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Profitability Moderation on the Effect of Tax Avoidance on Company Value

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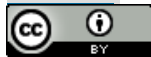
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ABSTRACT

Taxes are a burden on corporations that eat into corporate profits, whereas taxes on a country are revenues that are used to pay for government spending. These differences motivate companies to manage their tax liabilities. Corporate values are also influenced by high corporate profitability. The purpose of the study is whether tax avoidance affects firm value and whether weakening profitability increases the effect of tax avoidance on firm value. The study will be conducted from April 1 to July 1, 2022. The underlying theories of this research are agency theory and signaling theory. The subjects of this study include 14 multinational companies registered on the Indonesian Stock Exchange during the period 2017-2021, representing a sample of 70 companies. The data analysis techniques used were descriptive, pooled, classical hypothesis testing, simple linear regression analysis test, moderate regression analysis (MRA), test f, test t, and r². Data obtained from (www.idx.co.id) and (www.idnfinancials.com). Research shows that tax avoidance has a significant positive impact on firm value. At the same time, modest profitability does not significantly increase the effect of tax avoidance on firm value

INTRODUCTION

The definition of a tax is very simple, that is, a compulsory levy or payment from the people to the state (Dita Sukma Parawansa, Maryati Rahayu, 2021). From this definition, the function of the tax arises is to finance state expenditures. Functions and benefits are two different things, therefore tax benefits are used to carry out development to pay the salaries of civil servants. Taxpayers do not get compensation or compensation directly, where the money collected from paying taxes can be used for state needs for the greatest prosperity of the people. Tax payment is a form of implementation of state obligations and taxpayers take part directly and cooperate in carrying out tax obligations for state financing and national development (Ayu & Budiasih, 2015). In accordance with the idea of the tax definition law, paying taxes is not only an obligation, but is the right of every citizen to participate in the form of taking part in state financing and national development. (Azmi, 2014)

Most entrepreneurs always maximize profits. Of the various ways to maximize profits, one of them is by avoiding paying taxes. Tax avoidance is a way of taking advantage of legal loopholes so that entrepreneurs do not pay taxes or pay very little tax. (Sedyastuti, 2018)

According to (Pohan, 2017) in Pohan (2018), tax avoidance is an effort to avoid taxes that are carried out legally and safely for taxpayers without conflicting with applicable tax provisions (not contrary to the law) where the methods and techniques used tend to take advantage of the weaknesses (grey areas) contained in the Tax Laws & Regulations themselves to minimize the amount of tax payable. There is a phenomenon of large mining companies in Indonesia, namely PT. Adaro Energy Tbk committed a tax fraud. PT. Adaro Energy Tbk is said to have carried out transfer pricing through its subsidiary in Singapore, Coaltrade Services International. (Amalia & Nurkhin, 2019) It is said that the business has been carried out since 2009 - 2017. PT. Adaro Energy Tbk is alleged to have arranged it in such a way that they could pay taxes of US\$ 125 million or the equivalent

of Rp. 1.75 trillion (exchange rate of Rp. 14 thousand) lower than what should be paid in Indonesia. One view of taxation explains that taxpayers, including entities or companies, have become a habit in conducting tax planning (tax planning).

However, it is this effort that often appears as attempts to circumvent tax regulations (Chen, 2021). In the context of taxation, anyone has the opportunity and opportunity to carry out tax planning which will ultimately lead to tax avoidance (DetikFinance, 2019). According to Toni and Silvia (2021), Enterprise value is the price a potential buyer is willing to pay in the capital market, especially stock prices. According to Indrarini (2019), firm value is an investor's perception of the level of success of managers in managing the company's resources entrusted to them which is often associated with stock prices. According to Fadillah (2019) the reason companies practice tax avoidance is to reduce the burden or tax costs that will later be paid by the company. When a company is able to minimize expenses for tax purposes, it means that the company has fewer burdens or costs. Expenses are a deduction in obtaining company profits. The smaller the expenses incurred by the company, the greater the profit after tax (EAT) that the company gets. Investor interest will be higher in company shares that earn large profits. The higher the investor's interest in a stock, share price will rise due to limited number of outstanding shares in the community. Shareholders also want the company to have maximum corporate value (Prasetyo, 2020). According to Ayem and Maryanti (2022), company value can be affected by profitability. Profitability is the level of a company's ability to make a profit. The company is said to be successful if it gets the maximum profit on a regular basis. If profit growth increases, the share price will be high. The high stock price will affect the higher the value of the company. Investors will be more interested in companies that benefit, because it proves that the company's performance is good and has opportunities in the future. (Mohammad Cholilurrohman, 2020)

High profitability can increase the value of the company. According to Arianandini and Ramantha

(2018), a measure in assessing the performance of a company is called profitability. Profitability describes a company's ability to utilize its assets efficiently in generating company profits from asset management known as Return on Assets (ROA). A positive ROA indicates that the total assets used to operate the company are able to generate profits for the company.

ROA is expressed as a percentage, the higher the ROA value, the better the company's performance. Profit is the basis of tax imposition. The higher the profit of a company, the higher the tax burden paid. According to the research results of K et al.c. (2021), concluded that the tax avoidance variable affects company value. This research was conducted by Wardani and Juliani (2018), concluding that the tax avoidance variable has no effect on firm value. Research conducted by Mahaetri and Muliati (2020), tax avoidance has a negative effect on firm value. This indicates that the greater the tax avoidance, the lower the company value. The research problem formula is as follows: "Does tax avoidance affect firm value with moderating profitability." The research objectives are:

1. To find out whether tax avoidance has an effect on firm value.
2. To find out whether profitability moderation strengthens the effect of tax avoidance on firm value.

METHODS

The type of data used in conducting this research is secondary data (Cressey, 1953). The variables tested in this study include three variables, namely, the dependent variable, the independent variable and the moderating variable. (Sugiyono, 2015) The dependent variable in this study is firm value, the independent variable in this study is tax avoidance. While the moderating variable in this study is Profitability. (Sugiyono, 2017) The research objects in this study are multinational companies listed on the Indonesia Stock Exchange (IDX) for the 2017–2021 period.

In taking samples, the study used a nonprobability sampling technique with a purposive sampling technique, by fulfilling the criteria

- (1) Multinational companies in Indonesia that are listed on the Indonesia Stock Exchange for the 2017–2021 period,
- (2) Multinational companies listed consecutively during the 2017–2021 period,
- (3) Multinational companies whose financial statements have been audited,
- (4) Multinational companies that present financial statements in rupiah during the 2017–2021 period,
- (5) The company has a positive profit during the 2017–2021 period,
- (6) Multinational companies that do not have fiscal loss compensation,
- (7) Multinational companies that have the availability of data needed for the needs of each variable,
- (8) Multinational companies that have a Current ETR of less than 25%. From the criteria above, a sample of 14 multinational companies was obtained with a total of 5 years of observation to 70.

The data used in this study are data in the form of financial reports sourced from (www.idx.co.id) and (www.idnfinancials.com). As well as other sources that support the fulfillment of this research data, namely (www.yahoofinance.com), using the IBM SPSS 26 program. The data analysis technique used in this study is using simple linear regression analysis and moderated regression analysis (MRA).

RESULTS AND DISCUSSION

1. Descriptive Statistical Test

The results of the descriptive statistics that have been carried out are seen from the amount of data processed (N) for each variable which is 70 data (J. W Creswell, 2014), and shows the minimum value, maximum value, mean value, and standard deviation value of each variable (John W Creswell, 2012). Noted that:

- a. The dependent variable is the company value proxied by Tobins'Q, the minimum value or the smallest value of the processed data is 0.571660 and the maximum value or the largest value of the processed data is 14.414660. The average value (mean) of the firm

value variable is 2.68034200 with a standard deviation value of 2.644569637. These results indicate that the level of corporate value in this study is quite diverse.

b. The independent variable, namely tax avoidance which is proxied by the current effective tax rate (Current ETR), has a minimum value or the smallest value of the processed data is 0.005278 and the maximum value or the largest value of the processed data is 0.256459, with an average value (mean) of 0.20020423, and a standard deviation value of 0.058879894.

c. The profitability variable proxied by return on total assets (ROA) has a minimum value or the smallest value of the processed data is 0.007989 and the maximum value or the largest value of the processed data is 0.446758, with an average value (mean) of 0.12834344, and a standard deviation value of 0.099097547.

d. The dependent variable between tax avoidance and profitability which is the multiplication of the current ETR and ROA has a minimum value or smallest value from the processed data is 0.000132 and the maximum value or largest value from the processed data is 0.114575, with an average (mean) value of 0.02828494, and a standard deviation value of 0.025241336.

2. Data Pooling Test

Datapool test results created using the dummy method. The results of this data pooling test show that the significance of dt1, dt2, dt3, dt4, cetr_dt1, cetr_dt2, cetr_dt3, cetr_dt4, roa_dt1, roa_dt3, roa_dt4, cetroa_dt1, cetroa_dt3, and cetroa_dt3 are all greater than 0.05 ($\alpha = 5\%$). From this it can be concluded that research data can be pooled or combined.

3. Classical Assumption Test

-Normality test

Based on the tests that have been carried out, the data spreads away from the diagonal and does not follow the direction of the diagonal line or the histogram graph does not show a normal distribution pattern, so the regression model does not meet the normality assumption.

- Statistical Analysis

From the test results using the One Sample Kolmogorov-Smirnov Test, it shows that the residual data in the regression model are not normally distributed with Asymp values. Sig. (2-tailed) = 0.000

<0.05, so it can be concluded that the residuals are not normally distributed.

-Autocorrelation Test

This autocorrelation test was carried out to determine whether there was a confounding error in the next observation. Autocorrelation testing was carried out using Durbin Watson. The autocorrelation test results in table 4 show that the Durbin Watson value is 1,969, this value will be compared with the table value using a significance value of 5%, the number of samples is 70 (n) and the number of independent variables is 3 (k = 3). Because the Durbin Watson value of 1,969 is superior to the lower limit (du) of 1,703 and smaller than the upper limit (4 - du) of 2,297. So it can be concluded that Ho does not reject, which means there is no autocorrelation.

-Tuji Park

Based on the results of the heteroscedasticity test which was carried out using the park test, where the test results showed that the sig. tax avoidance 0.420, sig. profitability 0.680 and the interaction variable of tax avoidance with profitability has a sig value. 0.275. So it can be concluded that the regression model does not have heteroscedasticity, because the significant value is > 0.05. These results are consistent with the results of the scatterplots test

4. Regression Analysis

The results of the simple linear regression equation that has been done above can be interpreted as follows:

(1) A constant of -0.506 means that if the value of tax avoidance is 0, then the value of the company is negative, which is equal to 0.506.

(2) The regression coefficient of the tax avoidance variable is 15,918, which means that for every one percent increase in tax avoidance, the firm value has increased by 15,918 times. Every time there is a one percent decrease in tax avoidance, the company's value will decrease 15,918 times. Assuming other variables are considered fixed

Furthermore, it is known that the calculation of the t test for each variable is as follows:

(1) H1: Tax avoidance has a significant positive effect on firm value. The first hypothesis regarding the tax avoidance variable in the table is that it is known that the test results show a significance value of 0.003 less than 0.05 (effect). And based on the table it is known that the value of t count is 3.125 while t table is 1.99547. Thus t count > t table or 3.125 > 1.99547.

The test results show Unstandardized Coefficients B Tax Avoidance has a positive result of 15,918 meaning that tax avoidance has a positive relationship to firm value. This indicates that tax avoidance has a significant positive effect on firm value (H1) is rejected.

(2) H2: Moderation of profitability does not significantly strengthen the effect of tax avoidance on firm value. The second hypothesis regarding profitability as a moderating variable in the table is known that the test results show a significant value of tax interactions. avoidance * profitability of 0.653 greater than 0.05. And based on the table it is known that the value of t count is -0.452 while the t table is 1.99656. Thus $t \text{ count} < t \text{ table}$ or $-0.452 < 1.99656$.

The test results show that the Unstandardized Coefficients B interaction between tax avoidance and profitability has a negative result of -32,873. A negative value means that there is a negative effect of profitability on the relationship between tax avoidance and firm value, but because the significance level is greater than 0.05, these results indicate that profitability moderation does not strengthen the insignificant effect of tax avoidance on firm value, which means (H2) is rejected.

The Effect of Tax Avoidance on Firm Value
Based on the test results it appears that tax avoidance has a significantly positive effect on firm value. This means that it can be concluded that H1 in this study was rejected because it was not in line with the results of the research that had been done. The results of research by Nugraha and Setiawan (2019) state that tax avoidance has a positive effect on firm value.

These results prove that tax avoidance can increase investor interest in investing and provide greater stock returns to investors. Giving these benefits can later increase company loyalty so that it can be indicated that the company's value will increase. Moderation of Profitability Strengthens the Effect of Tax Avoidance on Firm Value Based on the test results it appears that moderation of profitability does not strengthen the effect of tax avoidance on firm value, which means (H2) is rejected.

CONCLUSION

Based on the results of the discussion of the research that has been done, the conclusions of this study are as follows:

1. Tax avoidance has a significant positive effect on firm value.
2. Moderation of profitability does not significantly strengthen the effect of tax avoidance on firm value.

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