



The Effect of Tax Avoidance and Leverage on Company Value: Case Study on a Financial Sub-Sector Service Company Listed on Indonesia Stock Exchange for 2018 – 2022 Period

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Abstract

This study aims to examine the effect of tax avoidance and leverage on company value. The research method used, which uses a quantitative descriptive approach method. Data testing was performed using Panel Data Regression Analysis. This data analysis technique is processed with EViews 12 SV software for Windows. Tax avoidance has no significant effect on the value of the company with a percentage value of 45%. Leverage has a significant effect on the value of the company with a percentage value of -5.51%. The variables Tax avoidance and leverage show prob. (F-statistic) is smaller than 0.05 so that H_0 is rejected so that together (simultaneously) it affects the value of the company.

Keywords: tax avoidance, leverage, company value, business management

Introduction

Company value or firm value, considered by investors or shareholders, the higher the value of the company or company value, the higher the prosperity of shareholders or investors. The high stock price will further improve the welfare of investors and shareholders (Novariant & Dwimulyani, 2019: 1). Before investing in a company, investors usually conduct due diligence on the company first. Therefore, businesses strive to increase the value of entities (Welly et al., 2019: 5).

Another factor that can affect the value of a company is tax avoidance. (Chairil Anwar Pohan, 2018: 32) stated that tax avoidance, business is carried out legally also for taxpayers and illegal is also contrary to active tax legislation. (Krisyadi & Angery, 2021: 1199) stated that to obtain investments that benefit the company in avoiding bankruptcy, company

management conducts tax avoidance efforts to increase profits desired by shareholders or potential investors.

Crowded tax avoidance cases in Indonesia are carried out by PT KAI (Persero). As stated by (Sandria, 2021) in (CNBC Indonesia, 2021) in 2006 PT KAI manipulated the financial statements in the previous year, by recording a profit of Rp. 6.9M when the company should have lost Rp. 63M. This was discovered after Hekinus Manao as KAI's commissioner refused to sign the financial statements which caused KAI's AGMS to be postponed. He explained to the Indonesian Institute of Accountants (IAI), that the company's obligation to pay the VAT Tax Assessment Letter of Rp. 95.2M presented in the financial statements should bear the tax burden, but it was recorded to some customers as bill receivables.

The second factor that also affects the value of a company is leverage. (Septyaningrum, 2020: 2) argues that leverage is a tool to measure the ratio, how far a company's assets are financed by debt, loans or own capital is a source of funds that can be obtained. According to (Wahyuni et al., 2019: 69) the reduced tax burden for companies is caused by higher interest costs.

(Adlan et al., 2021: 121) also stated that companies can take advantage of large levels of leverage to get large profits, utilizing capital sourced from debt/assets financed from debt, this allows businesses to maximize business runs so that they can obtain high company profits.

Based on previous observations by (Novariant & Dwimulyani, 2019; Septyaningrum, 2020) results in tax avoidance does not have a significant effect on company value and leverage affects company value. While the results turned around on observations made (Krisyadi & Angery, 2021; Puri & Wijayanti, 2021) resulted in tax avoidance variables having an impact on company value and leverage not having an impact on company value. The purpose of this study is to examine the partial and simultaneous effect of tax avoidance, leverage on company value in financial sub-sector service companies listed on the Indonesia Stock Exchange for the 2018-2022 period.

Literature Review

According to (Jensen & Meckling, 1976) in (Handayani, 2020: 160) Agency theory concerns agency connections occurring between shareholders, management. The development of agent theory (Agency Theory) began since research. Stakeholder theory that reflects to the shareholders of a responsible company, the company operating must provide benefits to its shareholders. According to Brigham and Houston in (Taniman & Jonnardi, 2020: 2) stated that signals are company movements in providing investors with opportunities to fulfill the wishes of owners.

(Handayani, 2020: 160) company value is the price when the company is sold. The high price of the stock affects the rate of return that investors receive. Tax avoidance strategy is also an important managerial decision determined by managers. (Handayani, 2020: 160) states that complex tax avoidance arrangements always provide a shield for managers to benefit themselves in the absence of governance controls. (Dwiputra & Cusyana, 2022: 64) stated that

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leverage emphasizes the importance of debt to a company with assets supported by debt financing.

Research Methods

Systematics is done quantitatively. The sample and study population used purposive sampling in their sampling technique. In conducting this hypothesis test, the authors analyzed it by regression panel data with Eviews 12 SV. The object of observation is the financial statements of financial sub-sector service companies on the IDX published on the www.idx.co.id. Company Value (Y) is measured by Tobin's Q, showing the market value of equity divided by total debt divided by total assets (Dzahabiyya et al., 2020). Tax Avoidance (X1) as the first independent variable with the calculation of Cash Effective Tax Rate (CETR) by showing the results of the tax burden divided by income before tax (Chairil Anwar Pohan, 2018: 32). Leverage (X2) as the second independent variable with Debt to Assets Ratio (DAR) to measure the amount of financing company assets on debt (Hery, 2016: 195).

The population used is a service company engaged in the financial sub-sector listed on the IDX observation 2018-2022, which is 34 companies. Using purposive sampling in its sampling technique and in accordance with the criteria, namely: Financial sub-sector service companies listed on the Indonesia Stock Exchange during the observation period, financial sub-sector service companies that issue financial statements continuously, financial sub-sector service companies that present financial statements using rupiah currency, financial sub-sector service companies that do not experience losses during the observation period. According to the existing criteria, there are 45 observational samples used as research objects, coming from 9 companies multiplied by a 5-year period.

Regression analysis of research panel data was conducted. Before analyzing, determine whether to use a combined model, fixed influence model, or random influence model to find out whether the data on observations are normal or not by using the chow test, hausman test, and breusch-pagan test. After that, test the classic assumptions, namely: normality test, autocorrelation test, multicollinearity test, and goodness measure. For panel data itself has the advantage of not testing normality and autocorrelation, (Ajija et al., 2011: 42) states that it is used only when the population number < 30 in order to find out whether the term error is close to the normal distribution. The hypothesis uses the t-test and the f-test. Results of panel data regression analysis formula in observation: $TOBIN'S Q = \alpha + \beta_1 CETR + \beta_2 DAR + \varepsilon$

Results and Discussion

The annual report of financial sub-sector service companies listed on the IDX for 2018-2022 as secondary data and obtained from the IDX. The population of the company used is 34.

Descriptive Statistics

	Y	X1	X2
Mean	35.00178	-0.250889	0.700000
Median	10.10000	-0.230000	0.680000
Maximum	172.6200	0.170000	0.900000
Minimum	0.550000	-1.620000	0.330000
Std. Dev.	50.89154	0.223757	0.136048
Skewness	1.861221	-5.085241	-0.604657
Kurtosis	5.311879	32.89109	2.904798
Jarque-Bera	36.00256	1869.218	2.759072
Probability	0.000000	0.000000	0.251695
Sum	1575.080	-11.29000	31.50000
Sum Sq. Dev.	113957.7	2.202964	0.814400
Observations	45	45	45

Source: Data processed EViews 12 SV, 2024

The min value of CETR is -1.62 owned by PT Mitra Pinasthika Mustika Tbk, DAR 0.33 owned by PT Clipan Finance Indonesia, Tobins 0.55 owned by PT BFI Finance Indonesia Tbk. Max value of CETR 0.17 from PT Clipan Finance Indonesia, DAR 0.90 owned by PT Mitra Pinasthika Mustika Tbk, Tobins 172.62 owned by PT Federal International Finance. Average CETR value (mean) -0.25 and std value. Data deviation 0.22. The mean DAR is 0.70 and the std value. Data deviation 0.13. Tobin's Q has a mean value of 35.00 and an std value. Data deviation 50.90.

Panel Data Regression Model Selection Analysis

1. Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	950.622869	(8,34)	0.0000
Cross-section Chi-square	243.659665	8	0.0000

Source: Data processed EViews 12 SV, 2024

Describes both prob values. Cross Section F and Chi square are < 0.05 to H_0 . So, the best is used, the fixed effect method. The null hypothesis does not allow the results of the Chow test, the test proceeds to the hausman test.

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2. Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.565077	2	0.7539

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
X1	1.337159	1.365976	0.001652	0.4783
X2	-53.561370	-53.283275	0.302094	0.6129

Source: Data processed EViews 12 SV, 2024

The Hausman test illustrates, the random Cross Section prob value >0.05 . Indicates that with random effect the model is selected. But the test continues to Langrange Multiplier.

3. LM (Langrange Multiplier) Test

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	86.09183 (0.0000)	2.752055 (0.0971)	88.84389 (0.0000)
Honda	9.278568 (0.0000)	-1.658932 (0.9514)	5.387897 (0.0000)
King-Wu	9.278568 (0.0000)	-1.658932 (0.9514)	4.002472 (0.0000)
Standardized Honda	10.50395 (0.0000)	-1.498231 (0.9330)	3.552515 (0.0002)
Standardized King-Wu	10.50395 (0.0000)	-1.498231 (0.9330)	2.051000 (0.0201)
Gourieroux, et al.	--	--	86.09183 (0.0000)

Source: Data processed EViews 12 SV, 2024

The results explain that the value of prob. Breusch-Pagan (BP) $0.0000 < 0.05$ thus rejecting H_0 . Based on LM and hausman tests, the best model is the random effect model.

Panel data regression analysis (Random Effect Model)

Dependent Variable: Y
 Method: Panel EGLS (Cross-section random effects)
 Date: 01/12/24 Time: 21:13
 Sample: 2018 2022
 Periods included: 5
 Cross-sections included: 9
 Total panel (balanced) observations: 45
 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	72.64278	20.93914	3.469234	0.0012
X1	1.365976	2.983534	0.457838	0.6494
X2	-53.28327	9.670250	-5.510021	0.0000
Effects Specification				
			S.D.	Rho
Cross-section random			59.54627	0.9959
Idiosyncratic random			3.840356	0.0041
Weighted Statistics				
R-squared	0.450847	Mean dependent var	1.009117	
Adjusted R-squared	0.424697	S.D. dependent var	4.975934	
S.E. of regression	3.774184	Sum squared resid	598.2674	
F-statistic	17.24071	Durbin-Watson stat	1.761363	
Prob(F-statistic)	0.000003			
Unweighted Statistics				
R-squared	-0.026471	Mean dependent var	35.00178	
Sum squared resid	116974.3	Durbin-Watson stat	0.009009	

Source: Data processed EViews 12 SV, 2024

The results of regression analysis of panel data in this observation:

$$Y = 72,64 + 1,36X_1 + -53,28X_2$$

Classical Assumption Test

1. According to the random effect model table explains the R-square value of 0.45 (45%), tax avoidance and leverage have the ability to value the company.
2. Multicollinearity Test

	X1	X2
X1	1.000000	-0.309607
X2	-0.309607	1.000000

The multicollinearity test explains the absence of a high correlation between the values of the independent variable < 0.90.

Hypothesis Test

1. T-test (partial test), according to the random effect model table above shows
 - The variable tax avoidance (X_1) had a significant result of $0.45 > 0.05$ partially tax avoidance (X_1) had no significant effect on company value.

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- DAR (X_2) has a significant yield of $-5.51 < 0.05$ it is concluded that partially leverage (X_2) has a significant effect on company value.
2. F-Test (simultaneously test)
Tax avoidance and DAR simultaneously have an effect on company value. F-Test obtained from table random effect models showed that the prob. (F-statistic) < 0.05 so H_0 rejected.

Discussion of Results

1. The Effect of Tax Avoidance (X_1) on Company Value

According to the end of the existing observations using Eviews, tax avoidance (X_1) has a significance of $-45 > 0.05$ it is concluded that tax avoidance (X_1) has no significant effect on company value. Tax avoidance is used by companies to increase the profits desired by potential investors. Complex tax avoidance arrangements provide a shield for managers to profit. This is in accordance with the conservation of (Adlan et al., 2021; Septyaningrum, 2020) tax avoidance has no significant effect on company value.

2. The Effect of Leverage (X_2) on Company Value

The leverage test (X_2) has a significant end of $-5.51 < 0.05$ partially leverage (X_2) has a significant effect on the value of the company. Leverage emphasizes the importance of debt to a company with assets backed by financing. The reduction in PKP (Taxable Income) will also ultimately increase the company's profit. This is in accordance with the observations from (Novariant & Dwimulyani, 2019; Septyaningrum, 2020; Taniman & Jonnardi, 2020) leverage has a significant effect on company value.

3. Effects of Tax Avoidance and Leverage on Company Value

Testing tax avoidance (X_1) and leverage (X_2) based on random effect models table prob. F-statistic has a result of < 0.05 concluded that tax avoidance (X_1) as well as leverage (X_2) simultaneously (simultaneously) affect the value of the company. The dream of every company is to optimize company value which results from the running of financial management, the impact of company value comes from financial decision making. Therefore, tax avoidance and leverage simultaneously or simultaneously have an effect on the value of the company. This is in accordance with the results of research (Wijaya & Bernawati, 2021) where he stated that tax avoidance and leverage have a significant influence on company value.

Conclusion

1. Partial tax avoidance has no significant effect on company value.
2. Partial leverage affects company value.
3. Tax avoidance and leverage simultaneously or together affect company value.

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