



The impact of tax avoidance and good corporate governance strategies on financial company debt costs

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Article Info	ABSTRACT
Article history: Received Feb 24, 2025 Revised Mar 13, 2025 Accepted May 25, 2025 Keywords: Cost of Debt; Good Corporate Governance; Tax Avoidance.	This study aims to test and analyze the effect of tax avoidance and good corporate governance on the cost of debt in companies in the sub sector of financial holding companies, investment companies and banks listed on the bei during the period 2018-2023. This research uses a quantitative approach with the panel data regression method. The samples used are financial sector companies with sub-sectors of Financial Holding Companies, Investment Companies, and Investment Banks & Trading Intermediaries listed on the Indonesia Stock Exchange in the 2018-2023 period. Research using panel data with panel regression models and data processing software using Eviews. The results of the study are expected to provide an understanding of the effect of tax avoidance and good corporate governance on the cost of debt, as well as the implications for companies and regulators in the financial sector. This research has several limitations, among others: The research was only conducted on financial sector companies in the sub-sectors of Financial Holding Companies, Investment Companies, and Investment Banks & Trading Intermediaries listed on the Indonesia Stock Exchange between 2018-2023. The research focus is limited to tax avoidance and good corporate governance on the cost of debt. Data sources are limited to audited company financial statements. This limitation needs to be considered in interpreting the research results, and can be the basis for further research with a broader scope. <i>This is an open access article under the CC BY-NC license.</i>



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1. INTRODUCTION

Companies have several alternatives in funding, one of which is by using debt. Debt is one way to obtain funds from external parties, namely creditors. Funds provided by creditors in terms of funding the company incur debt costs for the company, where the cost of debt is the interest rate received by creditors as the required rate of return. Juniarti and Sentosa (2009) said that in the condition of a company with a high cost of debt, the company tries to cover up the actual condition of the company so that there is no decrease in stock prices. On the other hand, investors require adequate disclosure to ensure that their investment has a ratio in accordance with what is expected. The demands of these investors encourage companies to disclose financial reports more widely.

The information disclosed by the company voluntarily can be seen from the level of risk owned by the company (Yunita, 2012). Companies that have high risks tend to have high debt costs as well so that a line of conclusion can be drawn that the voluntary disclosure made by the company

has an influence on the level of debt provided by creditors which ultimately raises the cost of debt for the company. Financial statements are one source of information about the condition and performance of a company, this information includes financial position, changes in financial position, and financial position (Fitriyani, n.d, 2021). Financial reports are important for use in companies, especially from outside the company such as investors, creditors, and interest owners.

The company must have good performance so that it can maintain the company against its competitors. Companies that have good performance will be more trusted by investors. In this case, the performance in question is the financial performance of the company. Debt is an obligation that comes from external parties owned by the company. According to KMK No. 1002 / KMK.04.1984 debt is the result of the calculation of the average balance derived from long-term and short-term debt at the end of each month and this does not include trade payables. Based on research conducted. Ross (2016) states that the company's funding structure is a mixture of long-term debt and equity to fund the company's operational activities. The cost of debt arises because of the funds from creditors in the form of loans (Dwiyanti, 2020).

This study examines financial sector companies with sub-sectors of Financial Holding Companies, Investment Companies and Investment Banks & Trade Intermediaries listed on the Indonesia Stock Exchange. According to the Financial Services Authority (OJK), debt cost growth as of May 2023 increased by 9.39% on an annual basis to IDR 6,577 trillion in the financial sector. Member of the OJK Board of Commissioners and Chief Executive of Banking Supervisory Dian Edina Rae said that credit growth in May 2023 was supported by national private commercial banks which grew 15.2% yoy. Then from the risk profile, the gross non-performing loan (NPL) ratio fell to 2.52% and net NPL 0.77%. Meanwhile, citing Bank Indonesia data, based on debtors, corporate loans increased by 9.0% yoy and individual loans by 9.7% yoy. These two groups of debtors grew better compared to the previous month (<https://www.cnbcindonesia.com/>).

There are various factors that affect the cost of debt, including tax avoidance, governance, and company characteristics (Good Corporate Governance). The first factor is tax avoidance. According to Aziza (2016:4), tax avoidance is a way to reduce taxes legally in accordance with tax laws. The practice of tax avoidance is carried out by taking advantage of the weaknesses of tax law and does not violate tax regulations. Research by Marsi and Martani (2012:17) tax avoidance has been proven to cause the cost of debt to be large because creditors view tax avoidance behavior as an action that contains risks, namely the risk of fines and criminal sanctions to the loss of reputation that can harm the company in its business survival. If the company is riskier then the creditor will receive a greater return to cover the risk so that the cost of debt will be higher. According to research by Rahmawati (2015:24), companies that have high profits will result in a high tax burden. Companies are reluctant to pay high taxes so companies avoid taxes by taking advantage of interest costs by increasing their debts. The more companies try to avoid taxes, the higher the interest costs incurred will increase, which will increase the cost of debt (Wardani & Rumahorbo, 2018).

The second factor is Good Corporate Governance. The term Good Corporate Governance is one of the terms that is familiar to hear, according to the Forum for Governance in Indonesia (FCGI, 2001) states that corporate governance is a set of regulations that regulate the relationship between shareholders, company administrators (managers), creditors, government, employees and other internal and external stakeholders related to their rights and obligations. or in other words a system that regulates and controls the company. Corporate governance is a set of rules used to regulate the relationship between shareholders (principal) and management (agent) to achieve the desired company goals in order to achieve mutual prosperity. Good corporate governance has several elements, such as share ownership structure, frequency of audit committee meetings, audit quality, and independent commissioners. Institutional ownership is a form of ownership structure that can be chosen by a company. Institutional ownership has the ability to monitor management so that it can reduce management opportunistic attitudes. Large institutional ownership will increase supervision over management so that management will strive to work better in carrying out company management. In addition, through institutional ownership, this will also reduce the use of

debt by management so that it will reduce the cost of debt charged to the company (Wardani & Rumahorbo, 2018).

In the previous research on the effect of tax avoidance on debt costs, many studies have been carried out whose results are different (research gap). Previous research from (Kinait & Ayem, 2021) and (Journal & Studies, 2016) stated that tax avoidance has a positive effect on the cost of debt. And in research (Dwiyantri, 2020; Sherly et al., 2016) stated that tax avoidance has a negative effect on debt costs. While research (Deswinta, 2023; Purwanti, 2016; Wardani & Rumahorbo, 2018) stated that tax avoidance does not have a significant effect on the cost of debt. Previous research on the influence of good corporate governance on debt costs also has some differences. Previous research from (Ashkhab & Agustina, 2015; Fajri, 2022; Pernamasari, 2018) stated that Good corporate governance has a negative effect on debt costs. And according to research (Andriani & Syafitri, 2020; Samhudi, 2016; Yenibra, 2015) stated that good corporate governance with institutional ownership does not have a significant effect on debt costs.

Based on the description above regarding the difference in previous research on debt cost research, it can be concluded that there is still a difference in research results (research gap). With the existence of a research gap, it is necessary to reassess the effect of the results of variables that affect debt costs. Based on the existing phenomenon along with previous research between variables, the author is motivated to conduct research on the financial sector to find out whether tax avoidance and good corporate governance can affect debt costs, especially in sub-sector companies of Financial Holding Companies, Investment Companies and Banks listed on the BEI during the 2018-2023 period.

In understanding good corporate governance, it is necessary to use the basis of perspective, namely agency relationships. Agency theory explains the relationship between shareholders as principal and management as agents so that it can avoid asymmetrical relationships, a concept is needed, namely the concept of good corporate governance which aims to make the company healthy, progressive, more effective and efficient. Agency theory explains the relationship between the principal and the agent. According to Scott (2015), agency theory is a contract that motivates an agent to act on behalf of the owner when the agent's interests are declared to be contrary to the owner's interests. The relationship between the owner of the company and the manager can cause information asymmetry (information asymmetric). Information asymmetry (information asymmetry) causes a reduction in one of the principles of corporate governance, namely transparency about financial performance to company owners. Conflicts will arise because each party participating in the contract is doing what is best for him. The relationship between agency theory and corporate governance on the cost of debt, according to Bhojraj and Sengupta (2003) the corporate governance mechanism has a negative influence on the cost of corporate debt. A healthy corporate governance structure is one of the important indicators that creditors consider when determining the company's risk premium (Rebecca, 2012).

Tax avoidance is a method used by companies to minimize taxes owed in a legal way through the use of legal loopholes, ambiguities, anomalies, and other understandings of tax law (Lyons 1996) in (Suandy E, 2011 p.7). According to Mardiasmo (2016, p.11), tax avoidance is an effort to reduce the tax burden by not violating existing regulations. This tax avoidance can simply be interpreted as an effort made by a company to optimize after-tax profits in a legal way by taking advantage of existing regulatory weaknesses, one of which is by minimizing the tax burden. (UTAMA et al., 2019). Tax avoidance is tax management so that the taxes paid are reduced, namely by taking advantage of existing loopholes in accordance with tax law (Arja Sadjiarto et al., 2019). Tax avoidance is an income manipulation that is carried out legally and is still in accordance with the provisions of tax laws to reduce the amount of tax payable (Fitriani & Amanda, 2017). The benefit of tax avoidance is to increase tax savings which have the potential to reduce tax payments so that it will increase cash flow. (Kinait & Ayem, 2021). The tax avoidance variable in this study was measured using the CETR (Current Effective Tax Rate) formula. Some of the previous studies that used the CETR formula include (Dwiyantri, 2020; Sherly et al., 2016; Wardani & Rumahorbo, 2018).

Good Corporate Governance is a form of good corporate management, which involves a form of protection for the interests of shareholders (public) as company owners and creditors as external funders. The measurement of GCG implementation by companies can be proxied with several indicators including independent board of commissioners, managerial ownership and institutional ownership. (Kistiah & Mudjiyanti, 2014). According to Pramono quoted by Putranto (2013), Corporate Governance (CG) is a set of rules used to ensure that the company's activities and goals are to fulfill the interests and prosper the stakeholders, not solely to achieve the company's own goals. Meanwhile, in The Indonesian Institute of Corporate Governance (IICG) in Widya and Marichel quoted by Dewi et. all, (2018) defines CG as a process and structure that is applied in running a company, with the main goal of increasing shareholder value in the long term, while still paying attention to the interests of other stakeholders. (Fajri, 2022) The Good Corporate Governance variable in this study was measured using one of the GCG measurements, namely Institutional Ownership. Some of the previous studies that used Institutional Ownership include: (Andriani & Syafitri, 2020; Ashkhab & Agustina, 2015; Kistiah & Mudjiyanti, 2014; Samhudi, 2016; Wibowo & Nugrahanti, 2013).

According to (J. Fabozzi, 2007) Defining cost of debt as the rate of return that creditors want when providing funding to a company. The same thing is mentioned according to Bhoroj and Sengupta (2003) in (Therapy et al., 2018) showing that the cost of debt of a company is determined by the characteristics of the company can be seen from the issuance of bonds that affect the risk of bankruptcy, agency costs and asymmetric information problems. Cost of debt as one of the important elements in the capital structure is influenced by tax factors, namely the debt tax shield where the interest expense can be used as a deduction for taxes payable. According to (Kinait & Ayem, 2021) there are several factors that can influence a company to incur debt costs, namely, tax avoidance and Institutional Ownership. Tax Avoidance is tax management so that the taxes paid are reduced, namely by taking advantage of existing loopholes in accordance with tax law. Institutional ownership is the percentage of share ownership by institutional parties that actively participate in the company's decision-making.

In agency theory, it is explained that a company is a collection of contracts (nexus of contract) between the owner of economic resources (principal) and managers (agents) who take care of the use and control of these resources. The principal as a provider of funds to run the company, delegates decision policies to agents. The principal hires agents within the company to perform the task of maximizing the company's profits and increasing the prosperity of shareholders. The company always strives for a high level of profit. Many expenses can reduce the expected level of profit, one of which is tax payments. One of the company's efforts to reduce the amount of tax burden is by tax avoidance. Tax avoidance is deliberately carried out by companies in order to reduce the level of tax payments that must be made by the company. In managing and developing the business it runs, the company has two sources of business to obtain funding, one of which is from loans from creditors or investors.

Companies that use liabilities have a higher corporate value compared to companies that do not. Liabilities will certainly demand a return to creditors. The rate of return provided by the company will be the cost of debt for the company. Cost of debt is the rate of return that creditors cool down when providing funding to a company. Companies that carry out tax avoidance are seen by creditors as an action that contains risks, so that it actually increases the cost of debt, so that tax avoidance has a positive effect on the cost of debt. This hypothesis is in line with previous research conducted by (Kinait & Ayem, 2021) which states that tax avoidance has a positive effect on debt costs, where the results of the study reveal that the higher the tax avoidance activities carried out by companies, the higher the debt costs will also be higher. In research (Journal & Studies, 2016; Rahmawati, 2015) also stated that tax avoidance has a positive effect on the cost of debt, where in the study stated that companies that carry out tax avoidance do not affect the use of less debt which will reduce the cost of debt in a company, in fact, the higher the level of tax avoidance will increase the

cost of debt. Based on the previous research above and the explanation of the effect of tax avoidance on debt costs.

The implementation of good corporate governance can increase the company's value because it reduces the company's risk from management decisions that tend to prioritize personal interests. Good corporate governance can also increase investor confidence. The increase in investor confidence is due to the implementation of GCG is considered to be able to provide effective protection for investors in recovering their investments. One form of corporate governance is institutional ownership. Institutional ownership is one way to reduce conflicts that occur between shareholders and managers. Institutional ownership can affect the company's performance due to more optimal supervision. Based on the point of view of agency theory, institutional ownership can affect the relationship between tax avoidance and debt costs. The higher the level of institutional ownership, the more effective the supervision carried out on the company's management so that it affects the creditors who provide credit to the company and the creditors view that the company's risk level is also low. When institutional investors have a broad percentage of shareholding in a company, this lowers agency issues between managers and shareholders. This hypothesis is in line with previous research conducted by (Andriani & Syafitri, 2020; Ashkhabi & Agustina, 2015; Meiriasari, 2017) which states that institutional ownership has a negative effect on debt costs, where this is because institutional investors are believed to have a better ability to monitor the actions of the management so as to encourage the management to improve the company's performance. Effective monitoring by institutional parties can also reduce opportunistic management behavior, causing the company's risk to be smaller and the return desired by creditors to be lower. Based on the previous research above and the explanation of the influence of good corporate governance with the proportion of institutional ownership on debt costs.

2. RESEARCH METHOD

This study aims to find out the possibility of a relationship regarding the influence of independent variables of Tax Avoidance and Good Corporate Governance on the dependent variable of Debt Cost. The research paradigm used in this study is positivism as a method that is systematically arranged using deductive logic from the beginning of hypothesis formulation. The type of data used in this study is using quantitative data. Quantitative methodologies generally measure consumer behavior, knowledge, opinions, or attitudes. The methodology answers questions related to how much, how often, how much, when, and who (Cooper & Schindler, 2014). As for the research strategy, it uses case studies, where these case studies are aimed at investigating and studying events or phenomena about something, and for analysis units use organizations with minimal researcher involvement. The sampling design in this study is probability sampling using cluster sampling. For the background of the study, the researcher did not find any intervention in this study (non-contrived). For the implementation time, Panel data was used which is a combination of cross-section and time series using data analysis, namely hypothesis testing.

Table 1. Objects of Research

No	Code	Company Name	IPO Year
1	APIC	Pacific Strategic Financial Tbk	18-Dec-02
2	BCAP	MNC Kapital Indonesia Tbk.	08-Jun-01
3	BPII	Batavia Prosperindo Internasional Tbk	08-Jul-14
4	CASA	Capital Financial Indonesia Tbk	19-Jul-16
5	GSMF	Equity Development Investment Tbk	23-Oct-89
6	SMMA	Sinarmas Multiartha Tbk	05-Jul-95
7	STAR	Buana Artha Anugerah Tbk	13-Jul-11
8	DNET	Indoritel Makmur Internasional	11-Dec-00
9	PANS	Panin Sekuritas Tbk	31-May-00
10	TRIM	Trimegah Sekuritas Indonesia Tbk	31-Jan-00

Source: Data processed from the Indonesia Stock Exchange (BEI), (2023)

Table 2. Measuring instruments and variable measurement sources

No	Concept	Variable	Measuring Instrument	Source
1	Dependent	Cost of Debt	$COD = \text{Annual interest expense} / \text{Average of long- and short-term debt}$	(Dwiyanti, 2020; Journal & Studies, 2016; Purwanti, 2016; Rahmawati, 2015; UTAMA et al., 2019; Wardani & Rumahorbo, 2018)
2	Independent	Tax Avoidance (X1)	$\text{Current ETR} = \text{Current Tax Expenses} / \text{Profit Before Tax}$	(Dwiyanti, 2020; Sherly et al., 2016; Wardani & Rumahorbo, 2018)
3		Good Corporate Governance (X2)	$\text{Institutional Ownership} = \text{Number of Institutional Shares} / \text{Total Outstanding Shares} \times 100\%$	(Andriani & Syafitri, 2020; Ashkhabi & Agustina, 2015; Kistiah & Mudjiyanti, 2014; Samhudi, 2016; Wibowo & Nugrahanti, 2013)

3. RESULTS AND DISCUSSIONS

Descriptive statistics

This study analyzes the relationship between Tax Avoidance and Good Corporate Governance on Cost of Debt. Cost of Debt refers to the costs that a company must bear in obtaining funding through debt, which can be affected by the level of risk and the company's financial policies. Tax Avoidance is a company's strategy in reducing the tax burden that can have an impact on risk perception by creditors. Meanwhile, Good Corporate Governance plays a role in controlling managerial practices that can increase transparency and accountability, thereby potentially reducing debt financing risks.

Table 3. Descriptive Statistics

	COD	CETR	KI
Mean	0.253392	0.208204	0.661082
Median	0.061100	0.156350	0.601550
Maximum	6.605100	0.971200	0.988300
Minimum	0.001600	0.001700	0.321900
Std. Dev.	0.960201	0.196163	0.186068
Skewness	6.041895	2.080019	0.022894
Kurtosis	39.98509	7.995855	2.077615
Jarque-Bera	3153.989	88.05102	1.776857
Probability	0.000000	0.000000	0.411302
Sum	12.66960	10.41020	33.05410
Sum Sq. Dev.	45.17735	1.885515	1.696448
Observations	50	50	50

COD = Cost of Debt, CETR = Current Effective Tax Rate, KI = Institutional Ownership. Source: processed data (2023)

This study involved 338 observations (unbalanced) in the period 2018–2023. The descriptive results show that the cost of debt has a range of 0.001 to 6.6 with an average of 0.25, where the highest value was recorded by PT Buana Artha Anugerah Tbk (STAR) in 2020. Tax avoidance ranged from 0.001 to 0.97 with an average of 0.21, with the highest score at PT Buana Artha Anugerah Tbk (STAR) in 2018. Meanwhile, institutional ownership has a range of -0.32 to 0.98 with an average of 0.66, and the highest value was recorded by PT Batavia Prosperindo Internasional Tbk (BPII) in 2020.

Panel Data Regression Model Selection

Table 4. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.218498	(9,38)	0.3127
Cross-section Chi-square	12.677491	9	0.1778

Source: processed data (2023)

Based on the results of the Chow Test using Eviews9, it is stated that the probability value of Cross Section F is 0.0164 which is less than the value of the significance level ($\alpha = 0.05$). This means that the best model used is the Fixed Effect Model (FEM). Therefore, the Hausman Test is needed in order to choose the best model between the Fixed Effect Model and the Random Effect Model.

Table 5. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.351747	2	0.0688

Source: processed data (2023)

Based on the results of the Hausman Test, the probability value is 0.39 where this result is more than the significance level value ($\alpha = 0.05$). In this case, it means that the best model used is the Random Effect Model (REM). Therefore, a Lagrange Multiplier Test is needed in order to choose the best model between the Common Effect Model and the Random Effect Model.

Hypothesis Testing

Regression results

The results of the panel data regression estimation using the Random Effect Model (REM) show the results of the test with panel data regression, so from these results the following model equation is obtained.

$$ISR = 0.5266 + 0.0485 \cdot ICG - 0.0100 \cdot MSI + \varepsilon$$

Based on the derivative model equation above, it can be explained that: a) The constant of 2.2 indicates that if the Current Effective Tax Rate, Institutional Ownership is worth two, then the Cost Of Debt is 2.2 units; b) The Current Effective Tax Rate coefficient of -1.76 indicates that if CETR experiences a decrease of 1 point, Cost Of Debt will decrease by 1.76 points with an estimated constant variable; c) The Institutional Ownership Coefficient of -2.40 indicates that if Institutional Ownership decreases by 1 point, Cost Of Debt will decrease by 2.40 points with the assumption of a constant variable.

Before conducting a hypothesis test, this study analyzes the influence of Tax Avoidance (X_1) and Good Corporate Governance (X_2) on Cost of Debt as a dependent variable. A hypothesis test was conducted to find out whether the two independent variables had a significant relationship with the cost of corporate debt. The following table presents the results of hypothesis tests obtained from data analysis.

Table 6. Test Coefficient of Determination (R Square)

R-squared	0.226430	Mean dependent var	0.152265
Adjusted R-squared	0.193513	S.D. dependent var	0.832670
S.E. of regression	0.747776	Sum squared resid	26.28094
F-statistic	6.878649	Durbin-Watson stat	2.462003
Prob(F-statistic)	0.002397		

Source: processed data (2023)

Based on table 6 R-Squared shows a value of 0.226430 which means that 22% of the Current Effective Tax Rate variable, Institutional Ownership can explain the Cost Of Debt variable.

Table 7. T test (partial test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.209301	0.650547	3.396069	0.0014
CETR	-1.767271	0.589638	-2.997212	0.0043
KI	-2.402056	0.895954	-2.681003	0.0101

CETR = Current Effective Tax Rate, KI = Institutional Ownership

Source: processed data (2023)

The results of the test using the Random Effect Model (REM) can be concluded as follows: a) The independent variable of the Current Effective Tax Rate with a probability value of $0.0043/2 = 0.00215$, significant at the level of $\alpha = 5\%$ (0.05), can be interpreted that the variable of the Current Effective Tax Rate has a negative and statistically significant effect on Cost Of Debt; b) The independent variable of Institutional Ownership with a probability value of $0.0101/2 = 0.005$, significant at the level of $\alpha = 5\%$ (0.05), can be interpreted that the variable of Institutional Ownership has a negative and statistically significant effect on Cost Of Debt.

Discussions

The effect of Tax Avoidance on Debt Costs

Based on partial testing (t-test) using the Random Effect Model (REM) test, it shows a coefficient of -1.76 with a probability of 0.0043 because this study uses the one tail hypothesis, the probability value divided by 2 (two) $0.0043/2 = 0.00215$ is smaller than the significance level at the level of $\alpha = 5\%$ (0.05). From the statistical results, it can be stated that hypothesis one (H₁) is rejected and it can be concluded that the tax avoidance variable has a negative and statistically significant effect on the cost of debt. Tax avoidance is an effort by the company to carry out corporate tax management. Current ETR is used as a calculation in determining the amount of tax avoidance. Tax avoidance can have a negative effect on the cost of debt. This is because tax avoidance can reduce the reported company's profits. With lower profits, the company's risk will also be lower. This will make creditors more willing to lend to companies with lower interest rates.

Based on research conducted on companies in the Financial Holding Companies, Investment Companies and Investment Banks & Trade Intermediaries sector, the percentage of tax burden in companies in the sector has changed. The author takes 5 companies as an overview of the change in tax burden now, namely MNC Kapital Indonesia Tbk. (BCAP), Batavia Prosperindo Internasional Tbk (BPPI), Sinarmas Multiartha Tbk (SMMA), Buana Artha Anugerah Tbk (STAR) and Indoritel Makmur Internasional (DNET). This is also in line with the concept of agency theory where this theory explains the existence of an intergovernmental relationship (fiskus) as the principal party and management as an agent each has different interests in terms of tax payments. The company (agent) tries to pay as little tax as possible because paying taxes means reducing the economic ability of the company. On the other hand, the government (principal) needs funds from tax revenues to finance government spending. Thus, there is a conflict of interest between the company and the government, thus motivating agents to minimize the tax burden that must be paid to the government. Financial Holding Companies, Investment Companies and Investment Banks & Trading Intermediaries that were sampled in this study faced pressure for companies to create more positive relationships with the parties involved that tax avoidance can also have a negative impact, especially in terms of corporate reputation and social responsibility. Tax avoidance practices that are considered unethical can harm the company's image in the eyes of the public and other interested parties. Therefore, companies should carefully consider the tax avoidance strategies they use, in line with the principles of business ethics and sustainability. This study is in line with the findings (Sherly et al., 2016) which stated that tax avoidance has a negative effect on debt costs, where the study examined manufacturing sector companies. However, this is different from the findings (Kinait & Ayem, 2021) that examined manufacturing sector companies, where they found that tax avoidance had a positive effect on debt costs.

The Effect of Institutional Ownership on the Cost of Debt

Based on partial testing (t-test) using the Random Effect Model (REM) test, it shows a coefficient of -2.4 with a probability of 0.0101 because this study uses the one tail hypothesis, the probability value divided by 2 (two) $0.0101/2 = 0.005$ is smaller than the significance level at the level of $\alpha = 5\%$ (0.05). From the statistical results, it can be stated that hypothesis one (H₂) is accepted and it can be concluded that the institutional ownership variable has a negative and statistically significant effect on the cost of debt. Jensen and Meckling (1976) stated that institutional ownership can function

as an effective corporate governance mechanism to overcome agency problems. Share ownership by institutional investors is believed to reduce the burden of debt costs that must be borne by the company. This is due to the ability of institutional investors to more effectively monitor management actions, encouraging management to improve company performance. The great interest of the institutional side to carry out strict supervision of the company's management and policies can reduce the opportunistic behavior of management. With effective monitoring, the company's risk can be minimized, so that the level of return desired by creditors is lower. In other words, the greater the shareholding by institutional investors, the more effective the control mechanism on management performance, which can ultimately lower the cost of debt that the company must bear.

Based on research conducted on companies in the Financial Holding Companies, Investment Companies and Investment Banks & Trade Intermediaries sector, the percentage of Institutional Shares in companies in these sectors has changed. The author takes 5 companies as an overview of the change in the number of Institutional Shares, namely MNC Kapital Indonesia Tbk. (BCAP), Batavia Prosperindo Internasional Tbk (BPII), Sinarmas Multiartha Tbk (SMMA), Buana Artha Anugerah Tbk (STAR) and Indoritel Makmur Internasional (DNET). This is also in line with the concept of agency theory where in this theory explains the relationship between shareholders as principal and management as agents so as to be able to avoid asymmetrical relationships, a concept is needed, namely the concept of good corporate governance which aims to make the company healthy, progressive, more effective and efficient. Good corporate governance (GCG) is the principles that govern the relationship between owners, management, and other stakeholders. GCG aims to protect the interests of shareholders and create sustainable corporate value. This study is in line with the findings (Ashkhab & Agustina, 2015) which states that institutional ownership has a negative effect on debt costs, where the study examined n companies registered as CGPI participants.

4. CONCLUSION

Based on the results of the research conducted on the effect of tax avoidance and good corporate governance on debt costs, the conclusions of this study are: (1) Tax avoidance has a negative and statistically significant effect on debt costs. Tax avoidance can have a negative effect on the cost of debt because tax avoidance can reduce a company's reported profits. With lower profits, the company's risk will also be lower. (2) Good corporate governance with a proportion of institutional ownership has a negative and statistically significant effect on debt costs. The greater the shareholding by institutional investors, the more effective the control mechanism on management performance, which can ultimately reduce the cost of debt that must be borne by the company.

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