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Research Paper

THE EFFECT OF TAX AVOIDANCE ON FIRM VALUE

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ABSTRACT

Purpose - The primary goal of this research is to assess how tax avoidance impacts the value of a company. Company size, leverage, ROA, ROE, and sales growth are control variables. This research utilizes a quantitative research methodology, where the results of the research were statistically processed based on data originating from the input process, collection process, and analysis process.

Research Method - A purposive sampling was taken for data collection stage, which samples of this study namely company listed on the Indonesia Stock Exchange for the period of 2016 to 2020. The collected samples are then processed to find out whether there is a connection between one and another. There are 220 companies that fulfill the sample criteria in this research.

Findings - The outcome of this study explain that firm value is not affected by tax avoidance. The size of the firm negatively impacts the firm's value, whereas ROA and leverage positively impact firm value. In contrast, ROE does not significantly affect firm value. Additionally, leverage and sales growth have a significant positive effect on firm value.

Implication - Research on the effect of tax avoidance on firm value generally shows that tax avoidance can increase firm value in the short term through tax cost savings. Nevertheless, the study findings indicated that there was no correlation between tax avoidance and company worth. The implication is the act of evading taxes practices are not considered significant by investors in assessing firm value. This suggests that other factors, such as operational performance or market conditions, may play a greater role in determining firm value, and tax avoidance does not always provide significant benefits or losses.

Keywords: Firm Value, Tax Avoidance, Firm Size, ROA, ROE

JEL code: H26, G32

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INTRODUCTION

Running a business is challenging due to intense competition that can create obstacles. This situation motivates a business to seek solutions like brainstorming new tactics, securing funding in order to receive positive feedback from customers down the line. The evaluation may originate from the culture, practices, and conduct of the organization itself (Damayanthi, 2019).

The company that was founded must have a clear purpose. The goals include getting as much profit as possible, providing prosperity for stakeholders, and enhancing the company's overall worth. The high value of the company can provide trust to the community where this is in accordance with the company's goal, namely achieving welfare for shareholders, and employees who work in the company (Muid, 2017). Assessing a company is crucial for businesspeople or investors to ensure shareholder prosperity. Checking the company's value is a method to determine its success, making it crucial for shareholders. The market price of shares serves as an indication of stakeholder wealth for decisions related to funding, asset management, and funding (Hadyarti & Mahsin, 2020).

(Apsari & Setiawan, 2018) argue that another goal of the company is to fight for the continuity of the company's operations to compete with the current increasingly tight market. Increased company value can make the company's extension survive because it has an impact on the welfare of investors. This makes it interesting for other investors to invest in the company.

Companies must develop a competitive strategy in order to effectively compete in the tight market industry. Securing funds is seen as a challenge commonly encountered by companies, making stock investment crucial in enhancing the company's worth. The greater the investment from individuals, the greater the value of the company (Tarihoran, 2017).

(Sembiring & Trisnawati, 2019) argue that company value is one measure so that a company can gain the trust of creditors and investors. The company's goal is certainly to obtain profits which will later be maximized to improve the welfare of stakeholders. The high value of a company makes creditors have confidence in the company to invest their capital in the hope that their funds will also be returned.

Consistent stock prices may indicate the potential worth of the company in the future. Elevated stock prices indicate a strong company value. The shareholders will earn more profit as the company's value increases. In the capital market, stock prices are the meeting point between investor supply and demand, so that the proxy for company value can be measured from the stock price which is a fair price (Erma Wijaya, 2014).

The management team has taken many actions to increase the value of the company, one of the strategies is for management to reduce tax costs. This is triggered by the perception of taxpayers or bodies who believe that taxes are a company burden that can reduce profits and benefits that can be felt by taxpayers or bodies. One way to reduce the tax burden is to avoid taxes (Soerzawa et al., 2018).

In this case, tax avoidance is related to company value because tax avoidance is considered a tax saving behavior that can increase the value of a company. Tax avoidance is one of the company's strategies that attracts great attention in the boardroom and involves managerial decisions and policies (Ariff & Hashim, 2013).

(Zebua, 2016) stated that Indonesia, being a developing nation, continually undergoes development across multiple sectors to improve the well-being of its citizens. Yet, achieving this objective is challenging if there is a lack of cooperation between the government and the citizens. State development funding originates from taxes paid by the public to the state.

Businesses are seen as major contributors to state revenue through tax payments, leading them to look for ways to reduce their tax burden. Tax authorities' efforts to collect taxes from companies are consistently met with poor responses. Tax avoidance is a method that companies use to lower tax payments without breaking any current tax laws (Darmawan & Sukartha, 2014). A decrease in net profit and a push to minimize tax payments are caused by tax expenditures. The method used to reduce tax payments is tax management. Tax avoidance is one of the numerous tactics available for companies to reduce the tax paid (Sari et al., 2016). The value of a company can be affected by the tax burden, which is connected to the company's net profit, prompting the company to find ways to reduce taxes, and lower the tax burden (Septiani & Wati, 2019).

Tax avoidance has traditionally been viewed as the practice of transferring wealth from the tax authorities to the organization, which in turn can transfer the organization's worth. However, tax avoidance is not without its challenges. Direct expenses include the burden of loss of reputation, the burden of enforcement, and potential legal action. Tax avoidance strategies, according to agency concept experts, are linked to corporate governance issues (Chen et al., 2014).

Tax avoidance is seen as a factor that can impact the company's worth. One of the factors is decreasing the tax load and managing the company's earnings. This example demonstrates how self-interested behaviors lead to insufficient information in financial statements. Insufficient information in financial reporting can lead to decreased company value, therefore the solution is to enhance the transparency of financial statement presentation (Zulfiara & Ismanto, 2019).

Tax is defined as a mandatory payment to the community. Nevertheless, businesses see it as a challenge, prompting them to engage in tax planning in order to minimize tax payments within the confines of tax laws (Winata, 2014).

Tax avoidance can also be observed in the United States, with a number of American companies engaging in this practice. At least around 30% of a company's tax payment is on average, although only 20% of it goes to the state. In 2015, Indonesia had 750 Foreign Capital Companies (PMA) suspected of engaging in tax avoidance by consistently claiming losses for five years to evade paying taxes to the government (Astuti & Aryani, 2017). PT Asian Agri Group (AAG) is the company responsible for tax avoidance by deliberately raising export transaction losses by IDR 232 billion, increasing company costs by IDR 1.15 trillion, and intentionally lowering sales figures by IDR 889 billion (Sari et al., 2016). The tax ratio is used to evaluate the government's tax collection capabilities. Tax ratios can be used to evaluate the effectiveness of a nations tax system. In the agricultural sector, where tax revenue is decreasing as a percentage of the gross domestic product (GDP) (Nusa et al., 2020).

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Firm Value

The company must have a clear goal. The goals include getting as much profit as possible, providing prosperity for shareholders and to increase the value of the company itself. The high value of the company can increase the level of public trust, and the goal is in accordance with the results of the company owner's decisions, including achieving prosperity for themselves and employees who work in the company. One way to achieve these goals is to practice good corporate governance (Muid, 2017).

The amount of profit generated indicates that the company is able to utilize operations to the maximum. Getting a large profit certainly makes investors think that the company has the ability to return maximum investment and makes investor confidence even higher (Hanif & Ardiyanto, 2019).

Generally, a company must try to increase the firm's value from the previous period to the next period. High company value draws stock value which will have a good impact on the prosperity of shareholders. This aims to ensure that shareholders continue to invest and attract new investors to fund. The company's value indicator is very important for investors to measure the company as a whole or it can be said that the company's value is the price that prospective buyers will buy if the company is sold (Harventy, 2016).

It is considered that company value has a very important role because it can show the company’s performance. Investors' views on the company can be changed. The desire of shareholders is always to have a high company value, because with a high company value, the prosperity obtained by stakeholders will automatically be maximized (Herdyanti et al., 2021).

(Silaban & Siagian, 2020) argue that if a company's performance is good, it will automatically increase the company's value. This indicates that the firm is making progress towards satisfying its stakeholders. A high company worth will have a negative impact on market trust in the organization, not just now, but also in the future.

Firm value is one of the perspectives for investors to assess the level of success of the company in controlling the ownership of its resources, the higher the stock price of a company the higher the value of the company. Company owners definitely want a high firm value, because it reflects the high prosperity of shareholders (Hadyarti & Mahsin, 2020).

Firm value is considered an important design for creditors, investors and shareholders in determining investments in order to gain capital gains and anticipate risks that will occur in the future. Financial performance is one aspect that influences the high or low value of a company. The main key that talks about the influence on firm value is the financial performance factor and how the company manages finances to get efficient results (Anggoro & Septiani, 2015).

Financial ratios can indicate the strength of a company's stock price in relation to changes in its overall value, pointing towards strong financial performance. During the effort to increase the company's worth, management faces potential conflicts of interest, where all involved focus solely on their own interests. Investors will have a negative view of the company they are investing in if they realize they are dodging taxes by withdrawing funds that were previously invested in the company (Simarmata & Cahyonowati, 2014).

Firm value is the main objective of a company that can be attained through financial management activities, with financial decision-making influencing other financial choices and ultimately impacting the company's overall value. The stock price that is exchanged is seen as a substitute for the company's worth. The rise in stock prices suggests that the company's financial management choices are on point. Hence, the key to succeeding in financial management is to enhance value (Batsis et al., 2019).

Investors' perceptions of a company's worth strongly influence stock prices. Financial managers need to make precise investment choices in net working capital and appropriate funding decisions in order to generate value for the company (Sugiyanto & Suripto, 2020). The company definitely has both short-term and long-term objectives as an economic entity. The company's primary objective in the long term is to enhance its value, with its short-term goal being to boost profits through efficient resource utilization. Publicly traded companies are typically able to enhance the value of the business by signaling to investors, as stated by (Pramana & Mustanda, 2016).

The value of a company is used by investors to evaluate how successful a company has been. This can be accomplished by meeting the company's funding requirements to ensure optimal performance outcomes. Effective performance influences the rise in the company's value and stock price, resulting in benefits for stakeholders (Cristiano & Yopie, 2021; Rudangga & Sudiarta, 2016)

(Bagus et al., 2017) suggest that the value of a company can reflect the success in meeting the needs and benefits of shareholders. Elevating the worth of a company may also be a primary long-term objective for the company. Managers are frequently accused of disregarding and exploiting the interests of shareholders. This issue involves the dynamic between agents and principals, with agents appearing to represent the principal's interests.

Managers often prioritize their own interests instead of those of the company owners or principals. Management decisions can influence company value and one method to achieve this is through tax planning.

Advancements in technology could be contributing to the rise in tax avoidance schemes as businesses with strong tax planning departments leverage technology (Siew Yee et al., 2018). One recent instance involves Starbucks Company being required to pay millions of Euros in taxes following the European Commission's decision in 2016 regarding tax avoidance by multinational corporations using pricing practices. For the past 29 years, starting in 1986, there has been a focus on companies engaging in tax avoidance. In the history of America, the uncovering of proof of tax evasion resulted in a change. Tax avoidance involves exploiting loopholes in tax legislation to reduce tax liabilities while staying within the boundaries of the law. Historically, tax avoidance has been viewed as the process of shifting wealth from the government to businesses, thereby potentially boosting the company's worth. Tax avoidance involves lowering corporate taxes through legal strategies, which can boost company profits and impact its overall value while adhering to tax laws (Anggoro & Septiani, 2015).

Hypothesis Development

The Effect of Tax Avoidance on Firm Value

Tax avoidance is a behavior carried out by companies to reduce the company's tax burden by exploiting weaknesses in tax regulations without violating existing laws. However, this activity has been avoided because it is considered to increase the value of the company where investors assume that what is in the financial report is fictitious and can reduce transparency and reduce investor trust in the company (Muid, 2017).

(Chen et al., 2014) suggest that tax avoidance behavior could potentially lead to agency conflict between managers and investors. Companies engage in tax avoidance to decrease the amount of tax they owe. Engaging in tax avoidance will lower the accuracy and usefulness of a financial report, influencing investors' assessments of the company's worth. This research discovered that company value decreases significantly due to tax avoidance, as evidenced by the finding that a rise in tax avoidance leads to a decrease in company value.

(Anggoro & Septiani, 2015) analyze the topic of the influence of tax avoidance on firm value moderated by transparency. Tax avoidance activities are said to describe managers having personal interests in manipulating profits, which will give rise to inconsistent news. The study shows that firm value is significantly increased by tax avoidance. The author suggests that engaging in tax avoidance strategies has the potential to enhance the value of a company. This finding is in line with (Itan et al., 2024; Dewanata, 2017; Novarianto & Dwimulyani, 2019).

(Panggabean, 2018) also carried out a same investigation on the factors of tax evasion and company worth. Unveiled tax avoidance strategies negatively affect investors' evaluations of company worth. The study's findings show that tax avoidance has a detrimental impact on the value of a company. (Siew Yee et al., 2018) examines the topic of the influence of tax avoidance on company value. Findings of research suggest that avoiding taxes impacts the value of a company negatively. The researcher stated that shareholders do not view tax avoidance behaviour positively and that it can diminish the value of a company. This result is in line with research conducted by (Zebua, 2016; Tata et al., 2017; Apsari & Setiawan, 2018).

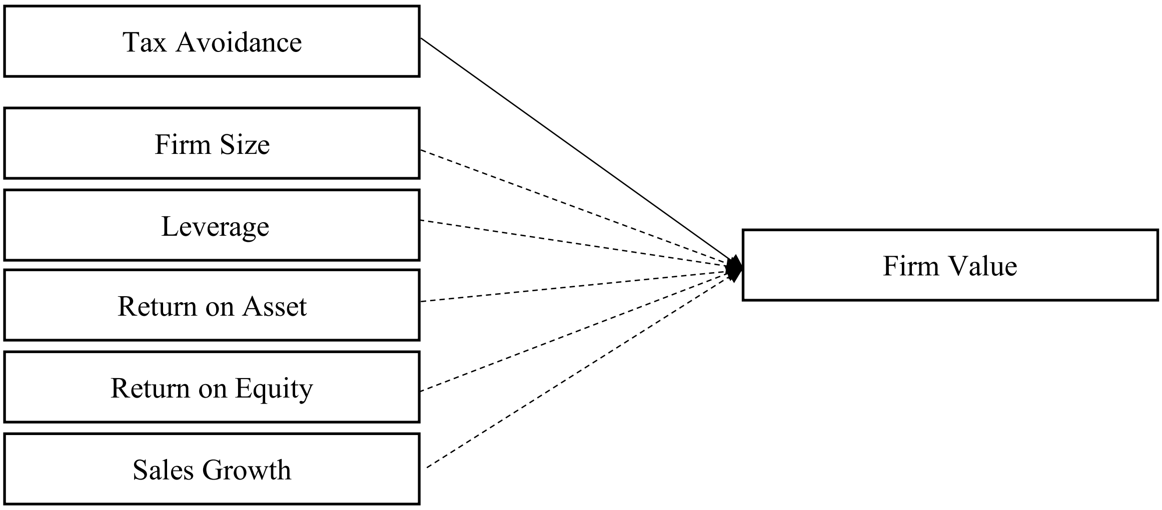
The results stating that tax avoidance has no significant effect on company value were also studied by other authors. The results concluded that investors tend not to see how much tax payments are made by the company. This can be considered that investors do not really consider the extent of tax avoidance practices carried out by the company. Stable or high profits are generally more attractive for investors to fund (Partha & Noviari, 2016; Soerzawa et al., 2018; Kusumawardani & Suardana, 2018; Sugiyanto & Suripto, 2020; Nopianti & Suparno, 2020; Ilyas & Salsabila, 2021).

Given the discussion on the correlation between tax avoidance factors and company value factors, the author aims to observe whether the results in Indonesia tend to be significantly positive or negative.

H1: Tax avoidance has a significant effect on company value.

Research Model

Figure 1. Research Model



Source: Processed Research Data (2020)

RESEARCH METHODOLOGY

This study employs a quantitative method in order to proving facts, testing existing theories in previous research, showing the relationship between one variable and another, and interpreting the results. Research that uses a quantitative approach must be organized or structured, formal, standard and prepared as carefully as possible (Space, 2014).

Observing effects and identifying causal factors are used in this investigation to analyze cause-and-effect relationships. In this investigation, the primary method involves analyzing the differences between two groups and then examining factors that could be the cause or consequence of these distinctions. A component that evaluates two or more variables is used in this scenario (Wicaksono, 2015).

Population and Sample

All companies excluding banks, financial institutions, and real estate companies listed on the IDX from 2016 to 2020 are the subjects of this study. The sampling method used in this study is purposive sampling where the samples taken are in accordance with the qualifications that have been set in order to achieve the previously set goals. There are 220 companies that fulfill the sample criteria in this research. 246 companies failed to meet the criteria for inclusion in the sample data.

Research Variable

The operationalization of the variables used in this study is shown in table 1, which includes the dependent variable (firm value), independent variables (tax avoidance), and control variable (firm size, leverage, return on asset, return on equity, sales growth).

The company's worth in this research acts as a dependent factor. (Siew Yee et al., 2018) employed Tobin's Q to assess Company Value. (Zebua, 2016) believes that Tobin's Q is the most precise metric as it can interpret various occurrences within a company effectively.

Tax avoidance in this research serves as an independent variable. The intentional attempt to lower the tax obligation in order to increase the company's profits is known as tax avoidance. This project is considered legal since it conforms to the rules outlined in the existing legislation. A method for estimating tax evasion is the effective tax rate, according to (Silaban & Siagian, 2020).

This study uses leverage as a control variable. Leverage, according to (Sunarto & Budi, 2020), is a ratio that can be used to determine how much of a company's funding comes from its debt.

A company's size is an indication of the magnitude of its assets. The log of total assets is the ratio used to calculate the size of the company (Puspita & Febrianti, 2018).

Return on assets, which measures the company's capacity to produce profits, is calculated by comparing net profit to total assets at the conclusion of the accounting period (Kurniasih & Ratna Sari, 2013).

The ability of the business to produce returns on capital from current sources is known as return on equity (Naibaho & Hutabarat, 2020). The potential for profit for shareholders increases with the ROE ratio.

In this study, sales growth is one of the control variables. According to (Dewi, 2016), the sales growth ratio can be defined as the difference between the sales in the current period and the sales in the previous period divided by the total sales in the previous period.

Table 1. Research Variable Operationalization

No	Variable	Measurement	Source
1	Firm Value	$\text{Tobin's Q} = \frac{\text{Market Capitalization+ Total Debt}}{\text{Total Assets}}$	(Zebua, 2016)
2	Tax Avoidance	$\text{Effective Tax Rate} = \frac{\text{Current Tax Expenses}}{\text{Profit before Tax}}$	(Silaban & Siagian, 2020)
3	Firm Size	Firm Size = Ln Total Assets	(Puspita & Febrianti, 2018)
4	Leverage	$\text{Leverage} = \frac{\text{Total Debt}}{\text{Total Assets}}$	(Sunarto & Budi, 2020)
5	Return on Asset	$\text{ROA} = \frac{\text{Profit (Loss) Expenses after Tax}}{\text{Total Assets}}$	(Kurniasih & Ratna Sari, 2013)
6	Return on Equity	$\text{ROE} = \frac{\text{Profit (Loss) Expenses after Tax}}{\text{Shareholders Equity}}$	(Naibaho & Hutabarat, 2020)
7	Sales Growth	$= \frac{Total\ Sales - Total\ Sales - 1}{Total\ Sales - 1}$	(Dewi, 2016)

Source: Various Sources (2020)

RESULTS AND DISCUSSION

Descriptive Statistics

Finding the lowest value, maximum value, average value, and standard deviation of the variables under study is the goal of the results of this descriptive statistical test.

Table 2. Descriptive Statistics

Keterangan	N	Min	Max	Average	Std. Deviation
Firm Value	1516	0.1468	25.1875	1.3085	1.1085

Keterangan	N	Min	Max	Average	Std. Deviation
Tax Avoidance	1516	-11.8154	9.9235	0.1449	1.3862
Firm Size (Log)	1516	23.5570	33.4945	28.6928	1.7802
Firm Size	1516	Rp 17 billion	Rp 351.96 billion	Rp 11.394 billion	Rp 28.48 billion
Return on Asset	1516	-2.6466	1.2162	0.0050	0.1706
Return on Equity	1516	-544.4536	7.5557	-0.2402	14.6998
Leverage	1516	0.0003	22.6105	0.5959	0.9133-
Sales Growth	1516	-1.0000	69.3193	0.1971	2.4703

Source: Processed Research Data (2020)

Table 2 presented above shows information that the maximum value of the company value variable of 25.1875 is owned by PT Bakrie Telecom Tbk because the market capitalization in 2018 was very high. In 2018, PT Ultra Jaya Milk Industry & Trading Company Tbk showed that the company had the lowest company value with a ratio of 0.1468, due to the smaller market capitalization compared to total assets.

The examination reviewed 1,516 existing data and determined that PT Tempo Inti Media Tbk exhibited a tax avoidance rate of 992.35% in 2017 due to the fact that the current tax liability surpassed the pre-tax profit. The -1181.54% reduction at PT Indonesia Pondasi Raya Tbk can be attributed to the company's losses in 2020, along with a substantial payment of current tax burden.

The information indicates that PT Astra International Tbk's significant asset value is reflected in its maximum company size of 33.49 (logarithm) or IDR 351.96 trillion. However, in 2016, PT Akbar Indo Makmur Stimec Tbk experienced a minimum value of 23.55 (logarithm) or IDR 17 billion because of its comparatively small asset numbers.

PT Modern Internasional Tbk achieved a ROA of 1.2162 due to high profits in 2017, while PT Tiga Pilar Sejahtera Food Tbk had a ROA of -2.6466 due to significant losses and decreased assets in 2017 compared to 2016. PT Mitra Investindo Tbk's ROE reached 7.5557, mainly attributed to substantial equity losses in the year 2019. On the other hand, PT Leyand International Tbk experienced the lowest ROE of -544.4536 in 2018, indicating significant losses and a drastic reduction in equity value.

In 2018, PT Bakrie Telecom Tbk reached a peak Leverage of 22.6106 due to a rise in total debt, while PT Sumber Energi Andalan Tbk had a low Leverage of 0.0003 in 2016 because of its small total debt in relation to total assets. PT Bumi Resources Minerals Tbk experienced remarkable sales growth of 6931.94% in 2018, exceeding the figures recorded in 2017. In contrast, PT Tanah Laut Tbk faced a decline in sales in 2016 and reported no sales in 2017, leading to a minimum value of -100%.

Panel Regression Test Results

Prior to testing panel regression, the researcher has a stage where a table with PLS, FEM, and REM for analysis is present.

The results of the Chow test are utilized to determine if the FEM model will yield superior outcomes compared to PLS. A probability greater than 0.05 in the Chi-square results of the Chow test table indicates that FEM will outperform PLS. According to the findings of the Chow Test, the FEM analysis model should be used as the probability is below 0.05, specifically 0.0000, in the table, suggesting that FEM analysis will be employed in the subsequent phase.

Tabel 3. Chow Test

Model	Prob	Result
Cross-section Chi-square	0.0000	Continue to Hausman Test

Source: Processed Research Data (2020)

Following the chow test results, the next step involves using the Hausman Test. To determine which model performs better, testing is done. The table shows that the probability of 0.0000 is less than 0.05, which led the researcher to opt for the fixed model for the investigation.

Tabel 4. Hausman Test

Model	Prob	Result
Cross-section Random	0.0000	Fixed Effect Model

Source: Processed Research Data (2020)

Hypothesis Testing Results

In hypothesis testing, three test tools will be used, namely the R Square test, f statistic, and t statistic test.

Table 5. R Square Test

Dependent Variable	R Square	Percentage
Firm Value	0.9283	92.83%

Source: Processed Research Data (2020)

Table 5 was used as the basis for R Square testing, which produced significant findings of 0.9283, or 92.83%. This demonstrates how the dependent variable is simultaneously impacted by the independent factors. Subsequently, 7.17% is impacted by additional factors or models not covered in this research.

Table 6. F Test

Model	F-statistic	Prob.
Fixed Effect Model	47.7737	0.0000

Source: Processed Research Data (2020)

The objective of the F test is to establish the impact of the independent variable, tax avoidance, on the dependent variable, company value. To determine the simultaneous influence of the independent and dependent variables, a F test was performed using table 6. It is possible to conclude that the independent variables significantly affect the dependent variables based on the test results in the preceding table, which indicate that the probability figure is 0.0000.

Table 7. T Test

No	Variable	Coefficient	Prob.	Result	Hypotesis
1.	Tax Avoidance	0.0119	0.0829	Non-significant	Rejected
2.	Firm Size	-0.1288	0.0000		
3.	Return on Asset	0.1462	0.0412		
4.	Return on Equity	-8.5624	0.8985		
5.	Leverage	1.0604	0.0000		
6.	Sales Growth	-0.0045	0.2520		

Source: Processed Research Data (2020)

The aim of the t-test is to determine if there is a connection between the independent variables and the dependent variable. The independent variable has a notable impact on the dependent variable if the probability value for each variable is less than 0.05.

The possibility of tax avoidance in this study is 0.0829 above 0.05, and table 7 above indicates that the t-test results indicate that it has no significant impact on firm value. The results of this study are in accordance with the research of (Partha & Noviari, 2016; Soerzawa et al., 2018; Kusumawardani & Suardana, 2018; Sugiyanto & Suripto, 2020; Nopianti & Suparno, 2020; and Ilyas & Salsabila; 2021) which states that tax avoidance has no effect on firm value. However, the results of this study contradict the research of (Zebua, 2016; Siew Yee et al., 2018; Tata et al., 2017; Apsari & Setiawan, 2018) which reveal that tax avoidance has a significant negative effect on firm value.

CONCLUSION AND SUGGESTION

Tax avoidance was shown not to have a substantial impact on firm value based on the findings of the research done. This may occur because investors in Indonesia typically do not pay close attention to a company's tax payment amounts, making them less concerned about the company's tax dodging activities. Stable and high profits are more of an investor's choice to invest their investments. So, whether or not tax avoidance practices are carried out by the company does not affect investors' decisions to invest and withdraw their investments.

The limitation of this study is that the results of the study cannot be proven in full, because the researcher can only collect secondary data from 311 companies listed on the Indonesia Stock Exchange (IDX) from 729 companies listed due to limited time. Indonesia has two applicable tax rates, making it difficult to determine the level of tax avoidance carried out by the company. The corporate income tax rate is calculated from the percentage (%) x profit before tax is reconciled, then the final income tax rate is calculated from the percentage (%) x gross circulation or company turnover.

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