



The Influence of Tax Avoidance and Earnings Management on Cost of Equity Capital: The Moderating Role of Managerial Ownership

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ABSTRACT

This study aims to analyze the effect of tax avoidance and earnings management on the cost of equity capital, with managerial ownership as a moderating variable, in energy sector companies listed on the Indonesia Stock Exchange during the 2019–2023 period. The research adopts a quantitative approach using secondary data derived from audited annual financial statements. The sampling technique employed is purposive sampling based on specific criteria, resulting in a total of 55 companies that met the data completeness requirements. The variables in this study include tax avoidance (measured by the Effective Tax Rate), earnings management (measured using the Modified Jones Model 1995), cost of equity capital (measured using the Capital Asset Pricing Model), and managerial ownership (measured by the proportion of managerial shareholding). The data were analyzed using the Moderated Regression Analysis (MRA) technique with the assistance of SPSS software. The findings indicate that tax avoidance positively affects the cost of equity capital. Meanwhile, earnings management has a negative effect on equity capital costs. Managerial ownership moderates the relationship between both tax avoidance and earnings management on the cost of equity capital.

1. INTRODUCTION

In an increasingly complex business environment, companies must maintain optimal performance to attract investor interest and sustain shareholder confidence. One strategic approach to enhancing performance is profit optimization, which indirectly contributes to increasing firm value. Firm value reflects a company's ability to generate profits and serves as a critical reference point for both investors and creditors when making investment decisions (Andayani and Yanti, 2021). A high firm value signifies strong market confidence in both the company's current performance and its future potential (Huriquduq, 2022). Firm value can be maximized by reducing the cost of equity capital. The cost of equity capital represents the minimum return rate required by investors as compensation for the risks inherent in their investment.

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A high cost of equity capital may reduce a company's attractiveness to investors, whereas a lower cost of equity capital reflects greater financial stability and a lower perceived risk. Consequently, a reduction in the cost of equity capital is typically associated with an increase in firm value in the eyes of investors (Kiswanto and Fitriani, 2019).

For publicly listed companies, one of the key long-term objectives is to achieve a significant increase in firm value. Among these companies, the energy sector plays a pivotal role in the national economy and garners substantial attention from investors in the capital market. Amid global economic uncertainty driven by geopolitical conflicts, Indonesia has benefited from the surge in demand for energy commodities such as coal. The rise in the Reference Coal Price (HBA) has significantly contributed to increases in Non-Tax State Revenue (PNBP) and tax income from the mining sector (APBNKITA, 2023). Beyond its economic contributions, energy sector companies are also subject to various obligations, including royalty payments, environmental reclamation and rehabilitation, and the implementation of corporate social responsibility (CSR) programs. Given the non-renewable nature of mineral resources, these companies are required to provide appropriate compensation for the environmental, social, and economic impacts arising from their operational activities.

The first factor influencing the cost of equity capital is tax avoidance. A multitude of obligations that must be fulfilled by companies—such as corporate social responsibility (CSR), royalties, reclamation, and environmental rehabilitation—renders tax obligations one of the burdens that companies may seek to minimize to maintain financial efficiency. This creates an opportunity for firms to engage in tax avoidance as a financial efficiency strategy without violating prevailing laws and regulations (Wardani and Herawati, 2022). Prior studies have reported mixed findings. Cook et al. (2015), Hutchens and Rego (2015), Dewiyanti and Burhan (2018), and Febriyanto and Firmansyah (2018) suggest that tax avoidance has a positive effect on the cost of equity capital. In contrast, Masripah et al. (2021) report a negative relationship between tax avoidance and the cost of equity capital. Meanwhile, Harsono and Halim (2020) find that tax avoidance has no significant effect on the cost of equity capital.

The second factor influencing the cost of equity capital is earnings management. Earnings management refers to the deliberate manipulation of financial statements by managers to achieve specific objectives, such as maintaining the company's image or avoiding excessive tax payments. Research on the effect of earnings management on the cost of equity capital has produced inconsistent results. Studies by Yuniarsih (2015), Kiswanto and Fitriani (2019), Hendri and Nurhazana (2019), Atmaja and Supratono (2020), Widyowati (2020), Indarti and Widiatmoko (2021), and Panjaitan and Sofian (2022) found that earnings management has a positive effect on the cost of equity capital. In contrast, Kurnia and Arafat (2015) and Irdawati et al. (2021) reported a negative effect of earnings management on the cost of equity capital. Meanwhile, studies by Perwira and Darsono (2015), Barvidi (2015), Loyme et al. (2017), Sunaryo and Saripujiana (2018), Hayati and Husnandini (2019), and Sutarman et al. (2022) demonstrated that earnings management has no significant effect on the cost of equity capital.

Based on the above description, the implementation of Good Corporate Governance (GCG) mechanisms is essential to address these practices. GCG is expected to act as a control tool to reduce tax avoidance and earnings management practices that harm shareholders. One key indicator of GCG is managerial ownership, which helps align the interests of managers and shareholders. Several studies, such as Krismiaji and Raharja (2018), Alhares (2020), Faysal et al. (2020), and Wijaya et al. (2023), suggest that ownership can reduce the cost of equity capital. In contrast, studies by Wahyuni and Utami (2018), Arimbi and Indarti (2021), Supriadi and Aryati (2022), and Widiatmoko and Indarti (2024) argue that managerial ownership does not reduce the cost of equity capital.

This study aims to analyze the effect of tax avoidance and earnings management on the cost of equity capital, with managerial ownership as a moderating variable, in energy sector companies listed on the Indonesia Stock Exchange during the period from 2019 to 2023. This study replicates the research conducted by Lestari and Ningrum (2018) and extends the dependent variable of the cost of equity capital and the moderating variable of good corporate governance, using managerial ownership as the measurement.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The Effect of Tax Avoidance on the Cost of Equity Capital

Tax avoidance is not prohibited by law, although it often receives negative attention from tax authorities due to its perceived negative connotations. Tax avoidance is permissible because tax savings are achieved by exploiting unregulated loopholes. Tax avoidance is an effort to reduce taxes to increase profits (Violeta and Serly, 2020). The tax avoidance measures taken by a company may influence an increase or decrease in the cost of equity capital. The relationship between tax avoidance and agency theory arises from potential agency problems, such as conflicts between principals and agents, as well as information asymmetry, where management possesses more information about the true financial position (Alfiana, 2021). The relationship with signaling theory suggests that tax avoidance can send either a positive or negative signal to investors (Mahaetri and Muliati, 2020). Furthermore, the relationship with compliance theory pertains to the non-compliance of companies in fulfilling their tax obligations according to the actual situation (Zakia et al., 2022). Similar studies by Cook et al. (2015), Hutchens and Rego (2015), Dewiyanti and Burhan (2018), Febriyanto and Firmansyah (2018) indicate that tax avoidance has a positive effect on the cost of equity capital. The greater the tax avoidance carried out by the company, the higher the cost of equity capital borne by investors. As the perceived level of risk among investors increases, their willingness to invest in the company tends to decline, largely due to the view that tax avoidance constitutes a risky managerial practice that heightens investment uncertainty.

H1: *Tax avoidance has a positive effect on the cost of equity capital.*

The Effect of Earnings Management on the Cost of Equity Capital

Earnings management refers to actions taken by managers to manipulate accounting data or information, so that the reported earnings in financial statements align with the manager's preferences. These actions can be carried out for personal interests or the benefit of the company (Sinatraz and Suhartono, 2021). The relationship between earnings management and agency theory lies in the existence of conflicts of interest between the principal and the agent (Riswandi and Yuniarti, 2020). According to Riswandi et al. (2022), the objective of managers in performing earnings management is to increase profit-based incentives generated by the company. Although management has the obligation to maximize profits for shareholders, it may do so for personal interests. Company management engages in earnings management to alter data in financial statements to meet the expectations of the principal, making the company appear favorable in the eyes of investors (Kiswanto and Fitriani, 2019). The connection with signaling theory is that earnings management encourages investors to demand higher returns. This represents a positive or negative signal that the company conveys to investors or potential investors when considering investment decisions in the company. Additionally, the relationship with positive accounting theory suggests that one motivation for managers to engage in earnings management is the bonus plan hypothesis (Nurhanimah et al., 2018). According to Watts and Zimmerman (1986), in Lestari and Ningrum (2018), if a company plans bonuses based on net income, the company will implement accounting procedures that shift earnings reporting from future periods to the current period. Similar studies conducted by Yuniarsih (2015), Kiswanto and Fitriani (2019), Hendri and Nurhazana (2019), Atmaja and Supratono (2020), Widyowati (2020), Indarti and Widiatmoko (2021), Panjaitan and Sofian (2022) state that earnings management has a positive effect on

the cost of equity capital. An increase in earnings management practices is associated with a higher cost of equity capital for the firm. Investors tend to perceive earnings management as an opportunistic behavior that elevates risk and undermines the quality of financial information. Consequently, investors demand a higher rate of return as compensation for the increased information uncertainty.

H2: *Earnings Management has a positive effect on the cost of equity capital.*

The Effect of Tax Avoidance on the Cost of Equity Capital Moderated by Managerial Ownership

Companies that engage in tax avoidance typically have the intention to reduce their tax burden, thus minimizing the obligations borne by the company. The connection with agency theory lies in the differing interests between shareholders and managers, where shareholders expect high returns, while managers focus more on personal interests. The issue of information asymmetry arises when principals appoint agents to manage the company, and to prevent the agents from prioritizing personal interests, effective governance is required to address this issue (Andayani and Yanti, 2021). Managerial ownership functions to align the interests of managers and shareholders, and creates a monitoring mechanism for the policies adopted by the company (Indrawati et al., 2023). The link with signaling theory is that it provides signals to external parties about the quality of the company, through more effective oversight, minimizing the potential conflict of interest between management and shareholders. This strengthens the market perception that the company's decisions are more equitable and beneficial to all shareholders. Similar studies by Krismiaji and Raharja (2018) and Faysal et al. (2020) indicate that managerial ownership negatively moderates the relationship between tax avoidance and the cost of equity capital. Higher levels of managerial ownership are associated with lower levels of tax avoidance, thereby reducing the firm's cost of equity capital

H3: *Managerial ownership moderates the effect of tax avoidance on the cost of equity capital.*

The Effect of Earnings Management on the Cost of Equity Capital Moderated by Managerial Ownership

The emergence of earnings management represents an agency problem arising from the misalignment of interests between the owners and the management of a company, commonly referred to as agency conflict. In such a situation, a control mechanism is needed to align these differing interests through the implementation of good corporate governance principles. Managerial ownership plays a crucial role in the monitoring and oversight of management performance. In relation to agency theory, managerial ownership can reduce earnings management practices due to its capacity to exercise objective supervision and its direct involvement in decision-making, stemming from the managers personal shareholdings. The greater the level of managerial ownership in a company, the higher the quality of managerial decision-making (Indrawati et al., 2023). Furthermore, from the perspective of signaling theory, the practice of good corporate governance through managerial ownership serves as a positive signal that is interpreted by the market as "good news". This enhances investor or potential investor confidence, as it indicates the presence of internal oversight mechanisms within the company. Similar studies by Alhares (2020) and Wijaya et al. (2023) indicate that managerial ownership negatively moderates the relationship between earnings management and the cost of equity capital. Higher levels of managerial ownership are associated with lower levels of earnings management, thereby reducing the firm's cost of equity capital.

H4: *Managerial ownership moderates the effect of earnings management on the cost of equity capital.*

3. RESEARCH METHOD

Population and Sampling Technique

The population in this study consists of energy sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2019–2023. A total of 64 energy sector companies were listed on the IDX during this period. The sampling technique used in this study is non-probability sampling, specifically purposive sampling, where not all elements of the population have an equal opportunity to be selected as samples. The selection is based on specific considerations and criteria that make certain companies appropriate for inclusion in the sample (Sugiyono, 2017:84). The criteria for selecting samples in this study are as follows: (1) Energy sector companies listed on the Indonesia Stock Exchange during the 2019–2023 period. (2) Energy sector companies listed on the Indonesia Stock Exchange that consistently recorded profits during the 2019–2023 period. (3) Energy sector companies with complete and valid data in their annual and financial reports related to the variables used in this study. Based on these criteria, 11 companies met the qualifications to be included in the sample. The names and list of companies included in this study can be seen in Table 1. Therefore, the total number of research observations is 11 companies × 5 years = 55 data points. The data used in this study are secondary in the form of annual and financial reports of energy sector companies listed on the IDX during the 2019–2023 period, obtained from the official IDX website (www.idx.co.id) and the official websites of the respective companies

Research Variables and Operational Definitions

Cost of Equity Capital

The cost of equity capital is measured using the Capital Asset Pricing Model (CAPM) proxy. CAPM represents the expected rate of return required by shareholders in a company. A lower CAPM value indicates greater market confidence in the company's prospects (Kiswanto and Fitriani, 2019).

$$CAPM = R_f + \beta_i (R_m - R_f)$$

Description

R_f : Risk-Free Rate

R_m : Return Market

β : Risk Systematic

Tax Avoidance (X_1)

Tax avoidance is measured using the Effective Tax Rate (ETR) proxy. ETR reflects a company's efforts to minimize its tax burden. A higher Effective Tax Rate indicates lower levels of tax avoidance (Awaliah et al., 2022). $ETR = \frac{\text{Income Tax Expense}}{\text{Earnings Before Tax}}$

Earnings Management (X_2)

Earnings management is measured using the Modified Jones Model (1995) as a proxy. Companies with high levels of discretionary accruals indicate low earnings quality, while companies with low levels of discretionary accruals indicate high earnings quality (Atin and Pujiono, 2022; Larasati et al., 2022).

1. Calculate *total accrual* (TAC):

$$TAC = NI_{it} - CFO_{it}$$

Next, total accrual (TA) is estimated using Ordinary Least Squares (OLS): $\frac{TA_{it}}{A_{it-1}} =$

$$\beta_1 \left(\frac{1}{A_{it-1}} \right) + \beta_2 \left(\frac{\Delta REV_{it}}{A_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{A_{it-1}} \right) + \varepsilon$$

2. Calculate nondiscretionary accruals (NDA):

$$NDA_{it} = \beta_1 \left(\frac{1}{A_{it} - 1} \right) + \beta_2 \left(\frac{\Delta REV_{it}}{A_{it} - 1} - \frac{\Delta REC_{it}}{A_{it} - 1} \right) + \beta_3 \left(\frac{PPE_{it}}{A_{it} - 1} \right)$$

3. Calculate discretionary accruals (DA) as a measure of earnings management:

$$DA_{it} = \frac{TA_{it}}{A_{it} - 1} - NDA_{it}$$

Description

DA _{it}	: Discretionary accrual of company i in year t
NDA _{it}	: Nondiscretionary accrual of company i in year t
TA _{it}	: Total accrual of company i in year t
NI _{it}	: Net income of company i in year t
CFO _{it}	: Operating cash flow of company i in year t
A _{it-1}	: Total assets of company i in year t-1
ΔREV _{it}	: Revenue of company i in year t minus revenue of company i in year t-1
PPE _{it}	: Property, plant, and equipment of company i in year t
ΔREC _{it}	: Accounts receivable of company i in year t minus accounts receivable of company i in year t-1
β ₁ - β ₂	: Regression coefficients
ε	: error

Moderating Variable

Managerial Ownership (Z)

The greater the proportion of share ownership held by management in a company, the stronger the motivation for management to act in the interests of shareholders, which indirectly reflects their own personal interests. Managerial share ownership serves to align the interests of managers and shareholders. Consequently, management will benefit from positive outcomes of their decisions and also bear the risks of any losses resulting from poor decisions. A higher level of managerial ownership indicates better supervision over the company's activities and performance (Hadiansyah et al., 2022).

$$\text{Managerial Ownership} = \frac{\text{Number of Managerial Shares}}{\text{Total Outstanding Shares}} \times 100\%$$

Data Analysis Technique

The data analysis technique used in this study is multiple linear regression analysis to examine the effect of independent variables on the dependent variable, and Moderated Regression Analysis (MRA) to test the moderating variable in moderating the relationship between independent and dependent variables. Before conducting multiple linear regression analysis and MRA, classical assumption tests are performed, including a normality test, a multicollinearity test, a heteroscedasticity test, and an autocorrelation test. The SPSS (Statistical Package for the Social Sciences) software is used as an analytical tool. The use of this software assists the researcher in analyzing the data employed in this study.

4. RESULTS

Descriptive Statistical Analysis

Table 1. Deskriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Cost of Equity Capital	41	-.170553	.191456	-.02104229	.057551086
Tax Avoidance	41	.055906	1.931773	.26798251	.276373595
Earnings Management	41	-.165713	.136157	-.03274322	.072733994
Managerial Ownership	41	.000001	.675614	.03260790	.108189723
Valid N (listwise)	41				

Source: Data processed 2025

The results of the descriptive statistical analysis in Table 1 show that the sample size over five periods consists of 41 research observations, following the removal of 14 outlier data points using the casewise diagnostic test (Ghozali, 2018:40), from an initial total of 55 observations. The cost of equity capital (Y/CAPM) has a minimum value of -0.170553, observed in Bayan Resources Tbk. in 2023. The maximum value is 0.191456, observed in Indo Straits Tbk. in 2021. The mean value of the cost of equity capital is -0.2104229, with a standard deviation of 0.057551086.

Tax avoidance (X1/ETR) has a minimum value of 0.055906, observed in IMC Pelita Logistik Tbk. in 2019. The maximum value is 1.931773, observed in Indo Straits Tbk. in 2021. The mean value of tax avoidance is 0.26798251, with a standard deviation of 0.276373595.

Earnings management (X2/DA) has a minimum value of -0.165713, observed in Bayan Resources Tbk. in 2021. The maximum value is 0.136157, observed in Bayan Resources Tbk. in 2023. The mean value of earnings management is -0.03274322, with a standard deviation of 0.072733994.

Managerial ownership (Z/KM) has a minimum value of 0.000001, observed in Baramulti Suksessarana Tbk. in 2023. The maximum value is 0.675614, observed in Bayan Resources Tbk. in 2023. The mean value of managerial ownership is 0.03260790, with a standard deviation of 0.108189723.

As shown in Table 1, the results of the descriptive statistical analysis indicate that the dependent variable is the cost of equity capital (Y/CAPM), while the independent variables include tax avoidance (X1/ETR) and earnings management (X2/DA), with the moderating variable being managerial ownership (Z/KM). In this case, all the standard deviation values are higher than the mean values, which means that the data are more widely spread. The standard deviation is a measure of variability (spread) of data relative to its central value (mean) or expected value. A lower standard deviation indicates that the data are more likely to cluster around the mean.

Classical Assumption Test

Table 2. Normality Test

		Unstandardized Residual
N		41
Normal Parameter ^{a, b}	Mean	.0000520
	Std. Deviation	.04103767
Most Extreme Differences	Absolute	.092
	Positive	.092
	Negative	-.082
Test Statistic		0.92
Asymp. Sig. (2-tailed)		.200 ^{c, d}

Source: Data processed 2025

Based on Table 2, the results of the Kolmogorov-Smirnov normality test show that the Kolmogorov-Smirnov statistical analysis value is 0.92 with a significance of 0.200, which is greater than 0.05 (>0.05), indicating that the data is normally distributed or meets the residual normality assumption.

Table 3. Multicollinearity Test

Model	Unstandardized Coefficients		Standardized Coefficient		Collinearity Statistics		
	B	Std. Error	Beta	T	Sig.	Tolerance	VIF
(Constant)	-0.48	.010		-4.835	.000		
Tax Avoidance Earnings Management Managerial	.104	.025	.500	4.171	.000	.948	1.055
	-.145	.100	-.184	-1.460	.153	.860	1.163
	-.187	.065	-.351	-2.864	.007	.905	1.105

Source: Data processed 2025

Based on Table 3, the results of the multicollinearity test, by examining the tolerance value or variance inflation factor (VIF), show that tax avoidance (X1/ETR) has a tolerance value of 0.948 and a VIF value of 1.055. Management earnings (X2/DA) has a tolerance value of 0.860 and a VIF value of 1.163. Managerial ownership (Z/KM) has a tolerance value of 0.905 and a VIF value of 1.105. The tolerance values for all three variables are greater than 0.10 (>0.10) and the VIF values are less than 10 (<10), indicating that there are no multicollinearity issues in the regression model.

Table 4. Heteroscedasticity Test

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
(Constant)	.038	.005			7.316	.000
Tax Avoidance Earnings Management Managerial Ownership	-.008	.013	-.102		-.620	.539
	.014	.052	.047		.270	.789
	-.041	.034	-.199		-1.182	.245

Source: Data processed 2025

Based on Table 4, the results of the heteroscedasticity test using the Glejser method show that tax avoidance (X1/ETR) has a significance value of 0.539. Management earnings (X2/DA) has a significance value of 0.789. Additionally, managerial ownership (Z/KM) has a significance value of 0.245. The significance values of all three variables are greater than 0.05 (>0.05), indicating that the regression model does not exhibit heteroscedasticity.

Table 5. Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.704 ^a	.496	.455	.042485045	1.966

Source: Data processed 2025

Based on Table 5, the autocorrelation test using the Durbin-Watson statistic shows a Durbin-Watson value of 1.966. When compared to the table values for a sample size of 41 ($n = 41$) and 3 variables ($k = 3$), with a 5% confidence level, the table values are as follows: $dl = 1.3480$, $du = 1.6603$, and $4 - du = 2.3397$. The condition for no autocorrelation is that $du < d < 4 - du$. Since the Durbin-Watson value is between $1.6603 < 1.966 < 2.3397$, it can be concluded that there is no autocorrelation in the regression model.

Hypothesis Testing Multiple Linear Regression Analysis

Table 6. Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.056	.010		-5.408	.000
Tax Avoidance	.101	.027	.483	3.702	.001
Earnings Management	-.233	.103	-.295	-2.257	.030

Source: Data processed 2025

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

$$Y = -0.056 + 0.101X_1 - 0.233X_2 + \varepsilon$$

Table 7. Coefficient of Determination Test (R² Test)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.620 ^a	.384	.352	.046335932

Source: Data processed 2025

Based on Table 7, the adjusted R-square value is 0.352 or 35.2%. This indicates that the independent variables, namely earnings management and tax avoidance, are able to explain 35.2% of the variation in the dependent variable, cost of equity capital. The remaining 64.8% is explained by other variables that were not tested in this study.

Table 8. Model Fit Test (F-Statistic Test)

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	.051	2	.025	11.853	.000 ^b
	Residual	.082	38	.002		
	Total	.132	40			

Source: Data processed 2025

Based on Table 8, the results of the model fit test show a significance value of 0.000. Since the significance value is less than 0.05 ($0.000 < 0.05$), it can be statistically concluded that tax avoidance and earnings management simultaneously have a significant effect on the cost of equity capital. In other words, tax avoidance and earnings management are appropriate variables to be included in this study.

Table 9. Individual Parameter Significance Test (T-Statistic Test)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.056	.010		-5.408	.000
Tax Avoidance	.101	.027	.483	3.702	.001
Earnings Management	-.233	.103	-.295	-2.257	.030

Source: Data processed 2025

Based on Table 9, the results of the individual parameter significance test for the tax avoidance variable (X1/ETR) show a t-value of 3.702 with a positive coefficient of 0.101 and a significance value of 0.001, which is less than the threshold of $\alpha = 0.05$. Therefore, it can be statistically concluded that tax avoidance has a positive and significant effect on the cost of equity capital. Accordingly, the first hypothesis, which states that tax avoidance has a positive effect on the cost of equity capital, is accepted.

Meanwhile, the earnings management variable (X2/DA) shows a t-value of -2.257 with a negative coefficient of -0.233 and a significance value of 0.030, which is also below the $\alpha = 0.05$ threshold. Hence, it can be concluded that earnings management has a negative and significant effect on the cost of equity capital. As a result, the second hypothesis, which posits that earnings management has a positive effect on the cost of equity capital, is rejected.

Moderated Regression Analysis (MRA)

Table 10. Moderated Regression Analysis 1

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.013	.009		-1.531	.134
Tax Avoidance* Managerial Ownership	-.941	.345	-.400	-2.726	.010

Source: Data processed 2025

$$Y = \alpha + \beta_1 X_1 * Z + \varepsilon$$

$$Y = -0,013 - 0,941 X_1 * Z + \varepsilon$$

Based on Table 10, the results of the interaction test between the independent variable tax avoidance (X1/ETR) and the moderating variable managerial ownership (X1*Z) show a t-value of -2.726 with a negative coefficient of -0.941 and a significance value of 0.010, which is less than the $\alpha = 0.05$ threshold. Therefore, it can be statistically concluded that the interaction between tax avoidance and managerial ownership has a negative (weakening) and significant effect on the dependent variable, cost of equity capital. Accordingly, the third hypothesis, which states that managerial ownership moderates the effect of tax avoidance on the cost of equity capital, is accepted.

Table 11. Moderated Regression Analysis 2

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.019	.008		-2.278	.028
Earnings Management* Managerial Ownership	-1.573	.570	-.404	-2.761	.009

Source: Data processed 2025

$$Y = \alpha + \beta_1 X_2 * Z + \varepsilon$$

$$Y = -0,019 - 1,573 X_2 * Z + \varepsilon$$

Based on Table 11, the results of the interaction test between the independent variable earnings management (X2/DA) and the moderating variable managerial ownership (X2*Z) show a t-value of -2.761 with a negative coefficient of -1.573 and a significance value of 0.009, which is less than the $\alpha = 0.05$ threshold. Therefore, it can be statistically concluded that the interaction between earnings management and managerial ownership has a negative (weakening) and significant effect on the dependent variable, cost of equity capital. Accordingly, the fourth hypothesis, which states that managerial ownership moderates the effect of earnings management on the cost of equity capital, is accepted.

Table 12. Hypotesis Testing Result

No	Hipotesis	Hasil	Sig.	Keterangan
H ₁	Tax avoidance has a positive effect on the cost of equity capital	(+)	0.001	Accepted
H ₂	Earnings Management has a positive effect on the cost of equity capital	(-)	0.030	Rejected
H ₃	Managerial ownership moderates the effect of tax avoidance on the cost of equity capital	(-)	0.010	Accepted
H ₄	Managerial ownership moderates the effect of earnings management on the cost of equity capital	(-)	0.009	Accepted

Source: Data processed 2025

DISCUSSIONS

The Effect of Tax Avoidance on the Cost of Equity Capital

The research findings indicate that tax avoidance has a positive effect on the cost of equity capital in energy sector companies listed on the Indonesia Stock Exchange during the period 2019-2023. The higher the level of tax avoidance implemented by a company, the greater the cost of equity capital incurred. Conversely, the lower the level of tax avoidance, the cost of equity capital tends to decrease. This suggests that more extensive tax avoidance practices lead to higher perceived risks by investors, which may reduce their interest in investing in the company. This is due to the perception that tax avoidance is a risky managerial strategy that may increase uncertainty in investment decisions. Companies with high profits tend to engage in tax avoidance to reduce the amount of taxes payable. When tax avoidance is practiced, the company retains more cash, which can be used in production or investment activities, thereby increasing the company's future cash flows. The increase in future cash flows drives investor expectations of higher returns on investment.

Jensen and Meckling in Ghazali (2020:86) assume that principals and agents are economically rational individuals, driven solely by personal interests. Management strives to maximize company performance by reducing tax burdens, thereby increasing reported net income to align with investor expectations regarding firm value and earning compensation for these achievements. In line with signaling theory, high levels of tax avoidance serve as a negative signal to investors that the company may have poor performance or potential legal issues in the future. This study contrasts with compliance theory, which suggests that individuals tend to comply with rules or orders from authorities, either due to pressure or a sense of responsibility towards compliant behavior (Milgram in Timur, 2019).

The results of this study are consistent with research conducted by Cook et al. (2015); Hutchens and Rego (2015); Dewiyanti and Burhan (2018); Febriyanto and Firmansyah (2018) which state that tax avoidance has a positive effect on the cost of equity capital. Balakrishnan et al. (2019) assert that tax avoidance increases the ambiguity in the company's information environment, thereby reducing the quality of information in financial statements. When

information quality is low, the information available to investors for assessing future cash flows becomes less accurate. As a result, investors are likely to predict uncertainty in future cash flows, which leads them to demand higher returns on investment as compensation for the risks involved. In contrast, the findings of Masripah et al. (2021) indicate that tax avoidance has a negative effect on the cost of equity capital, as does the study by Harsono and Halim (2020), which found that tax avoidance does not have an effect on the cost of equity capital.

The Effect of Earnings Management on the Cost of Equity Capital

The research findings indicate that earnings management has a negative effect on the cost of equity capital in energy sector companies listed on the Indonesia Stock Exchange during the period 2019-2023. This means that as earnings management increases, the cost of equity capital decreases. Conversely, when earnings management decreases, the cost of equity capital increases. The greater the extent of earnings management practiced by a company, the lower the return required by investors. If earnings management practices are conducted within reasonable limits with the goal of maintaining consistent earnings to preserve financial stability and company performance, as well as reducing perceived risk by investors regarding the company's ability to manage risks, it can lower the cost of equity capital. Investors view earnings management practices as a legitimate and low-risk accounting strategy, so the financial statements presented are still considered to accurately reflect the company's financial condition. However, companies with high discretionary accruals tend to have lower earnings quality, while companies with low discretionary accruals exhibit better earnings quality (Atin and Pujiono, 2022).

Jensen and Meckling in Ghozali (2020:86) explain that agency theory discusses the contractual relationship between the firm's owner (principal) and the manager (agent). The agent is authorized to manage the company and is required to report its performance. When the principal cannot directly observe the agents actions, leading to differences in interests and information between the two, moral hazard or information asymmetry arises, which encourages managers to engage in earnings management. However, if earnings management is conducted to maintain the financial stability of the company, it can actually increase investor confidence and reduce the cost of equity capital. In line with signaling theory, earnings management aimed at preserving the stability of the company's financial performance can send a positive signal to investors regarding the company's future prospects, thereby potentially enhancing market confidence. Meanwhile, positive accounting theory from an efficiency (ex ante) perspective suggests that companies have flexibility in choosing accounting policies based on economic motives and personal incentives to build perceptions as a safe and profitable investment entity.

The results of this study are consistent with research conducted by Kurnia and Arafat (2015) and Irdawati et al. (2021), which state that earnings management has a negative effect on the cost of equity capital. Earnings management practices create the perception that the company's financial condition is stable, thereby making the company appear to have relatively low risk. Investors assume that management has presented financial statements that reflect the true situation, indicating that the company has healthy and stable financial performance. Ideally, the financial information available in the financial statements should be used by stakeholders as a basis for investment decision-making. Information regarding the company's earnings is closely scrutinized by stakeholders as an important indicator for assessing the company's performance and financial health. These findings contrast with research by Yuniarsih (2015); Hendri and Nurhazana (2019); Kiswanto and Fitriani (2019); Atmaja and Supratono (2020); Widyowati (2020); Indarti and Widiatmoko (2021); Panjaitan and Sofian (2022), which found that earnings management has a positive effect on the cost of equity capital, as well as studies by Perwira and Darsono (2015); Barvidi (2015); Loyme et al. (2017); Sunaryo and Saripujana (2018); Hayati and Husnandini (2019); Sutarman et al. (2022), which found that earnings management does not affect the cost of equity capital.

The Effect of Tax Avoidance on the Cost of Equity Capital Moderated by Managerial Ownership

The research findings indicate that managerial ownership is able to moderate the effect of tax avoidance on the cost of equity capital in energy sector companies listed on the Indonesia Stock Exchange during the period 2019-2023. This suggests that managerial ownership weakens or reduces the influence of tax avoidance on the cost of equity capital. These findings indicate that the larger the proportion of managerial ownership in a company, the lower the level of tax avoidance practiced by management, which will reduce the expected return required by investors. Indrawati et al. (2023:63) state that managerial ownership refers to shareholders who hold positions in the company's management, both as creditors and as members of the board of commissioners. Ownership of shares by management creates a mechanism for overseeing the policies adopted by the company. The implementation of good corporate governance through managerial ownership is expected to reduce the potential for tax avoidance practices.

Jensen and Meckling in Ghozali (2020:86) highlight the differences in interests between shareholders and managers, as well as the contractual relationship between the principal (the one delegating the task) and the agent (the executor). Shareholders expect high returns, while managers are more focused on their personal interests, which leads to agency problems. An effective monitoring mechanism is needed through the implementation of good corporate governance principles. One of the forms of its implementation is through managerial ownership, which serves to align the interests of shareholders and managers, as well as to establish a monitoring system over the policies adopted by the company (Indrawati et al., 2023). In line with signaling theory, the company sends a positive signal to external parties regarding its quality through the implementation of effective supervision. This strengthens the market's perception that the decisions made by the company are fairer and beneficial to all shareholders, considering that managers are not only the company's operators but also its owners.

The findings of this study are consistent with the research by Krismiaji and Raharja (2018); Faysal et al. (2020), which state that managerial ownership has a negative effect on the cost of equity capital. The negative effect arises because managers, who are also shareholders, tend to avoid risky tax avoidance practices that could harm the company's value. Managers are motivated to act more cautiously as a consequence of their managerial ownership, in the interest of the company's long-term goals and to reduce investor risk, thus lowering the cost of equity capital. These findings contrast with those of Arimbi and Indarti (2021); Supriadi and Aryati (2022), who state that managerial ownership does not affect the cost of equity capital.

The Effect of Earnings Management on the Cost of Equity Capital Moderated by Managerial Ownership

The research findings indicate that managerial ownership is able to moderate the effect of earnings management on the cost of equity capital in energy sector companies listed on the Indonesia Stock Exchange during the period 2019-2023. This suggests that managerial ownership weakens or reduces the impact of earnings management on the cost of equity capital. These findings indicate that the larger proportion of managerial ownership in a company, the lower the earnings management practices carried out by management, as well as the lower the expected return required by investors. The larger the proportion of shares owned by management in a company, the greater the motivation for management to work in the interests of shareholders, which indirectly reflects managements personal interests. Management directly experiences the positive impact of the decisions made and also bears the risk of potential losses that may arise if the decisions made are not accurate. With the indicator that the higher the managerial ownership, the better the supervision of the company's activities and performance (Hadiansyah et al., 2022).

Jensen and Meckling in Ghozali (2020:86) argue that managerial ownership can reduce earnings management practices because it allows for objective supervision and direct involvement in decision-making through personal stock ownership. The more managerial ownership within a company, the higher the quality of decision-making by management (Indrawati et al., 2023). This mechanism aims to increase transparency and accountability, thus preventing manipulative actions by company management. The implementation of good corporate governance principles through managerial ownership is expected to enhance the quality of financial reports and build trust among various users of financial statements, both internal and external parties, which will ultimately result in an increase in company value along with lower cost of equity capital. In line with signaling theory, the managerial ownership held by the company will send a positive signal that is responded to by the market as “good news” making investors or potential investors feel secure due to the presence of a supervision system within the company. Shareholders view high managerial ownership as a form of management confidence in the company’s future performance and sustainability.

The findings of this study are consistent with Alhares (2020) and Wijaya et al. (2023), who state that managerial ownership has a negative effect on the cost of equity capital. This encourages managers to maintain the credibility and transparency of financial reports and focus more on the long-term growth of the company rather than engaging in earnings management to increase short-term profits. These findings contrast with those of Wahyuni and Utami (2018) and Widiatmoko and Indarti (2024), who state that managerial ownership does not have an effect on the cost of equity capital.

5. CONCLUSION

Based on the research findings, it can be concluded that tax avoidance has a positive effect on the cost of equity capital. This finding suggests that the greater the practice of tax avoidance, the higher the perceived risk by investors, which can reduce their interest in investing in the company. This is due to the perception that tax avoidance is a risky management action that increases investment uncertainty. Meanwhile, earnings management has a negative effect on the cost of equity capital. In other words, the greater the earnings management, the lower the return required by investors. If earnings management practices are carried out within reasonable limits, with the aim of maintaining consistent earnings to stabilize the company’s financial condition and performance, while reducing the perceived risk of the company’s ability to manage risk, it will lower the cost of equity capital. Furthermore, this study emphasizes that managerial ownership moderates (weakens) the effect of tax avoidance and earnings management on the cost of equity capital. These findings indicate that the greater the proportion of managerial ownership in a company, the lower the tax avoidance and earnings management practices performed by management, as well as the lower the expected return from investors. The greater the proportion of shares owned by management in a company, the greater the motivation for management to work for the interests of shareholders, which indirectly reflects management’s personal interests. Management directly feels the positive impact of the decisions made and shares the risk of potential losses that may arise if the decisions made are not accurate.

Future research should consider alternative proxies for measuring tax avoidance, such as CETR and BTM. Other proxies besides the Modified Jones Model (1995) for measuring earnings management, such as Real Earnings Management (REM) and Discretionary Accruals Model by Kothari, should also be explored. Additionally, for Good Corporate Governance, other proxies besides Managerial Ownership, such as Institutional Ownership, Independent Commissioners, and Audit Committees, could be considered. As for the measurement of the cost of equity capital, alternative proxies other than CAPM, such as the Modified Ohlson Model, may provide valuable insights. It is also recommended for future studies to extend the research period and use a broader sample from other sectors to achieve more robust testing results and compare them with the findings of this study.

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