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THE MODERATING ROLE OF SUSTAINABILITY DISCLOSURE IN THE ASSOCIATION BETWEEN TAX AVOIDANCE AND COST OF DEBT

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Abstract
Company funding can derive from debt and shares. Managers' funding decisions have an impact on the costs that the company must bear. Even though it has high risks and many requirements, managers use much debt in company funding. The company must bear cost of debt associated with this funding. This research examines the effect of tax avoidance on the cost of debt. This research also uses sustainability disclosure as a moderating variable. This research uses manufacturing company financial report data from www.idnfinancials.com from 2016 to 2020. Based on purposive sampling, the total number of observations can be used in this research is 276. Hypothesis testing was carried out using multiple linear regression analysis for cross-section data. This research concludes that tax avoidance positively affects the cost of debt. This research also finds that sustainability disclosure strengthens the positive influence of tax avoidance on the cost of debt. This research contributes to providing literature on the role of sustainability implemented in companies in one of the developing countries. This implementation can be associated with managerial decisions that may not always align with the interests of company owners.
Keywords: Cost of debt, Sustainability, Tax planning

Abstrak
Pendanaan perusahaan dapat bersumber dari utang dan saham. Keputusan pendanaan manajer berdampak terhadap biaya yang harus ditanggung oleh perusahaan. Walaupun memiliki risiko yang cukup tinggi dan persyaratan cukup banyak, manajer banyak menggunakan utang dalam pendanaan perusahaan. Perusahaan harus menanggung biaya utang terkait dengan pendanaan ini. Penelitian ini bertujuan untuk menguji pengaruh penghindaran pajak terhadap biaya utang. Penelitian ini juga menggunakan pengungkapan keberlanjutan sebagai variabel moderasi. Data penelitian ini menggunakan data laporan keuangan perusahaan manufaktur yang diperoleh dari www.idnfinancials.com periode 2016 sampai dengan tahun 2020. Berdasarkan purposive sampling, total sampel yang dapat digunakan dalam penelitian ini berjumlah 276 observasi. Pengujian hipotesis dilakukan dengan analisis regresi linier berganda untuk data cross-section. Penelitian ini menyimpulkan bahwa penghindaran pajak berpengaruh positif terhadap biaya utang. Penelitian ini juga menemukan bahwa pengungkapan keberlanjutan memperkuat pengaruh positif penghindaran pajak terhadap biaya utang. Penelitian ini berkontribusi dalam menyediakan literatur terkait dengan peran keberlanjutan yang diterapkan di perusahaan-perusahaan salah satu negara berkembang. Penerapan tersebut dapat dikaitkan dengan keputusan-keputusan manajer yang mungkin tidak selalu sejalan dengan kepentingan pemilik perusahaan.
Kata Kunci: Biaya utang, Keberlanjutan, Perencanaan pajak

INTRODUCTION

Because of the influence of economic development on business rivalry, organizations should have optimal capital to finance their business activities to maximize earnings (Kruk, 2021). Because of the numerous commercial opportunities, the number of enterprises joining the capital market grows yearly (OECD, 2015). Limited funds frequently impede corporate operational activity, prompting companies to seek investment. Company finance can originate from internal and external sources (Kruk, 2021). Internal finance is derived from the company's operating activities during a profitable period and is not distributed to shareholders (Kruk, 2021). External finance derives from outside the corporation through debt to potential creditors, share issues, and bond issuance (Brigham & Houston, 2019).

Internal finance sources cannot support the company's long-term needs (Brigham & Houston, 2019). As a result, external capital in the form of debt is an option for businesses because it can be incurred by applying for loans from potential creditors or issuing bonds (Brigham & Houston, 2019). Bonds are currently similar to shares and are used as an alternate company expansion instrument for companies looking to enhance capital in the short or long term. Bond interest in Indonesia is generally modest, notwithstanding a rise in trading on the secondary market and an increase in corporate bond issuance from year to year.

Manager analyzes their financial structure when choosing external investments to maximize firm value (Bui et al., 2023). The manager determines the proportion of extra charges encountered while borrowing money from external sources. The cost of debt is the rate of return on debt in the form of bond coupons (yield) paid by the company from issuing bonds and the interest rate paid on creditor loans regularly (Brigham & Houston, 2019). The cost of debt is calculated by dividing the company's interest costs in one period by the average amount of short-term and long-term liabilities in the same period (Brigham & Houston, 2019). Companies with a high risk have a higher cost of debt, so assessing the cost of debt provides the firm and creditors with an understanding of the company's risk compared to other companies (Bui et al., 2023). The qualities of the debt issuer influence the cost of debt for a corporation because they impact bankruptcy risk, agency expenses, and information asymmetry issues (Ustadza & Firmansyah, 2023).

Funding decisions affect the financial structure of the organization. Outside parties interpret a growth in debt in terms of the company's ability to meet future obligations (Brigham & Houston, 2019). An increase in debt will inevitably increase the cost of debt, resulting in a future increase in the company's liabilities (Lea, 2021). Greater cost of debt makes the company riskier since the perception of the company's present worth is poor, resulting in agency problems such as agency costs and monitoring by principals due to conflicts in agency theory (Sihombing et al., 2023). Regarding agency problems, the manager will prioritize its interests over the interests of the principal, despite the manager's primary aim being to maximize the welfare of the capital owner (Jensen & Meckling, 1976). The manager can beautify financial statements because the manager has greater information about the company's status and uses it to benefit. Furthermore, agents can regulate the cost of debt, one of the components in evaluating a firm.

The principal wishes the company to be low-risk and of high credit quality. The manager determines funding strategies sometimes clash with capital owners, particularly for hazardous initiatives (Prasad et al., 2022). Debt is used by businesses to finance opportunistic acts such as risky projects to generate higher profits in the future (Kedzior et al., 2020). The contract between the principal and agent introduces two major issues: moral hazard and adverse selection (Scott, 2015). A moral hazard occurs when an agent violates an agreed-upon agreement owing to negligence (Scott, 2015). Adverse selection refers to an agent's lack of expertise (Scott, 2015).

If debt expenses are not prioritized, the company's potential losses will be bigger since its obligations will lower profits, and if the company cannot meet its obligations, the possibility of bankruptcy will be significant. Managers, as a rational party, frequently put the company in jeopardy due to the debt strategy established (Jensen & Meckling, 1976). Companies with higher risk levels will incur higher debt costs as compensation for future creditor returns (Firmansyah et al., 2020). Funding through debt is considered easier than funding with equity (Firmansyah et al., 2020). Apart from that, manager policies and activities are also considered to influence the level of risk from a creditor's perspective because they impact the company's sustainability in the future. As a result, more research on the cost of debt is required.

Research has been conducted on the factors that influence the cost of debt. The factors employed to test the cost of debt include tax avoidance (Arianti, 2017; Daffa et al., 2022; Dewi & Ardiyanto, 2020; Heryawati et al., 2018; Hutabarat & Firmansyah, 2022; Kovermann, 2018; Manullang et al., 2020; Sherly et al., 2016; Shin & Woo, 2018; Ustadza & Firmansyah, 2023; D. K. Wardani & Rumahorbo, 2018; S. L. Wardani & Ruslim, 2020). Also, cost of debt has been examined by several factors such as firm size (Ashkhabi & Agustina, 2015; Daffa et al., 2022; Suryani et al., 2019; D. K. Wardani & Rumahorbo, 2018), good governance (Sari et al., 2018; D. K. Wardani & Rumahorbo, 2018), tax risk (Dewi & Ardiyanto, 2020), firm age (Daffa et al., 2022), leverage (Daffa et al., 2022), asymmetric information (Jasman, 2016) and audit quality (Ratnasari, 2014; Widyastuti & Utomo, 2020). Furthermore, earnings management (Firmansyah et al., 2020; Kim, 2020; Shen & Huang, 2013; Ustadza & Firmansyah, 2023) and sustainability disclosure (Hutabarat & Firmansyah, 2022) were employed to examine cost of debt.

This study investigates the impact of tax avoidance on the cost of debt. Tax avoidance is a strategy for increasing after-tax income and a legal approach for businesses that do not break regulations but take advantage of tax law gaps (Mocanu et al., 2021). In the corporate context, firms purposefully dodge taxes to lower their taxes while increasing cash flow. Tax avoidance, in the context of state revenues, eliminates the potential for state tax collections that may be used to decrease the expenses of the state budget deficit (Jadi et al., 2021). Managers are allowed discretion in making accounting judgments and estimates, which creates the possibility of self-serving behavior (Scott, 2015). Certain policies, such as tax avoidance, are chosen at managers' discretion. For some businesses, taxes are the most expensive expense, so the manager conducts legal tax management, which businesses use to reduce the taxes that should still be paid.

Tax avoidance is a policy or activity frequently implemented by managers to lower the tax expenses paid while remaining ethical and legally compliant by exploiting loopholes in tax law. Avoiding taxes by raising debt will increase the cost of debt because taking on significant debt impacts the company's quality and risk (Shin & Woo, 2018). Tax avoidance is a component of tax management, carried out through planning, controlling, and carrying out duties to improve company profits if properly managed (Jadi et al., 2021). Debt can reduce the tax burden, but businesses frequently utilize tax avoidance to lessen their tax expenses because growing debt increases financial slack. Tax avoidance by businesses reduces debt since the company's burden is lowered, causing businesses to reduce external funding. Because banks frequently have long-term relationships with company managers as borrowers and have access to proprietary information about the company, they can see a relationship between tax avoidance and the company's cost of debt. Sherly et al. (2016) and Shin & Woo (2018) found that tax avoidance is positively associated with cost of debt. Arianti (2017), Daffa et al. (2022), Heryawati et al. (2018) and Kovermann, 2018) suggested that tax avoidance is inversely associated with the cost of debt. Furthermore, Dewi & Ardiyanto (2020), Manullang et al. (2020), Ustadza & Firmansyah (2023), and S. L. Wardani & Ruslim (2020) suggested that tax avoidance is not associated with cost of debt. Because prior studies contained inconsistencies, assessing tax avoidance on loan costs is required.

In testing tax avoidance on the cost of debt in previous research, most tax avoidance proxies used the effective tax rate (ETR) and cash effective tax rate. Meanwhile, the tax avoidance proxy uses long-run cash ETR in this research. The advantage of using long-run cash ETR as a proxy for tax avoidance is that long-run cash ETR can provide a better picture of company tax policy because long-run cash ETR can show the company's long-term strategy to reduce income taxes and long-run cash ETR average Five-year averages can capture tax strategies over a longer period than short-term tax planning (Guenther et al., 2013). Long-run cash ETR can improve the weaknesses of one-year cash ETR because tax payments also include payments or tax refunds from tax authorities after resolving tax disputes that arose many years ago, so if measured over a long period, the income associated with this tax can be included in the same ratio as the tax (Dyreng et al., 2008). In addition, this research includes sustainability disclosure in testing tax avoidance and cost of debt, which is rarely used in previous research.

According to stakeholder theory, a firm should be accountable to parties interested in the company (R. E. Freeman, 2015). Companies should make a concerted effort to maintain excellent relationships with stakeholders by meeting the aspirations and demands of stakeholders (such as workers, consumers, and shareholders) that are directly tied to the resources used in the company's operational activities (R. E. Freeman, 2015). Sustainability disclosure is a type of corporate ethical behavior in which benefits are provided to stakeholders (Hutabarat & Firmansyah, 2022). Companies should be able to meet stakeholder expectations while also providing extra value. In the meantime, the company's purpose is to maximize earnings. Companies registered as corporate taxpayers, on the other hand, have tax duties. Some corporations that experience disadvantaged will seek ways to reduce their tax expenses so that they can pay less tax than they should to the state. Tax avoidance is considered unethical since it allows management to engage in activities to conceal unpleasant things that may mislead stakeholders, allowing managers to be accused of being less transparent in carrying out company operations (Jadi et al., 2021).

The publication of information that reflects an organization's economic, social, and environmental performance is known as sustainability disclosure. Sustainability disclosure will foster positive relationships between stakeholders and the organization. One is to provide information concerning the firm performance, beginning with financial elements and progressing to non-financial aspects, such as the company's social and environmental problems (Hutabarat & Firmansyah, 2022). Companies have a social responsibility to those who are impacted by their operations. Managers should consider all parties' interests when carrying out their activities to safeguard, consider, and respect stakeholders' interests (Hutabarat & Firmansyah, 2022). Nguyen & Nguyen (2015) concluded that sustainability activity can decrease firm risk. Firmansyah et al. (2021) and Gholami et al. (2023) found that sustainability disclosure is negatively associated with cost of capital. Also, Laguir et al. (2015) stated that sustainability disclosure can lower aggressive tax avoidance. Therefore, sustainability activities can be expected to have a moderating role in the relationship between tax avoidance and cost of debt.

This study is expected to add to the literature on financial accounting, discussing the association between tax avoidance and cost of debt. Aside from that, the findings of this study are expected to provide information to the Capital Market Supervisory Authority concerning improvements to cost of debt disclosure arrangements, as well as to the Indonesia Tax Authority concerning companies that engage in tax avoidance to maximize company profits related to cost of debt.

LITERATURE REVIEW

According to agency theory, a firm is a system of contracts between corporate managers and stockholders (Jensen & Meckling, 1976). The agent signs a contract to deliver services to the principal, and the principal signs a contract to compensate the agent (Jensen & Meckling, 1976). According to agency theory, separating ownership and management activities in publicly traded corporations allows the principal's interests to be sacrificed due to conflicting connections between agents and principals (Jensen & Meckling, 1976). In financial management, agency connections exist between (1) shareholders and managers and (2) managers and creditors. The principal's constraints in managing information linked to the company's capability, both now and in the future, will create possibilities for managers to engage in opportunistic activity. Without further examination, the principal cannot identify the manager's self-satisfying behavior if they rely solely on financial reporting.

Profit maximization can be accomplished by tax avoidance tactics that influence accounting profits and managers' efforts to raise pay they do not receive from the primary. Managers minimize taxes by employing factors that reduce taxes, including raising debt while remaining within the limits specified in tax law. Cost of debt can be deducted from income taxes. However, the tax office has taken a harsh stance on tax avoidance because it is regarded to have negative implications. If creditors discover the act of tax avoidance by growing debt, they will undoubtedly oppose the manager's activities because they will improve the company's risk value in the future. Managers should pay debts within reasonable bounds since the impact on shareholders will be negative. Fund providers will impose a high return charge as compensation for high-risk enterprises, such that tax avoidance by increasing debt has a positive relationship with the cost of debt.

Sherly et al. (2016) and Shin & Woo (2018) found that tax avoidance can increase cost of debt. Tax avoidance by firms reduces debt since it lowers the company's burden, causing enterprises to reduce external funding. Debt can decrease the company's profit since loan interest reduces the tax expenses paid. Thus, a company with significant debt payments might benefit from compensation by utilizing debt financing as a tax incentive that can lower tax payments. However, such methods result in creditors' perception that the company lacks strategic steps in obtaining other profits, even though the profits from carrying out tax avoidance can be obtained in the long term.

H_1: Tax avoidance has a positive effect on the cost of debt

Stakeholders require enough relevant information to make investment decisions (R. Freeman & Dmytriyev, 2017). Making investment decisions cannot be separated from profit and risk considerations. Thus, information concerning the firm is required to analyze the company's risk and the rate of return on investment (Schoenmaker & Schramade, 2019). The rate of return and risk have a positive relationship, which implies that the higher the rate of return expected by the creditor, the greater the risk (Brigham & Houston, 2019). As a result, the creditor's risk assessment will serve as the foundation for estimating the projected return on loans made to the company.

Stakeholder theory, on the other hand, explains how corporate managers ensure shareholder welfare (R. E. Freeman, 2015). According to this idea, a firm is not just a self-interested organization that must deliver benefits to its stakeholders (R. E. Freeman, 2015). Stakeholders are individuals or entities who require information about the company's financial status, performance, and prospects (R. E. Freeman, 2015). On the other hand, managers manage and offer information about the organization, ranging from financial to non-financial situations. As a result, stakeholders have the right to acquire information on company activities that may influence stakeholders' decisions about the company (R. E. Freeman, 2015). Companies integrate sustainability into their operational activities in response to stakeholder pressure.

The company realizes that stakeholder interests attempt to hold firms accountable to stakeholders, the environment, and society. As a result, firms satisfy stakeholder interests by reporting sustainability disclosures in addition to annual reports, which are considered mandated disclosures. Companies that make sustainability disclosures can improve their reputation and reliability, which benefits creditor risk assessments Nguyen & Nguyen (2015). Sustainability disclosure can be used to assess company performance and ensure business continuity (Hutabarat & Firmansyah, 2022). Companies' efforts to promote transparency to stakeholders, especially creditors, are viewed as continuous disclosure. It is considered that the transparency practiced by this company can make creditors feel safer because they are aware of the company's dangers, current financial state, and prospects. It can lower the company's risk rating, allowing creditors to provide a lower rate of return or bear the company's debt obligations (Nguyen & Nguyen, 2015).

Firmansyah et al. (2021) and Gholami et al. (2023) concluded that sustainability disclosure can decrease cost of capital. Laguir et al. (2015) suggested that sustainability disclosure can lower aggressive tax avoidance. Creditors require understandable, trustworthy, relevant, and transparent information about the company to make decisions (Hutabarat & Firmansyah, 2022). Sustainability disclosure is businesses' voluntary disclosure of financial and non-financial information over statutory disclosures. Managers will work hard to satisfy their obligations to creditors by communicating facts that will boost the company's credibility and value. It improves the company's reputation and accountability while also lowering the risks it bears, resulting in a low cost of debt. On the other hand, if the company's information is untrustworthy, creditors will lose trust, resulting in a high projected cost of debt.

H_2: Sustainability disclosure weakens the positive association between tax avoidance and cost of debt

METHODS

This study employs a quantitative approach. Research data derived from financial statements of manufacturing companies listed on the IDX. Data obtained from www.idnfinancials.com. The research sample is based on a purposive sampling of companies in the manufacturing industry sector listed on the IDX as of May 2021, companies listed on the IDX after January 1, 2012, and elements in the financial reports that are incomplete. The initial sample obtained data from 58 companies with five years of observations, so 290 observations were obtained. However, we also excluded companies with a CETR value above 1, totaling 14 companies, so the final sample used in the research consisted of 276 observations.

The cost of debt in the research is the dependent variable, tax avoidance is the independent variable, and sustainability disclosure is the moderating variable. Apart from that, this research also uses leverage, profitability and firm size as control variables. The cost of debt is calculated by the percentage of the company's interest expense for one year against the average long-term and short-term debt that generates interest (interest-bearing debt), as Ustadza & Firmansyah (2023). The company tax for 2016-2019 is 25%, and in 2020 is 22%.

$$COD_{it}=\frac{\text{Interest Expenses}}{\text{Average interest-bearing debt of the company}}$$

Tax avoidance is measured as an independent variable using long-run cash effective tax rates (ETR) defined by (Dyreng et al., 2008). Long-run cash ETR is the sum of cash taxes paid over a long period (five years) from year t-4 to year t, divided by the sum of pre-tax book income over the same period (Guenther et al., 2017). This proxy follows Guenther et al. (2017) and Hutchens et al. (2020).

$$LCETR_i = \frac{\sum_{t=1}^{N} \text{Cash Taxes Paid}_{it}}{\sum_{t=1}^{N} \text{Pretax Book Income}}$$

Tax avoidance is calculated by multiplying the LCETR value by -1 because a higher LCETR value indicates that the company has less tax avoidance. The distribution of financial and non-financial information relating to a company's success in providing economic, social, and environmental impacts, as well as addressing the information demands of stakeholders for the company's sustainability, is referred to as sustainability disclosure. An index based on the Global Reporting Initiatives (GRI) Standards measures social responsibility disclosure. This study evaluates corporate social responsibility declarations using annual reports or sustainability reports. The GRI index has 77 disclosure items divided into three categories: social (30 items), economic (13 items), and environmental (34 items). Following Firmansyah & Estutik (2020), each disclosure item is scored using an index scale of 0 to 4. Those with a score of 0 do not make disclosures, whereas those with a value of 1 make minimal disclosures or are mentioned briefly. A score of 2 is also assigned to firms that offer a clear influence on the company or policies, a value of 3 is assigned to companies that state the impact clearly and is defined in monetary or physical amounts, and a value of 4 is assigned to companies that express genuinely outstanding. After each disclosure item's score is assigned, it is totaled up and computed further using the following formulas:

$$\mathrm{SD_{it}} = \frac{\text{Total disclosure score}}{\text{Number of disclosure criteria according to GRI Standards}}$$

Furthermore, leverage in this study employs total debt divided by total equity Daffa et al. (2022).

$$\mathrm{LEV} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Profitability in this research uses the return on assets proxy as Sherly et al. (2016).

$$\mathrm{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

The natural logarithm of Total Assets measures size in this study as Daffa et al. (2022) and Suryani et al. (2019).

$$\mathrm{Size_{it}} = \ln \text{total assets}$$

Hypothesis testing was conducted using multiple linear regression analysis with cross-section data. This study employs two regression equation models, and the first model is intended to examine the association between tax avoidance and cost of debt. Then, the second model is intended to examine the moderating role of sustainability disclosure in the relationship between tax avoidance and cost of debt. The equation model of this research is as follows:

Model 1

$$\mathrm{CODit} = \beta 0 + \beta 1\mathrm{TAXAVit} + \beta 2\mathrm{LEVit} + \beta 3\mathrm{ROAit} + \beta 4\mathrm{SIZEit} + \varepsilon\mathrm{it}$$

Model 2

$$\mathrm{CODit} = \beta 0 + \beta 1\mathrm{TAXAVit} + \beta 2\mathrm{SDit} + \beta 3\mathrm{SDit} * \mathrm{TAVit} + \beta 4\mathrm{LEVit} + \beta 5\mathrm{ROAit} + \beta 6\mathrm{SIZEit} + \varepsilon\mathrm{it}$$

Where: COD is cost of debt, TAXAV is tax avoidance, LEV is leverage, ROA is return on assets, SIZE is firm size, and SD is sustainability disclosure.

RESULTS AND DISCUSSIONS

Table 1 shows a description of variable analysis in statistics.

Table 1 Statistics Descriptive

	Mean	Med	Max	Min	Std. Dev.	Obs
COD	0.085	0.074	0.586	0.009	0.055	276
SD	0.513	0.377	2.623	0.078	0.411	276
LEV	0.450	0.414	2.899	0.092	0.288	276
ROA	0.071	0.055	0.607	-0.600	0.093	276
SIZE	28.968	28.723	33.494	25.215	1.764	276
TAXAV	-0.296	-0.262	-0.026	-0.887	0.149	276

Furthermore, after performing classical assumption, the results testing the hypothesis are shown in Table 2 below.

Table 2 Test Results Hypothesis

	Model 1				Model 2			
Variable	Coeff	t-Stat	Prob.		Coeff.	t-Stat.	Prob.	
C	0.409	16.136	0.000	***	0.377	15.170	0.000	***
TAXAVOID	0.020	1.720	0.044	**	-0.006	-0.288	0.387	
LEV	0.006	0.867	0.194		0.009	1.557	0.061	*

ROA	0.025	1.170	0.122		0.009	0.385	0.351	
SIZE	-0.011	-13.275	0.000	***	-0.010	-11.874	0.000	**
CSRI					0.0298	2.059	0.021	**
TAXAOVID*CSRI					0.038	0.801	0.212	
R2	0.657				0.657			
Adj. R2	0.645				0.638			
F-stat.	55.134				35.081			
Prob(F-stat.)	0.000				0.000			

The association between tax avoidance and cost of debt

This research finds that tax avoidance is positively associated with cost of debt. The results of this research support research conducted by Sherly et al. (2016) and Shin & Woo (2018). Cost of debt is a recurring charge that must be incurred by businesses whose management is in debt. Tax avoidance is a method for businesses to decrease their income tax expenses. Tax expenses are accomplished by raising the amount of firm debt. Companies that grow their debt to a high capacity are seen to increase firm productivity, refinancing plans or engaging in tax-deductible expenses, resulting in low-value profits received to pay taxes. Creditors are reactive and critical of the firm's ability to use debt, and they desire liabilities on the balance sheet in small quantities. Thus, creditors oppose the presence of a significant debt value since it burdens the company in the future. Creditors believe that growing debt will only increase the company's risk and raise the debt's cost in the future. The high debt cost directly impacts the company's economic worth in terms of maximizing future income.

From the creditor's perspective, tax avoidance increases the danger of a rise or drop in the calculated cost of debt rate. Meanwhile, the increase in interest expenses was caused by increasing debt-funding activities. According to agency theory, management information asymmetry can promote conflict between principals and agents since agents create firm risk by taking on big debt policies to meet utilities (Jensen & Meckling, 1976). Manager tax avoidance for any purpose is considered opportunistic from creditors' perspective. Essentially, creditors believe that tax avoidance will imperil the company.

Furthermore, debt is utilized to pay maturities and minimize the danger of default, which reduces business value. As a result, creditors will impose a higher debt cost on companies that carry out tax avoidance actions. Creditors assume that if managers avoid tax, this strategy is not intended to gain long-term profits. Even though managers are required to have various strategies to maintain the company's sustainability in the future

The moderating effect of sustainability disclosure on the association between tax avoidance and cost of debt

Based on the hypothesis testing results, sustainability disclosure does not weaken the positive influence of tax avoidance on the cost of debt. According to stakeholder theory, for a corporation to survive, it must maintain positive relationships with its stakeholders (R. E. Freeman, 2015). The company's sustainability disclosure operations cannot change creditors' attitudes; in fact, they consider that sustainability disclosure is carried out only to follow current worldwide trends that are not fully in line with creditors' opinions. Aside from that, it is suspected that creditors of Indonesian manufacturing sector companies have not been educated on the sustainability of the companies' activities. Creditors of companies in the manufacturing sector are suspected of believing that sustainability operations are still associated with activities that burden the company. It is consistent with legislation that governs only environmental sustainability or social responsibility.

Company funding from debt has little influence on creditors' use of sustainability disclosures in investment decisions. Long-term debt funding burdens the firm since the company must face significant debt charges, indicating a greater danger of bankruptcy because it defaults on its loan. Sustainability information is not considered beneficial by creditors when examining firm credit (Hutabarat & Firmansyah, 2022). This circumstance allows creditors to pay little heed to the company's ongoing disclosures when deciding where to invest their assets. Creditors are now not focusing on global sustainability reporting when calculating the risk level of manufacturing enterprises making loans. Creditors continue to examine the company's usual business activities in generating profits to satisfy its future obligations when calculating its risk level.

Sustainability activities in companies that practice tax avoidance are not considered important by creditors, which is information that creditors do not yet understand. Apart from that, creditors also consider the sustainability information disclosed by the company to be a one-sided claim, which is not necessarily easy for creditors to understand. Creditors of manufacturing companies still consider financial information to be more important than non-financial information, including sustainability information. The existence of information not easily understood by creditors results in companies making sustainability disclosures in companies that engage in tax avoidance, not influencing creditors' perspectives on company risk. Besides that, creditors consider that there are still no official standards that all companies can use regarding sustainability reporting. Currently, no independent party still assesses the quality of company sustainability information.

CONCLUSIONS AND SUGGESTIONS

This research concludes that tax avoidance is positively associated with cost of debt. Creditors consider tax savings made by managers risky, so that creditors will impose a higher debt cost on this type of company. In addition, this research finds that sustainability disclosure does not weaken the positive association between tax avoidance and cost of debt. Creditors consider that the information on sustainability activities submitted by the company is a one-sided claim because, currently, no independent institution assesses the quality of these activities. Creditors also consider that no official standards apply to all companies, which impacts the company's claims for these activities, which are not necessarily appropriate.

This research has limitations, such as certain sample criteria that impact the reduction of the number of samples in the study. Apart from that, the calculation of the sustainability disclosure index still contains an element of subjectivity in the assessment. Future research can use non-financial company data to obtain more comprehensive research results and other sustainability disclosure index proxies, such as the sustainability disclosure index set by the Financial Services Authority. This research suggests that the Capital Market Supervisory Authority coordinates with the Tax Authority in Indonesia regarding tax avoidance actions for listed companies. Even though it does not violate tax regulations in Indonesia, this action can increase the company's risk from a creditor's perspective. Therefore, the Tax Authority in Indonesia needs to regulate policies that can reduce companies' tax avoidance activities.

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