Proceedings of the 3rd Malikussaleh International Conference on Law, Legal Studies and Social Sciences (MICoLLS) 2023

THE EFFECT OF TAX AVOIDANCE, DIVIDEND POLICY AND INCOME SMOOTHING ON THE VALUATION OF A COMPANY

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ABSTRACT

The aim of this study is to empirically demonstrate how avoidance, dividend policy and income smoothing impact the valuation of a company. This research employs a quantity approach, utilizing purposive sampling to select samples. Hypothesis testing is conducted through panel data regression, employing E-views 9 software. The study focuses on 84 companies in the property and real estate sector listed on the Indonesian Stock Exchange (IDX) from 2017-2021. Out of these, 7 companies were selected as samples for analysis. The findings reveal the collectively, tax avoidance, dividend policy and income smoothing do not significantly impact firm value, whereas dividend policy demonstrates a positive effect on firm value.

Keywords: Tax Avoidance, Dividend Policy, Income Statement, Firm Value

1. INTRODUCTION

Corporate value is the way that is carried out by the entity in order to achieve the vision and mission of the company. The stock price is used as a standard of measurement to see the condition of the company's performance. The company's stock price that continues to increase will increase its value. The more the company value increases, the investors will get their welfare. The company's significant valuation demonstrates its ability to sustain itself, enhancing its reputation. This will attract interest from numerous potential investors eager to invest.

The phenomenon of the rise and fall of capital stock market prices is an interesting discussion to discuss related to the issue of the rise and fall of the company's value itself. Property and real estate stocks looked sluggish. The share price at PT. PP Properti Tbk (PPRO) is moving at Rp.67. This means that throughout 2019 there was a decrease of 41.88%. This price is also below the initial public offering (IPO) price of Rp. 185. Based on cash records, after the PPRO stock split in 2017, the share price shot up to Rp.372. PPRO's finance director assessed that the decline was due to external factors. As for 2019, PPRO pocketed revenue of Rp. 874.83 billion, down 26.01% on an annual basis from Rp.18.1 trillion in 2018. Meanwhile, profit for the year attributable to owners of the parent entity was recorded at Rp. 158.53 billion or an increase of 11.92%. Meanwhile, PPRO's Debt to Equity Ratio (DER) was recorded at 192.65%. There is also a recorded debt of Rp. 11.35 trillion, while equity was recorded at Rp. 5.89 trillion. Based on RTI data, it was also recorded that the company's negative cash flow was Rp. 706.65 billion. PPRO in terms of valuation has a Price Earning Ratio (PER) of 13.4 times and a Price Book Value (PBV) of 0.7 times. (***www.kontan.co.id***).

Firm Value is influenced by several factors including Tax Avoidance, Dividend Policy and Income Smoothing. Efforts to minimize tax payments by using loopholes and weaknesses in regulations and complying with applicable tax regulations and are expected to increase company value in line with increased profits can be called tax avoidance1.

Dividend policy is a form of policy in which the company is able to determine the proportion of profits received by the company to then be paid to investors in accordance with the number of shares owned. Although the company can guarantee the company's value to investors through the amount of dividends paid, the company needs to consider some of the funds needed for company development.

Another factor that can affect Firm Value in this study is Income Smoothing. The act of income smoothing is known as a logical and rational action and is used by management to create stable profits, reduce reported fluctuations and improve the ability of investors to predict future cash flows. Smart management and owning shares in the company have a greater opportunity to perform income smoothing in order to increase the value of the company.

Based on the phenomenon of the gap and research gap above, this research takes the title "The Influence of Tax Avoidance, Dividend Policy and Income Smoothing on Firm Value (Empirical Study of Property and Real Estate Sector Companies Listed on the Indonesia Stock Exchange Period 2017-2021)".

2. DISCUSSION

2.1 Agency Theory

Agency theory focuses on the relationship between two actors who have different interests, namely between agents and principals. This theory also explains the separation between management and shareholders. This separation has the objective of achieving effectiveness and efficiency in managing the company by employing the best agents in managing the company. It was found that it is possible that the agent may prioritize his personal interests at the expense of the principal, but on the other hand the principal wants a high rate of return from the resources that have been invested2.

Agency theory suggests that if management is reluctant to invest in sustainability reporting, it can lead to a conflict of interest regarding tax avoidance. This is because investors prioritize companies disclosing their social responsibility outcomes for informed the decision-making. While shareholders may seek to swiftly engage in tax avoidance, they also aim to mitigate it by incurring personal costs to maximize the firm's value.

[1] A. Anggoro, S. T., &; Septiani, (2015). Analysis of the effect of tax avoidance behavior on company value with transparency as a moderating variable. Journal of Accounting, Faculty of Economics and Business, Diponegoro University, 4(4), 437–446.

[2] Adityamurti, E., &; Ghozali, I. (2017). The effect of tax avoidance and agency fees on company value. Diponegoro Journal of Accounting, 6(3), 1-12.

2.2 Framework of Thinking

In this study it can be described how the relationship between the dependent (Y) and the independent (X) variant. The dependent variable is Firm Value (Y), while there are 3 independent variables in this study, namely Tax Avoidance (X1), Dividend Policy (X2), and Income Smoothing (X3). Based on the theoretical basis and previous research, the framework in this study is presented in the following figure:

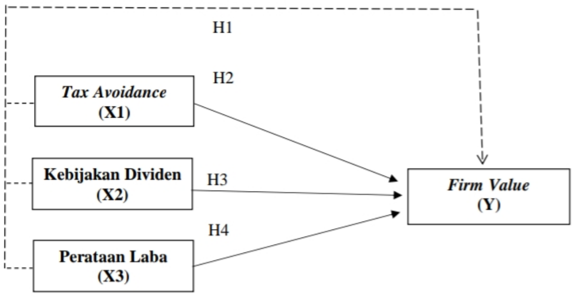

Figure 1. Research Model

2.3 Effect of Tax Avoidance, Dividend Policy, Profit Smoothing Simultaneously on Firm Value

The separation of ownership between company owners and management often creates conflict. This conflict will arise when the difference between the goals of shareholders and management is that shareholders want to increase the value of the company with tax avoidance so that the company can maintain maximum profits so that investors believe that the investments made will get large returns such as getting dividends while management is concerned with personal interests such as Managers will do tax avoidance if the company can provide benefits to managers (Syahfitri 2016).

Previous research conducted by Ramadhiani &; Dewi (2021), Saragih &; Rusdi (2022) and Saifaddin (2020) simultaneously Tax Avoidance, Dividend Policy and Profit Smoothing affect Firm Value. Based on previous theory and research then:

H1: Allegedly Tax Avoidance, Dividend Policy and Income Smoothing Simultaneously Affect Firm Value.

2.4 The Effect of Tax Avoidance on Firm Value

Tax avoidance is a legal effort and can be done by anyone with due observance of tax regulations. The tax avoidance technique is to see the opportunities for weaknesses contained in the tax laws. Basically, companies that carry out tax avoidance in a reasonable manner can be said to be legal, while entities that do it with bad intentions are called illegal3.

[3] Shafitri, F. Z. &; Kurnia (2019). Effects of tax avoidance and agency fees. Junal Accounting Science and Research.

Previous research conducted by Zulfiara &; Ismanto4, in this study shows that Tax Avoidance has an effect on Firm Value. These results can be interpreted that management efforts to reduce the company's tax burden when the company is able to minimize expenses for tax purposes. The smaller the burden incurred by the company, the greater the profit earned by the company. Based on the description of the theory and previous research, then:

H2: Allegedly Tax Avoidance Affects Firm Value.

2.5 The Effect of Dividend Policy on Firm Value

Dividend policy pertains to the process of deciding how income is distributed among shareholders. The amount of dividend distributed to shareholders is contingent upon the specific policies established by each by individual company. Dividend policy is an inseparable part of the company's funding decisions and is a decision whether the profit earned by the company at the end of the year is distributed to shareholders as dividends or the profit will be withheld to increase capital to finance investment in the future.

Previous research conducted by Sugiyarti &; Ramadhani (2019), in this study shows that dividend policy has a positive effect on Firm Value. These results can be interpreted if the company set aside a portion of its profits for company operations, then the company's capital will increase. On the other hand, investors receive less dividend profits distributed. However, with the provision of dividends, the company's income in the next period can increase. The result is that the dividends that will be received will also increase. The increase in dividends gives a positive signal regarding the company's performance. Based on the description of the theory and previous research, then:

H3: Allegedly Dividend Policy Affect Firm Value.

2.6 The Effect of Income Smoothing on Firm Value

Income smoothing or income smoothing is one of the earnings management strategies that arise from financial reporting as a result of allowing management to choose various accounting methods with the aim of giving a good impression of creditors on management's performance, achieving tax advantages, reducing fluctuations in profit reporting and reducing risk. even to maintain their position or position in the company.

Previous research conducted by Hangtuah et al (2020), in this study showed that Profit Smoothing has a positive effect on Firm Value. These results can be interpreted that one way to increase the value of the company is to do income smoothing, the company will present financial reports as well as possible so that the value of the company can increase. Based on the description of the theory and previous research, then:

H4: Allegedly Income Smoothing Affect Firm Value.

[4] Zulfiara, P., &; Ismanto, J. (2019). The effect of accounting conservatism and tax avoidance on corporate value. Indonesian Journal of Sustainable Accounting, 2(2), 134-147.

3 CONCLUSION

3.1 RESEARCH METHOD

3.1.1 POPULATION AND SAMPLE

In this study, the population used is all Property &; Real Estate companies listed on the Indonesia Stock Exchange (IDX) in the 2017-2021 period. The population of this study is 84 companies that are on the list of the Indonesian Stock Exchange. The sample is part of the number of characteristics of the population. Following are the sampling criteria using the purposive sampling method in this study:

1. Property and real estate sector companies listed on the Indonesia Stock Exchange (IDX) during the 2017-2021 period.
2. Companies in the property and real estate sector that are listed on the Indonesia Stock Exchange (IDX) which published company financial reports that have been audited consecutively for the 2017-2021 period.
3. Companies in the property and real estate sector that issue financial reports in rupiah.
4. Companies in the property and real estate sector that did not experience losses during the 2017-2021 research period.
5. Property and real estate sector companies that do not pay dividends during the 2017-2021 research period.

3.2 RESULT

3.2.1 Effect of Tax Avoidance on Firm Value

The results of the Partial Test (t test) between Tax Avoidance and Firm Value obtained a regression coefficient of -0.166962 and a t-statistic value of -0.249496 which is smaller than the value of t table (-0.249496 < 1.69552) with a significance value of 0.8046 (sig > 0.05). So it can be stated that Tax Avoidance has no effect on Firm Value. Thus it is concluded that H2 is rejected.

3.2.2 Effect of Dividend Policy on Firm Value

The results of the Partial Test (t test) between Dividend Policy and Firm Value obtained a regression coefficient of 0.516694 and has a t-Statstic value of 3.663924 which is smaller than the value of t table (3.663924 > 1.69552) with a significance value 0.0009 (sig < 0.05). So it can be stated that Dividend Policy has a positive and significant effect on Firm Value. Thus it is concluded that H3 is accepted.

3.3.3 Effect of Income Smoothing on Firm Value

The results of the Partial Test (t test) between Profit Smoothing and Firm Value obtained a regression coefficient value of 0.57157 and has a t-Statstic value of 1.181466 which is smaller than the t table value (1.181466 <1.69552) with a significance value 0.2464 (sig > 0.05). So it can be stated that Income Smoothing has no effect on Firm Value. Thus it is concluded that H4 is rejected.

3.3 CONCLUSION

Based on the results of statistical analysis and testing that has been carried out in this study, the effect of Tax Avoidance, Dividend Policy and Profit Smoothing on Firm Value in Property and Real Estate companies listed on the Indonesia Stock Exchange (IDX) in 2017-2021. So the following conclusions can be obtained:

1. Tax Avoidance, Dividend Policy and Income Smoothing simultaneously have a positive and significant effect on Firm Value.
2. Tax Avoidance has no effect on Firm Value.
3. Dividend Policy has a positive effect on Firm Value.
4. Income Smoothing has no effect on Firm Value.

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