

THE GOVERNANCE MODEL IN TOTAL COMPREHENSIVE TAX AND LEVERAGE TAX AVOIDANCE WITH G-SCORE AS A MODERATOR

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Abstract

This study aims to examine the effect of Total Comprehensive Income (TCI) and leverage on tax avoidance by incorporating G-Score as a moderating variable. The increasing use of fair value measurement in financial reporting provides more discretion in recognizing Other Comprehensive Income (OCI), creating opportunities for firms to engage in tax planning. Likewise, financial pressure, reflected through leverage, is often associated with firms' incentive to reduce tax burdens. This research employs a quantitative approach using 20 manufacturing firms listed on the Indonesia Stock Exchange (IDX) during 2020–2024, resulting in 90 observations. The analytical method used is Moderated Regression Analysis (MRA). The findings reveal that TCI significantly influences tax avoidance, while leverage does not. G-Score weakens the effect of TCI on tax avoidance, indicating the role of governance mechanisms in controlling managerial discretion within OCI reporting. However, G-Score does not moderate the relationship between leverage and tax avoidance. These findings highlight the importance of governance quality in overseeing comprehensive reporting practices that may lead to aggressive tax behavior.

Keywords: corporate governance, G-Score, leverage, tax avoidance, total comprehensive income

1. INTRODUCTION

Such pressure can motivate managers to minimize expenses including taxes. Opportunity: OCI Tax plays a crucial role in supporting national development. However, from a corporate perspective, taxes are often perceived as expenses that reduce profitability. This perception encourages firms to adopt strategies to minimize tax payments, including tax avoidance. Although tax avoidance is legally permissible, it may reduce transparency and weaken the integrity of financial reporting (Kusuma & Rahayu, 2022).

Existing literature on tax avoidance continues to expand, particularly concerning financial determinants such as leverage, profitability, firm size, and ownership structure. However, prior studies have produced inconsistent results. Some research indicates a significant effect of leverage on tax avoidance, while others find no relationship, depending on industry characteristics and capital structure.

Meanwhile, the adoption of IFRS has led to the development of comprehensive income reporting, incorporating OCI items. Several OCI components such as asset revaluation, foreign currency translation adjustments, and fair value changes of financial instruments are subject to managerial discretion. Such flexibility may create opportunities for earnings management and tax-related manipulation (Pramiana et al.,

2025). Thus, using TCI as a predictor is considered more relevant for explaining modern tax avoidance practices than relying solely on net income.

Corporate governance serves as a controlling mechanism to limit managerial opportunism. In this study, governance is measured through G-Score, which reflects board structure, ownership configuration, and audit committee effectiveness. Strong governance is expected to mitigate tax avoidance practices rooted in accounting discretion.

Based on these considerations, this research investigates the influence of TCI and leverage on tax avoidance with G-Score as a moderator. This study contributes to the literature by offering a comprehensive model that integrates governance quality into the relationship between financial indicators and tax avoidance.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency Theory, introduced by Jensen and Meckling (1976), explains the contractual relationship between shareholders (principals) and managers (agents). Because managers possess greater access to internal information, they may act in ways that maximize their personal utility rather than the interests of shareholders. This information asymmetry creates space for opportunistic behavior, including income manipulation and tax planning strategies.

In financial reporting, managers can exploit accounting discretion to alter reported performance, particularly when their compensation or reputation depends on profitability. Tax avoidance becomes an attractive option because it legally reduces tax liabilities while improving after-tax earnings. Managers may also use complex reporting components such as those in OCI to shield such activities from scrutiny, as these items generally receive less attention than net income.

Thus, Agency Theory provides a foundation for understanding why firms may use TCI and leverage conditions as channels for tax avoidance. Managers facing fewer monitoring mechanisms or weaker governance structures may be more inclined to pursue aggressive tax planning strategies.

Fraud Hexagon Theory

Fraud Hexagon Theory expands earlier fraud models by describing six interconnected elements that drive fraudulent or manipulative behavior: pressure, opportunity, rationalization, capability, ego, and collusion (Vousinas, 2019). Although tax avoidance is not illegal, the theory helps explain managerial motivations in areas of high discretion.

1. Pressure: Leverage creates financial pressure for firms to maintain positive results and comply with reporting within TCI allows subjective judgments and fair value estimations. These create opportunities for managers to shift gains or losses in ways that reduce taxable income.

2. Rationalization: Managers may justify tax avoidance as an effort to enhance firm value or preserve liquidity.
3. Capability: Only managers with sufficient understanding of accounting complexity and tax rules can strategically navigate OCI-based reporting.
4. Ego and Collusion: Personal prestige or collaborative arrangements within management teams may reinforce aggressive tax strategies.

Fraud Hexagon Theory thus supports the expectation that both TCI and leverage can influence tax avoidance, especially when governance mechanisms are weak.

Total Comprehensive Income

TCI encompasses all items that affect equity aside from transactions with owners. Unlike net income, which focuses on realized performance, TCI includes unrealized gains or losses, foreign exchange adjustments, changes in fair value of financial assets, revaluation of fixed assets, pension adjustments, and hedging instruments.

Several characteristics make TCI particularly relevant for tax avoidance research:

1. High Subjectivity: Many OCI items rely on estimates or fair value measurements, which give managers flexibility in timing and recognition.
2. Lower Public Scrutiny: Investors and regulators often focus on net income, leaving OCI items less examined.
3. Indirect Tax Effects: Although OCI does not directly affect taxable income, managerial decisions in recognizing OCI may relate to broader tax planning strategies.

Prior research suggests that OCI can serve as a medium for earnings management and tax efficiency activities (Kusuma & Rahayu, 2022; Pramiana et al., n.d.). Therefore, firms with higher TCI may exhibit greater tendencies toward tax avoidance.

H1: Total Comprehensive Income affects tax avoidance.

Leverage

Leverage reflects the degree to which a firm relies on debt financing. Firms with high leverage often face stricter financial obligations, including interest payments and covenant requirements. According to the Trade-Off Theory, firms may deliberately increase debt to benefit from interest deductibility, which creates natural tax savings.

However, leverage can influence tax avoidance through two competing mechanisms:

1. Positive Relationship: High leverage increases financial pressure, pushing firms to seek additional tax savings through avoidance strategies.
2. Negative Relationship: Highly leveraged firms often experience tighter oversight from lenders, reducing opportunities for aggressive tax manipulation. Previous findings remain inconsistent. Some studies highlight leverage as a strong predictor of tax avoidance, while others find no meaningful relationship. This inconsistency suggests that contextual factors such as governance structures may play a moderating role.

H2: Leverage affects tax avoidance.

G-Score as a Moderating Variable

G-Score represents a composite measurement of corporate governance quality, covering structural and oversight components such as:

1. Proportion of independent commissioners
2. Institutional ownership

3. Managerial ownership
4. Audit committee effectiveness

Good governance reduces agency problems by enhancing monitoring, limiting managerial discretion, and strengthening internal control systems. Firms with higher governance quality are less likely to engage in opportunistic or opaque tax practices. H3: G-Score moderates the effect of TCI on tax avoidance.

H4: G-Score moderates the effect of leverage on tax avoidance.

2. METHODOLOGY

This study adopts a quantitative approach with a causal associative design. The population consists of manufacturing firms listed on the IDX from 2020 to 2024. Through purposive sampling requiring firms to consistently publish OCI, provide complete financial data, and remain listed throughout the period 18 firms were selected, generating 90 firm-year observations.

Secondary data were obtained from annual reports, governance reports, and IDX official publications. The variables used include:

1. Tax Avoidance (Y): measured using Cash Effective Tax Rate (CETR).
CETR= Total Tax Expense/Earnings Before Tax
2. Total Comprehensive Income (X1): measured by TCI to total assets.
TCI= Net Income + Other Comprehensive Income
3. Leverage (X2): measured using Debt to Equity Ratio (DER).
DER= Total Liabilities/Total Equity
4. G-Score (Z): composed of proportion of independent commissioners, institutional ownership, managerial ownership, and audit committee characteristics.

Moderated Regression Analysis (MRA) was employed, along with classical assumption tests, t-tests, F-tests, and R².

3. FINDINGS AND DISCUSSION

3.1 Descriptive Statistics

Table 1. Descriptive Statistics

Variables	Indicators	Min	Max	Mean	Std. Dev
Firm Value	X1_TCI	10.78	13.22	12.2901	0.56956
	X2_LEVERAGE	0.11	2.05	0.7059	0.44847
	Y_CETR	0.88	1.35	1.0763	0.08878
	M_G-SCORE	0.03	0.36	0.2246	0.05251
	VALID	90			
	N(Listwise)				

Source: Author's compilation, 2025

The descriptive statistics provide an overview of the variations in the study variables across the 90 firm-year observations.

Total Comprehensive Income (TCI) shows a mean value of 12.29, indicating stable comprehensive performance across periods. The low standard deviation (SD = 0.56) suggests consistent OCI recognition among firms. This consistency is relevant because OCI components may serve as channels of tax planning due to their

discretionary nature (Kusuma & Rahayu, 2022).

Leverage, measured using the Debt-to-Equity Ratio (DER), records an average of 0.705, reflecting a moderate dependence on debt financing. The maximum value of 2.05 signifies the presence of firms under substantial financial pressure, which, in line with the Fraud Hexagon Theory, can trigger tendencies toward tax avoidance.

G-Score has a mean value of 1.07 with minimal variation (SD = 0.088), indicating that the sampled firms generally maintain sound governance practices. The homogeneity of governance characteristics further suggests similar structural and supervisory mechanisms among manufacturing companies.

Tax avoidance, proxied by CETR, averages at 0.2246, implying relatively high avoidance behavior (since lower CETR indicates higher tax avoidance). The minimum CETR of 0.03 points to firms that employ highly aggressive tax strategies to reduce their fiscal burden .

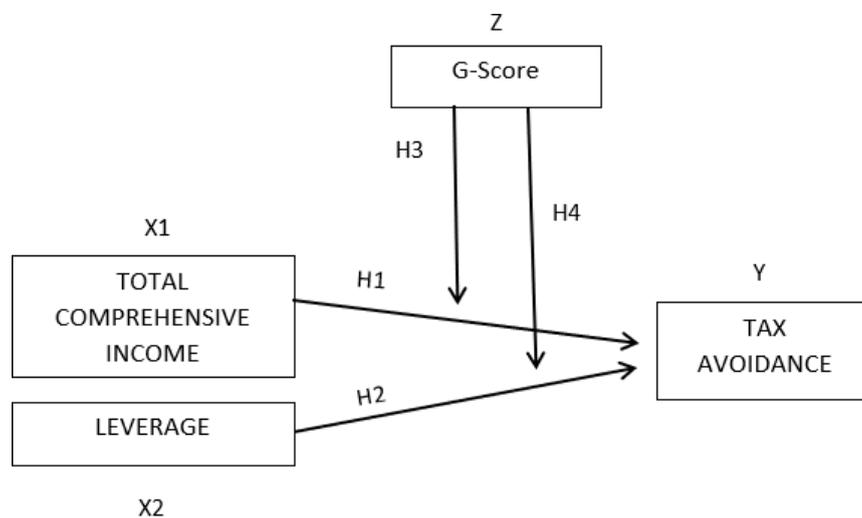


Figure 1. Model analysis

3.2 Regression Analysis (t-test)

Table 2. Regression Analysis (t-test)

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.038	.118		-.321	.749
	TCI	.022	.010	.241	2.339	.022
	LEVERAGE	-.015	.012	-.131	-1.270	.208

a. Dependent Variable: TAX AVOIDANCE

Source: Author's compilation, 2025

Based on the SPSS output, the TCI variable shows a significance value of 0.022, which is lower than the $\alpha = 0.05$ threshold. This indicates that TCI has a

statistically significant effect on tax avoidance, and therefore the hypothesis is accepted. Economically, this finding suggests that components of TCI especially Other Comprehensive Income (OCI) provide firms with flexibility to engage in tax planning.

OCI contains estimation-based items such as foreign exchange differences, fair value adjustments, asset revaluation, and actuarial gains or losses, which do not directly affect cash flows. This flexibility enables managers to manage reported performance in ways that indirectly influence tax burdens. The result aligns with agency theory, where managers have incentives to optimize after-tax income, and supports earlier studies (Kusuma & Rahayu, 2022; Pramiana et al., n.d.). identifying TCI as a potential channel for tax avoidance.

In contrast, leverage has a significance value of 0.208, exceeding $\alpha = 0.05$, indicating no significant influence on tax avoidance. Thus, the hypothesis stating that leverage affects tax avoidance is rejected. Although leverage is often associated with financial pressure that might motivate tax-saving behavior, the findings show that such pressure does not necessarily drive aggressive tax strategies. Firms with high leverage may instead face tighter monitoring from creditors, reducing opportunities for tax manipulation. This is consistent with previous studies (Pramiana et al., n.d.; Sihono & Febyansyah, 2023), which argue that the effect of leverage depends on debt structure, risk profile, and creditor oversight. In manufacturing firms, where capital needs are high, leverage levels may be structurally common and not directly related to tax avoidance behavior.

3.3 F-Test

**Table 2. F-Test
ANOVA^a**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.019	2	.010	3.672	.029 ^b
	Residual	.226	87	.003		
	Total	.245	89			

a. Dependent Variable: TAX AVOIDANCE

b. Predictors: (Constant), LEVERAGE, TCI

Source: Author's compilation, 2025

The significance value of the F-test (Sig = 0.029) indicates that the variables TCI and leverage simultaneously have a significant effect on tax avoidance in the regression model used, meaning that the model is appropriate to be analyzed further as a whole. Although only TCI is proven to have a significant partial effect, this simultaneous result suggests that the combination of both variables namely the company's comprehensive performance (TCI) and its financing structure (leverage) is collectively able to explain variations in tax avoidance behavior among manufacturing firms.

This finding shows that tax avoidance is not influenced solely by accounting-reporting factors but also by the broader financial context of the firm. Thus, even though leverage is not significant individually, its presence still contributes to the model when combined with TCI, strengthening the explanatory structure of the model and emphasizing that accounting and financial factors interact in influencing tax avoidance practices. The significant F-test result also confirms that the regression model meets the statistical feasibility required to examine the relationships among the variables in the subsequent analysis stage and indicates that the model has adequate predictive performance in explaining the tendency of firms to engage in tax avoidance based on the variables examined.

3.4 Moderated Regression Analysis (MRA)

Table 2. Moderated Regression Analysis Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.112	.059		1.891	.062
	X1M	.009	.004	.219	2.112	.038
	X2M	-.013	.012	-.112	-1.080	.283

a. Dependent Variable: TAX AVOIDANCE

Source: Author's compilation, 2025

The MRA results show that the interaction term TCI × G-Score is significant (Sig = 0.038), whereas the interaction leverage × G-Score is not significant (Sig = 0.283). This indicates that:

1. G-Score successfully weakens the effect of TCI on tax avoidance.
2. G-Score is not able to weaken the effect of leverage on tax avoidance.

From the perspective of Agency Theory, G-Score is effective in controlling opportunistic managerial behavior related to TCI because OCI components are highly discretionary and subject to managerial judgment. Strong governance reflected in independent oversight, effective audit committees, and ownership structures reduces the extent to which managers can exploit TCI for tax-related purposes.

However, G-Score does not moderate the effect of leverage on tax avoidance because leverage represents structural financial pressure rather than discretionary managerial action. Financial pressure arising from high debt is primarily driven by contractual obligations such as interest payments, collateral requirements, and debt covenants that governance mechanisms cannot easily override. As several studies

note, creditors impose strict monitoring and enforce compliance through binding financial covenants, making governance controls relatively less influential compared to the external pressure of debt obligations (Pramiana et al., n.d.; Sihono & Febyansyah, 2023).

Moreover, leverage-driven pressures are often mechanical rather than strategic. When firms face high debt burdens, the priority shifts to maintaining liquidity and meeting covenant thresholds. In such situations, tax avoidance decisions tend to follow external financial constraints rather than managerial discretion. Because governance mechanisms are designed primarily to monitor discretionary reporting behavior not structural financial conditions they have limited ability to weaken the influence of leverage on tax avoidance. This is consistent with prior evidence suggesting that governance is more effective in regulating opportunistic accounting choices than in mitigating financial pressure embedded in the firm's capital structure. Accordingly, the results reinforce the notion that G-Score is effective in constraining TCI-based discretion, but less effective in moderating leverage-based incentives, which are shaped more by creditor control and the firm's financing environment than by internal governance oversight.

4. CONCLUSION

This study concludes that:

1. Total Comprehensive Income significantly influences tax avoidance.
2. Leverage does not affect tax avoidance.
3. G-Score weakens the influence of TCI on tax avoidance.
4. G-Score does not weaken the influence of leverage on tax avoidance.

Future studies may incorporate additional variables such as audit quality, profitability, or firm risk, and expand the analysis across sectors. Further exploration of individual OCI components may also provide deeper insights into tax planning behavior.

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