 4: Multicollinearity test

Variables	Coefficient Variance	Tolerance	Centered VIF
Tax Incentives	0.294	0.484	2.066
Financial Distress	0.118	0.417	2.397
Leverage	0.141	0.511	1.956

Source: Proceed by E-views, 2022

Based on table 4 above, it can be seen that the data in this study did not contain multicollinearity, or there was no relationship between the independent variables in this study. This can be seen from the VIF (Variance Inflation Factor) value of all variables in the range of 1 to 10, namely the tax incentive variable of 2.066, the financial distress variable of 2.397, and the Leverage variable of 1.956. In addition, the tolerance value for each variable is less than 1. The tax incentive variable is 0.484. The financial distress variable is 0.417. The leverage variable is 0.511. Thus, there is no multicollinearity problem in this study.

Table 5: Regression test

Variables	Coefficient	Sig.
Tax Incentives	0.321	0.020
Financial Distress	0.126	0.380
Leverage	0.153	0.246
R-square	0.260364	
Prob(F-statistic)	0.007	
Observations	175	

Source: Proceed by E-views, 2022

4.2. Discussion

Based on table 5, the results of the H1 hypothesis show that the tax incentive variable

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affects accounting conservatism. It can be seen from table 4.8 that the beta coefficient is 0.321 with a significance level of 0.020. This significant level is less than 0.05, which means that H1 is accepted, so it can be said that tax incentives affect accounting conservatism. The results of this study indicate that the level of use of tax incentives in a company affects the level of accounting conservatism of a company. It is because income taxes have long been associated with corporate profits and consequently affect the calculation of corporate income statements. The accounting method for reporting is still influenced by income tax. A delay in recognizing revenue and accelerating expense recognition will delay tax payments. So that the bigger the company is, the greater the government's attention to the company is and the more likely it is for the company to carry out tax planning to maximize company profits. The results of this study also support the research by Sari (2016), Aris (2016), and Handayani et al. (2015) that by reducing the tax rate imposed by the government, company managers seek to maximize firm value by minimizing the tax burden.

Based on table 5, the results of the H2 hypothesis show that the financial distress variable does not affect accounting conservatism. It can be seen from table 4.8 that it shows a beta coefficient of 0.126 with a significance level of 0.380. This significant level is greater than 0.05, which means H2 is rejected, so it can be said that financial distress has no significant effect on accounting conservatism. This study's results indicate that positive accounting theory cannot influence financial distress. One of the causes of a company's declining or problematic financial condition is the poor quality of managers. In contrast, the financial statements want to see the prospects and risks of the company. Prospects can be seen from the benefits, and risks can be seen from the level of possibility of the company experiencing financial difficulties. Reporting based on prudence will provide the best benefits for all users of financial statements. So that financial difficulties can be predicted and handled before they hurt the company's future because companies usually have uncertain events. The results of this study also support Munajat (2015) and Marselah (2017), who found no significant effect on the application of accounting conservatism. However, this differs from Dewi and Suryanawa's (2014) research that financial distress affects conservatism.

Based on table 5, the results of the H3 hypothesis show that the leverage variable does not affect accounting conservatism. It can be seen from table 4.8 that the beta coefficient is 0.153 with a significance level of 0.246. The significant level is greater than 0.05, which means that H2 is rejected, so it can be said that leverage has no significant positive effect on accounting conservatism. The results of this study indicate that leverage has no significant positive effect on accounting conservatism. It is contrary to positive accounting theory. Because conservatism is a non-discretionary or management policy that does not affect the company's operational activities, companies want to show good performance to lenders to get long-term debt. Lenders can feel confident that the funds provided will be guaranteed. Therefore, companies carry out financial reporting in an optimistic or less conservative manner by increasing the value of assets and profits as high as possible and reducing liabilities and expenses. It is done so that the lender can feel confident and provide loan funds to the company. Accounting conservatism is applied regardless of the level of corporate debt. The results of this study support Munajat (2015) and Aris (2016), who did not find the effect of leverage on accounting conservatism principles.

5. CONCLUSIONS

This study aims to determine the effect of tax incentives, financial distress, and leverage on accounting conservatism in money manufacturing companies listed on the Indonesia Stock Exchange from 2017-2021 using the SPSS 22 application program. The results show that the tax incentive variable significantly affects accounting conservatism. It shows that reducing tax rates imposed by the government can maximize managers in

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minimizing the tax burden on companies by using the principle of accounting conservatism. The results show that the financial distress variable has no effect on accounting conservatism. It shows that financial distress cannot be influenced by positive accounting theory. One of the causes of a company's declining or problematic financial condition is the poor quality of managers. The results show that the leverage variable has no significant effect on accounting conservatism. It is contrary to positive accounting theory. Because conservatism is a non-discretionary or management policy that does not affect the company's operational activities, accounting conservatism is applied regardless of the level of corporate debt. The results show that the variables of tax incentives, financial distress, and leverage simultaneously affect accounting conservatism.

The researcher realizes that this research still has some limitations that need improvement in further studies. Due to limited funds and time, the company's financial report data is obtained online through the official IDX website without looking directly at the operating company. This study explains the effect of tax incentives, financial distress, and leverage on manufacturing companies' accounting conservatism in 2017 – 2021. Researchers used four variables: tax incentives, financial distress, leverage, and accounting conservatism.

From the results of the research and the limitations of this study, suggestions that researchers can give for future researchers they can conduct research with populations, not only manufacturing companies. The next researcher can increase the research period to more than five years. Future researchers can add other independent variables that can affect accounting conservatism. Companies can take advantage of the provision of tax incentives from the government as well as possible to save the company's expenses in paying taxes with the principle of accounting conservatism. The government can make better programs or other facilities in terms of taxation to attract corporate taxpayers to increase the amount of state tax revenue.

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