

Does Good Corporate Governance Moderate the Influence the Level of Profit Achievement and the Level of Indebted Use of the Corporation on Tax Avoidance

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Abstract:- This study aims to provide empirical evidence regarding the effect of profitability and leverage on tax avoidance with good corporate governance (GCG) as a moderating variable in manufacturing companies listed on the Indonesia stock exchange for the period 2020-2022. 175 manufacturing enterprises registered on the Indonesia Stock Exchange for the 2020–2022 timeframe make up the study's population. The sample selection technique in this study used purposive sampling technique with the total sample that met the criteria of 129 financial reports from 43 manufacturing companies listed on the Indonesia Stock Exchange for the period 2020-2022. Methods of data analysis used to problem solve in this research is a panel data regression analysis with Eviews 10 software. The results in this research show that profitability and leverage affect tax avoidance, and GCG can moderate the effect of profitability and leverage on tax avoidance.

Keywords:- Tax Avoidance; Profitabilitas; Leverage; Good Corporate Governance; Asean Corporate Governance Scorecard.

I. INTRODUCTION

Based on the state budget realization report, taxes have the largest contribution to the state budget, this can be seen from the 2020 state budget realization report that the realization of state revenue 77.99% comes from tax revenue. The considerable contribution of taxes to the state budget shows that taxes play an important role in economic development (Ministry of Finance 2020 State Budget realization report). The following is data on Indonesia's state revenue from the tax sector for the period 2015 to 2020:

Table 1 Target and realization of Indonesian state tax revenue for the 2015-2020 period

Period	Target (Trillion)	Realization (Trillion)	Achievements
2015	1.294	1.055	81,53%
2016	1.539	1.283	83,37%
2017	1.283	1.147	89,40%
2018	1.424	1.316	92,41%
2019	1.578	1.332	84,44%
2020	1.404	1.285	91,50%

Table 1. shows that from 2015 to 2020 the amount of tax realization did not match the target calculated by the government previously, meaning that government revenue from taxes has not reached the optimal target expected each year. The Organization for Economic Cooperation and Development (OECD) also noted that Indonesia's tax ratio from 2015 to 2020 was below the average tax ratio of countries in the Asia Pacific region, one of the factors that caused the low tax ratio was the existence of loopholes in government tax policies and the relatively easy practice of tax avoidance in Indonesia (www.oecd.org). In the Tax Justice Network report entitled Tax Justice 2020: Tax Justice in the time of Covid-19, it was found that there was tax avoidance going on in Indonesia with losses reaching US\$ 4.86 billion per year. Of these losses, as much as US\$ 4.78 billion of which is the result of corporate tax avoidance in Indonesia.

One of the corporations that have committed tax avoidance in Indonesia is PT Bentoel Internasional Investama. According to a 2019 report from the Tax Justice Network Institute, the company has engaged in tax avoidance in Indonesia by taking out numerous loans between 2013 and 2015 that were used to finance bank debt and pay for equipment and machinery. The interest paid on these loans became a deduction from the company's taxable income in Indonesia, and Indonesia should be able to charge 20% tax on the amount of debt taken. The tax phenomenon carried out by PT Bentoel Internasional Investama shows that factors that can encourage taxpayers to carry out Tax Avoidance include the level of profit and the amount of debt. The phenomenon of tax avoidance by companies has an impact on state losses, which indicates that corporate governance is not running well.

II. LITERATURE REVIEW AND HYPOTHESIS

A. Agency Theory

According to Jensen and Meckling (1976), agency theory is a theory that explains the contractual cooperative connection between one or more persons (principals) who permit the agent to perform a service and delegate decision-making authority to other people (agents). In the concept of agency theory, it states that conflicts occur due to differences in interests between principals and agents. Principals as owners or shareholders, while management as agents.

According to agency theory, there is a conflict of interest between the principal and the agent, which forces the principal to monitor or supervise at the agent's expense to prevent tax avoidance. This is done so that the company avoids the long-term consequences of the tax avoidance action. The difference between management as the party paying taxes and the government or tax authorities as tax collectors is another relationship between agency theory and tax avoidance. Fiskus hopes to collect as much tax as possible as a source of state revenue, but agents try to generate significant corporate profits by reducing costs for tax payments (Prakosa, 2014). This can occur because the principal delegates authority to the agent to minimize the company's tax burden, so that the tax payment is less than what should be paid. If the agent cannot fulfill the principal's wishes, then the agent will bear the cost.

B. Trade off theory

The trade off theory was first introduced by Modigliani and Miller in 1963 in the American Economic Review article 53 (June 1963) with the title Corporate Income Tax on the Cost of Capital: A correction. This theory explains the balance between the costs incurred and the benefits obtained, whether the debt is greater than the equity owned by the company or vice versa which will show the balance between the costs incurred and the benefits obtained later. The important point of Trade off theory in capital structure is to balance the benefits and costs that will be obtained by the company due to the use of debt. If the company gets more benefits, then the company is still allowed to increase the amount of debt. If the costs incurred due to the use of debt are greater than the benefits received, the company is not allowed to increase the amount of debt. According to Kholbadalov (2012) trade off theory explains that tax avoidance is a substitute for the use of debt, meaning that companies that do not use debt to finance the company will get a higher tax burden than companies that use debt. This happens because the interest arising from the use of debt can be a burden that can reduce the company's profit which will have an impact on lower tax payments.

C. Tax Avoidance

Definition of Tax Avoidance according to Pohan (2016) is as follows: "Tax Avoidance is a tax avoidance effort that is carried out legally and safely for taxpayers because it does not conflict with tax provisions, where the methods and techniques used tend to take advantage of the weaknesses (grey areas) contained in the tax laws and regulations themselves, to reduce the amount of tax payable."

The proxy CETR (Cash Effective Tax Ratio) is used in this study's measurement of tax avoidance. Company Financial Information determines or analyzes the effective tax rate (Fadjareni, et al 2023), CETR is the company's financial information used in this research because it shows the cash spent on tax costs divided by profit before tax. Measurement of tax avoidance in this research use CETR (Cash Effective Tax Ratio) which is cash spent on tax costs divided by profit before tax.

A good Tax Avoidance measurement used according to Dyreng, et. al (2010) is to use Cash ETR because it can show Tax Avoidance activities carried out by the company, this is because Cash ETR is not influenced by changes in estimates, for example tax protection or valuation allowances. Another reason for using Cash ETR is because it can answer the problems and limitations of measuring Tax Avoidance in the GAAP ETR model which is only able to explain tax avoidance originating from temporary differences and does not provide an overall explanation of changes in tax burden because ETR represents current and deferred taxes. The higher tax avoidance activity occurs in a company if the Cash ETR value is smaller. The percentage value of Cash ETR which is close to the Corporate Income Tax rate of 25% can explain that it indicates that the level of tax avoidance of a company is getting lower. The formula for CETR is as follows:

$$\text{CETR} = \frac{\text{Tax Payment}}{\text{Earning Before Tax}} \times 100\%$$

Trade off theory was first introduced in 1963 by

D. Profitability

Profitability is a financial ratio that can assess the company's ability to achieve profits in a certain period. This ratio can measure the level of management effectiveness in the company, this is indicated by the profit that can be generated by investment income and sales. An important point in using the profitability ratio is that it can show the efficiency of the company (Kasmir, 2018). Harahap (2013) states that the profitability ratio explains the ability of a company to earn profits from the company's capabilities and resources such as cash, sales, and capital owned. The profitability ratio in this research is measure by Return on Equity (ROE) which is used to measure net profit after tax with own capital (Kasmir, 2018). The formula for ROE according to Kasmir (2018) is:

$$\text{ROE} = \frac{\text{EAT (Earning After Tax)}}{\text{Equity}} \times 100\%$$

E. Leverage

Leverage is a ratio that can measure the company's ability to finance its activities whether it uses more debt or uses its own capital, namely equity. Leverage in this study uses the DER (Debt Equity Ratio) proxy, which is the ratio used to assess debt to equity. This ratio compares the overall debt owned by the company with all of its equity. Companies that have a high DER value indicate that the company finances more of the company's activities using debt rather than using its equity. In other words, this ratio functions to find out each rupiah of capital that is used as a guarantee for

debt (Kasmir, 2018). The formula for DER according to Gitman and Joehnk (2005) is:

$$DER = \frac{\text{Total Liability}}{\text{Total Shareholders' Equity}} \times 100\%$$

F. Good Corporate Governance

The National Committee on Governance Policy (KNKKG) defines good corporate governance as a standard for corporate organizations to obtain sustainable added value in the long term for shareholders, while taking into account the interests of other stakeholders based on applicable norms and laws and regulations. The definition and concept of corporate governance is based on agency theory, namely that the governance of a company must be controlled and supervised so that it can be ensured that the governance carried out by the agent is in accordance with and complies with all applicable regulations. With this supervisory mechanism, it is expected to minimize fraudulent acts committed by agents so as to prevent losses between the two parties (Larcker and Tayan,

2011). In this research, the measurement of the Good Corporate Governance variable uses the Asean Corporate Governance Scorecard (ACGS). According to the ACGS, the GCG principles are a tool to assess ASEAN-listed companies' compliance with corporate governance principles in accordance with exemplary practices based on international standards, particularly the principles of corporate governance issued by the Organization for Economic Cooperation and Development (OECD). The following is the ACGS formula used in this research:

$$ACGS = (\sum di/M) \times 100\%$$

Description:

ACGS = ASEAN Corporate Governance Scorecard Index

$\sum di$ = Total score of 1 that the company gets

M = Maximum total items that can be fulfilled

The total score or final value for the company's GCG performance obtained from the assessment results will be interpreted as follows:

Table 2 Assessment Results

No	OECD Principle	Question Item	Assessment Weight
A	Rights of Shareholders	21	10%
B	Equitable Treatment of Shareholders	15	10%
C	Role of Stakeholders	13	15%
D	Disclosure and Transparency	32	25%
E	Responsibilities of the Board	65	40%
Total		146	100%

G. Hypothesis

➤ *Profitability on Tax Avoidance*

According to Chen et al. (2010), companies that obtain a high percentage value of profitability allow companies to carry out tax planning aimed at reducing the amount of tax liability. Therefore, if the value of profitability is higher, the higher the opportunity for companies to do Tax Avoidance, this happens because companies that earn large profits will be freer to use loopholes to manage their tax burden.

The results of research on the effect of profitability on Tax Avoidance conducted by Kusumah et al., (2021) and Tarmidi et al., (2020) found that profitability affects Tax Avoidance, but contrary to the results of research by Nafik Hadi Ryandono et al., (2020) and Alfina et al., (2018) who found that profitability has no effect on tax avoidance. Based on this, the first hypothesis can be drawn:

H₁: Profitability affects Tax Avoidance

➤ *Leverage Effect on Tax Avoidance*

The use of debt has consequences in the form of fixed interest costs. If the company cannot pay the interest incurred by the use of debt, it means that the company will experience financial problems and possibly bankruptcy. However, the use of debt will reduce taxes due to interest incurred, which can benefit shareholders (Kamaludin, 2011). According to the trade off theory (Kholbadalov, 2012), tax avoidance

serves as a substitute for the use of debt; in other words, company that do not use debt to finance their business will pay higher taxes than company that do. This is because interest arising from the use of debt can be an expense that can reduce business profits, resulting in higher tax payments. According to Richardson and Lanis (2007) a company that uses more debt than equity in financing its activities has a low CETR value, the lower the CETR value indicates that the company is indicated to do tax avoidance. Therefore, the higher the use of debt by the company, the higher the company is indicated to avoid taxes. Because of this, leverage is thought to have an influence on tax avoidance. The results of research on the effect of leverage on Tax Avoidance conducted by Kusumah et al., (2021) and Alfina et al (2018) found that leverage affects Tax Avoidance, but contrary to the results of Sarpingah's research (2020) which found that leverage has no effect on tax avoidance. Based on this explanation, the second hypothesis can be drawn:

H₂: Leverage affects Tax Avoidance

➤ *The effect of good corporate governance on tax avoidance*

The implementation of good corporate governance can make the company have added value, which is beneficial for all related parties. The method applied is the existence of a system or rules that the company runs in achieving company goals. According to (Ariawan & Setiawan, 2017) the increasing supervisory mechanism in companies that implement good corporate governance (GCG) will make

company management carry out existing rules, including corporate taxes, in order to avoid tax avoidance efforts. Minnick & Noga (2010) state that GCG has a role in encouraging company compliance as a taxpayer to carry out its tax obligations because GCG can play a role in long-term tax management. The results of on the effect of Good corporate governance on Tax Avoidance conducted by Minnick & Noga (2010), Widuri et al (2021) and Vivi & Winie (2016) found that Good corporate governance has an effect on. Based on this explanation, the third hypothesis can be drawn:

H₃: Good corporate governance affects Tax Avoidance.

➤ *Good corporate governance can moderate the effect of Profitability on Tax Avoidance*

Minnick & Noga (2010) state that GCG has a role in encouraging company compliance as a taxpayer to carry out its tax obligations because GCG can play a role in long-term tax management. Therefore, the implementation of good corporate governance in the company is expected to encourage companies to make decisions to improve healthier financial performance in obtaining profits without avoiding actions that violate applicable tax regulations. Based on this explanation, the fourth hypothesis can be drawn:

H₄: Good corporate governance moderates the effect of profitability on Tax Avoidance.

➤ *Good corporate governance can moderate the effect of Leverage on Tax Avoidance*

Minnick & Noga (2010) state that GCG has a role in encouraging company compliance as a taxpayer to carry out its tax obligations because GCG can play a role in long-term tax management. Therefore, the implementation of good corporate governance is expected that companies can control the use of debt that does not exceed their own capital in order to reduce the company's leverage value but not reduce the amount of tax paid due to interest expense on debt. Based on

this explanation, the fifth hypothesis can be drawn:

H₅: Good corporate governance moderates leverage on Tax Avoidance.

The literature review above is the basis for the author in formulating the hypothesis of this research. Hypotheses that explain predictions about the relationship between variables are depicted in Figure 1 as a framework:

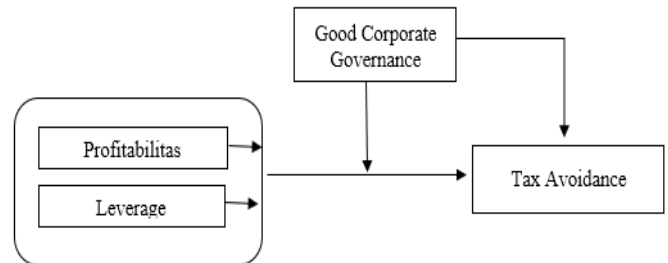


Fig. 1. Conceptual Framework

III. RESEARCH METHODOLOGY

This quantitative research focuses on financial reports published by manufacturing companies listed on the Indonesia Stock Exchange during the 2020-2022 period. This research uses an explanatory method. To conduct this research, the authors used a population sample and used financial reports as a data collection tool. The secondary data used in this study are data from the 2020-2022 financial period from the Indonesia Stock Exchange, www.idx.co.id. This explanatory research explains the effect of Profitability and Leverage on Tax Avoidance by using Good Corporate Governance as a moderating variable. This study involved 175 manufacturing companies listed on the Indonesia Stock Exchange in 2020-2022. The number of samples based on the criteria in this study were 129 samples.

TABLE 3 SAMPLE SELECTION CRITERIA

Criteria	Total
Manufacturing company registered on the Indonesia stock exchanges continuously for the period 2020-2022	175
Manufacturing companies that are delisted during the period 2020-2022	-28
Manufacturing companies that have consistent financial statement data during the period 2020-2022	-38
Manufacturing companies are in profit during the period 2020-2022.	-66
Sample	43
Observation year 2020-2022	3 Years
Number of observations 2020-2022	129

Source: Author's Processed Results (2023)

IV. RESULTS

A. Descriptive Statistics Test

TABLE 4 DESCRIPTIVE STATISTICAL TEST RESULTS

	CETR	ROE	DER	ACGS
Mean	0.433607	0.166419	1.072552	0.805898
Median	0.295800	0.129100	0.874100	0.748400
Maximum	4.875100	1.450900	4.979700	2.304100
Minimum	0.005900	0.019400	0.114100	0.610400
Std. Dev.	0.577898	0.201526	0.799974	0.224249
Skewness	6.047338	5.141434	1.948788	4.164261
Kurtosis	43.37939	31.09075	7.839175	23.75357
Observations	129	129	129	129

Source: Data Proceed by Eviews 10, 2023

B. Model Test

TABLE 5 CHOW TEST

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	18.781025	(42,83)	0.0000
Cross-section Chi-square	303.372256	42	0.0000

Source: Data Proceed by Eviews 10, 2023

TABLE 6 HAUSMAN TEST

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	68.125122	3	0.0000

Source: Data Proceed by Eviews 10, 2023

The probability value of the Cross-section F and cross-section chi-square is smaller than the significance level (0.0000 0.05), according to the findings of the Chow test and Hausman test, indicating that the fixed effect model is the most acceptable model to test in this study.

C. Normality Test

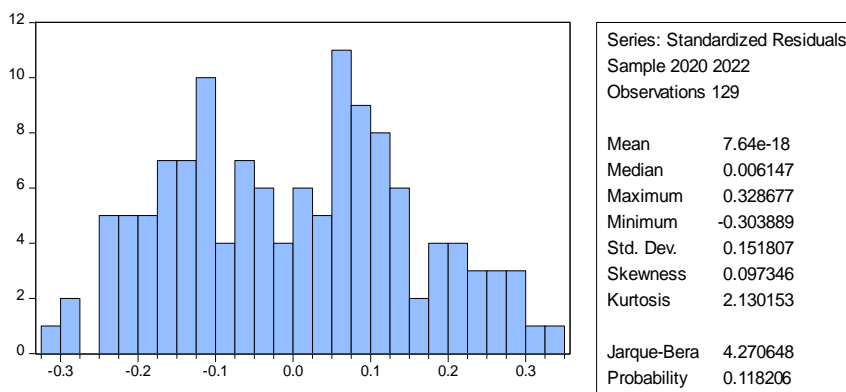


Fig. 2. Normality Test Results
Source: Data Proceed by Eviews 10, 2023

Figure 2 demonstrates that the Jarque-Bera normality test yields a probability value of 0.118206 > 0.05. The data in this study are normally distributed since the Jarque-Bera probability value is greater than 0.05.

D. Autocorrelation Test

TABLE 7 AUTOCORRELATION TEST

R-squared	0.745442	Mean dependent var	0.433607
Adjusted R-squared	0.715863	S.D. dependent var	0.577898
S.E. of regression	0.167628	Akaike info criterion	-0.461937
Sum squared resid	2.332219	Schwarz criterion	0.557841
Log likelihood	75.79494	Hannan-Quinn criter.	-0.047581
F-statistic	31.96275	Durbin-Watson stat	2.110657
Prob(F-statistic)	0.000000		

Source: Data Proceed by Eviews 10, 2023

According to Table 7, the Durbin-Watson value obtained is 2.110657, followed by 1.7441 2.2559 (dU d 4-dU). These findings support one of the presumptions underlying regression testing by showing that the to-be-formed regression model lacks autocorrelation symptoms.

E. Multicollinearity Test

TABLE 8 MULTICOLLINEARITY TEST RESULTS

	CETR	ROE	DER	ACGS
CETR	1.000000	-0.016505	0.584880	0.373907
ROE	-0.016505	1.000000	0.397756	-0.074089
DER	0.584880	0.397756	1.000000	0.365984
ACGS	0.373907	-0.074089	0.365984	1.000000

Source: Data Proceed by Eviews 10, 2023

Because table 8 shows that the correlation coefficient between the independent variables ROE and DER, which is 0.397756, is less than 0.85, it may be said that the table is multicollinearity-free or that each independent variable passes the multicollinearity test.

F. Heteroscedasticity Test

Heteroscedasticity testing in this research uses the Glejser Test. The following are the results of the Glejser test using eviews10:

TABLE 9 HETEROSCEDASTICITY TEST RESULTS

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.33E-05	4.63E-05	1.583374	0.1172
CETR	6.12E-05	3.66E-05	1.670708	0.0986
ROE	-0.000119	-0.000129	-0.927755	0.3563
DER	-3.94E-05	-3.11E-05	-1.266271	0.2090
ACGS	3.69E-06	3.59E-05	-0.102743	0.9184

Source: Data Proceed by Eviews 10, 2023

Based on table 9. of the heteroscedasticity test results, the probability significance value for each independent variable is above the significance level or > 0.05 so that the data in this research avoid heteroscedasticity problems.

G. Test Coefficient of Determination (R)²

TABLE 10 TEST RESULTS OF THE COEFFICIENT OF DETERMINATION (R)²

R-squared	0.745442	Mean dependent var	0.433607
Adjusted R-squared	0.715863	S.D. dependent var	0.577898
S.E. of regression	0.167628	Akaike info criterion	-0.461937
Sum squared resid	2.332219	Schwarz criterion	0.557841
Log likelihood	75.79494	Hannan-Quinn criter.	-0.047581
F-statistic	31.96275	Durbin-Watson stat	2.110657
Prob(F-statistic)	0.000000		

Source: Data Proceed by Eviews 10, 2023

Table 10. shows that the coefficient of determination (R²) value is 0.745442. The value obtained shows that the independent variable explains or influences the dependent variable by 74.54%, so that the independent variable Profitability and Leverage with GCG is likely to explain or influence the dependent variable Tax avoidance 74.54% the remaining 25.46% is explained by variables other than this research.

H. Panel Data Regression Analysis

TABLE 11 PANEL DATA REGRESSION TEST RESULTS

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.297592	0.156101	4.312497	0.0067
ROE	-0.197878	0.276050	-2.716818	0.0095
DER	-0.183694	0.066521	-2.761428	0.0000
ACGS	1.357415	0.134386	2.710088	0.0486
ROE_ACGS	2.036220	0.920720	3.297659	0.0013
DER_ACGS	0.097661	0.087766	2.112734	0.0280

Source: Data Proceed by Eviews 10, 2023

Table 11. states that the regression equation that explains the effect of profitability and leverage on Tax Avoidance with GCG as a moderating variable is:

$$CETR = 0.297592 - 0.197878ROE - 0.183694DER + 1.357415ACGS + 2.036220ROE_ACGS + 0.097661DER_ACGS + 0.156101$$

I. F test

TABLE 12 F TEST RESULTS

R-squared	0.745442	Mean dependent var	0.433607
Adjusted R-squared	0.715863	S.D. dependent var	0.577898
S.E. of regression	0.167628	Akaike info criterion	-0.461937
Sum squared resid	2.332219	Schwarz criterion	0.557841
Log likelihood	75.79494	Hannan-Quinn criter.	-0.047581
F-statistic	31.96275	Durbin-Watson stat	2.110657
Prob(F-statistic)	0.000000		

Source: Data Proceed by Eviews 10, 2023

Table 12. shows the P-value of 0.00000 <0.05 and Fcount>F_{tabel} which is 31.96275>3.07, meaning that together the variables of profitability, leverage, and GCG have an influence on the value of Tax Avoidance.

J. Hypothesis Test (t Test)

TABLE 13 HYPOTHESIS TEST RESULTS (T TEST)

Variable	Coefficient	Std. Error	t-Statistic	Prob
ROE	-0.197878	0.276050	-2.716818	0.0095
DER	-0.183694	0.066521	-2.761428	0.0000
ACGS	1.357415	0.134386	2.710088	0.0486
ROE_ACGS	2.036220	0.920720	3.297659	0.0013
DER_ACGS	0.097661	0.087766	2.112734	0.0280

Source: Data Proceed by Eviews 10, 2023

V. DISCUSION

A. Profitability on tax avoidance.

The ROE regression coefficient value is negative, indicating a negative influence or unidirectional relationship between the return variable (ROE) and tax avoidance behavior (CETR). The higher CETR level and closer to the corporate tax rate of 25% indicates the lower the level of corporate tax avoidance. The results showed that the average ROE increased but CETR decreased. The ROE value

increases gradually from year to year, but the average ROE value of manufacturing companies for the 2020-2022 period is 16%, which indicates that the company's performance is still not optimal in generating profits, because according to Kasmir (2018) the ROE standard for the industry is 40% but the ROE value is still very far from the standard value. Based on agency theory, company performance that is less than the standard in generating profits will encourage management to implement tax avoidance policies in reducing tax burdens to increase profits to provide positive signals for the interests of

the principal, one example is the policy carried out by the company PT Bentoel Internasional Investama which diverts part of its income by taking out many Intra-Company loans which can then be deducted of corporate taxable income in Indonesia. This is consistent with the results of the research where if the ROE value increases, it will reduce the CETR value, where the smaller the CETR indicates the company is shown to do tax avoidance. A high ROE indicates that the profit earned is high but indicates an opportunity for the company to conduct Tax Avoidance because the CETR value decreases (Waluyo, 2019). This research result is in accordance with that conducted by Kusumah et al., (2021) and Tarmidi et al., (2020) which found that profitability affects Tax avoidance, but contradicts the results of research by Nafik Hadi Ryandono et al., (2020) and Alfina et al., (2018) which found that profitability has no effect on tax avoidance.

B. Leverage on Tax Avoidance

The negative DER regression coefficient value indicates a negative influence or unidirectional relationship between the leverage variable and the CETR value. The increase in the average value of DER above 100% each year indicates that the use of corporate debt is greater than the equity held by the company. The amount of debt that is greater than equity means that the company is financed more by debt than by equity. According to Kasmir (2018), the maximum DER standard for the industry is 81%, but the average value of DER for the manufacturing companies listed on the IDX for the period 2020-2022 has exceeded this standard. Therefore, the average value of DER indicates that the use of debt compared to equity has exceeded the applicable standards. From the results, it can be seen that an increase in DER will reduce the CETR value, and if the CETR value of the company becomes smaller, it indicates that the company is engaged in tax avoidance. According to Kholbadalov (2012) trade off theory explains that tax avoidance is a substitute for the use of debt, meaning that companies that do not use debt to finance the company will get a higher tax burden than companies that use debt. This happens because the interest arising from the use of debt can be a burden that can reduce the company's profit which will have an impact on lower tax payments, Therefore, a DER value that is higher than the standard company indicates that the firm is engaging in tax avoidance, this is evident in PT Bentoel Internasional Investama, which diverted part of its income by taking out numerous loans between 2013 and 2015 to refinance bank debt and equipment and pay for machinery, the result of such high debt utilization resulted in the payment of interest costs that reduced the company's taxable income in Indonesia. The results of this study are consistent with those of Kusumah et al. (2021) and Tarmidi et al. (2020), who found that leverage affects tax avoidance, but contrary to the results of Sarpingah, S. (2020), who found that profitability has no effect on tax avoidance.

C. Good Corporate Governance on Tax Avoidance

The ACGS regression coefficient is positive, suggesting a positive impact or a direct relation between the variable leverage and the CETR value, meaning that if the ACGS value decreases, the CETR value also decreases, the smaller

the CETR value indicates that companies do tax avoidance. To avoid tax avoidance, companies must improve GCG to increase the CETR number to avoid tax avoidance. According to the OECD, the average GCG score of 80% indicates that the company's total GCG performance score is at a GOOD level, indicating a good level of compliance with various applicable regulations, including compliance with applicable tax regulations so as to avoid companies from tax avoidance practices.

The ACGS score indicates the compliance of the companies in this research with CG best practice principles based on international standards, including the OECD Corporate Governance Principles, but the results and the graph of the average ACGS and CETR scores in Figure 4.4 show that when the ACGS decreases the CETR value also decreases, this indicates that if the ACGS score decreases or in other words the company's level of compliance with corporate governance guidelines decreases, it will reduce the CETR value, thus indicating the existence of tax avoidance practices by the company.

According to Larcker and Tayan, (2011) corporate governance, which is based on agency theory, must be monitored and controlled so that the governance carried out by the company must be in full compliance with various applicable regulations, especially applicable tax compliance, including compliance with applicable tax regulations so as to prevent companies from practicing Tax Avoidance. Minnick & Noga (2010) state that GCG has a role in encouraging company compliance as a taxpayer to carry out its tax obligations because GCG can play a role in long-term tax management. One example of a company that implements a tax policy that does not pay attention to GCG principles is PT Bentoel Internasional Investama because it implements a tax reduction policy by utilizing loopholes in tax regulations by taking many Intra-Company loans, but this action causes the state to suffer losses because it loses the opportunity to receive taxes from debts that should be taxed at 20%. The results of the effect of Good corporate governance on Tax Avoidance conducted by Minnick & Noga (2010), Widuri et al (2021) and Vivi & Winnie (2016) found that Good corporate governance affects tax avoidance.

D. Good Corporate Governance Moderates Profitability on Tax Avoidance

The results of the fourth hypothesis test show that the regression coefficient of the independent variable GCG-regulated profit has a positive value of 2.8036220 with a probability value of 0.0013 or smaller than 0.05, which means that the fourth assumption of good corporate governance moderates the independent variable GCG-regulated profit. affect. The benefits of tax avoidance are acceptable. The regression coefficient is positive, indicating a unidirectional relationship with the CETR value, each addition of GCG to profitability (ROE) will cause an increase in the CETR value, if the greater the CETR value, the more the company avoids Tax Avoidance. Companies that have high profitability indicate the existence of tax planning policies that are implemented to reduce tax burdens to increase profits, with the implementation of GCG, it is hoped

that companies will implement tax planning in accordance with applicable tax regulations so as not to cause Tax Avoidance. Minnick & Noga (2010) state that GCG has a role in providing incentives for corporate compliance as taxpayers in fulfilling their tax obligations, because GCG can play a role in long-term tax corporate governance. Therefore, the implementation of good corporate governance in the company can assist companies in making policies to improve financial performance in a healthier manner to obtain profits without the need to implement actions that are contrary to current tax regulations.

E. Good Corporate Governance Moderates Leverage on Tax Avoidance

The results of testing the fifth hypothesis show that the regression coefficient of the independent variable Profitability Moderated According to GCG has a positive value of 0.097661 with a probability value of 0.0280 or less than 0.05, meaning that the fourth hypothesis Good Corporate Governance moderates the effect of Profitability on Tax Avoidance is accepted. The regression coefficient for the independent variable GCG-moderated leverage is positive, indicating a unidirectional relationship with Tax Avoidance (CETR), each addition of GCG to leverage (DER) will cause an increase in CETR value, if the greater the CETR value, the more the company avoids Tax Avoidance. Minnick & Noga (2010) state that GCG has a role in encouraging company compliance as a taxpayer to carry out its tax obligations because GCG can play a role in long-term tax management. Therefore, with the implementation of good corporate governance, it is hoped that companies can control the use of debt that does not exceed their own capital in order to reduce the company's leverage value but not reduce the amount of tax paid due to interest expense on debt.

VI. CONCLUSIONS AND RECOMMENDATIONS

Based on the problem formulation, hypothesis testing and discussion discussed above, the following research conclusions can be drawn:

- Profitability under the representation of ROE has a negative and unidirectional impact on tax avoidance represented by CETR. Therefore, the higher the profitability indicated by the increase in ROE value, the lower the CETR value which indicates the possibility of a company doing tax avoidance. This is because high profitability will cause the company to pay high taxes as well, so the company does not pay high taxes so it will try to minimize its profits to reduce the amount of tax payable on the profits it earns. High ROE will create high profits but create opportunities for companies to tax avoidance.
- Leverage with DER proxy has a negative and unidirectional effect on tax avoidance proxied by CETR. Thus, the higher the DER, the higher which is characterized by an increase in the DER value will reduce the CETR value which indicates the possibility of the company doing tax avoidance. A high DER value indicates that the company has exceeded the use of debt compared to its own capital. The use of debt that exceeds the applicable DER standard can indicate tax avoidance.

This happens because the company seeks to reduce the amount of tax paid with the interest expense obtained as a result of using debt.

- GCG with ACGS proxy has a positive and unidirectional effect on tax avoidance proxied by CETR. The decrease in ACGS value will reduce the CETR value, the smaller the CETR value, the company is indicated to do tax avoidance. This is because the lower the ACGS value indicates a low level of company compliance with various applicable regulations including compliance with applicable tax regulations so as to position the company in the practice of Tax Avoidance.
- Good Corporate Governance is able to moderate the effect of Profitability on Tax Avoidance, this is because GCG has a role in encouraging company compliance as a taxpayer to carry out its tax obligations. Even though the company is in a position to earn high profits which will cause the tax burden to increase, with the implementation of GCG the company will not decide on a tax planning policy that is not in accordance with the applicable tax provisions so that the company can avoid tax avoidance.
- Good Corporate Governance can moderate the effect of leverage on tax avoidance, but shows a negative relationship with tax avoidance, because GCG plays a role in encouraging the compliance of a company as a taxpayer in fulfilling its tax obligations. The implementation of GCG in companies is considered necessary in order to control the use of debt so that it does not exceed its own capital, this has the effect of reducing the company's leverage value but does not reduce the amount of tax payable because the interest expense exceeds its own capital.

Seeing the limitations of the proxies used in the study to measure each variable, the authors suggest that future researchers use different proxies.

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