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Examining the Influence of Profitability and the ASEAN Corporate Governance Scorecard on Tax Avoidance in Indonesian Banking Companies

Adelia Haryanto Putri[1], Siti Ratna Sari Dewi[2]

[1,2] Department of Tax Accounting Study Program, Faculty of Economics and Business, Universitas Pamulang, Banten, Indonesia. Email: adeliaonwork@gmail.com[1]

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ABSTRACT
This study investigates the effect of profitability and the ASEAN Corporate Governance Scorecard (ACGS) on tax avoidance, both partially and simultaneously, in banking sector companies listed on the Indonesia Stock Exchange (IDX) during 2019–2023. Profitability is proxied by Return on Assets (ROA), ACGS represents good corporate governance practices, and tax avoidance is measured using the Effective Tax Rate (ETR). The study employs secondary data obtained from annual financial reports, selected through purposive sampling, and analyzed using multiple linear regression with EViews 12. The results reveal that profitability has a significant negative effect on tax avoidance ($p < 0.05$), indicating that more profitable firms tend to minimize their tax burden through avoidance practices. Meanwhile, the ASEAN Corporate Governance Scorecard (ACGS) shows a positive but insignificant effect ($p > 0.05$), suggesting that the implementation of corporate governance has not yet effectively mitigated tax avoidance behavior. Simultaneously, profitability and ACGS significantly influence tax avoidance, with an adjusted R^2 of 12.1%, meaning other factors beyond these variables also play a role. These findings reinforce the relevance of Agency Theory and Positive Accounting Theory, confirming that managerial incentives and governance mechanisms shape firms' tax decisions. Practically, this study highlights the need for regulators to strengthen governance enforcement and for companies to improve transparency to enhance compliance and reduce aggressive tax practices.

Keywords: Profitability, ASEAN Corporate Governance Scorecard, Tax Avoidance, Good Corporate Governance.

I. Introduction

Tax is one of the main sources of state revenue that plays an important role in the administration of government and the development of public facilities. Based on Law Number 7 of 2021 concerning General Provisions and Taxation Procedures, Article 1 paragraph (1), tax is an obligation that must be fulfilled by individuals or business entities to the state. This tax is coercive in nature and its implementation is regulated under the applicable laws and regulations (IAI, 2022). Indirectly, taxes paid do not provide direct compensation, and they are used for government needs in the development of public facilities, which ultimately return to the welfare of the people.

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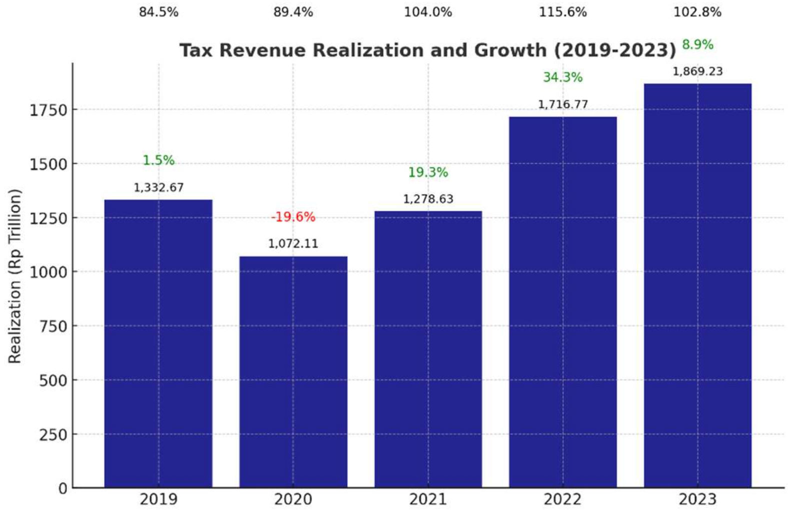

Figure 1. Tax Revenue Statistics for 2019–2023

Based on data from the Directorate General of Taxes (DJP) through Tax Revenue Statistics 2023 in Figures published on www.pajak.go.id (2024), Non-Oil and Gas Income Tax (PPh Non-Migas) remains the largest contributor to Indonesia's tax revenue, accounting for 53.1% of the total realized tax revenue of Rp 1,869.23 trillion, or approximately Rp 993.03 trillion. This is also reaffirmed in Presidential Regulation No. 75 of 2023, which amends Presidential Regulation No. 130 of 2022 concerning the details of the 2023 State Budget. The banking sector plays a pivotal role in this context as one of the key non-oil and gas contributors to tax revenue. Banks generate substantial income through interest, fees, and investment gains, making their profits a major source of Non-Oil and Gas Income Tax realization. As financial intermediaries, banks facilitate fund allocation, strengthen liquidity, and drive overall economic growth, but their complex structures also provide opportunities for tax avoidance practices. According to Purba and Amrul (2018), companies are taxable entities that must comply with statutory tax obligations. However, many corporations perceive taxes as a financial burden that reduces profitability (Marlinda et al., 2020). This perception often motivates management to engage in tax avoidance—legal efforts to reduce tax liabilities by exploiting permissible deductions or loopholes. While tax avoidance differs from tax evasion, which involves illegal manipulation such as falsified reports or concealed income, both reduce potential state revenue and harm public trust in the taxation system.

Several notable cases illustrate the consequences of aggressive tax behavior. PT Kimia Farma Tbk's 2001 financial report manipulation, the British American Tobacco (BAT) case through PT Bentoel Internasional Investama Tbk, and the 2016 Bank Panin bribery case all exemplify how tax avoidance and evasion undermine fiscal integrity and highlight systemic weaknesses in governance and enforcement. These incidents reveal that despite regulatory reforms, the challenge of ensuring compliance and transparency in Indonesia's taxation system remains significant. Previous studies emphasize that profitability is one of the primary internal factors influencing tax avoidance. Firms with higher profits have greater incentives to reduce their tax burdens to maintain earnings stability (Indira Yuni & Setiawan, 2019; Anggraeni & Oktaviani, 2021). Profitability, commonly proxied by Return on Assets (ROA), measures the efficiency of asset utilization in generating income (Budianti & Curry, 2018). High profitability tends to increase tax obligations, motivating firms to engage in avoidance strategies within the bounds of legality (Heru Harmadi Sudibyo, 2022). In addition to profitability, Good Corporate Governance (GCG) is considered a crucial mechanism for moderating managerial opportunism. According to the Forum for Corporate Governance in Indonesia (FCGI, 2017), GCG regulates relationships among stakeholders and ensures transparency, accountability, and fairness in decision-making. The introduction of the ASEAN Corporate Governance Scorecard (ACGS) by the ASEAN Capital Market Forum (ACMF) in 2011 provides a benchmark for assessing governance practices across five key principles:

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shareholder rights, equitable treatment, stakeholder roles, disclosure and transparency, and board responsibilities (Immanuel et al., 2020).

Empirical research has produced mixed findings regarding the influence of ACGS on tax avoidance. While some studies (Immanuel et al., 2020; Hakim & Vestari, 2022) found that stronger governance reduces avoidance behavior, others (Marlinda et al., 2020; Oktaviana & Kholis, 2021) indicate no significant effect. These inconsistencies suggest that governance structures in ASEAN, including Indonesia's banking sector, may not yet be fully effective in restraining opportunistic tax management. Given these findings, this study aims to examine the effect of profitability and the ASEAN Corporate Governance Scorecard (ACGS) on tax avoidance both partially and simultaneously, among banking sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2019–2023. By integrating Agency Theory and Positive Accounting Theory, this research provides insight into how profitability and governance mechanisms interact in shaping corporate tax behavior, thereby contributing to the academic discourse and offering policy implications for strengthening fiscal transparency and accountability.

II. Literature Review and Hypothesis Development

2.1. Agency Theory

Agency Theory in the context of tax avoidance arises when there are conflicting interests between management as the agent and investors as the principal (Mita Dewi, 2019). This theory was introduced by Michael C. Jensen and William H. Meckling in their seminal paper "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure" (1976). They argue that the separation of ownership and management may cause managers to act in their own interests rather than those of shareholders, creating agency costs such as monitoring, contracting, and potential losses from suboptimal decisions. According to Oktaviana & Kholis (2021), these agency conflicts necessitate good corporate governance to ensure sustainability. The ASEAN Corporate Governance Scorecard (ACGS) indicators, shareholder rights, equitable treatment, stakeholder roles, disclosure and transparency, and board responsibilities, serve as benchmarks to align management with shareholder interests. Effective governance can limit opportunistic behavior and reduce risky practices like tax avoidance. Conversely, weak governance allows managers greater freedom to prioritize personal gains, which may lead to tax avoidance, financial risks, and reputational damage to the company (Mita Dewi, 2019).

2.2. Positive Accounting Theory (PAT)

Positive Accounting Theory (PAT) was first introduced by Ross L. Watts and Jerold L. Zimmerman in their 1978 article "Towards a Positive Theory of the Determination of Accounting Standards", and further elaborated in their 1986 book "Positive Accounting Theory." This theory examines corporate behavior in selecting accounting policies that influence financial reporting and tax liabilities. Unlike normative approaches that prescribe how accounting should be applied, PAT adopts a positive approach, aiming to explain and predict accounting choices based on economic incentives influencing managerial decisions (Watts & Zimmerman, 1986). It highlights how accounting practices evolve as managers voluntarily adopt standards and procedures (Nursari & Nazir, 2023). PAT emphasizes three main hypotheses: the Bonus Plan Hypothesis, the Debt Covenant Hypothesis, and the Political Cost Hypothesis (Nanda Viola et al., 2023). The latter suggests that highly profitable firms are more likely to attract regulatory scrutiny, leading managers to adopt accounting methods that reduce reported profits (Darsani & Sukartha, 2021). Linked to profitability, this implies that firms with higher earnings often have greater incentives and resources to engage in tax avoidance.

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2.3. Tax Avoidance

According to Heru Harmadi Sudibyo (2022), tax avoidance refers to efforts by companies to reduce tax burdens through legal, illegal, or mixed practices. Similarly, Anggraeni & Oktaviani (2021) define it as a legal and safe strategy undertaken by taxpayers to minimize tax liabilities without violating tax regulations. In conclusion, tax avoidance is the practice of reducing taxable obligations by exploiting legal loopholes, without breaching existing laws. This occurs partly because Indonesia applies a self-assessment system, where both individuals and corporations are authorized to calculate, pay, and report their own taxes (Indira Yuni & Setiawan, 2019). While legal, such practices are closely monitored by the government to prevent misuse. To measure the extent of tax avoidance, several scholars (Heru Harmadi Sudibyo, 2022; Anggraeni & Oktaviani, 2021; Putri & Yuliafitri, 2024) use the Effective Tax Rate (ETR). ETR is calculated as the ratio between tax expenses and earnings before tax (EBT), reflecting the effective burden of taxation on company profits. A higher profit level generally increases the potential tax to be paid, which may drive companies to engage in tax avoidance strategies.

2.4. Profitability

Amalia & Nurhayat (2020) define profitability as a measure of a company's ability to generate profit within a certain period. Marlinda et al. (2020) describe it as the reflection of efficient asset management to produce earnings, while Putri & Yuliafitri (2024) view it as a ratio to evaluate overall managerial effectiveness in generating profits. In summary, profitability represents a company's capacity to manage its operations to obtain profit. The higher the profitability, the greater the net income and, consequently, the higher the potential tax liability. However, firms often respond by engaging in tax avoidance, seeking legal loopholes to minimize their obligations (Anggraeni & Oktaviani, 2021). A lower effective tax rate is commonly used as an indicator of higher tax avoidance. Linking this to Positive Accounting Theory, particularly the political cost hypothesis, highly profitable firms may choose accounting methods that reduce reported earnings to minimize tax burdens, such as deferring current profits to subsequent periods (Fadhila & Andayani, 2022).

2.5. Good Corporate Governance

Oktaviana & Kholis (2021) define Good Corporate Governance (GCG) as corporate practices aimed at ensuring long-term operations while considering stakeholder interests. Purbowati (2021) views it as a system that regulates and controls companies through stakeholder relationships and the application of governance values, while Susilo (2023) emphasizes it as a control system to align internal activities with corporate goals and strengthen stakeholder trust. In summary, GCG is a system of regulation and control designed to sustain business continuity, balance internal and external interests, and enhance stakeholder confidence. The National Committee on Governance Policy (KNKG, 2006) outlines five key principles of GCG: transparency, accountability, responsibility, independence, and fairness. However, widespread tax avoidance in Indonesia shows that GCG is not yet fully implemented (Marlinda et al., 2020). To achieve sound governance, Alvenina (2021) suggests that effective mechanisms are needed to align management with stakeholder interests. This study adopts the ASEAN Corporate Governance Scorecard (ACGS) as a relevant measurement tool for assessing governance practices. The ACGS, introduced by the ASEAN Capital Market Forum (ACMF), is an index-based assessment of governance practices with five categories: shareholder rights, equitable treatment of shareholders, stakeholder roles, disclosure and transparency, and board responsibilities (Immanuel et al., 2020). According to Hakim & Vestari (2022), ACGS provides a more accurate and credible evaluation, helping investors save time in making investment decisions.

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III. Research Method

This study employs a quantitative explanatory design, suitable for testing hypotheses about the relationship between financial and governance variables in predicting corporate tax avoidance. The explanatory approach enables statistical identification of causal directions and significance levels (Cooper & Schindler, 2014).

3.1. Population and Sampling Technique

The population comprises all banking companies listed on the Indonesia Stock Exchange (IDX) from 2019–2023. The banking sector was chosen due to its systemic importance, regulatory complexity, and fiscal significance. Samples were determined using purposive sampling, with inclusion criteria as follows:

a. Companies continuously listed on IDX during 2019–2023.
b. Availability of complete and audited annual reports.
c. Data presented in Indonesian Rupiah
d. Disclosure of corporate governance information under the ASEAN Corporate Governance Scorecard (ACGS) framework.
This sampling ensures data representativeness and reliability (Sugiyono, 2018).

3.2. Data Collection and Type

This study uses secondary data obtained from annual reports and audited financial statements published on IDX and corporate websites. These data are considered valid because they have been verified by independent auditors and standardized by regulatory institutions (Ghozali, 2018).

3.3. Variables and Measurement

Dependent Variable (Tax Avoidance): measured by the Effective Tax Rate (ETR) = Current Tax Expense ÷ Profit Before Tax. A lower ETR indicates higher avoidance (Chen et al., 2010).

a. Independent Variables:

1) Profitability (ROA): reflects the firm's efficiency in generating profits from total assets (Brigham & Ehrhardt, 2017).
2) ASEAN Corporate Governance Scorecard (ACGS): measures corporate governance based on five principles: shareholder rights, equitable treatment, stakeholder roles, transparency, and board responsibilities (ASEAN Capital Market Forum, 2017).

b. Control Variables: Firm size (log of total assets) and leverage (debt-to-equity ratio) are added to control for financial structure effects (Frank et al., 2009).

3.4. Data Analysis Technique

Panel data regression is used to estimate the model:

$$ETR_{it}=\alpha+\beta_1 ROA_{it}+\beta_2 ACGS_{it}+\beta_3 SIZE_{it}+\beta_4 LEV_{it}+\varepsilon_{it}$$

Prior to hypothesis testing, classical assumption tests are conducted, namely:

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a. Normality test using Jarque-Bera to assess data distribution.
b. Multicollinearity test using the Variance Inflation Factor (VIF < 10)
c. Heteroskedasticity test using White's test to verify homoscedasticity.

To determine the most appropriate panel data model, Chow, Lagrange Multiplier (LM), and Hausman tests are applied sequentially (Baltagi, 2005). The selected model—Common, Fixed, or Random Effect—is then analyzed using EViews 12, ensuring efficient computation and robustness. Hypotheses are tested at a 5% significance level.

IV. Results and Discussion

4.1. Descriptive Statistical Analysis

Descriptive statistical analysis is conducted to provide an overview of the data characteristics. It includes the maximum, minimum, mean, and standard deviation values of each variable to observe the distribution and identify potential outliers.

Table 1. Descriptive Statistical Analysis Results

	Y_ETR	X1_ROA	X2_ACGS
Mean	0.237235	0.017455	0.670295
Median	0.224050	0.016450	0.667800
Maximum	0.553300	0.042700	0.774000
Minimum	0.012200	0.000900	0.609600
Std. Dev.	0.063423	0.010240	0.029990
Skewness	2.007082	0.581616	0.750238
Kurtosis	12.07665	2.668894	4.088184
Jarque-Bera	451.4540	6.704234	15.74637
Probability	0.000000	0.035010	0.000381
Sum	26.09590	1.920100	73.73240
Sum Sq. Dev.	0.438456	0.011430	0.098035
Observations	110	110	110

Table 1 presents the descriptive statistical analysis of the research data. The study includes one hundred and ten observations derived from twenty-two banking companies over five years, ensuring consistent annual coverage. The statistics describe the distribution of the main variables, Tax Avoidance, Profitability, and the ASEAN Corporate Governance Scorecard (ACGS), using mean, maximum, minimum, standard deviation, skewness, and kurtosis.

a. Tax Avoidance (Y)
   Tax avoidance, measured by the effective tax rate, shows variation across firms but remains within a reasonable range. The distribution is positively skewed and highly peaked, reflecting some extreme values among companies.
b. Profitability(X1)
   Profitability, proxied by return on assets, indicates relatively low variation among banks. The distribution is close to normal, with only slight positive skewness.
c. ASEAN Corporate Governance Scorecard (X2)
   The ACGS variable demonstrates relatively homogeneous values across banks. The distribution is slightly skewed to the right and more peaked than normal, showing moderate concentration of scores.

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4.2. Panel Data Model Selection

Following the descriptive analysis, the study applies panel data modeling to account for both time-series and cross-sectional dimensions. Three approaches are considered, Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM), to identify the most suitable and efficient model using EViews software.

a. Common Effect Model (CEM)

The Common Effect Model serves as the baseline, assuming uniformity across all firms and periods without recognizing individual or temporal differences.

Table 2. Common Effect Model Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.173778	0.141081	1.231763	0.2207
X1_ROA	-2.489066	0.638371	-3.899088	0.0002
X2_ACGS	0.159490	0.217970	0.731703	0.4659
R-squared	0.137424	Mean dependent var		0.237235
Adjusted R-squared	0.121301	S.D. dependent var		0.063423
S.E. of regression	0.059452	Akaike info criterion		-2.780386
Sum squared resid	0.378201	Schwarz criterion		-2.706737
Log likelihood	155.9212	Hannan-Quinn criterion.		-2.750514
F-statistic	8.523502	Durbin-Watson stat		2.032284
Prob(F-statistic)	0.000367			

Based on Table 2, the adjusted R-squared value indicates that profitability and the ASEAN Corporate Governance Scorecard (ACGS) together explain a modest portion of the variation in tax avoidance. The F-test confirms that, simultaneously, both variables significantly influence tax avoidance. Individually, profitability (ROA) has a negative and significant effect on tax avoidance, meaning that firms with higher profitability tend to report lower effective tax rates, reflecting a greater tendency toward tax avoidance. Conversely, the ACGS variable shows a positive but insignificant effect, implying that higher governance scores are associated with stronger compliance, although the relationship is not statistically meaningful.

b. Fixed Effect Model (FEM)

The Fixed Effect Model assumes that each company has unique, time-invariant characteristics that may influence the regression results. Unlike the Common Effect Model, FEM accounts for entity-specific differences across firms, thereby providing a more refined analysis of panel data.

Table 3. Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.313002	0.763019	0.410215	0.6827
X1_ROA	-5.176088	1.320691	-3.919227	0.0002
X2_ACGS	0.021758	1.141199	0.019066	0.9848
Statistic			**Value**	
R-squared			0.330278	
Adjusted R-squared			0.151167	
S.E. of regression			0.058433	
Sum squared residuals			0.293643	
Log likelihood			169.8396	
F-statistic			1.843981	
Prob(F-statistic)			0.022753	
Durbin-Watson stat			2.534608	
Mean dependent var			0.237235	

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S.D. dependent var	0.063423
Akaike info criterion	-2.651629
Schwarz criterion	-2.062434
Hannan-Quinn criterion	-2.412648

Based on Table 3, the adjusted R-squared value indicates that profitability and the ASEAN Corporate Governance Scorecard (ACGS) explain a modest portion of the variation in tax avoidance. The F-test confirms that, taken together, these variables have a significant effect on tax avoidance. Individually, profitability (ROA) has a negative and significant influence, suggesting that firms with higher profitability tend to report lower effective tax rates, reflecting a greater tendency toward tax avoidance. In contrast, the ACGS variable shows a positive but statistically insignificant effect, implying that stronger governance scores are associated with higher compliance, although the relationship is not strong enough to generalize.

c. Random Effect Model (REM)

The Random Effect Model assumes that differences across firms are random and uncorrelated with the independent variables. Unlike the Fixed Effect Model, which treats firm-specific differences as constant, REM views these effects as random variations arising across entities.

Table 4. Random Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.172874	0.139828	1.236337	0.219
X1_ROA	-2.499867	0.631795	-3.956769	0.0001
X2_ACGS	0.16112	0.21601	0.745889	0.4574

Effects Specification

Component	S.D.	Rho
Cross-section random	0.003522	0.0036
Idiosyncratic random	0.058433	0.9964

Weighted Statistics

Statistic	Value
R-squared	0.13705
Adjusted R-squared	0.12092
S.E. of regression	0.059354
Sum squared residuals	0.376951
F-statistic	8.496666
Prob(F-statistic)	0.000376
Durbin-Watson stat	2.038443
Mean dependent var	0.23511
S.D. dependent var	0.063305
R-squared	0.137421
Sum squared residuals	0.378202
Durbin-Watson stat	2.031697
Mean dependent var	0.237235

Table 4 shows that the adjusted R-squared indicates profitability, and the ASEAN Corporate Governance Scorecard (ACGS) explains a small portion of variation in tax avoidance. The F-test result demonstrates that, taken together, these variables significantly affect tax avoidance under the REM specification. Individually, profitability (ROA) has a negative and significant effect, suggesting that firms with higher profitability tend to report lower effective tax rates, reflecting greater tax avoidance practices. In contrast, ACGS shows a positive but statistically insignificant relationship, implying that stronger governance scores are associated with higher compliance, though the evidence is not strong enough to be conclusive.

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4.3. Model Selection Tests

a. Chow Test

The Chow test is applied to decide between the Common Effect Model and the Fixed Effect Model. If the p-value is below the significance threshold, the FEM is more appropriate. Conversely, if the p-value is above the threshold, there is no significant difference, and the CEM is deemed more suitable.

Table 5. Chow test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.179274	(21,86)	0.2898
Cross-section Chi-square	27.836754	21	0.1448

Table 5. shows that the Cross-section Chi-square probability exceeds the significance threshold, indicating no significant differences in intercepts across companies. Therefore, the Common Effect Model (CEM) is considered more appropriate than the Fixed Effect Model (FEM). Since CEM is selected, the Hausman test is not required, as it is only relevant when FEM is chosen.

b. Lagrange Multiplier (LM) Test

The LM test is applied to determine the most suitable model between the Common Effect Model (CEM) and the Random Effect Model (REM). The purpose of this test is to identify whether significant individual effects exist across companies. If the probability value is below the significance level, REM is preferred. Conversely, if the probability value is above the threshold, CEM is deemed more appropriate.

Table 6. Lagrange Multiplier Test Results

Test	Comparison	Decision Rule (p-value)	Result	Preferred Model
Chow Test	CEM vs FEM	If $p < 0.05 \rightarrow$ FEM, else CEM	$p = 0.1448 > 0.05 \rightarrow$ No difference	CEM
Hausman Test	FEM vs REM	If $p < 0.05 \rightarrow$ FEM, else REM	Not conducted (CEM chosen earlier)	–
Lagrange Multiplier Test	CEM vs REM	If $p < 0.05 \rightarrow$ REM, else CEM	Cross-section $p = 0.7846 > 0.05 \rightarrow$ No effect	CEM

Table 6 shows that the Breusch-Pagan probability for the cross-section is greater than the significance threshold, indicating no significant individual effects across firms. Therefore, the Common Effect Model (CEM) is the most appropriate model for this study. This result reinforces the earlier Chow test, confirming CEM as the best-fit panel data model.

4.4. Classical Assumption Tests

a. Normality Test

The normality test assesses whether the residuals are normally distributed. This assumption is essential because unbiased parameter estimation and valid statistical inference require residuals to follow a normal distribution, particularly in studies with relatively small samples. In this research, the Jarque-Bera (JB) test using EViews 12 is employed. The decision rule states that if the p-value exceeds the significance level, the residuals are normally distributed; if not, they are considered non-normal.

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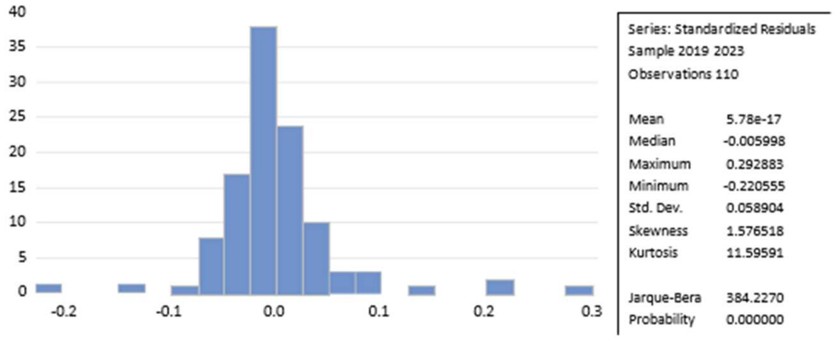

Figure 2. Normality Test Results

Outlier adjustment was conducted using the z-score method with a threshold of ±3, following Ghozali (2018). After removing outliers, the remaining sample consisted of 110 observations, which is adequate for regression testing. The Jarque-Bera test produced a probability below the significance threshold, indicating that the residuals are not normally distributed. However, according to Gujarati (2009) and the Central Limit Theorem, for large samples exceeding one hundred observations, normality of residuals is not strictly required, as the distribution tends to approximate normality naturally. Therefore, despite the non-normal result, the regression model remains valid.

b. Multicollinearity Test

The multicollinearity test examines whether independent variables are excessively correlated. High correlations can distort regression estimates and reduce reliability. In this study, the test is based on the Variance Inflation Factor (VIF). A VIF value above ten signals potential multicollinearity, while smaller values indicate that variables are sufficiently independent and safe to include together in the regression model.

Table 7. Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.019904	619.4267	NA
X1_ROA	0.407518	5.181986	1.317763
X2_ACGS	0.047511	665.6406	1.317763

Table 7 shows that the centered VIF values for profitability (X1) and the ASEAN Corporate Governance Scorecard (X2) are both 1.317763, well below the tolerance threshold of ten. This indicates that multicollinearity is not present in the model. In other words, the independent variables do not interfere with one another and are suitable for further regression analysis.

c. Heteroscedasticity Test

The heteroscedasticity test evaluates whether the residuals in the model have constant variance. Ideally, residuals should display equal variance; if the variance is unequal, heteroscedasticity occurs. In this study, the White Test is applied because it does not require assumptions about the distributional form of the data, making it more flexible and appropriate when the error pattern is uncertain (Gujarati, 2009).

Table 8. Heteroscedasticity Test Results

Test Statistic	Value	Prob.
F-statistic	2.089635	0.0725 (F(5,104))
Obs*R-squared	10.04209	0.0741 (Chi-Sq(5))
Scaled explained SS	50.34019	0.0000 (Chi-Sq(5))

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Based on the White Test in Table 8, the probability value of the Chi-Square statistic (Obs*R-squared) is greater than the significance threshold. This indicates that the model does not exhibit heteroscedasticity, meaning the residuals have constant variance across observations, and the assumption of homoskedasticity is satisfied.

d. Autocorrelation Test

The autocorrelation test examines whether residuals are correlated over time. In a well-specified regression model, residuals should be independent of one another. This study employs the Durbin-Watson (DW) test, which is widely used for detecting autocorrelation in time series and panel data. The DW statistic ranges from zero to four, with the following interpretation: values close to two indicate no autocorrelation, values below one point five suggest positive autocorrelation, and values above two point five indicate negative autocorrelation.

Table 9. Autocorrelation Test Results

R-squared	0.012055	Mean dependent var	-3.18E-17
Adjusted R-squared	-0.025581	S.D. dependent var	0.058904
S.E. of regression	0.059653	Akaike info criterion	-2.756151
Sum squared resid	0.373642	Schwarz criterion	-2.633401
Log likelihood	156.5883	Hannan-Quinn criterion.	-2.706363
F-statistic	0.320301	Durbin-Watson stat	2.017064
Prob(F-statistic)	0.863829		

Table 9 shows that the Durbin-Watson value is very close to two, indicating no autocorrelation in the model. This confirms that residuals are independent, and the regression estimates are valid and reliable for hypothesis testing.

4.5. Multiple Linear Regression Analysis

Regression estimation was conducted using three panel data approaches: the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). After applying the Chow and Lagrange Multiplier (LM) tests, the Common Effect Model was selected as the most appropriate. The results indicated no significant individual effects, making CEM the simplest and most suitable model to explain the relationship between profitability, the ASEAN Corporate Governance Scorecard (ACGS), and tax avoidance. The subsequent regression analysis is therefore based on the CEM, with results presented in the following table.

Table 10. Multiple Linear Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.173778	0.141081	1.231763	0.2207
X1_ROA	-2.489066	0.638371	-3.899088	0.0002
X2_ACGS	0.159490	0.217970	0.731703	0.4659

The regression equation based on the Common Effect Model is expressed as: ETRit=0.173778−2.489066(ROAit)+0.159490(ACGSit)+εitETR_{it} = 0.173778 2.489066(ROA_{it}) + 0.159490(ACGS_{it}) + \varepsilon_{it}ETRit=0.173778−2.489066(ROAit)+0.159490(ACGSit)+εit

The interpretation of the coefficients is as follows:

a. The constant value of 0.173778 indicates the baseline of tax avoidance (ETR) when both profitability and ACGS are equal to zero.
b. The coefficient of profitability (ROA) is negative, meaning that higher profitability reduces the effective tax rate, which implies a greater tendency toward tax avoidance.

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The coefficient of ACGS is positive, suggesting that better governance scores increase the effective tax rate and indicate stronger tax compliance, although this effect is statistically insignificant.

4.6. Hypothesis Testing

a. Partial Test (t-test)

The t-test is used to evaluate the effect of each independent variable individually on tax avoidance (Ghozali, 2018). The decision rule is based on the probability value: if the p-value is below the significance threshold, the variable has a significant effect; if it is above the threshold, the effect is not significant.

Table 11. Partial Test (t-test) Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.173778	0.141081	1.231763	0.2207
X1_ROA	-2.489066	0.638371	-3.899088	0.0002
X2_ACGS	0.159490	0.217970	0.731703	0.4659

1) Profitability and Tax Avoidance

The regression coefficient for profitability (ROA) is negative and statistically significant, with a probability value below the threshold. This indicates that higher profitability leads to a lower effective tax rate, reflecting a stronger tendency for tax avoidance. Thus, the null hypothesis is rejected and the alternative is accepted.

2) ASEAN Corporate Governance Scorecard (ACGS) and Tax Avoidance

The regression coefficient for ACGS is positive but not statistically significant, with a probability value above the threshold. This suggests that although better governance scores theoretically indicate stronger tax compliance, the effect is not supported statistically in this model. Hence, the null hypothesis is accepted.

b. Simultaneous Test (F-test)

The F-test evaluates whether all independent variables collectively influence tax avoidance. Using the Common Effect Model, the decision criterion is based on the probability of the F-statistic. If the probability is below the significance threshold, the independent variables together have a significant effect on the dependent variable; otherwise, no significant simultaneous effect is present.

Table 12. Simultaneous Test (F-test) Results

R-squared	0.137424	Mean dependent var	0.237235
Adjusted R-squared	0.121301	S.D. dependent var	0.063423
S.E. of regression	0.059452	Akaike info criterion	-2.780386
Sum squared resid	0.378201	Schwarz criterion	-2.706737
Log likelihood	155.9212	Hannan-Quinn criterion.	-2.750514
F-statistic	8.523502	Durbin-Watson stat	2.032284
Prob(F-statistic)	0.000367		

Table 13 shows that the F-statistic probability value is below the significance threshold. This indicates that profitability and the ASEAN Corporate Governance Scorecard (ACGS) simultaneously have a significant effect on tax avoidance. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted.

Table 13. Hypothesis Testing Results

Hypothesis	Statement	Sig. Value	Result
H1	Profitability has a negative and significant effect on Tax Avoidance.	0.0002	Accepted

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H2	The ASEAN Corporate Governance Scorecard (ACGS) has a positive and significant effect on Tax Avoidance.	0.4659	Rejected
H3	Profitability and ACGS simultaneously have a significant effect on Tax Avoidance.	0.0037	Accepted

The table presents the results of hypothesis testing. The findings indicate that profitability significantly and negatively affects tax avoidance, while the ASEAN Corporate Governance Scorecard (ACGS) shows no significant effect; however, both variables jointly have a significant influence on tax avoidance.

c. Coefficient of Determination (R^2)

The coefficient of determination shows the proportion of variation in the dependent variable explained by the independent variables. This value is obtained from the adjusted R-squared in the regression output. A value close to one indicates strong explanatory power, while a value near zero suggests weak predictive ability.

Table 14. Coefficient of Determination (R^2) Results

R-squared	0.137424	Mean dependent var	0.237235
Adjusted R-squared	0.121301	S.D. dependent var	0.063423
S.E. of regression	0.059452	Akaike info criterion	-2.780386
Sum squared resid	0.378201	Schwarz criterion	-2.706737
Log likelihood	155.9212	Hannan-Quinn criterion.	-2.750514
F-statistic	8.523502	Durbin-Watson stat	2.032284
Prob(F-statistic)	0.000367		

Table 14 shows that the adjusted R-squared value is 0.121301, meaning that approximately twelve percent of the variation in tax avoidance can be explained by profitability and the ASEAN Corporate Governance Scorecard (ACGS). The remaining variation is influenced by other factors not included in the model. Although modest, this result indicates that the independent variables still contribute to explaining the dependent variable.

4.7. Discussion

The partial test results indicate that profitability has a significant negative effect on tax avoidance, implying that firms with higher profitability tend to report lower effective tax rates (ETR). This supports the Positive Accounting Theory, particularly the political cost hypothesis, which argues that profitable firms seek to reduce their reported taxable income to avoid political scrutiny or regulatory pressure. In the context of the Indonesian banking sector, this behavior aligns with findings by Budianti and Curry (2018), Darsani and Sukartha (2021), and Hidayat (2018), who found that higher profitability encourages firms to implement legal tax-saving strategies to maintain competitiveness. This result also reinforces Heru Harmadi Sudibyo (2022), suggesting that banks with efficient asset utilization and high returns are more proactive in optimizing tax positions while staying within legal boundaries.

For the ASEAN Corporate Governance Scorecard (ACGS), the results reveal no significant effect on tax avoidance. Theoretically, good governance should restrain managerial opportunism, as proposed by Agency Theory, where effective monitoring mechanisms reduce tax manipulation incentives. However, the insignificant relationship suggests that governance reforms in Indonesian banking have not yet translated into strict tax compliance. This is consistent with studies by Immanuel et al. (2020) and Murtina et al. (2022), which report that the effectiveness of governance depends on the enforcement of disclosure and board oversight practices. The result also indicates that ACGS compliance might be more procedural than substantive, reflecting that formal adherence to governance principles does not always ensure ethical financial behavior.

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The simultaneous F-test results show that profitability and ACGS jointly have a significant influence on tax avoidance, highlighting that financial performance and governance interact to shape firms' tax strategies. From the Agency Theory perspective, strong governance can moderate opportunistic tax behavior, while high profitability amplifies incentives to minimize taxes. These findings are in line with Oktaviana and Kholis (2021), who demonstrated that profitability and governance mechanisms together determine the level of tax aggressiveness. Empirically, this reinforces that tax avoidance is not only a financial decision but also a managerial and ethical one.

Theoretically, this study extends the empirical validation of Positive Accounting Theory by confirming that profitability influences tax policy decisions, while governance factors play a conditional role. Practically, the findings suggest that regulators such as the Financial Services Authority (OJK) and the Directorate General of Taxes (DJP) should strengthen the integration between profitability monitoring and governance compliance frameworks to minimize avoidance risks. Future studies should expand the model by including variables such as leverage, liquidity, or ownership concentration to better capture the multidimensional nature of tax behavior in Indonesia's banking industry.

V. Conclusion

This study highlights the significant role of regional taxes and levies in shaping local revenue performance. The findings confirm that both factors contribute meaningfully to enhancing the financial independence of local governments by reducing dependence on central transfers. Regional taxes serve as a stable and predictable source of income, while levies provide additional fiscal support from specific public services. Together, these instruments reinforce fiscal sustainability and enable governments to allocate resources more effectively to developmental priorities.

From a theoretical standpoint, the results are consistent with public finance theory, which emphasizes the importance of diversifying local revenue sources to achieve autonomy and resilience. Empirically, the findings align with previous studies that identify local taxation as a cornerstone of fiscal decentralization and effective governance. This research also sheds light on the broader policy implications, particularly the necessity of strengthening administrative capacity and transparency in tax and levy management.

Practically, the study underscores the need for local governments to optimize tax collection systems, improve service delivery tied to levies, and implement fair, efficient policies that encourage compliance. By doing so, they can foster trust among citizens and build a stronger foundation for sustainable regional development. Ultimately, these findings contribute to academic discussions on fiscal decentralization while providing actionable insights for policymakers to enhance local financial performance in a dynamic economic environment.

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