Effects of Tax Avoidance and Financial Performance on Firm Value

Riaty Handayani

Universities Mercu Buana, Jakarta, Indonesia

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Abstract – This study aims to determine the effect of Tax Avoidance and the ratio of the company's financial performance to firm value. The financial performance ratios used are Return On Assets (ROA), Current Ratio (CR), and Debt to Equity Ratio (DER). This research method is a quantitative study with a research sample of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period of 2016-2018. The data testing method used is multiple linear regression analysis. The results showed that ROA and CR had a positive effect on firm value, while tax avoidance and DER had no effect on firm value. These results indicate that investors see the value of financial ratios as indicators of company performance.

Keywords: Tax Avoidance, ROA, CR, DER, PBV

1. Introduction

In Indonesia, taxes provide a very large contribution to state revenue, even in the Indonesian State Budget the largest funding is received from the tax sector, (Fadillah, 2019; Fadhila & Handayani, 2019). But the increase in tax revenue is not followed by an increase in tax ratio. Indonesia is the country with the lowest tax ratio compared to other neighboring countries.

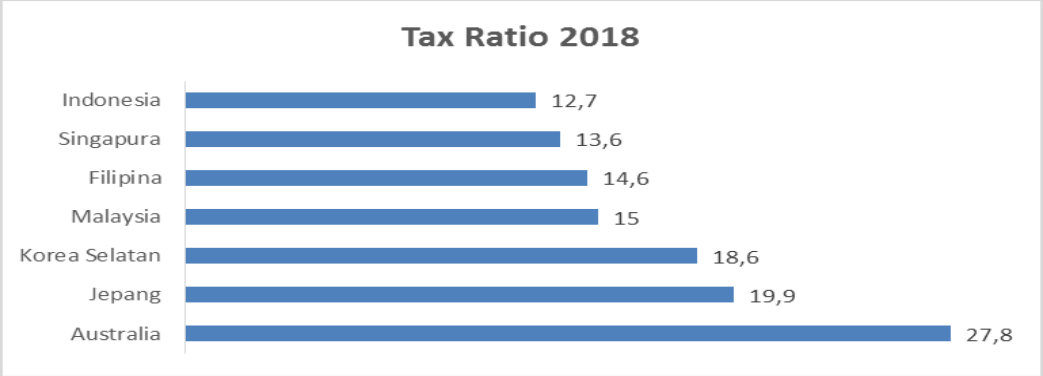

Figure 1 Tax Ratio

Different from the tax benefits for the state, for tax companies is a burden, so the tax burden must be managed properly so that the company's profits become greater. One way for companies to manage the tax burden is to do tax planning or tax avoidance. Managers do tax avoidance not in the interests of the owner, but for the opportunistic purpose of increasing the value of the company, (Herdiyanto & Ardiyanto, 2015; Wardani & Juliani, 2018).

One mirror in improving company performance is seen in the company's value. The value of the company is well illustrated by the public in several ways, one of which is the information contained in the financial statements and the public's positive reaction to information. The better the company's performance means the higher the value of the company, (Triani & Tarmidi, 2019; Pernamasari & Mu'minin, 2019). Financial performance that can be an indicator of a company's value is profitability, leverage, and liquidity. The company in its business activities has the aim to be able to increase the value of the company in each period, which can be seen from the stock market price, (Nugroho & Agustia, 2017). High liquidity values reflect the company's high ability to meet its short-term obligations.

2. Literature

Agency Theory

Agency theory discusses agency relationships or contracts that occur between shareholders (principal) and management (agent). (Jensen & Meckling, 1976) defines agency theory as a contract between one or several principals who delegate authority to others (agents) to make decisions in running a company. Based on agency theory, shareholders do not always want management to practice tax avoidance because there are costs to be incurred. Therefore management is required to account for all its efforts to shareholders. So as to realize these objectives the company's efforts in providing maximum performance, both financial performance and other business performance through aspects of justice, transparency, accountability and responsibility Debby et al, (2014) in (Pernamasari & Mu'minin, 2019).

Signaling Theory

(Brigham & Houston, 2013) states that a sign is an action taken by a company management that gives instructions to investors about how management views the company's prospects. Companies with favorable prospects will try to avoid selling shares and making every new capital needed by other means. Whereas with less favorable prospects, they will tend to sell shares.

Firm Value

Firm value is a certain condition that has been achieved by a company as an illustration of public trust in the company afterwards through a process of activities for several years, namely since the company was founded until now, (Wahyudi *et al*, 2020). In other words, the firm value is the price that investors are willing to pay if the company is sold. The higher the stock price means the higher the rate of return to investors and that means the higher firm value related to the objectives of the company itself, namely maximizing the prosperity of shareholders.

Tax Avoidance

Tax planning activities have significantly attracted the interest of economists, regulators, accountants, researchers, market analysts, and the investment community about tax avoidance activities. However, the adoption of tax planning practices is a controversial practice, (Santa, 2016). Meanwhile the tax avoidance strategy is also one of the important managerial decisions determined by managers. Complex tax avoidance arrangements always provide a shield for managers to take advantage of themselves without governance controls, (Yee et al, 2018)

Return on assets (ROA)

Profitability ratios are ratios to assess a company's ability to find profits. This ratio also provides a measure of the effectiveness of a company's management. Return on total assets is a ratio that shows the results (return) of the total assets used in the company, (Kasmir, 2014).

Current Ratio(CR).

Current ratio is the ratio to measure the ability of a company to pay short-term liabilities or debt that are due immediately when billed as a whole. Current ratio calculation is done by comparing the total current assets to the total current debt, (Kasmir, 2014)..

Debt to Equity Ratio (DER)

Debt to equity ratio is the ratio used to assess debt with equity. This ratio is sought by comparing all debt, including current debt and all equity, (Kasmir, 2014).

3. Framework and Hypothesis Developing

Tax Avoidance to Firm Value

Tax avoidance can potentially trigger agency conflict between the interests of managers and the interests of investors, (Jensen & Meckling, 1976). These activities certainly have an effect on shareholders which results in a decrease in the information content of the company's financial statements, so there is the potential for information asymmetry between the company and its shareholders, (Wardani & Juliani, 2018).

H1: Tax Avoidance negatively affects firm value

Return on Asset (ROA) to Firm Value

ROA reflects the company's ability to generate profits based on assets owned. High profit in a company is indicated that the company has good prospects, it will have an impact on rising stock prices so as to increase the value of the company. Research (Endri & Fathony, 2020) produces ROA has a positive influence on firm value
H2: ROA positive effect on firm value

Current Ratio (CR) to Voluntary Disclosure

Current ratio is the ability of the company's current assets in fulfilling short-term obligations with current assets owned. In other words, Current ratio is a ratio that measures a company's ability to meet its short-term obligations. With a high level of CR reflecting the adequacy of cash so that the more liquid a company eats the level of investor confidence will increase this will improve the company's image in the eyes of investors so that it can affect the value of the company, (Annisa & Chabachib, 2017).
H3: CR positive effect on firm value

Debt to Equity Ratio (DER) to Firm Value

For creditors, DER analysis is the main consideration for investors. But on the investor side the results of the DER analysis will be used to determine attitudes towards securities held in the company, because DER is a ratio that measures how far a company uses debt. (Ogolmagai, 2013).
H4: DER negatively affects firm value

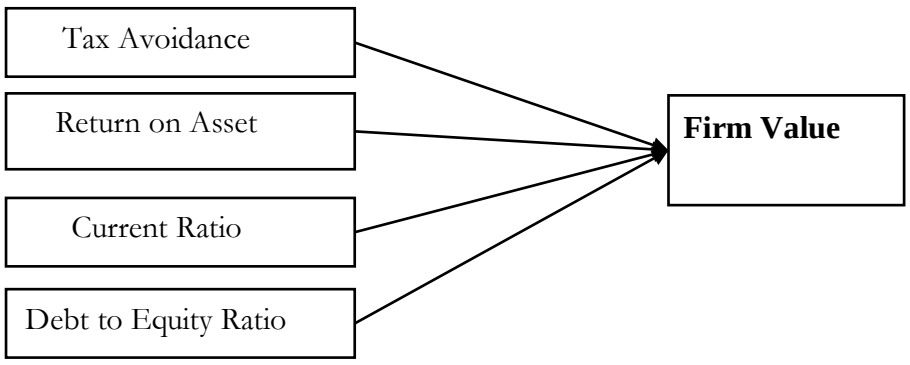

Figure 2: Framework

4. Research Methods

Research Design

This type of research is causal research, which is research that aims to test the hypothesis about the effect of one or several variables on other variables, (Sugiyono, 2013). The population of this research is manufacturing

companies listed on the Indonesia Stock Exchange in 2016-2018. The sampling technique used in this study is the purposive sampling method, where the sample is selected based on the suitability of the characteristics with the criteria (consideration) of the sample determined to obtain a representative sample. The sample of this research is 55 companies multiplied by the number of years of observation, so the total sample is 165 data.

Table 1. Operasional Variable

Variabel	Measurement	Skala	Source
Firm Value	*PBV = Share Price / book value*	Rasio	(Brigham & Houston, 2014)
Tax Avoidance	*Cash Effective Tax Rates* (CETR) = Payment of tax / Earning Before Tax	Ratio	(Fadhila & Handayani, 2019)
ROA	ROA = Earning After Tax / Total Asset	Rasio	Kasmir, 2014)
Current Ratio	ROA = Laba Bersih Seteleh Pajak / Total Asset	Rasio	(Kasmir, 2014)
Debt to Equity Ratio	DER = Total Hutang / Total Equity	Rasio	(Kasmir, 2014)

Analysis Method

This research uses SPSS 22 analytical tools. The analytical test conducted is descriptive test, Classic Assumption Test, Model Suitability Test, and Multiple Regression Test, (Ghozali, 2016)..

$$\mathbf{FV = \alpha + \beta 1Tax + \beta 2ROA + \beta 3CR + \beta 4DER + \varepsilon}$$

Information:

FV= Firm Value
a = constant
β1, β2, β3 = Regression Coefficient
Tax = Tax Avoidance
ROA = Return on Assets
CR = Current Ratio
DER = Debt to Equity ratio
ε = Error

5. Result and Discussion

Results

Table 2 Descriptive Statistics Result

	N	Minimum	Maximum	Mean	Std. Deviation
Tax Avoidance	165	.0639	.9712	.306391	.1555347
ROA	165	.0003	.5267	.079593	.0796923
DER	165	.1092	4.1900	.738619	.6179821
CR	165	.6486	8.6378	2.555644	1.5418405
Firm Value	165	.0701	8.8729	2.029270	1.7995994
Valid N (list wise)	165				

Source: SPSS data processing 22

1. The value of tax avoidance illustrates the higher the less the information content of financial statements. CETR value in manufacturing companies has an average value of 30.6%, which means that information asymmetry occurs in the financial statements of manufacturing companies.
2. Profitability is measured using Return on Assets (ROA) which is an asset that shows the company's ability to generate profits against total assets. The ability of manufacturing companies to show good performance in terms of return on investment (mean) with an average (mean) ROA of 7.9%.
3. Current ratio (CR) is to measure the level of liquidity in a company, the more liquid a company is, the higher its CR value will be. With a high CR level reflects the adequacy of cash so that the more liquid or better. The average value of CR in manufacturing companies is 2.55, which means the company is quite liquid.
4. Leverage is measured using Debt to Equity Ratio (DER), which is to illustrate the extent to which owner's capital can cover liabilities to outside parties. Manufacturing companies studied have an average DER of 73%, so that almost half of the debt is managed from the owner's capital.
5. Firm value measured through Price Book Value (PBV) obtained an average value of 2.02 which can be interpreted that manufacturing companies have succeeded in increasing investor confidence in the level of success of a company that is reflected through its share price. PBV values above 1 indicate that the company on average experienced a growth in firm value.

Classic assumption test

Table 3. Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		165
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.86377963
Most Extreme Differences	Absolute	.051
	Positive	.024
	Negative	-.051
Test Statistic		.051
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

The Kolmogorov-Smirnov test table results show a sig value of 0.200> 0.05. So it can be said that the data of this study are normally distributed so that subsequent testing can be done..

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Table 4. Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Tax Avoidance	.953	1.050
	ROA	.956	1.046
	CR	.995	1.005
	DER	.999	1.001

Multicollinearity test results showed a tolerance value greater than 0.10 and a Variance Inflation Factor (VIF) value of less than 10, so it can be said that there was no multicollinearity between the independent variables in the regression model in this study.

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Table 5. Heteroskedastisitas Test

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.738	.106		6.954	.000
	Tax Avoidance	-.213	.264	-.064	-.808	.420
	ROA	.366	.514	.057	.712	.477
	DER	-6.954E-5	.000	-.108	-1.390	.166
	CR	.000	.000	-.109	-1.397	.164

Heteroscedasticity test in this study used glaciers test, where in the table above shows that the significance value generated from all independent variables exceeds 0.05 or 5%. So it can be concluded that the regression model does not contain heteroscedasticity..

Table 6 Autocorrelation Results

Model Summary[b]

Model	Durbin-Watson
1	1.642

The autocorrelation test results showed the value of Durbin Watson was 1,721. DW value is between -2 to 2 or (-2 <1,642 <2), it can be concluded that there is no autocorrelation. So the regression model is said to be good because regression is free from autocorrelation.

Model Suitability Results

Uji Kelayakan Model

Table 7 Determination Coefficient Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.447[a]	.199	.179	.87451	1.642

a. Predictors: (Constant), CR, DER, ROA, Tax Avoidance
b. Dependent Variable: Firm Value

If you look at the value of R Square, it can be said that the independent variable in predicting the dependent variable is the company's value of 19.9%, while the remaining 80.1% is influenced by variables outside the study.

Table 8 Test Results F

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	30.477	4	7.619	9.963	.000[b]
	Residual	122.363	160	.765		
	Total	152.840	164			

a. Dependent Variable: Firm Value
b. Predictors: (Constant), CR, DER, ROA, Tax Avoidance

The F test value has sig 0,000 or below 0.05 which means that simultaneously or jointly influences the dependent variable firm value.

Table 9 Test Result t

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.051	.181		-.283	.778
	Tax Avoidance	-.205	.450	-.033	-.455	.650
	ROA	5.024	.876	.415	5.733	.000
	CR	.000	.000	.137	1.932	.054
	DER	.000	.001	.053	.753	.453

a. Dependent Variable: Firm Value

Based on the t test results table obtained from the 4 variables measured to test the effect of firm value on manufacturing companies in the consumption industry sector, the following conclusions are obtained:

1. Tax avoidance has insignificant negative effect to firm value in manufacturing companies because the sign value is above 0.05, so it can be concluded that hypothesis 1 is not accepted
2. ROA has a significant positive effect to firm value in manufacturing companies, because the value of sig is taken 0.005. so it can be concluded that hypothesis 2 is accepted
3. CR variable has a significant positive effect to firm value in manufacturing companies, because the sig value is below 0.005. so it can be concluded that hypothesis 3 is accepted.
4. DER variable has an insignificant positive effect to firm value in manufacturing companies, because the sig value above 0.005. so it can be concluded that hypothesis 4 is not accepted.

Analysis model

Firm Value = -0.051 – 0.205tax Avoidance + 5.024ROA - 0.000CR + 0.000DER

From the results of the t test table above it can be said that if there are no variables that affect the company's value of -0.568. If there is an increase of 1 point from the CETR variable, it will reduce the firm value by 0.205. Then if there is an additional 1 point from the ROA variable, it will increase the firm value by 5,024. Then if there is an additional 1 point from the CR variable it will reduce the firm value by 0,000. Then if there is an addition of 1 point from the DER variable it will increase the firm value by 0,000.

Discussion

Tax Avoidance to firm value

Based on the t test results, it is known that tax avoidance has no significant negative effect on firm value. It can be said that the existence of activities related to tax avoidance carried out by the company does not affect the firm

value. tax expense actions paid by companies are not an element of concern for investors, these results indicate that investors see the value of financial ratios as indicators of company performance. This result is in accordance with (Annisa & Chabachib, 2017) which says the tax avoidance of company value has two different perspectives, namely positive and negative.

Return on Asset (ROA) to Firm Value

Based on t test results it is known that ROA has a significant positive effect on firm value. It can be said that the greater the value of ROA, the better the company's performance and shows that management performance is increasing in managing assets effectively to generate net profit. Because net income can be used as an indication that it will cause an increase in share prices which also means an increase in the firm value.

ROA as a measure of the company's overall ability to generate profits with the total amount of assets available in the company has a very important role to maintain a company's sustainability in the long run. This is because profitability can show the prospects of the company, which if managers are able to manage the company well, then the costs incurred by the company will be smaller, so the profits generated will be greater, (Endri & Fathony, 2020)

Current Ratio (CR) to Firm Value

Based on the t test results, it is known that CR has a significant positive effect on firm value. Liquidity ratios are ratios used to measure the level of a company's ability to meet short-term financial obligations on time. This result can be said that the high level of liquidity minimizes the company's failure to meet short-term financial obligations to creditors and vice versa. According to research conducted (Annisa & Chabachib, 2017) the high and low of this ratio will affect investors' interest to invest their funds, the greater this ratio, the more efficient the company is in utilizing the company's current assets.

Debt to Equity Ratio (DER) to Firm Value

Based on t test results, it is known that DER has no significant negative effect on firm value. This shows that manukfatur companies in managing debt originating from equities are not an indicator for investors. This result is also due to many companies having a DER ratio of more than 1, so it can be said that companies rely on debt as the main source of financing rather than own capital. If supervision in the company is good in managing debt, then the return on capital by using leverage also increases, (Utami & Pernamasari, 2019).

According to (Devianasari & Suryantini, 2015) managers can use more debt, which later acts as a more reliable signal. This is because companies that increase debt can be seen as companies that are confident in the company's prospects in the future. Investors are expected to capture these signals, signals that indicate that the company has prospective prospects in the future, (Ogolmagai & Against, 2013).

Conclusion

1. The tax avoidance variable does not have a significant negative effect on firm value. This means that activities related to tax avoidance carried out by the company do not affect the value of the company. These results indicate that investors see the value of financial ratios as indicators of company performance.

2. ROA variable has a significant positive effect on firm value. This can be said the greater the value of ROA, the better the company's performance and shows that management performance is increasing in managing assets effectively to generate net profit.

3. The CR variable has a significant positive effect on firm value. This result can be said that the high level of liquidity minimizes the company's failure to meet short-term financial obligations to creditors and vice versa

4. DER variable has no significant negative effect on firm value. This result is because many companies have a DER ratio of more than 1, so it can be said that the company relies on debt as the main source of financing rather than own capital..

Suggestions

1. For academics are expected to add other variables beyond the variables in this study such as corporate governance variables to obtain more varied results and use different types of companies as a comparison
2. For the company, there are found many companies that have a debt ratio value of more than 1, so it needs to be a concern for the company to be able to manage debt sourced properly from equity.

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