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The Effect of Tax Avoidance, Profitability, and Leverage on Firm Value

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Abstract

This study aims to determine the Effect of Tax Avoidance, Profitability, and Leverage on Firm Value in Manufacturing Companies in the Goods and Consumer Sector Listed on the Indonesia Stock Exchange for the period 2016 – 2019. This type of research is Causal Associative research with a Quantitative approach. The sample in this study was determined using the purposive sampling method and obtained from as many as 24 companies. The data analysis technique used is multiple linear regression analysis. The results of this study indicate that profitability affects firm value. Meanwhile, tax avoidance and leverage have no effect on firm value.

Keywords
Tax Avoidance, Profitability , Leverage , Firm Value

1. Introduction

Currently, competition in the business world is very tight, so we must face it in a healthy way and in accordance with existing regulations. The presence of competitors or competitors in a business is normal. Business competition is one of the big risks that must be faced by business people. To run a business today is very large, in fact, a lot of people are running a business in the same field. Of course, this cannot be denied and prevented by those who have run a business, because creativity and innovation are also continuously developing. This encourages each company to carry out various business strategy innovations to avoid bankruptcy. A company was founded with the aim of achieving a maximum profit or maximum profit by optimizing the value of the company.

Firm value is the result of management's work from several dimensions including net cash flow from investment decisions, growth, and the company's cost of capital. Management always strives to increase the value of the company so that the investment climate in the company is also increasing. For investors, company value is an important concept because company value is an indicator of how the market values the company as a whole. A high company value is the desire of the company owners because a high value indicates the prosperity of the shareholders is also high.

There are several factors that influence firm value, including tax avoidance and profitability which are indicators of investors in assessing the company's prospects in the future to see the high rate of return earned by shareholders. The higher the value of the company, the company will have a better image. Tax avoidance is an act of saving taxes that are still within the corridors of legislation. This means that there is no violation of the law committed and vice versa tax savings will be obtained by regulating actions that avoid tax imposition applications by controlling facts in such a way as to avoid tax imposition (Muid, 2017).

Profitability is the main attraction for company owners (shareholders) because profitability is the result obtained through the management of funds invested by shareholders and profitability also reflects the distribution of profits that are entitled to them, namely how much funds are reinvested and how much paid as cash dividends or stock dividends to shareholders (Jusriaini and Rahardjo, 2013). *Leverage* which is a debt ratio often also known as a

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solvency ratio is a ratio that can show the ability of a company to fulfill all financial obligations of the company if the company is liquidated (Agnes, 2004). *Leverage* can also be a tool that is widely used by companies to increase their capital in order to increase profits (Singapurwoko & El-Wahid, 2011).

2. Literature Review

Signal Theory (*Signalling Theory*)

Signal Theory provides an illustration that a signal or signal is an action taken by the company's management that gives instructions to investors about how management views the company's prospects. This theory reveals that investors can distinguish between companies that have high value and companies that have low value (Brigham & Houston, 2013).

Signal theory suggests how companies should provide signals to users of financial statements, especially investors who will invest. This signal can be in the form of information about what management has done to realize the wishes of the company owner or investor. Signaling theory also explains why companies have the urge to provide financial reporting information to internal parties. The company's motivation to provide this information is because there is an information asymmetry between the company and the investor because the company knows more about the company and its future prospects compared to outsiders.

Firm Value

Firm value in this study is defined as the market value of a company's stock because the market price of a company's stock reflects an investor's assessment of each equity held. Firm value can provide maximum shareholder prosperity if the company's stock price increases.

Firm value is an investor's perception of the company, which is often associated with stock prices. This is in line with the statement of Brigham and Houston (2001) which states that the goal of financial managers is to maximize shareholder wealth. That means maximizing the company's stock price. According to Noerirawan, Corporate Value is a condition that has been achieved by a company as an illustration of public trust in the company after going through a process of activity for several years, namely since the company was founded until now.

$$Tobin = \frac{MVE + Book\ Value\ of\ Liabilities}{Total\ Assets}$$

Tax Avoidance

Tax Avoidance is the deduction or reduction of tax obligations company. In a broad definition, tax avoidance is a series of planning strategies tax (*tax planning*), because economically trying to maximize income after tax (*after tax return*). Taxes are a deductible element of available profits, good for sharing with shareholders or for reinvestment (Prasiwi, 2015).

In order to minimize tax obligations can be done in various ways, either still comply with tax provisions (*lawful*) which are often referred to as evasion taxes (*tax avoidance*), or those who violate tax regulations (*unlawful*) which are called *tax evasion*. According to (Halim, 2014) tax avoidance is tax planning that is carried out legally by reducing the tax object which is the basis for tax imposition and is still in accordance with the provisions of the applicable tax legislation.

$$CASH\ ETR = \frac{Pembayaran\ pajak}{Laba\ sebelum\ pajak}$$

Profitability

According to (Hery, 2016) the profitability ratio is the ratio used to measure a company's ability to generate profits from its normal business activities. Profitability ratios or profitability ratios can be used as a measuring tool to measure the effectiveness of management performance. Good performance will be demonstrated through the success of management in generating maximum profits for the company. According to (Kasmir, 2015) the profitability ratio is a ratio to assess a company's ability to make a profit. This ratio also provides a measure of the effectiveness of a company's management. This is indicated by the profit generated from sales and investment income. The point is the use of ratios shows the efficiency of the company. Profitability is the company's ability to earn profits in relation to sales, total assets, and equity (Sartono, 2001). Profit can be obtained through the company's operating activities and investment decisions.

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$$ROA = \frac{Laba\ bersih\ setelah\ dan\ pajak}{Total\ aset\ atau\ aktiva} \times 100\%$$

Leverage

Leverage according to (Kasmir, 2015) " *leverage* is the ratio used to measure the extent to which a company is financed with debt. This means how much debt is the responsibility of the company compared to its assets. According to (Darmawan, 2014) *leverage* is a ratio that shows the amount of debt owned by a company to finance its operating activities.

According to (Hery, 2016) the *leverage* ratio is the ratio used to measure how much debt the company must bear in order to fulfill assets. In a broad sense, *leverage ratios are* used to measure a company's ability to fulfill all of its obligations, both short-term and long-term obligations.

According to Fahmi (2017: 127) the *leverage ratio* measures how much a company is financed with debt. The higher the *leverage*, the higher the firm value because the company's capital is getting bigger. If the company has the ability to meet its long-term debt, the company's value will also be higher in the eyes of stakeholders.

$$DER = \frac{Total\ Utang}{Total\ equitas}$$

3. Methods

The research methodology in this study is to use quantitative methods. The data analysis used is statistical analysis. The data from the results of the statistical analysis will then be presented in the form of statistical data using the SPSS application program.

4. Data Collection

This research was conducted on manufacturing companies in the consumption industry sector listed on the Indonesia Stock Exchange (IDX) for the 2016-2019 period by collecting secondary data that had been published through the official IDX website www.idx.co.id or through the company's official website.

5. Results and Discussion

Descriptive statistics

Table 4.3 Descriptive Statistical Test

Descriptive Statistics

	N	Minimum	Maximum	Means	std. Deviation
The value of the company	71	.476	4,931	2.08935	1.173459
Tax evasion	71	087	.465	.25479	.090308
Profitability	71	013	.223	.09061	.053890
leverage	71	083	1,517	.60820	.356361
Valid N (listwise)	71				

Source: SPSS output 25

The results of the analysis of the Firm Value variable (Y) show a minimum value of 0.467, a maximum value of 4.931, an average value of 2.08935, and a standard deviation value of 1.173459. The results of the analysis of the Tax Avoidance variable (X1) show a minimum value of 0.087, a maximum value of 0.465, an average value of 0.25479, and a standard deviation value of 0.090308. The results of the analysis of the Profitability variable (X2) show a minimum value of 0.013, a maximum value of 0.223, an average value of 0.09061, and a standard deviation value of 0.053890. The results of the analysis of the *Leverage variable* (X3) show a minimum value of 0.083, a maximum value of 1.517, an average value of 0.60820, and a standard deviation value of 0.356361.

Classic assumption test

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Table 4.4 Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residuals
N		34
Normal Parameters [a,b]	Means	.0000000
	std. Deviation	.89093574
Most Extreme Differences	absolute	088
	Positive	088
	Negative	-.087
Test Statistics		088
asymp. Sig. (2-tailed)		.200 [c,d]

a. Test distribution is Normal.

b. Calculated from data.

c . Lilliefors Significance Correction.

Source: SPSS output 25

The results of table 4.4 show that the data is normally distributed. This is indicated by a significant value of 0.2 , which means that the residual data is normally distributed because the significance value is more than 0.05. The test results above, it shows that the Kolmogrov-Smirnov test shows that the residual data distribution is **normal** , so it is suitable for research.

a. *Normal Probability Plot* Test

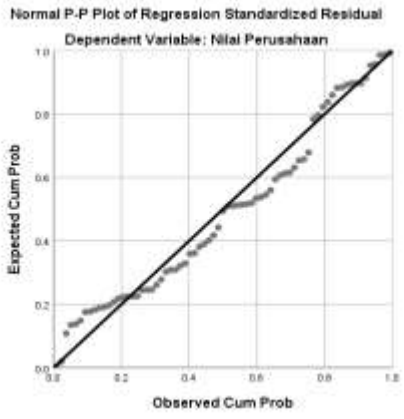

Figure 4.1 Histogram Graph
Source: SPSS output 25

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b. Histogram Graph Test

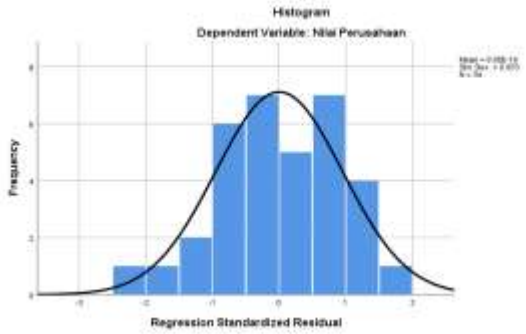

Figure 4.2 Normal P-Plot Graph
Source: SPSS output 25

Multicollinearity Test

Table 4.5 Multicollinearity Test
Coefficients [a]

Model	Collinearity Statistics	
	tolerance	VIF
(Constant)		
Tax Avoidance	.940	1,064
Profitability	.717	1,395
leverage	.729	1,372

a. Dependent Variable: Company Value
Source: SPSS 25

Based on table 4.6 it shows that all tolerance values of all independent variables are Tax Avoidance 0.940, Profitability 0.717 and *Leverage* 0.729. A tolerance value above 0.1 means that multicollinearity does not occur. For the value of VIF Tax Avoidance 1.064, Profitability 1.395 and Leverage *1.729* . The VIF value of the three independent variables is less than 10, so it can be concluded that multicollinearity does not occur in the regression.

Autocorrelation Test

Table 4.6 Autocorrelation Test
Summary Model [b]

Model	R	R Square	Adjusted R Square	std. Error of the Estimate	Durbin-Watson
1	.651 [a]	.424	.398	.910664	1,482

a. Predictors: (Constant), Leverage, Tax Avoidance, Profitability
b. Dependent Variable: Company Value
Source: SPSS output 25

Based on the results of the tests carried out, the DW figure is 1.482. This value lies between dL 1.5284 and dU 1.7041 so there is no definite conclusion about the presence or absence of autocorrelation symptoms from the data. So to overcome the problem of autocorrelation is to test the run test.

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Table 4.7 Runs Test Table

Run Test

	Unstandardized Residuals
Test Value [a]	-.01259
Cases < Test Value	35
Cases >= Test Value	36
Total Cases	71
Number of Runs	29
Z	-1,792
asymp. Sig. (2-tailed)	.073

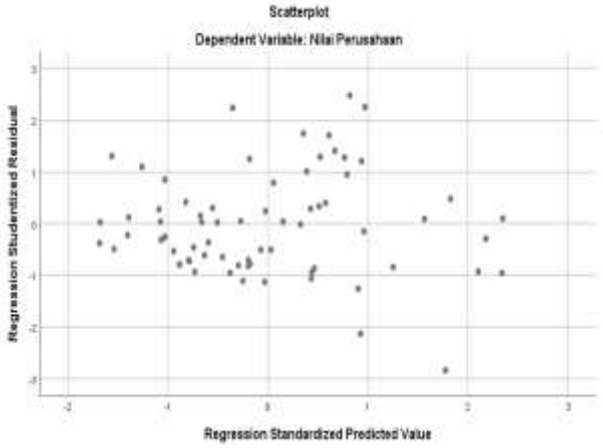
a. Median

Source: SPSS output 25

Based on the results of the tests carried out, the Asymp value is obtained. Sig. (2-tailed) of 0.384 is greater than 0.05 . So it can be concluded that there are no symptoms or autocorrelation problems.

Heteroscedasticty Test

Figure 4.3 Scatterplot Graph



Source: SPSS output 25

Based on Figure 4.3 above, it can be concluded that the regression method in this study did not occur heteroscedasticity because the points spread above and below the number 0 on the Y axis.

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Hypothesis testing
T Test (Partial)

Table 4.8 Multiple Linear Regression Test

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	-.019	.559		-.033	.974
	Tax evasion	.873	1,243	.067	.702	.485
	Profitability	16.103	2,385	.740	6,751	.000
	leverage	.701	.358	.213	1960	054

a. Dependent Variable: Company Value

Source: SPSS output 25

It is known from the results of testing the variable Tax Avoidance (X1) on Firm Value (Y) that the $t\ hitung$ of tax Avoidance value is 0.702 and the significance value is 0.485. The results obtained show a value of $t\ hitung 0.702 < t\ tabel 1.996$ and a significant value of 0.485 > 0.05, so the tax avoidance hypothesis has an effect on firm value and is rejected. This shows that Tax Avoidance has no effect on Firm Value. It is known from the results of testing the Profitability variable (X2) on Firm Value (Y) that the $t\ hitung$ of Profitability value is 6.751 and the significance value is 0.000. The results obtained show a value of $t\ hitung$ 6.751 > $t\ tabel 1.996$ and a significant value of 0.000 <0.05, so the profitability hypothesis affects firm value is accepted. This shows that Profitability has an effect on Firm Value. It is known from the results of testing the *Leverage variable* (X3) on Firm Value (Y) that the value of $thitung$ of the *leverage* is 1.960 and the significance value is 0.054. The results obtained show a value of $t\ hitung 1.960 < t\ tabel 1.996$ and a significant value of 0.054 > 0.05, so the *leverage hypothesis* affects firm value is rejected. This shows that *Leverage* has no effect on Firm Value.

Determination Coefficient Test

Table 4.10 Determination Coefficient Test

Summary Model [b]

Model	R	R Square	Adjusted R Square	std. Error of the Estimate
1	.651 [a]	.424	.398	.910664

a. Predictors: (Constant), Leverage, Tax Avoidance, Profitability Dependent Variable: Firm Value

Source: SPSS output 25

Based on table 4.10, an R value of 0.651 is obtained. So that it can be seen that the value of R Square is 0.424. This means that 39.8 % of the variation in Firm Value can be explained by the variation in the variables X1 Tax Avoidance, X2 Profitability, and X3 *Leverage* . While the rest (100% - 39.8 % = 60.2%) is influenced by other factors outside this research model.

DISCUSSION
Effect of Tax Avoidance on Firm Value

The first hypothesis suggests that tax avoidance has no a significant effect on the firm value. This can happen because of the tendency of investors not to see how much tax the company pays so they don't really consider the

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amount of tax avoidance committed by the company. Investors generally prefer to invest in companies with stable or high profits. So thus, the presence or absence of tax avoidance in companies does not affect investors' decisions in investing. So that investors will not withdraw their investment or invest even though the company is tax evasion or not. Thus, there is no impact on whether or not Tax Avoidance has on Company Value.

In this study, the signal theory provides an overview of the influence of signals on the quality of the information provided by companies to the public and investors. Negative signals will be followed by market reactions while positive signals will have an impact by increasing stock prices. The results also show that an increase in the value of tax avoidance is also followed by an increase in firm value. The results of this study are in line with those conducted by Adityamurti and Ghozali (2017) where the *tax avoidance variable* has no significant effect on firm value. The results of this study are different from the research conducted by Apsari and Setiawan (2018) which states that the results of their research variable *tax avoidance* have a positive effect on firm value.

Effect of Profitability on Firm Value

The second hypothesis suggests that profitability has a significant positive effect on the firm value. Companies that experience an increase in profits reflect that the company has good performance, giving rise to positive sentiment from investors and can make the company's stock price increase, an increase in stock prices in the market means that the company's value also increases in the eyes of investors.

Based on signal theory, high profitability can attract investors to invest in the company. This is because high profitability will increase returns on profits invested by investors. High profitability will signal that the company can develop well in the future. The interest of investors to invest their capital causes the company's stock price to rise so that the company's value will rise. The profit earned by the company reflects the company's financial performance. Investors will see that the profits generated by the company can affect the condition of the company in the future so that the prosperity received by shareholders is high because the value of the company will be reflected in the profits generated. The results of this study are supported by research conducted by Yangs Analisa (2011).) and Sri Hermuningsih (2013) found results that profitability has a positive and significant effect on firm value.

Effect of *Leverage* on Firm Value

The third hypothesis suggests that leverage has no a significant effect on the firm value. In other words, companies tend to use sources of funds from their own capital from depreciation, retained earnings, and share capital rather than using debt. Companies that have self-funding tend to reduce their debt ratios. The use of high debt will have an impact on decreasing the value of the company and conversely, the use of low debt will have an impact on increasing the value of the company. Based on signal theory, *leverage* is used to determine the extent to which a company can pay off its debts, both short and long-term, or to measure the number of funds originating from debt. Higher use of debt indicates the possibility that the company will have difficulty repaying or repaying debt. The lower *Leverage level* will be a good signal from the company to investors. These results are supported by the research of Adelegan (2007) and Yangs Analisa (2011) in their research that *leverage* has no effect on firm value.

6. Conclusion

This study aims to determine the Effect of Tax Avoidance, Profitability, and *Leverage* on Firm Value in Manufacturing Companies in the Goods and Consumer Sector Listed on the Indonesia Stock Exchange for the 2016-2019 period. Based on the results of data analysis and discussion, it can be concluded as follows:

1. Tax Avoidance has no effect on Company Value.
2. Profitability has an effect on Firm Value.
3. *Leverage* has no effect effects on firm value.

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