

Effect of Tax Avoidance and Profitability on Firm Value: Corporate Transparency as a Moderating Variable

Abstract

Nilai perusahaan sangat penting karena dapat mencerminkan kinerja perusahaan, oleh karena itu banyak upaya perusahaan untuk mempertahankan investor. Dalam upaya meningkatkan nilai perusahaan, manajer keuangan dapat melakukan perencanaan pajak dengan cara penghindaran pajak, namun keterbukaan informasi yang dilakukan oleh perusahaan kepada publik dapat memperkecil kemungkinan terjadinya penghindaran pajak. Penelitian ini digunakan untuk membuktikan konsep fungsi secara analitik dan eksperimental. Tujuan dari penelitian ini adalah untuk mengetahui pengaruh penghindaran pajak, profitabilitas terhadap nilai perusahaan dengan transparansi informasi perusahaan sebagai variabel moderasi. Objek penelitian ini adalah perusahaan pada perusahaan perbankan dari tahun 2018 sampai dengan tahun 2021. Hasil penelitian menunjukkan bahwa ROA berpengaruh terhadap nilai perusahaan sedangkan penghindaran pajak tidak berpengaruh terhadap nilai perusahaan dan transformasi informasi tidak mampu memoderasi penghindaran pajak dan ROA terhadap nilai perusahaan pada perusahaan perbankan di Indonesia.

Keywords: *Tax Avoidance, Profitability, Firm Value, Information Transparency*

INTRODUCTION

“Every company has a goal to provide welfare for shareholders by maximizing the value of the company which is reflected in the value of the company's shares. The value of the company is very important because it can reflect the company's performance, therefore there are many companies' efforts to retain investors. In an effort to increase the value of the company, financial managers can carry out tax planning by means of tax avoidance” (Inanda et al., 2018).

“The effect of tax avoidance on firm value has two different perspectives, namely positive and negative. In an effort to maximize the value of the company, it is possible that management will face the emergence of agency problems, namely conflicts of interest between managers and shareholders, where each party is only concerned with personal interests. For investors as principals who have placed their funds in the company, they will make a low assessment of the company if it is found that they are tax avoidance by withdrawing the funds that have been placed in the company” (Simarmata, 2014). Therefore, information transparency needs to be carried out by the company.

The principle of transparency requires openness and in carrying out the decision-making process and transparency in the disclosure of company information. In realizing transparency, companies must provide sufficient, accurate, and timely information to various interested parties. In addition, the company is also expected to be able to publish financial information and other material information in an accurate and timely manner so that investors can easily access important company information when needed. Thus, the more transparent the company will reduce the opportunistic behavior of managers which can reduce agency costs which are expected to increase the value of the company. Wang's research (2010) proves that “company transparency has an effect on tax avoidance actions taken. The results of this study found that tax avoidance affects firm value, especially for companies”.

Decision of the Capital Market and Financial Institution Supervisory Agency (Bapepam) No. Kep-431/BL/2012 regarding the submission of annual reports of issuers or public companies that in improving the quality of information disclosure in the company's annual report it is deemed necessary to include the criteria that have been regulated in the Bapepam cycle No. X.K.6. Information transparency has an important role to increase the value of the company. Because the transparency of information made by the company to the public can minimize the possibility of tax evasion.

The Indonesian banking industry is also inseparable from the issue of tax avoidance. A study on the implementation of tax obligations in the banking sector is deemed necessary in order to provide initial information on the potential for tax avoidance practices in the banking sector. Several schemes are possible for tax avoidance practices where banks act as actors, for example: (i) receiving loans from affiliates who have the same business activities (interbank loans); (ii) withholding dividends to shareholders (branch profit tax); and (iii) opening branches in countries classified as tax haven countries. Tax avoidance practice schemes that may occur are carried out by third parties where the bank is a channel, for example the offset of deposit interest with loan interest. Based on this background, a problem can be drawn, namely, whether tax avoidance and profitability affect firm value, and whether information transformation is able to moderate the relationship between tax avoidance and profitability on firm value.

LITERATURE REVIEW

Agency Theory

“Agency theory emphasizes the importance of company owners (shareholders) handing over the management of the company to professionals called agents who are more understanding in running their daily business. The purpose of separating management from company ownership is so that company owners get the maximum profit possible at the most efficient cost possible by managing the company by professional staff”. (Nuraeni et al., 2018).

Jensen & Meckling (1976) in agency theory or agency relations say there is a contract that occurs between the manager (agent) and the owner of the company (principal). The existence of different interests between the two causes a conflict, where a manager (agent) has the responsibility to achieve what the owner (principal) wants but on the other hand a manager (agent) tries to improve his or her welfare. This triggers the agency problem so that violations such as manipulating financial statements can occur. (Khasanah & Jasman, 2019).

Signal Theory

Signaling theory provides an understanding that information provided by management to outsiders will be a signal for the market. A signal or signal according to (Brigham, E. F. & Houston, 2013) is “an action by company management, which provides instructions for investors about how management views the company's prospects”. “Information on the amount of assets that reflects the size of the company, the level of leverage, the amount of audit fees, and sales, contained in the report of the results of the accountability of management or internal parties for its performance in the company is a management signal about the company's ability to generate profits. persistent. Companies can improve the quality of persistent earnings by reducing information asymmetry, namely by giving signals to outsiders, one of which is in the form of positive and reliable financial information that will reduce uncertainty about future prospects”. (Nuraeni et al., 2018).

The value of the company

Firm value is one of the things that is considered for investors in investing in companies that will be invested by these investors (Ernawati and Widyawati, 2015). If viewed from the financial side, the value of the company is the present value of future income (future free cash flow). The higher the value of the company, the greater the prosperity that will be received by the owner of the company.

Tax Avoidance

According to Mardiasmo (2016), tax avoidance is: “Tax avoidance is an effort to ease the tax burden by not violating the law”. Meanwhile, according to Pohan & Anwar (2013) the definition of tax avoidance is: “Tax avoidance is an effort to avoid taxes that is carried out legally and safely for taxpayers without conflicting with applicable tax provisions where the methods and techniques used tend to take advantage of the weaknesses contained in the tax laws and regulations themselves to reduce the amount of tax payable”

From the explanation, it can be concluded that tax management is an effort made by the tax manager to fulfill tax obligations so that their fulfillment can be carried out effectively and efficiently but the amount of tax paid is suppressed as low as possible to obtain the expected profit.

Profitability

“Return on Assets is a measure of the company's ability to generate profits with all assets owned by the company. These assets are all company assets starting from own capital and foreign capital which have been converted into company assets for the survival of the company. This ratio of figures is

commonly used to measure the company's performance by investors. The increasing return on assets shows how well the assets are managed by the company to bring a profit for every one dollar of assets that has been invested in the company", (Atidhira & Yustina, 2017).

"Economically, the higher the rate of return obtained, the higher the company's ability to utilize its assets to earn a profit. So that the higher the ROA, the higher the company's ability to generate profits, the higher the company's income will make investors interested in the value of the stock", (Warrad

& Omari, 2015). (Fitria & Asmarani, 2019) said that management who consider taxes as a burden on the company will try to minimize the tax burden by legal and illegal means.

Company information transparency

Information transparency is the disclosure of information carried out by the company so that it can be accessed by various parties to see the company's performance. Interested parties such as company owners, creditors, debtors and investors. Published information must also be accounted for its truth. Companies that go public will usually be required by the government to provide information that exceeds their obligations. The transparency carried out by the company is financial and management transparency (Kartika et al., 2019). In this study, the transformation of company information is in accordance with Bapepam-LK Decree No. LK Kep-431/BL/2012.

METHODS

The population in this study are banking sector companies listed on the Indonesia Stock Exchange in 2018-2021. Sampling in this study used a purposive sampling technique, where purposive sampling is a sampling technique of data sources with certain considerations, the research sample obtained was 25 companies and the number of data was 100 data.

"The dependent variable or the independent variable is the variable that is influenced or which is the result of the independent variable" (Sugiyono, 2013). "In this study, the dependent or independent variable (Y) is Firm Value. Firm value is defined as market value, because if the stock price increases, the firm value can provide maximum shareholder welfare. Firm value can be measured using Tobin's Q" (Yang et al., 2009) with the formula:

$$TQ = \frac{\text{market value shares} + \text{book value of liabilities}}{\text{total asset}}$$

Market Value of Tradable Shares (MVE): Share Price x Number of Shares
Outstanding Book Value of Liabilities (DEBT): Current Debt + Long-Term Debt

Total Assets: Total asset value

Independent variables or independent variables are variables that affect or are the cause of changes or the emergence of the dependent variable (the dependent variable) (Sugiyono, 2013). The independent variables used in this study are tax avoidance and profitability.

1. Tax Avoidance can be measured in many ways, one of which is by using the ETR formula: $ETR = \frac{\text{Income Tax Expense}}{\text{Profit Before Tax}}$
2. Profitability. Return on Assets is a form of profitability ratio to measure the company's ability to generate profits by using the existing total assets. Return on Assets can be calculated using the following formula (Kasmir, 2014):
$$ROA = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

The moderating variable in this study is to use the company's information transparency variable. The voluntary disclosure items that should be included in the company's annual report consist of 33 items of information that are in accordance with Bapepam-LK Decree Number LK Kep-431/BL/2012. For each item disclosed is given a score of 1 and for items that are not disclosed is given a score of 0. The calculation to find the index number is determined by the following formulation:

Transparency =

$\frac{n}{k}$

n = number of disclosure items fulfilled

k = the number of all possible items fulfilled

To test the framework above, using SPSS.22 analysis tool to test the feasibility of the model, F test and t test. There are several ways to test regression with moderating variables and one of them is Moderated Regression Analysis (MRA). Moderated Regression Analysis (MRA) or interaction test is a special application of linear multiple regression where the regression equation contains interaction elements (multiplication of two or more independent variables), (Lie, 2009). The multiple linear regression equation in this study is as follows:

$$TQ = \alpha + \beta_1 ETR + \beta_2 ROA + \beta_3 ETR * Ti + \beta_4 ROA * Ti + \varepsilon$$

RESULTS AND DISCUSSION

Result

Table 1 Descriptive Test Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
TA	100	.0122	.5077	.259670	.0725551
ROA	100	.07	13.6	2.6754	6.96327
TI	100	.7273	1.0000	.978182	.0411050
TOBINSQ	100	.1079	9.2779	1.154959	.8592392
Valid N (listwise)	100				

The table above can be described as follows

1. Tax Avoidance. The tax avoidance variable used to measure tax avoidance by banking companies is using the ETR proxy. A low tax avoidance value close to 0 (zero) can indicate that the higher the tax avoidance action taken by the company, and vice versa if it is above the value of 25%, the company is indicated to be tax compliant. Based on the data in table 1, the minimum ETR value of 0.0122 or 1.22% found at the East Java Regional Bank (BJTM) in 2020, it means that the company is indicated to be tax evasion on a high scale. The maximum tax avoidance value based on table 2 is 0.5077 or 50.77% found at Bank Capital Indonesia (BACA) in 2019, meaning that the company is indicated not to do tax evasion. On average, the value of tax avoidance is 25.95%, which means that on average, banking companies in Indonesia are not indicated to practice tax avoidance.
2. Return on Assets. ROA variable shows the company's ability to manage its assets into profit. Based on the results of table 1, the minimum ROA value is 0.07% at Bank Mayapada (MAYA) in 2021 and the maximum value is 13.6% at the Sharia State Pension Savings Bank (BPTS) in 2019. On average, banking companies have ROA value of 2.67%, this means that the company can generate net income on assets owned by 2.67%.
3. Information transparency. The information transparency items used in this research are Bapepam-LK regulations, Decision Number LK Kep-431/BL/2012. Table 1 shows the minimum disclosure value of 0.72 or 72% disclosed by Bank Ina Perdana (BINA) in 2021. On average, banks in Indonesia have a disclosure value of 97% of the total 33 items. Because banking is supervised by OJK and BI, many banks disclose 100% of this to foster investor and public confidence in banking.

4. Company Value. The firm value variable used is the Tobin's Q proxy. The firm's Tobin's Q value is considered high if it has a value greater than one (> 1). In table 2, the minimum value is 0.1079 by Bank Inda Perdana (BINA) in 2020, and the maximum value is 9.2 by BankCapital Indonesia (BACA) in 2018. On average, the value of banking companies in Indonesia during the year of observation is 1, 15 or >1. This indicates that the value of the company (value company) is greater than the value of the company's assets listed. This also shows that the market gives more value to the company.

Table 2. Model Conformity Test Results
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
(Constant)	-1.670	1.754			-.952	.344
Tax Avoidance	-.686	.745	-.438		-.921	.359
ROA	.052	.014	.384		3.788	.000
Transparansi informasi moderating1	.079	.058	.174		1.364	.176
moderating2	2.560	2.903	.419		.882	.380
moderating2	.108	.029	.607		3.658	.576

a. Dependent Variable: Tobin's Q

Uji F = 0.002

R Square =

0.159 DW = 1.971

Source: SPSS data processing. 22

Based on table 4 the results of the model suitability test, the regression function can be made as follows:

$$TQ = -1.610 - 0.686ETR + 0.052ROA + 2.560ETR * Ti + 0.108ROA * Ti$$

If there are no factors that affect the value of the company in banking in Indonesia during the year of observation, it is -1.610 or <1. If there is a 1% increase in the ETR variable, it will reduce the firm value by 0.68. If there is an increase of 1% of the ROA variable, it will increase the value of the company by 0.052. If there is an increase of 1% of the moderating variable between ETR and information transparency, it will increase the value of the company by 2,560. And if there is a 1% increase in the moderating variable between ROA and information transformation, it will increase the firm value by 0.108.

At table 2, it can be seen that the F test value is below 0.05, so it can be said that this model is fit, simultaneously all independent variables have an influence on the dependent variable.

At the R square value of 0.159, it can be said that the independent variable is able to influence 15.9% on the dependent variable and the remaining 84.1% is influenced by other variables outside this study.

At the t-test by paying attention to the significant coefficient values in table 2, it can be said that tax avoidance and information transformation have no effect on firm value, while ROA has a positive effect on firm value. The moderating variable between information transformation and tax avoidance has no effect on firm value. In this case, it can be said that the moderation between the information transformation variable and tax avoidance and the moderation between the information transformation and ROA is included in the type of moderating potential (Homologiser Moderator) i.e. the variable has the potential to be a moderating variable.

Discussion

The effect of tax avoidance on firm value

The results of the tests that have been carried out show that tax avoidance has no effect on firm value in banking in Indonesia during the 2018-2021 observation year. The test results can occur because most of the banking companies included in the research data are owned by state-owned

banks, where the largest shares are owned by the government so that investors feel guaranteed to invest. The tendency of investors not to see how much tax the company pays, the presence or absence of tax avoidance activities in the company is not the only determinant of investors' decisions on the value of the company.

This research is supported by research conducted by Pratama and Wiksuana (2016) explaining that tax avoidance does not affect firm value, because the increase in firm value can be seen from the size of the company or the presence of other factors that are not present in this study making investors' decisions on firm value.

But this study is not in line with research conducted by (Anasta, 2019) where the results of tax aggressiveness represented by tax avoidance have an effect on firm value, this shows that the amount of tax paid by the company will increase the value of the company.

Effect of ROA on Firm Value

In the results of table 2 it can be said that ROA has a positive effect on future prices. The higher the ROA value, the company value will also increase because investors tend to see the company's ability to manage company assets into profit. As the results (Pernamasari & Sugiyanto, 2022) which say that the positive direction shows when the company's profit shown in the financial statements is high, the company's stock price will tend to rise because it is influenced by the stock market value and investors' perceptions of the company so that it will affect supply and demand shares on the secondary market. These results support the signal theory (Brigham, E. F. & Houston, 2013), this information is important for investors and business people because information essentially presents information, notes or descriptions, both for past, present and future conditions for survival, company and how it affects the company.

This study is in line with (Saeidi & Okhli, 2012) in his research on companies listed on the Tehran Stock Exchange resulting in ROA having a high correlation with stock prices at the level of all industries, and it can be used as the main factor that is effective in influencing stock prices.

Transparency of information in moderating tax avoidance on firm value

The test results show that the moderation between information transparency and tax avoidance has no effect on firm value. This result may be due to the fact that in banking companies, almost all companies display items that comply with Bapepam-LK regulations, Decree No. LK Kep-431/BL/2012.

According to Ilmiani (2014) and Parta (2016). Companies with wider disclosures get better market results. Because being more transparent can make it easier for interested parties to access information as needed, and can attract the trust of the public and investors.

Transparency of information in moderating ROA on firm value

The test results show that the moderation between information transparency and return on assets has no effect on firm value. Although transparency published by the company has its advantages, however much or little information voluntarily disclosed does not affect the ROA on the value of the company. Because investors are more likely to see the company's ability to generate profits (Kartika et al., 2019).

Moderation Regression Analysis (Moderated Regression Analysis), and is included in the potential moderating variable (moderation homologiser) because the information transparency variable does not moderate the relationship between the independent variable, namely return on assets and the dependent variable, namely firm value, where the information transparency variable does not interact with the independent variable. and does not have a significant relationship with the dependent variable.

CONCLUSIONS

1. Tax avoidance has no effect on firm value. These results reveal that the tendency of investors not to see how much tax the company pays, the presence or absence of tax avoidance activities in the company is not the only determinant of investors' decisions on the value of the company.

2. Return on assets has an effect on firm value. The higher the ROA value, the company value will also increase because investors tend to see the company's ability to manage company assets into profit.
3. Information transformation does not moderate tax avoidance on firm value. This result may be due to the fact that in banking companies, almost all companies display items that comply with Bapepam-LK regulations, Decree No.LKKep-431/BL/2012.
4. Information transformation does not moderate ROA on firm value. Although transparency published by the company has its advantages, however much or little information voluntarily disclosed does not affect the ROA on the value of the company. Because investors are more likely to see the company's ability to generate profits.

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