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The Moderating Effect of Good Corporate Governance on the Relationship Between Financial Derivatives and Tax Avoidance, and Its Consequences for Firm Value

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ABSTRACT: This study aims to examine the influence of financial derivatives on tax avoidance, with good corporate governance as a moderating variable, and its impact on firm value. Indonesian tax regulations do not specifically regulate financial derivatives transactions traded on the stock exchange. The absence of clear tax provisions regarding financial derivatives transactions can be used as a tool by company management to engage in opportunistic behavior. This can certainly create agency problems between principals and agents. To address this problem, good corporate governance is necessary. A lower tax burden will result in a higher net profit, which will increase firm value. However, if there is asymmetrical information between management and shareholders, this can decrease firm value. This study advances the literature by developing a comprehensive model that tests both the direct relationships among variables and the role of governance in constraining management opportunism, which subsequently influences tax avoidance and firm value. This study uses quantitative methods and uses secondary data from non- financial companies listed on the Indonesia Stock Exchange for the 2019-2023 period. The results of this study indicate that financial derivatives have a significant positive effect on tax avoidance. Good corporate governance can moderate the relationship between financial derivatives and tax avoidance. Tax avoidance has no effect on firm value. Financial derivatives have a positive effect on firm value.

Keywords: Financial Derivatives; Tax Avoidance; Good Corporate Governance; Firm Value

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1. INTRODUCTION

Tax is the transfer of wealth from society to the government to finance state expenditures without receiving direct compensation. Given the importance of the role of companies in fulfilling tax obligations as part of their contribution to state financing, it is crucial for citizens to be aware of their tax responsibilities. However, in practice, it cannot be denied that some companies are reluctant to fulfill their tax obligations. One of the factors that causes companies to avoid paying taxes is the feeling of being burdened, which leads them to seek ways to reduce their tax liabilities, such as by minimizing the amount of tax to be paid. This is what triggers resistance to taxes.

Tax resistance is typically categorized as either active or passive. Active tax resistance involves deliberate efforts to evade taxes, specifically targeting the government as the primary tax authority. In contrast, passive tax resistance encompasses behaviours that hinder the tax collection process and are often linked to the broader economic structure of a country. In this context, firms may adopt various strategies to reduce tax liabilities. Tax

avoidance, a common strategy, involves using transaction schemes that exploit loopholes and ambiguities in tax regulations to minimize tax obligations. Although tax avoidance is legally permissible under statutory provisions, tax authorities generally regard it as undesirable. This divergence creates a conflict of interest: firms aim to minimize tax payments, while governments seek to maximize tax revenue.

Firms often employ derivative transactions as part of their tax avoidance strategies. In Indonesia, existing tax regulations do not explicitly address financial derivative instruments traded on the stock exchange. Derivatives may serve as instruments for earnings management (Zeng, 2014; Barton, 2011). In addition to this function, derivatives can also be utilized to reduce earnings volatility, which in turn lowers corporate tax liabilities (Zeng, 2014; Donohoe, 2015; Lee, 2016). A derivatives is a financial contract that obligates parties to buy or sell an asset or commodity at a specified price and date. The contract's value depends on the performance of the underlying asset. Financial derivatives are a subset in which the underlying variables are financial instruments, including equities, bonds, stock indices, bond indices, currencies, or interest rates. These instruments are commonly used as risk management tools to reduce exposure to fluctuations in stock prices, commodities, interest rates, and foreign exchange rates, without altering the physical ownership of the underlying assets (PSAK 55).

The absence of explicit tax regulations introduces uncertainty in the tax treatment of derivative transactions, thereby facilitating tax avoidance and evasion. This regulatory gap is most apparent in the lack of distinction between derivatives used for hedging and those used for speculation. Additionally, a clear definition of derivative transactions conducted for speculative purposes is required. In addition, clarification is necessary regarding the classification of losses from such transactions as either deductible or non-deductible expenses. Furthermore, the absence of consensus on recognizing gains and losses from derivatives in corporate financial statements significantly affects tax reporting and government tax revenues (Oktavia & Martani, 2013).

Currently, legal certainty is required regarding derivatives losses from speculative activities that are unrelated to core business operations to protect tax revenues. Sintinjak and Martani (2019) find that firms engaging in financial derivatives transactions are not necessarily more likely to undertake tax avoidance than those that do not. However, their results indicate that the higher the fair value of financial derivatives, the greater the extent of tax avoidance. In contrast, Oktavia et al. (2019) argue that the relationship between financial derivatives and tax avoidance depends on the country's institutional environment. Their findings suggest that the degree of tax avoidance through financial derivatives is lower in jurisdictions with competitive tax environments than in those with less competitive tax regimes.

Good Corporate Governance (GCG) is a framework of rules that regulates relationships among stakeholders within a firm, delineating their rights and obligations to safeguard long-term shareholder interests and address the concerns of other stakeholders (Anggraini, 2013). Additionally, corporate governance fosters accountability and responsibility through mechanisms and guidelines that promote ethical conduct and safeguard shareholder rights. These measures also encompass oversight of corporate compliance, particularly regarding tax avoidance practices.

In the realm of taxation, financial derivative transactions have not been clearly regulated, making them a potential tool for company management to engage in opportunistic actions. This situation can lead to agency problems between the principal and the agent. One solution to address this issue is the implementation of good corporate governance principles within the company. The research by Mayanggara & Wardhani (2017) shows that corporate governance acts as a moderating variable in the relationship between the use of financial derivatives and tax avoidance. However, their regression results indicate that corporate governance does not have a significant effect in reducing the differences in tax avoidance levels between speculators and hedgers. In contrast, studies by (Azkia & Handayani, 2025; Rani et al., 2024; Yunita & Tambun, 2024) found that the effective implementation of corporate governance can promote transparency and accountability, which ultimately can reduce the potential for tax avoidance.

Tax avoidance can increase firm value by reallocating potential government revenues to shareholders. While typically legal, managers frequently implement tax avoidance strategies to reduce the corporate tax liability. Reducing tax obligations can improve the probability of meeting profitability targets. Dhesai and Dharmapala (2009) demonstrate that the positive impact of tax avoidance on firm value is especially significant in firms with

high institutional ownership, defined as 60% or more. Conversely, managers may also pursue tax avoidance for personal benefit rather than organizational advantage. Managerial discretion over tax-related disclosures, combined with limited transparency, can facilitate the concealment of activities that primarily serve managerial interests.

Hanlon and Slemrod (2009) state that information associated with tax avoidance activities can reduce firm stock prices, with the effect being more pronounced in retail firms and in firms with relatively low effective tax rates. While tax planning is often viewed as a mechanism to enhance firm value, its benefits may be temporary; in the long run, tax avoidance activities may diminish firm value. This relationship is further influenced by ownership structure. For instance, family-owned firms tend to prioritize the preservation of corporate reputation, which constrains aggressive tax avoidance behavior. At moderate levels, tax avoidance may generate benefits for shareholders, as a reduced tax burden increases net profit and, consequently, firm value. However, under conditions of information asymmetry between management and shareholders, tax avoidance may instead erode firm value.

Globalization has led firms to participate in international transactions, exposing them to financial risks from fluctuations in exchange rates, interest rates, and commodity prices. Firms commonly use derivative instruments such as futures, forwards, options, and swaps as hedging mechanisms to mitigate these risks. Effective use of derivatives contributes to greater earnings stability (Allayanis & Weston, 2011). The adoption of hedging strategies through derivatives signals earnings stability to the market and can enhance firm value (Martdhaniaty & Fredsidy, 2016). In contrast, Zhang (2009) finds that speculative use of derivatives increases earnings volatility and may reduce firm value. Therefore, the effect of derivative instruments on firm value depends on whether these instruments are used to generate tangible benefits for the firm (Nguyen & Liu, 2014).

Research Problems

Based on the preceding research background, this study aims to address the following research questions:

1. To what extent do financial derivatives influence tax avoidance?
2. Does good corporate governance serve as a moderating variable in the relationship between financial derivatives and tax avoidance?
3. To what extent does tax avoidance affect firm value?
4. To what extent do financial derivatives influence firm value?

2. LITERATURE REVIEW

2.1 Agency Theory

Agency Theory explains the relationship between a principal and an agent, where the agent possesses more information than the principal (Jensen & Meckling, 1979). The theory posits that the principal and agent have conflicting objectives. It assumes the principal lacks sufficient information about the firm's condition, while the agent, who manages the firm, holds more detailed knowledge due to delegated authority and responsibilities. This information imbalance, known as information asymmetry, enables the agent to potentially exploit the situation for personal gain, for example, by manipulating financial statements to their advantage.

Jensen and Meckling (1976) identify two forms of information asymmetry as follows:

a. Moral hazard refers to managerial actions that are not fully observable by shareholders or creditors. As a result, managers may undertake activities outside the knowledge of shareholders that violate contractual agreements and are ethically or normatively inappropriate.
b. Adverse selection arises when managers and other insiders possess greater knowledge regarding the firm's condition and prospects compared to shareholders or external parties. In this case, managers may withhold material information that shareholders would otherwise rely upon in making informed decisions.

When trying to solve agency problems, both principals and agents face agency costs. According to Jensen and Meckling (1976), these costs fall into three categories: monitoring costs, bonding costs, and residual loss. Monitoring costs refer to the expenses principals incur to supervise agents, including tracking and managing their actions. Bonding costs are what agents pay to demonstrate that they are acting in the principal's best interests. Residual loss is the decrease in the principal's welfare when the agent's choices do not fully match what the

principal would have chosen.

2.2 Legitimacy Theory

According to Lako (2011:5), as cited in Hidayati and Fidiana (2017), from the perspective of legitimacy theory, corporations and their surrounding communities maintain a close social relationship as both are bound by a "social contract". The social contract theory asserts that the existence of a corporation within a given area is politically supported and safeguarded by government regulations, which represent the interests of society. Legitimacy theory suggests that companies organize their activities to shape how the public sees them and to gain approval from society. Because of this, they consider public acceptance when planning their tax strategies. When companies avoid taxes, they typically do so in ways that comply with the law.

2.3 Tax Avoidance

Tax avoidance refers to legally minimizing tax obligations by exploiting loopholes or grey areas in tax laws and regulations to reduce the amount of tax payable (Chairil, 2019:370). In Addition, tax avoidance, sometimes referred to as tax planning, involves managing transactions to prevent unintended tax consequences. It is a legal practice that does not break any laws. By organizing activities to limit the application of tax rules, individuals or businesses can reduce or even eliminate their tax obligations (Mohammad, 2008, p. 49).

Tax avoidance, as defined by Dyreng et al. (2008, as cited in Praditasari and Setiawan, 2017), encompasses actions implemented by firms to minimize their tax liabilities. This practice constitutes an extension of a corporation's comprehensive tax planning strategy. In general, tax avoidance is typically categorized as either acceptable tax avoidance or unacceptable tax avoidance. Thus, tax avoidance is considered illegal when it is conducted solely to reduce tax liabilities without legitimate business purposes.

Tax avoidance is conceptually linked to tax planning. Tax planning includes both permanent tax reduction and the deferral of tax liabilities (Parjiono *et al,* 2018:134). Tax avoidance involves the intentional manipulation of tax regulations through deceptive strategies, and such deceptive tax avoidance is considered illegal.

According to (Atep, 2011:447-448), companies may engage in illegal tax avoidance through the following practices:

a. Reclassifying equity as debt to report expenditures that should be recognized as dividend payments as interest expenses, thus rendering them tax-deductible.
b. Underreporting income, overstating legitimate expenses, or recording fictitious costs.
c. Conducting sham transactions that are presented as legally valid arrangements.
d. Engaging in treaty shopping, which involves misusing tax treaty provisions and frequently leads to transfer pricing abuses.

Hanlon and Heitzman (2010) note that the current effective tax rate (CuETR) is the most common method for measuring the corporate income tax burden. This study uses CuETR because financial statements report corporate income tax directly. Other measures, like the cash effective tax rate, can be less accurate since cash flow statements may include other taxes, such as customs duties.

2.4 Financial Derivatives

2.4.1 Definition of Financial Derivatives

A derivatives instrument is a financial contract or arrangement characterized by three main features. First, it is based on one or more underlying variables and involves notional amounts, payment terms, or both. These terms determine the settlement amount and, in some cases, whether settlement is required. Second, the contract does not require an initial net investment, or the required investment is smaller than that of similar contracts responding to market changes. Third, the contract either requires or permits net settlement, can be settled through a separate mechanism, or results in asset delivery that is not materially different from net settlement. Underlying variables may include interest rates, security prices, commodity prices, foreign exchange rates, indices, or other variables related to assets or liabilities (PSAK 55).

A financial derivative is defined as a contract with three key characteristics: (1) its value depends on changes in specific variables such as interest rates, commodity prices, or foreign exchange rates; (2) it requires little or no initial net investment compared to similar contracts; and (3), it is settled at a future date. (Veronika dan Dwi, 2019)

Financial derivatives are primarily employed for hedging and speculation. Hedging involves a binding agreement

to exchange specified resources at a predetermined price and future date. The hedged item typically comprises recognized assets or liabilities that are subject to hedge accounting. Conversely, speculation aims to generate profit without safeguarding assets or liabilities. For example, an investor may sell an overvalued stock and repurchase it after a price decline to realize a gain.

2.4.2 Tax Treatment of Derivatives Transactions in Indonesia

A limited understanding of derivatives among practitioners and regulators has facilitated the use of financial derivatives for tax avoidance (Oktavia et al., 2019). Several factors contribute to this practice. Certain financial derivatives not explicitly addressed in tax law can be used to alter the timing of income or loss recognition from derivatives transactions. For example, some derivatives are structured to defer gain recognition to future periods or to accelerate loss recognition in the current period. Additionally, specific financial derivatives can change the classification of gains and losses resulting from derivatives transactions. Swap instruments with periodic payment contracts are typically categorized as ordinary business transactions. Gains from these swap transactions are treated as ordinary income, and losses as ordinary losses. In contrast, swap contracts with non- periodic payments result in gains and losses classified as capital gains.

Government Regulation (PP) No. 17 of 2009 mandated a final income tax of 2.5 percent on income derived from exchange-traded futures contracts, calculated based on the initial margin. The Indonesian Futures Brokers Association and the Indonesian Futures Traders Association challenged this regulation and filed a judicial review with the Supreme Court (Agustian, 2009). The Supreme Court subsequently issued Decision No. 22 P/HUM/2009, which annulled PP No. 17 of 2009. This annulment prompted the issuance of PP No. 31 of 2011. Despite these regulatory changes, legal certainty regarding the taxation of derivatives transactions remains unresolved, particularly for over-the-counter (OTC) derivatives, which constitute the majority of corporate transactions.

2.5 *Good Corporate Governance*

Good Corporate Governance (GCG) is defined as a system of internal controls within an organization that manages significant risks to achieve business objectives, protect assets, and increase long-term shareholder value (Effendi, 2016:11). According to the Organization for Economic Cooperation and Development (OECD), corporate governance comprises the relationships and responsibilities among stakeholders such as shareholders, board members, commissioners, and managers, structured to support the competitive performance required to meet the organization's primary objectives.

According to the Forum for Corporate Governance in Indonesia (FCGI), Good Corporate Governance (GCG) is defined as a set of rules governing the relationships among shareholders, company management, creditors, government, employees, and both internal and external stakeholders, with respect to their respective rights and obligations. In other words, it constitutes a system that regulates and controls the company. In this study, the measurement of Corporate Governance (CG) practices refers to the assessment of board effectiveness developed by the Indonesian Institute for Corporate Directorship (IICD), an independent institution dedicated to disseminating and advancing corporate governance in Indonesia. The IICD is a non-profit organization established by ten leading universities and business schools.

The characteristics of the board of commissioners were obtained from the information disclosed in each company's annual report. The effectiveness of the board was measured using 21 questions grouped into two categories: Board Qualification and Composition, and Board Activities.

Each question was evaluated using a three-point scale:

Good = assigned a score of 3 if all criteria were met,

Fair = assigned a score of 2 if only some of the criteria were met, Poor = assigned a score of 1 if none of the criteria were met.

The overall board effectiveness score was calculated by summing the scores for each characteristic and dividing this sum by the maximum possible score.

2.6 Firm Value

This study defines firm value as market value, which reflects the extent to which shareholder wealth is maximized through increases in the company's stock price. An elevated stock price indicates greater shareholder prosperity. To optimize firm value, investors typically delegate company management to professionals serving as managers

or commissioners. According to Husnan and Pudjiastuti (2012:6), firm value is also described as the price a prospective buyer would pay if the company were sold. A higher firm value implies greater wealth for the company's owners. Similarly, Margareta (2011:7) defines firm value for publicly listed companies as being reflected in the stock market price, whereas for privately held companies, it is realized upon sale, considering factors such as total assets, business prospects, business risks, and the external environment. Thus, firm value can be interpreted as investors' perception of the company, frequently associated with the stock price. In this study, firm value is used as a primary indicator to assess the effects of financial derivatives and corporate governance practices on shareholder wealth.

Several studies, including Morck et al. (1998), McConnell and Servaes (1990), Steiner (1996), Cho (1998), Itturiaga and Sanz (1998), and Mark and Li (2000), demonstrate that the relationship between managerial ownership structure and firm value is non-monotonic. This pattern results from managerial incentives to align their interests with those of external shareholders by increasing their ownership as firm value increases, which is influenced by investment decisions. Wennerfield et al. (1988) identify Tobin's Q as an effective metric for assessing firm value.

2.7 Hypothesis Development

2.7.1 The Effect of Financial Derivatives on Tax Avoidance

The lack of a clear distinction between speculative and non-speculative derivatives transactions allows companies to use financial derivatives for tax avoidance. Differentiating between derivatives used for hedging and those used for speculation is challenging because assessments typically depend only on information disclosed in financial statements. Tax regulations, however, require a precise definition to determine whether losses from derivative transactions are deductible or non-deductible (Oktavia & Martani, 2013).

Speculative financial derivatives transactions offer substantial potential gains. The lack of explicit tax regulations concerning the recognition of profits and losses from these transactions incentivizes firms to participate in derivatives activities. Since the repeal of Government Regulation No. 17 of 2009, tax authorities have not updated provisions on financial derivatives related to speculation or trading (Veronika & Martani, 2019). Empirical studies suggest that the use of financial derivatives has a significant impact on tax avoidance. Firms engaging in derivatives for speculative purposes demonstrate higher levels of tax avoidance than those using derivatives primarily for hedging.

H1: Financial derivatives has a positive effect on Tax Avoidance.

2.7.2 Good Corporate Governance as a Moderator of the Relationship between Financial Derivatives and Tax Avoidance

The use of financial derivatives in companies, while intended for hedging purposes and legitimate financial strategies, can create opportunities for tax avoidance due to their complexity, which may be exploited to reduce tax liabilities. This situation gives rise to an agency problem between management (the agent) and shareholders (the principal), where the agent may be incentivized to take opportunistic actions that do not benefit the principal. In this context, the implementation of Good Corporate Governance (GCG) can function as a moderating variable that reduces the influence of derivatives on tax avoidance. Although some studies, such as Mayanggara & Wardhani (2017), suggest that corporate governance cannot significantly reduce tax avoidance among speculators and hedgers, other studies by (Azkia & Handayani, 2025; Rani et al., 2024; Yunita & Tambun, 2024) demonstrate that effective GCG implementation can encourage transparency and accountability, which in turn reduces the likelihood of tax avoidance. Therefore, while financial derivatives can be leveraged for aggressive tax strategies, a strong and transparent corporate governance system can moderate this relationship, ensuring that the use of derivatives aligns with legal and ethical standards and reduces the scope for tax avoidance practices.

H2: Good Corporate Governance moderates the relationship between Financial Derivatives on Tax Avoidance

2.7.3 The Effect of Tax Avoidance on Firm Value

In the context of tax avoidance, legitimacy theory provides important insights regarding the impact of such activities on a company's value. This theory argues that companies must gain and maintain legitimacy from the public and other stakeholders to ensure their continued operations. Although tax avoidance is legal, if done non-transparently, it can undermine the company's legitimacy and affect its reputation in the eyes of the public and other stakeholders (Suchman, 1995). This can reduce trust and damage the company's value in the long run, even

though it may provide short-term benefits in the form of tax savings (Deegan, 2002).

Desai and Dharmapala (2009) demonstrate that tax avoidance has a greater impact on firm value in companies with high institutional ownership, specifically those with approximately 60% institutional ownership. Managers may exploit tax avoidance strategies to serve personal interests rather than organizational objectives. Managerial discretion enables the reduction of tax expense disclosures. Reduced transparency facilitates the concealment of actions that prioritize managerial self-interest.

Hanlon and Slemrod (2009) present evidence that information resulting from tax avoidance activities can reduce stock prices, particularly in retail companies and firms with low effective tax rates. While tax planning may initially increase firm value by reducing tax expenses, these activities can ultimately diminish value over time, especially in family-owned firms that prioritize reputation. Additionally, asymmetric information between managers and shareholders may allow managers to conceal opportunistic actions, resulting in decreased firm value.

H3: Tax Avoidance negatively affects firm value

2.7.4 The Effect of Financial Derivatives on Firm Value

Derivative instruments are financial contracts commonly employed for hedging to mitigate corporate risk exposure. Hedging strategies typically utilize instruments such as futures, forwards, options, and swaps. Effective use of derivatives contributes to profit stability (Allayanis & Weston, 2011). The implementation of hedging with derivatives signals stable earnings, which subsequently enhances firm value (Martdhaniaty & Fredsidy, 2016). In contrast, Zhang (2009) reports that employing derivatives for speculative purposes increases earnings volatility and reduces firm value. Therefore, the effect of derivatives usage on firm value is contingent upon the specific benefits realized by the company (Nguyen & Liu, 2014).

H4: Financial Derivatives positively affect the firm value

3. RESEARCH METHODOLOGY

3.1 Sample and Data Description

This study utilizes secondary data sourced from the Indonesia Stock Exchange (IDX) website and the official websites of the selected companies. The research population comprises non-financial firms listed on the IDX from 2019 to 2023. The sample selection employs a purposive sampling method based on specific criteria, resulting in 22 companies observed over a five-year period, for a total of 110 firm-year observations. Data analysis is conducted using SPSS statistical software version 23.

3.2. Operational Definition and Measurement

Table 2. Variable Operational Measurement

No	*Variable*	*Definition*	*Proxy*	*Scale*
1	*Tax avoidance (Chairil, 2019:370)*	*Tax avoidance is an effort to avoid taxes that is carried out in a legal and safe manner for taxpayers because it does not conflict with applicable tax provisions, which exploits weaknesses (grey areas) contained in Tax Laws and Regulations to reduce the amount of tax owed..*	$CUETR = \frac{\text{The Current Income Tax}}{\text{Profit Before Income Tax}}$	*Ratio*

2	Financial derivatives (Ellis & Martani, 2018)	*Financial Derivatives are financia instruments or other contracts tha have three characteristics: (1) thei value changes in response to change in specified interest rates, commodity prices, foreign exchange rates, or othe variables, (2) they require no initial ne investment or an initial net investmen that is smaller than that required fo other types of contracts that would be expected to have the same response to changes in market factors, and (3) they are settled on a future date.*	Absolute Value of Net Fair FDER = Value Derivative Instrument Total Assets tahun t−1	Ratio
3	Good Corporate Governance (Effendi, 2016:11)	*Good Corporate Governance (GCG) is a system or system of internal control of a company that aims to manage significant risks in order to mee business objectives by securing assets and increasing the investment value of shareholders in the long term..*	To measure corporate governance Board Qualification & Composition consists of 9 questions Good = Given a score of 3 if each existing criterion is met Fair = Given a score of 2 if only some of the existing criteria are met Poor = Given a value of 1 if none of the existing criteria are met Total score of characteristics CG = of the Board of Commissioners Maximum Score To measure corporate governance, Board Activities consists of 12 questions Good = Given a score of 3 if each existing criterion is met Fair = Given a score of 2 if only some of the existing criteria are met Poor = Given a value of 1 if none of the existing criteria are met Total score of characteristics CG = of the Board of Commissioners Maximum Score	Ratio
4	Firm Value	*Firm Value is the price that prospective buyers are willing to pay if the company is sold.*	Tobins'q q = (MVS+ MVD) /RVA	Ratio
Control Variable				
1	Return On Asset (ROA)	Return on assets is a ratio used to measure a company's ability to generate profits from its total assets.	ROA = Pretax Income / Total Aset	Ratio
2	Firm size	The size or total amount of assets owned by a company	Natural logarithm of company assets	Ratio

Source: Processed by the author from various sources

3.3 Data Analysis and Hypothesis Testing

Hypothesis testing employed two regression models to evaluate the significance of relationships among the specified variables. Moderated regression analysis (MRA) was conducted using SPSS software version 26. The corresponding regression equations were developed as outlined below:

TAX AVOID = α + β1.FDER + β2.CG + β3.FDER*CG + β4.ROA + β5.SIZE + e .....(1)

FIRM_VALUE = α + β1. TAX_AVOID + β2. FDER + e.....(2)

Where:

TAX AVOID : Tax Avoidance
α : Constant
β1- β1 : Regression Coefficient
FDER : Financial Derivatives
CG : Corporate Governance
FIRM_VALUE : Firm Value
ROA : Return On Assets
Size : Firm Size
e : Error

4. RESULTS AND DISCUSSION

4.1 Research Object Description

The final sample comprises 22 non-financial firms that met the established sampling criteria. Observing each firm over a five-year period resulted in 110 firm-year observations, which were utilized in the analysis (Table 1).

Table 1. Sample Determination Criteria

No.	Criteria	Number of companies
1.	Non-financial companies listed on the Indonesia Stock Exchange during the period 2019- 2023	814
2.	Non-financial companies that have just IPO'd during the period 2019 - 2023	(156)
3.	Non-financial companies that experienced losses during the period 2019 - 2023	(167)
4.	Non-financial companies that do not engage in derivative transactions and report their fair value during the 2019-2023 period	(469)
Number of Research Samples		**22**
Number of observation data x 5		**110**

Source: Data processed by researchers

4.2 Regression Model Equation

Table 2. Results of Regression Analysis of Model I and II Equations

Description	Coeff.	Std. error	t-Statistic	Prob.	Result
Model 1: TAX AVOID = α + β1.FDER + β2.CG + β3.FDER*CG + β4.ROA + β5.SIZE + e					
FDER	4.688	1.806	2.596	.011	Significant
CG	-1.648	.408	-4.041	.000	Significant
FDER*CG	6.095E-5	.000	12.996	.000	Moderate
ROA	-.349	.307	-1.136	.258	Not Significant
SIZE	.236	1.834	.129	.898	Not Significant
Model 2: FIRM_VALUE = α + β1. TAX_AVOID + β2. FDER + e					
CUETR	.073	.082	.884	0.379	Not Significant
FDER	.006	.003	2.463	0.015	Significant

Source: Data processed by researchers

4.3 Interpretaion of Research Result

Based on the results obtained, then can be seen the acceptable and rejected hypotheses in the table 3.

Table 3. Conclusions of the Hypothesis Test Results

Hypothesis	Testing	Result
H1	Financial Derivatives has a positive affect on Tax Avoidance	Accepted
H2	Good Corporate Governance moderates the relationship between Financial Derivatives on Tax Avoidance	Accepted
H3	Tax Avoidance has a negative affect on Firm Value	Rejected
H4	Financial Derivatives has a positive affect on Firm Value	Accepted

Source: Data processed by researchers

4.3.1 The Effect of Financial Derivatives on Tax Avoidance

The findings suggest that financial derivatives have a significant positive impact on tax avoidance. Increased derivative transaction volume within firms functions as a mechanism for facilitating tax avoidance. These transactions enhance corporate credit capacity, and the associated higher interest expenses reduce taxable income, thereby decreasing tax liabilities.

These findings align with the study conducted by Oktavia and Martani (2013), which highlights the difficulty in distinguishing between the use of financial derivatives for hedging versus speculative purposes, as such classifications often rely solely on corporate financial statement disclosures (Oktavia & Martani, 2013). The lack of clear tax regulations defining whether derivative transactions are speculative creates ambiguity in determining whether derivative losses are deductible or non-deductible. This regulatory gap provides firms with opportunities to exploit derivative transactions as a means of reducing their tax burden (Devi & Efendi, 2018). Empirical evidence further suggests that companies tend to accelerate the recognition of derivative losses to reduce taxable income and are more likely to engage in aggressive tax planning through the use of non-hedging derivatives (Devi & Efendi, 2018).

Speculative financial derivatives transactions offer significant potential gains. The absence of explicit tax provisions regarding the recognition of profits and losses incentivizes firms to participate in these activities. Regulatory ambiguity persists because tax authorities have not updated derivative-related tax rules on speculation or trading since the revocation of Government Regulation No. 17 of 2009 (Veronika & Martanti, 2019). This regulatory gap enables corporate tax avoidance. Mayanggara and Wardhani (2017) demonstrate that firms using derivatives for speculative purposes exhibit higher levels of tax avoidance compared to those employing derivatives for hedging purposes.

4.3.2 Good Corporate Governance as a Moderator in the Relationship Between Financial Derivatives and Tax Avoidance

The results of this study indicate that Good Corporate Governance (GCG) can moderate the relationship between financial derivatives and tax avoidance. The lack of clear tax provisions regarding financial derivative transactions can lead to opportunistic behavior by company management. These practices can be mitigated by implementing effective corporate governance within a company. GCG mechanisms will help suppress tax avoidance by a company, thereby reducing conflicts of interest between principals and agents.

Financial derivatives, which are used by companies to protect themselves from various financial risks, can be misused for tax avoidance purposes (Donohoe, 2014). Without clear tax regulations, financial derivatives often provide opportunities for management to engage in opportunistic actions, resulting in harmful tax avoidance practices (Mayanggara & Wardhani, 2017). Therefore, companies with strong GCG mechanisms can reduce the potential for the misuse of derivative instruments for tax avoidance purposes (Azkia & Handayani, 2025; Rani et al., 2024; Yunita & Tambun, 2024).

GCG functions as a form of oversight, ensuring that management actions align with shareholder interests and do not harm other parties, including the government (Widnyani, 2025). When properly implemented, GCG strengthens corporate transparency and accountability, reducing the likelihood of tax avoidance by management. Good GCG practices can minimize conflicts of interest between principals (shareholders) and agents

(management), where management may otherwise make decisions that benefit themselves (Jensen & Meckling, 1976). As a result, GCG is expected to reduce tax avoidance by providing greater control over company decisions.
However, the findings of this study differ from those of Mayanggara & Wardhani (2017), who provided empirical evidence that GCG acted as a moderating variable between financial derivatives and tax avoidance, but their regression results showed no significant effect. Their study concluded that the implementation of corporate governance was unable to effectively reduce the differences between the levels of tax avoidance practiced by speculators and hedgers. This suggests that even though GCG is implemented, tax avoidance through derivatives can still occur if clearer and more stringent tax regulations are not enforced (Mayanggara & Wardhani, 2017).

4.3.3 The Effect of Tax Avoidance on Firm Value

The results demonstrate that tax avoidance does not have a statistically significant impact on firm value. Detection of tax avoidance activities is associated with a decline in firm value, as the public often attributes negative perceptions to firms that reduce their tax obligations. Even when these activities are conducted within legal frameworks, the resulting negative reputation continues to reduce the firm's perceived value.
In contrast, the present findings differ from those of Desai and Dharmapala (2009), who reported a stronger effect of tax avoidance on firm value when institutional ownership reaches 60 percent. Managers may pursue tax avoidance to serve personal interests rather than organizational objectives. Managerial discretion allows for reduced disclosure of tax-related expenses. This limited transparency facilitates the concealment of actions that prioritize managerial interests.
Hanlon and Slemrod (2009) also report that disclosures related to tax avoidance activities can have a negative impact on a firm's stock price. Although tax planning is intended to enhance firm value, its effects are mixed. Initially, tax avoidance may increase a firm's value, but over time, it can lead to a reduction in that value.

4.3.4 The Effect of Financial Derivatives on Firm Value

The findings suggest that financial derivatives have a positive impact on firm value. Exploitation of tax regulation loopholes in derivative transaction reporting may increase earnings volatility. Elevated reported profits often lead to higher perceived firm value among external stakeholders.
Effective use of derivative instruments enables firms to maintain more stable profit levels (Allayanis & Weston, 2011). Hedging with derivatives signals consistent earnings, which enhances firm value (Martdhaniaty & Fredsidy, 2016). Conversely, speculative use of derivatives increases profit volatility and reduces firm value (Zhang, 2009). Therefore, the effect of financial derivatives on firm value depends on their application and the resulting benefits for the firm (Nguyen & Liu, 2014).

4.3.5 The Effect of ROA on Firm Value

The results of the study indicate that ROA does not influence firm value. This implies that a company's capability to generate profits from its total assets isn't necessarily a crucial factor for investors when assessing firm value. Other elements, such as growth prospects, risk, capital structure, company policies, and market expectations about future performance, also contribute. Consequently, while ROA reflects how efficiently assets are utilized, this alone does not significantly affect market perceptions of a company's worth. These conclusions align with the research by Artanti (2020), Sulistyowati (2021), and Khalifaturofi'ah (2025), all of which found that ROA has no notable impact on firm value.

4.3.6 The Effect of Size on Firm Value

The study shows that firm size does not influence firm value. This suggests that total assets, used as a measure of firm size, are not a key factor for investors when evaluating a company's worth. Although larger firms typically have more resources and easier access to funding, this does not necessarily increase firm value unless accompanied by effective asset management, high profitability, and growth potential. Consequently, investors tend to focus more on performance quality rather than firm size. This finding is consistent with research by Budi et al. (2022) and Silkfan et al. (2022), which also indicated that company size has minimal impact on firm value.

5. CONCLUSION

Financial derivatives exert a significant positive influence on tax avoidance, as an increased volume of derivative transactions within a firm can serve as a mechanism for minimizing tax liabilities. Good Corporate Governance

(GCG) moderates the relationship between financial derivatives and tax avoidance. In the absence of clear tax regulations on derivative transactions, management may exploit these gaps to pursue opportunistic objectives. Effective GCG mechanisms can limit tax avoidance practices and reduce conflicts of interest between shareholders and management. The study also demonstrates that tax avoidance does not affect firm value when such practices are conducted legally and in compliance with tax law, as public perception of the firm remains unchanged. In contrast, financial derivatives have a positive impact on firm value. Regulatory loopholes allow firms to report derivative transactions in a manner that increases profit volatility, and higher reported profits are typically interpreted by the public as evidence of greater firm value. This study provides the Indonesian tax authorities with insights relevant to the development of policies on derivative transactions. Policymakers are advised to ensure that gains and losses from derivatives are taxed based on fair market value, rather than exclusively upon realization. Therefore, annual changes in fair value should be recognized within each fiscal year, regardless of whether they represent gains or losses.

Furthermore, this study has several limitations, particularly regarding the availability of data on derivative transactions, since not all firms participate in such activities. As a result, the sample of firms with derivative activities is relatively small, which limits the generalizability of the findings across different industries. Additionally, information on derivatives disclosed in corporate financial statements is typically aggregated and limited in stock. This lack of detail complicates efforts to distinguish the specific purposes of derivative use, such as hedging or speculation. Future research is encouraged to incorporate additional variables, such as managerial characteristics. In addition, this study is limited by its use of a single proxy for tax avoidance. Subsequent studies may enhance the robustness of the findings by employing alternative proxies, such as GAAP ETR or Book–Tax Differences, in order to obtain more accurate and comprehensive results.

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