

Tax avoidance, capital structure, and firm value: The moderating role of profitability in LQ45 companies post-pandemic

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ABSTRACT

This study analyzes the effect of tax avoidance and capital structure on firm value with profitability as a moderating variable in 19 LQ45 companies during 2020-2024. It aims to address the post-pandemic literature gap by examining the moderating role of profitability. This quantitative research employs purposive sampling and panel data regression using the Random Effect Model (REM). The analysis includes heteroscedasticity, multicollinearity, t-test, Moderated Regression Analysis (MRA), and coefficient of determination (R^2). The results indicate that tax avoidance positively affects firm value, while capital structure has a negative effect. Profitability does not moderate the relationship between tax avoidance and firm value, but it weakens the effect of capital structure on firm value. These findings suggest that investors respond more to tax efficiency and profitability performance, whereas high leverage is perceived as increasing risk and reducing firm value. Therefore, maintaining an optimal capital structure is essential to enhance firm value.

Introduction

Investor perception of the prospects, performance, and sustainability of an organization is reflected in the firm value. A high value indicates that the business can maintain market trust and provide optimal returns (Aulia & Avriyanti, 2024). This indicator becomes increasingly important for LQ45 companies because the index consists of liquid issuers, large-capitalized companies, and those with a strong reputation. However, the pressures of the COVID-19 pandemic and global economic changes from 2020 to 2024 altered the value of the firm. Due to the increase in market uncertainty during the pandemic, IHSG plummeted to a level of 3.937.63 in March 2020 (Saragih et al., 2021). Entering 2021-2022, the recovery of the national economy, the increase in the number of vaccinations, and the rise in commodity prices boosted the capital market, causing the JCI to rise again to reach the level of 7.318 in September 2022 (Fauzan et al., 2024). However, in 2023-2024, the market faced pressure due to rising global interest rates and capital outflows (Pramesti, 2025).

In such a situation, companies must implement various financial policies to maintain their value. Companies tend to optimize their tax burden to maintain stable profits and cash flow amid post-pandemic economic uncertainty. This keeps them attractive to investors. On the other hand, companies have experienced changes in their capital structure as a result of global interest rate pressures and funding needs during the economic recovery. This indicates that investors perception of a firm value is influenced by tax avoidance decisions and capital structure, especially for large and liquid companies (Brigham & Houston, 2021; Heryawati et al., 2021b).

Tax avoidance is a strategy used by companies to increase post-tax profits and maintain cash flow, especially during the economic recovery after the pandemic (Firmansyah & Widodo, 2021; Ranu et al., 2025; Saka & Istighfa, 2022; Laurenty & Imelda, 2023). This practice also has the potential to occur in LQ45 companies that have large assets, high profitability, and complex financing activities. However, tax avoidance is not always perceived positively by the market. Several studies indicate that such practices can generate reputational risks and decrease investor confidence (Ariska, 2021; Heryawati et al., 2021a; Rahmi, 2024; Dewi et al., 2022). This phenomenon is evident in PT Perusahaan Gas Negara Tbk (PGAS), which is facing a tax dispute amounting to Rp3.06 trillion with the Directorate General of Taxes. As a result, the company's stock price temporarily fell to the lower auto reject limit of 6.95% in January 2021 (Afrilia et al., 2024). This condition indicates that investors assess the company's profits and transparency. Therefore, tax avoidance can be both an efficiency strategy and a source of risk that affects the firm value.

Another financial policy is the capital structure, which is a key determinant in the formation of a firm value thru the composition of debt and equity usage as sources of funding (Nurfitriani, 2023). After the pandemic, businesses used more debt. Theoretically, debt can increase business value thru tax benefits and additional financing sources (Modigliani & Miller, 1963; Brigham & Houston, 2021). However, industry phenomena show a different condition. The increase in global interest rates from 2022 to 2024 raises risks for companies with high leverage. This is evident in PT Waskita Karya Tbk (WSKT), which is facing financial pressure and the risk of bond default. As a result, a stock suspension occurred and investor confidence in the company's prospects diminished (Sazly et al., 2024). This condition indicates that the market does not always support excessive use of debt (Viriany, 2025; Syafitri, 2025). As a result, when the risk of debt increases, the capital structure that is supposed to enhance the firm value can actually decrease it.

Differences in investor responses to tax avoidance and capital structure indicate that the relationship between these two factors and firm value is not direct, but rather influenced by another factor, namely profitability. Profitability is the company's ability to generate profit, which is one of the main indicators of the company's performance evaluation by investors (Kasmir, 2019). Companies with high profitability usually receive better market valuations because they are considered more capable of enduring risk conditions and maintaining their performance stability (Tambunan & Ronauli, 2024).

However, empirical phenomena show results that are not always consistent with the theory. Several LQ45 issuers continue to experience a decline in stock prices despite recording positive profits. This is evident in PT Unilever Indonesia Tbk (UNVR), PT Semen Indonesia Tbk (SMGR), and PT United Tractors Tbk (UNTR), which continued to record profits in the 2023-2024 period, but their stock prices were pressured due to a slowdown in sales, weakening industrial demand, and increasing economic uncertainty that lowered investor expectations regarding the company's prospects (Syifa et al., 2025; Ningsih & Santoso, 2023; Sa'adah et al., 2024). This condition shows that profitability does not always have a consistently positive impact on market response.

After the pandemic, the firm value is no longer solely determined by profitability, but rather thru its interaction with capital structure and tax avoidance. The literature confirms a positive relationship between profitability and market value when analyzed together with capital structure and tax avoidance (Dwiarti & Ratnawati, 2025; Nasution et al., 2024; Santoso & Pratiwi, 2023). Conversely, companies with low profitability are more vulnerable to financial pressure due to limited capacity to bear debt burdens or tax risks (Susilowati et al., 2024; Saputra & Fajaruddin, 2023). This phenomenon positions profitability as a moderating variable that intervenes in the influence of financial policies on firm value, a crucial relevance to be tested on LQ45 index issuers sensitive to market dynamics.

Based on various research results that still show inconsistencies, further studies are needed on the relationship between tax avoidance, capital structure, profitability, and firm value in more recent periods. Moreover, most previous studies are still limited to the pre-pandemic or early post-pandemic periods and have not fully integrated profitability as a moderating variable in the relationship (Renfiana & Dewi, 2020; Aulia & Irawan, 2025; Hendayana et al., 2024; Maharani et al., 2025). Therefore, research on LQ45 issuers for the period 2020-2024 is expected to provide a more comprehensive picture and enrich theoretical and practical contributions in the field of corporate financial management and taxation.

Literature Review

Agency Theory

The agency theory explains the conflict between shareholders, managers, and creditors within the framework of the "nexus of contracts" of modern corporations (McColgan, 2001; Jensen & Meckling, 1976). The separation of management and ownership triggers agency problems and agency costs. Debt functions as a disciplinary mechanism, with interest obligations and creditor monitoring encouraging managers to use cash flows more efficiently and curbing the misuse of free cash flow, thereby increasing profitability and firm value (Ichwanudin et al., 2023).

In the context of tax avoidance, agency becomes central. Tax avoidance can increase value if tax savings are truly allocated to productive investments and returns to shareholders (Paridah & Rokhayati, 2023). However, tax avoidance also opens up space for opportunistic behavior where managers can hide information, manipulate profits, and extract personal benefits, thereby increasing agency costs and actually reducing the firm value (Jansen et al., 2022).

Signal Theory

Signal theory begins with the existence of information asymmetry between management and investors. Financial decisions such as leverage levels, tax avoidance practices, and profitability are perceived by the market as signals of quality prospects, risk, and governance (Fosu et al., 2016). A "healthy" capital structure can send positive signals as it is considered to reflect good financial planning and the ability of the company to fulfill its obligations, thereby increasing value thru a better market response (Apriliani & Budiadnyani, 2025).

Tax avoidance can also be perceived as a signal of tax efficiency if carried out legally and transparently. Tax avoidance can increase firm value when viewed as an efficiency strategy that strengthens profitability and investor perception. On the contrary, tax avoidance associated with non-compliance generates negative signals and weakens market confidence.

Profitability serves as a signal of operational performance where a high ROA validates that the capital structure and tax strategy generate adequate profits, thereby strengthening the positive signal to investors (Fosu et al., 2016; Wibowo & Trisnawati, 2025). Thus, the combination of leverage, tax avoidance, and ROA forms a signal package that determines how the market values the firm.

Trade-Off Theory

The trade-off theory explains that companies create the best capital structure by balancing the use of tax shields with the increase in bankruptcy costs and agency costs when leverage is too high (Ichwanudin et al., 2023). Dynamic and static models show that debt provides tax benefits thru interest reduction, but at the same time increases the likelihood of financial difficulties and default costs. When the value of tax benefits equals the marginal cost of distress, the optimal point is reached (Ai et al., 2021).

ROA becomes an indicator of the company's ability to bear the debt burden, where companies with high ROA are more capable of utilizing the tax benefits of debt without quickly falling into distress, making ROA a logical variable for moderation in the relationship between leverage, tax avoidance, and firm value (Fosu et al., 2016; Ichwanudin et al., 2023). When profits are low, the tax benefits of debt and tax avoidance may not be enough to offset the increased risk, making their effect on value weak or even negative.

Pecking Order Theory

According to the pecking order theory, because of knowledge asymmetry, businesses choose internal funding, debt, and equity (Arzu et al., 2025). In the context of ROA, companies with high ROA have a large capacity for internal funding, resulting in naturally lower debt levels, consistent with the pecking order.

This affects the relationship between capital structure and firm value LQ45 issuers with good access to the capital market, a combination of high profits, and reputation can reduce dependence on debt and the need for aggressive tax avoidance. On the other hand, when profits and internal cash flows are limited, companies are pushed up the next rung (debt), which simultaneously opens up space for interaction with agency theory (debt discipline) and trade-off (optimal leverage limit) (Octavia et al., 2021).

Tax Avoidance and Firm Value

From the perspective of agency theory, tax savings should increase shareholder wealth if the results of tax avoidance are truly used for productive investments or increased returns to shareholders. Research has found that tax avoidance generally has a positive impact on firm value because it increases post-tax profits and investment capacity, as long as agency problems and agency costs are controlled (Hasan et al., 2021; Guedrib & Marouani, 2023; Walah et al., 2023; Tang et al., 2024).

In the framework of signaling theory, tax avoidance conducted legally and transparently can signal management efficiency to investors. Investors give "added value" to companies that can reduce tax burdens without increasing excessive risk, and research shows a value premium for companies that avoid taxes when transparency and governance are strong (Nebie & Cheng, 2023; Ria, 2023). Based on theoretical arguments and research findings, tax avoidance is capable of increasing net cash flow, improving internal funding capacity, and is perceived by investors as an efficient tax management practice.

H₁: Tax avoidance has a positive impact on firm value

Capital Structure and Firm Value

According to the trade-off theory, a company only benefits from debt up to a certain point, when the tax benefits of interest are still greater than the costs of bankruptcy and distress. After surpassing the optimal level, additional debt actually decreases the firm value due to increased financial risk and negative market perception (Hutabarat et al., 2025; Nofriyani et al., 2021). Several empirical studies show that a capital structure characterized by a high Debt to Equity Ratio (DER) negatively affects the firm value because it increases financial risk, interest burden, and the potential for financial distress, which in turn lowers investor assessment of the company (Bui et al., 2023; Ibhagui & Olokoyo, 2018; Ullah et al., 2020).

In addition, a high Debt to Equity Ratio (DER) is also considered to increase cash flow uncertainty and reduce market confidence in the company's prospects, thereby impacting the firm value. Similar findings were also put forward by Viriany (2025) and Syafitri (2025), who stated that a high debt proportion leads the market

to have a negative perception of the company's performance and stability. In this context, the firm value tends to decrease when the company relies too heavily on debt-based financing compared to equity.

H₂: Capital Structure has a negative impact on firm value

The Role of Profitability as a Moderating Variable

In the perspective of agency theory, tax avoidance practices are understood as management strategies to lower the tax cost so that net profit and shareholder welfare can be increased. In companies with high profitability, the tax savings obtained thru tax avoidance will result in a more significant cash surplus. This additional cash expands the company's capacity to finance profitable investment projects, pay dividends, and increase economic value for shareholders. In such situations, investors tend to view tax avoidance as a form of beneficial managerial efficiency, increasing the beneficial impact of tax avoidance on business value (Hasan et al., 2021; Ria, 2023; Marwat et al., 2021).

Meanwhile, according to signaling theory, profitability serves as the main signal reflecting the company's prospects and performance quality. A high ROA signals that the company is capable of managing resources effectively and converting assets into profit. If a company that has shown profitable performance consistently maintains profitability while engaging in tax avoidance practices, the combination of "high profits and relatively low tax burden" can be interpreted by the market as a signal of management efficiency and healthy financial conditions. As a result, investor response to tax avoidance practices tends to be more positive and is reflected in an increase in firm value (Susilowati et al., 2024; Widani & Wiagustini, 2023).

H₃: Profitability moderates (strengthens) the effect of tax avoidance on firm value

In the framework of the trade-off theory, the use of debt provides a tax shield benefit, but it also makes bankruptcy more likely. Highly profitable companies (high ROA) have a larger profit cushion to bear the burden of interest, making the risk of debt distress relatively smaller. In this condition, the market tends to view debt-based capital structure more positively in terms of firm value compared to companies with low profitability (Alghifari et al., 2022; Natsir & Yusbardini, 2020).

The pecking order idea states that successful businesses depend on internal funding, but when they continue to use debt, that decision can be interpreted as a signal of management's confidence in their ability to generate profits in the future. The combination of high profitability and well-managed capital structure can strengthen positive investor perception and increase the firm value (Pamungkas et al., 2024).

Empirically, several studies show that capital structure affects firm value, and profitability has been proven to moderate/enhance the impact of capital structure on firm value (Kharisma et al., 2025; Tubastuvi et al., 2023). High profitability increases the sensitivity of a firm value to financing decisions, as profit becomes the main indicator of performance and prospects, making the market's response to leverage stronger.

H₄: Profitability moderates (strengthens) the influence of capital structure on firm value

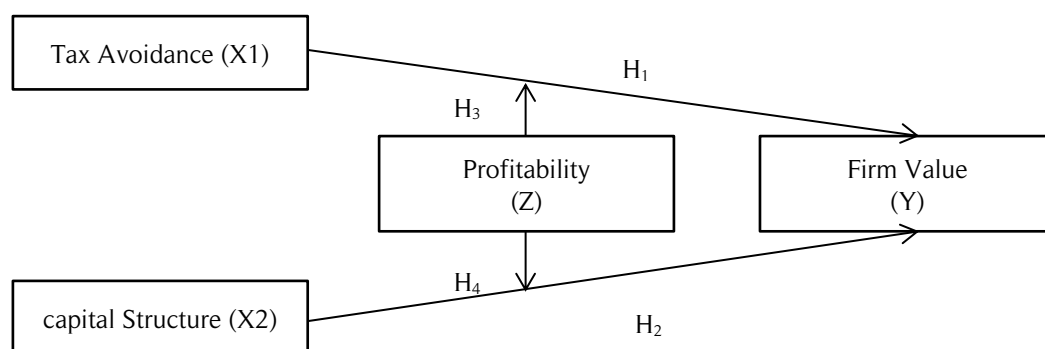


Figure 1. Conceptual Framework

Research Method

This quantitative analysis uses information from businesses that were listed 2020-2024 on the Indonesia Stock Exchange's LQ45 index. The quantitative approach is used because it allows for measuring the objective relationship between variables using numerical data and statistical hypothesis testing. Purposive sampling procedures were used to choose the sample based on predetermined study criteria, as shown in Table 1.

Out of 45 LQ45 companies, 19 were chosen based on the predetermined criteria to serve as research samples, with a total of 95 observations made during the observation period. This study makes use of secondary data from each company's official reports as well as yearly reports released through the Indonesia Stock Exchange (IDX). Data was gathered using the companies annual reports and financial statements from 2020 to 2024.

Table 1. *Details of the Research Sample Data*

Information	Total
Companies included in the LQ45 index for the period 2020-2024	45
The company was not consistently included in the LQ45 index from 2020-2024	25
Companies that do not meet the established research criteria	1
The company that was sampled in the research	19
Research period	5
Total research observations	95

Source: Secondary data processing, 2025

The dependent variable in the study is firm value, the independent variable are capital structure and tax avoidance, and the moderating variable is profitability. Table 2 displays the operationalization of the variables employed in this investigation.

Table 2. *Operationalization of Variables*

Variable	Definition	Measurement
Firm Value	Measuring how the market evaluates the performance and prospects of the company (Brigham & Houston, 2021).	Price to Book Value (PBV) = Stock Price/Book Value per Share
Tax Avoidance	Measuring the effectiveness of the actual tax burden borne by the company (Brigham & Houston, 2021).	Effective Tax Rate (ETR) = Tax Expense/Earnings Before Tax
Capital Structure	Looking at the company's leverage level (Brigham & Houston, 2021).	Debt to Equity Ratio (DER) = Total Debt/Equity
Profitability	Showing the company's ability to generate profit from the total assets used (Kasmir, 2019).	Return on Assets (ROA) = Net Income/Total Assets

Source: 2025 data processing

Panel data regression was used to evaluate the data using the Random Effect Model (REM) method with the aid of EViews software. The Random Effect Model (REM) is the best model to employ in the study, according to the findings of the Chow, Hausman, and Lagrange Multiplier (LM) tests. This is because REM is capable of capturing variations across individuals and time randomly, and is considered more efficient when the differences in characteristics between companies are not fixed during the observation period.

The regression model in this study consists of three main equations designed to test both direct effects and moderation effects (Ghozali, 2021; Wooldridge, 2016), namely:

$$PBV = \alpha + \beta_1 ETR + \beta_2 DER + e$$

$$PBV = \alpha + \beta_1 ETR + \beta_2 (ETR \times ROA) + e$$

$$PBV = \alpha + \beta_1 DER + \beta_2 (DER \times ROA) + e$$

Result and Discussion

Table 3. *Results of Descriptive Statistical Tests*

Variable	Min	Max	Average	Std. deviation
Firm Value	0.1400	4.7300	1.9819	1.2242
Tax Avoidance	5.6500	40.1500	21.6590	5.2578
Capital Structure	0.1700	7.1200	1.8943	2.0753
Profitability	0.3700	18.9400	9.4593	5.9562

Source: Secondary data processing, 2025

Descriptive Statistical Overall, the descriptive statistics presented in Table 3 provide a general overview of the characteristics of the research data, both in terms of mean values and the degree of dispersion. These findings indicate that the variation in the data is relatively controlled, making it a suitable foundation for further analysis and hypothesis testing in this study.

Panel Model Feasibility Test

The results of the panel data model selection tests, summarized in Table 4, show that the Chow Test yields a probability of 0.0000, indicating that the Fixed Effect model is more appropriate than the Common Effect. Furthermore, the Hausman Test results show a probability value of 0.6048 (>0.05), suggesting that the more

suitable model is the Random Effect because there is no systematic difference between the Fixed Effect and Random Effect estimates. Additionally, the Lagrange Multiplier Test with a probability value of 0.0000 also supports the use of the Random Effect Model over the Common Effect Model. Based on these three tests, the most appropriate model to use in this study is the Random Effect Model because it meets the consistency results of the Hausman and Lagrange Multiplier Tests (Wijaya, 2022; Susetyo & Fitrianto, 2024).

Table 4. *Model Selection Summary*

Model testing	Probability	Decision
Chow Test	0.0000	Fixed Effect
Hausman Test	0.6048	Random Effect
Lagrange Multiplier Test	0.0000	Random Effect

Source: Secondary data processing, 2025

Panel Data Regression Model Analysis

Table 5. *Diagnostic Statistics for the Integrated Classical Assumptions Regression Model*

Variable	VIF	Multicollinearity status	Heteroscedasticity test (Breusch–Pagan)	Chi-square	Decision
Tax Avoidance	1.062	Pass	Prob. F-statistic 0.526	Prob.	Homoscedastic
Capital Structure	1.392	Pass		0.514	Homoscedastic
Profitability	1.325	Pass			Homoscedastic

Source: Secondary data processing, 2025

The regression model in this study has been tested with classical assumptions to ensure the feasibility of the estimation, as summarized in Table 5. The multicollinearity test using centered VIF values shows that all independent variables have values below the critical threshold of 10. This result indicates that there is no linear relationship between the independent variables, meaning each variable can contribute independently to the model.

Next, the heteroscedasticity test using the Breusch–Pagan shows that all variables have the Prob. F-statistic (0.526) and Chi-Square (0.514) values also indicate that the residual variance is homogeneous. Thus, the regression model does not experience heteroscedasticity issues.

The normality and autocorrelation tests of the residuals were not conducted in this study because the data used is cross-sectional, thus the assumption of independence between observations has been met and the autocorrelation test is not relevant in this context (Wooldridge, 2016). Additionally, the autocorrelation test is generally used on time series data that have temporal dependencies. Meanwhile, with a sufficient sample size ($n=95$), the distribution of residuals is assumed to approach normality based on the Central Limit The Theory states that distribution will deviate from normal when sample size is increased (Greene, 2018; Wooldridge, 2016). Thus, the regression model continues to meet the main classical and cocok assumptions for further analysis.

Table 6. *Partial Effect and Interaction Test – MRA*

Hypothesis & variable relationship	Coefficient	Prob.	Decision
H ₁ : Tax Avoidance → Firm Value	1.179	0.000	Accepted
H ₂ : Capital Structure → Firm Value	-0.206	0.005	Accepted
H ₃ : Tax Avoidance x Profitability → Firm Value	0.040	0.064	Rejected
H ₄ : Capital Structure x Profitability → Firm Value	-0.219	0.013	Rejected

Source: Secondary data processing, 2025

As presented in Table 6, the test results show that the tax avoidance variable has a significant positive effect on firm value with a significance value of 0.000 (<0.05) and a coefficient of 1.179, thus H₁ is accepted. This finding implies that an increase in tax avoidance practices is followed by an increase in firm value. The capital structure variable has a significant negative effect on firm value with a significance value of 0.005 (<0.05) and a coefficient of -0.206, thus H₂ is accepted. This result indicates that an increase in the composition of debt financing will lead to a decrease in firm value.

Meanwhile, the interaction test results show that profitability cannot moderate tax avoidance and firm value, as seen from the sig. value of 0.064 (>0.05) and a coefficient of 0.040, H₃ is rejected. This means that the level of profitability does not cause a strong or weak impact of tax avoidance on firm value. Conversely, the interaction between capital structure and profitability has a significant negative effect, as seen from the sig. value

of 0.013 (<0.05) and a coefficient of -0.219, H_4 is rejected, indicating that a high level of profitability will weaken the impact of capital structure on firm value. Thus, profitability does not act as a moderator that strengthens the relationship, but rather shows an influence that tends to weaken the relationship in certain aspects of the research model.

Table 7. Overall Model Evaluation

Criteria	Mark	Interpretation
Adjusted R-Square	0.223218	The model explains 22.32%
Prob (F-statistic)	0.000000	Simultaneous significant model

Source: Secondary data processing, 2025

According to the model testing results presented in Table 7, the independent variables in this study may account for around 22.32% of the variation in firm value, with other factors outside the model influencing the remaining 77.68%. This is indicated by the Adjusted R-Square value of 0.223218. These results show that the model's explanatory power is still comparatively low, raising the potential that additional factors that were left out of the analysis could also have an impact on the firm value.

However, the F-statistic probability value of 0.000000 shows that the regression model is significant overall. This indicates that every independent variable affects the firm value at the same time, making the model appropriate for more research and hypothesis testing (Ghozali, 2021).

Discussion

Tax avoidance and firm value

The results of this study indicate that tax avoidance has a positive effect on the firm value of LQ45 issuers during the 2020-2024 period. These findings can be explained thru Agency Theory, which states that managers have discretion in managing the company's resources to enhance shareholder welfare, including thru tax efficiency strategies (Khurana et al., 2018; Ajmal et al., 2024). In this context, tax avoidance is viewed as an effort to increase the company's cash flow and profits, thereby contributing to the increase in the firm value. Additionally, based on Signaling Theory, tax efficiency can also serve as a positive signal that the company possesses good managerial capabilities in managing tax burdens and financial performance (Olanda & Marietza, 2024; Paridah & Rokhayati, 2023).

Empirically, various studies support these findings. Tax savings have been proven to increase profits, cash flow, dividends, and stock prices of companies. The research conducted by Walah et al. (2023) shows tax savings increase on the firm value in the ASEAN region, while Tang et al. (2024) found a favorable correlation between tax avoidance and Tobin's Q in nations with sound corporate governance. In Indonesia, Heriyah (2021) shows that tax avoidance practices have the potential to increase firm value and strengthen the influence of company characteristics on the increase in firm value.

In the perspective of Trade-Off Theory, as long as the advantages of tax savings exceed the expenses paid, such as audit risks, penalties, or reputational hazards, tax avoidance can raise the firm's worth. In general, in large companies, efficient tax management practices are not directly viewed negatively by the market as long as profit performance remains stable and company policies are consistent, so investors value financial performance results more than tax strategies (Hasan et al., 2021).

In the context of LQ45 companies during the 2020-2024 period, the positive impact of tax avoidance on the firm value can be explained because issuers generally have large capitalizations, high liquidity, and good information transparency, allowing investors to assess tax management practices rationally (Walah et al., 2023; Guedrib & Marouani, 2023; Nebie & Cheng, 2023; Tang et al., 2024; Hasan et al., 2021). This is reflected in the average PBV of 1.9819, which indicates that the company still obtains a market valuation above its book value, as well as an average ETR of 21.65, which shows that tax efficiency is still at a reasonable level. Field facts show that companies such as PT Bank Central Asia Tbk., PT Telkom Indonesia Tbk., and PT Indo Tambangraya Megah Tbk. still maintain high firm values due to profitability and performance stability, despite their relatively large tax burdens (Afifah & Andriana, 2023; Muslim & Junaidi, 2020).

However, there are also studies that show different results, where ROA increase business value, but tax avoidance is not significant (Serly & Yuliani, 2024; Yulianti et al., 2023; Fadlillah & Maryanti, 2024). This indicates that the impact of tax avoidance highly depends on the market's perception of the risks and benefits involved. The literature also shows that when tax avoidance practices are deemed high-risk due to potential disputes with tax authorities, reputational risk, or lack of market transparency, they can respond negatively thru valuation declines (Yoon et al., 2024).

Capital structure and firm value

The average Debt to Equity Ratio (DER) is 1.89 times, indicating that the company's use of debt is relatively greater than its own capital, supporting the research findings that capital structure has a negative impact on the firm value in the LQ45 index during the 2020–2024 period. This condition indicates a high dependence of the company on debt-based financing, so in the post-pandemic situation and global economic uncertainty, investors become more sensitive to the company's financial risk.

Field facts show that several companies consistently included in the LQ45 index, such as PT Astra International Tbk., PT Indo Tambangraya Megah Tbk., and PT United Tractors Tbk., continue to face market attention regarding their leverage levels despite having strong fundamentals and profitability (Husnurrafiq & Hermawati, 2025; Ningrum & Susanto, 2024). This condition is further reinforced by the rise in global interest rates, inflation, the depreciation of the rupiah, and the increasing cost of corporate financing during the 2020–2024 period, making investors tend to be more cautious toward companies with high debt levels as they are considered to have a greater risk of default (Widyantara et al., 2024).

This pattern is consistent with the Trade-Off Theory, which states that using debt will only boost a company's worth as long as it stays at the optimal point, which is when the tax shield benefits outweigh the bankruptcy costs. However, after crossing the optimal point, an increase in debt actually raises financial risk and decreases the firm value (Ai et al., 2021; Qin, 2024; Ricca et al., 2021). Additionally, based on Signaling Theory, high levels of debt during times of economic uncertainty are no longer viewed as a positive signal related to company expansion, but rather associated with increased financial risk and potential decline in company performance.

Several large issuers on the Indonesia Stock Exchange experienced stock price pressure when the debt ratio increased along with a slowdown in profits and a rise in interest expenses. Even in several sectors, such as property, infrastructure, and industries with high capital needs, a decline in the Price to Book Value (PBV) frequently follows a rise in the Debt to Equity Ratio (DER) because the market views the increase in debt as a signal of weakening financial capability of the company. Additionally, high-interest rate policies during the economic recovery period lead to increased borrowing costs, causing companies with high debt to face greater cash flow pressure compared to companies with more conservative capital structures (Riyana et al., 2024; Fatmawati & Alliyah, 2023).

However, there are several studies that have found different results. Oktasari et al. (2021) and Wahyuda et al. (2025) demonstrate that capital structure greatly increases business value since during that time, the economic conditions were relatively stable, interest rates were low, and market liquidity still supported company expansion thru debt financing. Other research also found that capital structure does not significantly affect firm value, and profitability is considered more dominant in influencing firm value (Simanjuntak et al., 2023). Moreover, studies reveal that in near-perfect market conditions, the use of debt does not always impact the firm's value since investors are more concerned with the company's capacity for long-term growth and profit (Fadhl & Widodo, 2025).

Profitability moderation on tax avoidance and firm value

The research results show that profitability is unable to moderate the effect of tax avoidance on firm value in LQ45 companies for the period 2020–2024. These findings are supported by descriptive statistical data showing an average Return on Assets (ROA) of 9.45%, indicating that most sample companies still have a good ability to generate profits. This condition indicates that investors are more focused on company's capacity to sustain success profitability than with the connection between tax avoidance practices and profitability.

The facts on the ground also show that several companies consistently listed in the LQ45 index, such as PT Telkom Indonesia Tbk., PT Bank Central Asia Tbk., and PT Indo Tambangraya Megah Tbk., are still able to maintain high firm value due to strong fundamentals and profitability, despite differing tax management policies (Hulu & Santosa, 2023). This suggests that investors typically place a higher value on a company's capacity to turn a profit, maintain cash flow, and continue corporate expansion than on the degree of tax avoidance.

The study's findings are consistent with other empirical research conducted in Indonesia, which discovered that profitability does not always considerably increase or decrease the impact of tax avoidance on firm value. Profitability frequently fails to function as a moderating element in the relationship between tax avoidance and business value, according to research on LQ45 enterprises, international corporations listed on the Indonesia Stock Exchange, and several cross-sector studies (Hulu & Santosa, 2023; Ria, 2023; Andre & Ruslim, 2023). This indicates that the market values earnings quality and performance stability more than the company's tax efficiency strategy.

Additionally, during the 2020–2024 period, investors in the Indonesian capital market tended to be more cautious due to post-pandemic economic uncertainty, rising interest rates, and increased attention to corporate governance. In such conditions, companies with high profitability still receive a positive response from the market

even though their tax avoidance levels are relatively low, whereas companies that engage in tax avoidance may not necessarily see an increase in firm value if they lack transparency, audit quality, and good corporate governance (Govindo & Jonathan, 2024; Widani & Wiagustini, 2023). Therefore, the interaction between profitability and tax avoidance is not strong enough to significantly affect the firm value.

Nonetheless, a number of studies have produced contradictory findings, such as the ability of profitability to mitigate the impact of tax avoidance on firm value. High profitability can bolster investors' favorable opinion of the business efficiency, particularly tax efficiency, in a stable economic environment (Hasan et al., 2021; Susilowati et al., 2024; Widani & Wiagustini, 2023).

Moderation of profitability on capital structure and firm value

The study's findings indicate that, for LQ45 enterprises between 2020-2024, profitability, as measured by Return on Assets (ROA), can mitigate the impact of capital structure on business value. These results show that investors are more interested in a company's capacity to make money than in its degree of leverage when it is profitable. Because the market places a higher value on profit performance than the company's use of debt, the impact of capital structure, as measured by the Debt to Equity Ratio (DER), on firm value diminishes (Wardana et al., 2025; Jannah et al., 2023).

This phenomenon can be explained through Signaling Theory. High profitability is viewed as a positive signal regarding the company's ability to manage assets efficiently, generate profits, and maintain business continuity amid economic uncertainty (Kenny et al., 2024). In line with studies that find high profitability tends to reduce the need for debt (according to the pecking order), this condition actually increases investor confidence and the firm value (Alexandra et al., 2025). In such conditions, investors will have more confidence in the prospects of companies that can generate high profits, so changes in capital structure, especially increases in debt, do not significantly affect the market's perception of the firm value. As a result, the negative impact of capital structure on firm value becomes weaker in companies with high profitability levels (Rafie et al., 2025; Mulyadi & Afriyeni, 2025).

According to field data, a number of businesses, including PT Telkom Indonesia Tbk., PT Bank Central Asia Tbk., and PT Bank Rakyat Indonesia (Persero) Tbk., were regularly featured in the LQ45 index between 2020 and 2024, have been able to maintain stable firm value due to strong and consistent profitability levels. Although the three companies have different funding structures, the market continues to give high appreciation as long as the companies' profit and cash flow performance are well maintained (Chalik et al., 2024).

Several previous studies show results consistent with this research, although they have not directly stated that ROA weakens the influence of DER on firm value. According to numerous research, profitability has a greater impact on firm value than capital structure, which is frequently negligible or diminishes when a company is highly profitable (Fadillah et al., 2025; Gusti et al., 2020; Jonathan & Purwaningsih, 2023; Suhendry, 2021). The results of Kharisma et al., 2025 and Tubastuvi et al., 2023, on the other hand, demonstrate that profitability can amplify the effect of capital structure on firm value.

Conclusion

The study's conclusion demonstrates that tax avoidance has a positive impact on the firm value in the LQ45 index for the years 2020–2024, suggesting that investors continue to see tax efficiency favorably since it can boost a company's profitability. On the other hand, higher usage of debt tends to increase financial risk and lower market valuation since capital structure has a negative impact on business value. This study also discovered that while investors prioritize a company's direct profitability, profitability cannot mitigate the association between tax avoidance and business value. Furthermore, it has been demonstrated that profitability reduces the impact of capital structure on firm value, suggesting that highly profitable businesses can sustain their firm value even when using a certain amount of leverage.

The study's findings theoretically corroborate the Signaling Theory and Trade-Off Theory, which explain that while excessive debt utilization is perceived as raising financial risk and lowering firm value, profitability and efficiency of the business act as good signals for investors. These findings indicate that in a market condition full of uncertainty, investors prioritize the company's ability to generate profits and maintain performance stability over the company's leverage level. Practically, companies need to manage their capital structure more carefully so that the use of debt remains at an optimal level, while also maintaining profitability and performance transparency to enhance investor confidence and firm value.

This research is limited to LQ45 companies for the period 2020-2024, which represent the post-pandemic conditions, so the results are still influenced by the uncertain economic recovery phase. The variables used are also limited to tax avoidance, capital structure, and profitability as moderating factors, without including macroeconomic factors and global market dynamics that also affect the firm value. In addition, data based on financial reports do not fully reflect real-time market responses. Further research is recommended to extend the

period before and after the pandemic and to include external variables such as macroeconomic conditions or corporate governance, as well as to consider other moderating factors such as liquidity to make the analysis results more comprehensive and robust.

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