

THE EFFECT OF TAX AVOIDANCE AND DEBT POLICY ON FIRM VALUE WITH INSTITUTIONAL OWNERSHIP AS MODERATING VARIABLE IN INDONESIAN MANUFACTURING COMPANIES

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ABSTRACT

The objective of this study is to investigate how tax avoidance and debt policy affect firm value. The study also investigates the moderating effect of institutional ownership on the relationship between tax avoidance and debt policy of a firm on its value. A model was developed and tested using a sample of 20 manufacturing companies listed on the Indonesian Stock Exchange between 2013 and 2017. The data was collected and analysed using a least square regression and moderated regression analysis. The analysis shows that tax avoidance has a positive and significant effect on firm value, but debt policy does not effect on firm value. And the results also indicate that institutional ownership is not able to moderate the tax avoidance and debt policy on its value.

Keywords: Tax Avoidance, Debt Policy, Institutional Ownership, Firm Value.

1. INTRODUCTION

The company's goal as an economic entity is not only to achieve maximum profits, but also to increase the value of the company for each period. Increasing company value is a long-term goal that should be achieved by the company.

Company value is an investor's perception of the company's success rate related to stock prices. The higher the stock price, the higher the value of the company and certainly will make investors dare to buy company shares at a high price (Retno and Priantinah, 2012).

Various methods are used by management to increase the value of the company, one of which is by doing tax avoidance. Tax avoidance is a special

activity carried out by taxpayers to reduce tax payments. (Wulandari et al, 2004 in Azhar, 2017).

The tax avoidance case occurred in 2014, carried out by PT Astra International Tbk (ASII) in one of its subsidiaries, PT Toyota Motor Manufacturing Indonesia (TMMIN). TMMIN has avoided taxes by deliberately selling a thousand cars made by him to Toyota Asia Pacific Ltd. in Singapore before selling them to the Philippines and Thailand. That is because TMMIN utilizes lower tax rates in Singapore. In addition, TMMIN recorded a record of 70% of total vehicle exports in Indonesia (investigations.tempo.co).

Following is the Cash Effective Tax Rate (CETR) at PT. Astra Internasional Tbk in 2013-2017.

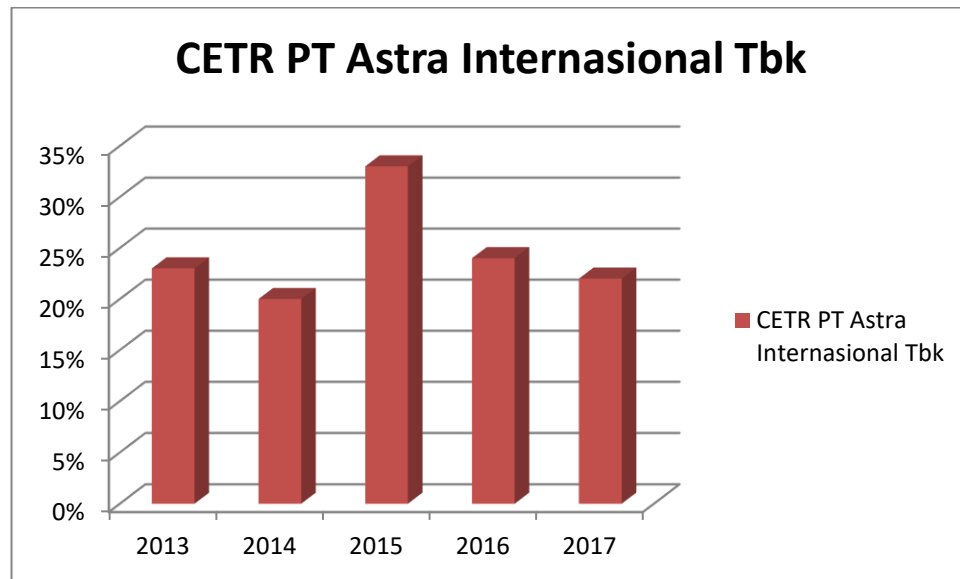


Figure 1: CETR PT Astra InternasionalTbk

Source: www.idx.co.id, Results of data processing by researchers

Can be seen in figure 1 shows that the CETR value in 2014 had the lowest percentage. According to Law Number 36 of 2008, corporate income tax rate is 25%, the lower the CETR means the higher the tax avoidance at PT. Astra InternasionalTbk.

Company value can also be influenced by management who apply debt policy in the company. Debt policy is a policy carried out by a company to fund its operational activities using financial debt or what is commonly referred to as financial leverage (Brigham and Houston, 2011).

2. LITERATURE REVIEW

Firm Value

Company value is the perception of investors' valuation of the company, the value of the company is reflected by the price of the shares, where the higher the value of the company will increase the price of the company's shares (Partha, 2016). The value of the company is reflected in the increase in stock prices due to a positive signal from the profit on tax avoidance activities (Tax Avoidance).

The shareholders want the company to have maximum company

value. Investors tend to invest their capital by looking at the company's net profit which reflects the value of the company itself. So that indirectly management is required to maximize the value of the company, one of which is by doing tax avoidance. Tax avoidance is implemented so that companies can minimize tax payments by engineering the lowest possible tax burden and trying to maximize income after tax (Azhar, 2017). Tax can be interpreted as an element of profit reduction available both for distribution to shareholders and reinvested (Sartika and Fidiana, 2015).

Tax Avoidance

Tax avoidance is one way to legally avoid taxes that do not violate tax regulations. Tax avoidance is a complicated problem because on one hand it is permitted, but not desired by the government, so that differences in interests arise between companies and the government where companies always try to reduce the tax burden as low as possible, while the government always tries to increase state tax revenue as much as possible every period which has been targeted according to the State Expenditure Budget (APBN)

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(Ampriyanti, 2016). Tax avoidance if it is defined more broadly in addition to increasing profits is also expected to be able to increase the value of the company (Prasiwi, 2015).

Debt policy

Debt policy is related to capital structure because debt is one of the compositions contained in capital structure (Hidayat, 2013). If the company has a large portion of debt in its capital structure, the company is considered risky. But debt can increase the value of the company if the debt can generate profits. Debt is one source of financing that comes from outside the company that is used by the company as an addition to funds in running the company.

Institutional Ownership

Ngadiman and Christiany (2014) state that institutional ownership is the percentage of shares owned by the institution. Dewi and I Ketut (2014), support that institutional ownership is a party that monitors companies with large institutional ownership (more than 5%) identifying their ability to monitor greater management. Institutions can be foundations, banks, insurance companies, investment companies, pension funds, companies in the form of companies (PT), and other institutions. The existence of institutional ownership in a company will encourage increased

oversight of more optimal management performance. Ownership of shares by institutions is an alternative that can be used to overcome agency problems (Jensen and Meckling, 1976 in Azhar, 2017). One application of good corporate governance is institutional ownership. Companies that have greater share ownership are owned by institutional and other government companies, so the performance of company management in obtaining desired profits tends to be monitored by institutional investors.

3. RESEARCH METHODS

In this research, the author uses quantitative data that is data measured by numerical scale and processed using statistical formulas and SPSS software. Data sources used in this research are secondary data and the method used in this research is a purposive sampling method.

Population and Sample

The population of the study consists of manufacturing companies listed on the Indonesian Stock Exchange between 2013 and 2017. From that population, a total of 20 companies were selected as a qualified sample. After screening based on the criteria listed in Table 1, the final sample size was 100 observation-5years, as shown in the detailed list in Table 1.

Table 1: Sample Withdrawal Criteria

No	Criteria	Criteria Violation	Total
1	Manufacturing companies listed, 2013-2017		128
2	Companies that publish complete financial statements and have been audited in 2013-2017	(16)	112
3	Companies that present financial statements in rupiah	(22)	90
4	Companies that have positive pre-tax profits	(36)	54
5	Companies that have a CETR <1	(11)	43

6	Companies that present complete data during the study period	(3)	40
Number of companies to be analyzed			40
Companies identified as outliers			(20)
Number of companies sampled			20
Total research data for 5 years (20 x 5)			100

Source: Results of data processing by researcher

Tax Avoidance

Tax avoidance is measured using the calculation of Cash Effective Tax Rate (Cash ETR). According to Dyreng et al (2008) in Harventy (2016), a company that has a small Cash ETR means that the company has done tax avoidance. Cash ETR is formulated with the following formula:

$$Cash ETR = \frac{\sum_{t=1}^N \text{cash tax paid it}}{\sum_{t=1}^N \text{pretax income tax}}$$

Debt Policy

Debt Policy is a funding decision by management that is measured by using Debt to Equity Ratio (DER) to see the company's ability to pay debt using its own capital. This ratio serves to find out every rupiah from the company's own capital which is used as collateral for debt to creditors (Kasmir, 2012: 201). The DER ratio is measured using the following formula:

$$Debt\ to\ Equity\ Ratio = \frac{Total\ debt}{Total\ equity}$$

Firm Value

Company value is a certain condition that reflects the level of public

trust in the company, the higher the value of the company the more prosperous the owner and vice versa the lower the value of the company the public's perception of the company's performance is bad and investors will not be interested in the company (Jonathan and Tandean, 2016).

The measurement used to calculate the value of a company is to use the price earnings ratio (PER). Here is the formula:

$$Price\ Earning\ Ratio = \frac{Market\ price\ per\ share}{Earning\ per\ share}$$

Institutional Ownership

Institutional ownership is the amount of share ownership in a company owned by an institution. According to Wahyudi and Pawestri (2006) in Simarmata and Cahyonowati (2014), institutional ownership is the proportion of share ownership owned by institutions and blockholders at the end of the year. The measurements used to calculate are as follows:

$$KI = \frac{Shares\ owned\ by\ institutions}{Outstanding\ shares} \times 100\%$$

Table 2 Operational Variables

Variable	Indicator	Scale
Firm Value (Y)	$PER = \frac{Market\ per\ share}{Earning\ per\ share}$	Ratio
Tax Avoidance (X ₁)	$Cash\ ETR = \frac{\sum_{t=1}^N \text{cash tax paid it}}{\sum_{t=1}^N \text{pretax income tax}}$	Ratio
Debt Policy (X ₂)	$Debt\ to\ Equity\ Ratio = \frac{Total\ Debt}{Total\ Equity}$	Ratio
Institutional Ownership (Z)	$KI = \frac{Saham\ yang\ dimiliki\ institusi}{Saham\ yang\ beredar} \times 100\%$	Ratio

4. RESULTS & DISCUSSION

Analysis of Descriptive Results

Descriptive statistical analysis will provide an overview or description of a

Table 3: Descriptive Analysis

	N	Min	Max	Mean	Std. Dev
Tax Avoidance	100	.08	.46	.2736	.07579
Debt Policy	100	.16	1.49	.5515	.31698
Firm Value	100	2.75	39.82	17.1978	8.40293
Institutional Ownership	100	.32	.98	.7511	.17354
Valid N (listwise)	100				

Table 3 explains that Tax avoidance, Debt policy, Firm value and Institutional ownership variable has an average value (mean) greater than the standard deviation this indicates that the data distribution is quite good.

The tax avoidance variable shows a minimum value of 0.08 at the AkashaWira International Tbk company, while a maximum value of 0.46 at the Darya VariaLaboratoriaTbkcompany and an average value of 0.2736 with a standard deviation of 0.07579. The average value (mean) is greater than the standard deviation of $0.2736 > 0.07579$ this shows that the data distribution is quite good.

The debt policy variable shows a minimum value of 0.16, namely the Champion Pacific Indonesia Tbk company, while a maximum value of 1.49 in the Supreme Cable Manufacturing and Commerce Tbkcompany and an average value of 0.5515 with a standard deviation 0.31698. The average value (mean) is greater than the standard deviation that is $0.5515 > 0.31698$ this shows that the data distribution is quite good.

Variable value of the company

data that is seen from the number of samples (N), average samples, maximum values, minimum values and standard deviations for each variable:

shows a minimum value of 2.75, namely at the company Merck Tbk, while a maximum value of 39.82 in the company Ultrajaya Milk Industry and Trading Company Tbk and an average value (mean) of 17,1978 with a standard deviation of 8 , 40293. The average value (mean) is greater than the standard deviation of $17.1978 > 8.40293$, this shows that the data distribution is quite good.

Institutional ownership variable shows a minimum value of 0.32, namely in the company Lionmesh Prima Tbk, while a maximum value of 0.98 in the company Taisho Pharmaceutical Indonesia Tbk and an average value (mean) of 0.7511 with a standard deviation of 0.17354 . The average value (mean) is greater than the standard deviation of $0.7511 > 0.17354$, this shows that the data distribution is quite good.

Normality Test

Normality test aims to test whether in the regression model, confounding or residual variables have a normal distribution or not. In this study the Normalias test uses the Kolmogorov-Smirnov approach.

Table 4: One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		100
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	7.86049895
Most Extreme Differences	Absolute	.067
	Positive	.067
	Negative	-.066
Test Statistic		.067
Asymp. Sig. (2-tailed)		.200 ^{c,d}

Source: Self Proceed

Based on table 4.4 above, it can be seen that the Asymp value. Sig. (2-tailed) of .200 is greater than the significant value of 0.05. Then it can be concluded that the data has a normal distribution.

presence or absence of multicollinearity in this study can be seen from the value of tolerance and variance inflation factor (VIF) of each variable.

Multicollinearity Test

Multicollinearity test aims to test whether there is a correlation between independent variables. To test the

Table 5: Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Tax Avoidance	.996	1.004
	Debt Policy	1.000	1.000
	Institutional Ownership	.996	1.004

Based on table 5, it can be concluded that each independent variable is above 0.10 (tolerance > 0.10) and the VIF value of each independent variable is

also below 10 (VIF < 10), it can be concluded that there is no multicollinearity.

Heteroscedasticity Test

The heteroscedasticity test aims to test whether in the regression model

the residual inequality variance from one observation to another.

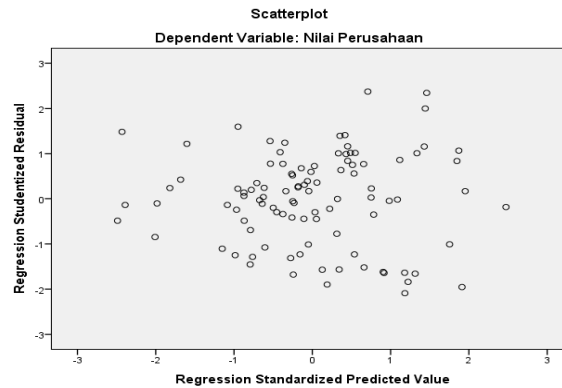


Figure 2

From Figure 2 shows that the points are scattered with irregular patterns below and above 0 and Y axis, so it can be noted that there is no Heterocedasticity in the regression model, so that regression models can be used in conducting research.

error of the intruder in the t-1 period (the previous year). Santoso (2014)

Autocorrelation Test

The autocorrelation test aims to test whether in the linear regression model there is a correlation between the error of the intruder in the t period and the

Table 6: Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Durbin-Watson
1	.353 ^a	.125	.098	.929

Based on table 6 shows that the Durbin-Warson test results amounted to 0.929. DW values are between -2 to +2 or $-2 < 0.929 < +2$ so that it can be concluded that autocorrelation does not occur in the regression model.

Hypothesis Test Result

T statistical test used to show the influence of independent variables individually in explaining the variation of dependent variable. This test is performed by comparing the value of the t statistic with the critical point.

Table 7: Statistical Test

Model		Unstandardized Coefficients	
		t	Sig.
1	(Constant)	1.851	.067
	Tax Avoidance	3.710	.000
	Debt Policy	.277	.783

For Hypothesis 1, based on the results of Table 7, it shows the t value is greater than t table ($3,710 > 1,98472$) and the significance value of 0,000 is smaller than a predetermined significance level of 0,05 ($0,000 < 0,05$). Thus, **Hypothesis 1 is accepted.**

The results of this study prove that the shareholders as supervisors approve the tax avoidance measures carried out by the company's management and the benefits obtained from the benefits of these activities are higher than the costs to be incurred. This results are in line with research conducted by Victory and Cheisviyani (2016) who found a positive influence between long-term tax avoidance on firm value.

Next, for Hypothesis 2, Table 7 shows that the t value is smaller than t table ($0,277 < 1,98472$). Then, the significance value of 0,783 indicates it is greater than the predetermined significance level of 0,05 ($0,783 > 0,05$). **Hypothesis 2 is rejected.**

The debt policy that has been set by the company has no effect on the value of the company, because this debt policy is a management strategy in reducing taxes, so investors do not really see the value of

DER when making decisions to invest in the company. So, as long as the company still survives by using debt or not using debt, it will not affect the value of the company. The results of this study are in line with research conducted by Suta et al (2016) and Wongso (2013) which show the results that debt policy has no effect on firm value. But it is not in line with research conducted by Septariani (2017) which shows the results that debt policy has an influence on firm value.

Moderation Regression Analysis

Furthermore, this research uses Moderated Regression Analysis (MRA) to test the effect of moderating variable on relationship between independent variables and dependent variable. A moderating variable is institution ownership. It is expected to give an impact on relationship between all independent variables and dependent variable in the equation of the regression coefficients where each variable has a significant interaction. The results of the moderation regression analysis test can be seen in the following table 8

Table 8: Moderation Regression Test Results
Coefficients^a

Model	Unstandardized Coefficients	
	B	Std. Error
1 (Constant)	-12.400	13.182
Tax Avoidance	68.660	39.380
Debt Policy	21.467	12.000
Institutional Ownership	25.986	17.843
TA*KI	-42.556	52.242
DP*KI	-28.357	15.951

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Based on table 8 can be arranged multiple regression equations with moderation variables as follows:

$$Y = -12,400 + 68,660X_1 + 21,467X_2 + 25,986Z - 42,556X_1 * Z - 28,357X_2 * Z + e$$

Based on Table 8 for Hypothesis 3, it can be seen that the interaction between tax avoidance and Institutional ownership shows the coefficient value of -42,556 and significance value of 52,242. This suggests that significant value is above 0,05. It can be concluded that institutional ownership is not a variable that can moderate relationship between Tax avoidance and firm value. Based on the test results, **Hypothesis 3 is rejected.**

This means that institutional investors are not optimal in conducting oversight of management performance. Institutional investors only want how companies can manage funds that have been invested in the company without thinking about the taxation aspects so that institutional investors can get a good return every period of capital that has been invested in the company, such as how the company's stock price can increase continuously and stable in each period.

The results of this study are in line with research conducted by Simarmata and Cahyonowati (2014) which states that institutional ownership cannot moderate the relationship between long-term tax avoidance and firm value. However, it is not in line with research conducted by Sugiyanto (2018) and Victory and Cheisviyanny (2016) which prove that institutional ownership can moderate (strengthen) the relationship of tax avoidance to firm value.

For Hypothesis 4, Table 8 describes that the interaction variable gives the coefficient value of -28,357 and a significance value of 15,951. This implies that significant value is above 0,05. It can be concluded that institutional ownership is not a variable that moderates the relationship between the debt policy and firm value. Thus, **Hypothesis 4 is rejected.**

This means that institutional investors are still not optimal in overseeing management using funds derived from debt that can affect the value of the company. Institutional investors only want how companies can manage the funds that have been invested in the company so that institutional investors get a good return every

period. The results of this study are not in line with research conducted by Suta et al (2016)

5. CONCLUSION OF RESEARCH

Based on the hypothesis testing results, several things can be concluded. First, tax avoidance (X1) has a significant and positive effect on firm value. Meanwhile, debt policy (X2) do not affect on firm value. Then, institutional ownership cannot moderate the effect both of tax avoidance and debt policy on firm value.

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