
Impact of Tax Avoidance on Firm Value and Cost of Debt: Evidence from Indonesia

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ABSTRACT

This research aims to evaluate the impact of tax avoidance on both firm value and cost of debt for firms and diverse businesses. In performing its functions and duties, this paper will apply hypothesis testing methods, starting from a total of two hypotheses. The sample used involves 803 non-financial firms listed on the IDX during the period from 2021 to 2024, which amounts to a total of 3,212 observations. The findings vary across the sectors, which is partially inconsistent with the initial hypotheses that tax avoidance affects firm value and the cost of debt negatively. Regarding its effect on firm value, tax avoidance has a positive impact in the healthcare sector, but a negative impact on the consumer staples and utilities sectors. Meanwhile, for the cost of debt, tax avoidance shows a positive effect in the industrial and material sector, but a negative impact on the real estate and utilities sector. This research contributes to practice by helping companies design their tax avoidance strategies and by providing investors with insights into their investment decisions.

Keywords: Cost of Debt, Firm Value, Tax Avoidance.

Introduction

Firm value is measured through stock prices within the IDX. It is obtained from the Indeks Harga Saham Gabungan (IHSG) or Jakarta Composite Index. The price of shares would be one of the main indicators of how investors feel about an entity. Investors look at the trend of the IHSG as to whether it is bullish (up) or bearish (down). On that basis, investment strategies are formulated as they help identify the best entry and exit points. During bullish times, investors will be very active because they will look forward to the prices being appreciated, and this is usually achieved by increasing their equity portfolio to enhance the value of their assets. In bearish situations, investors remain very conservative. The easiest way to do this is by selling off risky assets and reinvesting in more secure financial instruments. If the IHSG falls, investors become more cautious in deploying their capital, which could mean a restriction on the company's ability to raise finance to expand its activities (Maharani, 2024).

The IHSG fluctuated from 2021 to 2024. The IHSG grew by around 4% in 2022, but this was lower than the previous year's growth of 10%. IHSG growth continued in 2023, but at a lower rate of 0.03%. In fact, by the end of 2024, the IHSG had declined by around 2.65%. Such a downward shift in the market performance of the IHSG is essentially a result of significant reluctance among many global capital owners to invest in the Indonesian equity market (Dwi, 2025). This performance is quite contrary to the excellent upward trend recorded between 2021 and 2023. For instance, the IHSG surged notably by about 10% in 2021, essentially driven by the gradual economic recovery in the aftermath of the COVID-19 pandemic. In 2022, the index rose to a return of 4%, slightly influenced by Indonesia's positive trade balance (Pembayun, 2023). In 2023, the IHSG had an exceptionally better performance with a growth rate of 6.16% on the back of continued economic stability of Indonesia, good management of inflation by the central bank, as well as a continued positive trade surplus (Prayogi, 2013).

A strong firm value typically means the likelihood of financial default is low. It follows, therefore, that these types of companies can raise debt capital more easily and at a lower cost of debt (Modigliani & Miller, 1958). The cost of debt refers to the cost a



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firm pays for its use of borrowed capital, and it forms one of the substantial inputs in calculating the overall cost of capital. According to Firmansyah et al. (2020), the cost of debt is a company's policy related to the usage of funds earned from external sources, primarily debt. This policy reflects the financial burden a company incurs for debt used to fund its operations and investments. Bonds, bank loans, and other debt instruments are some of the ways that businesses might get debt funding. Because each instrument offers a different interest rate and risk based on the state of the market and the characteristics of the organization, the cost of debt fluctuates. Therefore, companies must optimally determine their capital structure. A high proportion of debt can lead to significant interest payments that negatively affect both profitability and firm value in the future.

In the past, studies about firm values have been conducted by several researchers. Numerous variables have been identified to contribute to the changes in firm value. Variables that might affect firm value include tax avoidance (Akbari et al., 2019; Elamer et al., 2024; Herron & Nahata, 2020; Khuong et al., 2020; Minh Ha et al., 2021; Nebie & Cheng, 2023; Nurseto & Bandiyono, 2021; Rezki et al., 2020; Rudyanto & Pirezada, 2020), environment, social, and governance (An et al., 2025), research and development (Kim et al., 2021), board director and ownership structure (Fatma & Chouaibi, 2023), profitability (Khalifaturofi'ah & Setiawan, 2025), as well as top management team heterogeneity (Shen & Zhuo, 2023). This research examines tax avoidance as the predictor variable of firm value because tax avoidance practices reveal underlying financial strategy conflicts within the company. On one hand, tax avoidance might improve firm value by increasing the company's net income, which in turn raises shareholder returns. On the other hand, poorly managed tax avoidance practices might also harm the reputation of the company and increase scrutiny from tax authorities. Therefore, tax avoidance is an intriguing subject for further research because it can depict how companies strive to balance cost efficiency and the long-term risks to their reputation and their investors' trust.

Khuong et al. (2020) examined the influence of several tax avoidance indicators on firm value, and they found several conclusions. Rudyanto & Pirezada (2020), as well as Akbari et al. (2019) found that tax avoidance does not affect the firm value. Meanwhile, Rezki et al. (2020) found that the influence of tax avoidance on firm value differed depending on the company type. In privately-owned companies, tax avoidance did not affect firm value. While in state-owned companies (BUMN), tax avoidance negatively affected firm value. One tax avoidance indicator, namely cash effective tax rate (cash ETR), was found to negatively impact firm value, but other variables like ETR and book tax difference (BTD) had positive impacts on it. Similarly, Elamer et al. (2024), Herron et al. (2020), Lv et al. (2025), Minh Ha et al. (2021), and Nurseto & Bandiyono (2021) discovered that tax avoidance had a negative impact on firm value, while Nebie & Cheng (2023) found that tax avoidance affects the firm value positively. Previous studies on the relationship between tax avoidance and firm value have also demonstrated that it frequently depends on a few variables, including company type and tax avoidance indicators.

Based on the case tracking system (SIPP) from five commercial courts in Indonesia, the number of bankruptcy and suspension of debt payment obligations (Penundaan Kewajiban Pembayaran Utang or PKPU) filings surged from 435 in 2019 to a peak of 726 in 2021 but then declined to 625 in 2022 and 563 by October 14th, 2023 (Yanwardhana, 2023). This data suggests that the default risk companies face can affect creditors' decisions towards companies' financial stability (Toly et al., 2019). As a response, creditors tend to raise the interest rate for their debt instruments or tighten their requirements, so their cost of debt also increases.

Researchers have also widely studied the cost of debt and identified various affecting factors. Several variables are found to determine the amount of companies' cost of debt, such as tax avoidance (Cen et al., 2017; Guedrib & Hamdi, 2024; Kovermann, 2018;

Lastiati et al., 2020; Lee, 2022; Letdin et al., 2024; Medhioub & Boujelbene, 2024; Sánchez-Ballesta & Yagüe, 2023; Shevlin et al., 2019; Ustadza & Firmansyah, 2023), tax risk (Kovermann, 2018), integrated reports (Muttakin et al., 2020), corporate social responsibility (Bacha et al., 2021), financial statement comparability (Majeed & Yan, 2021), political institutions (Tee & Teoh, 2024), greenhouse gas assurance (Koutoupis et al., 2024), government ownership (Le, 2020), as well as institution's board characteristics, and structure of the banking system (Álvarez-Botas & González, 2021). Even though many factors have been found to affect the cost of debt, tax avoidance remains a fascinating variable to explore further. This is because tax avoidance is a double-edged managerial strategy—it can benefit the company by reducing tax expenses and increasing free cash flow, but it can also negatively impact creditors and investors' risk perception. The uncertain effects of tax avoidance make it a relevant subject for further study on the cost of debt.

Guedrib & Hamdi (2024), Kovermann (2018), and Sánchez-Ballesta & Yagüe (2023) discovered that tax avoidance had a negative influence on the cost of debt. Nevertheless, Cen et al. (2017), Lastiati et al. (2020), Lee (2022), and Medhioub & Boujelbene (2024) discovered otherwise. Cen et al. (2017) found that prior to the new corporate bond policies in China, tax avoidance negatively affected the cost of debt from bonds. But after the policies took effect, the influence turned positive. Further analysis suggested that the negative influence persisted in public and privately-owned companies compared to private and state-owned companies. Letdin et al. (2024) show a negative influence for companies with the least aggressive tax avoidance strategies, while the opposite is true for those with the most aggressive strategies. In their research, Shevlin et al. (2019) indicated that tax avoidance only increases the cost of bonds, but not bank loans, if companies have the means to transfer wealth from creditors to shareholders, or if there is a high probability of an Internal Revenue Service (IRS) audit. On the other hand, Indriyan Ustadza & Firmansyah (2023) found that tax avoidance did not influence the cost of debt. In conclusion, there were differences in the relationship between tax avoidance and the cost of debt depending on several criteria, including company type and policy. Given the inconsistent findings in the literature, this study aims to further investigate the relationship between tax avoidance, firm value, and the cost of debt.

Here are some of the novelties of this research. (1) This paper endorses taxation and financial literature by exploring the effects of tax avoidance on firm value and the cost of debt. (2) This paper contributes to academic literature by researching tax avoidance as an independent variable, while also deepening the understanding of its effects on several company aspects, like firm value and cost of debt. Thus, this paper differs from previous research that mostly sets tax avoidance as a dependent variable to analyse factors affecting tax avoidance practices within companies. (3) This paper also contributes to both companies' and investors' decision-making processes. Companies can design balanced tax avoidance strategies that protect firm value without significantly increasing their cost of debt. While investors can make investment decisions by determining whether tax avoidance strategies truly increase the company's profitability or, instead, add more risk that might lower the share price in the long run.

Literature Review

Agency Theory

Agency theory hypothesizes that a conflict of interest arises between the manager (as agent) and shareholders (as principals) because their goals often diverge, resulting in agency costs (Jensen & Meckling, 1976). When managers have control of a company, they might not always act in the shareholders' best interest (Fama & Jensen, 1983). Toly and Veronica (2024) characterize agency conflicts as occurring when managers employ tax avoidance strategies to attain personal objectives, such as higher bonuses. The risk of a decline in firm value is believed to emanate from the agency cost provoked by such actions Akbari et al., 2019. Moreover, tax avoidance practices are commonly executed in

complex contexts marked by inadequate transparency, which restricts effective monitoring (Desai & Dharmapala, 2009).

Poor tax avoidance can increase agency costs and negatively impact firm value by demonstrating higher risk and lower investor confidence (Khuong et al., 2020; Nebie & Cheng, 2023). However, a part of the literature suggests that tax avoidance practice leads to increased firm value only in the presence of good corporate governance systems where efficient monitoring controls the manager's opportunism and better protects shareholder interests. This is in the work of such authors as Desai & Dharmapala (2009), Eisenhardt (1989), and Wilson (2009).

On many occasions, corporate executives use complicated tax-avoiding schemes to mask the true profit of the enterprise. This can generate conflict between debt and equity holders that may increase the cost of debt. From the perspective of cash flow enhancement in an enterprise, tax avoidance programs may also generate an increase in agency cost, information asymmetry, and increased scrutiny from fiscal authorities, all factors that could adversely affect debt cost (Yagüe and Sánchez-Ballesta, 2023).

Firm Value

The market valuation of a firm is the investors' perceptions of future trajectories and operational achievements of a corporate entity (Nurseto and Bandiyono, 2021). This valuation is very important for equity holders, as it has a direct relationship with the actual returns that they realize from investment and the expected growth possibilities of the business. In companies that are highly transparent and involved in tax evasion policies, firm value often acts as an indicator of stakeholder confidence in the management's ability to create future economic value. This confidence is often higher when the issues are expressed formally (Wang, 2010). Firm value can be established using any of several different valuation methods that have been developed for determining financial values for a business enterprise. The firm value will depend on the valuation method used (Minh Ha et al., 2021).

Firm value is intrinsically linked with its perceived worth, which is a metric primarily manifested through its equity valuation. More precisely, the price commanded by the shares of a company in the event of a takeover acts as a direct exponent of this market-driven confidence (Nurseto & Bandiyono, 2021). As identified by Minh Ha et al. (2021), equity prices fluctuate as a salient indicator, thereby mirroring the assessment made by the investment fraternity about an organization's future accomplishment and commercial position. As opined by Rezki et al. (2020), the judgment formed by the market about firm value is influenced significantly by a host of critical determinants encompassing the financial performance metrics related to profitability, expansion of the asset bases, efficiency operation, and a host of other financial metrics. The role of non-financial factors becomes quite palpable in influencing firm value. For example, the study conducted by Rudyanto & Pirzada (2020) established empirically that enterprises with a strong reputational position and those practicing stringent ethical conduct have a greater likelihood of being associated with enhanced corporate valuation. In support, Akbari et al. (2019) present evidence that market sentiment, in terms of the firm value, is a result of carefully crafted dissemination and interpretation of data with respect to earnings accretion quality, effectiveness of corporate governance structures, and prudent managerial strategy execution.

This study applies Tobin's Q ratio, which views a firm value against its recorded asset valuation, as an alternative for enterprise worth (Lv et al., 2025; Minh Ha et al., 2021). This ratio provides an indication of the market's perception of an organization's operational performance and its future long-term prospects. Essentially, it explains the level of confidence investors have in an organization and its efficiency in operations (Lv et al., 2025). Additionally, Rezki et al. (2020) support the use of Tobin's Q, citing that the latter integrates all fiscal components, including assets, liabilities, and shareholder equity.

Cost of Debt

One of the indicators of the effective interest rate that a firm must be aware of is called the cost of debt (Sánchez-Ballesta & Yagüe, 2023). Cost of debt is calculated as the ratio of a company's annual interest expense to its average long-term liabilities for that year (Guedrib & Hamdi, 2024; Kovermann, 2018). Alternatively, the cost of debt reflects the compensation creditors require for bearing the risk of lending to a company, such as the risk stemming from its tax strategy (Lee, 2022). A company's cost of debt indicates how much trust creditors have in its ability to fulfil its debt obligations (Ustadza & Firmansyah, 2023). A higher default risk will increase the debt interest rate or spread. In addition, when setting the cost of debt, creditors typically assess a company's future cash flow uncertainty and the quality of its financial reporting (Shevlin et al., 2019).

The cost of debt may be influenced by both internal and external factors. Financial reporting quality is a key component in determining a company's cost of debt since it is one of the internal criteria evaluated by creditors. Low information asymmetry and credit risk are signaled by a transparent and comparable report, which reduces the cost of financing (Raimo et al., 2022). Measuring financial health: Financial health of organizations can be determined based on leverage, liquidity, and profitability (Guedrib and Hamdi, 2024), among other factors. Moreover, factors like ownership, firm size, and default risk dominate as far as internal factors affecting the cost of debt of organizations are concerned. Indeed, there is usually a positive relationship between enhanced costs of debt and organizations that experience weak ownership structures, smaller firm sizes, and default risks, as reported in Ustadza and Firmansyah (2023). At the same time, factors like the level of corruption in terms of governance, the level of democratic governance, and bureaucracy influence the risk perception of organizations. Hence, weaker and less ethical institutional environments can lead to an increase in the cost of debt (Tee & Teoh, 2024).

Tax Avoidance

Corporate tax avoidance has often been regarded as a corporate shareholder value-enhancing activity since the management enjoys some discretionary authority over decisions involving corporate assets (Nebie & Cheng, 2023). In this case, tax evasion involves denial of liability through the exploitation of statutory ambiguities to keep the practice within legal walls. From here, great financial benefit can be derived by saving or eliminating present and/or future corporate outlay of taxes. Examples of such benefits include increasing profitability (Akbari et al., 2019), increasing cash flows in and to the firm, accruing directly and indirectly to it (Khuong et al., 2020), and a reduced cost of debt in the firm's financing structure (Nebie & Cheng, 2023).

Despite these many advantages that come with tax avoidance practices, various disadvantages are associated. These include risks involved, the complications in the operation or implementation, as well as costs accompanying agency relationships (Guedrib & Hamdi, 2024; Lv et al., 2025). These impact costs accrued from the practice of tax avoidance, including political costs entailed, costs accrued in the impairment of the public image of the entity, the risks accrued in terms of possible imposition of financial penalization, among others, all fall in this category (Blaufus et al., 2019). For instance, there is the category that focuses on implementation costs; this is the cost incurred in the process of outlining the implementation process in the practice of tax avoidance measures. These include practice costs entailed in the process, time, human, and material costs during the process of avoidance (Gold et al., 2022). Agency costs involve the non-complementary risks in the avoidance measures put in place in relation to the principal's avoidance measures. The principal behaves in ways that align exclusively with the principal's goals, while the same applies to the agent (Jensen & Meckling, 1976).

Tax avoidance is quantified within this study via cash measures of ETR, ETR, and LTD. Cash measures of ETR are ascertained via dividing allocations made regarding income taxes by earnings before taxation (Elamer et al., 2024; Guedrib & Hamdi, 2024; Khuong et al., 2020; Medhioub & Boujelbene, 2024). Concurrently, the utilization of ETR is ascertained via dividing allocations made towards income taxes by earnings before taxation (Elamer et al., 2024; Guedrib & Hamdi, 2024; Nebie & Cheng, 2023; Nurseto & Bandiyono, 2021; Rudyanto & Pirzada, 2020; Ustadza & Firmansyah, 2023). Concurrently, the quantification of LTD is ascertained via ascertaining earnings after taxation and its division by the difference derived via subtracting earnings before taxation from financial earnings before taxation (Lv et al., 2025).

The Influence of Tax Avoidance on Firm Value

Tax avoidance is used as an independent variable that affects firm value, as used by Akbari et al. (2019), Cheng (2023), Elamer et al. (2024), Guedrib & Marouani (2023), Hasan et al. (2021), Herron & Nahata (2020), Khuong et al. (2020), Lv et al. (2025), Minh Ha et al. (2021), Nebie & Rezki et al. (2020), Nurseto & Bandiyono (2021), Rudyanto & Pirzada (2020), and Shubita (2024).

This hypothesis facilitates the proper strategic value of implementing the concept of tax avoidance, reducing the overall debt incurred by the company to the state and increasing the internal liquidity of the business while promoting the overall value of equity holder assets (Hanlon et al., 2010). Recourse consistent with the negative impacts of the concept of tax avoidance may be controlled using appropriate corporate governance measures. Such mechanisms minimize the proclivity of experiencing legal complications, loss of reputation, and information asymmetry, thus maintaining the firm value (Drake et al., 2017, & Lv et al., 2025). Moreover, the contribution of the company's finances towards social welfare diminishes if the company evades income tax, which could constitute a breach of business ethics principles. Because of this, tax avoidance negatively affects the company's worth (Elamer et al., 2024). Additionally, tax avoidance can put creditors and stockholders at risk, which can lead to agency conflicts within a business. In the end, this increased dispute may endanger the company's total worth as well as its cash flow (Herron & Nahata, 2020). According to Rezki et al. (2020), tax dodging has a detrimental effect on firm value in Indonesia, particularly in state-owned businesses, because the government closely monitors their tax payments. According to additional research conducted by Nurseto and Bandiyono (2021) in Indonesian manufacturing enterprises between 2014 and 2017, the detrimental effect is still present in their sample.

Empirical research has generally reported a negative relationship between firm value and tax avoidance strategies. Such practices tend to disrupt the organization, shake the confidence of the suppliers of capital, and undermine corporate reputation (Lv et al., 2025). Although tax avoidance may reduce fiscal burdens, it also provides a corresponding exposure to contingent costs and losses for stakeholders. In most cases, the benefits usually gained from tax avoidance are reduced, thus ultimately decreasing firm value (Minh Ha et al., 2021). Poor tax avoidance tends to be sanctioned legally and increases regulatory surveillance. Reference Herron et al. (2020) and Shubita (2024) state that this tends to decrease firm value and raise market risk (Nurseto & Bandiyono, 2021). Furthermore, tax avoidance is often associated with decreased social contributions (Elamer et al., 2024). Even companies engaging in minimal tax avoidance can be negatively perceived.

H₁: Tax avoidance behaviours have a negative effect on firm value.

The Influence of Tax Avoidance on the Cost of Debt

Tax minimization eventually lowers the cost of debt and improves a company's cash flow and debt repayment capacity. These differing directions of influence of tax

avoidance on the cost of debt have been validated by numerous studies. Kovermann (2018) found that creditors in Germany view a company's tax avoidance as a sign of financial stability. Guedrib & Hamdi (2024) also found similar results in France, but their emphasis was on the risk that high taxes could have the opposite effect, that is, increasing the cost of debt. According to Sánchez-Ballesta & Yagüe (2023), small and medium-sized businesses that engage in tax avoidance typically have lower financing costs. This negative relationship has also been found by Cen et al. (2017) before the implementation of the new Corporate Bond regulations in China, but it turns positive in 2007, once the policies are effective. This change is possibly because during the implementation of the old policy, strict external monitoring made tax avoidance reflect cash flow effects. Although tax avoidance can improve the company's cash flow, it also potentially creates a higher agency cost, more information risk, and stricter supervision by tax authorities, which in turn leads to unfavorable effects on the cost of debt (Sánchez-Ballesta & Yagüe, 2023).

This study emphasizes how tax avoidance affects the cost of debt as stated by Guedrib & Hamdi (2024), Ustadza & Firmansyah (2023), Lee (2022), Shevlin et al. (2019), Medhioub & Boujelbene (2024), Lastiati et al. (2020), Cen et al. (2017), Sánchez-Ballesta & Yagüe (2023), Kovermann (2018), Letdin et al. (2024), Sadjarto et al. (2019), and Minh Ha et al. (2021). A creditor might view the potential stability and compliance of a company conducting tax avoidance. Because this company has a higher possibility of sacrificing the quality and transparency of the financial statement (Shevlin et al., 2019). In addition, creditors' higher cost of debt, in terms of adjusting the loan interest rate, in anticipation of the risks of tax avoidance (Kovermann, 2018).

There is substantial scholarly research that has resulted in the explanation of the detrimental effects of tax avoidance schemes on the cost of debt. Of major notice, for instance, is the propensity creditors demonstrate in offering more accommodative debt terms, particularly where there is a reduction in the tax rates levied on the cash generated by the concerned firm, thus signifying elevated tax avoidance, particularly where the tax rates are negligible (Guedrib & Hamdi, 2024). Even as tax avoidance schemes are perceived to enable firms to better service debt, thus serving the function of reducing the cost of debt, tax avoidance also introduces conditions of risk (Kovermann, 2018). The financial world, particularly creditors, also recognizes the substantial value firms exhibit through internal attributes, like what is exhibited in tax avoidance schemes (Sánchez-Ballesta & Yagüe, 2023). The evidence suggests that the perception of creditors on tax avoidance is often viewed in a favorable manner if it coincides with low agency cost expenditures. Additionally, the reduction in the dependence on debts, the improvement in creditworthiness, the reduction in the possibility of defaulting on debts, along with the avoidance of taxes, with the result of the lowering of the debt cost (Sadjarto et al., 2019).

H₂: Tax avoidance behaviours have a negative effect on the cost of debt.

Methodology

Analysis Model

To examine the effect of tax avoidance on firm value in Indonesian companies, the first regression model is as follows:

$$\text{Tobin's } Q = \alpha + \beta_1 \text{TA} + \beta_2 \text{LEV} + \beta_3 \text{SIZ} + \beta_4 \text{ROA} + \beta_5 \text{LIQ} + \beta_6 \text{ZScore} + \varepsilon \quad (1)$$

Meanwhile, to analyse the influence of tax avoidance on the cost of debt in Indonesian companies, the second regression model is as follows:

$$\text{CostDebt} = \alpha + \beta_1 \text{TA} + \beta_2 \text{LEV} + \beta_3 \text{SIZ} + \beta_4 \text{ROA} + \beta_5 \text{LIQ} + \beta_6 \text{ZScore} + \varepsilon \quad (2)$$

Independent Variable

This study uses tax avoidance through three measures: the cash effective tax rate (cash ETR), ETR, and BTD. The cash ETR is computed by dividing a firm's outright tax remittances by its earnings before tax imputation (Elamer et al., 2024; Guedrib & Hamdi, 2024; Khuong et al., 2020; Medhioub & Boujellbene, 2024). Information concerning cash tax disbursements is procured from the statement of cash flows, whereas pre-tax earnings are derived from the income statement. Given that the cash ETR reflects the proportion of actual cash taxes disbursed relative to a corporation's pre-tax income, it serves in this research as an indicator of tax avoidance behavior. As a result, a low cash ETR denotes a lower tax burden and the existence of tax avoidance within an organization.

$$\text{cash ETR} = \frac{\text{cash taxes paid}}{\text{pretax financial income}} \quad (3a)$$

The ETR is calculated by dividing a company's income tax expense by its income before taxes (Elamer et al., 2024; Guedrib & Hamdi, 2024; Nebie & Cheng, 2023; Nurseto & Bandiyono, 2021; Rudyanto & Pirzada, 2020; Ustadza & Firmansyah, 2023). An organization's income statement contains both numbers. Because ETR gives a clear picture of a company's tax burden on its income before taxes, it is used in this study to quantify tax avoidance. A low ETR indicates the existence of tax avoidance methods since it implies that a company's income tax expense is only a small percentage of its income before taxes.

$$\text{ETR} = \frac{\text{income tax expense}}{\text{pretax financial income}} \quad (3b)$$

Another important proxy for assessing tax avoidance is the BTD. It is computed as the difference, scaled by total assets at the end of the period, between a business's commercial income before taxes and its taxable income (Lv et al., 2025). The more the BTD increases, the wider the gap between pre-tax income and taxable income. This metric is a strong indicator of aggressive tax avoidance, as an increasing BTD suggests a growing gap between a company's reported accounting profits and its taxable income. Commercial income before tax is sourced from the income statement. Taxable income, however, is not explicitly reported and must be calculated by subtracting a company's deferred income tax expense from its income tax expense and then dividing it by the current corporate income tax rate (e.g., 22%). Details on deferred tax expense are typically found in the notes to the financial statement. Furthermore, total assets at the end of the period are obtained from the consolidated statement of financial position. Ultimately, this study uses BTD because it directly measures the difference between a company's financial reporting and its fiscal tax obligations. A significant BTD signals that a company is actively engaging in tax planning to legally minimise its tax liability.

$$\text{BTD} = \text{pretax financial income} - \text{taxable income} \quad (3c)$$

Dependent Variables

The cost of debt and firm value are the two dependent variables that are examined in this study. Tobin's Q ratio, which contrasts a company's market value with its book value, is used to calculate firm value (Lv et al., 2025; Minh Ha et al., 2021). Tobin's Q is a reliable indicator of business worth since it shows how investors view a company's potential for future growth and profitability in addition to its existing market position. Tobin's Q is calculated by multiplying a company's share price by the number of outstanding shares. Share price data is obtained from stock exchanges (e.g., IDX, Bloomberg), while the number of outstanding shares can be found in the notes to the consolidated financial statements, often within the profit (loss) per basic share section.

The company's book value is sourced from the equity section of the consolidated statement of financial position. It can also be computed by deducting all obligations from all assets. If the Tobin's Q ratio is higher than one, it means that the market values the company's assets higher than their book value. This indicates that the market positively expects the company's profitability, efficiency, and growth prospects in the future.

$$\text{Tobin's Q} = \frac{\text{total market value of the firm}}{\text{total asset value of the firm}} \quad (5a)$$

$$\text{Tobin's Q} = \frac{\text{equity market value of the firm} + \text{equity market value of the firm}}{\text{equity book value of the firm} + \text{liability book value of the firm}} \quad (5b)$$

The interest paid on a company's debt is used to calculate the cost of debt. It is computed by dividing the average noncurrent liabilities for the same time by the company's yearly interest expense (Guedrib & Hamdi, 2024; Kovermann, 2018). To obtain these figures, the interest expense is derived from the difference between a company's income from operations and its income before tax, both found on the income statement. A company's total liabilities, which are derived from the statement of financial condition, are subtracted from its current liabilities to determine noncurrent liabilities. Since the interest expense on debt directly reflects the financial burden a business bears from its borrowing activities, this study uses it as a stand-in for the cost of debt. Greater interest costs result in a greater cost of debt, which may have an impact on creditors' evaluation of the company's credit risk.

$$\text{cost of debt} = \frac{\text{interest expense}}{\text{noncurrent liabilities}} \quad (6)$$

Data, Population, and Sampling

The Refinitiv database is the main source of secondary quantitative data used in this study. Annual financial reports that are accessible on IDX's official website and other company websites complement the data. All non-financial public enterprises listed on IDX between 2021 and 2024 make up the research population. A final sample of 3,212 observations was chosen using a purposive sampling technique. The company had to meet two requirements to be selected: (1) it had to be continuously listed in the IDX during the study period, and (2) it had to be in the non-financial sector.

Data from ten different industries are analyzed to empirically validate the proposed hypotheses. The industries include communication, consumer discretionary, consumer staples, healthcare, energy, industrial, information technology, materials, real estate, and utilities. Admittedly, each industry has its characteristics, which include different risk factors, cost structures, and regulatory requirements. This calls for the importance of studies at the sector level. The following presentation will outline the effect of tax avoidance on firm value and the cost of debt in each of the studied sectors.

Analysis and Discussion

Descriptive Statistics

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Standard Deviation
CETR	3,634	(13.43)	103.92	0.2221	2.08663
ETR	3,634	(13.43)	103.92	0.2262	2.04207
BTD	3,634	(1,391.15)	3,612.44	0.5549	64.22608
TOBINS Q	3,585	(1,848.31)	17,209.62	25.0323	426.13764
COD	3,632	(2,914.33)	1,245,560,066.00	342,938.8448	20,667,681.32300
LEV	3,634	-	3,461.98	2.7743	78.47502
SIZE	3,634	17.98	35.43	28.1673	2.14482
ROA	3,634	(1,391.15)	3,612.44	0.6069	64.22450
LIQ	3,648	-	34,847.76	18.2501	615.79200
ZSCORE	3,633	16,019.20	1,462.30	0.7236	353.64762

Source: Authors' Creation

Descriptive statistics on each relevant variable are presented below, represented in Table 1. Analysis based on the data on Tobin's Q indicates considerable variation, both about the valuation that entities on the IDX exchange command, and the variation between the cost of debt incurred by the entities, or the levels of tax avoidance. Despite this variation, the average ETRs show considerable proximity. A parallel trend can be observed regarding the variable BTd. Diverse sources of tax avoidance can be seen.

Regression Assumption Test

Classical assumption tests for autocorrelation, heteroscedasticity, and normality were rigorously carried out. For autocorrelation tests, the Durbin-Watson (DW) test method was employed. In this context, the calculated DW test statistics for both the model for firm value and the model for cost of debt were approximately equal to two and well within the optimal range of autocorrelation for the data set, i.e., $dU < DW < 4-dU$, and this proved the absence of serial correlation in the data set. In testing for heteroscedasticity using the Glejser test method, it must be noted that for all significant variables—namely, Cash ETR, ETR, and BTd—the individual test statistics were higher than 0.05, delineating the absence of heteroscedasticity in the data set. Normality testing for the data was done using the Kolmogorov-Smirnov method; for this test, to validate the normality of the data.

Discussion

As for the first hypothesis, it states that tax avoidance practice has a negative impact on firms. From a critical analysis of the basic regression tests, as shown in Table 2A and 2B, it is revealed here that the results thereof, in connection with this hypothesis, remain uneven in context with various sectors of industry.

Table 2A. First Regression Test Result

	Communication			Consumer Discretionary			Consumer Staples			Healthcare			Energy		
	CETR	ETR	BTd	CETR	ETR	BTd	CETR	ETR	BTd	CETR	ETR	BTd	CETR	ETR	BTd
CETR	-0.036 (-0.006)			0.718 (0.139)			-0.717 (-0.105)			21.216*** (-6.865)			0.679 (0.43)		
ETR		-0.066 (-0.010)			-0.261 (-0.046)			-1.092 (-0.155)			-2.139 (-0.278)				0.839 (0.534)
BTd			-268.261 (-1.393)			-1.187 (-0.135)			-175.556*** (-2.696)				191.630 (1.257)		-4.219 (-0.205)
LEV	0.874* (-1.826)	0.874* (-1.827)	0.847* (-1.779)	2.554*** (2.848)	2.554*** (2.847)	2.611*** (-2.648)	14.258 (0.987)	14.217 (0.983)	14.878 (1.037)	0.274 (-0.010)	-14.846 (-0.459)	2.577 (0.074)	6.402 (0.921)	6.428 (0.926)	5.947 (0.85)
SIZE	-6.712 (-1.431)	-6.714 (-1.431)	-6.187 (-1.329)	-2.100 (-0.674)	-2.112 (-0.677)	-2.091 (-0.672)	-4.291** (-2.106)	-4.292** (-2.107)	-4.53** (-2.239)	-8.874* (-1.882)	-18.155*** (-3.412)	-19.186*** (-3.586)	-0.947 (-0.832)	-0.958 (-0.842)	-0.972 (-0.834)
ROA	21.595 (-0.463)	21.613 (-0.463)	275.025 (-0.463)	5.592 (0.536)	5.633 (0.539)	7.786 (0.406)	52.221 (1.613)	52.264 (1.614)	166.619*** (3.129)	44.280 (0.726)	65.942 (0.922)	-34.096 (-0.322)	44.388*** (3.222)	44.39*** (3.224)	45.71*** (2.929)
LIQ	0.488 (-0.197)	0.489 (-0.197)	0.375 (0.154)	-1.367** (-2.498)	-1.363** (-2.494)	-1.362** (-2.495)	-2.675*** (-3.959)	-2.678*** (-3.961)	-2.635*** (-3.930)	-3.616 (-1.068)	-4.237 (-1.068)	-4.056 (-1.047)	4.153*** (3.291)	4.154*** (3.296)	4.177*** (3.27)
ZSCORE	0.287 (1.305)	0.287 (1.305)	0.310 (1.510)	1.035*** (13.605)	1.035*** (13.600)	1.035*** (13.620)	3.651*** (11.553)	3.651*** (11.548)	3.623*** (11.548)	1.872 (1.309)	1.771 (1.057)	2.312 (1.344)	-0.514 (-1.113)	-0.514 (-1.112)	-0.512 (-1.124)

Source: Authors' Creation

Table 2B. First Regression Test Result

	Industrial			Information Technology			Materials			Real Estates			Utilities		
	CETR	ETR	BTd	CETR	ETR	BTd	CETR	ETR	BTd	CETR	ETR	BTd	CETR	ETR	BTd
CETR	-0.983 (-0.321)			-1.234 (-0.099)			0.371 (0.048)			-1.865 (-0.155)			2.586 (0.838)		
ETR		-0.806 (-0.264)			-1.411 (-0.113)			0.445 (0.054)			-1.864 (-0.155)			2.601 (0.855)	
BTd			-6.239 (-0.185)			-86.947 (-0.489)			146.116 (1.310)			2689.654 (0.964)			-0.003** (-2.513)
LEV	-2.067 (-0.359)	-2.092 (-0.364)	-2.019 (-0.349)	-62.765*** (-3.551)	-62.773*** (-3.552)	-60.974*** (-3.393)	16.166 (1.443)	16.164 (1.443)	16.298 (1.459)	-346.724 (-1.282)	-346.707 (-1.282)	-342.614 (-1.268)	-	-	-
SIZE	-4.191*** (-3.111)	-4.195*** (-3.114)	-4.183*** (-3.096)	-17.249*** (-2.924)	-17.254*** (-2.925)	-17.882*** (-2.968)	0.396 (0.136)	0.391 (0.136)	0.329 (0.115)	-3.104 (-0.083)	-3.104 (-0.083)	-8.659 (-0.230)	0.203 (0.621)	0.206 (0.534)	0.299 (0.979)
ROA	21.652* (1.734)	21.624* (1.731)	28.263 (0.734)	-91.283*** (-5.059)	-91.264*** (-5.059)	-4.195 (-0.023)	-78.383 (-1.326)	-78.385 (-1.327)	-165.929* (-1.857)	-348.989 (-0.510)	-348.966 (-0.510)	-2864.170 (-1.060)	-0.003** (-2.540)	-0.003** (-2.538)	-
LIQ	-0.001 (-0.716)	-0.001 (-0.707)	-0.001 (-0.702)	-1.730 (-1.363)	-1.792 (-1.363)	-1.569 (-1.198)	-0.250 (-0.404)	-0.250 (-0.403)	-0.271 (-0.439)	-2.784 (-1.085)	-2.784 (-1.085)	-2.876 (-1.121)	-0.035 (-0.131)	-0.035 (-0.132)	-0.029 (-0.111)
ZSCORE	0.041 (0.802)	0.040 (0.790)	0.040 (0.795)	-0.034 (-0.139)	-0.034 (-0.139)	-0.021 (-0.084)	4.755*** (53.906)	4.755*** (53.906)	4.758*** (54.039)	5.600 (1.155)	5.379 (-1.155)	0.000 (1.110)	0.000 (0.459)	0.000 (0.45)	0.000 (0.357)

Source: Authors' Creation

In summation, the results of hypothesis testing revealed that the sector in which the company operates indeed moderates the relationship that exists between tax avoidance practices and the resultant firm value (as presented in Table 2C). More specifically, it was revealed that the ETR, in and of itself, fails to exert any discernible influence on the firm value that it represents. However, it became clear that the cash ETR and BTd do, in fact, exert some form of influence on the firm value that it represents. More specifically,

it was revealed that a high cash ETR would have a positive influence on firm value in the healthcare sector of the industry, whereas divergent results revealed that a high BTD would negatively correlate with the firm value in the consumer goods and utility sectors.

Stakeholders have viewed augmented cash tax remittances as a means of measuring the improved firm value, assuming a favourable relationship wherein a positive-manifesting cash ETR is associated directly with a positive relationship and improvement of firm value. This view is supported based on certain assumptions wherein firms demonstrating significantly higher levels of cash tax remittance exhibit a higher level of profitability and strict adherence to such financial disciplines, indicating a sound system of corporate and financial governance. There is a notable divergence of the above findings and those outlined in the subsequent research undertaken by Khuong et al. (2020) and Elamer et al. (2024).

On the one hand, the negative impact of BTD on firm value implies that shareholders see an augmented level of divergence between a firm's pretax accounting profit and its taxable income as a decrease in the firm's overall value. An amplified level of BTD is an indicator of extreme tax avoidance, corporate operations, or suboptimal financial performance. These elements may instill a sense of riskier market conditions amongst investors, thus reducing their overall level of engagement, which can ultimately decrease firm value. These findings were also in compliance with past academic studies by Elamer et al. (2024), Minh Ha et al. (2021), and Lv et al. (2025). Although the implementation of tax avoidance schemes may decrease a firm or corporation's tax burden, it establishes an augmented level of risk, which includes a firm or corporation imposing various reputational dangers, where management may be motivated or encouraged to engage in actions that deviate from an optimal level of welfare for a firm or corporation's stakeholders. Additionally, it reduces a firm or corporation's level of contribution to societal welfare, which detracts from overall ethical corporate behaviors.

ETR does not affect firm value. This is perhaps because investors are likely concerned with cash ETR since it represents a firm's real cash flow and is independent of alterations in accounting estimation methods. The results are consistent with Rudyanto & Pirzada (2020).

Table 2C. First Hypothesis Test Result

SECTOR	TAX AVOIDANCE INDICATORS		
	CETR	ETR	BTD
Communication	rejected	rejected	rejected
	no influence on firm value	no influence on firm value	no influence on firm value
Consumer Discretionary	rejected	rejected	rejected
	no influence on firm value	no influence on firm value	no influence on firm value
Consumer Staples	rejected	rejected	accepted
	no influence on firm value	no influence on firm value	negative influence on firm value
Healthcare	rejected	rejected	rejected
	positive influence on firm value	no influence on firm value	no influence on firm value
Energy	rejected	rejected	rejected
	no influence on firm value	no influence on firm value	no influence on firm value
Industrial	rejected	rejected	rejected
	no influence on firm value	no influence on firm value	no influence on firm value
Information Technology	rejected	rejected	rejected
	no influence on firm value	no influence on firm value	no influence on firm value
Materials	rejected	rejected	rejected
	no influence on firm value	no influence on firm value	no influence on firm value
Real Estates	rejected	rejected	rejected
	no influence on firm value	no influence on firm value	no influence on firm value
Utilities	rejected	rejected	accepted
	no influence on firm value	no influence on firm value	negative influence on firm value

Source: Authors' Creation

According to the second hypothesis, it is proposed that tax avoidance has a negative impact on debt expense. Results from the first measure of the main test regression appear in Table 3A and 3B.

In sum, like the first hypothesis, the second hypothesis also finds that the impact of tax avoidance on the cost of debt varies depending on the industry (as presented in Table

3C). From the various proxies for tax avoidance, only BTD influences the cost of debt. Positive effects are seen in the industrial and material sectors, while negative in the real estate and utilities sectors. All other proxies, including cash ETR and ETR, do not affect the cost of debt. They again point out that creditors perceive tax avoidance differently, based on sector.

Table 3A. Second Regression Test Result

	Communication			Consumer Discretionary			Consumer Staples			Healthcare			Energy		
	CETR	ETR	BTD	CETR	ETR	BTD	CETR	ETR	BTD	CETR	ETR	BTD	CETR	ETR	BTD
CETR	-0.134 (-0.612)			-0.136 (-0.251)			-0.014 (-0.027)			-0.212 (-0.184)			-0.588 (-0.102)		
ETR		-0.107 (-0.484)			-0.131 (-0.218)			0.121 (0.222)			0.261 (0.159)			-0.554 (-0.096)	
BTD			9.141 (1.368)			0.926 (1.005)			1.467 (0.290)			29.016 (0.865)			196.018 (3.132)
LEV	-0.069*** (-4.152)	-0.069*** (-4.156)	-0.069*** (4.132)	-0.014 (-0.153)	-0.014 (-0.148)	-0.058 (-0.556)	3.055*** (2.746)	3.062*** (2.752)	3.051*** (2.742)	-2.106 (-0.307)	-2.094 (-0.306)	0.542 (0.072)	-4.228 (-0.393)	-4.237 (-0.394)	-8.393 (-0.781)
SIZE	0.260 (1.559)	0.262 (1.576)	0.250 (1.511)	0.127 (0.393)	0.127 (0.391)	0.122 (0.377)	0.562*** (3.584)	0.561*** (3.581)	0.564*** (3.594)	3.008** (2.542)	3.032** (2.551)	2.765** (2.278)	0.945* (0.376)	0.943* (0.376)	0.356* (0.143)
ROA	-8.549*** (-5.134)	-8.574*** (-5.150)	-17.241*** (-2.655)	-1.244 (-1.132)	-1.234 (-1.122)	-2.947 (-1.462)	-14.825*** (-5.935)	-14.848*** (-5.946)	-15.784*** (-3.817)	-32.441** (-2.133)	-32.677** (-2.150)	-47.333** (-2.074)	-38.488*** (-1.642)	-38.495*** (-1.642)	-250.556*** (-3.501)
LIQ	0.479*** (5.919)	0.478*** (5.905)	0.478*** (5.936)	-0.137** (-2.393)	-0.137** (-2.439)	-0.138** (-2.428)	0.086* (1.654)	0.086* (1.661)	0.086* (1.647)	0.962 (1.157)	0.952 (1.145)	0.973 (1.175)	0.001 (0.294)	0.001 (0.297)	0.000 (0.124)
ZSCORE	0.005 (0.672)	0.005 (0.680)	0.003 (0.469)	0.019** (2.439)	0.019** (2.439)	0.019** (2.443)	-0.166*** (-6.808)	-0.166*** (-6.800)	-0.166*** (-6.795)	-0.424 (-1.189)	-0.425 (-1.193)	-0.341 (-0.926)	-0.003 (-0.027)	-0.003 (-0.027)	-0.009 (-0.035)

Source: Authors' Creation

Table 3B. Second Regression Test Result

	Industrial			Information Technology			Materials			Real Estates			Utilities		
	CETR	ETR	BTD	CETR	ETR	BTD	CETR	ETR	BTD	CETR	ETR	BTD	CETR	ETR	BTD
CETR	-0.588 (-0.102)			-940358.655 (-0.090)			0.278 (0.327)			-0.115 (-0.178)			-0.218 (-0.851)		
ETR		-0.554 (-0.096)			-1146597.329 (-0.109)			0.292 (0.326)			-0.115 (-0.178)			-0.241 (-0.958)	
BTD			196.018*** (3.132)			63548650.453 (0.434)			20.392* (1.691)			-315.64** (-2.116)			-0.107*** (-1160.710)
LEV	-4.228 (-0.393)	-4.237 (-0.394)	-8.393 (-0.781)	-10539202.887 (-0.711)	-10550211.206 (-0.712)	-11667977.802 (-0.775)	0.989 (0.808)	0.985 (0.806)	1.009 (0.828)	-15.418 (-1.067)	-15.417 (-1.067)	-15.922 (-1.108)	-	-	-
SIZE	0.945 (0.376)	0.943 (0.376)	0.356 (0.143)	-12914045.33*** (-2.615)	-12916458.721*** (-2.616)	-12454170.673** (-2.466)	0.621** (1.989)	0.618** (1.981)	0.609* (1.960)	-0.855 (-0.430)	-0.855 (-0.430)	-0.885 (-0.047)	-0.007 (-0.266)	-0.007 (-0.248)	-0.016 (-0.647)
ROA	-38.488 (-1.842)	-38.495 (-1.842)	-250.556*** (-3.501)	4795010.258 (0.317)	4798491.335 (0.317)	-58786349.118 (-0.399)	-26.529*** (-4.069)	-26.529*** (-4.068)	-38.803** (-3.974)	-226.353*** (-6.166)	-226.353*** (-6.166)	69.329 (0.480)	-0.107*** (-1158.265)	-0.107*** (-1161.393)	-
LIQ	0.001 (0.294)	0.001 (0.297)	0.000 (0.124)	-1030317.625 (-0.967)	-1030247.371 (-0.967)	-1146751.160 (-1.044)	-0.028 (-0.412)	-0.028 (-0.410)	-0.031 (-0.463)	0.456*** (3.313)	0.456*** (3.313)	0.467*** (3.414)	0.012 (0.552)	0.012 (0.556)	0.012 (0.526)
ZSCORE	-0.003 (-0.027)	-0.003 (-0.035)	-0.009 (-0.098)	-126390.028 (-0.620)	-126405.482 (-0.620)	-137000.428 (-0.668)	-0.012 (-1.244)	-0.012 (-1.210)	-0.012 (-1.210)	-1.632*** (-6.289)	-1.632*** (-6.289)	-1.606*** (-6.219)	-0.005*** (201.207)	-0.005*** (202.027)	-0.005*** (203.052)

Source: Authors' Creation

Table 3C. Second Hypothesis Test Result

SECTOR	TAX AVOIDANCE INDICATORS		
	CETR	ETR	BTD
Communication	rejected	rejected	rejected
	no influence on cost of debt	no influence on cost of debt	no influence on cost of debt
Consumer Discretionary	rejected	rejected	rejected
	no influence on cost of debt	no influence on cost of debt	no influence on cost of debt
Consumer Staples	rejected	rejected	rejected
	no influence on cost of debt	no influence on cost of debt	no influence on cost of debt
Healthcare	rejected	rejected	rejected
	no influence on cost of debt	no influence on cost of debt	no influence on cost of debt
Energy	rejected	rejected	rejected
	no influence on cost of debt	no influence on cost of debt	no influence on cost of debt
Industrial	rejected	rejected	rejected
	no influence on firm value	no influence on firm value	positive influence on cost of debt
Information Technology	rejected	rejected	rejected
	no influence on cost of debt	no influence on cost of debt	no influence on cost of debt
Materials	rejected	rejected	rejected
	no influence on cost of debt	no influence on cost of debt	positive influence on cost of debt
Real Estates	rejected	rejected	accepted
	no influence on cost of debt	no influence on cost of debt	negative influence on cost of debt
Utilities	rejected	rejected	accepted
	no influence on cost of debt	no influence on cost of debt	negative influence on cost of debt

Source: Authors' Creation

Creditors may perceive such a large gap between pre-tax and taxable income with trepidation, especially if the establishment of BTD visibly results in the minimized expense of debt. Such tactics of avoiding taxation may be construed as undermining the precision and transparency of the financial reports made by the firm. It is because of such perceptions of the firm's lack of transparency that the asymmetry of information and the risks associated seem to increase, reflecting the enhanced probability of creditors charging the firm a higher rate of return as compensation, which reflects the enhanced expense of debt, as indicated by the empirical studies of Lastiati et al. (2020).

In contrast, the harmful effect of BTD on the cost of debt implies that lenders could view large differences between financial and taxable results as a signal that, rather than

reflecting a higher level of risk, a firm enjoys favorable tax management through legitimate means, which includes the offer of tax incentives. This can help a given body of corporations develop stronger liquidity, which in turn can improve its ability to reciprocate its obligations, thus reducing the risk perception of the lenders, a trend which is in line with the conclusions of Sadjarto et al. (2019).

Our findings, regarding a lack of influence on cash ETR on the cost of debt, differed from existing research. For instance, research conducted by Medhioub & Boujelbene (2024), as well as by Lee (2022), raised positive correlations. In this case, an agreement was reached whereby tax avoidance measures would minimize fiscal transparency, leading to an increase in fiscal sanctions. This aligns with an understanding of risk exposure theory, whereby detrimental activities, such as tax avoidance, place a hurdle on loan facilities as lenders impose an enhanced interest rate. Contrariwise, research by Guedrib & Hamdi (2024), as well as by Kovermann (2018), indicated a negative link, whereby an attenuated level of cash ETR, as evidenced by an approximation towards zero, is associated with an attenuated cost of debt. This is owing to an enhanced ability by an organization with an enhanced capability for tax avoidance measures to service debt.

Concurrent with this, the results of the hypothesis testing, which established ETR's lack of effect on the cost of debt, are seen to corroborate the results of the research paper written by Ustadza & Firmansyah (2023), whereby these authors postulated the possibility that the observed variability or heterogeneity observed during the evaluation of tax avoidance metrics may have accounted for the results. Furthermore, the results also seem to indicate that creditors do not perceive the firm's tax avoidance practices, as evidenced by ETR, as indicative of risky financial gains.

Conclusions and Recommendations

This research undertakes an analysis of the data available relating to non-financial entities included in the IDX listing, over the time frame of 2021 to 2024. It is an attempt to assess, in an intricate and detailed manner, the impact of tax avoidance practices on firm value and cost of debt. Test results of our hypotheses have shown considerable differences in results, depending on the respective industry sector that each entity operates in. Tax avoidance was shown to have an unfavorable impact on firm value in the consumer staples and utilities sector. Conversely, in healthcare, tax avoidance was favorable. At the same time, in real estate and utilities, tax avoidance showed a negative impact on the cost of debt. Similarly, in industrial and materials, it has a positive impact

The major academic contribution achieved here is in the realm of taxation or financial discourse, where the focus is set only rarely in scholarly pieces where tax avoidance is taken to be the dependent variable. The results/data generated in this regard would provide critical insights to investors in the realm of the possible impact wielded by tax avoidance mechanisms in the decision-making process of creditors/shareholders. Additionally, the strategic insights that this paper hopes to provide to enterprises in designing optimized models in the realm of tax avoidance while simultaneously lowering the cost of debt would prove beneficial in this regard.

Further, this research contributes to several important findings. For example, corporate entities and management should avoid any attempts to materialize tax avoidance schemes aimed purely at reducing charges without first evaluating all potential inherent risks. On one hand, this research, notwithstanding several restrictions based on its statistical basis, asserts a potential scenario where a progression in attempts to materialize tax avoidance schemes may concurrently lower a firm's debt finance charges and value. In essence, before initiating any attempts aimed purely at corporate tax avoidance, it is advisable for any firm to first scrutinously evaluate all probable risks. Further, it is probable to suggest an indirect contribution to important intelligence for investors. However, for a firm, investors need to focus not solely on charges, since a

potential deterioration in corporate equity, from tax avoidance, may be a probable scenario.

Notwithstanding this fact, the present study is not without a few intrinsic limitations. First and foremost, the period for which data has been collected is relatively short and thus may not capture long periods of variation. In this regard, future studies should increase the period of observation to obtain results that better reflect general tendencies and have greater empirical validity. Secondly, data has only been collected regarding non-financial firms. These differ from financial firms in many respects, including that their regulatory and accounting structures are different, which might affect the way these firms conduct their fiscal policies. As such, the generalizations obtained from this study carry little relevance to firms operating within banking, insurance, and any other sector of the financial services industry. Future research might consider financial firms and compare them with non-financial firms to determine differences in their taxation policies and the causes for this.

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