

Research Article

Good Corporate Governance Moderates the Effect of Profitability, Liquidity, Leverage, and Firm Size on Tax Avoidance

Gusti Ayu Oppie Indra Widnyani*, I Putu Gede Diatmika, Gede Adi Yuniarta

Magister Akuntansi, Universitas Pendidikan Ganesha, Denpasar, Indonesia, 81116

*Corresponding Author: indrawidnyani@gmail.com | Phone: +6285931125892

ABSTRACT

The government continues to make efforts to increase state revenue from the tax sector. However, for companies, taxes are often viewed as a burden that can reduce profits. As a result, companies with large profits tend to find ways to minimize their tax burden, one of which is through tax avoidance practices. This study aims to examine the influence of profitability, liquidity, leverage, and firm size on tax avoidance, as well as the role of Good Corporate Governance (GCG) as a moderating variable. The research objects are companies listed in the LQ45 Index on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. The sample was selected using purposive sampling; out of 45 companies, 27 met the criteria, resulting in 135 observations over the five-year period. Data were analyzed using the Partial Least Squares (PLS) method through outer model testing, inner model, and path coefficient analysis using the SmartPLS software. The results show that profitability, liquidity, and firm size have a significant negative effect on tax avoidance. Meanwhile, leverage does not show a significant effect. GCG has a positive effect on tax avoidance and is able to weaken the influence of liquidity and firm size on tax avoidance. However, GCG does not succeed in moderating the effect of profitability and leverage on tax avoidance.

Keywords: Profitability, Liquidity, Leverage, Company Size, Tax Avoidance, Good Corporate Governance

1. INTRODUCTION

Tax, as stipulated in Law No. 16 of 2009 concerning the General Provisions and Procedures of Taxation Article 1 paragraph 1, is a mandatory contribution to the state paid by individuals or entities, coercively enforced by law, without direct compensation, and used for state purposes. Tax is not only regarded as a fiscal instrument but also as a form of participation by society and businesses in national development. In other words, tax serves as the backbone of state revenue, directly determining the government's ability to provide public services, finance infrastructure, and stimulate economic growth. Companies, as corporate taxpayers, play a vital role since their economic activities generate income and profit that become taxable objects. However, from a corporate perspective, taxes are often perceived as a burden that reduces net income, thereby creating a conflict of interest. The government seeks to maximize tax revenue for national interests, while companies attempt to minimize tax obligations to sustain profitability. This conflict becomes more relevant in Indonesia's **self-assessment system**, which entrusts taxpayers with the responsibility to calculate, pay, and report their taxes independently (Siti Resmi, 2011). While this system fosters autonomy and compliance, it also opens opportunities for tax avoidance practices that, although legal, raise ethical dilemmas and potentially harm state revenues.

The phenomenon of tax avoidance in Indonesia has increasingly drawn attention, particularly among large corporations with significant influence in the capital market, such as those included in the LQ45 Index on the Indonesia Stock Exchange. Companies in this index generally operate on a large scale, possess high liquidity, and attract the scrutiny of both investors and regulators, which means that their tax avoidance practices carry wide-ranging implications for state revenues as well as market trust. One prominent case involves PT Adaro Energy Tbk, the largest coal mining company in Indonesia. According to Global Witness, Adaro was suspected of engaging in transfer pricing by selling coal at lower prices to its Singaporean subsidiary, Coaltrade Services International, from 2009 to 2017. This strategy was allegedly carried out to reduce taxable income in Indonesia, thereby lowering corporate income tax obligations. As a result, the state potentially lost a significant amount of tax revenue. Legally, this case reveals weaknesses in regulatory oversight of cross-border affiliated transactions. Ethically, it contradicts the principle of distributive justice, as a company that benefits from domestic natural resources reduces its contribution to the state (finance.detik.com). Such practices raise serious questions about the

social responsibility of large corporations, which should act as strategic partners of the government in supporting national development.

Tax avoidance is influenced by various internal factors of a company, particularly those related to its financial characteristics. Profitability, often measured by Return on Assets (ROA), is a key indicator of a firm's ability to utilize its assets to generate profit. A higher ROA indicates stronger performance in creating returns from owned assets (Kurniasih & Ratna Sari, 2013; Prakoso, 2014). However, the relationship between profitability and tax avoidance remains contested in academic discourse. Budianti (2018) found that profitability negatively affects tax avoidance, suggesting that highly profitable companies are less likely to engage in tax avoidance since they can more easily bear tax expenses. In contrast, Rosalia (2017) reported no significant effect, as even large profitable firms may still practice tax avoidance for the sake of cash flow efficiency. Such inconsistencies imply the presence of moderating variables, such as corporate governance or macroeconomic conditions. Furthermore, liquidity is another factor of interest. Firms with higher liquidity are perceived to have stronger cash positions to meet short-term obligations. According to Budianti (2018), higher liquidity increases the likelihood of tax avoidance, as firms seek to preserve cash reserves, whereas Tiaras & Wijaya (2015) found no significant relationship. These mixed findings underscore the importance of further investigation within the context of large and complex firms, such as those in the LQ45 index.

In addition to profitability and liquidity, leverage is another frequently examined factor in relation to tax avoidance. Leverage reflects the extent to which a company finances its operations using external funds in the form of debt. The higher the proportion of debt, the greater the interest expenses borne by the company. In taxation theory, interest expenses can serve as a tax shield, thereby enabling highly leveraged firms to reduce their taxable income and, consequently, their tax burden (Amrie, 2017; Cahyono, 2016). However, empirical findings remain inconsistent. While some studies report a positive relationship between leverage and tax avoidance, others, such as Ida Ayu R. (2016), find no significant effect, suggesting that not all companies utilize debt as a tax efficiency tool. Firm size is also a crucial determinant. Larger companies typically hold greater assets, revenue, and complex operations, making them subject to stricter regulatory scrutiny. On one hand, large firms may demonstrate higher compliance due to increased monitoring. On the other hand, they possess resources and expertise to exploit legal loopholes to minimize tax burdens (Kurniasih & Sari, 2013). Moeljono (2020) found that firm size positively influences tax avoidance, while Maria & Amin (2020) argued that firm size does not significantly affect tax avoidance, given regulatory pressures. These conflicting results suggest that both leverage and firm size remain intriguing variables to be re-examined within different contexts, timeframes, and measurement indicators.

Beyond financial characteristics, good corporate governance (GCG) is another critical factor influencing tax avoidance. Agency theory posits that managers, as agents, often behave opportunistically for personal gain, particularly when shareholders' monitoring is inadequate. In this context, GCG serves as a mechanism to restrain managerial opportunism by enhancing transparency, accountability, and internal control (Wahab & Holland, 2012). However, the relationship between GCG and tax avoidance remains contradictory. Desai & Dharmapala (2006) argue that poorly governed firms tend to engage less in tax avoidance, since the benefits are not transferred to shareholders but misappropriated by managers. Conversely, well-governed firms may display higher levels of tax avoidance, as such strategies are undertaken not for managerial opportunism but to maximize shareholder value and firm performance. This suggests that the presence of GCG does not always suppress tax avoidance but can instead strengthen the relationship between financial characteristics and tax strategies. Hence, positioning GCG as a moderating variable is crucial in providing a more comprehensive understanding of how governance influences corporate tax avoidance behavior.

The selection of LQ45 companies during the 2019–2023 period as the research object is strongly justified. These firms are large, liquid, and attract significant attention from investors and regulators, making the findings of this study more representative and relevant. Moreover, the research period covers the COVID-19 pandemic and the subsequent economic recovery, which presented unique challenges. During the crisis, many companies faced liquidity pressures, revenue fluctuations, and market uncertainties, prompting management to seek ways to maintain performance, including through tax avoidance strategies. In such circumstances, the influence of financial factors and corporate governance on tax avoidance becomes even more critical to investigate. By integrating profitability, liquidity, leverage, firm size, and GCG as a moderating variable, this study aims to contribute theoretically by clarifying inconsistencies in prior research, while also providing practical contributions for policymakers and regulators to strengthen tax regulations and enhance corporate governance practices in Indonesia.

2. RESEARCH METHOD

This study employs a quantitative approach with a causal research design to examine the effect of independent variables—profitability, liquidity, leverage, and firm size on the dependent variable, tax avoidance, with Good Corporate Governance (GCG), proxied by institutional ownership, as a moderating variable. The research population consists of companies included in the LQ45 Index of the Indonesia Stock Exchange (IDX) during the 2019–2023 period, while the sample is determined using a purposive sampling method based on specific criteria: LQ45 companies consistently listed during the research period and publishing complete annual financial reports each year. The data used in this study are secondary data derived from

corporate annual reports, obtained through documentation and literature study. Data analysis is conducted using Microsoft Excel for initial processing and SmartPLS for model testing, covering the measurement model (outer model), structural model (inner model), and path significance testing. The outer model is evaluated through tests of convergent validity, reliability, and discriminant validity, while the inner model is assessed using the coefficient of determination (R^2), f^2 test, and path significance testing with a bootstrapping technique of at least 5,000 subsamples to examine the hypotheses. The operationalization of variables in this study includes both independent and dependent variables. Profitability is measured by Return on Assets (ROA), which compares net income to total assets, while liquidity is measured by the Current Ratio, comparing current assets to current liabilities. Leverage is proxied by the Debt to Equity Ratio (DER), which compares total debt to total equity, whereas firm size is calculated using the natural logarithm of total assets. The dependent variable, tax avoidance, is measured using the Effective Tax Rate (ETR), defined as the ratio of income tax expense to pre-tax income. The moderating variable, GCG, is proxied by institutional ownership, namely the proportion of shares owned by institutions (government, financial institutions, legal entities, or trusts) relative to total outstanding shares. Institutional ownership is chosen as it is considered to have the capacity and authority to monitor management, thereby constraining opportunistic behavior and ensuring that corporate governance is carried out in alignment with shareholders' interests.

3. RESULTS AND DISCUSSION

3.1 Descriptive Analysis of the Research

Table 1. Descriptive Analysis of the Research

Name	Mean	Median	Scale min	Scale max	Std. Dev
Profitability (X1)	0.081	0.06	-0.03	0.45	0.08
Liquidity (X2)	1.984	1.54	0.34	8.08	1.509
Leverage (X3)	2.094	0.81	0.13	17.07	3.128
Firm Size (X4)	3.471	3.47	3.39	3.56	0.044
Tax Avoidance (Y)	0.496	0.48	0.35	0.85	0.077
GCG (Z)	0.245	0.2	0.04	0.84	0.157

The results of the descriptive statistical analysis show that profitability (X1) has an average value of 0.081 with a standard deviation of 0.08, reflecting a relatively low ability of the companies to generate profits, with moderate variation among firms. Liquidity (X2) records an average of 1.984 with a standard deviation of 1.509, indicating considerable differences in the companies' ability to meet their short-term obligations. Leverage (X3) has an average of 2.094 with a relatively high standard deviation of 3.128, suggesting significant disparities in capital structure, particularly in the use of debt, among the sampled firms. Meanwhile, firm size (X4) shows an average of 3.471 with a very small standard deviation of 0.044, which indicates that most companies in the sample are relatively homogeneous, as they belong to the large-cap category listed in the LQ45 Index. The tax avoidance variable (Y) has an average of 0.496 with a standard deviation of 0.077, suggesting that the level of tax avoidance practices is at a moderate level. Furthermore, the Good Corporate Governance (Z) variable records an average of 0.245 with a maximum value of 0.84, reflecting a wide variation in the application of corporate governance principles among LQ45 companies.

3.2 Outer Model Analyst

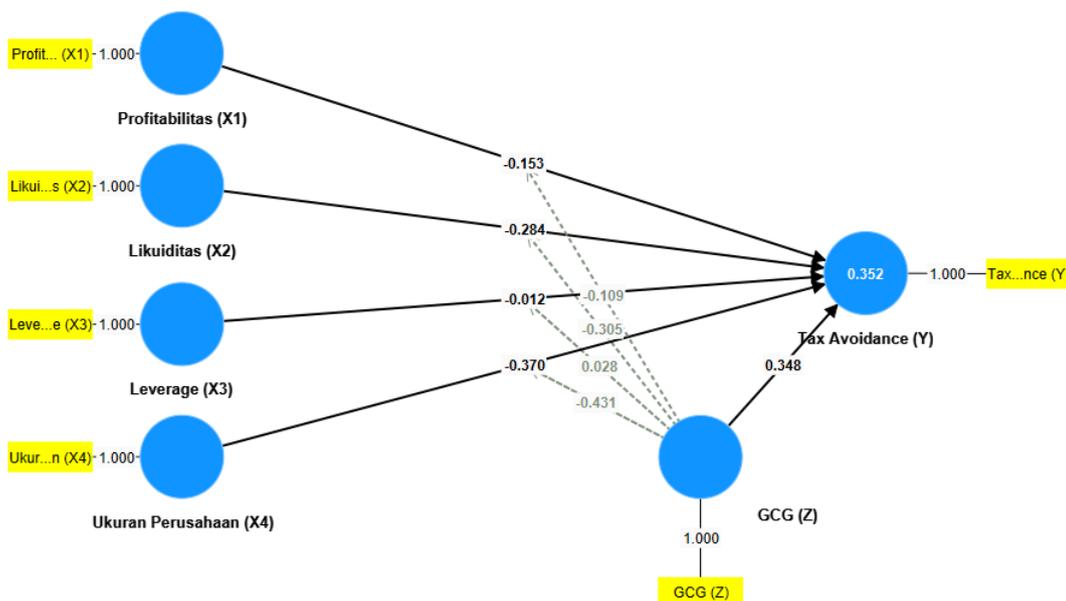


Figure 1. Outer Model Analyst

It can also be seen in the following Table 2:

Table 2. Outer Loading

	Z	X3	X2	X1	Y	X4	Z x X2	Z x X1	Z x X4	Z x X3
Z	1.000									
X3		1.000								
X2			1.000							
X1				1.000						
Y					1.000					
X4						1.000				
Z x X3										1.000
Z x X1								1.000		
Z x X4									1.000	
Z x X2							1.000			

The results in the Table 2 above show that all indicators have a loading value of 1.000, which indicates that each indicator strongly represents the construct it measures. These values significantly meet the established criteria in the measurement model assessment and demonstrate that there are no issues with the representation of indicators toward their latent variables. All constructs in this study, including the independent variables (profitability, liquidity, leverage, and firm size), the dependent variable (tax avoidance), the moderating variable (good corporate governance), as well as the moderation interactions (Z×X1, Z×X2, Z×X3, and Z×X4), are proven to have optimal indicator contributions. Therefore, it can be concluded that all indicators in this study are valid and relevant to the constructs they represent. Accordingly, the measurement model has met the preliminary requirements and can proceed to the inner model analysis stage to test the relationships among constructs and to conduct hypothesis testing within the structural model.

3.3 Inner Model Analyst

After the measurement model (outer model) is declared valid, the next step is to conduct the structural model (inner model) analysis to evaluate the relationships among the latent constructs in the research model. The inner model focuses on testing the hypotheses that have been formulated and identifying the magnitude of both direct effects and moderation effects among the variables under study. The evaluation of the inner model is carried out through several key steps, namely:

Table 3. R-Square Result

	R-square	R-square adjusted
Tax Avoidance (Y)	0.352	0.305

The R-Square (R^2) value of 0.352 indicates that 35.2% of the variation in tax avoidance can be explained by profitability, liquidity, leverage, firm size, and the moderating effect of good corporate governance, while the Adjusted R-Square value of 0.305 confirms this result after adjusting for the number of predictors. According to Chin’s (1998) criteria, this value falls within the moderate category, suggesting that the research model is sufficiently adequate and appropriate for hypothesis testing with a reasonable predictive capability.

Table 4. F-Square Results

Effect	f-square
GCG (Z) -> Tax Avoidance (Y)	0.118
Profitability (X1) -> Tax Avoidance (Y)	0.024
Liquidity (X2) -> Tax Avoidance (Y)	0.082
Leverage (X3) -> Tax Avoidance (Y)	0.000
Firm Size (X4) -> Tax Avoidance (Y)	0.076
GCG (Z) x Profitability (X1) -> Tax Avoidance (Y)	0.011
GCG (Z) x Liquidity (X2) -> Tax Avoidance (Y)	0.049
GCG (Z) x Leverage (X3) -> Tax Avoidance (Y)	0.000
GCG (Z) x Firm Size (X4) -> Tax Avoidance (Y)	0.059

The effect size (f^2) evaluation indicates that most variables in this study exert only small effects on tax avoidance. Good Corporate Governance (Z) demonstrates a small-to-moderate effect ($f^2 = 0.118$), suggesting a meaningful role in controlling corporate tax strategies. Profitability (X1), Liquidity (X2), and Firm Size (X4) each show small effects ($f^2 = 0.024$; 0.082; 0.076), while Leverage (X3) shows no effect at all ($f^2 = 0.000$). Regarding the moderating role of GCG, its interaction with Profitability ($Z \times X1$) and Liquidity ($Z \times X2$) shows very small to small effects ($f^2 = 0.011$; 0.049), with Leverage ($Z \times X3$) showing no effect ($f^2 = 0.000$), while its interaction with Firm Size ($Z \times X4$) yields a small yet significant effect ($f^2 = 0.059$). Overall, these findings suggest that although the relative effects of individual variables are small, GCG plays an important moderating role, particularly in shaping the relationship of firm size and liquidity with tax avoidance.

After evaluating both the measurement model (outer model) and the structural model (inner model), the next step is hypothesis testing to identify the effects among the latent variables in the model. This testing includes examining the direct effects between independent variables and the dependent variable, as well as the moderating effects of Good Corporate Governance (GCG) on these relationships, which is equivalent to a moderation regression analysis. The analysis is conducted based on the path coefficients and the p-values generated through the bootstrapping procedure using SmartPLS software. These results are then used to test the validity of the hypotheses proposed in this study.

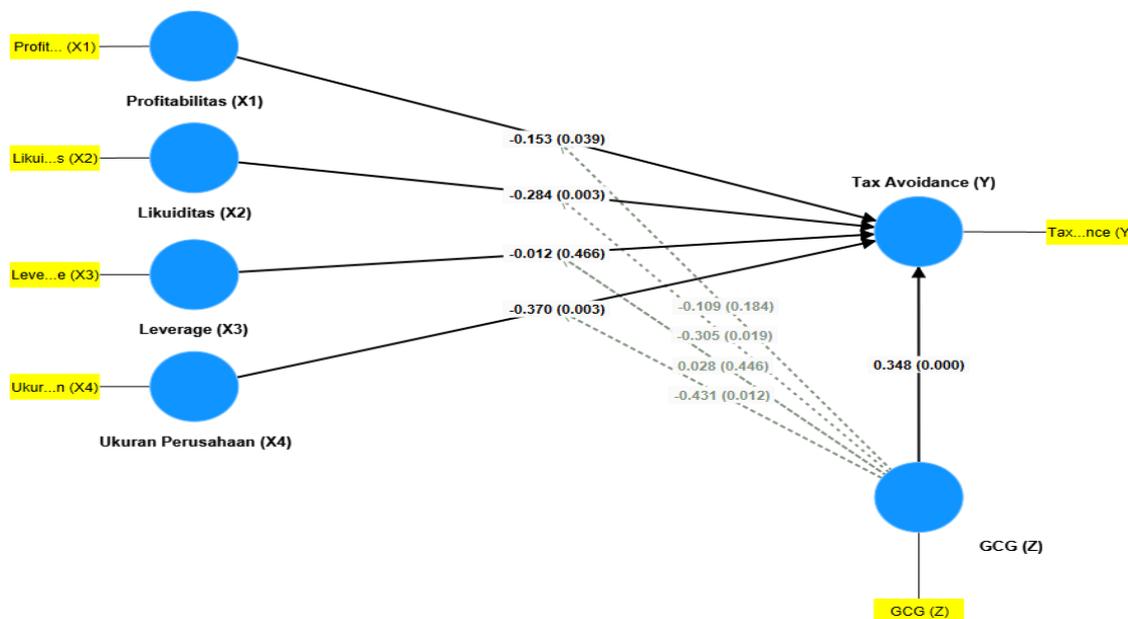


Figure 2. Path Diagram of Coefficient

Table 5. Path Coefficient

Correlation	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Z -> Y	0.348	0.352	0.105	3.324	0.000
X1 -> Y	-0.153	-0.160	0.087	1.762	0.039
X2 -> Y	-0.284	-0.270	0.103	2.765	0.003
X3-> Y	-0.012	-0.013	0.137	0.086	0.466
X4 -> Y	-0.370	-0.374	0.137	2.699	0.003
Z x X1 -> Y	-0.109	-0.123	0.121	0.899	0.184
Z x X2 -> Y	-0.305	-0.300	0.147	2.068	0.019
Z x X3 -> Y	0.028	0.045	0.208	0.136	0.446
Z x X4 -> Y	-0.431	-0.459	0.192	2.247	0.012

The results can also be observed in the following summary **Table 6:**

Table 6. Summary of Path Coefficient Results

No.	Relationship	Coeff	P-Value	Description
1	GCG (Z) → Tax Avoidance (Y)	0.348	0	Positive and significant effect
2	Profitability (X1) → Tax Avoidance (Y)	-0.153	0.039	Negative and significant effect
3	Liquidity (X2) → Tax Avoidance (Y)	-0.284	0.003	Negative and significant effect
4	Leverage (X3) → Tax Avoidance (Y)	-0.012	0.466	No significant effect
5	Firm Size (X4) → Tax Avoidance (Y)	-0.37	0.003	Negative and significant effect
6	GCG × Profitability (Z×X1) → Y	-0.109	0.184	GCG does not significantly moderate
7	GCG × Liquidity (Z×X2) → Y	-0.305	0.019	GCG significantly moderates negatively
8	GCG × Leverage (Z×X3) → Y	0.028	0.446	GCG does not significantly moderate
9	GCG × Firm Size (Z×X4) → Y	-0.431	0.012	GCG significantly moderates negatively

The findings reveal that profitability, liquidity, and firm size have a negative and significant effect on tax avoidance. This implies that higher profits, stronger liquidity, and larger firm size reduce the tendency of companies to engage in tax avoidance. Large firms with strong profitability and liquidity are more likely to maintain their reputation and public legitimacy by demonstrating higher tax compliance. Conversely, leverage shows no significant effect, indicating that debt utilization is not a dominant factor in tax avoidance strategies among LQ45 companies. Interestingly, good corporate governance (GCG) exhibits a positive and significant effect on tax avoidance, suggesting that its implementation remains symbolic or formalistic and has not been fully effective in controlling corporate tax practices.

Furthermore, the moderating role of GCG produces mixed results. GCG is found to negatively and significantly moderate the relationships between liquidity and firm size with tax avoidance, meaning that effective governance enhances fiscal compliance for liquid and large-scale firms. However, GCG does not significantly moderate the relationships of profitability and leverage with tax avoidance. These findings underscore the importance of strengthening GCG implementation in a substantive manner to ensure its role as an effective oversight mechanism, thereby reducing managerial opportunism and limiting the scope for tax avoidance strategies.

3.3 Discussion

3.3.1 The Effect of Profitability on Tax Avoidance

The findings reveal that profitability, as proxied by Return on Assets (ROA), has a negative and significant effect on tax avoidance, with a coefficient of -0.153 and a p-value of 0.039. This indicates that the higher a company's ability to generate profit from its assets, the lower its tendency to engage in tax avoidance. Profitable firms generally have stronger reputations and receive greater public and regulatory scrutiny, which makes them more cautious in implementing tax strategies. This result supports Sukartha (2014), who found that higher ROA reduces the likelihood of tax avoidance since firms tend to prefer compliance strategies. Similarly, Budianti (2018) reported that profitability negatively affects tax avoidance, reinforcing the conclusion that high-profit firms are more inclined toward fiscal compliance rather than risky tax avoidance practices. The findings reveal that profitability, as proxied by Return on Assets (ROA), has a negative and significant effect on tax avoidance, with a coefficient of -0.153 and a p-value of 0.039. This indicates that the higher a company's ability to generate profit from its assets, the lower its tendency to engage in tax avoidance. Profitable firms generally have stronger reputations and receive greater public and regulatory scrutiny, which makes them more cautious in implementing tax strategies. This result supports Sukartha (2014), who found that higher ROA reduces the likelihood of tax avoidance since firms tend to prefer compliance strategies. Similarly, Budianti (2018) reported that profitability negatively affects tax

avoidance, reinforcing the conclusion that high-profit firms are more inclined toward fiscal compliance rather than risky tax avoidance practices.

3.3.2 The Effect of Liquidity on Tax Avoidance

The findings reveal that liquidity has a negative and significant effect on tax avoidance, with a coefficient of -0.284 and a p-value of 0.003. This indicates that the higher a company's liquidity ratio, the lower its tendency to engage in tax avoidance. High liquidity reflects the company's ability to meet its short-term obligations, including paying taxes on time, thereby reducing the pressure to adopt tax avoidance strategies in order to preserve operational cash flows. This result highlights that liquidity serves not only as an indicator of short-term financial health but also as a reflection of managerial attitudes toward risk and tax compliance. In the context of the COVID-19 pandemic, firms under liquidity pressure were more likely to pursue aggressive tax-saving strategies, whereas those with stable liquidity ratios tended to adopt a more conservative approach that emphasized fiscal compliance. This finding contrasts with Budianti (2018), who reported that higher liquidity was associated with a greater likelihood of tax avoidance. In her study, liquidity was linked to short-term liabilities, suggesting that companies with higher current obligations tended to reduce tax burdens to preserve cash flexibility. However, in this research, which focused on large firms listed in the LQ45 Index, the results were the opposite: firms with strong liquidity were more likely to comply with tax regulations. This difference can be attributed to stricter regulatory oversight of large firms and reputational concerns that encourage fiscal compliance. Firms with strong cash positions generally have more stable financial structures and better governance, reducing their reliance on tax avoidance strategies. Thus, the hypothesis stating that "liquidity affects tax avoidance" is accepted, but the direction of the effect is negative, differing from some prior studies such as Budianti (2018).

3.3.3 The Effect of Leverage on Tax Avoidance

The study reveals that leverage has no significant effect on tax avoidance, with a coefficient of -0.012 and a p-value of 0.466. This means that the proportion of debt to equity does not meaningfully explain corporate tendencies toward tax avoidance. Thus, the use of debt as a financial strategy does not directly correlate with efforts to reduce tax burdens. This finding contrasts with Wijayanti (2017), who argued that leverage positively affects tax avoidance since interest expenses are deductible from taxable income, allowing highly leveraged firms to lower their tax liabilities. However, the divergent results in this study may be influenced by the COVID-19 pandemic, during which many firms refrained from increasing debt due to default risks and market uncertainty. Furthermore, government fiscal incentives during the pandemic reduced the urgency of utilizing debt as a tax shield. Furthermore, the characteristics of firms in the LQ45 index help explain these results. Large and liquid companies typically have broad access to internal financing and equity, while being closely monitored by regulators and investors. These conditions reduce the incentive to pursue aggressive leverage strategies as a tax avoidance instrument. Financial reporting transparency and strong corporate governance practices further limit the use of debt for tax avoidance purposes. Therefore, leverage is not a primary determinant of tax avoidance behavior in large, stable, and transparent firms. This study thus rejects the hypothesis stating that "leverage positively affects tax avoidance," as it is not empirically supported in the context of LQ45 companies.

3.3.4 The Effect of Firm Size on Tax Avoidance

The results indicate that firm size has a negative and significant effect on tax avoidance, with a coefficient of -0.370 and a p-value of 0.003. This means that the larger the firm, the lower its tendency to engage in tax avoidance. Large companies generally face higher external pressures from regulators, investors, and the public, making them more cautious in implementing tax strategies. Moreover, larger firms often possess stronger internal control systems, risk management, and governance structures, which encourage fiscal compliance. This finding aligns with legitimacy theory, which emphasizes the importance of firms maintaining their image and social legitimacy by demonstrating legal compliance and contributing to the state. Thus, firm size not only reflects economic capacity but also represents the level of caution firms adopt in managing reputational risks associated with tax practices. This finding contrasts with Moeljono (2020), who reported that firm size positively influences tax avoidance. His study suggested that the larger the company, the greater its operational burdens, including taxes, thereby encouraging management to adopt tax avoidance as a cost-efficiency strategy. However, in the context of large firms listed in the LQ45 index, this study demonstrates the opposite direction: larger firms tend to comply more with tax obligations. This can be explained by the heightened scrutiny of LQ45 firms by both the public and regulators, which increases reputational pressure and discourages aggressive tax avoidance practices. Large firms are more inclined to maintain their reputation, avoid fiscal penalties, and sustain strong relationships with shareholders and the public. Therefore, the hypothesis stating that "firm size affects tax avoidance" is accepted, but the direction of influence is negative, differing from Moeljono (2020) and some previous studies.

3.3.5 The Effect of Good Corporate Governance Proxied by Institutional Ownership in Moderating Profitability on Tax Avoidance

The findings show that Good Corporate Governance (GCG), proxied by institutional ownership, does not significantly moderate the relationship between profitability and tax avoidance, with an interaction coefficient of -0.109 and a p-value of 0.184. This means that institutional ownership neither strengthens nor weakens the link between profitability and tax avoidance. This result contrasts with Olivia and Dwimulyani (2019), who found that institutional ownership could weaken the influence of profitability on tax avoidance because institutional investors were considered to enhance managerial oversight. In this study, the insignificant outcome suggests that institutional shareholders in LQ45 firms have not played an active role in controlling tax strategies. Possible explanations include the passive nature of some institutional owners, the short-term orientation of certain investors, and the dominance of professional management, which reduces the effectiveness of external control. Thus, a gap exists between the theoretical concept of GCG and its practical implementation in large, well-established firms. Furthermore, this study supports the view that profitability can have a negative impact on tax avoidance, as argued by Egbunike et al. (2021), who explained that firms with high ROA are capable of conducting legal tax planning without resorting to aggressive avoidance strategies. This finding contrasts with Ningtyas et al. (2020), who reported that higher corporate profits increase the incentive for tax avoidance. Thus, while profitability negatively influences tax avoidance, GCG proxied by institutional ownership does not function effectively as a moderating variable. The insignificance of the result indicates that institutional oversight of corporate tax policies remains passive and is not specifically directed at regulating tax strategies. Therefore, strengthening the role of institutional ownership is necessary to ensure that profitability does not become a rationale for management to engage in tax avoidance practices.

3.3.6 The Effect of Good Corporate Governance Proxied by Institutional Ownership in Moderating Liquidity on Tax Avoidance

The study reveals that Good Corporate Governance (GCG), proxied by institutional ownership, negatively and significantly moderates the effect of liquidity on tax avoidance, with an interaction coefficient of -0.305 and a p-value of 0.019. This indicates that the higher a firm's liquidity under institutional ownership supervision, the lower its tendency to engage in tax avoidance. The findings highlight that GCG functions as an effective external control mechanism to restrict managerial opportunistic behavior. Firms with strong cash positions and high liquidity are expected to have greater flexibility in fulfilling fiscal obligations, and oversight by institutional investors reinforces these compliance incentives. In the context of the COVID-19 pandemic, firms with solid liquidity under institutional monitoring were more likely to safeguard their reputation and social legitimacy through tax compliance, while also strengthening stable relationships with fiscal authorities. This finding is consistent with Purwaningrum et al. (2024), who demonstrated that GCG, through institutional ownership, reduces the managerial tendency to exploit corporate liquidity for tax avoidance. When institutional investor oversight is active, firms are directed to utilize liquid assets responsibly rather than misuse them for aggressive tax reduction. From a governance perspective, institutional monitoring ensures that high liquidity does not create moral hazard in which managers lower tax burdens solely for short-term efficiency. Instead, corporate strategic decisions become more controlled and sustainability-oriented. Therefore, the hypothesis stating that "GCG moderates the effect of liquidity on tax avoidance" is empirically supported, with a negative and significant direction of influence. This confirms that effective corporate governance plays a crucial role in balancing financial health and fiscal compliance.

3.3.7 The Effect of Good Corporate Governance Proxied by Institutional Ownership in Moderating Leverage on Tax Avoidance

The results show that Good Corporate Governance (GCG), proxied by institutional ownership, does not significantly moderate the effect of leverage on tax avoidance, with an interaction coefficient of 0.028 and a p-value of 0.446. This indicates that institutional ownership neither strengthens nor weakens the relationship between leverage and tax avoidance practices. Thus, although theoretically institutional investors are expected to enhance oversight of managerial policies, their role within LQ45 firms has not been sufficiently effective. This finding contradicts prior studies by Vionika, Astarani & Yunita (2024) and Prasetya et al. (2020), which suggested that institutional ownership could reduce the use of debt as a tax avoidance tool. Similarly, Aprianto & Dwimulyani (2019) emphasized that institutional investors tend to be long-term oriented and cautious in monitoring financing policies, including taxation, but the results of this study indicate otherwise. The insignificance of this moderating effect highlights the limitations of external monitoring through institutional ownership in large firms. The relatively stable financing structures of LQ45 companies, coupled with strict regulatory oversight, may explain why leverage is no longer a primary instrument in tax avoidance strategies, thereby reducing the relevance of institutional ownership as a moderating factor. Consequently, the hypothesis that GCG moderates the effect of leverage on tax avoidance is not empirically supported. Moving forward, strengthening the active role of institutional investors is essential to guide corporate financial policies within the framework of sound governance and to foster fiscal compliance. Such reinforcement is crucial to ensure that debt utilization remains proportional and is not opportunistically

exploited for tax avoidance strategies.

3.3.8 The Effect of Good Corporate Governance Proxied by Institutional Ownership in Moderating Firm Size on Tax Avoidance

The results indicate that Good Corporate Governance (GCG), proxied by institutional ownership, negatively and significantly moderates the effect of firm size on tax avoidance, with an interaction coefficient of -0.431 and a p-value of 0.012. This implies that institutional ownership weakens the relationship between firm size and tax avoidance practices. Large firms generally possess resources and operational complexity that enable them to engage in tax avoidance, but the presence of institutional owners mitigates this tendency by enhancing strategic oversight and encouraging fiscal compliance. This finding aligns with Lestari et al. (2023), who argued that the effect of firm size on tax avoidance can be reduced when institutional ownership structures are strong. It is also reinforced by Hikmah et al. (2020), who emphasized that institutional investors possess information and long-term interests that allow them to pressure management to refrain from aggressive tax avoidance practices. Sadjiarto et al. (2019) emphasized that the effectiveness of institutional monitoring only occurs when institutional owners are genuinely active in supervising management. If monitoring is passive, the role of institutional ownership becomes weak in curbing managerial opportunism. In this study, the significant result indicates that in large firms within the LQ45 index, institutional ownership actively functions as a control mechanism. With a negative and significant moderating effect, it can be concluded that GCG, through institutional ownership, successfully reduces the potential for tax avoidance in large firms. This finding underscores the importance of institutional shareholders' involvement in maintaining transparency and fiscal compliance in large corporations, while also strengthening the firms' social legitimacy and long-term sustainability.

4. CONCLUSION

Based on the findings, this study concludes that profitability, liquidity, and firm size have a negative and significant effect on tax avoidance, meaning that higher profits, stronger liquidity, and larger scale firms are less likely to engage in tax avoidance, whereas leverage shows no significant effect. Good Corporate Governance (GCG), proxied by institutional ownership, does not significantly moderate the relationships between profitability and leverage with tax avoidance, but it significantly and negatively moderates the effects of liquidity and firm size, indicating that effective governance strengthens fiscal compliance in firms with strong cash positions and larger operations. From a practical standpoint, LQ45 company management is advised to enhance tax transparency by publishing a dedicated Tax Transparency Report, disclosing detailed tax-related information in the Notes to Financial Statements, and adopting legal tax strategies that reinforce corporate reputation; institutional investors are encouraged to be more proactive in tax oversight by monitoring liquidity indicators, exercising voting rights in shareholder meetings, and continuously supervising managerial decisions; regulators such as the Directorate General of Taxes and the Financial Services Authority should strengthen disclosure requirements, enforce periodic commercial-fiscal reconciliations, and tighten supervision of thin capitalization practices; while academics are recommended to expand research by incorporating additional GCG variables such as independent commissioners, internal audit effectiveness, CSR, or corporate reputation, and by applying longitudinal panel data approaches. The limitations of this study include the restricted sample of LQ45 firms for the 2019–2023 period, which limits generalizability to other sectors, reliance on historical secondary data that may not fully capture actual corporate conditions, and the use of specific proxies for tax avoidance measurement that may not represent the full range of corporate tax avoidance strategies.

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