



## The Effect of Tax Avoidance on Firm Value in Non-Cyclical Consumer Sector Companies Listed on the Indonesia Stock Exchange 2018-2022

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### ABSTRACT

This study intends to examine the impact of tax evasion on the value of firms in the Non-Cyclical Consumer sector listed on the Indonesia Stock Exchange from 2018 to 2022. The study includes a population of 125 companies and a sample of 22 companies. The findings indicated that the tax evasion variable had a non-significant negative impact on business value, however the state ownership and foreign ownership variables had a substantial negative impact on firm value. This study's addition to the literature is based on empirical research carried out in the Non-Cyclical Consumer sector in Indonesia. It focuses on examining the impact of tax evasion, local ownership, and foreign ownership on business value. This study addresses a research vacuum by emphasizing the significance of examining the impact of tax evasion, local ownership, and foreign ownership on business value, a topic that has not received extensive attention in existing literature.

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## **INTRODUCTION**

Currently, levying taxes on corporations has emerged as a pivotal element of the government's budgetary approach to acquire the essential funds for delivering public services. Policymakers enact legislation and determine obligatory tax rates, compelling enterprises to allocate a percentage of their created revenue towards government contributions. Although tax revenues are crucial for funding public goods and services and fostering economic growth, businesses often perceive them as a financial liability. Viewed through a business lens, taxes are deemed a fundamental component of operational expenses, leading several organizations to devise tactics focused on lowering their tax liability. One approach that may be employed is tax avoidance, which is reducing a company's effective tax rate (ETR) to a level that is lower than the tax rate established by the regulatory body or government. The occurrence of tax evasion strategies is seen in the inconsistencies between financial records and taxable income. Therefore, tax evasion is frequently seen as an effort to maximize shareholder value by transferring assets from the public sector to companies, however this interpretation is facing growing opposition from other bodies of literature advocating contradictory perspectives (Nebie & Cheng, 2023).

Taxation plays a crucial role in the strategic planning and operational framework of a firm. Taxes exert a notable influence on business financial decisions as a result of their impact on net income. An organization's net income, a crucial indicator of financial well-being and operational effectiveness, may be substantially reduced by the level of taxation incurred. Businesses engage in tax avoidance tactics in order to diminish their tax obligations, hence enhancing their post-tax profits. This elevation in net profit has the potential to lead to augmented retained earnings, which can subsequently be allocated towards business expansion or disbursed to shareholders in the form of dividends, thereby enhancing the company's worth. Studies conducted by Desai et al. (2007) and Lisowsky (2010) indicate that engaging in tax avoidance strategies has the potential to lower the tax liability of a corporation. This might potentially enhance shareholder value by boosting dividend payouts and offer corporations additional avenues for financing to manage liabilities and bolster operational liquidity.

Elements such as financial performance, risk profile, market type, business and management quality, and tax planning efforts possess the capacity to impact the valuation of a corporation. Diverse ideas and research have delved into the potential correlation between tax evasion and corporate worth, yielding varied and occasionally conflicting results. Advocates of tax planning strategies contend that effective tax management may lead to enhanced profitability, augmented cash flows, and eventually, elevated company worth. On the other hand, detractors contend that an abundance of tax avoidance may give rise to issues of corporate governance, agency expenses, transparency, and sustainability, thus leading to a detrimental effect on the value of the company. While Hanlon & Heitzman (2010) contend that the association between tax avoidance and firm value is uncertain or possibly absent, Chadeaux &

Rossignol (2006) and Khuong et al. (2020) assert that tax avoidance benefits the company by diminishing the tax liability and by communicating positive information to the market. On the contrary, according to Lestari & Wardhani (2015), tax avoidance practices may adversely affect business value as a result of the company's vulnerability to non-tax expenses. Minh Ha et al. (2021) also reported comparable results, indicating an inverse correlation between tax evasion and corporate value.

Typically, businesses strive to enhance their worth from one time to the subsequent one. The valuation of a company is a reflection of its projected future earnings and acts as a metric for the market to evaluate the overall efficiency of the firm (Manoppo & Arie, 2016). The consequence is that shareholders exhibit a tendency to retain their ownership stake, rendering the corporation more appealing to prospective investors contemplating an investment in the organization.

Tax planning constitutes a strategic endeavor undertaken by management to mitigate the company's tax burden. An approach frequently employed in tax planning is tax avoidance, a corporate tactic aimed at lawfully diminishing the tax liability in compliance with tax laws and regulations (Adityamurti & Ghazali, 2017). Various sorts of tax avoidance practices can influence taxpayers, encompassing both lawful strategies like tax management and illicit actions such as tax evasion aimed at diminishing the tax liability. While tax avoidance might offer advantages to the organization, it also has the potential to have adverse consequences. Tax evasion incurs expenses for the organization in the form of implementation costs, damage to reputation, and the repercussions of specific fines (Chen et al., 2014). This phenomenon occurs due to the inclination of managers to engage in tax evasion as a means to serve their own agenda, so distorting corporate profitability and providing investors with misleading information. Such an effect might lead to a diminished evaluation of the firm by investors.

Despite several research investigating the impact of tax evasion on corporate value, the precise processes driving this correlation are still not fully understood. Moreover, while several research have concentrated on proving the correlation between tax evasion and corporate value, the comprehension of the causation of the link between these two variables remains restricted. Many studies yielding noteworthy outcomes often employ methodologies that yield correlation coefficients and indicate the direction of the link, although they are unable to definitively determine if tax evasion tactics have a direct impact on corporate value.

This research will investigate the impact of tax evasion on the valuation of a company. While tax avoidance has the potential to enhance the worth of a company, it may also result in elevated agency expenses. Moreover, the market response to the disclosure of tax evasion is transient, lasting only in the near term. Hence, the objective of this research is to offer a more profound comprehension of the intricacies surrounding the influence of tax evasion on the value of a company.

## LITERATURE REVIEW

### *Financial Accounting*

Financial accounting plays a crucial role within the realm of corporate operations. It encompasses the processes of documenting, communicating, and analyzing the monetary activities of an organization. Over time, the ideas of past individuals have played a significant role in establishing the core principles of financial accounting as it exists in the present day. Luca Pacioli, an Italian monk from the 15th century, is recognized as the progenitor of modern accounting practices. Published in 1494, Pacioli's work "Summa de Arithmetica, Geometria, Proportioni et Proportionalità" introduced a double-entry accounting system. His most significant contribution lay in the notion that each transaction comprises two facets, debits and credits, that necessitate equilibrium. This concept served as the basis for contemporary bookkeeping, commonly referred to as the accrual-based recording system (Sentosa & Fransisca, 1999).

John Maynard Keynes, a British economist of the early 20th century, revolutionized the perception of macroeconomics. Keynes, in his renowned publication "The General Theory of Employment, Interest, and Money", deliberated on the significance of governmental action in tackling economic issues. Within the realm of accounting, Keynes' ideas underscored the need of judicious fiscal administration and accurate documentation for assessing the economic well-being of a nation or entity. Alfred Rappaport, a prominent American scholar and author of the 20th century, significantly advanced the understanding of market value within the realm of accounting. Rappaport underscored the need of prioritizing long-term shareholder value in his renowned work "Creating Shareholder Value." The impact he made prompted corporations to consider market value and base investment decisions on generating value for shareholders (Aisyah, 2006).

Financial accounting primarily concentrates on the elements associated with the accounts seen within the financial statements. When implemented in practical situations, financial accounting necessitates adherence to relevant principles or standards, such as Financial Accounting Standards (FAS). The primary aim of financial accounting is to compute the organization's net income or loss during a specific timeframe and determine the company's financial status at the conclusion of the fiscal year. The outcome of the financial accounting procedure is a financial statement that is directed towards all stakeholders with a vested interest in the organization. According to Harefa (2023) Financial Accounting serves as a business language that generates financial data to elucidate the financial performance of an entity over a specific period and the financial status of the firm on a particular date. Hence, financial accounting serves as a crucial method for communicating financial data to stakeholders.

### *Taxation*

Taxation is an obligatory financial levy imposed on people or corporate organizations by the government, calculated in accordance with legislative regulations, and does not result in a corresponding direct benefit in the form of goods or services from the government. This concept illustrates that taxes serve as the primary income stream for the government to fund a variety of programs and initiatives essential for the welfare of society (Kurniawati, 2009). Within the tax system, tax rates are established by the government taking into account factors such as income, transaction kinds, or specific economic activity, in order to generate the necessary revenues for the provision of public services (Isnaini, 2017).

Tax development in Indonesia has had substantial evolution from the pre-independence era to the present day. In the initial decades following independence, Indonesia's tax system had ongoing improvements and modifications to align with the requirements of economic and social progress. The Indonesian government introduced Law Number 6 Year 1983 on General Provisions and Tax Procedures (KUP) in 1983, establishing the legislative framework for the contemporary tax system in Indonesia. Subsequent to then, a variety of tax legislations have been enacted to govern several facets of taxation, including income tax, value-added tax (VAT), land and building tax (PBB), and additional levies. Indonesia is engaged in many international endeavors aimed at improving tax cooperation between nations and mitigating detrimental tax dodging strategies. Indonesia, as a participant in the Organization for Economic Cooperation and Development (OECD), has pledged to adhere to global norms regarding tax transparency and the automatic sharing of tax-related data. The Indonesian government has furthermore entered into several bilateral taxation agreements with other nations in order to deter tax dodging schemes and tax exploitation.

### *Agency Theory*

Agency theory is a theoretical framework that examines the dynamic between proprietors (principals) and representatives who operate on behalf of those proprietors. The emphasis on the investor and corporate aspects underscores the interactions between shareholders in their capacity as firm owners and management acting as representatives of shareholders' interests. Viewed through the lens of an investor, agency theory posits that investors own a significant stake in optimizing the value of their investment. The shareholders delegate the responsibility of managing the firm to the management with the expectation of deriving advantages, as outlined by Zaki et al. (2023). Nevertheless, there is a possibility that management may not consistently align their actions with the shareholders' interests. For instance, management could opt to seek rapid business expansion or personal profit instead of prioritizing the long-term welfare of shareholders.

Viewed through a corporate lens, agency theory underscores the significance of management in fulfilling its responsibilities as an agent tasked with safeguarding the interests of shareholders. It is the duty of management to oversee the company's assets in a manner that yields earnings for shareholders.

Nevertheless, they are confronted with a multitude of incentives that might potentially result in agent conduct that deviates from shareholder interests. For instance, management can be inclined to engage in excessive risk-taking or misuse corporate resources for personal benefit.

### ***Tax Avoidance***

Tax avoidance is a strategic behavior employed by individuals or corporations to minimize the tax liability owed to the government. This can be achieved through a range of methods, including as exploiting legal loopholes, creating intricate company frameworks, or using disparities in tax rates across different nations (Mangoting, 1999). The phenomenon of tax avoidance has emerged as a contentious subject due to its potential to lead to a substantial reduction in tax income for the nation and confer an inequitable edge onto those with the means to engage in such practices. Tax avoidance is the intentional effort to diminish the tax obligation of an individual or entity, while staying within the boundaries of the law. This technique is distinct from tax evasion, which is an illegal action aimed at circumventing the payment of the tax owed. The act of avoiding taxes can be achieved through a multitude of methods, such as intricate financial structures, transferring assets to regions with reduced tax rates, or exploiting gaps in tax legislation.

Tax avoidance may be achieved through a diverse array of intricate and multifaceted techniques. An often utilized approach is transfer pricing, which involves the movement of income or expenses across several entities within a corporate group in order to minimize tax obligations. Additional strategies encompass the relocation of assets or wealth to regions with reduced tax rates, the utilization of tax haven entities, and the engagement of tax advisory services to pinpoint gaps in tax regulations. The act of engaging in tax evasion strategies can yield substantial repercussions for both governmental entities and the broader societal framework. One significant ramification is the diminishment of tax income for governmental bodies, potentially diminishing their capacity to deliver fundamental services like education, healthcare, and infrastructure (Sarra, 2017). Furthermore, tax avoidance has the potential to generate disparities within the tax framework, as people or corporations with more substantial assets may use gaps in tax regulations to diminish their tax obligations, but others with fewer resources lack equivalent opportunities.

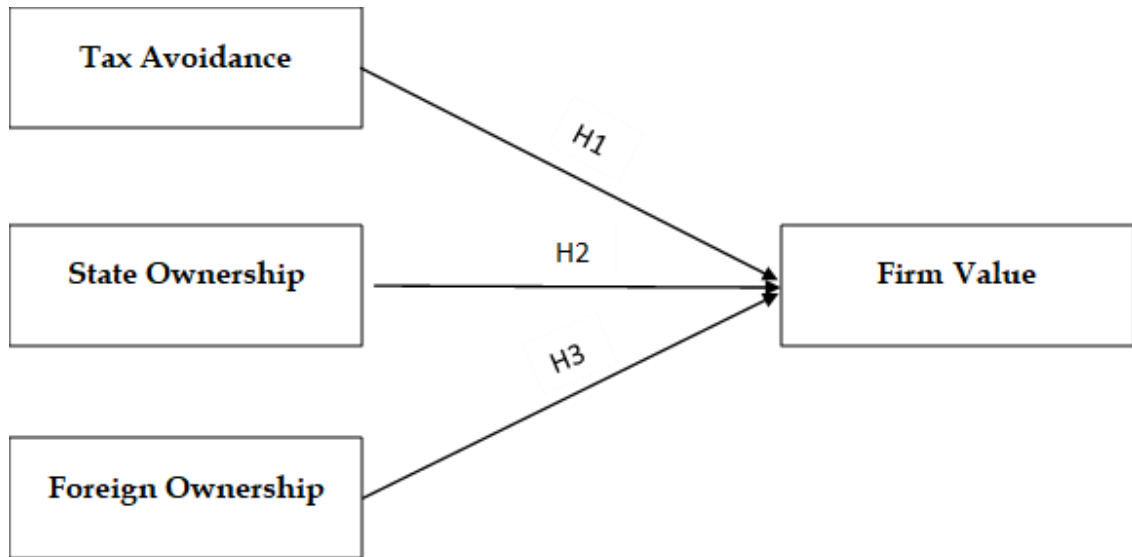


Figure 1. Conceptual Framework

Based on the conceptual framework in Figure 1 above, the research hypothesis is described as follows:

1. The Effect of Tax Avoidance on Firm Value

Prior empirical studies have not yet established a definitive consensus about the influence of tax avoidance on the valuation of companies. From a traditional viewpoint, tax avoidance is perceived as a tactic aimed at diminishing expenses and enhancing net earnings, hence favoring shareholders (Friedman, 2007). This argument hinges on the premise that a decrease in operational expenses, encompassing tax expenditures, leads to a proportional rise in net profit, which may then be allocated towards investments or dividend payouts. The study conducted by Desai & Dharmapala in 2009 shown that adept tax administration has the potential to enhance resource distribution and investment, hence leading to a rise in the value of a company.

From the perspective of agency theory, the correlation between tax evasion and corporate value is intricate and multifaceted. Agency conflicts stem from the divergent interests of shareholders acting as principals and managers or company executives acting as agents, as articulated by Hanlon & Heitzman (2010) Shareholders strive to optimize the value of the firm by focusing on profits and expansion, but managers could be driven by alternative motivations, such as maximizing individual benefits, which could diverge from shareholders' objectives.

An illustrative instance of this contradiction may be observed in the phenomenon of tax dodging. Hanlon & Heitzman (2010) contend that managers that engage in the allocation of resources towards aggressive tax avoidance tactics, such as transferring earnings to countries with lower tax rates, would eventually diminish the profits accessible to shareholders. This phenomenon occurs due to the direct consequence of engaging in tax avoidance strategies, resulting in a reduction in the company's tangible earnings, so conflicting with the objective of optimizing shareholder value.

According to the proposition put out by Ross (1977), companies utilize specific information to convey the quality of their products or their financial

robustness to the market. Therefore, tax evasion might be construed as an indication of the strength of a company. Tax avoidance is perceived as a method for companies to communicate their financial stability and robustness to the market. The study conducted by Hanlon & Slemrod (2009) revealed that disclosures of tax investigations lead to stock price corrections, suggesting that investors take into account corporate tax practices in their company valuations. Furthermore, Gallemore et al. (2014) discovered that while the disclosure of tax evasion tactics may trigger early adverse responses, perceptions of management effectiveness and financial adaptability in the market frequently result in favorable value corrections over time.

Despite the varied findings in studies about the correlation between tax avoidance and business value, tax avoidance can be perceived as a strategic approach by management that has the capacity to enhance firm value. This approach has the potential to create supplementary financial assets for the company, which may then be allocated towards investments or divided among shareholders. In nations with lax tax law enforcement, the advantages of engaging in tax evasion are sometimes perceived as surpassing the potential dangers to the company. Indonesia, being a nation with a deficient tax law enforcement system, presents a favorable environment for corporations to engage in tax evasion strategies aimed at enhancing corporate value (Chasbiandani & Martani, 2012). Given these foundations, the initial hypothesis posited in this investigation is:

**H1: Tax Avoidance Has a Positive Effect on Firm Value**

2. The Effect of State Ownership on Firm Value

State Ownership pertains to the situation in which a firm's majority ownership is held by domestic entities inside the nation where the company conducts its operations, whether it the public, institutions, or government. Local ownership is often viewed as a means of enhancing a corporate entity's financial resources and legal backing in some nations, perhaps leading to enhanced firm performance (Le & Phung, 2013). The presence of state ownership within a corporation may provide a beneficial effect on the company's valuation. This phenomenon occurs due to the substantial backing provided by the government, which serves to alleviate financial strain while concurrently enhancing the company's standing with investors. State-owned corporations have an advantage over private companies in that they are better positioned to pursue long-term plans focused on achieving stability and sustainable growth, as opposed to the short-term profit orientation sometimes seen in private enterprises. Public ownership also offers benefits in relation to capital accessibility. These corporations frequently discover it more convenient to secure funding, either from state-owned financial establishments or global organizations that view them as more financially robust businesses because of government assurances. Nevertheless, there are assertions that indigenous ownership may exert an adverse influence on company performance and worth (Chen et al., 2014). Conversely, state-owned enterprises are inclined to employ less tax evasion tactics in contrast to privately held enterprises due to their

emphasis not alone on maximizing profits, but also on achieving social and political objectives (Chen et al., 2014). Therefore, the second hypothesis stated in this research is as follows:

**H2: State Ownership Has a Positive Effect on Firm Value**

3. The Effect of Foreign Ownership on Firm Value

Foreign Ownership pertains to the situation in which the predominant ownership stake in a corporation is held by foreign entities located outside the nation in which the corporation does its business, whether by the general people, institutions, or government. An investigation conducted by Aggarwal et al. (2011) corroborates the viewpoint that overseas investors have a beneficial impact on company worth through the advancement of superior governance methodologies and the imposition of elevated expectations regarding accountability and performance on management. Through the application of their extensive international expertise and rigorous investment standards, these investors have the ability to sway firms towards embracing methods that are esteemed by the market, thus generating wealth for all shareholders. This study highlights the significant impact of cross-border investments on the formation of corporate governance frameworks. Given the findings from other investigations, the third hypothesis posited in this study is as follows:

**H3: Foreign Ownership Has a Positive Effect on Firm Value**

**METHODOLOGY**

This research aims to analyze the influence of tax evasion, state ownership, and foreign ownership on the valuation of companies in the Non-Cyclical Consumer industry that are listed on the Indonesia Stock Exchange from 2018 to 2022. The research design in use incorporates a quantitative technique that involves hypothesis testing. The data employed in this study consist of secondary data sourced from annual reports and business financial statements.

The methodology utilized in this study involved the documentation approach sourced from the Indonesia Stock Exchange (IDX) for data collection. An analysis was carried out on the Annual Reports and Financial Statements of companies listed on the Indonesia Stock Exchange from 2018 to 2022. The aggregation of companies together with their Annual and Financial Reports showcased on the IDX between 2018 and 2022 was obtained from the official website of the Indonesia Stock Exchange, namely [www.idx.co.id](http://www.idx.co.id). Furthermore, the collected data is then examined using EViews v12 software.

The sample approach utilized was purposive sampling, a technique that involves the selection of participants based on certain criteria that are in accordance with the study's aims. The final result was the choice of a sample of 22 organizations from a total population of 125 companies. This compilation consists of a curated assortment of 22 companies, incorporating a collective of 110 data points spanning a period of 5 years.

Figure 1. Conceptual Framework

No	Description	Number of Companies
1	Non-cyclical consumer sector companies	125
2	Companies that have a complete financial report for the year 2018 to 2022	70
3	Companies that record net income in the financial statements in the period 2018 to 2022	36
4	Companies that have data on the proportion of local and foreign ownership in the period 2018 to 2022	22
<b>Total Sample</b>		<b>22</b>

Source: data processed (2024)

This study uses multiple linear regression analysis techniques which are shown in the following equation:

$$Q = \beta_0 + \beta_1 ETR_{it} + \beta_2 STA_{it} + \beta_3 FOR_{it} + \beta_4 DER_{it} + \beta_5 ROA_{it}$$

Table 2. Summary of Variables in the Model

Variables	Variable Type	Definition	Expected sign with Dependent Variable
Tobin's Q	Dependent	(Market value of equity+total debt)/Total Assets	+
ETR	Independent	(Income tax expense)/(Profit before tax)	+
STA	Independent	Percentage of local ownership in the company	+
FOR	Independent	Percentage of foreign ownership in the company	+
DER	Control	(Total utang)/(Total ekuitas)	+
ROA	Control	(Net income after tax)/(Total assets)	+

Source: data processed (2024)

## RESULTS

### *Descriptive Statistics*

Table 3. Descriptive Statistics

Variables	N	Min	Max	Mean	Std. Deviation
Tobin's Q	110	0.677000	18.35500	2.587532	2.982772

<b>ETR</b>	110	0.096600	0.862540	0.256126	0.104556
<b>STA</b>	110	0.057160	1.000000	0.630975	0.365517
<b>FOR</b>	110	0.000000	0.942840	0.369052	0.365513
<b>DER</b>	110	0.116700	4.413000	1.205413	1.140864
<b>ROA</b>	110	0.000110	0.467000	0.102694	0.094833

Source: data processed (2024)

Based on the results in table 3, the Firms Value Variable with the Tobin's Q ratio obtained a minimum value of 0.677000, a maximum value of 18.35500, an average value of 2.587532, and a standard deviation of 2.982772 with a total observation data of 110.

Within the Tax Avoidance Variable utilizing the ETR ratio, the dataset consists of 110 observations. The smallest value recorded is 0.096600, the maximum value is 0.862540, the average value is 0.256126, and the standard deviation is 0.104556. The mean exceeds the standard deviation, indicating favorable outcomes. This is done to guarantee that the data distribution yields outcomes that adhere to normality and does not introduce any form of bias.

Within the State Ownership Variable denoted by the symbol STA, the range spans from a minimum value of 0.057160 to a high value of 1.000000, with an average of 0.630975 and a standard deviation of 0.365517. The dataset has a total of 110 observations.

Regarding the Foreign Ownership Variable denoted by the FOR symbol, it exhibits a minimum value of 0.000000, a maximum value of 0.942840, an average value of 0.369052, and a standard deviation of 0.365513 based on a dataset including 110 observations.

### *Multicollinearity Test*

The multicollinearity test pertains to the linear association among independent variables. Multicollinearity test aims to assess the presence of a substantial or complete correlation among the independent variables inside a regression model.

Table 4. Multicollinearity Test

	<b>Q</b>	<b>ETR</b>	<b>STA</b>	<b>FOR</b>	<b>DER</b>	<b>ROA</b>
<b>Q</b>	1.000000	-0.101764	-0.269182	0.269268	0.120195	0.721392
<b>ETR</b>	-0.101764	1.000000	-0.147449	0.147396	0.161885	-0.232079
<b>STA</b>	-0.269182	-0.147449	1.000000	-1.000000	-0.163037	-0.389581
<b>FOR</b>	0.269268	0.147396	-1.000000	1.000000	0.163036	0.389641
<b>DER</b>	0.120195	0.161885	-0.163037	0.163036	1.000000	-0.057883
<b>ROA</b>	0.721392	-0.232079	-0.389581	0.389641	-0.057883	1.000000

Source: data processed (2024)

According to the findings presented in table 7, all correlation coefficients among the independent variables are less than 0.85. Therefore, it may be inferred that all variables are devoid of multicollinearity or have successfully passed the multicollinearity assessment.

### *Heteroscedasticity Test*

Heteroscedasticity testing aims to assess whether there is non-uniform variation in residuals between observations in the regression model.

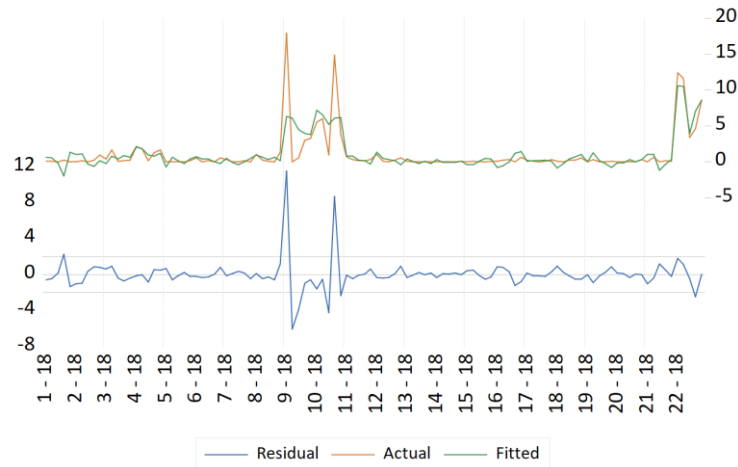


Figure 2. Graph of Actual, Fitted, and Residuals of Heteroscedasticity Test Source: data processed (2024)

Upon examination of the residual graph depicted in Figure 2, it is observed that the maximum limit residual value is 20 and the bottom limit is -8. Notably, these values do not surpass the established boundaries of 500 and -500. Consequently, it can be concluded that there are no indications of heteroscedasticity.

**Model Test**

After the raw data has been processed into financial ratios and the variables have been determined, the next step is to choose the most suitable research model between Common Effect (CE), Fixed Effect (FE), and Random Effect (RE) through a series of tests consisting of:

**Chow Test**

The chow test is conducted as a test to determine between fixed effect or random effect models that are better at estimating data.

Table 5. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	9.986973	(21,83)	0.0000
Cross-section Chi-square	138.643767	21	0.0000

Source: data processed (2024)

Within the Chow Test table provided, the probability value (Prob.) for Cross-Section F and Cross-Section Chi-square is 0.0000 (<0.005). Hence, the findings of the Chow Test suggest that the Fixed Effect Model is the most suitable choice for this research.

**Hausman Test**

Hausman test is a statistical test to choose between fixed effect or random effect models that are most appropriate to use.

Table 6. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	51.307494	5	0.0000

Source: data processed (2024)

The outcomes of the Hausman test indicate that the p-value for the Cross-Section Random Variables is 0.0000, falling below the significance threshold of 0.005. Hence, the selection has been made in favor of the Fixed Effect Model as the superior model.

***Lagrange Multiplier Test***

The Lagrange Multiplier (LM) is a diagnostic tool utilized to evaluate the adequacy of a model, whether it be the Random Effect Model or the Common Effect Model (OLS), with the aim of identifying the most appropriate model.

Table 7. LM Test

	Cross-section	Time	Both
Breusch-Pagan	22.69030	0.635769	23.32607
	(0.0000)	(0.4252)	(0.0000)
Honda	4.763434	-0.797351	2.804444
	(0.0000)	(0.7874)	(0.0025)
King-Wu	4.763434	-0.797351	1.174589
	(0.0000)	(0.7874)	(0.1201)
Standardized Honda	5.643813	-0.562994	-0.437241
	(0.0000)	(0.7133)	(0.6690)
Standardized King-Wu	5.643813	-0.562994	-1.482833
	(0.0000)	(0.7133)	(0.9309)
Gourieroux, et al.	--	--	22.69030
			(0.0000)

Source: data processed (2024)

Upon conducting the Lagrange Multiplier (LM) test to evaluate the model fit between the Random Effect Model (REM) and the Fixed Effect Model (FEM) in this study, it is evident that the LM test findings indicate that the Cross-section variables in all hypotheses exhibit a p value of less than 0.005. Hence, these findings offer validation for the utilization of the Fixed Effect approach (FEM) as a more appropriate approach.

**Panel Data Regression**

The outcomes of the Chow, Hausman, and Lagrange multiplier tests indicated that the prevailing method selected was the Fixed Effect Model (FEM), hence, the panel data regression was conducted utilizing the Fixed Effect Model (FEM) methodology.

Table 8. Panel Data Regression (FEM)

Variable		Coefficient	Std. Error	t-Statistic	Prob.
C		275.9391	163.1043	1.691795	0.0472
ETR		-0.255776	0.355298	-0.719890	0.2368
STA		-274.0069	163.1073	-1.679919	0.0484
FOR		-272.3834	163.1071	-1.669967	0.0494
DER		-0.321710	0.259463	-1.239909	0.1093
ROA		5.032309	1.349122	3.730063	0.0002

Source: data processed (2024)

The coefficient value of the Tax Avoidance (ETR) variable obtained a negative result of -0.255776, meaning that every increase or decrease in tax avoidance (ETR), the potential value of the company (Q) will increase by -0.255776.

The coefficient value of the State Ownership (STA) variable obtained a negative result of -274.0069, meaning that every increase or decrease in State Ownership (STA), the potential value of the company (Q) will increase by -274.0069.

The coefficient value of the Foreign Ownership (FOR) variable obtained a negative result of -272.3834, meaning that every increase or decrease in Foreign Ownership (FOR), the company value (Q) will increase by -272.3834.

**Hypothesis Test**

**Hypothesis Test 1 (H1)**

H1: Tax Avoidance Has a Positive Effect on Firm Value

The probability value (Prob.) for ETR is 0.2368 at a significance level of 0.1. This above the 0.1 threshold, suggesting that tax avoidance negatively impacts

corporate value, albeit the effect is not statistically significant. Thus, the statistical findings suggest that the first hypothesis cannot be either accepted or rejected.

**Hypothesis Test 2 (H2)**

H2: State Ownership Has a Positive Effect on Firm Value

The STA variable has a probability value of 0.0484, which is below the 0.1 criterion. The STA variable indicates a notable inverse correlation between local ownership and business value. The statistical results indicate that the second hypothesis cannot be accepted.

**Hypothesis Test 3 (H3)**

H3: Foreign Ownership Has a Positive Effect on Firm Value

The probability value for the FOR variable is 0.0494, which is below the 0.1 criterion. The variable FOR indicates a notable inverse correlation between foreign ownership and business value. The statistical results indicate that the third hypothesis cannot be accepted.

**F Test**

Table 9. F Test (Simultaneous)

Weighted Statistics			
Root MSE	0.846085	R-squared	0.892625
Mean dependent var	4.511192	Adjusted R-squared	0.858989
S.D. dependent var	2.387183	S.E. of regression	0.974028
Sum squared resid	78.74459	F-statistic	26.53808
Durbin-Watson stat	1.271589	Prob(F-statistic)	0.000000

Source: data processed (2024)

Based on Table 9, the prob (F-statistic) is less than the significance level of 0.1, indicating that the ETR, STA, FOR, DER, and ROA variables simultaneously affect firm value.

**Test Coefficient of Determination**

Table 10. Test Coefficient of Determination (R2)

Weighted Statistics			
Root MSE	0.846085	R-squared	0.892625
Mean dependent var	4.511192	Adjusted R-squared	0.858989
S.D. dependent	2.387183	S.E. of regression	0.974028

var			
Sum squared resid	78.74459	F-statistic	26.53808
Durbin-Watson stat	1.271589	Prob(F-statistic)	0.000000

Source: data processed (2024)

According to Table 10, the Adjusted R-squared coefficient of determination is 0.858989 or 85.90%. This suggests that the independent variables ETR, STA, and FOR can account for 85.90% of the variation in the firm value variable. The remaining 14.10% of the variation is attributed to other variables not considered in this research model.

## **DISCUSSIONS**

### **The Effect of Tax Avoidance on Firm Value**

Based on the findings of hypothesis 1, it can be deduced that tax evasion exerts a detrimental albeit statistically negligible impact on business value. The results depict an example indicating that investors in non-cyclical consumer sector enterprises perceive that abstaining from tax payments would not have a negative impact on company worth. Investors generally do not closely scrutinize the company's tax payments, hence the extent of tax evasion is not a significant factor in their evaluation. Typically, investors exhibit a preference for firms that have consistent or elevated profitability when considering where to allocate their cash. Consequently, the existence or nonexistence of tax evasion has no impact on investors' investment choices. Consequently, the presence or absence of Tax Avoidance does not affect Firm Value. Moreover, the adoption of the strategy to evade tax obligations is seen to be in compliance with tax legislation. Consequently, attempts to evade tax obligations would not diminish investors' inclination to infuse funds into the firm, irrespective of particular corporate practices.

The findings also demonstrate alignment with agency theory. Should firm management choose for tax evasion strategies in response to institutional supervision, it has the potential to enhance the company's overall worth. Nevertheless, the financial statements provided by the corporation may be deceptive to investors since they fail to accurately depict the true circumstances. Hence, a disparity in knowledge exists between the agent and the principle, leading to a diminished level of interest and confidence among investors in allocating their capital. This phenomenon fosters the development of agency issues within both factions of the organization (Yuliandana et al., 2021). Consequently, as the level of tax evasion increases inside the organization, its overall worth decreases.

### **The Effect of State Ownership on Firm Value**

Based on the findings of hypothesis 2 testing, it may be inferred that state ownership exerts a notable adverse impact on business value. The presence of a predominant state (local) share ownership tends to have an adverse effect on the value of a corporation, as evidenced by the research conducted by Minh Ha et al. (2021) and Chen et al. (2014). Enterprises whose primary owners are local investors often have a reduced likelihood of engaging in tax evasion in contrast to other firms. These shareholders frequently prioritize social and political concerns over the optimization of business earnings. Consequently, there is a reduced focus on tax evasion policies.

### **The Effect of Foreign Ownership on Firm Value**

Based on the findings of hypothesis 3, it may be inferred that foreign ownership exerts a notable adverse impact on business value. The outcomes seen may be attributed to the prevalence of local ownership over international ownership among the organizations analyzed in this study. Consequently, the

impact of foreign ownership on firm value mirrors that of local ownership, both of which exhibit a notable adverse influence.

## **CONCLUSIONS AND RECOMMENDATIONS**

The study enhances our comprehension of the correlation between tax evasion strategies and company value in non-cyclical consumer firms listed on the Indonesia Stock Exchange from 2018 to 2022. While the Effective Tax Rate (ETR) variable lacks significance, notable results are observed with the State Ownership (STA) and Foreign Ownership (FOR) variables. The statistical analysis indicates that both Local Ownership and Foreign Ownership have a substantial negative impact on business value based on the STA and FOR variables. This has significant consequences for stakeholders, governments, and financial practitioners to assess how ownership regulations affect corporate tax strategies and business value.

This study differs from earlier ones in that enterprises with strong local ownership exhibit minimal or no tax evasion, yet nonetheless negatively affect company value. Companies with strong foreign ownership often participate in tax evasion strategies, leading to an overall rise in company value.

The government is anticipated to give incentives, such as tax refunds, as a policy proposal for investment objectives. Overhaul of tax practices, involving the creation of efficient and clear computerized tax management. Furthermore, international tax cooperation is achieved by establishing tax treaties and policies with other nations. The government could contemplate tax exemption programs for high-tech enterprises and the research and development industry to promote investment and innovation. In company management, collaboration between business management and operational managers is essential to assess corporate tax administration and establish suitable tax avoidance strategies. Business managers must develop proactive tax strategies to enhance the company's worth, playing a crucial role in generating both short-term and long-term value for shareholders. Investors should carefully review a company's tax strategy in yearly financial reports to evaluate tax evasion practices and make well-informed investment decisions.

The results have considerable importance for professionals, regulators, and other stakeholders interested in monitoring tax policy and understanding market dynamics related to tax evasion methods. Businesses have the potential to increase their value through the adoption of strategic tax strategies. However, they must exercise care in managing agency costs, since these can gradually erode the company's reputation and financial worth. Tax officials can employ this data to improve rules and monitoring about tax evasion techniques. Stakeholders, including investors, may see tax evasion information as a variable influencing their investment decisions, acknowledging that the impact may be temporary. This research contributes to our understanding of the relationship between tax evasion and company value, highlighting the complexities and risks associated with this approach. The results provide a basis for further research into supplementary variables affecting corporate valuation and the tangible implications in commercial and fiscal regulations.

## ADVANCED RESEARCH

Upon a thorough examination of the discoveries presented in this paragraph, it is evident that more study is warranted to delve into more intricate and comprehensive facets. An area worthy of investigation involves delving more into the ramifications of tax techniques on agency expenses that might potentially jeopardize the reputation and value of the organization over time. An appropriate methodological strategy might entail utilizing company case studies to gain a tangible comprehension of how specific taxes choices could result in significant agency expenses. Furthermore, scholarly study should aim to get a more thorough comprehension of how data pertaining to tax evasion influences the investment choices of stakeholders, namely investors. This study may encompass surveys or analysis of capital market data to investigate the correlation between tax avoidance information and investment activity, as well as its enduring influence on market stability.

Moreover, next studies should concentrate on formulating more efficient regulatory approaches to tackle tax dodging tactics that impact not just firms but also the broader population. This research methodology may encompass a thorough examination of literature and a study of current tax regulations to provide more streamlined and impactful regulatory suggestions. Hence, additional investigation in this field is anticipated to yield a substantial impact on enhancing the comprehension of the variables influencing company worth in connection to tax evasion strategies, while also offering pragmatic perspectives in the formulation of enduring tax regulations that benefit pertinent stakeholders.

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