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EFFECT OF LONG-TERM TAX AVOIDANCE ON COMPANY VALUE WITH COMPANY TRANSPARENCY MODERATING

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Abstract

This study aims to examine the effect of Long Term Avoidance of Value to Company as a Company with Variable Moderate Transparency. The variables tested in this study consisted of Tax Evasion as measured by Effective Tax Rate Cash (Cash ETR), company value measured by calculating Tobin'Q, and company transparency. The sample used in this research is taken by using purposive sampling. The approach taken in this research is quantitative approach and descriptive research type. Some of these criteria, set as many as 60 companies in 2012-2015 as a sample. The results of hypothesis testing indicate that the effect of tax avoidance on corporate value and corporate transparency affect the value of the company. Meanwhile, long-term tax avoidance has no significant effect on corporate value and variable transparency of firms can strengthen the relationship between long-term tax avoidance on corporate value.
Keywords: Tax Avoidance, Cash Effective Tax Rate (ETR Cash), Transparency Company, Firm Values.

I. INTRODUCTION

Tax avoidance is a tax avoidance effort that is done legally and safely for tax payers because it is not contradictory to taxation provisions, where the methods and techniques used tend to take advantage of the weaknesses (gray areas) contained in the laws and regulations taxation itself to minimize the amount of tax payable (Pohan, 2013). To minimize the amount of tax payable, the company does the tax management within the company. According to Lumbantoruan (1996) in Suandy (2003), tax management is a means to properly fulfill taxation obligations but the amount of tax to be paid can be kept as low as possible to obtain expected profit and liquidity.

RI Law no. 17 of 2003 on State Finance in Article 11 states that "State revenue consists of tax revenue, non-tax receipts, and grants". Therefore, domestic income can be the main source of revenue of our country, one of which is obtained from the taxation sector. It makes clear how important the tax is to our country. In addition, in the state budget specified annually, the tax proved to have influence in state revenues. Therefore, the Indonesian government has always raised the revenue target of the taxation sector from year to year, which has the objective to finance both routine and domestic development expenditures.

Traditional theory, tax avoidance is considered an activity to transfer the welfare of the State to shareholders (Kim et al; 2010). In an effort to maximize the company, the possibility of management will be faced with the emergence of conflict agency problem that is a conflict of interest between managers with shareholders where each party is only concerned with personal interests only. For investors as principals who have placed their funds to the company will conduct a low rating to the company if it is known to conduct tax avoidance by withdrawing funds already placed on the company (Simarmata, 2014). Therefore, transparency of information needs to be done company.

The principle of transparency requires disclosure and in the process of decision making and disclosure of corporate information. In realizing transparency, companies must provide sufficient, accurate, and timely information to various interested parties. In addition, the company is also expected to publish financial information and other material information accurately and on time so that investors can access important corporate information easily when needed.

The more transparent the company will reduce the opportunistic behavior of managers who can reduce the agency cost is expected to increase the value of the company. Research Wang (2010), to prove the transparency of the company affect the tax avoidance actions undertaken.Based on the description above, the authors are interested to examine the companies listed on the Jakarta Stock Exchange about how much the influence of tax avoidance on the value of the company with transparency of the company as moderator.

Based on the background that has been described by the author, then the formulation of this research problem is:

1. Methods and techniques tend to take advantage of tax regulatory weaknesses to minimize the amount of tax payable.
2.There is a conflict of interest between the manager and the shareholders
3. It is not known whether transparency strengthens or weakens corporate value through tax evasion

II. THEORY FRAMEWORK AND HYPOTHESES DEVELOPMENT

2.1 Theoretical Basis

2.1.1 Company Value Theory (Value of the Firm Theory)

Duran (1952) introduced the company value with three approaches, namely net profit approach, net operating income approach, and traditional approach (Manurung, 2011: 31). The first approach is the net profit approach has the assumption that the cost of equity and cost of debt is considered constant so that the company can increase the debt. The increase in debt makes the average capital cost decreased close to the cost of debt and increased after reaching a certain level, and this condition increases the value of the company. The second approach uses the assumption that the average cost of capital and the cost of debt remains so that capital costs have increased in line with the increasing debt because the risks facing the company higher. because it is constant all the time, and this condition does not increase the value of the company. The third approach has the assumption that the firm has an optimal capital structure when the maximum firm value or capital structure makes the average capital cost to a minimum. This incident can occur because the risk of the company to a certain level does not change. The value of the company has increased, and to some extent there is an optimal capital structure and will further reduce the value of the company.

Duran (1952) introduced the company value theory associated with the theory of financial structure. The company value theory views the firm as a set of contracts between many parties, where the company's financial structure has a considerable influence on firm value (Manurung, 2012: 1). The idea of corporate value theory is that decision makers have the same or different reactions to firms that use debt in their capital structure. Capital structure has three components, namely (1) capital that has interest (debt), (2) ordinary share capital, and (3) capital of preferred stock. The variables affecting firm value are cost of capital and cost of debt.

This study uses the company value theory with the consideration that (1) Profitability reflects the condition of financial performance which is one of the factors that determine the value of the company, (2) Liquidity is the concept of prudence to keep the profit and assets not expressed too high and burden and debt is not so low that the financial statements presented have high quality of financial information and will subsequently affect the value of the company and good corporate governance, reflecting the owners of the company's credibility, quality, capability, or strength to generate trust to the public or investors also affect the value of the company.

2.1.2 Tax Avoidance

According to Dyreng, et. al (2008) tax avoidance is any activity that gives effect to tax obligation, whether activities are allowed by tax or special activities to reduce taxes. Tax avoidance is usually done by exploiting the weaknesses of the tax law and does not violate the tax law.

According to the OECD fiscal committee (Spitz, 1983), there are three characters of tax avoidance:

1. The existence of Artificial Arrangement elements, where various arrangements as if therein in it is not, and this is done because of the absence of tax factors
2. Often utilize the Loopholes of the law or apply legal provisions for various purposes, contrary to the actual content of the law.
3. There is an element of secrecy. Usually the consultant appointed by the company to administer the tax of the company shows how the tax avoidance is done with the requirement of the taxpayer should keep the secrecy as deep as possible.

Currently there are many ways in tax avoidance measurement. There are at least twelve ways that can be used to measure commonly used tax avoidance (Hanlon and Heitzman, 2010), which are presented in the table below:

The shareholders want the company to have maximum corporate value. Desai and Dharmapala (2009) say the traditional viewpoint of corporate tax evasion indicates that shareholder value should increase along with corporate tax avoidance activities, but it is different from the company manager's perspective on tax evasion, where companies will provide different predictions . The manager's perspective on tax evasion says tax evasion is not always desired by shareholders because there are costs to be incurred in the future, such as costs incurred for tax planning, additional compliance costs (Wang, 2010).

Ha[1]: Tax Avoidance does not affect Company Value Company Value

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2.1.3 Company Value

The long-term goal of the company is to optimize the value of the company (Wahyudi and Pawestri, 2006). The increase in corporate value can illustrate the wellbeing of the owners of the company, so the owners of the company strive to work harder with intensive use to maximize corporate value by encouraging managers.

Taxes that are often done by the company can be done because solely indeed take advantage of existing regulations and for certain conditions only but can also be done for business purposes. statistically proven that partially corporate transparency influence to company value. Thus the transparency of the company has a significant effect.
Ha²: Corporate Transparency has no effect on Corporate Value

2.1.4 Corporate Transparency

Transparency can be interpreted as information disclosure, both in the decision process and in disclosing material and relevant information about the company. According to Indonesian capital market regulations, material and relevant information is information that may affect the fluctuation of the share price of the enterprise, or which significantly affects the risks and business prospects of the enterprise concerned.

Corporate governance function in this research is by using variable of company transparency. It encourages management to minimize the tax value owed by the company. Research conducted by Lim (2011) in Hanum (2013) also explains that an increase in tax avoidance effect in the interest of shareholders (lower tax expense) may be affected by shareholder activity through greater involvement of institutional investors, where shareholders whose ownership is greater than the institutional shareholders will make restrictions on management that aims to minimize the amount of taxes and increase its own wealth.

However, in view of different views, management actions to conduct tax avoidance activities based on monitoring from the institution will be able to increase the value of the company, but the resulting financial statements can mislead investors because it does not describe the actual state of the company. From the discussion that has been described above then the hypothesis that can be developed is:

Ha³: Corporate Transparency strengthens the relationship between Tax Avoidance To Company Value

III. RESEARCH METHODS

3.1. Population and Sample

The type of research conducted is quantitative. The data used is secondary data, The population of this study is a manufacturing company in Indonesia listing on the Indonesia Stock Exchange (BEI) in the year 2012-2015, amounting to 240 companies. This study uses Purposive Sampling or have a specific goal or target in the sample selection is not random. The criteria expected by researchers for the sample in this study are as follows:

a. Manufacturing companies listed on the BEI for the period 2012 until the period 2015,
b. Company with complete data from 2012 - 2015.
c. Companies with positive earnings values in order not to cause the Cash Effective Tax Rate (CETR) value to be distorted (Kurniasih and Maria, 2013)

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d. The financial statements are presented in Indonesian Rupiah

Technique of collecting data in this research is by technique of documentation, that is looking for data about things or variables in the form of notes, transcripts, books, newspapers, and so on, besides also data is done by literature study from various literature contained in library and other sources related to Long Term Tax Avoidance, Corporate Values and Corporate Transparency as Moderation.

3.2 Operational Variables

a. Dependent Variables

Dependent variable used in this research is Corporate Value (Tobins Q) .Tobins Q is comparison between market value of equity plus debt with book market value plus debt.

b. Independent Variables

The independent variable in this study is Tax Avoidance measured by CASH ETR (cash effective tax rate) of the company that is cash for tax expenses divided by profit before tax (Budiman and Setiyono, 2012). Where the greater CASH ETR indicates the lower the rate of avoidance tax.

c. Moderating Variables

Moderating variable in this research is transparency of company which is proxy with wide of voluntary disclosure and timing of financial reporting. The proxy is aggregated and divided by the total of all voluntary disclosure items and timeliness.

IV. RESULT AND DISCUSSION RESULT

Descriptive statistics

A sample of 60 manufacturing companies listed on the Indonesia Stock Exchange, where research was conducted during the observation period from 2012-2015 using published financial statements.

Table 1
Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
tax avoidance	240	,12	,87	,3081	,12038
nilai perusahaan	240	1,07	9,36	2,9849	1,74809
transparasi perusahaan	240	,25	,90	,6179	,14244
Valid N (listwise)	240				

Source: Proceed by author

The table above illustrates the description of research variables statistically. Minimum is the smallest value of the observation, the maximum is the largest value of the observation, the mean is the sum of the value of all data divided by the number of data, and the standard deviation is the root of the sum of squares of data value difference with the average divided by the number of data. The assumption in this research has fulfilled the requirement of classical assumption test, so in this research does not show the result of classic assumption test for research data.

Multiple Linear Regression Test

Regression analysis is used to predict how far the value of the dependent variable when the independent variable is changed.

Table 2

Multiple Linear Regression Test

Coefficients[a]

Model		Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	-,382	,054
	Taxavoidance	-,040	,032
	Transparasi Perusahaan	-,867	,048
	Tax Avoidance * Transparasi Perusahaan	,459	,011

Source: Proceed by author

Company Value = a + B1 Tax Avoidance + B2 Transparency Company + B3 Tax Avoidance * Transparency + e

Company Value = -0.382 - 0.040 Tax Avoidance - 0.867 Corporate Transparency + 0.459 Tax Avoidance * Transparency + 0.054

Partial Test (t test)

Table 3

Test t

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-,382	,054		-7,110	,000
Taxavoidance	-,040	,032	-,027	-1,242	,215
Transparasi Perusahaan	-,867	,048	-,414	-17,875	,000
Tax Avoidance * Transparasi Perusahaan	,459	,011	,976	42,127	,000

Source: Proceed by author

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Based on the result of statistic t test that Tax Avoidance variable has significant effect to Company Value where the significance level is 0.000 below the value of 0.05 significance. This means the accepted hypothesis that tax avoidance has a significant effect on firm value. Coefficient value of -3.115 which means that the higher tax avoidance the lower the value of the company. Tax avoidance action by the company shows that tax aggressiveness measures can increase or decrease the value of the company's stock. If tax aggressiveness is seen as an attempt to perform tax planning and tax efficiency, then the effect is positive on firm value.

Hypothesis testing results that have been done can be summarized in the table as follows:

Hypothesis	Result
H1, Tax evasion has a significant negative impact on the value of the company	Rejected.
H2, Corporate Transparency has a significant negative effect on company value	Be accepted.
H3, Transparency strengthens the relationship between tax avoidance and corporate value	Be accepted

Source: Proceed by author

The Effect Of Tax Avoidance To Company Value

Tax evasion is a deduction or reduction of corporate tax liability. Tax evasion can be done by minimizing profits by not acknowledging current income but its realization is recognized in the future so that earnings reported in the current period are small. The results of this study are not in line with research conducted by Amalia Ilmiani et al (2014) in manufacturing companies 2010-2012, where tax avoidance variables significantly negatively affect the value of the company with a significance of 0.000. Research conducted by Anggoro et al (2015) also yields test result that tax evasion influence to company value with value signifikansi 0,000. The results of previous research and this study yielded similar results. Where in this study the test results of the influence of tax evasion on corporate value of 0.215 .. The value is greater than 0.05. Can be concluded the results have a significant negative effect.

The Influence of Corporate Transparency To Company Value

The principle of transparency requires openness and in the process of decision-making and disclosure in disclosure of corporate information and is easily accessible. Based on the results of the analysis of the test results can be seen the probability value of the company's transparency variable is 0.000 which is smaller than 0.05. So in this study the company's transparency has a significant negative effect on the value of the company.

The Effect Of Tax Avoidance To Company Value With Corporate Transparency As Moderating Variables

Transparency as one part of the implementation of Good Corporate Governance becomes the company's means to increase investor confidence. They know that the transparency of financial statements can be a major weapon to show the company external parties that they are a healthy company. This reinforces the research conducted by Chen et al (2013) which states that shareholders add value to the practice of tax avoidance in companies with high transparency, they explain that transparency can be used as a medium to reduce negative impact on tax evasion done company.

Research conducted by Amalia Ilmiani (2014) at manufacturing company 2010-2012 also yield transparency result have significant effect with value of 0,000 significance. In the explanation of Amalia (2010), the variable of information transparency is able to moderate the relationship between tax avoidance on firm value. Positive influence indicates that the higher the level of transparency in companies that do tax avoidance then the value of the company will be more increased.

The results of this study are in line with research conducted by Anggoro (2015) in manufacturing companies 2010-2013, where transparency can moderate the relationship between tax avoidance and corporate value with a significant value of 0.063 is still below the value of 0.10. The results of previous research and this study resulted in the same test that has a significance value of 0.000 which means smaller than 0.05.

V. CONCLUSION

This study examines the effect of long term tax avoidance on firm value with firm transparency as moderating variable. The following is the conclusion of the research results

1. Based on the partial tax avoidance test has a significant value of 0.215 which means that H^1 rejected, so it can be concluded that tax avoidance has an insignificant influence on the value of the company. With so insignificant that Ho receives and rejects Ha.
2. Based on the partial test of transparency, the company has a significant significance of 0,000 which means that H^2 is accepted, so it can be concluded that the transparency of the company has a significant influence on firm value. Thus a significant, also reject Ho and accept Ha.
3. Corporate transparency is able to strengthen the influence of long-term tax avoidance on corporate value. So it can be concluded that tax avoidance with corporate transparency as a moderating variable has a significant influence on firm value.

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