Abstract

The market response can be caused by information submitted by the company to the public. It is related to the company's market performance which is not necessarily in line with its operating performance. Certain management policies identified through financial reports can encourage a positive market response. This study investigates the effect of tax avoidance on the firm value by using intellectual capital as a moderating variable. The data used in this research is sourced from www.idnfinancials.com and www.idx.co.id, using data on financial statements and share prices of financial sector firms in the banking sub-sector listed on the Indonesia Stock Exchange for the period 2018 to 2021. This study employs a purposive sampling approach to use the total sample for 128 observations. The test result suggests that tax avoidance is negatively associated with firm value. Also, this study finds that intellectual capital weakens the negative effect of tax avoidance on the firm value.

Keywords: market response, tax planning, intellectual capital

INTRODUCTION

The main goal of investors in making investments is to obtain profits. Investing in the capital market is one of the ways for investors to make investments (Firmansyah et al., 2021). From a fundamental perspective, investors analyze a firm's financial performance for decision-making. The market's rise and fall in share prices are influenced by several factors, including financial performance (Sambora et al., 2014). Based on research on market responses to financial information by (Ball & Brown, 1968), investors react to the earnings information released by the firm within a short period, namely one month after the earnings announcement. During this period, there is a positive abnormal gain for good news and a negative abnormal loss for bad news. However, over time, the investor's reaction to earnings announcements decreases. Within a longer period, besides information related to sharing prices, other information comes up upon earnings announcements. In addition to earnings announcements or financial information, share
prices are influenced by non-financial information, such as domestic politics, social events, legal events, and international politics (Hidayat et al., 2017).

The firm value is closely related to the share price. If the share price increases, the firm value increases, and vice versa. However, share prices in the share market tend to fluctuate constantly. The share market capitalization to Indonesia's GDP from 2010-2021 shows that investor response to financial and non-financial information is not always positive (Kusnandar, 2022). Thus, the firm strives to maintain its business value for its going concern. It affects market capitalization, which is the product of the number of outstanding shares and the current market share price (Hidayat et al., 2017). Market capitalization tends to fluctuate each year. The fluctuation of share prices is known as share price volatility. The volatility in shares results in price changes at any time, making it difficult to predict. Investors often choose shares with low risk and easy predictability because high share volatility increases uncertainty in obtaining returns (Rosyida et al., 2020). Investor efforts to maximize returns align with the management's motive to benefit investors through the incentives they receive. Investors' response in the capital market to company performance that impacts changes in stock prices is known as firm value (Ihsani et al., 2021). Thus, the firm value becomes important for the firm's going concern (Ihsani et al., 2021).

A decrease in firm value can indicate a lack of investor confidence in the company's performance by managers. On the one hand, managers have more information than shareholders (Scott, 2015). Managers can exploit this condition to take policies that are not in line with the interests of shareholders (Scott, 2015). On the other hand, shareholder confidence in managers' performance can increase share prices in the capital market. Managers are considered to align their interests with those of shareholders (Widodo & Firmansyah, 2021). Manager policies related to company performance can be seen in financial statements, which can be useful in making investment decisions (Firmansyah et al., 2020). Therefore, testing the value of the company needs further investigation.

Research related to firm value in Indonesia has been extensively conducted in previous studies with various variables, including firm size (Emanuel & Rasyid, 2019; Kusuma & Priantinah, 2018; Mahardikari, 2021; Muharramah & Hakim, 2021; Sudrajat & Setiyawati, 2021; Surya Abbas et al., 2020), corporate governance (Firmansyah et al., 2020; Toly et al., 2019), profitability (Mahardikari, 2021), corporate social responsibility or sustainability disclosure (Davita et al., 2022; Gaol et al., 2021; Ihsani et al., 2021; Praptama et al., 2022; Rahman et al., 2021; Wahyuni, 2018), leverage (Mahardikari, 2021; Murni et al., 2019; Pamungkas & Maryati, 2017; Purnamasari & Baskara, 2019), enterprise risk management (Agustina & Baroroh, 2016; Ardianto & Rivandi, 2018; Devi et al., 2017; Pamungkas & Maryati, 2017), tax avoidance (Diatmika & Sukartha, 2019; Fadillah, 2019; Irawan & Turwanto, 2020; Permatasari et al., 2021; Sugiono, 2020; Widodo & Firmansyah, 2021; Yusuf, 2019), intellectual capital (Ardianto & Rivandi, 2018; Devi et al., 2017; Gaol et al., 2021; Josephine et al., 2019; Juwita & Angela, 2016; Pamungkas & Maryati, 2017), fair value implementation (Geno & Firmansyah, 2022), cash holding (Emanuel et al., 2022; Firmansyah et al., 2020), funding decision (Bahrun et al., 2020), investment decision (Bahrun et al., 2020), derivatives ownership (Firmansyah & Purnama, 2020; Novianti & Firmansyah, 2020) and dividend policy (Bahrun et al., 2020; Salman et al., 2020).

Tax planning is one of the company's policies that can impact investors' responses in the capital market. In 2021, the Ministry of Finance issued Law Number 7 of 2021 regarding the Harmonization of Tax Regulations. One of the main topics in the regulation is reducing the Corporate Income Tax (CIT) rate from 22% to 20% in 2022, which was ultimately not
implemented. Reducing the CIT rate would have affected firms in determining their investment strategies, whether to invest in domestic or foreign firms (Kristie & Hendrawan, 2021). Canceling the CIT rate reduction policy is expected to negatively impact investors' willingness to invest their funds in one company. Generally, firms feel burdened by paying taxes because they do not directly receive benefits, reducing their net income. The high tax rate leads to an increased tax burden or low net profit for firms, creating a motive for tax avoidance, resulting in lower tax payments than what should have been paid (Hani & Daoed, 2013).

Based on traditional theory, tax avoidance practices aim to increase the firm's value by shifting wealth from the country to the firm (Chen et al., 2014). The firm value, reflected in the share price, has a positive response from investors in tax avoidance practices when the share price increases. Irawan & Turwanto (2020), Permatasari et al. (2021), and Widodo & Firman (2021) concluded that tax avoidance is positively associated with firm value. However, Diatmika & Sukartha (2019), Fadillah (2019), and Yusuf (2019) found that tax avoidance is negatively associated with firm value. Furthermore, Sugiono (2020) suggested that tax avoidance is not associated with firm value. Therefore, differing findings from the previous indicate a need for further research on the impact of tax avoidance on a firm value.

This research aims to examine the effect of tax avoidance on firm value. Tax avoidance is empirically measured using the generally accepted accounting principles effective tax rate (GAAP ETR) method, which calculates the corporate income tax expense compared to the profit before tax. GAAP ETR is chosen because it reflects temporary differences and provides a better picture of tax avoidance. However, tax avoidance is not the only variable affecting a firm's value. Increasing a company's intellectual capital can also increase its value (Holawati & Murwaningsari, 2019). In the modern era, the scope of technology and science is growing rapidly and affecting the economy. Firms need to develop knowledge as the main factor in running their businesses, as it can create a competitive advantage that sets them apart from other firms. By prioritizing knowledge management, an intangible asset, firms can compete better and increase their value (Sudibya & Restuti, 2014). It aligns with the resources-based view theory, where firms use their resources effectively to achieve a competitive advantage and profitable business (Kamaluddin & Rahman, 2013).

Unlike previous studies that have extensively discussed the impact of tax avoidance on a firm value, this study adds intellectual capital as a moderating variable that has not been widely examined. The study aims to demonstrate whether intellectual capital can strengthen the relationship between tax avoidance and firm value. By utilizing the allocation of resources, in this case, the firm's intellectual capital, firms can gain a competitive advantage and add value. This will undoubtedly affect a firm value, as stated in the findings of previous studies by Ardianto & Rivandi (2018), Awaliyah & Safriliana (2016), Devi et al. (2017), Gaol et al. (2021), Juwita & Angela (2016), and Pamungkas & Maryati (2017) which suggested a positive relationship between intellectual capital and firm value. Thus, intellectual capital is expected to increase the positive role of tax avoidance on firm value.

THEORETICAL FRAMEWORK AND HYPOTHESIS

Stewardship theory is part of corporate governance and an alternative to agency theory (Davis et al., 1997). This theory concerns managers who are not too concerned with pursuing personal interests but are more interested in exerting their efforts to achieve organizational goals (Davis et al., 1997). This theory states that when managers act as responsible stewards and
align the firm's interests with those of stakeholders, this can lead to long-term value creation and sustainability (Davis et al., 1997). It can ultimately benefit the firm's shareholders by contributing to its long-term growth and stability, which can increase its share price over a while.

If managers prioritize values such as integrity, responsibility, and accountability, they may be more likely to make decisions that are in the firm's overall interests (Martin & Butler, 2017). It can create a strong reputation for the firm and increase investor confidence, which can also increase its share price. As a result of interacting with stakeholders and being transparent in their decision-making, managers can demonstrate their commitment to responsible and ethical management, giving investors more confidence and increasing the firm's share price.

One factor influencing the increase in investor confidence and the firm's share price is tax avoidance (Widodo & Firmansyah, 2021). This behavior contradicts existing tax provisions for the government because it reduces state revenues by reducing the tax burden paid to the government. However, on the other hand, for investors, tax avoidance can positively impact the firm's net profit, thereby increasing the income available for investment or dividend distribution. In other words, investors have more income to supplement their share ownership in the firm to increase its value. This statement is supported by several previous studies, including Irawan & Turwanto (2020), Permatasari et al. (2021), and Widodo & Firmansyah (2021), which concluded that tax avoidance could increase firm value. Investors consider tax avoidance as a manager's strategy for saving the tax burden paid to the government. This strategy impacts increasing the potential dividends the company pays investors. Managers are considered to have efforts to align their interests with the interests of shareholders.

H₃: tax avoidance is positively associated with firm value.

Resource-Based View (RBV) is an effort made by the firm to gain a sustainable competitive advantage by relying on its resources (Barney, 1986). RBV emphasizes that the firm's unique and competitive resources are the key to achieving optimal performance and creating a competitive advantage. RBV also states that firms must properly manage their resources and intellectual property to improve performance and overcome competition. Barney (1991) and Teece et al. (1997) stated that firms could improve their performance in a certain period from the firm's strategic data sources by increasing competitive advantage through RBV.

If it is based on ideas oriented toward firm resources, it is a competitive advantage theory (Dasuki, 2021). In carrying out managerial activities, firms intend results in the form of sustainable competitive advantage. Firms can obtain above-average economic rents or returns in achieving sustainable competitive advantage. In theory, RBV is used to maintain a competitive advantage in the ownership of specific resources, namely those characterized by value and constraints on duplication. It can be achieved if the firm has effectively used these resources. Thus, management can use RBV to identify, operate, manage, optimize, and develop resources to maximize corporate value.

Efforts to maximize firm value based on resources so that firms get sustainable competitive advantages and profits by owning and controlling strategic assets, tangible or intangible (Muharam, 2017). Resources can affect firm performance and be something that can express things that are rare and difficult to imitate by other firms. According to Rindova & Fombrun (1999), firms must be able to control unique resources to provide added value to the firm. This unique resource must contain four characteristics: valuable, rare, inimitable, and non-substitutable (VRIN). These four characteristics allow the firm to achieve efficiency and provide optimal margins.
Halawi et al. (2005) stated that in conducting competency assessments, it is necessary to consider the element of knowledge because it can provide added value for creating a competitive advantage so that it can be concluded that knowledge meets the characteristics of VRIN. Knowledge is classified as an intangible asset. Knowledge can be accumulated and shared throughout the organization to improve performance and competitiveness. Knowledge is part of human capital, which refers to individuals’ knowledge, skills, and organizational experience. Human capital is one component of intellectual capital. Intellectual capital is a combination of three main features: human capital (individual abilities and competencies), structural capital (systems, procedures, and networks used in organizations), and customer capital (relationships with customers).

Several studies found that intellectual capital is positively associated with a firm value (Ardianto & Rivandi, 2018; Awaliyah & Safriliana, 2016; Devi et al., 2017; Gaol et al., 2021; Juwita & Angela, 2016; Pamungkas & Maryati, 2017). Firms can evaluate and improve intangible assets that generate a competitive advantage to create economic value by improving firm performance to increase firm value. Desai & Dharmapala (2006, 2007), Dyreng et al. (2010), Galdipour et al. (2014), and Rego & Wilson (2012) concluded that humans factors have a role in corporate tax planning with the motive of minimizing tax expenses. Annisa & Kurniasih (2012), Armstrong et al. (2015), Galdipour et al. (2014), and Khurana & Moser (2009) stated that organizational structure influences the practice of tax avoidance, where it affects corporate tax payments. (Dyreng et al., 2010) stated that customer capital also controls tax avoidance activities where firm activities are related to using customer capital to help influence firm tax payment activities. H2: Intellectual capital strengthens the positive effect of tax avoidance on firm value.

RESEARCH METHOD

This type of study is a quantitative approach. The data employed is secondary data obtained from www.idnfinancials.com and www.idx.co.id. The data is in the form of share prices and financial statements of banking sub-sector firms listed on the Indonesia Stock Exchange (IDX) for 2018-2021. The sampling method in this study used a purposive sampling method, so the sample criteria in this study were obtained as follows:

Table 1. Sample Selection

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Statements of banking sub-sector firms listed on the IDX from 2018 to 2021</td>
<td>188</td>
</tr>
<tr>
<td>Banking sub-sector firms listed on the IDX after January 1 of the current year</td>
<td>(16)</td>
</tr>
<tr>
<td>Banking sub-sector firms that experience fiscal losses in the current year</td>
<td>(33)</td>
</tr>
<tr>
<td>firms that have a negative ETR ratio in the current year</td>
<td>(11)</td>
</tr>
<tr>
<td><strong>Total sample</strong></td>
<td><strong>128</strong></td>
</tr>
</tbody>
</table>

Source: data processed

In this study, firm value is used as the dependent variable. Following Firmansyah & Purnama (2020), Tobin's Q is used as a proxy for firm value with the following calculations:

\[
\text{Tobin’s Q} = \frac{\text{Market Price} + \text{Total Liability}}{\text{Total Asset}}
\]

The independent variable used in this study is tax avoidance. The proxy for tax avoidance is the Effective Tax Rate (ETR) as Firmansyah & Ardiansyah (2020). Tax avoidance value is ETR multiplied by -1 as Annida & Firmansyah (2022).
ETR = \frac{\text{Tax Expense}}{\text{Earnings Before Tax}}

Intellectual capital is used as a moderating variable in this study. The proxy used for intellectual capital is the value-added intellectual coefficient (VAIC) as Gaol et al. (2021) from the model developed by Pulic (2004) with the following formula:

\begin{align*}
VACA &= \frac{\text{operating income} + \text{personnel cost}}{\text{total equity}} \\
VAHC &= \frac{\text{operating costs} + \text{personnel cost}}{\text{personnel cost}} \\
STVA &= \frac{\text{operating income}}{\text{operating income} + \text{personnel cost}} \\
VAIC &= VACA + VAHC + STVA
\end{align*}

Profitability and leverage proxies are used as control variables in this study. It is used to minimize other influences from outside besides the independent variables. Profitability proxies use Return on Assets (ROA) as Annida & Firmansyah (2022). Meanwhile, the leverage proxy uses Debt to Equity Ratio (DER) as Firmansyah & Lesmana (2021). The ROA and DER formulas are as follows:

\begin{align*}
\text{ROA} &= \frac{\text{Net Profit}}{\text{Total Asset}} \\
\text{DER} &= \frac{\text{Total Liability}}{\text{Total Equity}}
\end{align*}

This study employs multiple linear regression analysis for cross-section data. This study employs 2 regression equation models, namely model 1, to examine the relationship between tax avoidance and firm value. Meanwhile, model 2 tests the moderating role of intellectual capital in the relationship between the two variables. The research model of this study is as follows:

Model 1

\begin{equation}
\text{TOBINSQ}_i = \beta_0 + \beta_1 \text{TA}_i + \beta_2 \text{ROA}_i + \beta_3 \text{DER}_i + \epsilon_i
\end{equation}

Model 2

\begin{equation}
\text{TOBINSQ}_i = \beta_0 + \beta_1 \text{TA}_i + \beta_2 \text{VAIC}_i + \beta_3 \text{TA}_i \ast \text{VAIC}_i + \beta_4 \text{ROA}_i + \beta_5 \text{DER}_i + \epsilon_i
\end{equation}

Where:

\begin{align*}
\text{TOBINSQ} &: \text{Firm value} \\
\text{TA} &: \text{Tax Avoidance (ETR*-1)} \\
\text{VAIC} &: \text{Value Added Intellectual Coefficient} \\
\text{ROA} &: \text{Return on Assets} \\
\text{DER} &: \text{Debt to Equity Ratio}
\end{align*}

**RESULT AND DISCUSSION**

**Result**

The descriptive statistics of this study’s variable are in the table below:

Table 2. Descriptive Statistics
Table 2 shows that the study sample related to Tobin’s Q variable has a minimum value of 0.1589, a maximum value of 18,3200, and an average of 1,2586. Furthermore, the variable tax avoidance or TA has a minimum value of 0.0122 and a maximum value of 0.9176 with an average of 0.2671. At the same time, the VAIC variable obtained a minimum value of 1,2197, a maximum value of 13,6412, and an average of 2,9499. Furthermore, a model test is performed with multiple linear regression analysis. The results of the regression analysis are as follows:

Using the t-statistical test, the results are obtained in Table 3 Model 1, and the TA variable influences firm value with a probability of 0.0000 <0.05. The TA variable has a negative coefficient of -0.0866, so an increase in 1 TA will decrease the firm value by -0.0866, assuming the other independent variables are ceteris paribus. It does not follow hypothesis 1, and tax avoidance positively affects firm value. In model 2, the interaction between VAIC as a moderating variable and TA affects firm value with a probability of 0.0249 <0.05. This variable has a positive coefficient of 0.5785. Intellectual capital can reduce the effect of tax avoidance in reducing firm value. It is consistent with hypothesis 2, and intellectual capital strengthens the positive impact of tax avoidance on firm value.

Discussion
The association between tax avoidance and firm value

Based on the findings of this study shows that tax avoidance has a negative effect on a firm’s value. Thus, the first hypothesis is rejected. It indicates that an increase in tax avoidance activities can decrease firm value. This result is in line with Diatmika & Sukartha (2019), Fadillah
Abdullah Aziz Alaika, Eva Yunadia Chaerani, Muhammad Syauqi Fuqoha, Amrie Firmansyah (2019), and Yusuf (2019) but not in line with Irawan & Turwanto (2020), Permatasari et al. (2021), Sugiono (2020), and Widodo & Firmansyah (2021). Management avoids tax by exploiting weaknesses in a country's tax regulations. This activity is essentially not violating laws and regulations in a country. It is conducted to save on taxes paid to the country. The behavior of tax avoidance is essentially done to increase a firm's profits. However, the existence of tax planning and management makes the financial statements not reflect a firm's actual condition, which can mislead investors. As a result, there is asymmetric information between managers and shareholders (Yuliandana, 2021). In addition, tax avoidance behavior causes uncertainty about future tax values. Tax planning carried out in one period impacts the next period. If tax authorities prove tax avoidance, it will result in additional tax burdens in the form of sanctions and will reduce the firm's reputation. A decrease in reputation obtains a negative sentiment for the firm. Finally, investors are less interested in investing in the firm. Lack of investor interest causes a decrease in share prices that represent the firm value.

On the other hand, the existence of tax avoidance has a negative impact on the government as a tax collector. Tax avoidance causes a decrease in tax revenues received by the government. For management, paying taxes reduces the firm's financial ability (Yuliandana, 2021). It motivates management to carry out tax planning that benefits them. In addition, tax avoidance by banking companies in Indonesia is considered risky, so investors expect this strategy is not the best for managers. Thus, the result of this test does not confirm the stewardship theory.

The moderation role of intellectual capital on the association between tax avoidance and firm value

Based on the finding of this study, the interaction between intellectual capital as a moderator variable and tax avoidance has a positive impact on firm value, so the second hypothesis is accepted. The result of this study confirms the findings of Ardianto & Rivandi (2018), Awaliyah & Safriliana (2016), Devi et al. (2017), Gaol et al. (2021), Juwita & Angela (2016), and Pamungkas & Maryati (2017). The managers maintaining their intellectual capital to maximize the welfare of their shareholders can make investors value the firm highly (Santiani, 2018). Managers who take advantage of the company's resources can improve investors' perspective in banking companies that consider tax avoidance is not the best action for managers and have risks that harm investors. A firm can improve its performance and competitiveness by optimizing its use of intellectual capital. It makes the firm more attractive to investors and the market.

The firm gains a competitive advantage by utilizing its resources as intellectual capital. It is in line with the theory of resource-based view. Intellectual capital can optimize tax avoidance in banking firms using the right technology and resources to reduce tax expenses without committing fraud or violating tax regulations. Firms that can utilize and develop their intellectual capital will reduce the firm risk due to the firm's tax avoidance activities, which is the uncertainty of future tax values. It received a positive response from investors because the firm increased its net income. As a result, the value of the firm can increase. Thus, the effect of tax avoidance in reducing firm value can be decreased by intellectual capital. In addition, using intellectual capital reduces corporate actions that are less ethical from investors' perspectives, especially related to tax planning actions.
CONCLUSIONS

This study concludes that tax avoidance is negatively associated with firm value. Tax avoidance activity can lower firm value. Tax avoidance causes the firm’s financial information to mislead investors and makes the company riskier. Thus, investors become less interested in tax avoidance activities by the firm. Meanwhile, intellectual capital has a positive moderating role in the association between tax avoidance and firm value. High corporate intellectual capital can minimize the negative effects of tax avoidance on firm value. Firms that can develop and utilize their intellectual capital can reduce the risk from tax avoidance activities, leading to investors responding positively.

The limitation of this study is that it only uses data from firms in the banking sub-sector that limited numbers. Thus, the results of this study only cover firms in the banking sub-sector. In addition, there was an elimination of the number of research samples due to IPO firms in the current year, firms with losses in the current year, and firms with a negative ETR in the current year, so the number of samples used is reduced. Future studies can expand the data for all capital market sectors and extend the period for more accurate results. The Indonesian Financial Services Authority can use this study in coordinating with the Tax Authorities in Indonesia regarding the extent to which tax avoidance measures can be taken concerning the risks that investors must bear.

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