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Firm Value: The Influence of Tax Planning, Tax Avoidance, and Corporate Transparency

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Abstract: This study aims to examine the effect of tax planning and tax avoidance on firm value and analyze information transparency as a moderating variable. Using data from 50 manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019–2023 period, the study generated 115 observations analyzed using panel data moderation regression with a fixed effects model. The results indicate that tax planning and tax avoidance do not significantly affect firm value individually, and information transparency does not moderate these relationships. However, simultaneously, tax planning and tax avoidance have a significant effect, reflecting an effective tax management strategy to enhance firm value. Additionally, other variables such as corporate governance, profitability, capital structure, and innovation have the potential to significantly influence firm value, warranting further research. This study contributes to the development of tax management and fiscal policy in Indonesia.

Keyword: Tax Planning; Tax Avoidance; Transparency. Firm Value.

INTRODUCTION

In the era of economic globalization, business competition has become increasingly intense, pushing companies to continuously enhance their firm value as a primary goal. Firm value reflects the company's success in its operations, serving as a major attraction for investors. It is often measured using stock price indicators, which represent investors' confidence in the company's future prospects (Sujoko & Subiantoro U, 2007). The higher the firm value, the greater the investor interest in investing, creating a positive cycle that strengthens the company's market value.

One significant factor affecting firm value is taxation. Taxes are a burden that reduces a company's net income, creating the need for effective and compliant tax planning. According to Law No. 7 of 2021 on General Provisions and Tax Procedures (KUP), taxes are a payment obligation that must be fulfilled by individuals or organizations to support government financing in meeting public needs. In a corporate context, taxes are often perceived as a burden that reduces profits, making tax planning strategies, including tax avoidance, essential to maximize tax efficiency (Lorenza, 2021).

Taxes serve as a primary source of state revenue, used for infrastructure development, transportation, and public services (Pajak.go.id, 2018). The tax ratio, which measures the percentage of tax revenue to gross domestic product, is an important indicator for assessing a country's tax revenue performance. Indonesia's tax ratio data from 2019 to 2023 shows significant fluctuations, as illustrated in Figure 1:

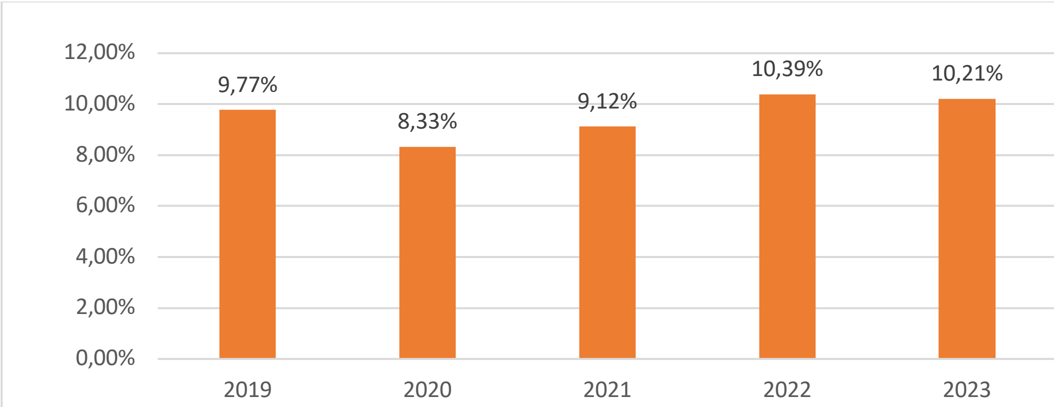

Figure 1. Indonesia's Tax Ratio 2019–2023

The sharp decline in the tax ratio in 2020 was caused by the COVID-19 pandemic, which disrupted economic stability. However, government efforts to restore the economy successfully increased the tax ratio in subsequent years, peaking in 2022. This recovery reflects the success of fiscal policies in optimizing tax revenues.

In tax management, tax avoidance is often used by companies to minimize tax obligations without violating the law. Tax avoidance involves using legal strategies that exploit gaps in tax regulations to reduce tax burdens (Wardani & Juliani, 2018). While this practice is considered legitimate, its impact on firm value can vary. Tax avoidance may enhance firm value by reducing financial burdens, but it can also diminish firm value if perceived as unethical or non-compliant by stakeholders (Apsari & Setiawan, 2018).

Previous studies have shown mixed results regarding the relationship between tax avoidance and firm value. Lestari & Wardhani (2015) found that tax planning positively influences firm value, while Ilmiani & Sutrisno (2014) reported a negative influence. Additionally, Prasiwi (2015) indicated that transparency could moderate the effect of tax avoidance on firm value by reducing agency conflicts between owners and managers.

This study aims to analyze the effect of tax planning and tax avoidance on firm value, with information transparency as a moderating variable. The focus of this research is the manufacturing sector in Indonesia from 2019 to 2023. This sector was chosen due to its significant contribution to tax revenue and its strategic role in supporting the national economy. The findings of this study are expected to provide theoretical and practical contributions to the development of tax management and fiscal policy in Indonesia.

The agency relationship in agency theory arises from a contract between a principal and an agent, where the agent acts on behalf of the principal to perform certain tasks. However, this relationship is prone to conflicts of interest and information asymmetry, which may lead agents to engage in opportunistic actions, including tax avoidance. In this context, tax avoidance is seen as an effort by agents to maximize tax benefits by leveraging flexibility in decision-making related to company operations. This practice can increase agency costs, reduce transparency, and create future cash flow uncertainty, highlighting the importance of effectively managing agency relationships.

Meanwhile, signaling theory emphasizes the importance of information as a key element for investors in understanding a company's prospects. The information imbalance between management and external parties can be addressed by providing complete, accurate, and timely financial reports. This information serves as either a positive or negative signal that influences investor perceptions and their investment decisions. In the context of tax avoidance, this practice can provide a positive signal if perceived as an efficient, low-risk strategy but may have a negative impact if seen as a high-risk form of non-compliance.

Both agency theory and signaling theory demonstrate that tax avoidance has dual implications depending on the context. From an agency perspective, tax avoidance may reflect efforts by agents to maximize personal or shareholder benefits, even at the expense of other stakeholders such as the government. On the other hand, from a signaling perspective, tax avoidance can add positive value to the company if presented as a legitimate and transparent tax planning strategy that supports investor decision-making.

Taxation is one of the primary instruments in fiscal policy used to regulate the global economy. Theoretically and empirically, taxes have been shown to significantly impact business capital structures, especially for companies operating internationally. In this context, companies often seek to optimize their tax planning to maximize post-tax income. Effective tax planning can substantially reduce tax burdens, thereby increasing net profits (Chukwudi et al., 2020). According to Angelina & Darmawan (2021), tax planning is a strategy applied by individuals or entities to minimize their tax obligations while complying with applicable laws. This strategy plays a crucial role in corporate financial management to improve efficiency and business competitiveness.

Tax avoidance refers to the exploitation of loopholes in tax regulations by companies to gain benefits by significantly reducing the amount of tax payable (Irawan & Turwanto, 2020). Saka & Istighfa (2021) identified three key characteristics of tax avoidance practices:

a. Artificial arrangements: This refers to arrangements that appear necessary but are not genuinely required if tax factors are not considered.
b. Exploitation of legal loopholes: This involves the use of gaps or weaknesses in tax laws to apply legally valid rules to achieve specific objectives.
c. Secrecy: In this practice, tax consultants often offer specific tools or methods for tax avoidance on the condition that taxpayers maintain confidentiality regarding these strategies.

The openness of information flow serves as a foundation for creating transparency. To ensure that substantial and relevant information about a company can be gathered and disclosed, the entire information process must be accessible to interested parties. Moreover, the information must be presented clearly to facilitate understanding and effective oversight (Novarianto & Dwimulyani, 2020). According to Rajakulanajagam & Nimalathasan (2020), corporate transparency is defined as the extent to which companies adopt, promote, and develop analytical methodologies aimed at enhancing the clarity and consistency of information provided to investors and analysts. Transparency reflects the company's efforts to deliver clearer and more uniform information, supporting better decision-making by stakeholders.

The primary goal of any company is to increase firm value, which reflects the prosperity of its owners or shareholders. According to Pradnyana & Noviari (2017), firm value represents investors' assessments of the company's success, often correlating with stock prices. High stock prices indicate high firm value, providing confidence to the market regarding the company's long-term potential and current performance. Shareholder or owner wealth increases alongside rising stock value. Lumoly et al. (2018) further noted that firm value is the price prospective investors are willing to pay to acquire the company. The higher the firm value, the greater the wealth received by business owners. For publicly listed companies, the stock price traded on the stock exchange becomes the primary indicator of firm value.

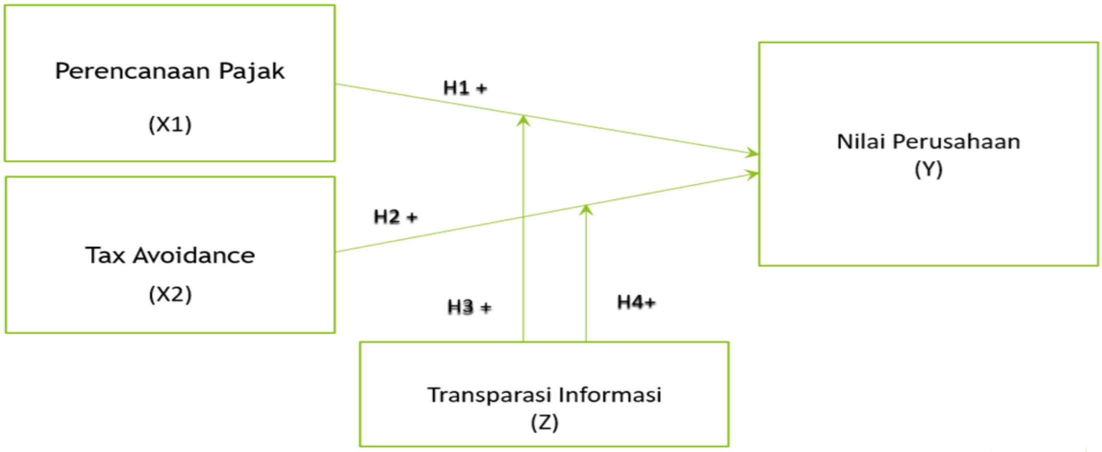

Figure 2. Conceptual Framework of the Research

The Effect of Tax Planning on Firm Value

Tax planning is essential to ensure that taxpayers fulfill their tax obligations efficiently and effectively. Companies that implement proper tax planning can enhance firm value by optimizing tax payments and demonstrating compliance with tax obligations. With an appropriate tax planning strategy, companies can not only reduce their tax burdens but also increase opportunities for greater profits, which ultimately has a positive impact on firm value (Pradnyana & Noviari, 2017).

H1: Tax planning positively affects firm value.

The Effect of Tax Avoidance on Firm Value

Companies engaged in tax avoidance practices may signal to investors that they prioritize shareholder interests over others. If management can optimally implement tax avoidance strategies and investors have confidence in the prevailing tax system, this can create a competitive advantage for the company. Such an advantage not only increases employee loyalty but also indicates the potential for future firm value growth (Mappadang, 2019).

H2: Tax avoidance positively affects firm value.

The Role of Information Transparency in the Effect of Tax Planning on Firm Value

Information transparency plays a crucial role in strengthening the relationship between tax planning and firm value. High levels of information transparency allow companies to present a clear and accurate picture of their tax planning strategies, thereby increasing the trust of investors and other stakeholders. Moreover, transparency helps reduce uncertainty and risks associated with tax practices while ensuring corporate compliance with applicable regulations. With strong transparency, tax planning strategies are better appreciated by the market, ultimately contributing to increased firm value.

H3: Information transparency strengthens the effect of tax planning on firm value.

The Role of Information Transparency in the Effect of Tax Avoidance on Firm Value

Transparency can be defined as the clear and relevant delivery of information, both in decision-making processes and in disclosing critical organizational data. Managers often leverage openness in financial reporting to prevent a decline in firm value. The lower the level of tax avoidance activities, the more extensive the information disclosed in annual financial statements. This improves positive perceptions of firm value among investors and other stakeholders who review these financial reports (Saka & Istighfa, 2021).

H4: Information transparency strengthens the effect of tax avoidance on firm value.

METHOD

The method used in this study is quantitative, as it involves numerical data and statistical analysis (Sugiyono, 2015). This study employs panel data categorized as secondary data because the financial reports used were obtained from the Indonesia Stock Exchange (IDX) website (www.idx.co.id). The financial reports analyzed in this study cover the period from 2019 to 2023.

The research focuses on manufacturing companies listed on the Indonesia Stock Exchange during 2019–2023. The sampling method used is purposive sampling. According to Sekaran & Bougie (2016), purposive sampling involves selecting samples that meet specific criteria to provide the necessary information for the research. The sampling criteria are as follows:

a. Manufacturing companies that submitted audited financial reports to the IDX during 2019-2023.
b. Manufacturing companies that were not delisted during 2019-2023.
c. Manufacturing companies whose financial reporting period ends on December 31.
d. Manufacturing companies with positive pre-tax earnings during 2019-2023.

Dependent Variable

Firm Value

Firm value reflects the stock price influenced by market supply and demand, as well as public perception of the company's performance. Firm value is measured using the Price-to-Book Value (PBV) ratio.

$$PBV = \frac{Harga\ Saham\ Per\ lembar}{\text{Nilai Buku Per lembar}}$$

Independent Variables

Tax Planning

Independent variables are free variables that influence the dependent variable (Sugiyono, 2015). The independent variables in this study are tax planning and tax avoidance. Tax planning involves utilizing legal exceptions to minimize tax burdens as much as possible.

$$\boldsymbol{T}RR = \frac{Laba\ Bersih}{\text{Laba Sebelum Pjak}}$$

Tax Avoidance

The dependent variable is a variable influenced by the independent variable (Sugiyono, 2015). In this study, the independent variable examined is tax avoidance. According to Trisnawati & Gunawan (2019), tax avoidance is a strategy employed by taxpayers to calculate tax savings that the company will pay through various methods still within the scope of tax regulations. The independent variable of tax avoidance in this study is measured using the Effective Tax Rate (ETR) ratio. The use of the ETR proxy adapts the ratio calculation method from the study by (Trisnawati & Gunawan, 2019), which consists of four methods:

Current Effective Tax Rate	:	Current tax expenses divided by pre-tax income.
GAAP Effective Tax Rate	:	Total tax expenses divided by pre-tax income.
Cash Effective Tax Rate	:	Taxes paid from cash flow statements divided by pre-tax income.
Tax Effective Tax Rate	:	Income tax payable (PPh 29) divided by pre-tax income.

Moderating Variable

A moderating variable is one that strengthens or weakens the relationship between independent and dependent variables (Sugiyono, 2015). The moderating variable in this study is information transparency. Anggraeni & Mulyani (2020) argue that transparency has a negative but insignificant effect on firm value. This is because higher levels of corporate planning may lower firm value and negatively impact companies that do not comply with tax regulations.

In this study, information transparency is proxied using voluntary disclosure and the timeliness of financial reporting. The proxies are summed and divided by the total number of voluntary disclosure and timeliness items (Pradnyana & Noviari, 2017). Measurement uses a checklist procedure, with a score of 1 if the company discloses an item and 0 if it does not. The level of voluntary disclosure is calculated as follows:

$$Transparansi = \frac{n}{\mathrm{k}}$$

Where:
n = number of items disclosed by the company
k = total number of items in the index

RESULTS AND DISCUSSION

The sample data obtained were then subjected to descriptive statistical testing to gather information related to the data used in this study. Below is the table of descriptive statistical analysis results generated using the Eviews 12 statistical application, as presented in Table 1:

Table 1. Descriptive Statistics Results

	NP	PP	TA	TI
Mean	0.278363	0.763907	0.269150	0.709971
Median	0.088518	0.775500	0.229907	0.677419
Maximum	3.230125	1.643817	1.985415	0.967742
Minimum	0.001880	0.207241	0.003071	0.451613
Std. Dev.	0.563233	0.144470	0.236545	0.157699
Skewness	3.917354	1.155126	4.211030	0.055057
Kurtosis	18.47180	17.98886	27.97919	1.673807
Jarque-Bera	1378.480	1054.181	3184.917	8.116686
Probability	0.000000	0.000000	0.000000	0.017278
Sum	30.61988	84.02977	29.60648	78.09677
Sum Sq. Dev.	34.57817	2.275000	6.098919	2.710709
Observations	115	115	115	115

Source: Research Data 2024

Based on the descriptive statistical results, the dependent variable in this study, firm value measured by the Price-to-Book Value (PBV) ratio, has an average value of 0.278363, a median of 0.088518, a maximum value of 3.230125 (belonging to PT Barito Pacific Tbk), a minimum value of 0.001880 (belonging to PT Indospring Tbk), and a standard deviation of 0.563233. The first independent variable, tax planning proxied by the Tax Retention Rate, shows an average value of 0.763907, a median of 0.775500, a maximum value of 1.643817 (belonging to PT Budi Starch & Sweetener Tbk), a minimum value of 0.207241 (belonging to PT Barito Pacific Tbk), and a standard deviation of 0.144470. The second independent variable, tax avoidance measured by the Cash ETR, has an average value of 0.269150, a median of 0.229907, a maximum value of 1.985415 (belonging to PT Betonjaya Manunggal Tbk), a minimum value of 0.003071 (belonging to PT Semen Baturaja Tbk), and a standard deviation of 0.236545. Finally, the moderating variable, information transparency measured through the extent of voluntary disclosure using a disclosure index, has an average value of 0.709971, a median of 0.677419, a maximum value of 0.967742 (belonging to PT Barito Pacific Tbk), a minimum value of 0.451613 (belonging to PT Semen Baturaja Tbk), and a standard deviation of 0.157699.

In determining the proxy for tax avoidance, the researchers conducted a factor analysis test using SPSS 27 software to select the most appropriate indicator of the independent variable to be used in this study, as shown in the following output:

Table 2. Anti-image Matrices

		Current ETR	GAAP ETR	Cash ETR
Anti-image Covariance	Current ETR	,303	-,238	-,177
	GAAP ETR	-,238	,363	-,014
	Cash ETR	-,177	-,014	,624
Anti-image Correlation	Current ETR	,598[a]	-,717	-,406
	GAAP ETR	-,717	,633[a]	-,029
RPT	Cash ETR	-,406	-,029	,791[a]

a. Measures of Sampling Adequacy (MSA)
Source: Research Data 2024

Table 2 shows that the three tested variables, namely Current ETR, GAAP ETR, and Cash ETR, meet the requirements for Measure of Sampling Adequacy (MSA), as all values exceed 0.5. Therefore, these three variables are suitable for further testing. However, the Anti-image Correlation results indicate that the Cash ETR variable has the highest value, at 0.791, compared to Current ETR (0.598) and GAAP ETR (0.633), as marked by the letter "a." Consequently, Cash ETR is the most appropriate indicator for the independent variable in this study, given its highest ranking based on the test results.

At the initial stage of model testing, an estimation test was conducted to determine the most appropriate model for panel data regression analysis. This testing procedure consists of three main steps, using Chow's Test, Hausman's Test, and the Lagrange Multiplier as supporting methods in the model selection process. Chow's Test is used to compare the Common Effect Model (CEM) with the Fixed Effect Model (FEM) to select the model that best suits the research needs. The output of the Chow's Test is presented in the following table:

Table 3. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	71.918943	(21,85)	0.0000
Cross-section Chi-square	322.538090	21	0.0000

Source: Research Data 2024

Table 3 shows the results of the Chow Test, where the probability value of the cross-section chi-square is 0.0000 < 0.05, thus rejecting H0. This indicates that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM) for panel data estimation. The next step is the Hausman Test to determine the best approach between the Fixed Effect Model (FEM) and the Random Effect Model (REM) in panel data regression. The results of the Hausman Test are presented in the following table:

Table 4. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	17.743253	3	0.0005

Source: Research Data 2024

Table 4 indicates that the Hausman Test results show a Chi-Square probability value of 0.0005 < 0.05, thereby rejecting H0. This suggests that the Fixed Effect Model (FEM) is more suitable for panel data estimation than the Random Effect Model (REM). Based on the results of the Chow Test and the Hausman Test, it can be concluded that the Fixed Effect Model (FEM) is the most appropriate model to use.

Table 5. t Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.266747	3.134647	0.404111	0.6871
PP	0.050279	0.116531	0.431463	0.6672
TA	-0.005014	0.062903	-0.079708	0.9367
TI	-1.444346	4.427328	-0.326234	0.7450

Source: Research Data 2024

The analysis results show that the variable Tax Planning has a p-value of 0.6672 > 0.05 and a t-statistic value of 0.431463 < t-table 1.98260. Thus, H0 is accepted, and Ha is rejected, indicating that Tax Planning does not significantly affect Firm Value.

The variable Tax Avoidance has a p-value of 0.9367 > 0.05 and a t-statistic value of 2.124697 < t-table 1.98260. This also leads to accepting H0 and rejecting Ha, concluding that Tax Avoidance does not significantly affect Firm Value.

Table 6 . Simultaneous f Test

F-statistik	85.77404
Prob (F-statistic)	0.000000

Source: Research Data 2024

The simultaneous test, or F-test, assesses the feasibility of the regression model. The F-statistic value in the Fixed Effect Model (FEM) is 85.77404 > F-table 2.69, with a Prob (F-statistic) of 0.000000 < 0.05. Thus, H0 is rejected, and Ha is accepted, indicating that the independent variables, Tax Planning and Tax Avoidance, simultaneously have a significant effect on the dependent variable, Firm Value.

Table 7 . Coefficient of Determination Test (R^2)

R-squared	0.960347
Adjusted R-squared	0.949150

Source: Research Data 2024

Regression results using the Fixed Effect Model (FEM) indicate that the R^2 value reaches 0.960347 or 96%. This means that Tax Planning and Tax Avoidance together explain 96% of the variation in Firm Value, with the remaining 4% influenced by factors outside this study.

This study evaluates the moderating variable's ability to influence the relationship between independent variables and stock price disclosure as the dependent variable. The moderating variable in this study is Corporate Transparency. The test results are presented in the following table:

Table 8. Moderation Regression Analysis Test (MRA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.361250	3.721269	0.365803	0.7154
PP	-0.056149	0.706002	-0.079530	0.9368
TA	0.240177	0.364216	0.659435	0.5114
TI	-1.570702	5.359430	-0.293073	0.7702
PP_TI	0.172616	1.209386	0.142731	0.8868
TA_TI	-0.415969	0.617892	-0.673207	0.5027

Source: Research Data 2024

The results of the Moderated Regression Analysis (MRA) shown in Table 8 reveal that the moderating variable, Corporate Transparency, does not strengthen the influence of Tax Planning and Tax Avoidance on Firm Value. This is evident from the probability values greater than 0.05, leading to the rejection of hypotheses H3 and H4. These findings align with the study by (Novarianto & Dwimulyani, 2020), which also concluded that transparency cannot moderate the relationship between independent and dependent variables in their research context.

The t-test analysis results indicate that the Tax Planning variable has a p-value of 0.6672 > 0.05 and a t-statistic of 0.431463, which is below the t-table value of 1.98260. This shows that H0 is accepted, and Ha is rejected, leading to the conclusion that Tax Planning does not significantly affect the Firm Value in the manufacturing sector.

Although Tax Planning is often considered a tax efficiency strategy that can increase corporate profits, this study's results indicate that tax planning does not directly influence firm value. One possible reason is that the market or investors do not explicitly account for tax efficiency in assessing firm value but instead focus more on operational performance, profitability, and overall corporate stability.

These findings align with(Dewi & Astika, 2019), who suggest that investors tend to prioritize factors such as profitability, liquidity, and capital structure over tax planning strategies when evaluating firm value. This indicates that while tax efficiency is essential for internal financial management, it is not a primary concern for investors when assessing company performance. Additionally, (Hidayat & Pesudo, 2019) concluded that tax planning does not directly impact firm value, especially in the manufacturing sector. They suggested that information transparency could serve as a moderating variable that clarifies this relationship. Without clear disclosure, tax planning is often not considered significant by investors as a factor influencing firm value.

The t-test results for the Tax Avoidance variable show a p-value of 0.9367 > 0.05 and a t-statistic of -0.079708, which is below the t-table value of 1.98260. Thus, H0 is accepted, and Ha is rejected, indicating that Tax Avoidance does not significantly affect the Firm Value of manufacturing companies.

While Tax Avoidance is often used by companies to reduce tax burdens, it can create risks that affect investor perceptions, such as legal or reputational risks. As a result, this neutral or insignificant impact is likely due to the imbalance between the benefits of tax efficiency and the perceived potential losses by investors. In the context of manufacturing companies, which often require good relationships with the government and the public, tax avoidance strategies may not be actively utilized as tools to enhance firm value.

This result is consistent with the study by (Ngadiman & Puspitasari, 2014), which found that tax avoidance tends to be insignificant in increasing firm value. This occurs because tax avoidance reduces corporate transparency, which can affect investor perceptions. They also discovered that the effects of tax avoidance are more significant in companies with good governance, including strong institutional ownership, which enhances management control and minimizes the negative impacts of tax avoidance.

Although the t-test results show that individually, Tax Planning and Tax Avoidance do not significantly affect Firm Value, the F-test results indicate that these variables collectively have a significant impact (F-statistic 85.77404 > F-table 2.69, with a p-value of 0.000000 < 0.05). This suggests that when considered together, Tax Planning and Tax Avoidance contribute to Firm Value through their interaction with other factors in the model. This combination of independent variables may reflect a company's comprehensive approach to tax management strategies and overall performance.

CONCLUSION

Tax Planning does not have a significant effect on Firm Value in the manufacturing sector. This indicates that tax efficiency through tax planning is not a primary concern for investors when evaluating a company's performance. Investors place greater emphasis on other aspects, such as profitability and corporate stability. Similarly, Tax Avoidance also does not have a significant effect on Firm Value. The imbalance between the benefits of tax reduction and associated risks, such as legal or reputational risks, leads investors to give little attention to this strategy in assessing firm value. However, collectively, Tax Planning and Tax Avoidance have a significant effect on Firm Value. This suggests that although each variable is not individually significant, their combination reflects a comprehensive effort by companies to manage taxes, which can influence firm value through interactions with other factors such as financial management and operational performance.

This study only covers manufacturing companies listed on the Indonesia Stock Exchange (IDX), limiting the generalizability of the findings to other sectors or companies not listed on the IDX. Differences in industry characteristics or other economic sectors may yield different results. The study does not include external factors such as macroeconomic conditions, government policies, or changes in tax regulations, which could influence the results, particularly concerning the impact of Tax Planning and Tax Avoidance on Firm Value. Additionally, the relatively short research period may not capture broader dynamics in the relationship between the research variables. Changes in corporate strategies or market perceptions over time may go unobserved in this study.

For investors assessing a company's value, it is important to consider various factors such as operational performance, management efficiency, and corporate stability, rather than focusing solely on tax strategies. Evaluating the long-term impact of a company's tax strategies, particularly concerning risks that may affect investment value, is also crucial. Future research could explore other factors that mediate or moderate the relationship between tax strategies and firm value, such as corporate governance quality, the level of information disclosure, or macroeconomic conditions. Expanding the sample to other industrial sectors could help determine whether similar results are found beyond the manufacturing sector.

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