

## HOW TAX AVOIDANCE AFFECTS FIRM VALUE

Achmad Subagdja<sup>1</sup>, Muhammad Syahrudin<sup>2</sup>, Liya Setiawati<sup>3</sup>

<sup>1,2,3</sup>Accountancy, STIE Gema Widya Bangsa, Bandung, Indonesia

<sup>1</sup>achbagdja@gmail.com, <sup>2</sup>syahrudin.ssh@gmail.com, <sup>3</sup>liya.setiawati2609@gmail.com

### ABSTRACT

Taxes are crucial because the government uses them to fund public welfare and development. Tax revenue in 2022 demonstrates an equally dispersed economic recovery in Indonesia across a number of industries. However, due to a number of factors, including instances of tax avoidance and corporate practices that exploit technicalities in tax laws, Indonesia's tax collection has fallen short of its proper amount. This study sought to ascertain how tax evasion affected the company value of coal mining businesses that were listed between 2018 and 2021 on the Indonesia Stock Exchange. Panel data regression analysis techniques are employed in the data analysis method using the Eviews version 12 software. Choosing model estimates the Chow test, Hausman test, Langrange multiplier test, normality test, panel data regression test, and hypothesis testing is how data testing is done. The analysis concluded that there is no relationship between tax avoidance and corporate value.

**Keywords:** tax avoidance; firm value; taxation

### INTRODUCTION

Compared to other revenue sectors, In Indonesia taxes are the main source of income. Taxes play a key role and are used by the government to finance development and public welfare. Taxes are a very promising revenue alternative for the state and benefit the community. Taxes in Indonesia have two functions, namely the budget function and the regulatory function (Mardiasmo, 2018).

Tax revenue performance up to the close of 2022 was the highest in the last four years, reaching 115.6 per cent of the target set or IDR 1,716.76 trillion.

Additionally, tax income grew at the fastest rate since 2019 in 2022. More specifically, tax revenue grew by 34.27 per cent (yoy) from 2019 to 2022, continuing the satisfactory growth from 19.26 per cent (yoy) the previous year (kemenkeu.go.id). The following chart shows the development of tax revenue from 2019 to 2022:



**Figure 1 Tax Revenue Development from January 2019 to December 2022**

Various sectors of the Indonesian economy are recovering as shown by the amount of tax received in 2022. However, Indonesia's tax revenue has not yet reached the level it should, as the country's tax ratio has not yet reached the level it should as well as cases of Tax avoidance and companies using opportunities in tax laws.

Tax planning is used by company management to reduce the amount of tax they must pay (Yuliandana & Ramadhan, 2021). If they fulfil the applicable regulations and fall into the category of acceptable tax avoidance, tax avoidance is legal (Safitri & Muid, 2020). According to a 2020 State of Tax Justice report, tax evasion in Indonesia was the fourth most common in Asia, with China, India, and Japan having the highest rates. This indicates that there is still a significant amount of tax avoidance in Indonesia (Tax Justice Network, 2022)

Indonesia's economy is heavily influenced by the coal mining industry, which is a key player in the world. With this position, coal industry players receive little oversight, often leading to environmental damage and tax evasion practices by companies. The economic

value contributed by the coal industry is extraordinary but the contribution to tax is considered exceedingly small. According to Ministry of Finance data, the tax contribution from the mineral and coal sector was only 3.9% in 2016 while the national tax ratio was 10.4%.

In a tax avoidance case, DJP sued PT MSA, a coal company, alleging that the transfer of mining power caused MSA not to pay Value Added Tax (VAT). DJP suffered defeat in three lawsuits in 2007, 2009 and 2010 which reached a lawsuit of 7.7 billion. DJP has continued to file the same lawsuit until now. The DJP's suspicion is not totally incorrect because there is a noticeable difference between the quantity of production value generated and the amount of tax paid. Nonetheless, the DJP ought to be able to do additional research and disclose the truth.

Tax in economic terms means reducing the company's profits to be reinvested or distributed as dividends. Companies will always strive to optimize their profits by applying all kinds of costs, including taxes. According to agency theory, the principal and the agent have a

cooperation contract (Jensen & Meckling, 1976). It is believed that both owners and agents have economic ratios and are driven by their own interests.

Because the agent has an incentive in maximizing the owner's profit, they will not behave in the owner's best interests even though there is a contract (Nisa et al., 2022). Information asymmetry or imbalance in the information management provides to owners or shareholders frequently leads to agency issues (Syahrudin, 2022).

A company's worth reflects the level of faith that investors have in it, a high value denotes shareholder prosperity, while a low value denotes subpar performance. A high number suggests that potential investors are interested in funding the business (Wiratno & Yustrianthe, 2022). Future profits plus the company's current value show how valuable it is (Sintyana & Artini, 2019).

Efficient tax evasion will raise the company's perceived worth to investors. Nonetheless, a lot of investors struggle to forecast a

company's worth as a justification for funding.

Studies on how tax evasion affects business value were carried out by Novarianto et al., (2019) and Tambahani et al., (2021) concluding that tax evasion has an impact on firm value. Different research results were produced Yuliandana & Ramadhan (2021) which shows the result that the value of the company is negatively and negligibly impacted by tax avoidance. This demonstrates that a company's worth will decrease the more tax avoidance it engages in. Research conducted by Chaidir & Yulia (2022) determined that the worth of the company is unaffected by tax avoidance.

Finding out how tax avoidance affects business value in coal mining companies listed on the Indonesia Stock Exchange between 2018 and 2021 is the aim of this study. Novelty research of this study is to use different years and with different research objects with other researchers.

## **LITERATURE REVIEW**

### **Agency theory**

Agency theory is a co-operative contract between one or more

individuals who function as the owner (principal) and employ a third party (an agent) to carry out specific duties for the owner (Jensen & Meckling, 1976). Meanwhile, Pawitri et al., (2024) According to agency theory, there are relationships between multiple individuals. The principal gives the agent (assignee) the responsibility to make decisions and perform duties and responsibilities to the agent on behalf of the principal.

#### **Stakeholder Theory**

Agusiady et al., (2021) In an organization, A stakeholder is any organization or person who has the ability to influence or be influenced by the achievement of organizational goals. In stakeholder theory, companies try to maintain a good relationship with stakeholders so that they believe in the entity (Syahrudin, 2022).

#### **Definition of Tax**

Taxes, which are compulsory payments to the state from people or organizations that are legally compelling, are used for state purposes and for the prosperity of the people (Mardiasmo, 2018). Then, (Resmi, 2019) states that Taxes are results that

are imposed unilaterally by and owed by the government, in accordance with general standards, and are only used to cover public costs.

#### **Tax Avoidance**

Tax Avoidance is a safe and lawful method for taxpayers to evade taxes because it does not violate any tax regulations (Mardiasmo, 2018). Tax planning, sometimes referred to as tax avoidance, is one management strategy used to lower a company's tax liability (Yuliandana & Ramadhan, 2021).

Tax avoidance is an effort to lower a company's tax liability without breaking the law. Proxied by Cash Effective Tax Rate (CETR), It is anticipated that CETR will use both fixed and transient differences to determine how aggressive corporate tax preparation is (Setya Nengse et al., 2023)

#### **Firm Value**

Firm value is the value per share that will be obtained if the company's assets are sold at the share price. A high share price indicates high value and can improve business performance (Gitman, 2006). Because a high company value will follow a high level

of shareholder prosperity, firm value is crucial (Wahidahwati & Ardini, 2021)

## **RESEARCH METHOD**

The authors selected a research location in coal mining businesses registered on the IDX for the 2018–2021 timeframe. Based on the type, quantitative research.

The Coal Mining BEI presents the data in the form of panel data in the form of annual financial reports (time series) from many enterprises (cross section). The Indonesia Stock Exchange provides annual financial reports for the 2018–2021 period on its website, IDX online, which serves as the data source.

Coal mining businesses in Indonesia that are listed on the Indonesia Stock Exchange (IDX) between 2018 and 2021 make up the study's population. Purposive sampling is the procedure used for sample selection, which means that predetermined criteria are used as a basis for selecting samples (Sugiyono, 2022).

Using the Eviews version 12 software, panel data regression analysis techniques were used to analyse the data. Time series and cross-sectional

data are combined to create panel data (Luhgiatno & Novius, 2019). Model estimation is employed to assess the data, followed by the normality test, panel data regression test, hypothesis testing, and the Chow, Hausman, and Langrange multiplier tests.

## **RESULT AND DISCUSSION**

### **Result**

To select the panel data estimation model, several tests need to be done first such as:

#### **Chow Test Results**

According to the Chow test results, the meaning of  $H_0$  is accepted since the chi square probability value is  $0.8110 > 0.05$ . Consequently, the common effect model is the appropriate one to apply.

#### **Hausman Test Results**

The Hausman test findings show that the cross-section random probability value is  $0.5546 > 0.05$ , which means  $H_0$  is accepted. This indicates that the random effect model is the appropriate one to use.

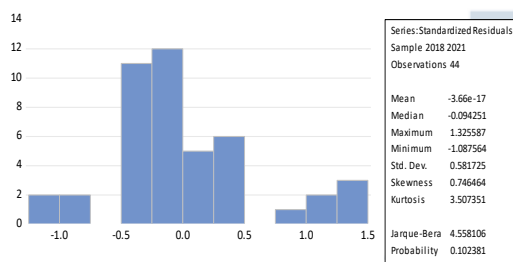
#### **Langrange Multiplier Test Results**

According to the findings of the Langrange Multiplier test, the common effect model is the appropriate one to employ since the Breusch Pagan probability value of 0.0574 is higher

than 0.05, indicating that the meaning of Ho is accepted. Consequently, the common effect model is the most suitable one to employ in this investigation.

**Normality Test Results**

This normality test is used to make sure that residual or confounding variables are distributed normally in the regression model (Ghozali, 2021). The following are the findings of this study's normality test:



**Figure 2 Normality Test Results**

According to the findings of the normality test, the distribution is normal since the probability value of 0.102381 is higher than 0.05.

**Panel Data Regression**

The following regression equation model was produced because of the computations done for panel data regression analysis in this study:

$$Y = 0,151907 + -0,092566+e$$

If variable X equals 0, the regression value (CETR) is -0.092566 and the firm value variable has a value of 0.151907.

The T hypothesis test will address this explanation, however according to the hypothesis test computation, variable X significance value does not surpass 0.05, indicating that the variable has no discernible impact on firm value.

**Hypothesis Test**

Thus, it can be concluded that tax avoidance has no significant impact on the value of coal mining companies listed on the Indonesia Stock Exchange between 2018 and 2021. The hypothesis test results indicate that the significance value of tax avoidance is 0.5060, which is greater than 0.05, so Ho is accepted.

**Discussion**

The findings of regression model analysis and hypothesis testing demonstrate that tax avoidance has no discernible effect on firm value. With a significance value of tax avoidance of 0.5060 above 0.05, Ho is accepted. Thus, avoidance has no discernible effect on the value of coal mining companies listed on the Indonesian stock exchange between 2018 and 2021.

This study concluded that the application of tax avoidance does not significantly affect the value of the



company's business since investors usually do not pay attention to how much tax is paid by the company, so they do not really consider how much tax avoidance is done by the company. Businesses with modest profits or gains are usually more attractive for investors to invest their capital.

Shareholders may not always favor tax avoidance as the costs of tax avoidance may outweigh the benefits. In addition, research shows that not all businesses support tax avoidance practices, which suggests that businesses recognize that all taxpayers must pay taxes. Although tax law does not prohibit tax avoidance, tax offices often look at it with a bad eye as it is perceived to have adverse consequences.

## CONCLUSION

The implementation of tax avoidance in this study has gone well, according to the findings of the research and debate on the Effect of Tax Avoidance on Firm Value in Coal Mining Companies Listed on the Indonesia Stock Exchange in 2018–2021.

Descriptive statistics' findings indicate that PT Alfa Energi Investama,

Tbk, obtained the minimum value in 2020, while PT Alfa Energi Investama, Tbk obtained the maximum value in 2020.

This study shows that the application of corporate value has a fair value because the company obtained the minimum value from PT Harum Energy, Tbk in 2019 and the maximum value from PT Transcoal Pacific, Tbk in 2018.

Tax avoidance does not seem to have a substantial effect on the business value of coal mining businesses listed on the Indonesia Stock Exchange between 2018 and 2021, according to the findings of the regression model analysis and the t hypothesis test.

## REFERENCES

- Agusiady, R., Dwiputrianti, S., Kusumastuti, D., & Sedarmayanti. (2021). *Mewujudkan Good Corporate Governance di Era Revolusi Industri 4.0 dan Masyarakat 5.0*. Deepublish.
- Chaidir, M., & Yulia, A. (2022). Pengaruh Tax Avoidance, Profitabilitas dan Debt to Equity Ratio Terhadap Nilai Perusahaan. *Ekonomika*, 6(2), 404–423. <http://journal.ildikti9.id/Ekonomika>
- Ghozali, I. (2021). *Aplikasi Analisis Multivariate Dengan Program IBM SPSS 26* (10th ed.). Badan Penerbit Universitas Diponegoro.

- Gitman, L. J. (2006). *Principles of Managerial Finance*. Pearson.
- Jensen, M. C., & Meckling, W. H. (1976). Theory Of The Firm: Managerial Behavior, Agency Costs And Ownership Structure. *Journal of Financial Economics*, 3, 305–360.
- Luhgiatno, & Novius, A. (2019). Pengaruh Perencanaan Pajak Dan Profitabilitas Terhadap Manajemen Laba Pada Perusahaan Manufaktur Sub Sektor Tekstil Dan Garmen Yang Terdaftar Di Bursa Efek Indonesia. *Majalah Ilmiah Solusi*, 17(4). [www.unisosdem.org](http://www.unisosdem.org)
- Mardiasmo. (2018). *Perpajakan* (Andi, Ed.; Edisi terb). Andi.
- Nisa, Z., Wahidahwati, & Bambang, S. (2022). The Effect of Tax and Leverage on Transfer Pricing Decisions with Institutional Ownership as Moderating. *Budapest Internatioma; Research and Critics Institute Journal*, 5(2), 9717–9724. <https://doi.org/10.33258/birci.v5i2.4767>
- Novarianto, A., Dwimulyani, S., Schulz, P. T., & Mandiri, I. (2019). Pengaruh Penghindaran Pajak, Leverage, Profitabilitas Terhadap Nilai Perusahaan Dengan Transparansi Perusahaan Sebagai Variabel Moderasi. *Prosiding Seminar Nasional Pakar Ke 2*.
- Pawitri, W., Suryani, I., Syahrudin, M., & Nuryana, A. (2024). Kualitas Audit Dalam Pengaruh Penerapan Good Corporate Governance Terhadap Pencegahan Fraud. *Jurnal Riset Akuntansi Dan Bisnis (JRAK)*, 10(2). <https://doi.org/10.38204/jrak.v10i2>
- Resmi, S. (2019). *Perpajakan Teori Dan Kasus* (11th ed.). Salemba Empat.
- Safitri, K. A., & Muid, D. (2020). Pengaruh Pengungkapan Corporate Social Responsibility, Profitabilitas, Leverage, Capital Intensity Dan Ukuran Perusahaan Terhadap Tax Avoidance (Studi Empiris Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Periode 2016-2018). *Diponegoro Journal Of Accounting*, 9(4), 1–11.
- Setya Nengse, I., Rahmawati, E., & Herawati, N. (2023). Pengaruh Transfer Pricing Terhadap Penghindaran Pajak (Studi Pada Perusahaan Sektor Industri Barang Konsumen Primer Yang Terdaftar Di Bursa Efek Indonesia Periode 2018-2021). In *Symposium Nasional Perpajakan* (Vol. 2, Issue 1).
- Sintyana, I. P. H., & Artini, L. G. S. (2019). Pengaruh Profitabilitas, Struktur Modal, Ukuran Perusahaan dan Kebijakan Dividen Terhadap Nilai Perusahaan. *E-Jurnal Manajemen*, 8(2), 7717–7745. <https://doi.org/10.24843/EJMUNUD.2019.v8.i2.p7>
- Sugiyono. (2022). *Metode Penelitian Kuantitatif Kualitatif dan R & D*. Alfabeta.



Syahrudin, M. (2022). The Existence of an Audit Committee as a Moderation Among Factors Affecting Audit Quality. *Jurnal AJIB (Audit Pajak Akuntansi Publik)*, 1(2), 71–84.

Tambahani, G. D., Sumual, T., Kewo, D. C., Akuntansi, J., & Ekonomi, F. (2021). Pengaruh Perencanaan Pajak (Tax Planning) dan Penghindaran Pajak (Tax Avoidance) Terhadap Nilai Perusahaan (Studi Kasus Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2017-2019). *JAIM: Jurnal Akuntansi Manado*, 2(2).

Tax Justice Network. (2022). *State of Tax Justice*.

Wahidahwati, W., & Ardini, L. (2021). Corporate Governance and Environmental Performance: How They Affect Firm Value. *Journal of Asian Finance, Economics and Business*, 8(2), 953–962.  
<https://doi.org/10.13106/jafeb.2021.vol8.no2.0953>

Wiratno, D. H., & Yustrianthe, R. H. (2022). Price earning ratio, ukuran dan nilai perusahaan pada perusahaan manufaktur di Indonesia. *Fair Value: Jurnal Ilmiah Akuntansi Dan Keuangan*, 4(12).  
<https://journal.ikopin.ac.id/index.php/fairvalue>

Yuliandana, S., & Ramadhan, A. (2021). Pengaruh Tax Avoidance Terhadap Nilai Perusahaan. *Jurnal Ilmiah Akuntansi Kesatuan*, 9(1), 31–42.