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The Impact Of Tax Aviodance On The Value Of A Company

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Abstract

One of a company's objectives is to maximize the value of its shares by raising their price. This research looks at how leverage, financial performance, and tax evasion affect company value in manufacturing businesses listed on the Indonesia Stock Exchange from 2021 to 2023. In this study, purposive sampling was utilized. The requirements were satisfied by a total of 218 firms as observation units. Multiple linear regression analysis is used. The study's findings demonstrate that financial success has an impact on firm value. Meanwhile, tax evasion and leverage do not influence the firm value.
Keywords: Leverage, Financial Performance, Tax Avoidance

Introduction

In the age of globalization, the problems that businesses confront will grow more severe, not just in terms of survival, but also in terms of maintaining a competitive edge over other businesses. The company's purpose is essentially to maximize its worth. Company value is investors' opinion of the company's performance, and it is often tied to share prices. Harahap (2019) found that increasing a company's worth leads to more prosperity for the owner. The market price of a company's shares reflects its worth. Company value is investors' opinion of the company's degree of success, and it is often tied to share prices. The high share prices increase the company's worth. A high business value will persuade the market to trust in both the firm's present performance and its future potential (Harahap, 2021).

Tax preparation may help firms boost their worth. One tax-planning method is to avoid taxes. Tax avoidance is a transaction strategy designed to reduce the tax burden by exploiting numerous flaws in a country's tax legislation, resulting in tax professionals declaring it legitimate since it does not violate tax laws. Tax evasion is accomplished by exploiting existing flaws in tax legislation and creating the illusion of not breaching tax law. The third aspect considered in this study is financial performance. One of The financial success of a corporation is a determining factor in enhancing its value.

Harahap (2019) thinks that firm value reflects how effectively or badly management manages its wealth, as measured by financial performance. Measuring financial performance is one of the most important factors for a company because it serves as the foundation for developing a reward system within the company, which can influence decision-making behavior within the company and provide useful information in making critical decisions about the assets used to make decisions. It represents the company's interests.

This study examines whether leverage has an impact on corporate value, in addition to tax avoidance and financial success. Harahap (2018) defines leverage as the utilization of debt by a corporation to carry out its operational operations. According to Kushendar (2020), a company's financing might come from internal sources such as retained profits and depreciation, as well as external ones such as loans or the issue of new shares. The leverage ratio measures how much a corporation is funded by debt. When a firm employs excessive debt, it puts itself at risk because it falls into the extreme leverage category, which is a scenario in which the company is locked in high debt and it is difficult to get out of it. A larger leverage number indicates that the investment is high risk, whilst a low leverage indicates that the investment is low risk. Leverage management is critical since the choice to employ large debt may boost firm value by lowering income taxes (Harahap, 2022).

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Literature Review

Agency Theory

According to Harahap (2023), agency theory describes the conflicts of interest between the company's owner (principal) and management (agent). Agency theory examines the connection between two actors with opposing interests, namely the agent and the principle. This idea also illustrates the separation between management and stockholders. This split attempts to improve the efficacy and efficiency of corporate management by hiring the finest agents.

Signal Theory

Legitimacy theory defines a social compact with the community in which the corporation works and utilizes economic resources (Harahap, 2022). The idea of legitimacy is strongly tied to the social contract. Legitimacy will be jeopardized if society believes the organization has breached its social compact, and society may effectively shut the institution.

Companies that prioritize societal and environmental factors are more likely to survive. As a result, businesses must be able to conduct operations that are consistent with the ideals of justice and the conventions that govern society. According to this view, firms should guarantee that their actions and performance are socially acceptable. Companies utilize their financial reports to present a sense of environmental responsibility in order to get societal acceptance. Stakeholder Theory.

Company Value

The term "company value" in this study refers to the market value. If the company's share price rises, shareholders will benefit the most. The higher the share price, the greater the wealth of shareholders. To maximize firm value, investors often delegate management to specialists. Professionals are designated as managers or commissioners.Suryanto (2021) suggests that a company's value is reflected in its market price when it goes public, while it is realized when it is sold, taking into account total assets, prospects, business risks, and the business environment. Company value reflects the public's perception of the company's true performance, as assessed by market share prices (Harahap, 2019). According to these criteria, firm value is determined by share prices in the market. Higher share prices lead to greater wealth and welfare for stakeholders.

Methods

Types of Research

This study employs quantitative research methods, using secondary data in the form of financial report findings collected from www.idx.co.id. This study will be validated by evaluating the hypothesis utilizing statistical analysis techniques, including multiple linear regression analysis using the SPSS program.

Population and Sample

The population for this study included all firms registered on the Indonesia Stock Exchange (BEI) in the form of annual and financial reports. The samples in this study include manufacturing enterprises listed on the IDX for a period of three years, beginning in 2021-2023, based on purposive sampling.

Results and Discussion

The effect of leverage on company value

The 1st hypothesis in this research is the effect of leverage on company value. Based on the results of calculations in statistical tests (t-test), it is known that Corporate Social Responsibility has a t-count of -0.727 with a significance level of 0.467 which is greater than the significance level set at 0.04 (0.467 > 0.04). Therefore, it can be concluded that leverage has no effect on company value. This means that companies in financing their assets tend to use their own capital (internal financing) which comes from retained earnings and share capital rather than using debt.

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The third hypothesis in this research is the effect of tax avoidance on company value. Based on the results of calculations in statistical tests (t-test), it is known that tax avoidance has a t-count of -1.407 with a significance level of 0.160 which is greater than the significance level set at 0.04 (0.160 > 0.04). Therefore, it can be concluded that tax avoidance has no effect on company value. The results of testing the first hypothesis show that tax avoidance does not have a negative effect on company value, which means that the higher the percentage of tax avoidance carried out by the company, the less effect it will have on the decline in company value. These results cannot prove the signal theory, where information on tax avoidance by companies is a signal for investors to assess company performance. This proves the agency theory where managers hide and accumulate negative information from outside investors by minimizing the company's tax obligations so that financial information and other information available to investors cannot determine decisions in analyzing the company's tax avoidance actions. This is done to increase the value of the company itself in the future. Tax avoidance has no effect on decreasing company value because the level of tax avoidance carried out by the sample companies is still low and is not carried out every period.

Conclusion

This study employs a quantitative method utilizing secondary data. According to the criteria, the sample for this study is 218 firms. According to the discussion, the findings of this study indicate that financial success, as measured by ROE, has an impact on firm value. Meanwhile, leverage and tax avoidance have little impact on tax avoidance. Suggestions for future study are intended to increase the sample size by include additional years of research observation. Future research should include other factors that are expected to have an impact on tax evasion but were not investigated in this study. It is advised that interested parties pay attention to the findings of this study before considering making tax payments to the state.

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