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The Effect of Liquidity and Profitability on Tax Avoidance: The Moderating Role of Green Accounting

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Abstract

Purpose: This study aims to examine the effect of liquidity, solvency, and profitability on tax avoidance and to analyze the moderating role of Green Accounting in the relationship between financial performance indicators and tax avoidance among companies listed on the Indonesia Stock Exchange (IDX).

Research Methodology: This study uses a quantitative approach with secondary data from basic materials sector companies listed on the IDX during 2020–2024. The data were analyzed using multiple regression and moderated regression analysis based on 75 firm-year observations.

Results: The findings indicate that liquidity has a positive and significant effect on tax avoidance, while profitability has a negative and significant effect. Solvency does not significantly influence tax avoidance. Furthermore, Green Accounting significantly weakens the effects of liquidity and profitability on tax avoidance but does not moderate the relationship between solvency and tax avoidance. The moderated model demonstrates higher explanatory power with an Adjusted R^2 value of 70.1%.

Conclusions: Green Accounting plays an important role in encouraging corporate transparency and reducing aggressive tax avoidance behavior by integrating environmental responsibility into financial decision-making.

Limitations: This study is limited to basic materials sector companies, a five-year observation period, and the use of PROPER scores as a proxy for Green Accounting.

Contributions: This research contributes by expanding tax avoidance literature through the integration of environmental accounting perspectives and providing insights for companies, regulators, and investors regarding the role of sustainable accounting practices in shaping responsible tax strategies.

Keywords: *Green Accounting, Liquidity, Profitability, Solvency, Tax Avoidance*

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1. Introduction

Tax avoidance remains an important issue in corporate financial management because it reflects the relationship between corporate objectives, regulatory compliance, and stakeholder expectations. Companies generally seek to maximize profitability and shareholder value; however, they are also required to fulfill tax obligations as part of their contribution to economic development. Tax avoidance refers to legal strategies used by companies to minimize tax liabilities by utilizing available regulations without violating applicable laws (Pohan, 2023). Although tax avoidance is considered a legal practice, excessive tax planning may create concerns regarding corporate transparency, fairness, and social responsibility. Therefore, identifying factors that influence tax avoidance behavior is important for understanding how companies balance financial objectives and regulatory responsibilities.

Environmental sustainability has increasingly influenced corporate decision-making, encouraging firms to integrate environmental considerations into their accounting and reporting systems. Green Accounting has become an important approach because it incorporates environmental costs into financial measurement, reporting, and managerial decisions (Hossain, & Hasan, 2024; Amru, Yuliyani, Nuralfina, & Anwar, 2024). Through Green Accounting, companies can identify environmental expenditures, evaluate resource efficiency, and improve transparency regarding sustainability activities. Environmental degradation caused by industrial activities, population growth, and climate change has further increased the demand for companies to balance economic performance with environmental responsibility (Yusuf, Febrian, Sinta, Juminawati, Kutoyo, Simbolon, Jumawan, Widjaja, Zen, Rajab, Supardi, Soesilo, Nuraeni, Susanto, Prayoga, Tahir, Irzani, Suryawan, Pratikno, & Safariningsih, 2023; Wulandari, Divara, Ananta, Yovita, & Pandin, 2024). Thus, Green Accounting may influence corporate behavior, including decisions related to taxation.

Financial performance indicators such as liquidity, solvency, and profitability represent important factors that may determine corporate tax strategies. Liquidity reflects the ability of a company to fulfill short-term obligations using current assets such as cash, receivables, and inventories (Yeo, 2022; Sutrisno, 2024). Companies with high liquidity generally have stronger financial flexibility, allowing managers to allocate resources more strategically, including through tax planning activities. Previous studies indicate that firms with higher liquidity may have greater opportunities to implement tax avoidance strategies because they possess sufficient internal resources to manage tax obligations effectively (Abdullah, 2020; Widati, Asiah, Kamela, & Hidayat, 2024; Chen, Ge, Louis, & Zolotoy, 2019).

Solvency represents a company's ability to meet long-term financial obligations and is commonly measured through capital structure indicators such as the Debt-to-Equity Ratio (DER) (Rumbi, Syamsuddin, & Pontoh, 2024; Blessing, & Sakouvogui, 2023; Kusumadewi, Saputri, & Yuniarto, 2023). A higher solvency level indicates stronger financial capacity and may provide companies with greater opportunities to develop strategic financial policies, including tax planning. Companies with sufficient financial resources may utilize various legal mechanisms to optimize tax payments (Wanda & Halimatusadiah, 2021). However, previous findings regarding the relationship between solvency and tax avoidance remain inconsistent. Some studies demonstrate a significant relationship between solvency and tax avoidance, while others indicate that solvency does not determine corporate tax decisions (Rumbi et al., 2024).

Profitability is another important determinant because it reflects a company's ability to generate earnings from its operational activities (Rataj, Alcorta, Raes, Yilmaz, Riccardo, & Sansini, 2024). Companies with high profitability may face greater tax burdens due to increased taxable income, which may encourage managers to implement tax planning strategies to maximize retained earnings. Previous studies have suggested that profitable companies tend to engage in tax avoidance because they have stronger incentives to reduce tax expenses and improve financial performance (Tanjaya & Nazir, 2021). However, highly profitable companies may also experience greater monitoring from investors, regulators, and stakeholders, which can encourage compliance and responsible financial reporting. These different perspectives indicate that the relationship between profitability and tax avoidance remains an empirical issue requiring further investigation.

The relationship between financial performance and tax avoidance may also be influenced by corporate sustainability practices. Green Accounting provides a mechanism for improving transparency and accountability by integrating environmental costs into corporate financial information (Syahputra, 2024; Amru et al., 2024). Companies implementing Green Accounting may prioritize sustainable investments, environmental compliance, and responsible business practices, which may reduce incentives for aggressive tax avoidance. Furthermore, environmental expenditures reported through Green Accounting can support legitimate tax planning strategies while simultaneously strengthening corporate reputation and stakeholder trust (Wulandari et al., 2024). Therefore, Green Accounting may serve as an important moderating factor that changes the strength of the relationship between financial performance and tax avoidance.

Previous studies have produced mixed findings regarding the relationship between financial indicators, Green Accounting, and tax avoidance. Several studies found that liquidity, profitability, and solvency significantly influence tax avoidance behavior (Rumbi et al., 2024; Putri, & Digdowiseiso, 2023), while other studies reported insignificant relationships among these variables (Putri, Sembiring, & Nasihin, 2024). Similarly, research regarding Green Accounting shows inconsistent results, with some studies indicating that Green Accounting influences corporate tax behavior, while others suggest that its direct effect remains limited (Ivanda, Orbaningsih, & Muawanah, 2024). These differences indicate the need for further investigation, particularly regarding the moderating role of Green Accounting.

The research gap addressed in this study is the limited examination of Green Accounting as a moderating variable in the relationship between financial performance indicators and tax avoidance. Previous studies have generally analyzed liquidity, solvency, and profitability as independent determinants of tax avoidance without considering how sustainability-oriented accounting practices may influence these relationships. This study extends previous research by integrating Green Accounting as a moderating mechanism, providing a broader perspective that combines financial decision-making with environmental accountability.

The basic materials sector listed on the Indonesia Stock Exchange (IDX) provides a relevant research context because companies in this sector are closely associated with natural resource utilization and environmental impacts. These companies face increasing expectations from regulators, investors, and society to implement environmentally responsible practices while maintaining financial performance. The implementation of Green Accounting in this sector may therefore influence how companies manage financial resources and tax strategies. Based on the theoretical and empirical background, this study aims to analyze the effects of liquidity, solvency, and profitability on tax avoidance and examine the moderating role of Green Accounting among basic materials sector companies listed on the Indonesia Stock Exchange during 2020–2024. This research contributes theoretically by expanding tax avoidance literature through the integration of sustainability accounting perspectives. Practically, the findings provide insights for companies, investors, and policymakers regarding the importance of balancing financial performance, tax responsibility, and environmental sustainability.

2. Literature Review and Hypothesis/es Development

2.1 Liquidity

Liquidity represents a company's ability to fulfill short-term financial obligations using its available current assets, including cash, accounts receivable, and inventories (Yeo, 2022; Sutrisno, 2024). A high liquidity ratio indicates that a company possesses sufficient financial resources to meet operational needs and maintain business continuity without experiencing significant financial pressure. In financial management, liquidity is not only associated with the ability to pay obligations but also reflects managerial flexibility in allocating corporate resources. From the perspective of tax management, liquidity may influence managerial decisions regarding tax payments and financial strategies. Companies with strong liquidity conditions generally have greater cash availability, which provides opportunities for management to implement various financial policies, including tax planning strategies. High liquidity allows firms to manage cash flows more efficiently and potentially reduce tax burdens through legally permitted tax avoidance practices (Abdullah, 2020; Hidayati, Kusbandiyah, Pramono, & Pandansari, 2021; Niariana, & Anggraeni, 2022). Companies with limited liquidity, in contrast, may prioritize maintaining operational cash availability rather than engaging in complex tax planning activities.

The relationship between liquidity and tax avoidance can also be explained through agency theory. Managers are expected to maximize shareholder value by efficiently managing company resources. When companies have excess liquidity, managers may seek strategies that increase after-tax earnings, including reducing tax expenses through tax planning activities. Therefore, firms with higher liquidity may have stronger incentives and capabilities to engage in tax avoidance. Previous empirical studies provide evidence supporting this relationship. Abdullah (2020) found that liquidity influences tax avoidance because companies with stronger financial positions have greater flexibility in managing their tax obligations. Similarly, Afifah, & Madjid, 2025 reported that financial capacity represented by liquidity indicators is associated with corporate tax strategies. Based on these arguments, the following hypothesis is proposed:

H_1: Liquidity positively affects tax avoidance.

2.2 Solvency

Solvency describes a company's ability to meet long-term financial obligations and reflects the relationship between debt and equity used to finance corporate operations (Rumbi, Syamsuddin, & Pontoh, 2024). Solvency is commonly measured using leverage ratios, such as the Debt-to-Equity Ratio (DER), which indicates the extent to which company activities are financed through external funds. A balanced capital structure is important because it influences financial risk, funding decisions, and managerial strategies. In relation to tax avoidance, solvency may influence corporate tax planning because debt financing creates opportunities for companies to obtain tax benefits through interest deductions. Firms with higher levels of debt may utilize financial structures that reduce taxable income legally. In addition, companies with strong long-term financial capacity may have greater resources to develop sophisticated tax management strategies (Wanda & Halimatusadiah, 2021).

However, the relationship between solvency and tax avoidance is not always consistent. High debt levels may also increase financial monitoring from creditors and external stakeholders, encouraging companies to maintain transparency and comply with regulations. Excessive leverage may increase financial risks, limiting management's ability to engage in aggressive tax planning strategies. Previous studies have shown different findings regarding the influence of solvency on tax avoidance. Rumbi et al. (2024) found that solvency influences tax avoidance because financially strong companies have greater flexibility in managing their tax obligations. Wanda and Halimatusadiah (2021) suggested that solvency affects corporate tax behavior through financial strategy mechanisms. However, other studies indicate that solvency does not always determine tax avoidance decisions due to differences in regulatory environments and corporate governance practices.

Therefore, based on these theoretical arguments and previous findings, the hypothesis is formulated as follows:

H_2: Solvency positively affects tax avoidance.

2.3 Profitability

Profitability reflects a company's ability to generate profits through effective utilization of its resources and operational activities (Rataj, Alcorta, Raes, Yilmaz, Riccardo, & Sansini, 2024). Profitability is commonly measured using Return on Assets (ROA), which indicates how efficiently a company uses its assets to generate earnings. As one of the main indicators of financial performance, profitability influences strategic decisions related to investment, financing, and tax management. Highly profitable companies generally face higher tax obligations because increased earnings result in higher taxable income. From a tax planning perspective, managers may have incentives to reduce tax expenses in order to maximize retained earnings and improve shareholder returns. Therefore, profitability may encourage companies to implement legal tax avoidance strategies to optimize financial performance (Tanjaya, & Nazir, 2021; Muliana, & Supryadi, 2023).

However, profitability may also have an opposite relationship with tax avoidance. Companies with high profitability often receive greater attention from investors, regulators, and the public. This increased visibility may encourage firms to maintain ethical business practices, improve transparency, and avoid aggressive tax strategies that may damage corporate reputation. Empirical evidence regarding profitability and tax avoidance remains mixed. Tanjaya and Nazir (2021) and Tarmidi, Sari, and Handayani (2020) found that profitability significantly influences tax avoidance because profitable companies have stronger motivations to manage tax expenses. Meanwhile, other studies indicate that profitable companies may prioritize compliance and reputation protection, resulting in lower tax avoidance behavior. Based on these theoretical perspectives and previous findings, the hypothesis is proposed:

H_3: Profitability positively affects tax avoidance.

2.4 Green Accounting

Green Accounting is an accounting approach that incorporates environmental costs and sustainability-related information into corporate accounting systems, financial reporting, and decision-making processes (Anggreni, Syamsinar, & Afiah, 2024 ; Amru, Yuliyani, Nuralfina, & Anwar, 2024; Amalia, Hafizi, & Mubarok, 2024). Unlike conventional accounting practices that primarily focus on financial performance, Green Accounting considers environmental impacts as important elements of corporate accountability. The implementation of Green Accounting enables companies to identify environmental expenditures, measure sustainability performance, and evaluate the efficiency of resource utilization. Through environmental cost recognition, companies can improve transparency and demonstrate commitment to sustainable business practices (Wulandari, Divara, Ananta, Yovita, & Pandin, 2024). This approach is increasingly relevant as stakeholders demand greater disclosure regarding corporate environmental responsibility.

Green Accounting may also influence tax avoidance behavior because environmental investments and sustainability activities can shape managerial priorities. Companies implementing Green Accounting may allocate financial resources toward environmental programs rather than aggressive tax planning. Furthermore, increased environmental disclosure may strengthen corporate accountability and reduce incentives for opportunistic financial behavior. From the perspective of legitimacy theory and stakeholder theory, companies adopt environmentally responsible practices to maintain legitimacy and fulfill stakeholder expectations (Tiara & Trisnawati, 2024). Firms that demonstrate strong environmental responsibility are expected to maintain ethical financial practices, including responsible tax management. Previous studies have reported mixed findings regarding the relationship between Green Accounting and tax avoidance. (Nabilah & Rusdi, 2025) and Ivanda, Orbaningsih, and Muawanah (2024) found that Green Accounting does not always directly influence tax avoidance. However, Firmansyah and Estutik (2020) and Wanda and Halimatusadiah (2021) suggest that environmental accounting practices may influence corporate tax behavior by improving transparency and accountability. Therefore, this study proposes Green Accounting as a moderating variable that may influence the relationship between financial performance indicators and tax avoidance.

H_4: Green Accounting weakens the effect of liquidity on tax avoidance.

H_5: Green Accounting strengthens the effect of solvency on tax avoidance.

H_6: Green Accounting weakens the effect of profitability on tax avoidance.

2.5 Tax Avoidance

Tax avoidance refers to corporate strategies designed to reduce tax liabilities legally by utilizing opportunities provided within taxation regulations (Pohan, 2023). Unlike tax evasion, tax avoidance does not violate tax laws; however, excessive tax avoidance may create ethical concerns because it reduces government revenue and may conflict with stakeholder expectations regarding corporate responsibility. Tax avoidance behavior is influenced by various internal corporate factors, including financial performance, operational conditions, and governance mechanisms. Liquidity, solvency, and profitability represent important financial indicators because they determine a company's ability and motivation to implement tax strategies. Firms with strong financial conditions may have greater capacity to conduct tax planning activities, while firms under financial pressure may prioritize operational stability (Pesak, & Karundeng, 2023; Shafai, Amran, & Ganesan, 2018).

Financial performance indicators are closely associated with tax avoidance because managerial decisions regarding tax payments are often influenced by profitability objectives and resource availability (Kusumadewi, Saputri, & Yuniarto, 2023; Rataj, Alcorta, Raes, Yilmaz, Riccardo, & Sansini, 2024; Afifah, & Madjid, 2025). Furthermore, the integration of Green Accounting provides a sustainability perspective by emphasizing transparency, environmental responsibility, and ethical corporate behavior (Firmansyah, & Estutik, 2020; Wulandari, Divara, Ananta, Yovita, & Pandin, 2024). Thus, tax avoidance should not only be examined from a financial perspective but also from a sustainability perspective. The interaction between financial performance and Green Accounting provides a more comprehensive understanding of how companies balance profitability objectives, tax responsibilities, and environmental commitments.

2.6 Research Framework

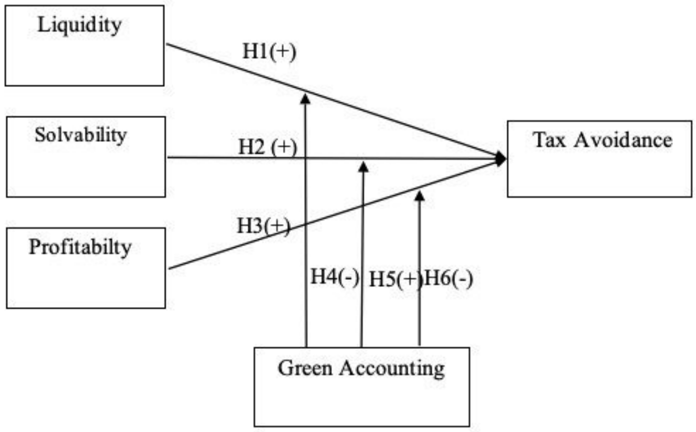

Figure 1. Research Framework

Figure 1 illustrates the proposed research framework, which describes the relationship between liquidity, solvency, profitability, and tax avoidance, with Green Accounting positioned as a moderating variable. The framework indicates that liquidity, solvency, and profitability are expected to influence tax avoidance, while Green Accounting moderates the strength of these relationships by reducing or strengthening the effects of financial performance indicators on tax avoidance.

3. Research Methodology

3.1 Research Design

This study employs a quantitative approach with a causal research design to examine the effect of liquidity, solvency, and profitability on tax avoidance, with Green Accounting as a moderating variable. A quantitative approach is appropriate because this study aims to test relationships among variables using measurable financial indicators and statistical analysis. The causal design is applied to identify the influence of financial performance factors on corporate tax avoidance behavior.

3.2 Data Sources and Sample Selection

This study uses secondary data obtained from annual financial reports, tax-related information, and environmental performance disclosures of companies listed on the Indonesia Stock Exchange (IDX). The research focuses on basic materials sector companies during the 2020–2024 period because these companies have significant environmental impacts and are encouraged to implement sustainable business practices.

The population consists of 110 basic materials sector companies listed on the IDX during the observation period. The sample was selected using a purposive sampling technique based on the following criteria: (1) companies consistently listed on the IDX during 2020–2024, (2) companies that publish complete annual financial reports, (3) companies with available tax-related data, and (4) companies that participate in the PROPER environmental performance assessment. Based on these criteria, 15 companies were selected, resulting in 75 firm-year observations.

3.3 Variable Measurement

This study consists of independent variables, a dependent variable, and a moderating variable. The independent variables include liquidity, solvency, and profitability. Liquidity is measured using the Current Ratio (CR), which represents the company's ability to fulfill short-term obligations using current assets (Pratama & Mulyani, 2024). Solvency is measured using the Debt-to-Equity Ratio (DER), which reflects the company's capital structure and long-term financial obligations (Indrasti, 2020). Profitability is measured using Return on Assets (ROA), which indicates the company's ability to generate profit from its total assets.

The dependent variable is tax avoidance, measured using the Effective Tax Rate (ETR). ETR is calculated as the ratio between income tax expense and pre-tax income, which reflects the company's tax payment level relative to its earnings. A lower ETR indicates a greater possibility of tax avoidance practices. Green Accounting is used as a moderating variable and is measured using environmental performance scores from the PROPER program issued by the Ministry of Environment. The PROPER assessment ranges from black (1) to gold (5), representing different levels of corporate environmental compliance and performance.

3.4 Data Analysis Technique

The data analysis process begins with descriptive statistical analysis to provide an overview of each research variable. Before conducting regression analysis, classical assumption tests are performed, including normality testing using the Kolmogorov–Smirnov test, multicollinearity testing using Variance Inflation Factor (VIF) and tolerance values, heteroscedasticity testing using the Glejser test, and autocorrelation testing using the Durbin–Watson test (Ghozali, 2021).

Hypothesis testing is conducted using multiple linear regression analysis and moderated regression analysis (MRA). Multiple regression analysis is used to examine the direct effects of liquidity, solvency, and profitability on tax avoidance. Meanwhile, MRA is applied to test whether Green Accounting moderates the relationship between financial performance indicators and tax avoidance. The significance level is determined at 5% ($\alpha = 0.05$). The explanatory power of the model is evaluated using the coefficient of determination (Adjusted R^2), while the overall model significance is tested using the F-test and individual effects using the t-test.

4. Results and Discussions

4.1 Results

4.1.1 Sample Description

The population of this study consists of basic materials sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. Based on the purposive sampling criteria, 15 companies were selected from 110 companies in the population, resulting in 75 firm-year observations. The selected companies were those that provided complete financial reports, tax-related information, and environmental performance data based on the PROPER assessment.

4.1.2 Descriptive Statistics

Descriptive statistical analysis was conducted to provide an overview of the characteristics of each research variable. The analysis includes the minimum value, maximum value, mean, and standard deviation of liquidity, solvency, profitability, Green Accounting, and tax avoidance. The initial descriptive analysis showed variations in the research variables. Tax avoidance had an average value of 22.96%, with values ranging from -1.77 to 2.88. Liquidity had an average value of 1.51, indicating that most companies had sufficient short-term financial capacity. Solvency showed an average value of 1.17, reflecting a relatively balanced capital structure. Profitability had a relatively low average value of 3.4%, while Green Accounting had an average score of 3.09, indicating a moderate level of environmental performance implementation. To improve data quality and fulfill statistical assumptions, outlier observations were identified and removed. After eliminating 15 outliers, the descriptive statistics became more stable. The average values after adjustment were 23.95% for tax avoidance, 1.54 for liquidity, 0.86 for solvency, 4.47% for profitability, and 3.12 for Green Accounting.

4.1.3 Classical Assumption Tests

Before conducting regression analysis, classical assumption tests were performed to ensure that the regression model met statistical requirements. The normality test using the Kolmogorov–Smirnov method initially indicated that the residual data were not normally distributed (Asymp. Sig. = 0.000). After the removal of outlier observations, the residuals achieved normal distribution with an Asymp. Sig. value of 0.200.

The multicollinearity test showed that the Variance Inflation Factor (VIF) values ranged from 1.066 to 1.363, indicating that no multicollinearity problem existed among the independent variables. The heteroscedasticity test using the Glejser method showed significance values above 0.05 for all variables, indicating the absence of heteroscedasticity. Furthermore, the Durbin–Watson value of 1.759 indicated that the regression model did not experience autocorrelation problems. Therefore, the data were considered suitable for further regression analysis.

4.1.4 Multiple Regression Analysis

The multiple regression model was developed to examine the direct effects of liquidity, solvency, and profitability on tax avoidance. The regression equation is presented as follows:

$$\begin{aligned} TaxAvoidance &= 0.038 + 0.051 Liquidity \\ &+ 0.002 Solvency - 0.090 Profitability + \epsilon \end{aligned} \tag{1}$$

Based on Formula 1, liquidity has a positive and significant effect on tax avoidance (β = 0.051; t = 4.067; $p < 0.05$). This finding suggests that companies with higher liquidity levels tend to have greater flexibility in managing tax strategies. Solvency has a positive coefficient but does not significantly affect tax avoidance (β = 0.002; t = 0.071; $p > 0.05$). This indicates that the company's long-term financial structure does not directly determine tax avoidance behavior. Profitability shows a negative and significant effect on tax avoidance (β = -0.090; t = -7.131; $p < 0.05$). This finding indicates that companies with higher profitability tend to demonstrate lower tax avoidance behavior.

4.1.5 Moderated Regression Analysis

The moderated regression analysis was conducted to examine whether Green Accounting changes the relationship between financial performance indicators and tax avoidance. The interaction results indicate that Green Accounting significantly moderates the relationship between liquidity and tax avoidance (β = -0.066; t = -3.830; $p < 0.05$). This indicates that higher Green Accounting implementation weakens the positive relationship between liquidity and tax avoidance. Furthermore, the interaction between profitability and Green Accounting is also significant (β = -0.025; t = -2.015; $p < 0.05$), indicating that Green Accounting weakens the negative relationship between profitability and tax avoidance. However, the interaction between solvency and Green Accounting is not significant, suggesting that Green Accounting does not influence the relationship between solvency and tax avoidance. The moderated regression model produces an Adjusted R^2 value of 0.701, meaning that 70.1% of the variation in tax avoidance can be explained by the independent variables and their interaction effects. This value is higher than the basic regression model, which has an Adjusted R^2 of 0.476, indicating that Green Accounting improves the explanatory ability of the research model.

4.1.6 Hypothesis Testing

Table 1. Hypothesis testing results

Hypothesis	Relationship	Result
H_1	Liquidity → Tax Avoidance	Supported
H_2	Solvency → Tax Avoidance	Not Supported
H_3	Profitability → Tax Avoidance	Supported
H_4	Liquidity × Green Accounting → Tax Avoidance	Supported
H_5	Solvency × Green Accounting → Tax Avoidance	Not Supported
H_6	Profitability × Green Accounting → Tax Avoidance	Supported

Based on Table 1, liquidity and profitability significantly influence tax avoidance, while solvency does not show a significant effect. Furthermore, Green Accounting is proven to moderate the relationship between liquidity and profitability with tax avoidance, but it does not significantly moderate the relationship between solvency and tax avoidance. These findings indicate that the implementation of Green Accounting plays an important role in shaping corporate tax behavior by strengthening transparency and encouraging more responsible financial decision-making.

4.1.7 Model Fit Test

The F-test results confirm that both regression models are statistically significant. The basic regression model produces an F-value of 18.850, which is greater than the critical value of 2.77 ($p < 0.05$). Meanwhile, the moderated regression model produces an F-value of 20.732, exceeding the critical value of 2.275 ($p < 0.05$). These results indicate that liquidity, solvency, profitability, and Green Accounting interactions simultaneously explain variations in corporate tax avoidance.

4.2 Discussion

4.2.1 The Effect of Liquidity on Tax Avoidance

The first hypothesis (H_1) proposed that liquidity positively affects tax avoidance, and the results support this hypothesis. The study indicates that higher liquidity levels increase the likelihood of firms engaging in tax avoidance. In other words, the more liquid a company is, the greater the opportunity to defer or reduce tax obligations. This finding aligns with previous studies by Abdullah (2020) which suggested that companies with high liquidity tend to prioritize profits over tax payments, thereby increasing the potential for tax avoidance practices.

4.2.2 The Effect of Solvency on Tax Avoidance

Hypothesis two (H_2) stated that solvency positively affects tax avoidance; however, the results showed no significant effect. Solvency, measured by the Debt to Equity Ratio (DER), reflects a company's capacity to meet long-term obligations. This outcome contrasts with Rumbi et al. (2024) and Wanda & Halimatusadiah (2021), who found that firms with higher solvency often possess more resources to implement tax avoidance strategies, such as leveraging equity-based funding instead of debt. In this study, stricter tax regulations may have constrained high-solvency firms from exploiting such strategies, resulting in an insignificant effect on tax avoidance.

4.2.3 The Effect of Profitability on Tax Avoidance

Hypothesis three (H_3) predicted a positive influence of profitability on tax avoidance, but the study revealed a significant negative effect. Profitability, as a measure of a firm's ability to generate profit, often guides tax strategy decisions. While previous research by Tanjaya and Nazir (2021) and Dyreng, Jacob, Jiang, and Müller (2022) suggested that highly profitable firms are motivated to avoid taxes to optimize earnings, the current study found the opposite: higher profitability is associated with lower tax avoidance. This can be attributed to increased corporate transparency, where profitable firms prioritize compliance and maintain reputational integrity among investors and stakeholders.

4.2.4 Green Accounting as a Moderator of Liquidity on Tax Avoidance

The fourth hypothesis (H_4) proposed that green accounting weakens the effect of liquidity on tax avoidance, and the findings support this hypothesis. Green accounting incorporates environmental considerations into financial reporting and accounting practices. Firms with high liquidity that implement green accounting are more likely to allocate resources toward sustainable and environmentally oriented initiatives, which reduces funds available for aggressive tax avoidance. This finding is consistent with Ivanda, Orbaningsih, and Muawanah (2024) demonstrating that green accounting encourages financial transparency and tax compliance. Therefore, higher adoption of green accounting diminishes the likelihood of tax avoidance among highly liquid firms.

4.2.5 Green Accounting as a Moderator of Solvency on Tax Avoidance

Hypothesis five (H_5) suggested that green accounting strengthens the relationship between solvency and tax avoidance; however, the study found no significant moderating effect. While Winarta (2024) noted that high-solvency firms have greater capacity for financial strategies including tax avoidance, the current results indicate that green accounting does not significantly influence this relationship. This could be due to ineffective implementation of green accounting practices or varying approaches in how high-solvency firms manage tax policies. Hence, while green accounting can enhance transparency of environmental costs, it is insufficient to alter the tax avoidance behavior of highly solvent firms.

4.2.6 Green Accounting as a Moderator of Profitability on Tax Avoidance

The sixth hypothesis (H_6) posited that green accounting weakens the impact of profitability on tax avoidance, and the results confirm this. High profitability often motivates firms to engage in tax avoidance to maximize returns. However, when moderated by green accounting, firms are more mindful of the environmental and regulatory implications of their tax strategies. This finding aligns with Wanda & Halimatusadiah (2021), which highlighted that companies applying green accounting are more responsible in tax policies, understanding that aggressive tax avoidance may damage their reputation as sustainability-oriented firms. Consequently, the higher the adoption of green accounting, the lower the incentive for profitable companies to avoid taxes.

5. Conclusions

The analysis indicates that liquidity has a positive and significant effect on tax avoidance, suggesting that firms with higher liquidity tend to prioritize profits over tax obligations, which increases the likelihood of engaging in tax avoidance practices. In contrast, solvency does not appear to significantly influence tax avoidance, implying that a company's debt level is not a key factor in shaping tax-related decisions. Profitability, on the other hand, shows a negative and significant relationship with tax avoidance, indicating that highly profitable companies are generally more compliant with tax regulations, likely due to a focus on maintaining their reputation and investor confidence.

The study also finds that green accounting moderates the relationship between liquidity and tax avoidance by weakening it. Companies that implement green accounting effectively tend to allocate resources toward sustainability and compliance, reducing the incentive to engage in tax avoidance even when liquidity is high.

However, green accounting does not significantly moderate the link between solvency and tax avoidance, suggesting that its impact is not strong enough to influence how debt levels affect tax behavior. Finally, green accounting also diminishes the effect of profitability on tax avoidance, highlighting that firms practicing environmentally oriented accounting are more responsible in managing taxes, balancing profit motives with regulatory compliance and sustainability considerations.

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Author Contributions

LFF conceptualized the study, developed the research framework, collected and analyzed the data, and prepared the initial manuscript draft. Z contributed to the research methodology, validated the analytical approach, provided critical revisions, and supervised the research process. S contributed to the theoretical development, reviewed and edited the manuscript, and provided academic guidance throughout the study. All authors have read and approved the final version of the manuscript.

Conflict of Interest

The authors declare that there is no conflict of interest regarding the publication of this article. The research was conducted independently, and all findings are presented objectively without any personal, institutional, or financial interests that could influence the research process or results.

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