CORPORATE GOVERNANCE THEORY AND DETERMINANTS OF EFFECTIVE CORPORATE TAX RATES: A REVIEW BASED ON INTERNATIONAL LITERATURE

Yanbing He *, Razif Rosli **, Ming Liu ***

* Pharmaron Beijing Co., Ltd., Beijing, China; SEGi University & Colleges, Petaling Jaya, Malaysia
** *Corresponding author*, SEGi University & Colleges, Petaling Jaya, Malaysia
Contact details: SEGi University & Colleges, No.9, Jalan Teknologi, Taman Sains Selangor, Kota Damansara, PJU 5, 47810 Petaling Jaya, Selangor, Malaysia
*** Beijing Sankuai Online Technology Co., Ltd., Beijing, China

OPEN ACCESS

How to cite this paper: He, Y., Rosli, R., & Liu, M. (2024). Corporate governance theory and determinants of effective corporate tax rates: A review based on international literature. *Corporate Law & Governance Review, 6*(4), 117–129. https://doi.org/10.22495/clgrv6i4p11

ISSN Online: 2664-1542
ISSN Print: 2707-1111

Received: 29.06.2024
Accepted: 13.12.2024

JEL Classification: G3, H2, M4
DOI: 10.22495/clgrv6i4p11

Abstract

Against the backdrop of the current multiple crises facing the global economy and the slowdown in China's economic recovery, the Chinese government is not only under pressure to reduce its tax revenues but also needs to adjust its tax policy to stimulate economic activities and promote economic recovery. Against this background, based on previous studies, we conducted an in-depth analysis of 89 articles selected to create a conceptual framework for analyzing the determinants of effective tax rates (ETR) using corporate governance, agency theory, and a systematic literature review (Amri et al., 2023; Kalbuana et al., 2023). A comprehensive literature analysis found that managerial ownership, institutional ownership, board of directors composition, firm size, and profitability are all related to the ETR, and profitability moderates the relationship between these independent variables and ETR. These findings are essential for the Chinese government to formulate tax policies, optimize tax administration, promote tax reform, enhance taxpayers' awareness, and guide strategic decision-making and investment appraisal. At the same time, this study helps Chinese enterprises identify their tax burdens, make tax plans according to the situation, and reduce tax risks. It also allows investors to make more informed investment decisions.

Keywords: Effective Tax Rates, Firm Characteristics, Corporate Governance, Profitability

Authors' individual contribution: Conceptualization — Y.H. and R.R.; Methodology — Y.H., R.R., and M.L.; Formal Analysis — Y.H., R.R., and M.L.; Data Curation — Y.H., R.R., and M.L.; Writing — Original Draft — Y.H., R.R., and M.L.; Writing — Review & Editing — Y.H., R.R., and M.L.; Supervision — R.R. and M.L.; Project Administration — Y.H. and R.R.; Funding Acquisition — Y.H. and M.L.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

1. INTRODUCTION

The global economic recovery remains slow and uneven, with global economic growth falling from 3.5% in 2022 to 3% in 2023 (International Monetary Fund [IMF], 2023). China's gross domestic product (GDP) growth rate has declined from 6.6% in 2017–2019 to 4.5% in 2020–2022 (Eichengreen, 2024); at the same time, the continued decline in real estate investment and house prices (IMF, 2023), which is putting pressure on local government land sale revenues and threatening already fragile public finances, coupled with uncertainty in the labor market (IMF, 2023), are injecting much uncertainty into the Chinese Economy, So China's economy is currently facing many challenges, especially after three years of the COVID-19 epidemic, coupled with the crisis in the property market, the decline in corporate profits and the rise in youth unemployment, the economic recovery is under tremendous pressure.

Taxation is a critical component of a country's economic framework, influencing business behavior, investment decisions (Neog & Gaur, 2020), and overall economic growth and contributing to income distribution (Cevik & Correa-Caro, 2020). In response to the economic slowdown, China has implemented various preferential tax policies aimed at supporting business growth, promoting sustainable development, attracting foreign investment, and encouraging domestic entrepreneurship (Eichengreen, 2024; Fan et al., 2022; Li, 2024). Developing better tax policies to serve the real economy, attract foreign investment, and support enterprise development requires in-depth analysis and reflection (Huang et al., 2024). As economic growth slows, governments are often pressured to reduce tax revenues, leading to lower corporate profits, employment, and consumption, reducing the ability to pay taxes (Fang et al., 2022). Governments use tax cuts or extensions to stimulate economic activity and boost market confidence, but this can exacerbate fiscal pressures significantly if tax revenues are reduced and expenditures are increased (Keita & Turcu, 2023). Tax policy has a significant impact on the extent and duration of recessions. By reducing the tax burden, reforming the tax system, and reducing tax uncertainty, governments can promote business investment (Koch et al., 2023) and innovation (Sun, 2022), thereby mitigating the impact of recessions. Therefore, during a period of economic slowdown, the study of tax policy can fulfill the regulatory role of taxation to support enterprise development and economic recovery.

China's corporate income tax rate is 25%, which has not been reduced for many years. This high rate negatively impacts the attraction of foreign investment, particularly in the context of an economic downturn and rising unemployment. Most Organisation for Economic Co-operation and Development (OECD) nations, with strong economic development and a conducive investment climate, have reduced their corporate income tax rates since 2000, including the USA, to improve economies and attract global investment (Michel, 2023). While preferential tax policies exist for different industries, the effective tax rate (ETR) remains 25%. The implications of this need further discussion. In 2017, the USA adjusted its statutory tax rate to 21% and expanded tax incentives for capital investment. Research by Gardner et al. (2024) shows that, following the tax reform, the average income tax rate for 296 large companies in the USA dropped from 22.0% to 12.8%. These companies paid \$240 billion less in taxes from 2018 to 2021, and their profits increased by 44%. These tax reform measures significantly improved the international competitiveness of American companies (Gardner et al., 2024).

Given the current economic situation, the country, government, enterprises, and investors must study changes in tax rates or adequate tax amounts. It is necessary to deeply explore the key factors affecting taxation and find tax policies suitable for China's national conditions. Such policies should not only promote enterprise development but also improve the fairness and efficiency of tax administration. Learning from the tax policies and experiences of major economies like the USA will help formulate a more competitive Chinese tax policy. The ETR mainly reflects the proportion of tax borne by enterprises to their income or profit. Studying ETR helps to understand the common factors influencing different enterprises' tax burdens and provides tax support for enterprise tax management and operation. Understanding the factors affecting the ETR of Chinese firms can help assess the success of tax policies and their impact on business decisions. However, existing studies have focused on exploring a single or few independent variables that influence ETR, with limited sample sizes and a focus on firms outside of China. Researchers have not thoroughly examined multiple variables in Chinese-listed firms, nor have they investigated the link between the primary independent variable and the ETR from the perspective of a moderating variable (Latifatul et al., 2023). This study investigates ETR by examining the moderating influence of profitability and the complex relationships between corporate governance and organizational financial and operational aspects. It can improve comprehension of the underlying dynamics and aid in shaping tax policy and decision-making for various enterprises.

This study aims to analyze the moderating influence of profitability on the link between corporate governance attributes, including management, institutional ownership, the composition of the board of directors, firm size, and ETR in China. This article primarily focuses on the following research questions based on an analysis of prior literature:

RQ1: To what extent do managerial ownership, institutional ownership, board of directors' composition, firm size, and profitability influence ETR?

RQ2: To what extent does profitability moderate the relationship between factors that are believed to influence ETR (managerial ownership, institutional ownership, board of directors' composition, firm size) and ETR?

This study uses corporate governance, agency theory, systematic literature review, and theoretical analysis to analyze ETR determinants. We discovered that managerial ownership, institutional ownership, board of directors' composition, firm size, and profitability influence ETR. In contrast, profitability moderates the relationship between these independent variables and ETR. The studies provide theoretical foundations for future research, aiding companies in understanding ETR, identifying taxation factors, formulating sound tax strategies, and guiding policymakers in optimizing tax policies to serve enterprises better. Understanding the determinants of ETR will help enterprises make better use of the tax policy, protect the interests of shareholders, and promote the enterprise's long-term development.

The remainder of this paper is structured as follows. Section 2 discusses the relevant literature on ETR and introduces corporate governance theory and agency theory. Section 3 outlines the research methodology, followed by Section 4, which presents the results. Finally, Section 5 discusses the findings. Section 6 concludes the paper.

2. LITERATURE REVIEW

As one of the indicators that are utilized by tax policymakers for evaluating the effectiveness and equal treatment of tax legislation (Panda & Nanda, 2020), the ETR determines the actual tax burden of businesses while taking into account the impact of various tax incentives and displaying the overall effect of tax incentives. Government officials can also use this indicator to detect organizations for tax avoidance. A low ETR also increases tax evasion potential (Alkurdi et al., 2024). However, it also gives companies a helpful instrument when assessing their tax risk. Some firms reduce tax payable to increase profits (Stamatopoulos et al., 2019). In this case, management views the ETR as part of performance management to reduce tax payments by depreciating fixed assets, financing, and other means to maintain profitability. By paying reasonable taxes, firms can avoid tax penalties, financial risks, and legal issues, thus avoiding negative impacts on firm value and stakeholder confidence (Alkurdi et al., 2024).

In conclusion, the ETR is an essential area of research that is of high interest to both tax authorities and companies (Emerson et al., 2020). Tax authorities must ensure that companies pay taxes by the law, while companies seek to minimize tax payments through reasonable means. Therefore, a reasonable ETR benefits tax agencies and companies (Osebe, 2019).

A strong correlation exists between corporate governance and taxation (Tanko, 2020). Some scholars have pointed out that tax avoidance can improve company performance, but companies must strengthen their internal control and management capabilities to fully utilize its advantages (Shaukat Malik & Munir, 2024). Inadequate corporate governance results in deficient internal controls, rendering the organization susceptible to financial fraud, tax evasion, and similar misconduct, escalating legal and economic dangers. Effective corporate governance entails enhanced information transparency, facilitating the alignment of interests among shareholders, employees, customers, and other stakeholders to ensure the company's long-term sustainable development. This approach not only assists in achieving tax compliance and mitigating tax risks but also allows the company to optimize its financial structure and diminish its tax burden through strategic tax planning and lawful tax reduction. A minimal tax burden signifies reducing the company's ETR.

2.1. Definition of the ETR

Many researchers study the ETR, including the Institute on Taxation and Economic Policy (ITEP) in the USA. Scholars from many countries and different researchers use different measurements to measure the ETR due to various research purposes and tax rates. Some scholars define the ETR as the ratio of the actual tax burden paid by a firm to its pre-tax income (Febriani & Suardikha, 2019; Wdati et al., 2024); this measurement helps firms to determine the actual corporate income tax paid on their taxable income. Other scholars define ETR as Current tax expense divided by profit before tax (Gita et al., 2021; Novita & Fahmy, 2022; Wdati et al., 2024); of course, many scholars use the cash ETR to study corporate tax avoidance, the primary measure of the money ETR is Cash Effective Tax Rate = Ratio of Cash Tax Paid to Pre-Tax Income. The cash ETR is used to look at the actual tax paid by the company, which can be found in the cash flow statement. The formula is the tax paid by the company in the cash flow statement, divided by the company's profit before any tax is deducted (Sumantri et al., 2022). Some researchers have used the ETR to measure tax avoidance because it accurately shows the difference between a company's book income and fiscal revenue. A lower ETR value means the company avoids taxes more (Firmansyah et al., 2022).

2.2. Relationship between variables

Various scholars have studied the factors affecting the ETR, including the impact of enterprise characteristics, tax policies, and other factors on the ETR (Gardner et al., 2024; Martiana & Husnaini, 2024; Ridwansyah & Indayani, 2024; Rostamy, 2024; Wdati et al., 2024). Most researchers utilize ETR to measure the actual tax burden of corporate income tax at the micro level (Bachas et al., 2022). We analyze the impact of corporate governance attributes on ETR and the moderating influence of profitability (Dianawati & Agustina, 2020; Iwanty & Surjandari, 2022; Tanko, 2020; Putri et al., 2022; Wulandari & Ardhani, 2023). Moreover, particular aspects of company governance, such as auditors' years of experience and board size, significantly influence tax avoidance, highlighting the necessity of oversight to mitigate and diminish tax evasion (Baysinger & Butler, 2019; Hoseini et al., 2019; Payamta et al., 2024).

2.2.1. Relationship between managerial ownership and ETR

The relationship between management shareholding and the ETR of a company has become the subject of extensive research in recent years (Martiana & Husnaini, 2024; Tanko, 2020; Olanisebe et al., 2023; Pertiwi, 2020; Sujarwo & Sjahputra, 2022; Syamsuddin & Suryarini, 2020). Management ownership is the percentage of all shares controlled by the management of a business. Several studies examine the association between managerial shares and ETR. Higher management ownership means higher ETR. This situation could happen because higher managerial ownership helps companies comply with tax rules (Alkurdi & Mardini, 2020). Researchers have shown a favorable correlation between company governance and ETR (Dailimi & Setyowati, 2020; Dianawati & Agustina, 2020). Some other academic research has revealed the opposite results. Indonesian scholars investigated the link between management shareholding and tax evasion in manufacturing firms and concluded that management ownership could minimize ETR by optimizing tax planning (Martiana & Husnaini, 2024). In any instance, management ownership will affect the company's tax management process. Companies may use numerous tax planning techniques for various purposes, but they all illustrate that management ownership correlates to the ETR. A correlation exists between management and the perspectives of institutional investors about the tax planning of certain firms (Tijjani & Peter, 2020). Some studies have shown that management stock ownership significantly positively impacts tax avoidance (Martiana & Husnaini, 2024; Tanko et al., 2022). Certain scholars have indicated in their research that managers aim to maximize profits while minimizing tax liabilities through legal tax avoidance and that robust corporate governance mechanisms can regulate tax avoidance to a level most advantageous for each company. The efficacy of corporate governance can mitigate conflicts of interest or disputes among diverse stakeholders (Dewi & Alliyah, 2021). Studies by other researchers indicate that management equity ownership influences tax avoidance. Managers with heightened interests may be more motivated to participate in tax evasion to enhance the firm's worth and, therefore, the value of their shares (Ramadhan & Wadi, 2024). In the future, we might explore the relationship between management ownership and ETR of Chinese firms in the context of China's current circumstances by analyzing the literature and theories regarding different enterprises, as well as depending on the experience of previous investigators.

2.2.2. Relationship between institutional ownership and ETR

Institutional shareholding refers to shares of publicly traded businesses held by other organizations such as insurance companies, fund companies, banks, investment firms, etc. Following research studies, higher institutional shareholding can improve a board of directors' supervision of the company (Alya & Husnaini, 2024), increase the company's competitiveness, successfully encourage management to make higher profits (Alya & Husnaini, 2024), reduce conflicts of interest between management and shareholders (Amanah et al., 2022), and reduce management profit influence. Thus, institutional ownership positively affects ETR (Alkurdi & Mardini, 2020; Darsani & Sukartha, 2021), and greater institutional ownership has a more significant impact on the company's ETR (Dakhli, 2022; Nurkholisoh & Hidayah, 2020; Tanko, 2020). Some scholars have shown that corporate ownership structure negatively impacts the ETR (Putri et al., 2022; Tanko et al., 2022). The conclusion of this study means that the higher the concentration of ownership, the lower the ETR (Osebe, 2019). Scholars have observed a positive correlation between the shareholding proportion of institutional investors in China and the degree of corporate tax avoidance. They suggest that an increase in this proportion could potentially encourage corporate tax avoidance, mainly when shareholding concentration is low (Jiang et al., 2021; Widuri et al., 2019); institutional ownership pairings may facilitate tax avoidance since elevated institutional ownership correlates with reduced ETR, enhancing enterprises' motivation to minimize tax liabilities. Specific experts have determined that corporate governance measures significantly influence tax planning for publicly listed firms in Nigeria (Bashiru et al., 2020). There is a strong positive relationship between the ETR of publicly traded companies and tax evasion and corruption. However, when considering the quality of corporate governance, ETR has little effect on this relationship. The conclusion of this study suggests that solid corporate governance reduces corporate tax evasion (Namazian et al., 2021).

2.2.3. Relationship between board of directors' composition and ETR

Scholars have increasingly focused on the relationship between board size and a company's ETR in recent years (Hoseini et al., 2019; Nurkholisoh & Hidayah, 2020). Traditionally, boards have concentrated primarily on shareholder interests, but as times have changed, their role has expanded to include social responsibility and environmental sustainability considerations. In sizeable corporate governance, the board of directors plays a crucial role in helping to resolve conflicts of interest between decision-makers and residual risk-takers, thereby effectively reducing the agency costs associated with the separation of ownership and control (Baysinger & Butler, 2019). Some researchers have determined that the oversight function of the board of directors, together with board size and independence, contributes to the mitigation of tax evasion and that corporate governance may effectively safeguard a company's reputation, enhancing performance (Alkurdi & Mardini, 2020). Studies have shown that the proportion of female members on the board of directors is negatively related to corporate tax avoidance, i.e., increasing female members may reduce the propensity of firms to avoid taxes; furthermore, firms with larger boards of directors are more inclined to engage in tax avoidance (Hoseini et al., 2019). Some researchers have studied the relationship between board size, non-executive directors, and ETR and found a positive correlation between them: an increase in female board members, a higher number of non-executive directors, and an expanded board size enhanced monitoring, reduced agency issues, increased difficulty for management in tax planning, and a higher ETR (Osebe, 2019). Specific experts have determined that the size of the audit committee and board exerts a considerable negative influence on the ETR (Nurkholisoh & Hidayah, 2020). In short, the size of the board of directors is related to ETR (Kalbuana et al., 2023). These studies not only help to understand the determinants of ETR but also help to improve the theory of corporate governance and provide reference for enterprises and policymakers.

2.2.4. Relationship between firm size and ETR

The relationship between the size of the company and the ETR is a topic that has been studied by researchers and various scholars in recent years (Aulia & Ernandi, 2022; Hakim & Daljono, 2023; Hossain et al., 2024; Latifatul et al., 2023; Martiana & Husnaini, 2024; Owena et al., 2023; Rani et al., 2023; Wdati et al., 2024). Studies have shown that firm size significantly affects the ETR. Firm size is usually measured by indicators such as the number of employees, revenue, asset size, market share, market capitalization, and industry standards.

Different factors influence the relationship between the size of the company and the ETR. Large enterprises have more significant social influence, will be subject to greater political scrutiny, and may have a higher tax burden so that the ETR will be higher (Mascagni & Mengistu, 2019; Panda & Nanda, 2020). However, large enterprises also have more resources and are more capable of tax planning, so they may get government support, which will reduce public pressure. From this perspective, the ETR of large enterprises will be lower (Dailimi & Setyowati, 2020; Gita et al., 2021; Oliveira et al., 2022).

However, some scholars have shown that the company's size has no substantial influence on ETR, which is consistent with some scholars (Lestari & Wahyudi, 2022; Wdati et al., 2024). Still, the impact of company size on tax avoidance is not substantial. This conclusion aligns with the results of this article and further confirms the beneficial effect of high-income tax avoidance. In contrast, the size of a business does not have a substantial influence on tax avoidance (Rani et al., 2023; Wang & Schoenfeld, 2020; Wdati et al., 2024).

2.2.5. Relationship between corporate profitability and ETR

A company's profitability refers to its ability to profit from its operations. This indicator is an essential indicator for assessing the management efficiency of a company, and it is also often used by investors to determine a company's ability to achieve sustainable returns (Alya & Husnaini, 2024; Kusumastuti et al., 2024; Selinšek et al., 2021; Tennant & Tracey, 2019; Tijjani & Peter, 2020). Other stakeholders also refer to this indicator when working with a company. Because of this, profitability has been used by many scholars to study it, and in the field of tax management, many scholars have studied profitability and the relationship between profitability and ETR. Research shows that the relationship between profitability and ETR is affected by industry, enterprise size, capital structure, corporate governance, and so on (Akintoye et al., 2020; Alkurdi et al., 2024; Hossain et al., 2024). Some scholars have studied the relationship between the two in the food and beverage industry, and the results show that profitability does not impact ETR (Wdati et al., 2024). Some other scholars have shown that a company should bear a higher tax burden if it earns enough profits. Therefore, the company's ETR is higher, but some scholars have found that some companies with higher profitability tend to reduce their ETR through tax planning or tax avoidance strategies (Aini & Kartika, 2022; Akintoye et al., 2020; Alkurdi et al., 2024; Baysinger & Butler, 2019; Gunawan & Resitarini, 2019; Nabilla & Soehaditama, 2022; Sahrir et al., 2021; Tijjani & Peter, 2020; Yanti & Hartono, 2019). Some scholars have also found that companies with higher profitability reduce their ETR through tax planning or avoidance strategies, especially when corporate governance factors such as gender diversity on the board of directors are considered (Hossain et al., 2024). In conclusion, there is a relationship between profitability and ETR, and studying the relationship between the two is beneficial for companies to manage their tax burdens and improve their profitability within a reasonable range, which is just as crucial for formulating tax policies.

2.2.6. Moderated variables: Profitability

Some studies use moderating effects, such as profitability, as a moderating variable to study factors affecting the ETR (Indriyanti & Dalimunthe, 2023; Iwanty & Surjandari, 2022; Putri et al., 2022; Tanko et al., 2022; Wulandari & Ardhani, 2023), and studies by Indonesian scholars have shown that profitability moderates the impact of institutional shareholding and corporate social responsibility on tax avoidance and that good corporate governance is critical to curbing tax avoidance. Profitability mitigates the effect of institutional shareholding on tax avoidance in the study of Indonesian real estate companies. Still, the sample size is relatively small and does not cover other industries (Iwanty & Surjandari, 2022). In Nigeria, many researchers utilized multiple linear regression to investigate the influence of profitability on the relationship between ownership structure and corporate tax avoidance in publicly listed consumer goods companies. Researchers concluded that if companies are profitable and demonstrate a high return on assets, institutional investors would not necessitate tax avoidance tactics to minimize tax obligations and augment after-tax earnings since these firms have sufficient cash reserves. The outcomes of this study indicate that profitability affects the correlation between Institutional shareholding and the ETR (Tanko, 2020). Managers who own shares in a highly prosperous corporation are less inclined to endorse tax evasion strategies. This study's findings indicate that profitability diminishes the influence of management ownership on the ETR (Tanko, 2020). The Nigerian study shows the relationship between profitability and corporate governance affecting the ETR, and management shareholding affects tax avoidance behaviors moderated by profitability.

In conclusion, good corporate governance contributes to transparency, financial structure optimization, and tax burden reduction through effective tax planning and legitimate tax reduction (Olanisebe et al., 2023). In summary, these studies suggest that corporate governance is closely related to taxation and that good corporate governance not only helps to achieve tax compliance and reduce tax risk but also optimizes financial structure and reduces tax liabilities through legitimate tax planning. However, existing studies have limitations such as small sample sizes, single industry coverage, and geographical restrictions. Therefore, future research can expand the sample size and industry coverage to explore broader and more representative findings. Some scholars have also found that the interaction of institutional ownership and profitability does not affect tax avoidance (Dharmayanti et al., 2024).

Researchers have examined the influence of profitability analysis as a mechanism for regulating firm size on tax evasion. This study uses a sample population of construction firms listed on the Indonesia Stock Exchange (IDX) from 2015 to 2020. This study used EViews version 9, and the findings indicate that profitability diminishes the correlation between business size and tax evasion (Indriyanti & Dalimunthe, 2023). This study has the same conclusions as another scholar's (Latifatul et al., 2023).

Although these studies provide important references for business management and policy-making, there are limitations in terms of industry, variables, and sample size, and further research is needed to explore tax avoidance in depth in the future.

2.3. Agency theory

Agency theory focuses on the dynamics of the principal-agent relationship in situations with conflicts of interest between shareholders and management (Mehmood et al., 2019). It also examines the relationship between shareholders and corporate creditors, which can lead to agency problems, competition, and information asymmetry (Cerkovskis et al., 2022). Information asymmetry may result in agency costs.

Effective corporate governance can mitigate agency conflicts by reducing these problems, as individual and institutional investors prefer well-governed companies (Mehmood et al., 2019). Because agency exists between management and shareholders, and conflicts of agency might result in informal tax aggression by firms, tax scholars have utilized the theories of agency and corporate governance theory to examine taxation. The board of directors regulates this disagreement by performing its supervisory duties and under the board size, independence, gender diversity, and other attributes. It may influence how effectively they comply with their duty to increase shareholder value (Osebe, 2019). Proper tax planning may reduce agency conflicts (Tijjani & Peter, 2020), greater ownership by institutions may minimize aggressive businesses' tax strategies (Darsani & Sukartha, 2021), reduce agency conflicts, and encourage long-term growth. Agency theory says corporate managers may use techniques like surplus management, deferred tax, transfer pricing, and leverage to help avoid paying taxes. Tax avoidance can improve the company's performance, lower its liabilities, and allow managers to avoid paying taxes for personal gain. However, the efficacy of internal corporate governance mechanisms inversely correlates with the propensity for surplus management. The likelihood of corporate tax evasion diminishes (MacCarthy, 2021). Furthermore, effective tax planning can potentially increase profits, save more earnings for shareholders, and provide dividends or reinvestments to shareholders, which can significantly impact the enterprise's financial performance (Wangare, 2024).

2.4. Corporate governance theory

Corporate governance is a term that encompasses multi-stakeholder interactions, mainly including shareholders, the board of directors, and management (Rostamy, 2024). These stakeholders determine the organization's strategy and performance (Pekovic & Vogt, 2021). An effective corporate governance structure is not only the basis for ensuring that managers are accountable to suppliers of capital while using the assets they provide to optimize asset utilization; it is also a fundamental way of enhancing the strategic decision-making capabilities of the firm and achieving investor value management. Corporate governance rationally protects corporate stakeholders' interests by clarifying each stakeholder's rights, responsibilities, and impacts, establishing incentive-compatible principal and agent institutional arrangements, and is an indispensable core element of corporate operations.

At the level of tax administration, the best way to determine the actual income tax burden is to consider how to preserve and satisfy the interests of both the government and the enterprise. Many scholars have examined the impact of corporate governance theories on corporate income tax. For example, some researchers found that audit committees positively impact the ETR among manufacturing companies listed on the IDX, reducing tax avoidance. In contrast, profitability hurts the ETR, which increases the likelihood of tax avoidance. In addition, the study also noted that variables such as institutional ownership, independent commissioners, audit quality, and sales growth do not significantly affect tax avoidance behavior (Ramadhanti & Marlinah, 2023). A study by some researchers further verified that institutional ownership and internal auditors positively affect the ETR.

In contrast, management ownership negatively affects ETR in the Tehran manufacturing industry (Rostamy, 2024). The results of this study suggest that corporate governance plays an essential role in monitoring and controlling firms' tax aggressiveness. Some research studies also found that firm characteristics (e.g., age, size, and earnings) significantly affect their tax avoidance strategies. In addition, specific implementers of corporate governance, such as accounting firms, audit quality committees, and board size, significantly impact tax avoidance behavior (Zhang et al., 2022).

In summary, corporate governance affects enterprises' internal decision-making and efficiency and profoundly impacts their tax compliance and planning behavior. Aggressive tax behavior can be effectively curbed by strengthening corporate governance structures and mechanisms, bringing a long-term stable business environment and value creation to enterprises and their stakeholders.

3. RESEARCH METHODOLOGY

3.1. The literature review protocol

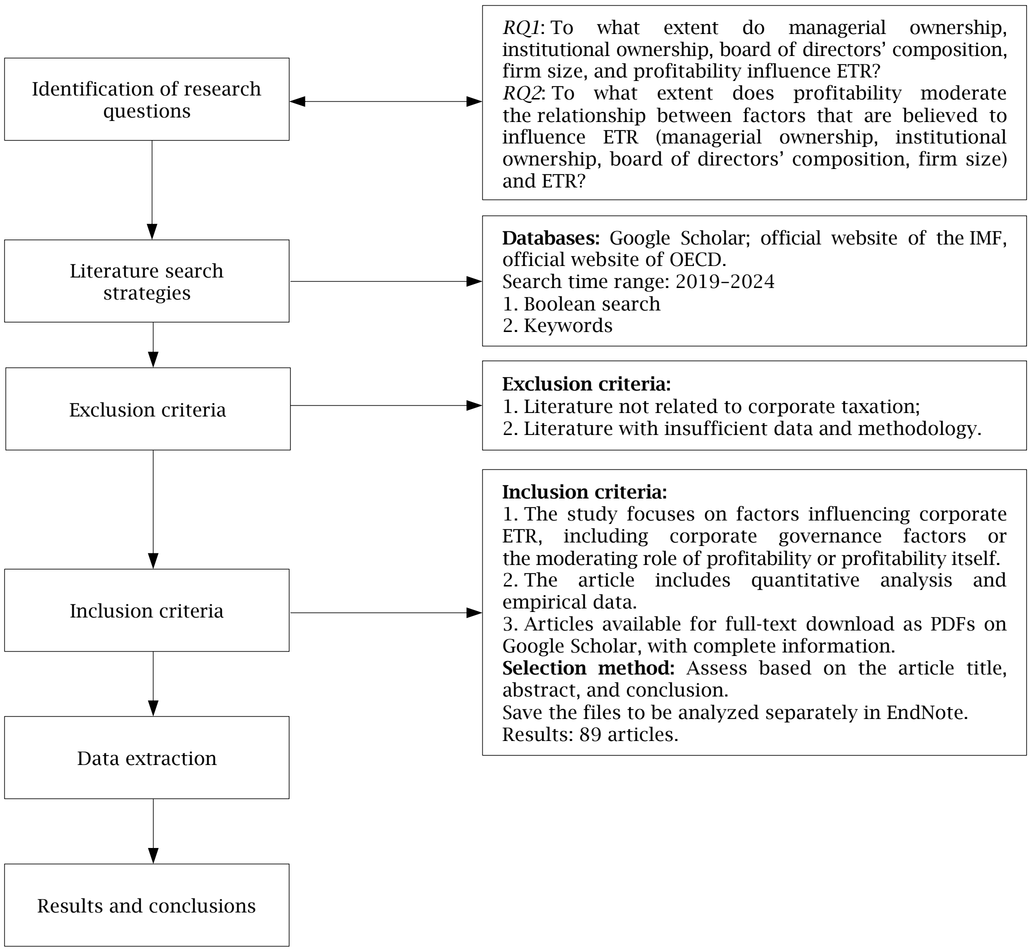
This study utilizes a systematic literature review and theoretical analysis to develop a conceptual framework, using findings from prior researchers on Google Scholar. We systematically review and integrate relevant literature to provide a conceptual framework for influential tax determinants based on corporate governance theory. This paper, informed by existing scholarship on systematic literature review methodology (Nerantzidis et al., 2022), presents a review protocol that enhances the reliability of our findings through the formulation of research questions, identification of search strategies, criteria for literature inclusion and exclusion, data exclusion, and the derivation of results and conclusions.

3.2. The literature search strategies

We utilized the Google Scholarly Database and applied the subsequent keywords to examine the academic literature from 2019 to 2024. We identified the requisite literature for the study according to the topic, exclusion, and inclusion criteria. Initially, we examined 432 publications, refining the selection to 89 based on their abstracts, conclusions, and content for the ensuing analysis. The primary keywords utilized in the study are as follows: "Factors Influencing ETR", "Company Size", "Ownership Composition and Taxation", "Board of Directors and Taxation", "Institutional Ownership and Taxation", "the Board of Directors and Taxation", "Firm Size and Effective Tax Rate", "Tax Evasion", "Profitability", and "Moderating Factors", "Theories of Corporate Governance and Taxes", "Agency Theory and Taxes", "the Moderating Effect of Profitability", "Managerial Ownership and Tax Avoidance", "Profitability and Tax Aggressiveness"; "Corporate Governance and Tax Avoidance", "Tax Planning and Profitability", "Corporate Governance and Taxation", "the Ownership Structure and Board Composition Related to Tax Avoidance". Profitability and moderation include moderating variables, management variables, and moderator variables.

Consequently, we examined the literature abstracts by identifying high-ranking studies, selecting those relevant to this paper, excluding research that does not address the pertinent variables, and choosing literature that utilizes quantitative research methods and derives theoretically grounded conclusions from data analyses. This research primarily investigates the moderating effects of profitability and corporate governance theory on the determinants of ETR, differentiating it from prior studies in the domain.

Figure 1. Literature search flowchart

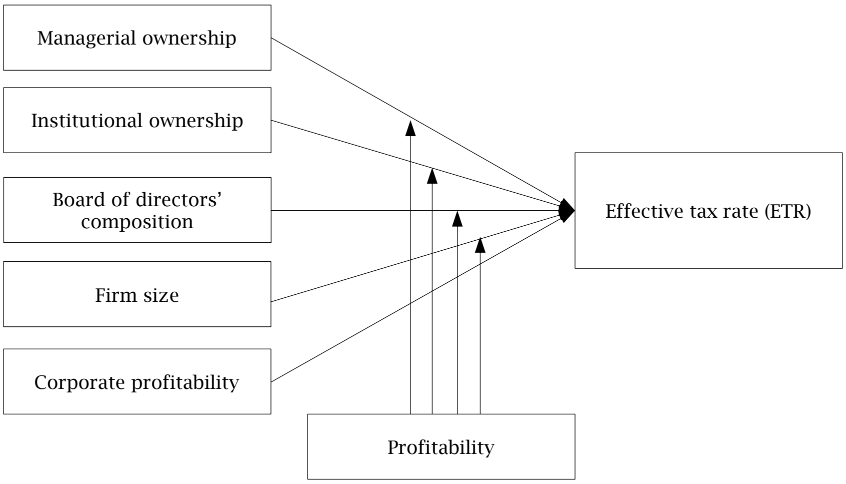


We use a systematic literature review that applies agency theory and corporate governance theory to guide our construction of a conceptual framework for the determinants of ETR. Through the literature review, we design a relevant conceptual framework for ETR. We use logical reasoning and theoretical integration to define and validate these variables and their relationships. Through in-depth analyses of the relevant literature, we validate the theoretical underpinnings of the conceptual framework. The literature analysis shows that the constructed framework can effectively explain the shortcomings in the existing theories and provide new perspectives. We identify the key factors affecting the ETR. Managerial ownership, institutional ownership, board of directors' composition, firm size, corporate profitability, and profitability moderate the relationship between these independent variables and ETR.

This work utilizes a systematic literature review, a meta-analysis, and a case study to evaluate the overarching trends in ETR research. The latter entails investigating tax planning techniques for a particular firm or sector, including a qualitative assessment of the elements affecting ETR.

By researching literature and analyzing related theories, we have developed a conceptual framework that delineates the factors influencing the ETR.

Figure 2. Conceptual framework



4. RESULTS

This study examines the research regarding the influence of corporate governance issues on the ETR. This work presents the following findings using theoretical analysis and referencing the results of several academics.

Agency theory may elucidate the research's negative association between management ownership and ETR. Nevertheless, several researchers identify either a positive connection or a lack of association between the two, underscoring the necessity for more investigation and illustrating the impact of other variables on this relationship.

The research indicates a substantial association between institutional ownership and ETR, with most experts seeing a negative correlation. Nevertheless, several academics identified either a positive link or no association between the two, indicating the need for further investigation and the impact of additional variables on this relationship.

The study indicates that board composition and firm size impact the ETR.

The study posits a negative correlation between profitability and the ETR, grounded in tax planning theory and pertinent research.

Profitability can modify the impact of independent variables on the ETR. According to agency theory and corporate governance theory, the variables we choose significantly impact corporate governance elements, with profitability being a primary indicator of the company. The interaction of profitability and corporate governance theory provides a more comprehensive understanding of each element's influence on the ETR.

5. DISCUSSION

Corporate governance and agency theories are essential in explaining the determinants of ETR. Corporate governance theory emphasizes that a good governance structure promotes information transparency and effective tax planning oversight and reduces information asymmetry. A good governance structure also ensures transparency and fairness in tax decision-making and prevents management from abusing tax policies or improperly utilizing resources.

Agency theory is concerned with balancing the interests of management and shareholders through incentives and monitoring of management by shareholders. The size of a company, its profitability, and the characteristics of the industry may have an impact on the corporate governance structure, and corporate governance, such as management shareholding, institutional shareholding, auditing, and the size of the board of directors may have an impact on the ETR of an enterprise. Meanwhile, agency theory focuses on how management weighs its interests against shareholders' interests in tax planning and ensures that management represents the best interests of shareholders through incentives and monitoring. Therefore, corporate governance structures such as board size, management shareholding, institutional shareholding, and auditing may affect the corporate income tax rate.

This study reveals vital findings and noteworthy differences by comprehensively analyzing existing literature and related theories. Firstly, some researchers who looked at how corporate governance affects the ETR found that management and institutional shareholding significantly negatively affect the ETR. In contrast, the board of directors positively affects the ETR. The results of this study indicate that companies can choose to avoid paying taxes or not when they have excellent corporate governance, and other factors determine whether they do so. Second, most scholars have found that companies with higher profitability may have more resources to engage in tax avoidance, thus lowering ETR; however, some studies have also shown that companies with high profitability are more inclined to follow standardized management and improve tax transparency, therefore increasing ETR, which suggests that the effect of profitability on ETR is also affected by other factors. Third, regarding the impact of management shareholding and institutional shareholding on ETR under the moderating effect of profitability, most researchers have found that management and institutional investors reduce tax avoidance when the company has good profitability, which suggests that good corporate governance can further limit tax avoidance when profitability as a moderating variable. In this scenario, the corporate governance structure's effectiveness helps reduce management's incentives to enhance short-term profits through tax avoidance despite the firm's high profitability. In other words, under the moderating effect of profitability, beneficial corporate governance mechanisms can reduce the tendency of companies to engage in excessive tax avoidance by regulating managerial behavior and enhancing supervision, thereby improving their overall tax compliance and transparency. Through the above analysis, we can see that when analyzing the determinants of ETR, it is necessary to consider the level of corporate governance and profitability, which will help understand the company's ETR comprehensively.

6. CONCLUSION

In instances of inadequate corporate governance or diminishing profitability, shareholders and management focus on the company's after-tax profits. A solid corporate governance framework and significant profitability impact the company's tax strategies, decreasing tax evasion probability.

These studies have provided the literature and theoretical foundations for the research on Chinese companies, which will help scholars study the ETR of Chinese companies in a more in-depth manner in the future and will also help Chinese companies to be able to identify the factors that affect the tax and make reasonable tax planning. Understanding these factors will help enterprises apply tax policies more rationally, protect shareholders' rights, and promote long-term development. During tax planning, enterprise management can assess the company's risk by evaluating its profitability and corporate governance standards while mitigating tax risk. It also helps policymakers understand tax policies' response to enterprises through ETR, which allows them to optimize tax policies to serve enterprises better. Tax administrators can also assess a company's profitability and level of corporate governance to determine the likelihood of tax evasion. Investors can evaluate a company's profitability and management to determine its performance in terms of tax compliance and associated risks.

Furthermore, investors might decide if a firm employs tax planning tactics to enhance profitability. These evaluations can assist investors in comprehending a company's financial stability and the efficacy of management's decision-making to guide investment choices. In summary, through the research on the determinants of enterprise ETR, we have understood the factors that may impact ETR and explained why these factors may affect ETR through theories.

The primary focus of this study is to construct a conceptual framework that identifies the determinants of ETR, drawing on existing literature and theory. Although we can infer the potential effects of variables on the ERT from the existing literature and analyze these potential effects through theory, this paper does not conduct an empirical analysis. Therefore, we still need to validate the findings presented in this paper through further data collection and empirical analysis. This limitation suggests that although the theory and literature propose relationships between the variables, we still need to confirm their actual effects through subsequent quantitative studies to ensure the accuracy and generalizability of the findings.

REFERENCES

Aini, H., & Kartika, A. (2022). The pengaruh profitabilitas, leverage, komisaris independen, ukuran perusahaan dan capital intensity terhadap penghindaran pajak [The influence of profitability, leverage, independent commissioners, company size and capital intensity on tax avoidance]. *Kompak: Jurnal Ilmiah Komputerisasi Akuntansi, 15*(1), 61–73. https://doi.org/10.51903/kompak.v15i1.604

Akintoye, I. R., Adegbie, F. F., & Onyeka-Iheme, C. V. (2020). Tax planning strategies and profitability of quoted manufacturing companies in Nigeria. *Journal of Finance and Accounting, 8*(3), 148–157. https://doi.org/10.11648/j.jfa.20200803.16

Alkurdi, A., & Mardini, G. H. (2020). The impact of ownership structure and the board of directors' composition on tax avoidance strategies: Empirical evidence from Jordan. *Journal of Financial Reporting and Accounting, 18*(4), 795–812. https://doi.org/10.1108/JFRA-01-2020-0001

Alkurdi, A., Almarayeh, T., Bataineh, H., Al Amosh, H., & Khatib, S. F. (2024). Corporate profitability and effective tax rate: The moderating role of board gender diversity. *Journal of Islamic Accounting and Business Research, 15*(1), 153–171. https://doi.org/10.1108/JIABR-05-2022-0122

Alya, B. N., & Husnaini, W. (2024). The role of profitability as mediation between the relationship of institutional ownership and tax avoidance. *Asian Journal of Management, Entrepreneurship and Social Science, 4*(1), 1231–1259. https://mail.ajmesc.com/index.php/ajmesc/article/view/664

Amanah, L., Setyawardani, L., & Dewi, M. A. (2022). Agency conflict of free cash flow on executive compensation and the role of institutional ownership. In *Proceeding 2nd International Conference on Business & Social Sciences (ICOBUSS)* (pp. 1142–1156). https://repository.stiesia.ac.id/id/eprint/6133/1/ICOBUSS%20Mega.pdf

Amri, K., Ben Mrad Douagi, F. W., & Guedrib, M. (2023). The impact of internal and external corporate governance mechanisms on tax aggressiveness: Evidence from Tunisia. *Journal of Accounting in Emerging Economies, 13*(1), 43–68. https://doi.org/10.1108/JAEE-01-2021-0019

Aulia, N. A., & Ernandi, H. (2022). Pengaruh ukuran perusahaan, profitabilitas dan intensitas modal terhadap effective tax rate (ETR) [Effect of firm size, profitability and capital intensity on effective tax rate (ETR)]. *Indonesian Journal of Law and Economics Review, 16.* https://doi.org/10.21070/ijler.v15i0.791

Bachas, P., Brockmeye, A., Dom, R., & Semelet, C. (2022, February 2). *Effective tax rates and firm size: The case of Ethiopia*. The Institute for Fiscal Studies (IFS). https://doi.org/10.1920/re.ifs.2024.0445
Bashiru, M., Ba'ba, S., & Bukar, M. (2020). The impact of corporate governance attributes on tax planning of listed Nigerian conglomerate companies. *International Journal of Academic Research in Business Social Sciences, 10*(5), 229–238. https://doi.org/10.6007/IJARBSS/v10-i5/7190
Baysinger, B. D., & Butler, H. N. (2019). Corporate governance and the board of directors: Performance effects of changes in board composition. In R. I. Tricker (Ed.), *Corporate governance* (pp. 215–238). Gower.
Cerkovskis, E., Gajdosikova, D., & Ciurlau, C. F. (2022). Capital structure theories: Review of Literature. *Ekonomicko-Manazerske Spektrum, 16*(1), 12–24. https://ems.uniza.sk/wp-content/uploads/EMS_1_2022_02_Cerkovskis_Gajdosikova_Ciurlau.pdf
Cevik, S., & Correa-Caro, C. (2020). Growing (un) equal: Fiscal policy and income inequality in China and BRIC+. *Journal of the Asia Pacific Economy, 25*(4), 634–653. https://doi.org/10.1080/13547860.2019.1699985
Dailimi, L. F., & Setyowati, M. S. (2020). Analysis of factors affecting effective tax rates of companies listed on the Indonesia Stock Exchange 2009–2018. *Jurnal Administrasi Publik (Public Administration Journal), 10*(1), 53–62. https://doi.org/10.31289/jap.v10i1.3196
Dakhli, A. (2022). The impact of ownership structure on corporate tax avoidance with corporate social responsibility as mediating variable. *Journal of Financial Crime, 29*(3), 836–852. https://doi.org/10.1108/JFC-07-2021-0152
Darsani, P. A., & Sukartha, I. M. (2021). The effect of institutional ownership, profitability, leverage and capital intensity ratio on tax avoidance. *American Journal of Humanities and Social Sciences Research (AJHSSR), 5*(1), 13–22. https://www.ajhssr.com/wp-content/uploads/2021/01/C215011322.pdf
Dewi, N. G., & Alliyah, S. (2021). The impact of corporate governance on corporate tax avoidance in Indonesia. In M. Setiyo, Z. B. Pambuko, C. B. E. Praja, A. Setiawan, V. S. Dewi, F. Yuliastuti, N. Purborini, P. Jaroenwanit, & R. A. Syaputra (Eds.), *Proceedings of the 2nd Borobudur International Symposium on Humanities and Social Sciences*. EAI. https://doi.org/10.4108/eai.18-11-2020.2311597
Dharmayanti, N., Yetmi, Y. S., Atichasari, A. S., Ratnasari, A., & Fitriyani, F. (2024). Does institutional ownership moderating tax avoidance? An empirical analysis in Indonesian list company. *JAK (Jurnal Akuntansi) Kajian Ilmiah Akuntansi, 11*(1), 32–49. https://doi.org/10.30656/jak.v11i1.6044
Dianawati, D., & Agustina, L. (2020). The effect of profitability, liquidity, and leverage on tax agresiveness with corporate governance as moderating variable. *Accounting Analysis Journal, 9*(3), 166–172. https://journal.unnes.ac.id/sju/aaj/article/view/41626
Eichengreen, B. (2024). China's slowdown. *KDI Journal of Economic Policy, 46*(1), 1–19. https://doi.org/10.23895/kdijep.2024.46.1.1
Emerson, D. J., Yang, L., & Xu, R. (2020). Investors' responses to social conflict between CSR and corporate tax avoidance. *Journal of International Accounting Research, 19*(1), 57–72. https://doi.org/10.2308/jiar-18-050
Fan, Y., Yang, S., & Jia, P. (2022). Preferential tax policies: An invisible hand behind preparedness for public health emergencies. *International Journal of Health Policy and Management, 11*(5), 547–550. https://doi.org/10.34172/ijhpm.2020.139
Fang, H., Su, Y., & Lu, W. (2022). Tax incentive and corporate financial performance: Evidence from income tax revenue sharing reform in China. *Journal of Asian Economics, 81*, Article 101505. https://doi.org/10.1016/j.asieco.2022.101505
Febriani, S. A. D., & Suardikha, I. M. S. (2019). Pengaruh perputaran kas, kecukupan modal, dan risiko kredit pada profitabilitas LPD di Kabupaten Gianyar [The influence of cash turnover, capital adequacy, and credit risk on LPD profitability in Gianyar Regency]. *E-Jurnal Akuntansi, 29*(1), 308–324. https://doi.org/10.24843/EJA.2019.v29.i01.p20
Firmansyah, A., Fadlil, A., Wijaya, S., Irawan, F., Wibowo, P., & Mabrur, A. (2022). Value relevance of comprehensive income: Tax avoidance and derivative instruments. *Corporate and Business Strategy Review, 3*(1), 85–95. https://doi.org/10.22495/cbsrv3i1art8
Gardner, M., Ettlinger, M., Marasini, S., & Wamhoff, S. (2024). *Corporate taxes before and after the Trump tax law*. Institute on Taxation and Economic Policy (ITEP). https://sfo2.digitaloceanspaces.com/itep/ITEP-Corporate-Taxes-Before-and-After-the-Trump-Tax-Law-2024.pdf
Gita, I. A. M. A., Partika, I. D. M., & Suciwati, D. P. (2021). Effect Firm size, profitability and inventory intensity against effective tax rate (ETR). *Journal of Applied Sciences in Accounting, Finance, and Tax, 4*(1), 9–15. https://doi.org/10.31940/jasafint.v4i1.2410
Gunawan, B., & Resitarini, F. K. (2019). The influence of corporate governance mechanisms, profitability, leverage, and earnings management on tax aggressiveness (An empirical study on mining sector companies listed on the Indonesia Stock Exchange in 2014–2017). In *Proceedings of the 5th International Conference on Accounting and Finance (ICAF 2019)*. Atlantis Press. https://doi.org/10.2991/icaf-19.2019.3
Hakim, L., & Daljono, D. (2023). The role of firm size as a moderating variable on special relationship transactions, modal intensity, and profitability towards effective tax rate. *Kontigensi: Jurnal Ilmiah Manajemen, 11*(2), 449–457. https://doi.org/10.56457/jimk.v11i2.445
Hoseini, M., Safari Gerayli, M., & Valiyan, H. (2019). Demographic characteristics of the board of directors' structure and tax avoidance: Evidence from Tehran Stock Exchange. *International Journal of Social Economics, 46*(2), 199–212. https://doi.org/10.1108/IJSE-11-2017-0507
Hossain, M. S., Ali, M. S., Islam, M. Z., Ling, C. C., & Fung, C. Y. (2024). Nexus between profitability, firm size and leverage and tax avoidance: Evidence from an emerging economy. *Asian Review of Accounting*. Advance online publication. https://doi.org/10.1108/ARA-08-2023-0238
Huang, Z., Lv, L., & Yang, M. (2024). Governance of tax incentives: An effectiveness and differential analysis based on the Chinese context. *Finance Research Letters, 60*, Article 104856. https://doi.org/10.1016/j.frl.2023.104856
Indriyanti, A., & Dalimunthe, I. P. (2023). Profitability as a moderator of leverage and firm size on tax avoidance: Empirical study at Indonesia construction companies. *ECo-Fin, 5*(3), 278–288. https://doi.org/10.32877/ef.v5i3.983
International Monetary Fund (IMF). (2023). *World economic outlook: Navigating global divergence*. https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023

Iwanty, K. I., & Surjandari, D. A. (2022). The effect of sales growth, responsibility, and institutional ownership on tax avoidance with profitability as moderating variables. *Journal of Economics, Finance and Accounting Studies, 4*(1), 423–436. https://doi.org/10.32996/jefas.2022.4.1.26
Jiang, Y., Zheng, H., & Wang, R. (2021). The effect of institutional ownership on listed companies' tax avoidance strategies. *Applied Economics, 53*(8), 880–896. https://doi.org/10.1080/00036846.2020.1817308
Kalbuana, N., Taqi, M., Uzliawati, L., & Ramdhani, D. (2023). CEO narcissism, corporate governance, financial distress, and company size on corporate tax avoidance. *Cogent Business & Management, 10*(1), Article 2167550. https://doi.org/10.1080/23311975.2023.2167550
Keita, K., & Turcu, C. (2023). Promoting counter-cyclical fiscal policy: Fiscal rules versus institutions. *Comparative Economic Studies, 65*(4), 736–781. https://doi.org/10.1057/s41294-022-00197-0
Koch, R., Holtmann, S., & Giese, H. (2023). Losses never sleep — The effect of tax loss offset on stock market returns during economic crises. *Journal of Business Economics, 93*(1), 59–109. https://doi.org/10.1007/s11573-022-01134-4
Kusumastuti, S. A., Samrotun, Y. C., & Dewi, R. R. (2024). Determinants of tax aggressiveness in food and beverage subsector companies. *Journal of Economic, Business and Accounting (COSTING), 7*(3), 4377–4388. https://doi.org/10.31539/costing.v7i3.9083
Latifatul, L., Kristiana, I., & Hanum, A. N. (2023). The role of profitability in moderating political connections, corporate risk, leverage and firm size to tax avoidance. *Journal of Accounting Science, 7*(1), 33–46. https://doi.org/10.21070/jas.v7i1.1681
Lestari, P. N., & Wahyudi, D. (2022). Pengaruh karakteristik corporate governance terhadap effective tax rate (ETR) [The influence of corporate governance characteristics on the effective tax rate (ETR)]. *Kompak: Jurnal Ilmiah Komputerisasi Akuntansi, 15*(1), 216–230. https://doi.org/10.51903/kompak.v15i1.642
Li, C. (2024). Research on preferential tax policies for small and medium-sized enterprises. *SHS Web of Conferences, 181*, Article 02018. https://doi.org/10.1051/shsconf/202418102018
MacCarthy, J. (2021). Effect of earnings management and deferred tax on tax avoidance: Evidence using modified Jones model algorithm [Special issue]. *Corporate Ownership and Control, 19*(1), 272–287. https://doi.org/10.22495/cocv19i1siart5
Martiana, B. E., & Husnaini, W. (2024). The effect of managerial ownership on tax avoidance with firm size as a moderating variable. *International Journal of Business and Quality Research, 2*(01), 188–206. https://e-journal.citakonsultindo.or.id/index.php/IJBQR/article/view/786
Mascagni, G., & Mengistu, A. (2019). Effective tax rates and firm size in Ethiopia. *Development Policy Review, 37*(S2), O248–O273. https://doi.org/10.1111/dpr.12400
Mehmood, R., Hunjra, A. I., & Chani, M. I. (2019). The impact of corporate diversification and financial structure on firm performance: Evidence from South Asian countries. *Journal of Risk and Financial Management, 12*(1), Article 49. https://doi.org/10.3390/jrfm12010049
Michel, A. N. (2023, May 17). *Protecting American families from higher taxes*. Cato Institute. https://www.cato.org/testimony/protecting-american-families-higher-taxes
Nabilla, S. A., & Soehaditama, J. P. (2022). The effect of profitability, leverage and capital intensity on the effective tax rate on LQ45 companies on the Indonesia Stock Exchange (IDX) for the period 2016–2019. *Journal of Economics Management Entrepreneurship and Business (JEMEB), 2*(2), 162–174. https://www.researchgate.net/publication/366886140_THE_EFFECT_OF_PROFITABILITY_LEVERAGE_AND_CAPITAL_INTENSITY_ON_THE_EFFECTIVE_TAX_RATE_ON_LQ45_COMPANIES_ON_THE_INDONESIA_STOCK_EXCHANGE_IDX_FOR_THE_PERIOD_2016_-_2019
Namazian, A., Pourheidari, O., & Zeinali, H. (2021). Investigating the effect of effective tax rate and quality of corporate governance on tax evasion and tax corruption. *Accounting and Auditing Review, 28*(3), 507–532. https://doi.org/10.22059/acctgrev.2021.313990.1008470
Neog, Y., & Gaur, A. K. (2020). Tax structure and economic growth: A study of selected Indian states. *Journal of Economic Structures, 9*, Article 38. https://doi.org/10.1186/s40008-020-00215-3
Nerantzidis, M., Pazarskis, M., Drogalas, G., & Galanis, S. (2022). Internal auditing in the public sector: A systematic literature review and future research agenda. *Journal of Public Budgeting, Accounting & Financial Management, 34*(2), 189–209. https://doi.org/10.1108/JPBAFM-02-2020-0015
Novita, W., & Fahmy, R. (2022). Tax planning on the multinational companies in Indonesia. *Asean International Journal of Business, 1*(1), 1–9. https://doi.org/10.54099/aijb.v1i1.65
Nurkholisoh, D., & Hidayah, R. (2020). Analysis of the determinant of effective tax rate. *Accounting Analysis Journal, 8*(2), 88–94. https://journal.unnes.ac.id/sju/index.php/aaj/article/view/30098
Olanisebe, M., Abdullahi, S., & Dandago, K. (2023). Managerial ownership and tax avoidance of listed companies in Nigeria with profitability as mediating variable. *FUDMA Journal of Accounting and Finance Research [FUJAFR], 1*(1), 1–26. https://doi.org/10.33003/fujafr-2023.v1i1.2.1-26
Oliveira, G. P., Cruz, S., & Silva, V. (2022). Corporate effective tax rate: Brief literature review. *International Journal of Business Innovation, 1*(4), Article e30267. https://doi.org/10.34624/ijbi.v1i4.30267
Osebe, R. P. (2019). *Impact of corporate governance on effective corporate tax rates among listed firms in Kenya* [PhD thesis, University of Kabianga]. University of Kabianga. http://ir-library.kabianga.ac.ke/handle/123456789/105
Owena, M. F., Hajanirina, A., & Reyes, M. A. (2023). The impact of economic and social dimensions from CSR and firm size towards tax avoidance. *JAAF (Journal of Applied Accounting and Finance), 7*(1), 70–85. https://doi.org/10.33021/jaaf.v7i1.4208
Panda, A. K., & Nanda, S. (2020). Receptiveness of effective tax rate to firm characteristics: An empirical analysis on Indian listed firms. *Journal of Asia Business Studies, 15*(1), 198–214. https://doi.org/10.1108/JABS-11-2018-0304
Payamta, P., Sulistio, E. J. S., & Ardianingsih, A. (2024). The analysis of the characteristics of external auditor and audit committees: Tax avoidance. *Risk Governance & Control: Financial Markets & Institutions, 14*(2), 8–14. https://doi.org/10.22495/rgcv14i2p1
Pekovic, S., & Vogt, S. (2021). The fit between corporate social responsibility and corporate governance: The impact on a firm's financial performance. *Review of Managerial Science, 15*, 1095–1125. https://doi.org/10.1007/s11846-020-00389-x

Pertiwi, T. (2020). *Pengaruh kepemilikan manajerial, kepemilikan institusional, leverage dan firm size terhadap tax avoidance pada sektor pertambangan bara yang terdaftar dalam Bursa Efek Indonesia (BEI) periode tahun 2014–2018* [The effect of managerial ownership, institutional ownership, leverage and firm size on tax avoidance in the good mining sector listed in Indonesia Stock Exchange (IDX) for 2014-2018]. [Bachelor's thesis, Indonesian High School of Economic Sciences Jakarta]. STIE Indonesia Repository. http://repository.stei.ac.id/id/eprint/2583

Putri, S. N., Hariyanto, E., Kusbandiyah, A., & Pandansari, T. (2022). The effect of capital intensity, leverage, and institutional ownership on tax avoidance with profitability as a moderation variable. *SAR — Journal of Accounting and Business, 7*(2), 86–97. https://doi.org/10.32424/1.sar.2022.7.2.7339

Ramadhan, L., & Wadi, I. (2024). The effect of ESG, inventory intensity and managerial ownership on tax avoidance. *Educoretax, 4*(8), 955–968. https://doi.org/10.54957/educoretax.v4i8.1026

Ramadhanti, T. L., & Marlinah, A. (2023). Pengaruh corporate governance dan faktor lainnya terhadap tax avoidance. *E-Jurnal Akuntansi TSM, 3*(2), 437–450. https://doi.org/10.34208/ejatsm.v3i2.2116

Rani, S., Zuliyana, M., & Effendi, R. (2023). The effect of profitability and leverage on tax avoidance moderated by firm size: Evidence from property and real estate companies in Indonesia. *Finance, Accounting and Business Analysis (FABA), 5*(2), 147–158. https://faba.bg/index.php/faba/article/view/172

Ridwansyah, R., & Indayani. (2024). The effect of profitability, debt policy, political connections, economic crisis on tax aggressiveness. *International Journal of Economics (IJEC), 3*(1), 211–221. https://doi.org/10.55299/ijec.v3i1.718

Rostamy, A. A. A. (2024). Impacts of corporate governance, life cycle, and asset liquidity on the effective tax rate and tax gap: Empirical evidence from Iranian emerging stock market. *Research Square.* https://doi.org/10.21203/rs.3.rs-3874100/v1

Sahrir, S., Syamsuddin, S., & Sultan, S. (2021). Pengaruh koneksi politik, intensitas aset tetap, komisaris independen, profitabilitas dan leverage terhadap tax avoidance [The influence of political connections, fixed asset intensity, independent commissioners, profitability and leverage on tax avoidance]. *Jurnal Penelitian Ekonomi Akuntansi (JENSI), 5*(1), 14–30. https://doi.org/10.33059/jensi.v5i1.3517

Selinšek, A., Rocco, S., & Milfelner, B. (2021). Design orientation as a source of sustainable company performance. *International Journal of Sustainable Economy, 13*(1), 87–106. https://doi.org/10.1504/IJSE.2021.113310

Shaukat Malik, M., & Munir, S. (2024). The nexus of corporate tax avoidance and firm performance with moderating effect of ownership concentration and board independence: Evidence from developing economies. *Journal of Excellence in Management Sciences, 3*(1), 25–43. https://journals.smarcons.com/index.php/jems/article/view/204

Stamatopoulos, I., Hadjidema, S., & Eleftheriou, K. (2019). Explaining corporate effective tax rates: Evidence from Greece. *Economic Analysis and Policy, 62*, 236–254. https://doi.org/10.1016/j.eap.2019.03.004

Sujarwo, S., & Sjahputra, A. (2022). Pengaruh intellectual capital, inventory intensity dan managerial ownership terhadap effective tax rate (Studi empiris pada perusahaan sektor pertambangan yang terdaftar di Bursa Efek Indonesia tahun 2016–2020) [The influence of intellectual capital, inventory intensity and managerial ownership on the effective tax rate (Empirical study on mining sector companies listed on the Indonesia Stock Exchange in 2016–2020)]. *Scientific Journal of Reflection: Economic, Accounting, Management and Business, 5*(4), 1121–1131. https://doi.org/10.37481/sjr.v5i4.588

Sumantri, F. A., Kusnawan, A., & Anggraeni, R. D. (2022). The effect of capital intensity, sales growth, leverage on tax avoidance and profitability as moderators. *Primanomics: Jurnal Ekonomi & Bisnis, 20*(1), 36–53. https://doi.org/10.31253/pe.v20i1.861

Sun, Y. (2022). Tax incentives, tax enforcement, and enterprise R&D investment: Evidence from Chinese a-share listed. *Frontiers in Psychology, 13*, Article 953313. https://doi.org/10.3389/fpsyg.2022.953313

Syamsuddin, M., & Suryarini, T. (2020). Analisis pengaruh intensitas modal, intensitas persediaan, komisaris independen dan kepemilikan manajerial terhadap ETR [Analysis of the influence of capital intensity, inventory intensity, independent commissioners and managerial ownership on ETR]. *Jurnal Penelitian Ekonomi dan Bisnis, 5*(1), 52–65. https://doi.org/10.33633/jpeb.v5i1.2707

Tanko, U. M. (2020). The moderating effect of profitability on the relationship between ownership structure and corporate tax avoidance in Nigeria listed consumers goods firms. *Journal of Economics & Management Research, 1*(1), 1–16. https://www.researchgate.net/publication/352882271_The_Moderating_Effect_of_Profitability_on_the_Relationship_Between_Ownership_Structure_and_Corporate_Tax_Avoidance_in_Nigeria_Listed_Consumers_Goods_Firms

Tanko, U. M., Waziri, S. L., & Yusuf, A. (2022). Firm attributes and tax avoidance of Nigerian oil and gas firms: Moderating role of managerial ownership. *Journal of Accounting Research, Organization and Economics, 5*(1), 44–57. https://doi.org/10.24815/jaroe.v5i1.22813

Tennant, S. N., & Tracey, M. R. (2019). Corporate profitability and effective tax rate: The enforcement effect of large taxpayer units. *Accounting and Business Research, 49*(3), 342–361. https://doi.org/10.1080/00014788.2018.1512398

Tijjani, B., & Peter, Z. (2020). Ownership structure and tax planning of listed firms: Evidence from Nigeria. *Journal of Accounting and Taxation, 12*(3), 99–107. https://doi.org/10.5897/JAT2020.0412

Wang, Y., & Schoenfeld, D. (2020). An in-depth analysis of complex industry's effective tax rates. *International Management Review, 16*(1), 42–54. http://americanscholarspress.us/journals/IMR/pdf/IMR-1-2020/IMR-v16n1art4.pdf

Wangare, D. N. (2024). Tax administration and financial performance of manufacturing firms in Kenya: A literature review. *African Journal of Commercial Studies, 4*(4), 270–277. https://doi.org/10.59413/ajocs/v4.i4.2

Wdati, S., Asiah, N., Kamela, H., & Hidayat, T. A. (2024). Effective tax rates: Firm size, leverage and return on assets. *International Journal of Asian Business and Management, 3*(2), 131–148. https://doi.org/10.55927/ijabm.v3i2.7664

Widuri, R., Wijaya, W., Effendi, J., & Cikita, E. (2019). The effect of good corporate governance on tax avoidance of listed companies in Indonesian Stock Exchange in 2015–2017. *Economics and Business Quarterly Reviews, 2*(1), 120–126. https://doi.org/10.31014/aior.1992.02.01.72

Wulandari, F. F., & Ardhani, L. (2023). The influence of political connections and capital intensity ratio on effective tax rate: Moderated by profitability. *Jurnal Akuntansi, 13*(2), 150–162. https://doi.org/10.33369/jakuntansi.13.2.150-162

Yanti, L. D., & Hartono, L. (2019). Effect of leverage, profitability and company size on tax aggressiveness (Empirical study: Subsector manufacturing companies food, beverage, cosmetics and household purposes manufacturing listed on the Indonesia Stock Exchange for 2014–2017). *ECo-Fin, 1*(1), 1–11. https://doi.org/10.32877/ef.v1i1.52

Zhang, X., Husnain, M., Yang, H., Ullah, S., Abbas, J., & Zhang, R. (2022). Corporate business strategy and tax avoidance culture: Moderating role of gender diversity in an emerging economy. *Frontiers in Psychology, 13*, Article 827553. https://doi.org/10.3389/fpsyg.2022.827553

APPENDIX

Table A.1. Effective corporate tax rates for 296 corporations, by industry, pre- and post-Trump

Industry	***Four-year totals 2013–2016 ETR***	***Four-year totals 2018–2021 ETR***	***Effective rate point change***
Electronics, electrical equipment	31.00%	9.30%	–21.6%
Information technology services	27.80%	12.00%	–15.8%
Network and other communications equipment	28.10%	12.40%	–15.7%
Health care	35.00%	19.50%	–15.5%
Industrial machinery	27.80%	12.40%	–15.4%
Retail and wholesale trade	31.10%	16.00%	–15.1%
Semiconductors and other electronic components	26.70%	12.10%	–14.6%
Miscellaneous services	24.60%	11.10%	–13.5%
Engineering and construction	27.70%	15.10%	–12.6%
Medical products and equipment	24.10%	11.50%	–12.6%
Food, beverages and tobacco	26.80%	14.50%	–12.3%
Financial data services	29.20%	17.00%	–12.1%
Aerospace and defense	25.00%	14.00%	–11.0%
Telecommunications	18.10%	7.30%	–10.8%
Internet services and retailing	27.70%	17.80%	–9.9%
Computer software	24.30%	15.20%	–9.1%
Miscellaneous manufacturing	22.80%	13.90%	–8.9%
Transportation	23.80%	15.30%	–8.5%
Chemicals	18.70%	11.70%	–6.9%
Pharmaceuticals	28.50%	21.70%	–6.8%
Household and personal products	21.50%	15.70%	–5.8%
Financial	17.70%	12.50%	–5.2%
Utilities, gas and electric	2.50%	–0.8%	–3.3%
Motor vehicles and parts	4.00%	1.60%	–2.4%
Metals and metal products	18.80%	16.70%	–2.2%
Oil, gas and pipelines	–0.0%	–0.6%	–0.6%
All industries	22.00%	12.80%	–9.2%