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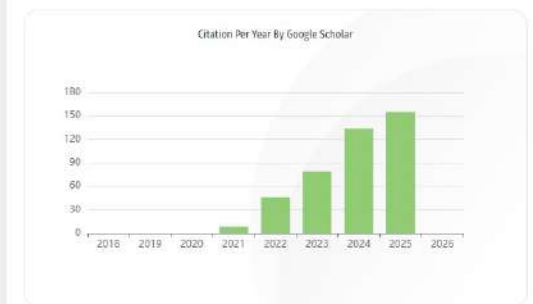
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THE MODERATING ROLE OF BOARD GENDER DIVERSITY: LEVERAGE AND TAX AVOIDANCE

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Abstract

This study investigates the effect of leverage on tax avoidance in publicly listed companies within Indonesia's property and real estate sector, and examines the moderating role of board gender diversity. Based on agency theory, it is argued that companies with high debt levels are more likely to be closely monitored by creditors, which may reduce their tendency to engage in tax avoidance. The study uses secondary data from 29 companies listed on the Indonesia Stock Exchange over three years (2021–2023), resulting in 87 firm-year observations. The data were analyzed using panel data regression with a random effects model. The findings reveal that leverage negatively affects tax avoidance, indicating that higher debt levels are associated with lower tax avoidance behavior. Moreover, board gender diversity weakens this negative relationship, suggesting that the presence of female directors moderates the influence of leverage on tax behavior. These results imply that capital structure and board composition play important roles in corporate tax strategies. The findings offer practical implications for companies, tax authorities, and investors, particularly in promoting more transparent and responsible tax planning within the Indonesian context.

Keywords: Board Gender Diversity, Leverage, Property and Real Estate Sector, Tax Avoidance

INTRODUCTION

Indonesia continues to face significant challenges in optimizing its tax revenue performance. According to a World Bank report released on March 2, 2025, Indonesia ranks among the countries with the weakest tax collection outcomes globally (Trikarinaputri, 2025b). One key indicator is its tax-to-GDP ratio, which remains the lowest compared to several neighboring countries, including Cambodia, Malaysia, the Philippines, Thailand, and Vietnam (Maesaroh, 2023). The same report also revealed that the average gap in Value Added Tax (VAT) and Corporate Income Tax (CIT) collections reached 6.4% of GDP, equivalent to approximately IDR 944 trillion, during the 2016–2021 period (Trikarinaputri, 2025a). Furthermore, a World Bank survey indicated that at least one in four taxpayers in Indonesia engages in some form of tax avoidance (Wildan, 2024). This suggests that tax avoidance is not merely a technical issue but a structural challenge that impedes the state's ability to mobilize optimal tax revenues.

In an academic context, tax avoidance refers to efforts undertaken by taxpayers to reduce their tax liabilities through legal means, such as tax planning, management strategies, or the use of permissible accounting methods, by taking advantage of gaps or ambiguities in the tax code (Hanlon & Heitzman, 2011). Unlike tax evasion, tax avoidance does not involve the violation of tax laws, but it can still lead to substantial revenue losses for governments (Lietz, 2013). According to the Tax Justice Network's 2023 report, Indonesia is estimated to lose approximately IDR 44 trillion annually due to corporate tax avoidance (Faradina, 2025). Several well-documented cases illustrate how companies utilize specific financial arrangements to minimize tax obligations legally. For instance, PT Bentoel Internasional Investama reportedly engaged in tax avoidance by channeling large loans through its Dutch affiliate, Rothmaris Far East BV, between 2013 and 2015 (Proconsult.id, 2023). These loans were used to refinance debt and acquire assets. At the same time, the associated interest payments were deducted from taxable income in Indonesia, resulting in an



estimated annual tax loss of US\$14 million (Proconsult.id, 2023). Another case, in 2016, PT Rajawali Nusantara Indonesia was involved in tax avoidance by relying heavily on loans from its Singapore-based owner instead of capital investment (Proconsult.id, 2023). Despite having very low revenue, the company reported large liabilities and significant losses (Proconsult.id, 2023). It also took advantage of a small business tax scheme and had shareholders who failed to fulfill their tax obligations in Indonesia (Proconsult.id, 2023).

These cases underscore the need for a deeper academic understanding of tax avoidance practices in Indonesia. While such practices remain within legal boundaries, their growing complexity and cross-border nature pose significant challenges for tax authorities. Tax avoidance discussion is therefore essential, not to criminalize legal corporate behavior, but to inform more effective regulatory frameworks, enhance fiscal transparency, and support equitable tax governance. It indicates that tax avoidance in Indonesia is not solely driven by weak law enforcement, but also reflects how companies respond to regulatory loopholes through structured financial practices. Tax avoidance refers to legal actions taken to reduce tax liabilities by utilizing provisions available in tax laws and accounting standards. Although such practices do not violate the law, they may undermine the effectiveness of fiscal policies and reduce the potential for government revenue. It can be linked to the agency relationship between shareholders and managers. While managers are granted the authority to run the company's operations, they often possess more detailed and timely information than the shareholders. This information asymmetry may lead to decisions that prioritize managerial interests, including reducing the company's tax burden, even when those decisions may not fully align with broader business objectives or national revenue goals. Therefore, tax avoidance should not be viewed merely as a matter of compliance, but rather as a reflection of managerial behavior within the firm. For this reason, tax avoidance needs further investigation.

This study aims to examine the effect of leverage on tax avoidance in publicly listed companies in the property and real estate sector in Indonesia. This sector has received limited attention in prior research, particularly in the context of corporate financing strategies and tax behavior. Companies with a high level of debt also bear significant interest expenses. Under prevailing tax regulations, these interest expenses are deductible, thereby reducing the company's taxable income and, ultimately, its tax liability. This mechanism may encourage companies to engage in tax avoidance behavior (Artinasari & Mildawati, 2018). Leverage, as a financing policy, is often associated with tax avoidance. In theory, an increase in debt leads to higher interest expenses, which lowers earnings before tax and, consequently, reduces the amount of tax payable (Abdullah, 2020). Abdullah (2020), Andoko & Prabowo (2024), Annida & Firmansyah (2022), Hutapea & Herawaty (2020), Pangesti et al. (2021) found a negative association between leverage and tax avoidance. In contrast, Artinasari & Mildawati (2018), Pajriansyah & Firmansyah (2017), Puspitasari et al. (2021) concluded that leverage is positively associated with tax avoidance. Meanwhile, Saputra et al. (2020) suggested that there is no relationship between leverage and tax avoidance. Given these mixed results, further research is necessary to clarify the relationship between leverage and tax avoidance, particularly within the context of the Indonesian property and real estate sector.

This study differs from prior research by introducing board characteristics, specifically board gender diversity, as a moderating variable in the relationship between leverage and tax avoidance. Previous studies suggest that female directors tend to enhance the transparency and integrity of corporate decision-making processes. Corporate boards often associate women with more ethical and cautious decision-making, stronger oversight functions, and a greater emphasis on compliance



(Hoseini et al., 2019; Lanis et al., 2017). Their presence is believed to contribute to improved corporate governance, which may limit the extent to which companies exploit regulatory loopholes for tax reduction purposes. This assumption justifies the placement of board gender diversity as a moderating variable, as it may influence how financial policies such as leverage are used in tax planning behavior. However, the role of female directors in moderating this relationship has not been widely studied, especially in the Indonesian context.

This study is expected to contribute to the growing body of literature on corporate tax behavior by providing empirical evidence on the interaction between capital structure and governance characteristics. The findings may help companies reassess the governance implications of their financing decisions, particularly their tax responsibilities. More broadly, the study is expected to support the development of accounting and taxation research in Indonesia by highlighting how internal corporate factors can influence tax compliance within the bounds of the law. In practical terms, the results may be helpful in the Directorate General of Taxes (DGT) in identifying company profiles that are more likely to engage in tax avoidance, thus informing risk-based tax supervision strategies and policy development tailored to Indonesia's institutional context.

LITERATURE REVIEW

Agency theory explains that an agency relationship is a contract in which one or more principals assign responsibility to an agent to perform services on their behalf and grant decision-making authority to the agent (Jensen & Meckling, 1976). However, in practice, managers, as agents, do not always align with shareholders' best interests. The existence of information asymmetry allows managers to make decisions that may reflect their preferences or objectives, particularly in areas that are less visible to external parties (Scott, 2015). One such area is tax-related decision-making, including the adoption of tax avoidance strategies that legally reduce tax liabilities (Desai & Dharmapala, 2009).

Tax avoidance, when carried out through appropriate planning mechanisms and within the boundaries of existing tax laws and accounting standards, is not illegal (Dyrenge et al., 2008; Lietz, 2013). However, from the agency perspective, such decisions can reflect managerial discretion driven by incentives to improve reported financial performance, enhance short-term cash flows, or demonstrate financial efficiency. Managers may also be motivated to show better after-tax earnings as part of their performance evaluation or compensation metrics. These motives are often not fully observable to shareholders, reinforcing the agency conflict.

In this regard, the use of debt or leverage can become a strategic tool for tax planning. Interest expenses on debt are deductible from taxable income, thus reducing the firm's tax burden. Managers may therefore choose to increase the company's leverage not only for financing purposes but also to take advantage of tax deductions associated with interest payments (Nurhandono & Firmansyah, 2017). This behavior aligns with agency theory, reflecting the agent's ability to influence corporate tax outcomes through financing decisions. The preference for debt over equity, which is less tax-favorable, may be a rational choice from the manager's perspective when tax minimization is assumed to be an implicit goal.

Empirical evidence supports this line of reasoning. Artinasari & Mildawati (2018), Pajriansyah & Firmansyah (2017), and Puspitasari et al. (2021) concluded that leverage plays a significant role in shaping corporate tax behavior. These studies reinforce the notion that debt financing is not merely a capital structure decision, but may also serve managerial interests in minimizing tax payments. The consistency between agency theory and empirical findings



strengthens the argument that leverage is positively associated with tax avoidance. Based on the theoretical framework and supporting empirical evidence, it is reasonable to expect that firms with higher leverage levels will exhibit a greater tendency to engage in tax avoidance practices. The use of debt financing provides not only fiscal advantages but also managerial flexibility in shaping tax outcomes.

H₁: Leverage has a positive effect on tax avoidance

According to Hannan & Freeman (1984), managers are expected to consider the interests of all stakeholders, not just shareholders. Stakeholders are defined as individuals or groups who can affect or be affected by the achievement of a company's objectives. This broad perspective highlights the relevance of stakeholder theory in discussions of corporate governance. In line with this view, Rose (2004) stated that boards of directors are more likely to enhance stakeholder value when the proportion of women on the board is high. From the standpoint of stakeholder theory, gender diversity on the board is often seen as a reflection of the company's ethical orientation and compliance mindset, which may influence policy decisions, including those related to taxation.

Jensen & Meckling (1976) argue that information asymmetry arises when managers possess more information than shareholders. In such cases, tax avoidance practices, while potentially beneficial to the company in the short term, can become problematic if executed excessively or without proper oversight. Aggressive tax avoidance may lead to reputational risk or future tax penalties. To mitigate such risks, close monitoring of managerial behavior is essential, particularly in decisions related to tax planning.

The presence of women on the board of directors has increasingly been recognized for its potential to strengthen governance practices, especially in strategic decision-making. Female directors are considered to provide broader perspectives, emphasize stakeholder interests, and allocate resources more effectively (Panjaitan & Handayani, 2019). Women are also known to be more cautious and risk-averse in executive decision-making, including in areas related to tax planning (Winasis & Yuyetta, 2017). Their tendency to avoid excessive risk aligns with the principles of good governance and regulatory compliance.

Empirical studies support the view that female board representation is associated with lower levels of tax avoidance. Hoseini et al. (2019) found that the presence of women on corporate boards is negatively related to tax avoidance, a finding consistent with Jarbouï et al. (2020), and Lanis et al. (2017). These studies suggest that female directors are more likely to promote tax compliance and discourage the use of overly aggressive tax planning strategies. Given their role in enhancing oversight and reducing risk tolerance, the presence of female directors may moderate the relationship between leverage and tax avoidance. Specifically, gender-diverse boards may be less inclined to support debt policies aimed primarily at reducing tax liabilities. Therefore, a higher proportion of women on the board may weaken the positive effect of leverage on corporate tax avoidance.

H₂: Board gender diversity weakens the positive effect of leverage on tax avoidance

METHODS

This study utilizes secondary data from the annual reports of publicly listed companies in the property and real estate sector for the 2021-2023 period, obtained from the Indonesia Stock Exchange (IDX) and downloaded from the official website www.idx.co.id. Based on the purposive sampling method, the final sample selection according to the research criteria is as follows:



Table 1: Research Sample

Criteria	Total
Property and real estate companies listed on the Indonesia Stock Exchange as of April 2025	94
Companies listed after January 1, 2021	-12
Companies with incomplete financial statements during the 2021-2023 period	-10
Companies that incurred losses during the 2021–2023 period	-39
Companies with negative ETR (Effective Tax Rate) during the 2021–2023 period	-4
Number of companies that can be employed in the research	29
Number of observation years	3
Total research sample	87

Source: data processed

The dependent variable in this study is tax avoidance, which is measured using the proxy of the Effective Tax Rate (ETR), as applied in the studies by Annida & Firmansyah (2022), Kharisma & Faisol (2019), Manuel et al. (2022). The value of tax avoidance is inversely related to the ETR; therefore, to facilitate subsequent analysis, the ETR value is multiplied by -1 to represent the tax avoidance value (Annida & Firmansyah, 2022).

$$ETR = \frac{\text{Income tax expense}}{\text{Profit before tax}}$$

The higher the ETR value, the more the company complies with its tax obligations; conversely, the lower the ETR value, the more likely the company is to engage in tax avoidance. The independent variable in this study is leverage, which is proxied by leverage (LEV), in line with the approach used in the study conducted by Pangesti et al. (2021) as follows:

$$LEV = \frac{\text{Total liabilities}}{\text{Total assets}}$$

The moderating variable in this study is board gender diversity, which is proxied by Board Gender Diversity (BGD), as used in the studies conducted by Jarboui et al. (2020) which is measured as follows:

$$BGD = \frac{\text{Number of female directors}}{\text{Total number of directors}}$$

This study also includes profitability and firm size as control variables. Profitability is proxied by Return on Assets (ROA), as used in the studies by Mala & Ardiyanto (2021) which is measured as follows:

$$ROA = \frac{\text{Net income}}{\text{Total assets}}$$

Meanwhile, firm size is proxied by the natural logarithm of total assets, as applied in the studies by Manuel et al. (2022). Hypothesis testing in this study is conducted using multiple linear regression analysis with panel data. The research model used for testing Hypotheses 1 and 2 is as follows:

$$TAXAVOID_{it} = \beta_0 + \beta_1 LEV_{it} + \beta_2 BGD_{it} + \beta_3 LEV_{it} * BGD_{it} + \beta_4 ROA_{it} + \beta_5 LEV_{it} + \varepsilon_{it} \dots \dots \dots (1)$$

RESULTS AND DISCUSSION

The descriptive statistics of the variables used in this study are presented in Table 2.



Table 2: Descriptive Statistics

Variable	Mean	Med	Max	Min	Std. Dev.
TAXAVOID	-0,154	-0,107	0,000	-0,965	0,190
LEV	0,328	0,310	0,744	0,002	0,191
BGD	0,223	0,250	1,000	0,000	0,239
ROA	0,040	0,028	0,255	0,000	0,044
SIZE (In billions rupiah)	3.639	4.055	66.828	92	5.471

Source: data processed

Table 2 presents the descriptive statistics for the variables used in this study. The average value of the tax avoidance variable is -0.154. Given that this variable is constructed as the inverse of the effective tax rate (ETR), the negative value suggests a general tendency among firms in the property and real estate sector to engage in tax avoidance. Some companies report values close to -1, indicating minimal or nearly zero tax payments relative to their pre-tax earnings. Conversely, some firms exhibit tax payments closely aligned with their profit before tax, reflecting lower levels of tax avoidance.

The average leverage ratio is 32.8%, reflecting a moderate balance between debt and equity financing. The sample includes firms with very high leverage, approaching 75%, as well as firms with almost no reliance on debt, as indicated by leverage ratios close to zero. This variation highlights differences in financial strategy within the sector. Board gender diversity, measured as the proportion of female directors, averages 22.3%. While some companies report full female representation on their boards, others have no women serving as directors. This reflects the overall underrepresentation of women in corporate governance structures within the sector.

The average return on assets (ROA) is 4%, indicating relatively modest profitability among the sampled firms. The data reveal a wide range, with some firms reporting double-digit ROA, while others operate near break-even levels. Firm size, as reported in Table 2, is expressed in billions of rupiah and shows an average of IDR 3,639 billion in total assets. The largest firm in the sample holds more than IDR 66 trillion in assets, whereas the smallest has less than IDR 100 billion. It should be noted that, for regression analysis, firm size is transformed using the natural logarithm of total assets to improve data distribution and comparability.

Subsequently, multiple linear regression analysis was conducted using the random effects model. A summary of the estimation results is presented as follows:

Table 3: Summary of Hypothesis Test Results

Variable	Coeff	T-stat	Prob.	
C	0.460	0.464	0.322	
LEV	-1.570	-3.105	0.002	***
ROA	1.083	1.806	0.038	*
SIZE	-0.005	-0.161	0.436	
BGD	-0.463	-1.158	0.126	
LEV*BGD	1.700	1.629	0.055	*
R ²	0.783			
Adj. R ²	0.647			
F-stat.	5.782			
Prob (F-stat.)	0.000			

Source: data processed



The regression analysis results indicate that leverage has a negative relationship with tax avoidance. In other words, the higher the level of debt within a company, the lower its tendency to engage in tax avoidance practices. Based on this outcome, the initial hypothesis suggesting a positive influence of leverage on tax avoidance is not supported by the empirical findings of this study. This result aligns with the research conducted by Abdullah (2020), Andoko & Prabowo (2024), Annida & Firmansyah (2022), Hutapea & Herawaty (2020), and Pangesti et al. (2021). Their studies argue that companies under higher financial obligations are more cautious in adopting tax strategies, especially when there is intensive supervision from creditors. On the other hand, these findings differ from those of Artinasari & Mildawati (2018), Pajriansyah & Firmansyah (2017), and Puspitasari et al. (2021), who reported that leverage is positively related to tax avoidance. The inconsistency across these studies suggests that industry context and corporate governance environments may influence how firms use leverage in their tax practices.

In the context of this research, companies in the Indonesian property and real estate sector do not appear to treat debt financing as a primary strategy for minimizing tax obligations. Although interest expenses on debt are deductible under current tax regulations, firms with higher debt levels in this sector tend to be under stricter scrutiny from external parties, particularly financial institutions. This external oversight is a constraint that discourages tax avoidance behavior, especially when such behavior could pose reputational or financial risks.

From the agency theory perspective, this phenomenon reflects how increased debt levels intensify the monitoring function exerted by creditors. In firms with high leverage, the agency conflict between managers (agents) and external stakeholders, such as lenders, becomes more pronounced. Managers may refrain from engaging in opportunistic tax strategies to maintain trust and minimize agency costs. Therefore, in this setting, leverage operates not as a tool to enable tax minimization but as a governance mechanism that promotes more prudent and transparent financial decisions.

In addition, characteristics unique to the property and real estate industry may also influence this outcome. These companies often manage large fixed assets such as land and buildings, which provide alternative avenues for tax planning through methods like depreciation, asset revaluation, or inventory costing adjustments. Also, many firms in this sector adopt conservative capital structures and rely more on internal financing. This reduces the incentive to leverage debt solely to secure tax benefits.

Furthermore, the test result shows that board gender diversity weakens the negative effect of leverage on tax avoidance. This indicates that the presence of women on the board of directors moderates the relationship between leverage and tax avoidance, such that the tax-reducing effect of high debt levels becomes less pronounced when female representation increases. In other words, although high leverage is generally associated with lower tax avoidance, this effect tends to diminish in firms with greater board gender diversity.

This finding suggests that female directors may influence managerial decisions in a way that offsets the restraining impact of debt on tax avoidance. While firms with high leverage are typically under tight scrutiny from creditors, which encourages conservative tax behavior, the presence of female directors might shift this dynamic. Their influence, while often associated with transparency and compliance, may also introduce alternative priorities or strategic considerations that allow for greater tax flexibility, especially in sectors where aggressive tax strategies are not uncommon.

From an agency theory perspective, this outcome reflects a nuanced interaction between external monitoring (leverage) and internal governance (board composition). In highly leveraged firms, managers are expected to act more prudently due to creditor oversight. However, the



presence of women on the board may reduce agency tensions differently, possibly emphasizing business outcomes or strategic compliance over strict conservatism. As a result, the dual governance mechanism may not necessarily compound, but rather balance or offset one another, leading to a weaker negative association between leverage and tax avoidance.

This result contradicts earlier assumptions that gender-diverse boards always promote stronger tax compliance. Instead, in the Indonesian property and real estate sector, where firms manage large fixed assets and have significant discretion in tax planning, board gender diversity may moderate tax behavior in complex ways. Hence, gender diversity should be viewed not just as a governance ideal, but also as a contextual variable whose influence on corporate financial behavior may vary depending on leverage conditions and industry characteristics.

CONCLUSION

This study finds that leverage is negatively associated with tax avoidance among publicly listed companies in Indonesia's property and real estate sector. In other words, companies with higher debt levels tend to engage less in tax avoidance practices. This suggests that these firms do not utilize interest expenses from debt financing as a primary strategy for minimizing tax liabilities, possibly due to more stringent oversight from creditors. From the agency theory perspective, leverage is an external disciplinary mechanism that constrains managerial discretion and discourages risky or opportunistic tax strategies. Additionally, the sector's specific characteristics, such as a reliance on long-term tangible assets and a preference for internal funding, may further reduce the appeal of using debt as a tax planning tool.

The study also reveals that board gender diversity moderates the relationship between leverage and tax avoidance by weakening the negative effect of leverage. The presence of female directors contributes additional oversight and ethical considerations, fostering more prudent decision-making in financial and tax-related areas. This finding supports that women are more likely to adopt conservative, compliance-oriented approaches, strengthening corporate governance mechanisms. As such, gender diversity on corporate boards promotes inclusive leadership and is relevant in encouraging responsible tax behavior, especially in firms with elevated financial leverage.

This study is subject to several limitations. The analysis is limited to publicly listed companies in the property and real estate sector, which restricts the generalizability of the findings to other industries on the Indonesia Stock Exchange. Furthermore, the sample size is relatively small, as loss-making companies were excluded from the analysis, reducing the number of firm-year observations. Future research could improve upon this study by employing alternative measures of board gender diversity that more accurately capture women's involvement in corporate decision-making. For instance, the ratio of female to male board members may offer a more nuanced indicator. Also, future research is encouraged to broaden the sample to include firms from other sectors to provide a more comprehensive discussion of corporate tax avoidance. Extending the observation period is also recommended to yield more robust and generalizable results.

The findings of this study offer practical implications for various stakeholders. For companies, the results highlight the importance of considering financing decisions and board composition as part of tax governance strategies. For the Directorate General of Taxes (DGT), the study may serve as a basis for evaluating corporate tax behavior and strengthening regulatory measures to reduce tax avoidance. Lastly, the findings may assist investors in assessing the tax-related governance practices of listed firms as part of their investment decision-making process.



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