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CAPITAL STRUCTURE, TAX AVOIDANCE, PROFITABILITY AND FIRM VALUE IN MALAYSIA AND INDONESIA

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Abstract

The research aims to analyze the impact of capital structure and profitability on firm value, with tax avoidance serving as a mediating variable. The study was conducted on all non-financial companies in Malaysia and Indonesia from 2020 to 2023. The sample was selected using purposive sampling, and secondary data were drawn from financial statements. The research population includes companies listed in Malaysia and Indonesia during the specified period. The findings indicate that capital structure has a negative and significant effect on firm value, while profitability has a positive and significant effect. Additionally, capital structure positively influences tax avoidance, whereas profitability negatively impacts tax avoidance. Tax avoidance does not mediate the relationship between capital structure and firm value or between profitability and firm value. However, tax avoidance has a negative and significant effect on firm value in non-financial companies across both countries during the 2020-2023 period.

Keywords: Capital Structure, Tax Avoidance, Profitability, Firm Value

INTRODUCTION

Corporate financial management is an important aspect in achieving corporate goals, including increasing firm value. Two main factors that significantly affect firm value are capital structure and profitability. Capital structure refers to the composition of capital used by the company to fund its operations, while profitability reflects the company's ability to generate profits from its operational activities. Tax avoidance is an action taken by someone to avoid taxes but in a legal way (Fiandrino, Busso, Vrontis, 2019). Companies often use tax avoidance strategies to reduce their tax burden and increase their profitability. However, the impact of tax avoidance on firm value is not always clear, as tax avoidance may affect other factors such as capital structure and profitability.

In the context of Malaysian and Indonesian financial markets, where tax regulations and corporate structures differ, understanding how capital structure, profitability, and tax avoidance interact to influence firm value is crucial. Consequently, studying the relationship between these variables in Malaysia and Indonesia is both relevant and essential.

Previous studies have investigated the factors that influence firm value in various business contexts. Research conducted by Smith and Jones (2018) explored the relationship between capital structure and firm value in the United States financial market. Their findings show that firms with more conservative capital structure tend to have higher firm value. On the other hand, research conducted by Lee et al. (2017) highlighted the importance of profitability in determining firm value in the South Korean manufacturing sector. The results of their analysis show that companies with higher levels of profitability tend to have higher firm value. Meanwhile, research by Wang and Chen (2019) expanded the view by exploring the role of tax avoidance in the relationship between capital structure, profitability, and firm value in the Chinese financial market. Their results suggest that tax avoidance plays an important role as a mediator in the relationship. Although these studies provide valuable insights, there is still a need to better understand how these factors interact in different business contexts, especially in the Malaysian and Indonesian financial markets. Based on the background that has been described, the purpose of this study is to examine the effect of capital structure on firm value either directly or through the mediation of tax avoidance, as well as the effect of profitability on firm value either directly or through the mediation of tax avoidance.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

According to Agency Theory, there is a conflict of interest between owners (principals) and managers (agents) in a company. Managers tend to have an incentive to act in their own self-interest, which may not always be in line with the owner's goal of increasing firm value (Godfrey, 2010). In the context of capital structure and profitability mediated by tax avoidance, Agency theory provides an understanding of how managers may use tax avoidance strategies to maximize their own individual benefits. It is have a complex effect on a firm's capital structure and profitability, as well as overall firm value. Thus, understanding the agency dynamics related to the relationship between these variables is important to be studied in corporate financial analysis.

Previous research by Chen and Li (2020), found the relevant to the title of this study, as they explored the relationship between capital structure, tax avoidance, and firm value in the Taiwanese financial market. Their findings show that tax avoidance acts as a significant mediator in the relationship between capital structure and firm value.

In contrast, research conducted by Abdullah et al. (2018) in Pakistan's financial market shows that higher capital structure tends to be negatively associated with firm value, especially when accompanied by aggressive tax avoidance practices. This finding contradicts the common view that higher capital structure inherently increases firm value. Although this study offers a different perspective, the results suggest that the relationship between these variables may depend on the specific context of financial markets and economic conditions. Therefore, considering such counter research is important in enriching the understanding of the dynamics of the relationship between capital structure, tax avoidance and firm value.

Hypothesis Development

Capital structure is the proportion of capital obtained from debt and equity in the company's financial structure (Brealey et al., 2011). The capital structure in this study is measured by Debt Ratio (Kasmir, 2016). The company's capital structure has a positive influence on firm value, especially in the context of agency theory where management is considered an agent acting on behalf of shareholders. If management succeeds in choosing the optimal capital structure, which is in accordance with the needs of the company and the interests of shareholders, this can increase shareholder confidence in management and in turn increase firm value. This is supported by research conducted by Jensen and Meckling (1976) which stated that an optimal capital structure can generate the right incentives for management to act in accordance with the interests of shareholders. In addition, other empirical findings also show that the use of debt can increase firm value under certain conditions, when management has better information about the firm's prospects than external investors (Harris & Raviv, 1991), when in countries with weak investor rights protection (Rajan & Zingales, 1995), and when used efficiently to fund investments that generate positive cash flows (Frank & Goyal, 2009). Thus, based on agency theory and the above empirical findings, H1 is proposed as follows.

H1: Capital Structure has a positive effect on firm value

Return on Assets is used as a measure of profitability ratio. Return on Assets is the ratio between net income and total assets (Raiyan et al., 2020). This ratio shows how much net profit the company earns when measured by the value of its assets. The bigger the ratio, the better because the company is considered capable of using its assets effectively to generate profits (Kasmir, 2016).

Based on agency theory, there is a conflict of interest between shareholders as principals and management as agents. Management has an incentive to act in their own personal interests, which may conflict with the interests of shareholders to increase company value. One expert who agrees is Jensen and Meckling (1976) in their famous paper on agency theory. They stated that high profitability can minimize agency conflicts between management and shareholders, as management that is efficient in generating profits will be more likely to act in accordance with the interests of shareholders to increase firm value. Other empirical findings also show that high profitability has a significant positive relationship with firm value (Abdullah & Chen, 2019; Donaldson & Davis, 1991). Thus, based on the agency theory and empirical findings above, H2 is proposed.

H2: Profitability has a positive effect on firm value

One way to measure the value of company assets financed by debt is to use the Debt to Asset Ratio (DAR), the greater the Company's debt, the smaller the tax burden will be due to the increase in the element of business costs. The tax burden is a reduction in the costs borne by the company in paying taxes. Dinar et al. (2020) stated that this reduction is very meaningful for companies that have a high tax burden. Companies that have more liabilities (debt) have a more effective tax rate, so that companies in conducting tax avoidance are lower, this is in line with research conducted by Dewinta, & Setiawan (2016). Thus, based on the description above, H3 is proposed.

H3: Capital structure has a positive effect on tax avoidance

ROA is a ratio used to measure the net profit earned from using assets. The increasing ROA value of a company shows the company's ability to increase the profit earned by the company. Based on research conducted by Maharani and Ketut (2007) shows the company's ability to generate a profit in this case it can be interpreted that the company does not do tax avoidance because the company can manage its income and meet its tax burden. ROA is also used to see the comparison of net income after tax divided by the value of assets. This profit level does not directly affect the total assets owned because there are times when the profit is allocated to indirect financing such as depreciation of assets and provision for receivables. ROA is seen based on the company's net profit value and the imposition of income tax for corporate taxpayers. The increasing ROA value shows the higher the company's profit so that the better the management of the company's assets. ROA also shows the company's performance is improving in managing invested capital in generating a profit. Erna (2017) found that the amount of ROA value influences on tax avoidance. The level of company profitability value indicates the high value of company performance. The ROA value will be used in conducting tax planning in a period to produce the optimal amount of tax. The impact with ROA value means that it will reduce tax avoidance. Thus, based on the description above, H4 is proposed.

H4: Profitability has a positive effect on tax avoidance

Capital structure plays an important role in firm value. Company management that successfully determines the optimal proportion of capital with the right capital structure for the company can increase the trust of holders, it also has an impact on the value of the company based on agency theory. Research by Jensen and Meckling (1976) explains that the optimal capital structure can generate the right incentives for management to act by the interests of shareholders. In addition, other empirical findings also show that the use of debt can increase firm value under certain conditions, when management has better information about the firm's prospects than external investors (Harris & Raviv, 1991), when in countries with weak investor rights protection (Rajan &

Zingales, 1995), and when used efficiently to fund investments that generate positive cash flows (Frank & Goyal, 2009). On the other hand, Souisa (2022) explained that tax avoidance has a positive coefficient on firm value. The higher the tax avoidance activity carried out by the company, the higher the company value will be. This means that the greater the company's efforts to reduce its tax costs to obtain the maximum possible profit, the more investors will be interested in investing in companies that have large profits, which will have implications for increasing the value of the company's shares, which of course will increase the company's value. Thus, supported by research conducted by Souisa (2022), it is suspected that tax avoidance can affect the relationship or influence of the company's capital structure on firm value. Then H5 in the study is proposed.

H5: Tax avoidance mediated the effect of capital structure on firm value

Based on agency theory, companies that have high profitability can minimize conflicts within the company because management that is efficient in generating profits will act more in accordance with the interests of shareholders which will then increase company value. Abdullah & Chen (2019; Donaldson & Davis (1991) found that high profitability has a significant positive relationship with firm value. On the other hand, Souisa (2022) explains that tax avoidance has a positive coefficient on firm value. The higher the tax avoidance activity carried out by the company, the higher the firm value will be. This means that the greater the company's efforts to reduce its tax costs to obtain the maximum possible profit, the more investors will be more interested in investing in companies that have large profits, which will have implications for increasing the value of the company's shares, which of course will increase the company's value. Thus, supported by research conducted by Souisa (2022), it is suspected that tax avoidance can affect the relationship or influence of profitability on firm value.

H6: Tax avoidance mediated the effect of profitability on firm value

Tax avoidance is one of the company's management efforts to reduce the company's tax burden. When the company is able to minimize tax expense, the smaller the burden incurred by the company. The smaller the corporate tax burden, the greater the profit earned by the company. Souisa (2022) explained that tax avoidance has a positive coefficient on firm value. The higher the tax avoidance activity carried out by the company, the higher the company value will be. This means that the greater the company's efforts to reduce its tax costs to obtain the maximum possible profit, where investors will be more interested in investing in companies that have large profits, which will have implications for increasing the value of the company's shares, which of course will increase the company's value.

H7: Tax avoidance has a positive effect on firm value

RESEARCH METHODS

The panel analysis with mediating variables is a statistical method used to understand how an independent variable (X) affects the dependent variable (Y) through an intermediate variable (M). If in ordinary panel analysis we have to compare 3 models to choose the best one, in panel analysis with mediating variables, we directly use the common effect model/pooled (without comparing with fixed or random). The model used is a non-parametric model, so there is no need to test classical assumptions.

The population of this study consists of non-financial companies listed on the Indonesia and Malaysia Stock Exchanges, taken from the Reuters database. The sampling method uses purposive sampling by taking samples based on certain criteria. The estimation used is pooled least square and the data is processed using the Stata application. The research sample obtained 159 non-financial companies listed in Indonesia and 271 non-financial companies listed in Malaysia. The proxies used are as follows.

Table 1. Research Design

Variable	Measurement	Formula
Dependent Variable		
Firm Value	TOBIN'S Q Modification (Coff, 1999)	$Tobin's\ Q_M = \frac{(Stock\ price\ x\ Outstanding\ shares) + Debt)}{Assets}$
Independent Variable		
Capital Structure	DR (Kasmir, 2016)	$Debt\ Ratio\ (DR) = \frac{Total\ Debt}{Total\ Asset} x\ 100\%$
Profitability	ROA (Martiana et al., 2022)	$Return\ on\ Asset\ (ROA) = \frac{Net\ Income}{Total\ Asset} x\ 100\%$
Mediating Variable		
Tax Avoidance	ETR (Apsari & Setiawan, 2018)	$ETR = \frac{Total\ Tax\ Expense}{Pre\ Tax\ Income}$

RESULTS AND DISCUSSION

Table 2 shows the results of the descriptive analysis explaining the general data description of the variables used in this study. Based on Table 2, it is known that the capital structure variable (debt ratio) has an average value of 20.00068, standard deviation of 16.05536, minimum 0, and maximum 71.86284. The profitability variable (ROA) has an average value of 6.515277, standard deviation of 5.995469, Min (minimum): -1.96771, and maximum of 59.25829. The tax avoidance variable (ETR) has an average value of 0.2948347, standard deviation of 1.322059, minimum value of -1.87528, and maximum value of 41.45949. The firm value variable has an average value of 2.331236, a standard deviation of 9.698247, a minimum of 0.0437808, and a maximum of 229.4231.

Table 2. Descriptive Statistic

Variable	Obs	Mean	Std. dev.	Min	Max
DebtRatio	1,724	20.00068	16.05536	0	71.86284
ROA	1,724	6.515277	5.995469	-1.96771	59.25829
ETR	1,724	.2948347	1.322059	-1.87528	41.45949
Tobin	1,724	2.331236	9.698247	.0437808	229.4231

The results of data processing to see the relationship between the debt ratio variable and firm value both directly and indirectly through the mediating variable of Tax Avoidance, are presented as follow.

Intermediate Output

Effect of the treatment on the outcome
IV regression of Tobin on DebtRatio (instrumented with ROA)

Tobin	Coefficient	Std. err.	z	P>|z|	[95% conf.	interval]
DebtRatio	-.1958543	.0444188	-4.41	0.000	-.2829134	-.1087951

Effect of the treatment on the mediator
IV regression of ETR on DebtRatio (instrumented with ROA)

ETR	Coefficient	Std. err.	z	P>|z|	[95% conf.	interval]
DebtRatio	.0200728	.0060346	3.33	0.001	.0082452	.0319004

Effect of the mediator on the outcome, controlling for the treatment
IV regression of Tobin on ETR (instrumented with ROA) controlling for DebtRatio

Tobin	Coefficient	Std. err.	z	P>|z|	[95% conf.	interval]
DebtRatio	-.0228869	.0278438	-0.82	0.411	-.0774597	.0316859
ETR	-8.616988	3.959323	-2.18	0.030	-16.37712	-.8568577

Note: All other exogenous controls are partialled out.

Linear IV Mediation Analysis

Outcome: Tobin Number of obs = 1724
Treatment: DebtRatio
Mediator: ETR

Tobin	Coefficient	Std. err.	z	P>|z|	[95% conf.	interval]
total effect	-.1958543	.0444188	-4.41	0.000	-.2829134	-.1087951
direct effect	-.0228869	.0278438	-0.82	0.411	-.0774597	.0316859
indirect effect	-.1729673	.094975	-1.82	0.069	-.3591149	.0131803

Mediator ETR explains 88.31% of the total effect.
F-statistic for excluded instruments in
- first stage one (T on Z): 216.565
- first stage two (M on Z|T): 8.072
Excluded instruments: ROA

Based on the result of data processing, the relationship of capital structure variable to firm value either directly or indirectly through mediation variable of tax avoidance in Table 3. It is known that the capital structure variable has a coefficient value of -0.1958541 and a p-value of 0.00 <0.05 which means that the capital structure variable negatively affects firm value, and is statistically significant. The capital structure variable has a coefficient value of 0.200728 with a p-value of 0.001 <0.05, which means that the capital structure variable has a positive effect on tax avoidance, and is statistically significant. The tax avoidance variable has a value of -8.616988 with a p-value of 0.030 <0.05, which means that the tax avoidance variable has a negative effect on firm value, and is statistically significant. The coefficient indirect effect value is -0.1729673 with a p-value of 0.069> from 0.05 so it can be interpreted that the capital structure variable has no effect on firm value if it is through the tax avoidance variable, in other words, the tax avoidance variable does not moderate the effect of the capital structure variable on firm value. In addition, it is also known that the total effect value of -0.1958541 indicates that every 1% increase in capital structure will decrease 0.1958541 points of Firm Value.

The following is presented as the result of data processing to see the relationship of the profitability variable to firm value either directly or indirectly through the mediating variable of tax avoidance, which is as follows.

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. ivmediate Tobin, mediator(ETR) treatment (ROA) instrument (DebtRatio) full
Intermediate Output

Effect of the treatment on the outcome
IV regression of Tobin on ROA (instrumented with DebtRatio)
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Tobin	Coefficient	Std. err.	z	P>|z|	[95% conf.	interval]
ROA	.4753539	.1178728	4.03	0.000	.2443274	.7063804

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Effect of the treatment on the mediator
IV regression of ETR on ROA (instrumented with DebtRatio)
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ETR	Coefficient	Std. err.	z	P>|z|	[95% conf.	interval]
ROA	-.0338846	.015878	-2.13	0.033	-.0650048	-.0027643

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Effect of the mediator on the outcome, controlling for the treatment
IV regression of Tobin on ETR (instrumented with DebtRatio) controlling for ROA
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Tobin	Coefficient	Std. err.	z	P>|z|	[95% conf.	interval]
ROA	-.1633583	.356042	-0.46	0.646	-.8611878	.5344712
ETR	-18.84965	18.90589	-1.00	0.319	-55.90451	18.20521

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Note: All other exogenous controls are partialled out.

Linear IV Mediation Analysis

Outcome:   Tobin                                          Number of obs = 1724
Treatment: ROA
Mediator:  ETR
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Tobin	Coefficient	Std. err.	z	P>|z|	[95% conf.	interval]
total effect	.4753539	.1178728	4.03	0.000	.2443274	.7063804
direct effect	-.1633583	.356042	-0.46	0.646	-.8611878	.5344712
indirect effect	.6387122	.7070843	0.90	0.366	-.7471475	2.024572

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Mediator ETR explains 134.37% of the total effect.
F-statistic for excluded instruments in
- first stage one (T on Z):   216.565
- first stage two (M on Z|T):  1.136
Excluded instruments: DebtRatio
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Based on the results of data processing the relationship between profitability variables to firm value both directly and indirectly through the mediating variable of tax avoidance in table 3, it is known that the profitability variable has a coefficient value of 0.4753539 with a p-value of 0.000, which means that the profitability variable has a positive effect on firm value, and is statistically significant. The profitability variable has a coefficient value of -0.0338846 with a p-value of 0.033, which means that the profitability variable has a negative effect on tax avoidance, and is statistically significant. The tax avoidance variable has a coefficient value of -18.84965 with a p-value of 0.319, which means that the tax avoidance variable has no effect on firm value. The profitability variable has a coefficient value of -0.1633583 with a p-value of 0.646 and the tax avoidance variable has a coefficient value of -18.84965 with a p-value of 0.319, which means that the profitability variable has no effect on Tobin if through the tax avoidance variable, in other words the tax avoidance variable does not moderate the effect of the profitability variable on firm value. It is also known that the total effect value shows that every 1% increase in profitability will increase 0.44753539 points of firm value.

Discussion

The result of the first analysis in this research shows that capital structure negatively influences and is statistically significant on firm value. A company with an optimal capital structure is not able to increase the value of the company. It can be interpreted that the lower the capital structure or debt of the company, the higher the stock market value because it is considered low risk. In accordance with the trade-off theory where the theory suggests that the use of debt will increase the value of the company at a certain point. When this point is exceeded, the use of debt can actually have an impact on decreasing the value of the company. This is because the use of large debt will be in line with the risks faced by the company or large debt can increase company risks such as bankruptcy. The research is different from the theory put forward by Modigliani and Miller (1958) that the amount of corporate debt will not affect stock prices and firm value.

The results of this study are in line with research conducted by auddin et al. (2023) and Widyantari and Yadnya (2016) which state that capital structure has a negative and significant effect on firm value. Different from the results of this study and the results of research by Safaruddin et al. (2023) and Widyantari and Yadnya (2016), research conducted by Krisnando and Novitasari (2021) stated that capital structure has a positive and significant effect on firm value. This study shows that investors in Malaysia and Indonesia positively appreciate companies that have low levels of debt. The lower the company's debt, the more interested investors are.

This study indicate that profitability has a positive and statistically significant effect on firm value. Companies with high profitability will increase the value of the company. This can be interpreted that companies with high profitability have good performance and can generate profits for investors and stakeholders. The company can also be said to have good business prospects so that the market reacts positively and investors' interest in investing in the company signals that the company has good value.

The results of this study are following agency theory proposed by Jensen and Meckling (1976) which stated that high profitability can minimize agency conflicts between management and shareholders, because management that is efficient in generating profits will be more likely to act by the interests of shareholders to increase firm value. Other empirical findings also show that high profitability has a significant positive relationship with firm value (Abdullah & Chen, 2019; Donaldson & Davis, 1991).

Capital structure has a positive and statistically significant effect on tax avoidance. Companies that have an optimal capital structure can improve the company's strategy in corporate tax avoidance. The greater the company's debt, the smaller the company's tax burden will be because of the increased cost elements that must be incurred by the company. The tax burden is a reduction in the costs borne by the company in paying taxes. Dinar et al. (2020) stated that this reduction is very meaningful for companies that have a high tax burden. Companies that have more obligations (debt) have a more effective tax rate, so that the company in conducting tax avoidance is lower, this is in line with research conducted by Dewinta & Setiawan (2016), and Fithria & Maya (2023).

Profitability has a positive and significant effect on tax avoidance. Companies that have high profitability tend to increase tax avoidance strategies to maintain company profits. This is in accordance with agency theory which states that agents who behave as agents in the company will try to manage their tax burden as well as possible so as not to reduce their performance compensation in the company.

The results of this study are in line with research conducted by Prasetya & Muid (2022) and Aminah (2017) which shows that profitability has a positive and significant effect on tax avoidance. Aminah explained that companies that have high profitability are able to make the company work optimally in managing the tax burden. This is because agents who can manage the company's tax burden well can provide compensation for them and shareholders (principals).

Tax avoidance does not mediate the effect of capital structure on firm value. This condition indicates that the presence of tax avoidance as a mediating variable is not able to encourage the emergence of a significant relationship between capital structure and firm value. This means that there is no role of tax avoidance between the company's capital structure and firm value. Tax avoidance does not play a role is because the capital structure tends to be high as shown by the average value of 0.2948347 (29.5%). One way to measure the effectiveness of tax avoidance is by dividing tax costs by profit before tax. The higher the percentage of ETR which is close to the corporate income tax rate of 25%, it means that the lower the level of avoidance carried out by the company, conversely the lower the percentage of ETR, the higher the level of tax avoidance carried out by the company. In other words, based on the average ETR value of 29.5% which is higher than the corporate income tax rate, it means that the average company in this research sample has a low level of tax avoidance or the company must carry out a capital strategy so that the company can reduce the tax burden as effectively as possible.

The results of this study are not in line with research conducted by Souisa (2022) which shows that tax avoidance has a positive coefficient on firm value. The higher the tax avoidance activity carried out by the company, the higher the company value will be. This means that the greater the company's efforts to reduce its tax costs to obtain the maximum possible profit, where investors will be more interested in investing in companies that have large profits, which will have implications for increasing the value of the company's shares, which of course will also increase the company's value.

Tax avoidance does not mediate the effect of profitability on firm value. This condition indicates that the presence of tax avoidance as a mediating variable is unable to encourage the emergence of a significant relationship between profitability and firm value or in other words tax avoidance has a role between profitability and firm value. Based on agency theory, companies that have high profitability can minimize conflicts within the company because management that is efficient in generating profits will act more in accordance with the interests of shareholders which will then increase firm value. The results of this study are not in line with research conducted by (Abdullah & Chen, 2019; Donaldson & Davis, 1991) which shows that high profitability has a significant positive relationship with firm value. On the other hand, Souisa (2022) explains that tax avoidance has a positive coefficient on firm value. The higher the tax avoidance activity carried out by the company, the higher the firm value will be. This means that the greater the company's efforts to reduce its tax costs to obtain the maximum possible profit, where investors will be more interested in investing in companies that have large profits, which will have implications for increasing the value of the company's shares, which of course will increase the company's value.

This study indicates that tax avoidance has a negative and statistically significant effect on firm value. Companies that can do tax avoidance can be said to be able to minimize tax expenses so that the company's burden decreases. The negative results shows that the company's value will decrease if there is a difference between company profit and fiscal profit. This is because when the company value decreases, it means that it is related to the avoidance strategy carried out by the company. The results of this study are in line with research conducted by Chen et.al (2014) that tax avoidance will affect firm value, especially in companies that have low information transparency. Based on agency theory, excess cash obtained from tax avoidance can be an opportunity for company management to make greater expenditures using company cash and take personal benefits that can reduce future cash flows thereby reducing company value.

CONCLUSION

This study examines capital structure, tax avoidance, profitability and firm value in Malaysia and Indonesia. The results showed that capital structure has a negative effect on firm value, meaning that the optimal capital structure of the company is not able to increase the value of the company. Profitability affects the value of the company, meaning that the profitability of the company is able to increase the value of the company. The company's capital structure has a positive effect on corporate tax avoidance, meaning that the company's capital structure is able to increase the company's ability to practice tax avoidance. Profitability has a negative effect on tax avoidance, meaning that corporate profitability is unable to increase corporate tax avoidance. Tax avoidance cannot mediate the influence between the company's capital structure and firm value, so tax avoidance does not have a role between the company's capital structure and firm value. Tax avoidance has a negative effect on firm value, meaning that tax avoidance cannot increase firm value.

When a company has lower debt levels, investors perceive it as low risk, which can boost stock market interest and enhance firm value. Higher profitability directly increases firm value. A company's capital structure can enhance its capacity for tax avoidance, while profitability does not contribute to increased tax avoidance. Furthermore, tax avoidance does not mediate the relationship between capital structure or profitability and firm value. Finally, tax avoidance does not contribute to an increase in firm value.

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