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Corporate Governance's Role in Shaping Tax Avoidance Strategies

Abstract. Companies are increasingly resorting to tax avoidance, a strategy aimed at reducing the tax burden within the law, to accumulate more capital. Understanding the drivers of tax avoidance is crucial for both regulatory bodies and businesses, particularly in a climate of heightened scrutiny of corporate behaviour. This study examines the intricate relationships between profitability, solvency, good corporate governance (GCG), and tax avoidance. The study focuses on firms in the energy sector listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023. The research adopts a quantitative design, which allows for examining causal relationships between variables. The study examines how tax avoidance is impacted by profitability and solvency as independent factors, with sound corporate governance serving as a moderating variable. The information used for analysis came from secondary sources, specifically the audited annual financial statements of the selected energy sector companies, which were accessed from the IDX website. Structural Equation Modeling (SEM) with a Partial Least Squares (PLS) approach was employed for data analysis. The findings indicate that profitability has a significant negative impact on tax avoidance, while solvency exhibits a positive but insignificant effect. Furthermore, good corporate governance does not mitigate the association between tax avoidance and profitability or solvency. This research provides valuable insights for financial management within the energy sector, emphasizing the need for a deeper comprehension of the relationship between tax avoidance and profitability and solvency, alongside the necessity for good corporate governance practices to enhance transparency, and suggests that tax regulations should be adjusted to account for the effects of profitability on tax avoidance behaviour. The results suggest that, despite the limited influence of governance mechanisms in moderating tax avoidance, companies should still strive to enhance governance practices and transparency. By integrating strong tax compliance measures and a commitment to ethical conduct, companies can reduce their exposure to the reputational and legal risks associated with tax avoidance, even if governance does not directly moderate their tax behaviours.

Keywords: profitability, solvency ratio, good corporate governance, tax avoidance, governance structures.

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Роль корпоративного управління у формуванні стратегій ухилення від сплати податків

Анотація. Все частіше компанії вдаються до ухилення від сплати податків, стратегії, спрямованої на зменшення податкового тягаря в рамках закону, щоб накопичити більше капіталу. Розуміння причин ухилення від сплати податків має вирішальне значення як для регуляторних органів, так і для бізнесу, особливо в умовах посиленої перевірки корпоративної поведінки. У цьому дослідженні розглядаються складні взаємозв'язки між прибутковістю, платоспроможністю, належним корпоративним управлінням та ухиленням від сплати податків. Дослідження зосереджено на компаніях енергетичного сектору, зареєстрованих на Індонезійській

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фондовій біржі (IDX) у 2021-2023 роках. Дослідження має кількісний дизайн, який дозволяє досліджувати причинно-наслідкові зв'язки між змінними. Дослідники вивчають як прибутковість і платоспроможність як незалежні змінні впливають на ухилення від сплати податків, причому корпоративне управління розглядається як модеруюча змінна. Інформація, використана для аналізу, взята з вторинних джерел, зокрема перевірених річних фінансових звітів обраних компаній енергетичного сектору, опублікованих на веб-сайті IDX. Для аналізу даних було використано моделювання структурних рівнянь (SEM) за методом часткових найменших квадратів (PLS). Результати показують, що прибутковість має значний негативний вплив на ухилення від сплати податків, тоді як платоспроможність демонструє позитивний, але незначний вплив. Крім того, належне корпоративне управління не пом'якшує зв'язок між ухиленням від сплати податків і прибутковістю чи платоспроможністю. Це дослідження дає цінну інформацію щодо управління фінансами в енергетичному секторі, наголошуючи на необхідності глибшого розуміння взаємозв'язку між ухиленням від сплати податків та прибутковістю і платоспроможністю, а також на необхідності належної практики корпоративного управління для підвищення прозорості. Передбачається, що податкове законодавство має бути скориговано з урахуванням впливу прибутковості на ухилення від сплати податків. Результати доводять, що, незважаючи на обмежений вплив механізмів управління на пом'якшення ухилення від сплати податків, компанії все одно повинні прагнути вдосконалювати практику управління та підвищувати його прозорість. Інтегруючи суворі заходи щодо дотримання податкового законодавства та зобов'язання дотримуватись етичної поведінки, компанії можуть зменшити свій репутаційний і юридичний ризик, пов'язаний з ухиленням від сплати податків, навіть якщо корпоративне управління безпосередньо не пом'якшує їх податкову поведінку.

Ключові слова: прибутковість, коефіцієнт платоспроможності, належне корпоративне управління, ухилення від сплати податків, структури управління.

INTRODUCTION

Tax avoidance has emerged as a critical subject in corporate finance. It represents the strategies that firms use to reduce their tax burdens while staying within the confines of the law. Defined as the legal means of reducing tax liabilities, tax avoidance can significantly affect a company's financial standing and public image (Silaban, 2020). Understanding the drivers of tax avoidance is crucial for both regulatory bodies and businesses, particularly in a climate of heightened scrutiny of corporate behaviour.

A key factor influencing the avoidance of tax practices is profitability. Typically, companies that generate higher profits encounter more substantial tax obligations, which may prompt them to adopt tax planning strategies to reduce their tax payments. Studies indicate that companies with increased profitability are more likely to manipulate tax activities, as these strategies can help optimize their financial outcomes (Prabowo & Sahlan, 2022). While these techniques are legally permissible, they often involve complex financial manoeuvres that can raise concerns about the ethical responsibilities of corporations and their role in society.

Similarly, solvency is a critical aspect of an organization's capacity to handle its tax responsibilities. Solvency ratios are commonly used to assess the stability of a firm's finances, evaluating its capacity to meet both immediate and long-term liabilities (Kasmir, 2016). A company with a strong solvency position is more likely to take calculated risks in tax planning, as it is better positioned to manage the financial impacts of such decisions.

Moreover, Good Corporate Governance (GCG) plays an important part in determining how a business tackles the tax avoidance. Effective governance structures emphasize transparency, accountability, and ethical conduct – principles that help mitigate the tendency to practise aggressive tax evasion. Firms with solid

governance systems are better suited to balance tax efficiency with ethical standards, ensuring their tax strategies comply with legal requirements and shareholder expectations (Supriyanto, 2021; Mafruhah, 2020). The link between GCG and tax avoidance suggests that a well-established governance system can act as a safeguard against unethical tax practices, promoting a culture of compliance and social responsibility.

Thus, as evidenced by the results of previous studies, tax evasion is influenced by key factors such as profitability, solvency, and corporate governance, with each playing a critical role in establishing a company's tax policies.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

Profitability and Tax Avoidance

Profitability is important in developing a company's tax planning methods, particularly in avoiding taxes. Silaban (2020) defines profitability as a company's capacity to generate profit relative to its sales, assets, and equity. As profitability increases, so do tax liabilities, often motivating firms to seek tax evasion tactics to lower their tax burden and maximize net earnings. Dewi and Noviani (2017) argue that profitability ratios assess management's performance in generating returns on investment. As profits rise, firms are more likely to use legal methods to reduce their tax obligations by leveraging financial resources to navigate complex tax regulations. Rahayu and Kartika (2021) add that profitability ratios also reflect a company's operational efficiency and ability to manage liabilities, influencing tax management decisions. Siregar (2021) suggests that profitability demonstrates management's ability to maximize returns, which can encourage more aggressive tax planning. Prabowo and Sahlan (2022) note that as profitability grows, companies seek tax avoidance as a legitimate way to reduce their tax burden and enhance

shareholder wealth, often by exploiting tax loopholes. This creates a complex relationship between profitability and tax avoidance, raising ethical questions and concerns about the long-term sustainability of such strategies. This view is supported by studies from Adnyani and Astika (2019) and Sulaeman (2021), which all assert that profitability has a beneficial influence on tax avoidance.

Therefore, our study's first hypothesis (H_1) suggests that profitability affects tax avoidance.

Solvency and Tax Avoidance

Companies with high levels of debt in their operations tend to have lower tax rates because they can use interest payments on loans to reduce their taxable income. As the amount of debt increases, so does the interest expense, which reduces pre-tax profits and the tax liability (Setyaningsih et al., 2023). Additionally, the higher the solvency ratio, the greater the proportion of debt and interest payments companies can carry, enabling firms with high tax burdens to reduce taxes through increased borrowing (Wirawan & Yuniarwati, 2022). This relationship is further supported by the research of Prasatya et al. (2020), Prabowo and Sahlan (2022), and Ami Mastura et al. (2023), who confirm that solvency positively influences tax avoidance strategies.

Therefore, our study's second hypothesis (H_2) suggests that solvency affects tax avoidance.

The Role of Good Corporate Governance in Enhancing Profitability and Solvency in the Context of Tax Avoidance

Independent commissioners promote good corporate governance and play an essential role in enhancing the effectiveness of oversight over the board of directors' performance. An increase in the number of independent commissioners contributes to more rigorous and accountable monitoring, ensuring that the board's actions align with the company's best interests (Supriyanto, 2021). Moreover, well-structured board composition is positively associated with the calibre of earnings data, where a higher percentage of independent commissioners can strengthen the oversight of financial reporting and mitigate the risks associated with earnings manipulation (Badoa, 2020). This perspective is further corroborated by the research of Sandy and Lukviarman (2015), Pratomo and Rana (2021), and Setyarini et al. (2023), all of whom assert that independent commissioners, serving negatively impact tax evasion as a stand-in for good corporate governance. Therefore, the increased presence of independent oversight is seen as a deterrent to opportunistic tax planning strategies, reinforcing the importance of governance structures in ensuring financial transparency and compliance with regulatory standards.

Therefore, our study's third hypothesis (H_3) suggests that profitability affects tax avoidance through good corporate governance.

An increase in the number of independent commissioners can lead to communication and collaboration challenges among board members, which may hinder the board's ability to make effective decisions

for the company (Nuramal et al., 2023). Additionally, firms with high debt levels tend to seek ways to reduce their tax payments (Prasatya et al., 2020). In this context, while independent commissioners are expected to enhance management oversight, the elevated debt structure may incentivize management to continue searching for loopholes in tax obligations. This viewpoint is further supported by the research of Sandy and Lukviarman (2015), Pratomo and Rana (2021), and Setyarini et al. (2023), who assert the negative effects of independent commissioners on tax avoidance as a stand-in for good corporate governance. While beneficial for corporate governance, independent oversight may be less effective in mitigating tax avoidance in companies with significant debt, as the pressure to reduce tax liabilities may outweigh the governance benefits.

Therefore, our study's fourth hypothesis (H_4) suggests that solvency affects tax avoidance through good corporate governance.

RESEARCH METHODOLOGY

This study focuses on firms in the energy sector listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023. A purposeful sampling technique was employed to select companies that meet specific criteria relevant to the research objectives. 32 companies were selected based on these criteria, resulting in 96 firm-year observations across the three years from 2021 to 2023.

The research adopts a quantitative design, which allows for examining causal relationships between variables. The study examines how tax avoidance is impacted by profitability and solvency as independent factors, with sound corporate governance serving as a moderating factor. According to Elfrianto and Lesmana (2022), the quantitative approach is grounded in a positivist philosophy. It involves collecting and analysing numerical data to test hypotheses and establish relationship patterns between variables.

The information used in this investigation came from secondary sources, specifically the audited annual financial statements of the selected energy sector companies, which were accessed from the IDX website. These financial statements provide comprehensive information on the key variables under study, including profitability, solvency, good corporate governance, and tax avoidance. The data collection process was completed in October 2024, ensuring that the most up-to-date financial information was included in the analysis.

Structural Equation Modeling (SEM) with a Partial Least Squares (PLS) approach was employed for data analysis. SEM-PLS was selected due to its capacity to handle complex relationships between multiple variables, particularly when both direct and indirect effects and moderating variables are involved. This method is well-suited for testing the interrelationships between profitability, solvency, and tax avoidance, with good corporate governance as a moderating factor. The reliability and validity of the measurement models were evaluated through convergent and discriminant validity tests, as well as Composite Reliability and Cronbach's Alpha tests, to ensure the constructs' consistency.

The quantitative methodology of this study permits thorough hypothesis testing. It offers insightful information about the effects of profitability, solvency, and sound corporate governance on tax evasion in energy sector businesses. As the analytical tool, SEM-PLS ensures a robust examination of the complex relationships between these variables, making it an appropriate method for financial research involving multiple interdependent factors.

Data Analysis

Good corporate governance will be used as a moderating variable to examine the link between the independent variables (profitability and solvency) and the dependent variable (tax avoidance). We use the model as follows:

$$Y_i = \alpha_i + \beta_1 X_1 + \beta_2 X_2 + \varepsilon_i \quad (1)$$

$$Y_i = \alpha_i + \beta_1 X_1 + \beta_2 X_2 + \beta_3 (X_1 * Z) + \beta_4 (X_2 * Z) + \theta_i \quad (2)$$

Description:

Y_i	: Tax Avoidance
ε_i and θ_i	: Error Terms
α_i	: Constant
$\beta_1 - \beta_4$: Variable Regression Coefficient
X_1	: Profitability
X_2	: Solvency
Z	: Good Corporate Governance

Operational Variables

The *dependent variable* in this study is tax avoidance, which refers to the legal practice of reducing or deferring tax liabilities by tax regulations to avoid burdening the company's current cash flow (Pasaribu & Mulyani, 2019). Tax avoidance is measured by evaluating the strategies employed by companies to minimize their tax obligations, thereby generating additional revenue through cash savings (Firmansyah & Triastie, 2020).

$$\text{Cash Effective Tax Rate} = \frac{\text{Taxes Paid}}{\text{Taxable Income}}$$

The *independent variables* in this study are profitability and solvency. The profitability is measured using two indicators: *Return on Assets (ROA)* and *Return on Equity (ROE)*. ROA reflects a company's ability to generate profit relative to its total assets, gauging how well management uses the business's resources (Rahayu & Kartika, 2021).

$$\text{Return on Asset} = \frac{\text{Net Income}}{\text{Total Assets}}$$

On the other hand, ROE measures how effectively a company generates profit for its shareholders relative to their equity investment, indicating the returns provided to shareholders (Anwar, 2019). Both indicators are used to assess a company's overall financial performance and the efficiency of its management in generating returns.

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Total Equity}}$$

Solvency is measured using two indicators: the *Debt-to-Asset Ratio (DAR)* and the *Debt-to-Equity Ratio (DER)*. DAR describes the relationship between a company's debt and its total assets, giving a measure of the business's financial risk and leverage (Riza & Suryono, 2020). These ratios, also known as leverage ratios, are essential for understanding how much debt a company must carry about its assets (Hery, 2021).

$$\text{Debt - to - Asset Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

On the other hand, DER evaluates and contrasts the company's total debt and equity, helping to assess its financial leverage and capacity to meet its obligations (Supriyati, 2023). Solvency ratios assess a company's ability to fulfil both short-term and long-term obligations in the case of insolvency (Kasmir, 2016).

$$\text{Debt - to - Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Finance & Taxation

This study examines Good Corporate Governance (GCG), which serves as a *moderating variable* that influences the link between the independent variables (such as profitability and solvency) and the dependent variable (tax avoidance). A higher proportion of independent commissioners, as part of GCG, strengthens oversight, potentially reducing aggressive tax avoidance behaviours. Corporate Governance refers to the processes and structures used by corporate bodies, such as the board of directors, shareholders, committees, and supervisory

boards, to regulate interactions among them (Sutedi, 2011). According to the National Committee on Governance Policy (KNKG, 2006), Good Corporate Governance (GCG) outlines the rights and responsibilities of shareholders, management, and other stakeholders within and outside the company. Independent Commissioners are board members responsible for overseeing management operations and policies (Auliya et al., 2021).

$$\text{Proportion of Independent Commissioners} = \frac{\text{Number of Independent Commissioners}}{\text{Total Number of Commissioners}}$$

RESULTS

Descriptive Statistics

This study employs descriptive statistical analysis to outline the variables of profitability, solvency, good corporate governance and tax avoidance presented in Table 1.

Table 1. Descriptive Statistics Results

Variable	Indicator	N	Min.	Max.	Mean	Std. Deviation
Profitability	ROA	96	0,000	0,616	0,144	0,154
	ROE	96	0,001	1,247	0,256	0,269
Solvency	DAR	96	0,048	0,894	0,447	0,210
	DER	96	0,050	8,453	1,289	1,527
Good Corporate Governance	PIC	96	0,333	0,833	0,449	0,126
Tax Avoidance	CETR	96	0,003	4,565	0,380	0,608

The outcomes of the R-squared test are presented in Table 2.

Table 2. R-squared Result (R²)

Description	R-squared	R-squared Adj
Tax Avoidance	0,090	0,040

The R-squared value of 0.090 indicates that all variables – profitability and solvency – can explain or account for tax avoidance by only 0.090 or 9%, with the remaining 91% elucidated by additional factors not discussed within the research.

The outcomes of direct influence are presented in Table 3.

Table 3. Output Path Coefficients

	Original Sample	T-statistic	P-value
Profitability → Tax Avoidance	-0,192	4,274	0,000
Solvency → Tax Avoidance	0,034	0,296	0,768
Good Corporate Governance → Tax Avoidance	0,063	0,555	0,579

The profitability variable exhibits a statistically significant negative relationship with tax avoidance, as evidenced by a coefficient of -0.192 and a p-value of 0.000. This finding indicates that higher levels of profitability are associated with a reduction in tax avoidance behaviour within the sample. The negative sign of the coefficient suggests that more profitable firms are less inclined to engage in strategies aimed at reducing their tax liabilities, possibly due to the increased scrutiny

that accompanies higher earnings and the greater ability to pay taxes.

In contrast, the solvency variable, represented by the DAR and DER, demonstrates a positive yet statistically insignificant association with tax avoidance, possessing a coefficient of 0.034 and a p-value of 0.768. The outcomes imply that solvency does not significantly influence a company's tax avoidance practices. The lack of significance suggests that solvency alone is not a primary

driver of tax avoidance behaviour, at least within the context of this study.

Furthermore, the Good Corporate Governance (GCG) variable, commonly thought to influence organizational behaviour and decision-making, shows a positive but statistically insignificant effect on tax avoidance, with a coefficient of 0.063 and a p-value of 0.579. This suggests that independent directors or governance mechanisms in this study do not significantly reduce tax avoidance despite the potential for improved oversight and ethical behaviour associated with stronger governance practices. The lack of a substantial relationship may indicate the

complexity of governance structures and their limited direct influence on tax-related decision-making.

These findings contribute to the ongoing discourse on the factors influencing tax avoidance, highlighting the nuanced relationships between firm characteristics, governance, and tax strategies. Future research may explore additional moderating or mediating variables that could offer deeper insights into the drivers of tax avoidance in different corporate settings.

The outcomes of indirect influence are presented in Table 4.

Table 4. Output Path Coefficients

	Original Sample	T-statistic	P-value
GCG * Profitability → Tax Avoidance	-0,178	1,522	0,128
GCG * Solvency → Tax Avoidance	-0,165	1,687	0,092

The interaction between Good Corporate Governance (GCG) and profitability does not exhibit a statistically significant effect on tax avoidance, with a coefficient of -0.178 and a p-value of 0.128. Despite the negative aspect of the coefficient, which might suggest that more profitable firms should engage in less tax avoidance, the absence of statistical significance indicates that profitability does not materially alter the influence of GCG on tax avoidance. This could point to the fact that while governance structures theoretically improving ethical behaviour, they may not be sufficient to override profit-driven motives in tax-related decision-making.

Similarly, GCG's moderating influence on the relationship between solvency and tax avoidance produces no significant results, with a coefficient of -0.165 and a p-value of 0.092. Although this coefficient is negative, suggesting that higher solvency might reduce tax avoidance, the absence of statistical significance implies that solvency does not have a strong moderating influence in this context. This finding suggests that solvency, defined by the debt-to-equity ratio, is not critical in determining how corporate governance impacts tax avoidance. The results imply that tax avoidance is driven by a more complex set of factors, where solvency alone cannot alter this relationship.

DISCUSSION

Hypothesis 1. The results of this study provide empirical evidence that profitability has a negative and statistically significant effect on tax avoidance. Specifically, these results suggest that as a firm's profits climb, its propensity to participate in tax avoidance lessens. This conclusion is corroborated by Kurniasih and Sari (2013) and Sulaeman (2021), who observe that higher profitability is associated with reducing tax avoidance behaviours. Profitable firms generally possess greater financial and organizational resources, enabling them to ensure compliance with prevailing tax regulations. Additionally, such firms are more likely to prioritize their corporate reputation and social responsibility, thereby fulfilling tax obligations to maintain favourable relations with key stakeholders.

Moreover, firms strategically oriented towards long-term growth tend to recognize that tax avoidance could undermine their relationship with tax authorities, thereby exposing them to potential audit risks or sanctions. In this regard, high levels of profitability are found to incentivize tax compliance as an integral component of a broader strategic framework, which emphasizes sustainable business practices and risk management.

These findings contribute to the understanding that the link between profitability and tax avoidance is complex and multifaceted. Profitable businesses are more likely to engage in tax compliance because of considerations of reputational capital, stakeholder trust, and the minimization of legal and regulatory risks.

Hypothesis 2. The results of this study provide evidence for the rejection of the second hypothesis, which posits that solvency has a good and strong influence on tax avoidance. Specifically, the findings indicate that although there is a positive correlation between solvency and tax avoidance, it is not statistically significant. These findings are consistent with the investigations of Badoa (2020) and Jamaludin (2020), all of which similarly conclude that solvency does not significantly influence tax avoidance. Although a trend may exist suggesting that firms with higher solvency – defined as a better ability to meet long-term obligations – could be more inclined to engage in tax avoidance, this relationship is not sufficiently robust to be considered meaningful in the present study.

One plausible explanation for this finding is that firms with high solvency may perceive themselves as more secure in their ability to meet tax obligations, thereby reducing the incentive to seek tax avoidance strategies. Furthermore, firms with substantial assets may be more focused on long-term growth strategies rather than assuming the legal risks associated with tax avoidance. Consequently, despite the positive relationship observed, tax avoidance does not emerge as a primary concern for firms exhibiting high levels of solvency.

In summary, the evidence suggests that while solvency may positively correlate with tax avoidance, the strength of this association is insufficient to warrant a significant impact, thus refuting the second hypothesis.

Finance & Taxation

This implies that financial stability, as reflected in solvency, does not inevitably cause enterprises to engage in tax avoidance behaviours, as other factors – such as long-term strategic goals and risk aversion – may take precedence.

Hypothesis 3. The findings of this study support the rejection of the third hypothesis, which posited that Good Corporate Governance (GCG) moderates the relationship between profitability and tax avoidance. These findings are consistent with prior research by Badoa (2020) and Kusuma Wardani et al. (2022), which similarly indicate that profitability considerably impacts tax avoidance. Good corporate governance is not a moderating factor that strengthens or weakens this relationship.

One possible explanation for this outcome is that firms with high profitability may still indulge in tax avoidance, regardless of the quality of governance practices. On the other hand, firms with strong governance mechanisms may place greater emphasis on tax compliance and social responsibility, therefore minimizing the influence of profitability on tax avoidance. However, the moderating effect of governance standards does not appear to appreciably affect the nature of the profitability-tax avoidance link in this situation.

In summary, these findings suggest that corporate governance does not possess sufficient strength to influence how profitability relates to tax avoidance despite its importance in shaping overall organizational behaviour. This implies that other factors – such as corporate culture, strategic priorities, or external pressures – may be more critical in determining whether profitable firms engage in tax avoidance than the governance structures in place.

Hypothesis 4. The findings of this study show evidence for rejecting the fourth hypothesis, which posited that Good Corporate Governance (GCG) modifies the link between solvency and tax avoidance. The results are consistent with the studies of Badoa (2020) and Supriyanto (2021), which similarly suggest that, although solvency – reflecting a company's capacity to fulfil long-term obligations – has the potential to impact tax avoidance, the quality of corporate governance does not serve as a moderating factor that either strengthens or weakens this relationship.

One possible explanation for this result is that very solvent companies could nonetheless be motivated to participate in tax avoidance, regardless of the governance practices they have in place. Furthermore, firms that adopt good corporate governance tend to prioritize compliance and transparency, yet these practices are insufficient to significantly alter solvent firms' tax avoidance behaviour. In other words, applying governance principles does not appear to effectively modify the interaction between solvency and tax avoidance in the observed sample.

The results of this study indicate that corporate governance has little effect in moderating the connection between tax avoidance and solvency. This implies that factors intrinsic to the firm's financial strategy, risk appetite, or external regulatory pressures might be more

important in influencing tax avoidance behaviour than the governance framework within which the firm operates.

CONCLUSION

This study examines the intricate relationships between profitability, solvency, Good Corporate Governance (GCG), and tax avoidance. The analysis results show that while profitability exerts a substantial detrimental impact on tax avoidance, more profitable companies are less likely to engage in tax avoidance due to their increased ability to comply with legislation and strategic long-term planning. Furthermore, neither solvency nor GCG significantly moderates this relationship. Specifically, solvency, which reflects the ability of a business to meet long-term commitments, doesn't demonstrate a significant impact on tax avoidance behaviours, implying that financial stability alone does not drive or deter tax avoidance. Additionally, although strong governance practices are often associated with improved corporate behaviour, GCG fails to moderate the relationship between profitability and tax avoidance, as well as between solvency and tax avoidance. So, factors such as corporate culture, financial strategy, and risk considerations influence tax decisions more. In conclusion, the findings underscore that a company's profitability and financial health have the biggest impact on tax avoidance rather than its solvency or governance framework, suggesting that while governance structures may promote ethical practices, they do not necessarily mitigate the propensity for avoiding taxes when there are financial incentives.

The results suggest that, despite the limited influence of governance mechanisms in moderating tax avoidance, companies should still strive to enhance governance practices and transparency. By integrating strong tax compliance measures and a commitment to ethical conduct, companies can reduce their exposure to the reputational and legal risks associated with tax avoidance, even if governance does not directly moderate their tax behaviours.

For investors, the findings highlight the importance of considering not just profitability but also the broader risk profile of a company, particularly in terms of tax practices. Firms with strong profitability but weak governance structures may still engage in tax avoidance, which could expose them to regulatory and reputational risks. Therefore, investors should conduct thorough due diligence on firms' governance and compliance practices beyond financial performance before making investment decisions.

Study Limitations

1. With an R-squared value of only 0.09, the analytical model used in this study has a comparatively poor explanatory power, implying that the constructs studied merely consider 9% of the variation in tax avoidance. This indicates that the remaining 91% of the variation is impacted by factors not covered in the study, highlighting the model's inadequate ability to account for the complexity of tax avoidance behaviour. Future research should consider incorporating additional

variables or alternative models to explain tax avoidance behaviour more comprehensively.

2. Tax avoidance is impacted by various factors, such as regulatory environments, corporate culture, and external pressures. The results of this study may not be generalizable across all industries or jurisdictions. The findings may be context-dependent, particularly when considering the diversity in governance practices, tax laws, and economic conditions across countries. Future studies could expand the scope of the sample to explore these contextual differences, thereby providing more robust and widely applicable conclusions.

3. While profitability appears to be a key determinant of tax avoidance, solvency and Good Corporate Governance (GCG) did not significantly moderate this relationship in this study. So, the factors traditionally

thought to influence corporate behavior – such as financial stability and governance quality – may not have as strong an effect on tax avoidance as anticipated. Future research could explore more specific governance mechanisms or other financial factors, such as capital structure or managerial incentives, to better understand their potential role in influencing tax behaviour.

4. The model's relatively weak explanatory power implies that firms should not overly rely on profitability alone as a predictor of tax avoidance, nor should they expect corporate governance mechanisms to moderate this relationship substantially. Companies, particularly those with high profitability, should prioritize building ethical tax practices and strong compliance frameworks, as failure to do so may lead to regulatory scrutiny or reputational risks in the long term.

4 References

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