

Profit Management and Tax Avoidance on Company Value

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ABSTRACT

The purpose of this study was to analyze the effect of Profit management and tax avoidance on the value of the company. The sample consisted of 28 companies with the retrieval technique using purposive sample technique in the health, transportation infrastructure, and logistics sectors listed on the IDX for 2018-2022. The results of the study state that company value is not influenced by Profit management while company value is influenced by tax avoidance.

INTRODUCTION

Every company always strives to obtain maximum profit Perhaps by using various strategies to achieve those goals. To impress stakeholders, the company strives to: maintain its performance. The profit listed in the income statement can be Provide information about how the condition of management performance company. According to the statement of Financial Accounting Standards No. 2 profit is the main report to measure performance or accountability that carried out by management. This profit information is sometimes the purpose of engineering management to maximize or minimize profits. Avoiding losses and a decrease in profits so that the profits presented in the financial statements are not fluctuate because it will be bad for investors. Companies that Experiencing losses have the potential to lower stock prices and lose investor confidence. This is what causes companies to do Profit management as an action to reduce risk Known as profit management. In addition to doing profit management, companies can also do tax avoidance. This is done by reducing corporate tax but still within the limits of tax regulations that are valid (legal). Although taxes are a source of state revenue for finance government administration, for companies as taxpayers, tax is an expense that will reduce net profit (Sugiono, 2020).

The primary objective for investors when deploying their wealth is to attain maximum returns. In pursuit of this goal, investors meticulously evaluate various factors before allocating their funds. One critical consideration in assessing a company's performance is its value, a metric often gauged by the market value. The concept of company value, akin to market value, is significant as it has the potential to maximize shareholder welfare, especially when manifested through an augment in the company's share price (Winarta et al., 2021).

Corresponding to Dewi et al. (2016), the valuation of a corporation can be appraised through several dimensions, with one prominent method being the evaluation of the company's share price. This approach is rooted in the understanding that the price of a company's stock. Encapsulates the investor's comprehensive assessment of the entirety of each equity owned. In essence, the share price serves as a comprehensive note of the investor's perception of the company's overall value. The existing body of research exploring the jolt of profit management and tax avoidance on company value has generated varied and sometimes conflicting results. Specifically, investigations into the kinship betwixt profit management and company value have produced inconsistent findings.

As an example, Ayong et al. (2020) found that profit management had no notable crash on the value of the company, a conclusion that aligns with the results obtained by Dewi et al. (2016) and Rahayu et al. (2020). These studies collectively suggest that manipulating profits, whether increased or decreased, does not necessarily lead to a corresponding rise or fall in the overall value of the company. Similar results were also documented by Marhamah (2013), Violeta & Serly (2020), and Herman Darwis (2012), all indicating that profit management doesn't exert a discernible issue on a company's value.

In contrast, the findings of Ridwan & Gunardi (2013) suggest a strong influence of profit management on corporate value, providing a counterpoint to the results of the aforementioned studies. The divergent outcomes across these studies highlight the complexity and multifaceted nature of the relation between profit management practices and their impact on the overall value of a company. It underscores the importance of considering various contextual factors and methodologies in interpreting research outcomes within this domain.

Profit management activities are less sustainable than cash flow, so profit performance from accrual components brings significant profit management to the value of the company. Support research results The profit management has a positive effect because of profit management activities really gives investors a look at valuing the company better (Winarta et al., 2021). Likewise, the results of Riswandi & Yuniarti's research (2020), Nainggolan (2019), Sugiono (2020), and Indriani et al. (2014) stated that profit management has a meaningful effect on the value of the company.

Research conducted by Herdiyanto & Ardiyanto (2015) revealed that engaging in tax avoidance has a positive impact on a company's value, indicating that such practices can enhance the overall worth of the company. This finding was corroborated by Anggoro & Septiani (2015), who also concluded that corporate tax avoidance significantly influences the company's value in a positive direction. In accordance with these findings, Fadillah (2019) and Nusa et al. (2020) demonstrated that tax avoidance plays a substantial role in determining a company's value.

However, Handayani's (2020) research presented a contrasting perspective, suggesting that tax avoidance doesn't involve the company's value. Handayani argued that investors base their assessments on financial ratios rather than the extent of tax avoidance. Conversely, Mahaetri & Muliati (2020) found that tax avoidance has a detrimental effect on a company's value, indicating that increased tax avoidance leads to a decrease in overall company worth. This outcome aligns with the findings of Ilmiani & Sutrisno (2014) and Karimah & Eindye Taufiq (2013), as well as the exploration done by Chen et al. (2014), which suggested that heightened tax avoidance tends to diminish the company's value.

The objective of this inquiry is to examine the individual impacts of profit management and tax avoidance on the value of companies. This research builds upon prior studies, specifically Yorke et al.'s (2016) investigation into the consequence of profit management and tax avoidance on corporate value and Lestari & Ningrum's (2018) examination of the outcome of profit management and tax avoidance on company value. Notably, this study differs from previous research in terms of the sample of companies under scrutiny. While earlier studies encompassed all sectors listed on the Indonesia Stock Exchange from 2012 to 2015, excluding finance and mining sectors, our research focuses on companies within the health, transportation, infrastructure and logistics sectors listed on the IDX 2018 to 2022. The divergence in sample selection stems from observed differences in previous research outcomes, prompting a more in-

depth exploration with a specific emphasis on the health, transportation, infrastructure, and logistics sectors listed on the IDX between 2018 and 2022.

LITERATURE REVIEW

Signaling Theory

Signaling Theory or signal theory was first introduced in 1973 by Spence and states that signals give signals and senders provide those signals in the form of information that can be used by receivers. The receiver then adjusts its behavior based on its understanding of the signal.

Signal theory underscores the significance of companies disclosing information, especially concerning investors' decisions regarding investments. The disclosure of such information holds importance for investors and other stakeholders in the business realm. This is because it serves as a source of clues and insights into the company's historical, current, and prospective standing, shedding light on its overall viability and influence on the market (Rusli, 2016).

One of the information published by a company that can be a signal to outsiders, especially investors, is the annual report.

Principal Agent Theory

Theory of agency suggests that ties between managers and shareholders is explained on the relationship between agents and shareholders.

An agent is given the task of running a business for the benefit of the principal, and because managers are agents and shareholders are agents as well as principals, the business run by managers as agents must be profitable by making the best use of company resources (Christiawan & Tarigan, 2007).

The end of is to elucidate how participants involved in a legal agreement can structure contracts to minimize the costs associated with information asymmetry principal-agent theory and uncertainties in prevailing conditions.

1. The Influence of Profit Management on Company Value.

Profit management actions are often interpreted as opportunistic actions of managers for personal interests. This action can be detrimental to the company by sacrificing investor confidence because it can reduce share prices and company value. Financial reports are no longer relevant to users if there are indications of engineering carried out by management. Yorke et al.'s (2016) suggest that profit management has a detrimental impact on company value. Such finding is consistent with the results obtained by Hendra & NR (2020), indicating that companies engaging in profit management tend to downsize the overall value of their enterprise.

Based on the theory and research results regarding profit management on company value, the assumption is:

H1: Profit Management has a negative effect on Company Value.

2. Influence Tax Avoidance on Company Value.

Companies strive not only for substantial profits but also aim to deliver benefits to their investors. This objective can be achieved through tax avoidance. By engaging in tax avoidance, companies can minimize their tax payments, allowing the company's profits to retain more significant value. This,

in turn, captures the interest of investors, as higher stock returns become more likely. Consequently, this strategy has the potential to enhance the overall value of the company. Fadillah (2019) and Herdiyanto & Ardiyanto (2015) in their research also obtained the same results where tax avoidance can raise company value. Based on theory and research results regarding tax avoidance on company value, then the second assumption is:

H2: Tax Avoidance Positive influence on company value

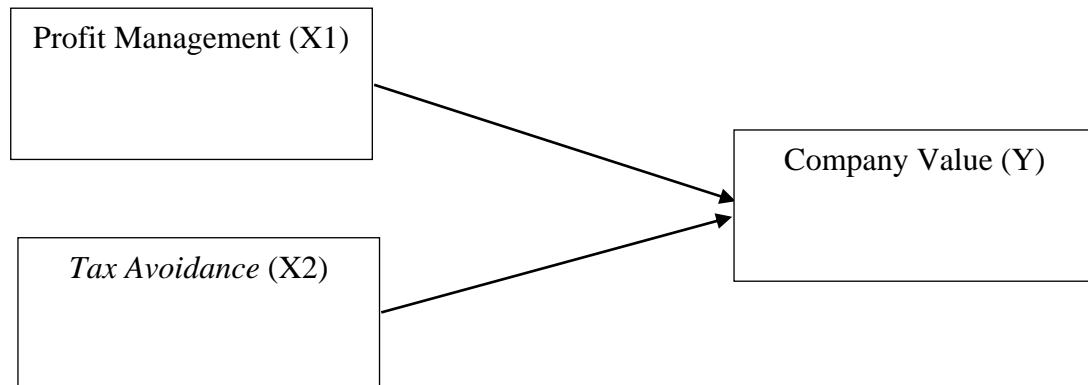


Figure 1. Conceptual Framework

METHODOLOGY

Population and Sample

Population

The study population comprises 110 companies in the health, infrastructure, transportation, and logistics sectors that were listed on the IDX during the period 2018 until 2022.

Samples

The sampling process employed purposive sampling methodology. The research sample encompasses 140 data points gathered over a span of 5 years, representing 28 companies. The selection criteria for inclusion in the study are:

1. The company publishes financial reports (complete) every year.
2. The company did not experience losses in the year under study.
3. The company has complete research variables.
4. The company publishes financial reports in rupiah currency and the financial year ends on December 31.

This research uses ratio discretionary accruals (DTA), namely:

1. Calculating total accrued value (TAC)

$$TAC_{it} = N_{it} - CFO_{it}$$

2. Calculating value *Accruals* estimated with the OLS regression equation (*Ordinary Least Square*):

$$\frac{TAC_{it}}{A_{it-1}} = \beta_1 \left(\frac{1}{A_{it-1}} \right) + \beta_2 \left(\frac{REV_{it} - REV_{it-1}}{A_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{A_{it-1}} \right)$$

3. Count *Non-discretionary accruals* with the following formula:

$$NDA_{it} = \beta_1 \left(\frac{1}{A_{it-1}} \right) + \beta_2 \left(\frac{[REV_{it} - REV_{it-1}]}{A_{it-1}} - \frac{[REC_{it} - REC_{it-1}]}{A_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{A_{it-1}} \right)$$

4. Calculating value *Discretionary accruals*, namely with a formula as follows:

$$DA_{it} = \left(\frac{TAC_{it}}{A_{it-1}} \right) - NDA_{it}$$

Tax avoidance (X2)

This research uses ratio *Cash ETR*. The formula used to estimate tax avoidance is:

$$CASH\ ETR = \frac{\sum Cash\ Tax\ Paid}{\sum Pretax\ Income} \times 100\%$$

Company Value (Y)

Measuring Company value uses the PBV formula as follows:

$$PBV = \frac{Price\ per\ share}{Book\ value\ per\ share}$$

RESEARCH RESULT

Table 1. Result

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	,592	,046		12,919	<,001
	Manajemen laba	3,102	7,130	,036	,435	,664
	Tax avoidance	,120	,030	,333	4,064	<,001

a. Dependent Variable: Nilai perusahaan

Considering that the significance value for profit management is 0.664, which is huge than the predetermined sig. level ($\alpha = 0,05$), we couldn't accepted. Therefore, it can be concluded that incomplete profit management doesn't have a significant impact on company value. Hence, H1 is not rejected.

The significance value of tax avoidance is less than 0.05 ($p < 0.001$). This indicates a high level of statistical significance. t-value of 4.064 exceeds the critical value. Company value is positively and significantly influenced by tax avoidance. Therefore, H2 (the alternative hypothesis) is supported, and the null hypothesis (stating no effect) is rejected.

DISCUSSION

Profit Management on Company Value

H1 tests whether profit management has a negative impact on company value. The research results indicate that the profit management variable doesn't have a significant effect on company value. Therefore, H1 isn't supported, suggesting that profit management actions carried out by managers have no significant impact on the stability of company value.

The results diverge from the findings of Sugiono (2020) and Winarta et al. (2021), who concluded that Profit management has an impact on company value. However, your results align with the research conducted by Herman Darwis (2012), Rahayu et al. (2020), Dewi et al. (2016), and Violeta & Serly (2020), which found no significant effect of Profit management on company value. Opportunistic actions taken by managers do not get a positive reaction from investors so they do not have an influence on increasing company value. When there is a difference in objectives between the manager and the investor/capital owner, the management tends to take unethical actions and commit accounting fraud which will be detrimental to the investor/capital owner. This proves that there is no connection between Profit management proceeding by managers and the value of the company because profit management is a difference in interests between managers and capital owners, therefore the Profit management that occurs has no effect on the value of the company.

Tax Avoidance on Company Value

H2 tests whether tax avoidance positively influences the value of companies in the health, transportation, infrastructure, and logistics sectors from 2018 to 2022. According to the research results, tax avoidance has a positive impact on company value. Therefore, it can be essenced that H2 is accepted.

This outcome contrasts with the findings of Herawati & Ekawati (2016), Sugiono (2020), and Violeta & Serly (2020). However, it aligns with the research conducted by Anggoro & Septiani (2015), Chasbiandani & Martani (2012), Mustika et al. (2019), Apsari & Setiawan (2018), which demonstrates that tax avoidance contributes to an increase in company value. The rationale is that shareholders are willing to invest more in companies employing legal tax avoidance strategies, thereby positively affecting company value. Resources derived from tax avoidance activities can be channeled towards productive purposes or distributed to investors. Companies engaging in tax avoidance aim to enhance profits by minimizing expenses, portraying good performance to investors, and consequently increasing the company's value. Investors tend to make well-informed estimates about the distributed profits, influencing share prices and contributing to an overall increase in company value.

CONCLUSIONS AND RECOMMENDATIONS

Research indicates that profit management, characterized by opportunistic actions of managers, does not have a significant impact on the increase in the value of the company, as reflected in the stock price. Managers have various interests in managing profits. On the other hand, tax avoidance has a positive effect on company value. Specifically, tax avoidance practices by corporations are proven to increase the overall value of the company. These findings suggest a differentiation in the impact of managerial actions on company value, with tax avoidance being associated with a positive effect while profit management does not appear to significantly influence the company's value. It's important to consider the implications of these results for corporate strategies and decision-making.

ADVANCED RESEARCH

Research Limitations

There are limitations in the research that has been carried out, including:

1. The research was only carried out in the health, infrastructure, transportation and logistics sectors so that the results obtained cannot be generalized to other sectors. It would be better for further research to be expanded to other sectors such as mining and finance.
2. The large number of new companies that were not listed on the IDX in the initial year of research and companies that experienced losses in the year of research resulted in a small sample size compared to the population.
3. To get stronger results, it is best to add moderating variables that can influence their relationship with company value, for example; dividend distribution.
- 4.

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