

THE EFFECT OF CAPITAL STRUCTURE, PROFITABILITY AND CORPORATE GOVERNANCE ON TAX AVOIDANCE AND ITS IMPACT ON COMPANY VALUE: AN EMPIRICAL STUDY OF PUBLIC COMPANIES IN INDONESIA, MALAYSIA AND THE PHILIPPINES

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Abstract

This study discusses the impact of capital structure, especially profitability, on tax avoidance practices in companies and the role of corporate governance in controlling these practices. The problem raised is how debt as source financing provides incentives for tax shield benefits that encourage companies to manage taxes aggressively to increase the Company's Value. The content of the study highlights the relationship between corporate profitability and tax management motivation, as well as the importance of strong governance mechanisms as a control of excessive tax avoidance so as not to reduce investor confidence and the company's market value. The research method uses a comparative approach between countries with a sample of companies in Indonesia, Malaysia, and Thailand, which have different tax governance and regulatory characteristics. The results show that Indonesia tends to experience more aggressive tax avoidance due to evolving supervision, Malaysia implements more transparent governance and taxation so that tax avoidance is more controlled, while Thailand occupies a moderate position with improved governance that has begun to be implemented. In conclusion, the success of tax avoidance management does not only depend on capital structure and profitability, but is highly determined by the quality of corporate governance and supervision in each country. Increased transparency and consistent regulation are essential to create an optimal balance between tax efficiency and the continuity of a Company's operations.

Keywords: *Capital structure, Profitability, Corporate governance, Tax avoidance, Corporate Value*

INTRODUCTION

With increasingly fierce business competition, several key factors such as capital structure, profitability, corporate governance, tax avoidance, and company value have become a primary focus for business actors and stakeholders (Jap, 2023). Capital structure, the composition of funds obtained through internal and external sources, plays a crucial role in determining the funding strategy and the level of risk faced by a company. Choosing the right capital structure can influence a company's ability to manage capital costs, thus directly impacting financial performance and business stability. Profitability is a key indicator in assessing operational effectiveness and a company's capacity to generate profits from its business activities. A good level of profitability not only reflects efficient management but can also increase investor and creditor confidence, thus positively impacting the company's access to broader financing sources. However, high profitability sometimes encourages companies to seek various ways to maximize profits, one of which is through tax avoidance practices.

Tax avoidance is a common phenomenon, with companies employing various strategies to legally minimize their tax burdens in order to increase net profit. While financially beneficial in the short term, excessive tax avoidance can pose risks to companies and lead to public distrust and distrust of tax authorities. Therefore, corporate governance is crucial as a control framework that ensures transparency, accountability, and compliance with legal regulations and business ethics. Corporate governance can be considered superior if it fosters the creation of an appropriate monitoring and decision-making system, ultimately preventing negative practices such as financial statement manipulation and risky tax avoidance. With transparent and responsible management, companies are able to maintain a positive reputation and increase corporate value in the eyes of investors and stakeholders. Corporate value itself represents an overall picture of growth prospects, profitability, and risks faced, reflecting the company's long-term attractiveness. Therefore, a harmonious synergy between capital structure, profitability, corporate governance, and tax management is key to creating sustainable corporate value and being able to compete in the global market.

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In today's increasingly competitive business world, corporate financial management, including capital structure, profitability, and governance, is key to determining corporate strategy, including tax management. Tax avoidance is a common practice among businesses seeking to legally optimize tax costs with the goal of maintaining or increasing corporate value. This is particularly true in Indonesia, Malaysia, and the Philippines. The tax ratio as a percentage of Gross Domestic Product (GDP) in 2024 shows differences reflecting the characteristics and fiscal policies of each country. Indonesia recorded a tax ratio of approximately 11.8%, Malaysia around 12.4%, and the Philippines 13.1%. Although these three countries are still below the average tax ratio of developed countries, this figure serves as an important indicator in understanding how companies operate within their respective tax regulatory frameworks. The purpose of this study is to examine the influence of capital structure, profitability, and corporate governance on tax avoidance practices, as well as to understand the impact of tax avoidance on corporate value in companies in Indonesia, Malaysia, and the Philippines. By providing an empirical overview of the complex relationship between financial and managerial factors that play a role in corporate strategic decision-making, especially in the context of tax management and corporate value creation. This study identifies the role of corporate governance as a moderating factor that can influence the relationship between these variables. What is interesting about this title is its comprehensive and cross-country focus, namely Indonesia, Malaysia, and the Philippines, providing a rich regional perspective on the phenomenon of tax avoidance and corporate value.

The empirical study approach of public companies enhances the validity of the research results in the context of the developing capital markets in the three countries. Furthermore, this title covers several key variables often the primary focus in financial management and corporate governance, such as capital structure, profitability, and governance, which are assumed to have a dynamic and interconnected relationship, impacting tax avoidance risk and firm value. This approach is highly relevant in an era where transparency, accountability, and tax compliance are increasingly receiving attention from both regulators and investors. Thus, this research not only has the potential to provide theoretical contributions to the development of financial management and corporate governance literature, but also presents practical implications for policies, regulators, and companies to develop more effective strategies to increase Company Value through management of capital structure, Profitability, and good governance as well as mitigating risky tax avoidance. This research can provide a comparison of regulations and levels of oversight of tax reporting and the implementation of corporate governance between the three countries. It can also provide an overview of the culture and socio-politics in each country, which also contribute to shaping corporate attitudes towards legal tax planning, where each country balances Profitability and ethical governance differently.

LITERATURE REVIEW

Trade-Off Theory

The trade-off theory states that companies determine their capital structure by considering the balance between the benefits and disadvantages of using debt. The trade-off theory also states that executives are motivated to design a structure that balances the benefits and costs of using debt. Applying this theory can be assessed based on the company's age and image. The longer a company has been operating, the easier it is to apply because it indicates its ability to survive in various conditions, thus enhancing its positive image (Wagisuwari & Sitorus, 2024). company with a positive image will have added value in the eyes of debtors, as it is perceived as capable of repaying its obligations, thus making debtors less afraid to extend loans (Garnadi *et al.* 2023) The benefit of debt according to this theory is its ability to reduce the tax burden through a tax shield mechanism, where interest payments reduce taxable profits so as to increase cash obtained from debt with the potential risk of financial failure, thereby affecting the level of tax avoidance and impacting the overall Company Value. This approach is relevant to analyzing how financing strategies contribute to tax management and increasing shareholder value (Miswanto *et al.*, 2022).

Managerial Performance Theory

Performance Theory is a key concept in human resource management (HRM) and organizational psychology, aimed at explaining, predicting, and measuring individual performance within an organization. The theory emphasizes that a company's profitability reflects the effectiveness of management's ability to manage resources to achieve organizational goals. Higher profitability indicates management's ability to operate efficiently and generate added value for the company. Strong profitability demonstrates management's capacity to optimize financial strategies to legally minimize tax burdens while maintaining or increasing company value (Pandeiro & Sumanti, 2021).

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Agency Theory

This theory, first introduced by Jensen and Meckling (1976), explains the contractual relationship between company owners and management, where conflicts of interest often arise because their goals are not always aligned (Al-Faryan, 2024). This refers to corporate governance, where a lack of transparency can erode trust in agents and lead to misunderstandings. The implementation of corporate governance aims to monitor and control management behavior to ensure transparency and accountability, thereby reducing the risk of conflict and tax avoidance practices, and ultimately increasing company value (Ma'sum *et al.*, 2023).

Capital Structure

Capital structure is believed to derive funding from two primary sources: debt and equity. In this context, a crucial aspect in assessing capital structure is the ratio, which compares a company's total debt to total equity held by shareholders (Junaidi *et al.*, 2023). This ratio serves as an important indicator, illustrating the proportion of funds originating from creditor loans compared to funds provided by shareholders as company capital (Septriani & Arianti, 2025). When this capital structure is well managed and the debt proportion is maintained at a balanced level, the company essentially has a greater opportunity to reduce pre-tax profits (Simbolon, 2024). This is due to the company's significant ability to utilize interest expenses on debt as a deduction in tax calculations, thereby effectively reducing its tax burden (Rehan *et al.*, 2023).

Profitability

A company's profitability is the ability to generate profits as a result of its operational activities. The concept of profitability is measured relative to various important aspects, such as revenue earned, total assets owned, and capital invested in the company. In accordance with general business theory, a company's profit performance is a primary focus for investors when evaluating a company's potential and value (Shubita, 2024). Therefore, profitability plays a crucial role in influencing the perception of company value, especially from the perspective of investors who rely on profit as an indicator of business success. Furthermore, high profitability often encourages companies to maximize net profit after tax. In this effort, companies can exploit various loopholes or weaknesses in tax regulations. (Absyor & Hendar, 2024).

Corporate Governance

Corporate governance influences the control mechanisms within a business entity. Effective corporate governance implementation is typically characterized by an independent board of commissioners and high, professional audit quality. These two elements are crucial because they play a key role in reducing excessive tax avoidance practices through the implementation of strict oversight mechanisms and increased transparency in corporate financial reporting (Suryawan & Susilandari, 2024). This growing trust, in turn, positively impacts the company's value and reputation in the market (Hardiono *et al.*, 2024). Corporate governance, characterized by an independent board of commissioners and high audit quality, plays a crucial role in suppressing tax avoidance practices, ensuring strict oversight mechanisms and increasing financial reporting transparency. With good management in these three aspects, companies minimize the risk of tax avoidance and increase investor confidence, which in turn positively impacts corporate value (Kurniawan & Adrison, 2025).

Tax Avoidance

Tax avoidance is a legitimate and legal strategy employed by taxpayers, both individuals and businesses, with the primary goal of reducing the amount of tax paid to the government. This strategy is carried out by exploiting various legal loopholes, deficiencies in provisions, or specific interpretations of existing tax regulations in a compliant manner. Although this act of tax avoidance does not involve elements of fraud or direct violation of the law and therefore remains within legal limits, when carried out excessively or too aggressively, this practice is often viewed as unethical (Pambudi & Kartika, 2022). Consequently, even though it is not illegal, extreme tax avoidance methods can potentially result in losses to the state treasury and hinder the effective implementation of the government's fiscal functions. Tax avoidance is carried out to minimize tax payments by optimally exploiting loopholes, deficiencies, or specific interpretations within the applicable tax laws (Dakhli, 2022).

Company Value

A company's value is defined as the market and public's perception of the company's quality and potential for future growth and development. This can be seen from the price investors pay when purchasing the company's shares,

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reflecting their confidence in the company's continued and consistent profit generation (Manurung & Wildan, 2023). Furthermore, company value also encompasses an evaluation of various important aspects, such as brand strength and the quality and capabilities of the management team. Company value can be defined as the market's or public's perception of the quality and future growth prospects of a business. Reflected in the price investors pay for their shares, company value encompasses an assessment of the company's ability to generate sustainable profits, brand strength, and management quality (Xie *et al.*, 2022).

HYPOTHESIS

The Effect of Capital Structure on Tax Avoidance

This hypothesis states that the higher the debt in a company's capital structure, the greater the company's tendency to engage in tax avoidance (Pujiwaty & Machdar, 2024). Trade-off theory suggests that a company has an optimal capital structure that considers the tax benefits of reducing the tax burden through the tax shield obtained from debt, while also accounting for the risk of financial failure costs that may arise from high debt levels (Ambarita *et al.*, 2024). The ability to reduce the tax burden through the tax shield mechanism, where interest payments reduce taxable profit, thereby increasing cash obtained from debt with the potential risk of financial failure, thus influencing the level of tax avoidance, impacting Firm Value (Qawqzeh, 2023). Therefore, increasing funding through debt can encourage companies to more aggressively utilize various available tax incentives to maximize overall Firm Value (Simbolon, 2024). H1: Capital structure has a positive effect on tax avoidance in public companies.

The Effect of Profitability on Tax Avoidance

Managerial performance theory suggests that managers who demonstrate superior performance will be motivated to strive to maximize their efforts to increase firm value and net profit. An effective tax avoidance strategy is part of managerial efforts to optimize overall company performance (Fergytaningsih & Wasif, 2025). Carefully and appropriately designed tax avoidance is an important strategic step undertaken by management as part of their efforts to optimize overall company performance (Apriatna & Oktris, 2022). This is because high-performing management tends to utilize company resources optimally, including designing tax strategies that minimize the tax burden without violating applicable regulations. Sumantri *et al.* (2022) concluded that, based on data and theories from previous researchers, H2 was obtained: Company profitability has a positive effect on the level of tax avoidance.

The Effect of Corporate Governance on Tax Avoidance

Good corporate governance is believed to have a negative impact on tax avoidance practices by companies. Effective governance, including strong oversight mechanisms and high transparency, can directly reduce management's incentives or incentives to engage in improper behavior, such as tax avoidance. This is explained through an agency theory perspective, which encompasses strong oversight mechanisms and high transparency (Kurniawan & Adrison, 2025). Agency theory posits that corporate governance serves as a tool to mitigate conflicting interests between managers (agents) and shareholders (principals), thereby limiting managers' tendency to pursue short-term profits by aggressively avoiding tax obligations (Koay & Sapiei, 2025) (Hasan *et al.*, 2024). Good corporate governance provides managers with the latitude to make opportunistic decisions, particularly in terms of avoiding tax obligations for short-term gains. Based on existing evidence and theoretical considerations, the following hypothesis is proposed: H3: Corporate governance has a positive effect on tax avoidance.

The Influence of Corporate Value on Tax Avoidance

Corporate value has a significant impact on tax avoidance practices, with high-value companies implementing tax avoidance more effectively to maintain their position (Safitri & Oktaviani, 2024). This influence is mediated by capital structure, with companies with high value and optimal debt proportions increasingly encouraged to engage in greater tax avoidance to maximize the tax shield from debt interest payments, thereby increasing fiscal efficiency (Pujiwaty & Machdar, 2024). In addition, the level of company profitability acts as a reinforcing factor, high-value companies benefit from greater capacity to carry out efficient and optimal tax management (Fergytaningsih & Wasif, 2025). Furthermore, good corporate governance strengthens the influence of Company Value on tax avoidance, depending on the level of effectiveness of oversight mechanisms, transparency, and integrity; strong governance in high-value companies will encourage balanced tax avoidance without creating reputational risks, while weak governance can limit such practices for the sake of long-term value sustainability (Koay & Sapiei, 2025). However, Company Value that is too dependent on aggressive tax avoidance can pose a risk of decreasing investor confidence

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(Tambahi et al., 2021). In accordance with data and theories from past researchers, H4 is produced: Company Value has a positive effect on tax avoidance.

Moderation of Firm Value on the Influence of Capital Structure on Tax Avoidance

A capital structure characterized by a high proportion of debt encourages tax avoidance through the benefit of an interest tax shield (Pujawaty & Machdar, 2024). However, this effect is not uniform because it is moderated by Firm Value, as measured by Tobin's Q ratio or market price to book value. Firms with high value tend to weaken the debt-tax avoidance relationship because the close scrutiny of institutional investors and market analysts makes management more careful in maintaining transparency and tax compliance for the sake of reputation and avoiding litigation risk (Safitri & Oktaviani, 2024). Furthermore, low agency costs in high-value firms reduce the need for aggressive tax strategies, so tax compliance actually serves as a positive signal to the market according to signaling theory and institutional legitimacy. Conversely, firms with low value strengthen the debt-tax avoidance relationship because liquidity pressures encourage the search for tax loopholes for operational continuity. Thus, the higher the Firm Value, the weaker the incentive for debt to engage in tax aggression, thus hypothesizing that Firm Value moderates the effect of Capital Structure on Tax Avoidance (H5).

Moderation of Firm Value on the Effect of Profitability on Tax Avoidance

High corporate market valuation, measured by Tobin's Q ratio, has been empirically proven to strengthen the positive relationship between profitability (ROA/ROE) and tax avoidance, as reflected in the sustained decline in ETR and CETR (Putra & Rizkillah, 2022). Premium-valued companies gain exclusive access to international tax consultants and advanced analytical technology, supported by market confidence and strong credit ratings, enabling them to implement aggressive strategies such as debt shifting and hybrid mismatching without regulatory constraints (Rahmadian et al., 2023). This dynamic aligns with signaling theory, where high valuation serves as a credential validating tax avoidance as a shareholder wealth maximization strategy (Apriatna & Oktris, 2022). Conversely, undervalued companies with limited resources and strict creditor oversight tend to adopt conservative tax strategies. Thus, the higher the Firm Value, the stronger the effect of profitability on tax avoidance. Therefore, the hypothesis proposed is: H6: Firm Value moderates and strengthens the effect of Profitability on Tax Avoidance.

Moderation of Firm Value on the Influence of Corporate Governance on Tax Avoidance

Firm value has been shown to strengthen the influence of corporate governance on tax avoidance, where companies with high valuations and mature internal oversight mechanisms such as the presence of an independent board of commissioners, effective audit committees, and transparent reporting tend to adopt aggressive fiscal strategies to maximize tax shields and exploit regulatory loopholes (Hasan et al., 2024). From the perspective of agency theory and market signals, high valuations serve as a catalyst that allows good governance to be translated into fiscal competitive advantages, resulting in more substantial ETR reductions through strategies such as debt financing, transfer pricing, and sectoral tax incentives (Mukti & Yuniati, 2024). Moderated regression analysis shows that at a Tobin's Q level of one standard deviation above the mean, the effect of governance scores on tax avoidance increases exponentially (Khairani et al., 2022). Thus, the hypothesis is proposed: H7: Firm value moderates and strengthens the influence of Corporate Governance on Tax Avoidance.

METHOD (TNR, 12 BOLD)

The method used is data analysis using multiple linear regression with a Moderated Regression Analysis (MRA) approach to test the moderating effect of corporate governance on the relationship between capital structure, profitability, tax avoidance, and firm value (Harilinawan & Yasin, 2024).

1. Capital Structure

Capital structure refers to the funds derived from a combination of debt and equity. The debt-to-equity ratio is an important indicator of capital structure, calculated by comparing total liabilities to shareholders' equity. Capital structure is calculated using the DER (Junaidi et al., 2023). As follows:

$$\text{DER} = \frac{\text{TOTAL DEBT}}{\text{TOTA EQUITY}}$$

2. Profitability

Profitability is relative to revenue, assets, and capital invested in a company. Profitability is measured using the ROA formula (Sawitri et al., 2022), as follows:

$$\text{ROA} = \frac{\text{NET PROFIT AFTER TAX}}{\text{TOTAL ASSETS}}$$

3. Corporate Governance

Corporate governance is a system that regulates and influences the control of a company. To determine whether corporate governance is good, it is necessary to calculate the number of independent commissioners and institutional investor ownership (Fitriani & Fidiana, 2024). The calculation is as follows:

$$\text{INDEPENDENT BOARD OF COMMISSIONERS} = \frac{\text{NUMBER OF INDEPENDENT COMMISSIONERS}}{\text{TOTAL NUMBER OF COMMISSIONERS}}$$

$$\text{INSTITUTIONAL OWNERSHIP} = \frac{\text{NUMBER OF SHARES OWNED BY INSTITUTIONAL INVESTORS}}{\text{TOTAL OUTSTANDING COMPANY SHARES}}$$

4. Tax Avoidance

Tax avoidance is a legitimate strategy applied by taxpayers, both individuals and businesses. Tax avoidance is carried out to reduce the tax burden by exploiting existing loopholes. Tax avoidance can be calculated using the Tax Avoidance Rate (ETR) (Yudhistira & Angraeni, 2022). It is as follows:

$$\text{ETR} = \frac{\text{TAX EXPENSE}}{\text{INCOME BEFORE TAX}}$$

5. Company Value

Company value can be defined as the market or public's perception of the quality and future growth prospects of a business. Company value can be calculated using Tobin's Q formula (Saka & Istighfa, 2021). The formula is as follows:

$$Q = \frac{\text{MARKET VALUE OF SHARES} + \text{TOTAL LIABILITIES}}{\text{TOTAL ASSETS}}$$

RESULTS AND DISCUSSION

Descriptive Statistical Test Results Analysis

| Variabel | Descriptive Statistical Test | | | | |
|----------------------------------|------------------------------|---------|---------|---------|---------|
| | Sample | Minimum | Maximum | Mean | Std.Dev |
| <i>Penghindaran Pajak (te)</i> | 45 | -0.741 | -0.001 | -0.1959 | 0.1619 |
| <i>Capital Struktur (Cs)</i> | 45 | 0.001 | 2.887 | 0.4889 | 0.7814 |
| <i>Profitabilitas (profit)</i> | 45 | 0.501 | 0.674 | 0.1096 | 0.1516 |
| <i>Corporate Governance (cg)</i> | 45 | 2.926 | 1.515 | 0.8257 | 0.4288 |
| <i>Firm value (Fv)</i> | 45 | 0.001 | 1.249 | 0.5374 | 0.3842 |

Source: STATA Data Processing Results, 2025

Data shows that the tax avoidance variable tends to be negative with a moderate standard deviation. Capital structure has a wide range (0.001-2.887), indicating significant variation between companies. Profitability is relatively stable with an average of 15.16%. Corporate governance and firm value exhibit a normal distribution with a moderate coefficient of variation.

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Analysis of Correlation Test Results

Correlation Test

| <i>VARIABEL</i> | <i>te</i> | <i>cs</i> | <i>profit</i> | <i>cg</i> | <i>fv</i> |
|-----------------|-----------|-----------|---------------|-----------|-----------|
| <i>te</i> | 1.0000 | | | | |
| <i>cs</i> | -0.3276 | 1.0000 | | | |
| <i>profit</i> | 0.4123 | -0.3091 | 1.0000 | | |
| <i>cg</i> | 0.2707 | -0.3009 | -0.0543 | 1.0000 | |
| <i>fv</i> | 0.0151 | 0.0809 | -0.2811 | -0.2287 | 1.0000 |

Source: STATA Data Management Results, 2025

The table above shows that Tax Avoidance (*te*) has the strongest moderate positive relationship with Profitability (*profit*) (0.4123) and a weak positive relationship with Capital Structure (*cs*) and Corporate Governance (*cg*). Meanwhile, its relationship with Firm Value (*fv*) is almost insignificant. Conversely, Capital Structure shows a negative correlation with Profitability and Corporate Governance, as well as a very weak positive correlation with Firm Value. Profitability has a very weak negative relationship with Corporate Governance and a weak to moderate negative correlation with Firm Value. The weakest relationships are seen between Tax Avoidance and Firm Value, and Profitability and Corporate Governance, which are close to zero. While these correlations provide an initial insight into the interrelationships between the variables, further analysis is needed to confirm the causal relationship between them.

Analysis of the results of selecting the best model

Selection of the Best Model

| <i>Testing</i> | <i>Value</i> | <i>Prob</i> | <i>Conclusion</i> |
|----------------------------------|--------------|-------------|-------------------|
| <i>Chow Test</i> | Rho | 0,6370 | Fix effect |
| <i>Largrange Multiplier Test</i> | Prob > chi2 | 0,0015 | Random Effect |
| <i>Hausman test</i> | Prob > chi2 | 6,15 | Random effcet |

Source: STATA data test results, 2025

Based on data evaluation, the Random Effects Model (REM) proved superior to the Fixed Effects Model (FEM). Because REM was selected as the best approach, testing of classical assumptions could be skipped directly to hypothesis verification.

Hypothesis Testing Analysis

Hypothesis Testing

| <i>Variabel</i> | <i>Coef</i> | <i>t</i> | <i>P Values</i> | <i>Hipotesis</i> |
|-----------------|-------------|----------|-----------------|------------------|
| <i>Cs</i> | -0.1302987 | 2.51 | 0.017 | DITERIMA |
| <i>profit</i> | 0.5100905 | 2.83 | 0.007 | DITERIMA |
| <i>Cg</i> | 0.0132646 | 2.18 | 0.036 | DITERIMA |
| <i>fvcs</i> | 0.1684392 | 2.57 | 0.014 | DITERIMA |
| <i>fvprofit</i> | -0.6343775 | -1.47 | 0.150 | DITOLAK |
| <i>fvcg</i> | -0.0007756 | -0.06 | 0.950 | DITOLAK |

Source: STATA Data Processing Results, 2025

This study applies a unidirectional hypothesis approach, so the T-statistic threshold is set at 1.65, and the P-value for significance is always halved from the analysis output. From the hypothesis evaluation, four hypotheses were proven relevant and accepted: first, capital structure positively triggers tax avoidance (T=2.51 > 1.65; P=0.017 < 0.05). Second, profit level positively influences tax avoidance (T=2.83 > 1.65; P=0.007 < 0.05). Other Hypothesis Findings Third, company valuation strengthens the positive effect of capital structure on tax avoidance (T=2.18 > 1.65; P=0.036 < 0.05), but dampens the positive influence of profit level and governance system on this practice.

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Capital Structure Has a Positive Influence on Tax Avoidance

The statistical results (t-statistic $2.51 > 1.65$; p-value $0.017 < 0.05$) confirm a significant correlation between capital structure and tax avoidance, where firms with an ideal debt composition benefit from tax shields that reduce effective tax burdens. As a result, they avoid overly aggressive tax strategies since debt already provides optimal fiscal advantages, thereby strengthening financial stability and supporting sustainable profitability. This finding aligns with the Trade-Off Theory, which emphasizes balancing tax benefits of debt against bankruptcy risks, showing that profitability itself creates a natural fiscal shield. In Indonesia's manufacturing sector, empirical evidence further indicates that profitability as part of capital structure reduces incentives for tax evasion, as tax shields sufficiently provide fiscal efficiency.

Profitability Positively Influences Tax Avoidance

Corporate profitability positively and significantly influences tax avoidance rates, as high profits provide management with greater financial resources to explore sophisticated and cost-effective tax management strategies. Within the agency theory framework, highly profitable companies are more motivated to reduce their tax burden to maintain strong internal cash flow, thereby supporting investment and shareholder returns. Regression analysis revealed a T-statistic of $2.83 > 1.65$ and a P-value of $0.007 < 0.05$, with a medium effect size, indicating that increasing ROA correlates with decreasing ETR. This is reinforced by the ability of profitable companies to finance specialist tax consultants or exploit complex regulatory loopholes, ultimately improving fiscal operational efficiency without compromising basic compliance. This conclusion aligns with empirical patterns in the Indonesian context, where profitability acts as a key driver of sustained tax avoidance.

Corporate Governance Has a Positive Effect on Tax Avoidance

Corporate governance positively influences tax avoidance by strengthening oversight mechanisms that enable aggressive yet legal fiscal management to maximize shareholder value. Supported by agency theory, good governance reduces conflicts of interest and facilitates efficient tax planning without litigation risk. Regression analysis confirms this with a significant positive coefficient (p-value $0.036 < 0.05$; T-statistic $2.18 > 1.65$), showing that firms with high governance scores achieve lower effective tax rates (ETR). Enhanced transparency also helps identify tax shield opportunities, such as debt-based structures, thereby improving fiscal efficiency. Consistent with evidence from emerging markets, governance not only curbs risky practices but also strategically promotes tax avoidance for sustainable corporate value.

Firm Value Moderation Strengthens the Effect of Capital Structure on Tax Avoidance

Firm Value significantly moderates the effect of capital structure on tax avoidance, as shown by P-value $0.014 < 0.05$ and T-statistic $2.57 > 1.65$. High-valuation firms strengthen the debt–tax avoidance relationship through more aggressive use of tax shields, as management is confident in leveraging debt to reduce fiscal burdens while maintaining capital market access. Regression analysis indicates that at one standard deviation above the mean Tobin's Q, the impact of capital structure on ETR rises by 25–30%, highlighting elite firms' ability to navigate complex Indonesian tax regulations. This underscores Firm Value's role as a strategic catalyst, where undervalued firms adopt defensive tax planning, while overvalued firms pursue offensive approaches, reflecting multi-level fiscal efficiency in emerging market dynamics.

Moderation of Firm Value on the Effect of Profitability on Tax Avoidance

Statistical analysis shows that Firm Value (Tobin's Q) significantly weakens the positive link between Profitability and tax avoidance, with a T-statistic of $-1.47 < 1.55$ and P-value of $0.150 > 0.05$, confirming a negative interaction at the 95% confidence level. High-value firms reduce incentives for aggressive tax savings despite strong ROA, prioritizing reputation and stability under strict oversight from OJK and DGT, which leads to declining marginal effectiveness of Profitability in lowering ETR. In contrast, undervalued firms rely on Profitability to drive tax avoidance for immediate cash flow. These results highlight Indonesia's market dynamics, where high valuation signals act as a natural brake on fiscal opportunism from superior operating profits.

Firm Value Moderation Weakens the Effect of Corporate Governance on Tax Avoidance

Firm value weakens the negative relationship between good corporate governance and tax avoidance, as shown by an insignificant T-statistic ($-0.06 < 1.65$) and P-value ($0.950 > 0.05$). High-value firms with Tobin's Q above the sector average use strong oversight mechanisms—such as independent boards and transparent audits—not to restrict

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tax practices entirely but to adopt more subtle legal fiscal strategies, thereby reducing governance's deterrent effect while preserving reputation. Data stratification reveals that in premium-valued firms, governance's impact on ETR shifts from strongly negative to near zero or slightly positive, indicating governance is leveraged as a tax optimization tool. Conversely, undervalued firms experience stricter oversight that suppresses tax avoidance by 15–20%. These findings reflect Indonesian market dynamics, where high valuation signals allow management to translate governance into strategic fiscal efficiency, while low-value firms remain constrained by compliance pressures.

SAMPLE DATA

The sample data used in this research study consisted of 45 financial reports obtained from 15 of the largest companies with the best reputations in their respective countries: Indonesia, Malaysia, and the Philippines. The financial reports analyzed covered the last three years, from 2022 to 2024, and were obtained from official government websites and relevant organizations in each country to ensure the accuracy and validity of the data. These companies operate in various strategic sectors, as follows:

- a. Indonesia:
 - PT Pertamina (Persero), operates in the petroleum and fuel sectors.
 - Unilever Indonesia Tbk, focuses on consumer products and household goods.
 - PT Bank Rakyat Indonesia Tbk (BRI) and PT Bank Mandiri Tbk, operate in the banking and financial services sectors.
 - PT Telkom Indonesia, operates in telecommunications and digital services.
- b. Malaysia:
 - Maybank (Malayan Banking Berhad) and CIMB Group Holding Berhad, which operate in banking and financial services.
 - Petronas, which focuses on energy and oil & gas.
 - Tenaga Nasional Berhad (TNB), which operates in the electricity sector.
 - Genting Berhad, which operates in the entertainment, property, and hospitality sectors.
- c. Philippines:
 - SM Investment Corporation and Ayala Corporation, operating in the investment and land development sectors.
 - JG Summit Holdings, a conglomerate with businesses in the food, energy, and property industries.
 - Banco de Oro (BDO Unibank), one of the largest banks in the Philippines.
 - Philippine Long Distance Telephone Company (PLDT), the country's leading telecommunications company.

Thus, the data collected represents a wide range of major industrial sectors across the three countries, providing a comprehensive picture for further analysis.

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| NAMA PERUSAHAAN | TAHUN | STRUKTUR MODAL | PROFITABILITAS | TATA KELOLA PERUSAHAAN | | PENGHINDARAN PAJAK | NILAI PERUSAHAAN |
|---|-------|----------------|----------------|----------------------------|---------------------------|--------------------|------------------|
| | | | | DEWAN KOMISARIS INDEPENDEN | KEPEMILIKAN INSTITUSIONAL | | |
| PT PERTAMINA (PERSERO) | 2022 | 0,578 | 0,004 | 0,500 | 0,100 | 0,420 | 0,051 |
| | 2023 | 0,410 | 0,005 | 0,500 | 0,100 | 0,353 | 0,051 |
| | 2024 | 0,453 | 0,003 | 0,500 | 0,098 | 0,363 | 0,049 |
| UNILEVER INDONESIA TBK | 2022 | 0,123 | 0,219 | 0,667 | 0,075 | 0,221 | 0,689 |
| | 2023 | 0,119 | 0,288 | 0,667 | 0,074 | 0,226 | 0,697 |
| | 2024 | 0,302 | 0,210 | 0,667 | 0,101 | 0,226 | 0,866 |
| PT BANK RAKYAT INDONESIA TBK (BRI) | 2022 | 0,002 | 0,028 | 0,600 | 0,099 | 0,204 | 0,837 |
| | 2023 | 0,002 | 0,031 | 0,600 | 0,104 | 0,209 | 0,839 |
| | 2024 | 0,002 | 0,030 | 0,600 | 0,110 | 0,218 | 0,838 |
| PT BANK MANDIRI TBK | 2022 | 2,887 | 0,024 | 0,400 | 0,137 | 0,194 | 0,865 |
| | 2023 | 2,857 | 0,030 | 0,400 | 0,100 | 0,186 | 0,859 |
| | 2024 | 2,295 | 0,026 | 0,400 | 0,128 | 0,189 | 0,749 |
| PT TELKOM INDONESIA | 2022 | 0,156 | 0,308 | 0,667 | 0,077 | 0,089 | 0,455 |
| | 2023 | 0,155 | 0,292 | 0,667 | 0,098 | 0,093 | 0,486 |
| | 2024 | 0,153 | 0,304 | 0,667 | 0,102 | 0,085 | 0,458 |
| MAYBANK (MALAYAN BANKING BERHARD) | 2022 | 0,377 | 0,009 | 0,625 | 0,087 | 0,311 | 0,906 |
| | 2023 | 0,774 | 0,010 | 0,625 | 0,097 | 0,244 | 0,909 |
| | 2024 | 0,896 | 0,008 | 0,625 | 0,118 | 0,233 | 0,658 |
| PETRONAS | 2022 | 0,088 | 0,009 | 0,444 | 0,100 | 0,248 | 0,604 |
| | 2023 | 0,226 | 0,008 | 0,444 | 0,100 | 0,251 | 0,623 |
| | 2024 | 0,104 | 0,009 | 0,444 | 0,100 | 0,245 | 0,616 |
| TENAGA NASIONAL BERHARD (TNB) | 2022 | 1,928 | 0,051 | 0,600 | 0,089 | 0,040 | 0,001 |
| | 2023 | 2,089 | 0,000 | 0,600 | 0,113 | 0,741 | 0,001 |
| | 2024 | 1,716 | 0,000 | 0,600 | 0,099 | 0,566 | 0,001 |
| CIMB GROUP HOLDING BERHAD | 2022 | 0,001 | 0,006 | 0,600 | 0,099 | 0,001 | 0,899 |
| | 2023 | 0,001 | 0,004 | 0,600 | 0,108 | 0,001 | 0,905 |
| | 2024 | 0,001 | 0,008 | 0,600 | 0,093 | 0,001 | 0,906 |
| GENTING BERHAD | 2022 | 0,003 | 0,044 | 0,714 | 0,106 | 0,539 | 0,484 |
| | 2023 | 0,003 | 0,043 | 0,714 | 0,107 | 0,364 | 0,475 |
| | 2024 | 0,003 | 0,040 | 0,714 | 0,087 | 0,234 | 0,446 |
| SM INVESTMENT CORPORATION | 2022 | 0,003 | 0,158 | 0,750 | 0,101 | 0,053 | 0,213 |
| | 2023 | 0,003 | 0,202 | 0,750 | 0,110 | 0,042 | 0,226 |
| | 2024 | 0,003 | 0,024 | 0,750 | 0,090 | 0,037 | 0,022 |
| AYALA CORPORATION | 2022 | 0,858 | 0,025 | 0,714 | 0,105 | 0,200 | 1,249 |
| | 2023 | 0,859 | 0,024 | 0,714 | 0,097 | 0,213 | 1,236 |
| | 2024 | 0,871 | 0,020 | 0,714 | 0,098 | 0,219 | 1,082 |
| JG SUMMIT HOLDINGS | 2022 | 0,246 | 0,169 | 0,600 | 0,109 | 0,226 | 0,983 |
| | 2023 | 0,183 | 0,210 | 0,600 | 0,097 | 0,226 | 0,866 |
| | 2024 | 0,167 | 0,218 | 0,600 | 0,103 | 0,215 | 0,740 |
| BANCO DE ORO (BDO UNIBANK) | 2022 | 0,038 | 0,100 | 0,250 | 0,014 | 0,026 | 0,110 |
| | 2023 | 0,038 | 0,070 | 0,250 | 0,014 | 0,027 | 0,072 |
| | 2024 | 0,039 | 0,067 | 0,250 | 0,014 | 0,028 | 0,116 |
| PHILIPINE LONG DISTANCE TELEPHONE COMPANY | 2022 | 0,008 | 0,674 | 0,429 | 0,109 | 0,004 | 0,019 |
| | 2023 | 0,008 | 0,509 | 0,429 | 0,107 | 0,004 | 0,015 |
| | 2024 | 0,008 | 0,414 | 0,429 | 0,110 | 0,004 | 0,013 |

CONCLUSION

This study, which applies a one-sided hypothesis approach with a t-statistic threshold of 1.65 and a p-value halved from the standard output, successfully proves four main hypotheses significantly. Capital structure exhibits a strong positive effect on tax avoidance with a t-statistic of 2.51, exceeding 1.65, and a p-value of 0.017, below 0.05. This reflects how the optimal debt ratio creates a natural tax shield that encourages management to maximize fiscal efficiency without extreme strategies. Profitability also contributes positively with a t-statistic of 2.83 and a very convincing p-value of 0.007, as high profits provide resources for exploring regulatory loopholes such as transfer pricing or sectoral incentives to strengthen cash flow and shareholder value. Corporate governance also supports this positive effect with a t-statistic of 2.18 and a p-value of 0.036, where sound oversight facilitates legal tax planning rather than merely limiting opportunism. Furthermore, Firm Value acts as a unique dual moderator, reinforcing the positive relationship of capital structure to tax avoidance through market confidence that allows aggressive leverage in premium firms, but simultaneously dampens the impulse from Profitability and governance by shifting management's focus to long-term reputation and stock stability on the IDX, so that high-value firms tend to play it safe despite superior ROA or solid governance, while undervalued firms maximize fiscal incentives to remain competitive, creating a stratification pattern that aligns with the dynamics of Trade-Off Theory and agency theory

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where the balance between the tax benefits of debt, profit motivation, and governance control is the key to efficiency without excessive risk. In a regional comparison with Malaysia and Thailand, Indonesia's findings stand out because its still-developing governance oversight allows for more aggressive avoidance practices in highly indebted companies, in contrast to Malaysia where strict governance standards and high tax transparency result in controlled tax avoidance, and Thailand where moderate market dynamics encourage the adoption of progressive governance to balance fiscal efficiency with reputation, so that the local context of Indonesia with the fluctuation of the JCI and the strengthening of DGT regulations post-HPP Law emphasizes the urgency of increasing transparency so that capital structure and profitability do not trigger excessive practices that erode investor confidence. Overall, the success of tax avoidance management is not only determined by capital structure or profitability alone, but is greatly influenced by the quality of governance and moderation of Company Value that ensures long-term balance, with practical implications for IDX executives to calibrate strategies based on Tobin's Q to avoid regulatory sanctions while achieving shareholder value, as well as policy recommendations for the OJK and DJP to strengthen regional supervision so that Indonesia aligns with neighbors such as Malaysia and Thailand in creating a healthy business ecosystem that encourages sustainable investment without sacrificing fiscal integrity.

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