# Tax Planning To Increase The Value Of The Company

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## ABSTRACT

The objectives of this study are examine the effect of tax planning on firm value, examine the effect of good corporate governance on firm value, and the moderating effect of good corporate governance on the relationship of tax planning and firm value. The study population is all companies registered in the Indonesian Corporate Governance Forum (FCGI). The sample was chosen based on purposive sampling technique. The number of companies selected as a sample of 9 companies, thus obtained 54 observations during the study period. The study uses descriptive statistical analysis and moderated regression analysis (MRA). The results of the study prove that tax planning does not increase company value. Good corporate governance has a positive effect on company value. Good corporate governance moderates the effect of tax planning on firm value.

*Keywords:* Tax Planning; Company Value; Good Corporate Governance.

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## Perencanaan Pajak Untuk Meningkatkan Nilai Perusahaan

## ABSTRAK

Tujuan penelitian ini adalah menguji pengaruh perecanaan pajak pada nilai perusahaan, menguji pengaruh good corporate governance pada nilai perusahaan, dan efek moderasi good corporate governance pada hubungan perecanaan pajak dan nilai perusahaan. Populasi penelitian adalah seluruh perusahaan yang terdaftar di Forum Corporate Governance Indonesia (FCGI). Sampel dipilih berdasarkan teknik purposive sampling. Jumlah perusahaan yang terpilih sebagai sampel sebanyak 9 perusahaan, sehingga diperoleh 54 amatan selama periode penelitian. Penelitian menggunakan analisis statistik deskriptif dan moderated regression analysis (MRA). Hasil penelitian membuktikan perencanaan pajak tidak meningkatkan nilai perusahaan, good corporate governance berpengaruh positif pada nilai perusahaan, dan good corporate governance memoderasi pengaruh perecanaan pajak pada nilai perusahaan.

Kata Kunci: Perencanaan Pajak; Nilai Perusahaan; Good Corporate Governance.

## INTRODUCTION

Company value is the concern of investors and company management. The owner (principal) hopes that the company's value increases. Owners who do not directly manage the management of the company, give management authority to the management (agent). The agent acts on behalf of the owner to maximize the value of the company. Tax planning is one way to reduce the amount of tax paid to increase profits after tax which will maximize the value of the company (Yuliem, 2018). Planning is a structuring action related to the potential consequences of taxes, the emphasis on controlling each transaction that has tax consequences with the aim of streamlining the amount of tax to be paid to the government (Zain, 2006).

Planning has two opposing perspectives related to its impact on company value. The first perspective is a traditional perspective which states that tax planning is carried out to transfer welfare from the State to shareholders (Desai & Dharmapala, 2009). Tax planning according to traditional perspectives is carried out in a structured way to reduce the tax burden by utilizing tax regulations to obtain an increase in net income and increase company value (Yuliem, 2018). The second perspective is based on agency theory that contrasts with the traditional perspective. The second perspective states that tax planning can facilitate management opportunities to take opportunistic actions. Tax planning is done by manipulating profits or allocating resources that are not appropriate, not transparent in carrying out company operations. The second perspective tax planning will negatively impact the value of the company (Desai & Dharmapala, 2009; Friese, Link, & Mayer, 2006; Minnick & Noga, 2010).

Two perspectives on tax planning have been proven empirically, but the results of research are still varied. The first research group reported that tax planning had a negative effect on firm value (Hanlon & Slemrod, 2011; Wahab, Shaipah, & Holland, 2012). This means that tax planning is opportunistic so that it reduces the value of the company. The second group reported that tax planning had a positive effect on firm value (Chasbiandani & Martani, 2012; Wang, 2010; Wilson, 2009). Tax planning aims to reduce the company's tax burden and increase net profit after tax thereby increasing the value of the company.

Tax planning is carried out by company management to reduce the company's tax burden. The expectation of tax planning is to reduce the tax burden (Sugeng, 2011), increase the company's net profit and increase the value of the company, provided that the benefits of tax planning are higher than the risks. The results of empirical research support this traditional perspective, such as Chasbiandani & Martani (2012); Wang (2010); Wilson (2009). The results of other studies, such as Hanlon & Slemrod (2009); Wahab et al. (2012) find the opposite results, tax planning reduces the value of the company. Tax planning is considered as an opportunistic activity of management thereby reducing the value of the company. The difference in research results may be caused by the implementation of good corporate governance in the company. The implementation of good corporate governance is expected to prevent the negative impact of tax planning on company value. Based on the background, three research aims to analyzes and examines the effect of tax planning on firm value, the positive effect of good corporate governance on firm value and moderating effect of good corporate governance on the positive effect of tax planning on firm value.

Tax planning is carried out by company management to reduce the tax burden traditional theory predicts tax planning increases the value of the company because tax planning reduces tax burden and increases net profit after tax. An increase in profit after tax increases the value of the company. The results of empirical research support the effect of tax planning on increasing the value of companies (Chasbiandani & Martani, 2012; Wang, 2010; Wilson, 2009). The agency's view suggests that tax planning reduces the value of the company because tax planning encourages management to take opportunistic actions by manipulating profits or allocating resources that are not appropriate, not transparent in carrying out company operations. The results of the study support tax planning which has a negative impact on firm value (Hanlon & Slemrod, 2009; Wahab et al., 2012). Based on the theory and the results of previous studies, it can be concluded that tax planning has an effect on firm value. Tax planning can increase or decrease the value of the company so that the following hypothesis can be formulated.

$H_1$: Tax planning has a positive effect on company value.

Differences in interests occur between management and company owners. Management will strive to maximize interests, thereby encouraging management to act opportunistically. Agency theory explains the need for supervision of management in order to achieve the alignment of interests between management and owner. Supervision of company management can be done by carrying out good corporate governance practices.

Corporate governance (CG) is a system that regulates and controls companies that create added value for all stakeholders (Monks & Minow, 2001). Increased added value for investors is created by applying the principles of information disclosure, accountability, responsibility, independence, and equality and fairness. Previous research found the level of implementation of good corporate governance has a positive effect on firm value (Ammann, Oesch, & Schmid, 2011; Bhat, Chen, Jebran, & Bhutto, 2018). Based on agency theory and the results of empirical research on the direction of good corporate governance on corporate value, the following hypothesis can be formulated.

$H_2$: The level of implementation of good corporate governance has a positive effect on company value

The results of previous studies found inconsistent results related to the effect of tax planning on firm value. Traditional theory holds that tax planning increases firm value, whereas agency theory predicts tax planning decreases firm value. This difference in results might be due to the level of implementation of good corporate governance in the company. Agency theory explains the need for supervision to management to overcome differences in interests between management and owners. Supervision can be created by applying good corporate governance. The implementation of good corporate governance is expected to reduce the negative impact of tax planning on company value. Tax funding is expected to be carried out by considering the benefits and risks, in accordance with tax regulations, reducing the tax burden, increasing net profit after tax, and increasing the value of the company. Based on the explanation above, the hypothesis can be formulated as follows.

$H_3$: The level of implementation of good corporate governance moderates the effect of tax planning on company value.

## RESEARCH METHOD

This study uses secondary data sourced from financial reports, the level of implementation of corporate governance by the Forum for Corporate Governance in Indonesia (CGPI), and market data. Financial statement data is needed to measure tax planning in the form of tax burden and net income before tax. Market data in the form of stock market prices are needed to measure the value of the company. The level of good corporate governance implementation is measured based on the CGPI report.

The variables of this study consisted of independent, dependent, and moderating variables. The independent variable is the variable that is the cause or the emergence of the dependent variable (Sugiyono, 2016). The independent variable of research is tax planning. Tax planning is measured by the Effective Tax Rate or ETR. The moderating variable used in this study is the level of implementation of good corporate governance. This study uses composite values as a proxy for corporate governance. Composite ranking is divided into 5 parts. Companies that have implemented GCG in general, that is very good, are ranked 1; well, given rank 2; good enough, given a rating of 3; not good, given a rating of 4; and not good, given a rating of 5. The dependent variable is the variable that is affected or which is the cause of the emergence of the independent variable (Sugiyono, 2016). The dependent variable in this study is firm value. The company value is calculated using the ratio of Q or Tobin's Q. The ratio of Tobin's Q with the formula as follows. The study population is all companies listed on the Indonesia Stock Exchange (IDX) in 2012-2017.

The sample was chosen based on purposive sampling technique. This sampling technique selects samples based on criteria determined by researchers (Sugiyono, 2016). The criteria set for selecting a research sample are as the companies are registered in FCGPI in a row in the 2012-2018 period so that they are included in the Corporate Governance Perception Index (CGPI) ranking, the company reports financial statements in the form of statements of financial position and statement of comprehensive income in the period 2012-2018. The statement of financial position provides data on the book value of equity needed to measure the value of the company. The comprehensive income statement provides data on tax expense and profit before tax needed to measure the variable tax planning, the company reported earnings for the 2012-2018 period because profits were used as the basis for measuring corporate taxes, and the company reports earnings not in foreign currencies, because foreign exchange rates fluctuate.

## RESULT AND DISCUSSION

The study population is all companies registered in the Indonesian Corporate Governance Forum (FCGI) in 2012-2017. The sample was chosen based on purposive sampling technique. This sampling technique selects samples based on criteria determined by researchers (Sugiyono, 2016). The number of companies registered with FCGI in the 2012-2017 period was 42 companies. Some companies did not meet the sample criteria, namely (a) successively registered as members of the FCGPI in the 2012-2017 period as many as 27 companies, (b) companies not listed on the Indonesia Stock Exchange in the 2011-2016 period as many as 6 companies. There were 9 companies that fulfilled the research criteria. so we can observe the relationship between the variables of the 9 companies for six years. Based on these criteria, the number of observations that meet the criteria is 54 (fifty four) companies.

Description of the research variable is a profile of 54 observations from 9 companies registered in the Indonesian Corporate Governance Forum for 6 (six) years, 2012-2017. The results of a descriptive statistical analysis of research that provides an overview of the characteristics of companies which include good coporate governance (GCG), executive characteristics (KE) and tax avoidance measures (TPP).

Data on GCG variables amounted to 54 with an average value of 87.21 with a standard deviation of 3.31. This means that the data on GCG variables have variations that tend to be small. The minimum value for GCG is 75.68 obtained by PT Timah in 2012, while the maximum value of 94.27 obtained by PT Bank Bandiri in 2017. Data on the ETR variable are 54 with an average value of 0.25 with a standard deviation of 0.05. This means that the data on the ETR variable has variations that tend to be small. The minimum value for ETR is 0.20 obtained by PT Bank Mandiri, while the maximum value of 0.40 obtained by PT Timah Asam 2015. Data on NP variable is 54 with an average value of 1.44 with a standard deviation of 0.32. This means that the data on NP variables have variations that tend to be small. The minimum value for NP of 0.70 was obtained by PT Bank Negara Indonesia 2012, while the maximum value of 1.92 was obtained by PT Timah in 2016.

The classical assumption test results show that residuals are normally distributed, do not occur autocorrelation, multicollinearity does not occur between independent variables, and residual homoscedasticity. Data analysis in this study uses the method of moderated regression analysis (MRA). MRA is used to determine the effect of tax planning (ETR), good corporate governance (GCG) on tax avoidance, and to know the effect of GCG moderation on the effect of ETR on tax avoidance.

The amount of data used in the analysis was 54 data. Tax planning (ETR) acts as an independent variable, good corporate governance (GCG) as an independent variable and a moderating variable, while the used as the dependent variable in this study is Company Value (NP). The results of hypothesis testing show the regression coefficient of ETR variable is 1.863 with a significance value of 0.068. These results indicate that ETR has no significant effect on NP. The results of the study do not support hypothesis 1 of the study ($H_1$) which states that tax planning has an effect on firm value. Hypothesis 2 test results show that GCG has a significant positive effect on NP. The results support the research hypothesis 2 ($H_2$) which states that Good Corporate Governance has a positive effect on firm value. The MRA results show the regression coefficient of the ETR * GCG interaction variable of -0.442 with a significance value of 0.040.

These results indicate that GCG moderates the effect of ETR on NP. The results of the study support hypothesis 3 of the study ($H_3$) which states that Good coporate governance moderates the effect of tax planning on firm value.

The results of hypothesis testing prove that tax planning has no effect on firm value. The results of this study do not support traditional theory and the Agency. Traditional theory predicts that tax planning will increase company value, because tax planning reduces the tax burden and increases net income after tax. An increase in profit after tax increases the value of the company. The results of this study do not support the results of research supporting traditional theories, such as Chasbiandani & Martani (2012); Wang (2010); Wilson (2009).

This research does not support agency theory. The agency's view suggests that tax planning reduces the value of the company because tax planning encourages management to take opportunistic actions by manipulating profits or allocating resources that are not appropriate, not transparent in carrying out company operations. The results of this study do not support the results of empirical research supporting agency theory, such as Hanlon & Slemrod (2009; Wahab et al. (2012). This study supports research that found tax planning has no effect on firm value, such as Desai & Dharmapala (2009; Dewanata & Achmad (2017); Yuliem (2018).

The results of hypothesis testing support hypothesis 2 of the study ($H_2$) which states that good corporate governance has a positive effect on firm value. The results of this study can be explained that the practice of good corporate governance implemented by the company is proven to increase the value of the company. The results of this study support the agency theory. Agency theory explains that in companies that have a clear separation between the owner of the company (principal) and management (agent), the principal and agent have different interests. Management as an agent will try to maximize his interests, which can encourage agents to act opportunistically. Opportunistic actions of agents will harm the principal, so that the alignment of interests between management and owner is not achieved. For example, agents take actions to manipulate earnings to maximize management bonuses, or in the context of taxation management seeks to reduce profits through profit manipulation or allocating resources that are not appropriate, not transparent in carrying out company operations.

Agency theory states the need for supervision to reduce the opportunistic actions of management, so that alignment between the interests of management and owners. Supervision of company management can be done by carrying out good corporate governance practices. Corporate governance (CG) is a system that regulates and controls companies that create added value for all stakeholders (Monks & Minow, 2001). Increased added value for investors is created by applying the principles of information disclosure, accountability, responsibility, independence, and equality and fairness. The results of this study found that good corporate governance has a positive effect on company value, thereby supporting research conducted by Ammann et al. (2011); Baek, Kang, & Suh Park, (2004); Bhat et al. (2018).

The results of hypothesis testing prove good corporate governance moderates the effect of tax planning on firm value. The results of this study support the agency theory which suggests the need for supervision to reduce opportunistic management actions. Supervision of corporate management through the implementation of good corporate governance has been proven to reduce the negative impact of tax planning on corporate value. Tax funding is expected to be carried out by considering the benefits and risks, in accordance with tax regulations, reducing the tax burden, increasing net profit after tax, and increasing the value of the company.

## CONCLUSION

The results of hypothesis testing ($H_1$) failed to support $H_1$. The results of this study prove that tax planning has no effect on company value. The results of this study do not support traditional theories and the Agency. The results of hypothesis testing ($H_2$) support $H_2$ which states that good corporate governance has a positive effect on firm value. The results of this study can be explained that the practice of good corporate governance implemented by the company is proven to increase the value of the company. The results of hypothesis testing ($H_3$) support $H_3$ which states that good corporate governance moderates the effect of tax planning on firm value. The results of this study support the agency theory which suggests the need for supervision to reduce opportunistic management actions. Supervision of corporate management through the implementation of good corporate governance has been proven to reduce the negative impact of tax planning on corporate value.

Company management is expected to pay attention to the company's good corporate governance practices to maximize company value. The improvement of good corporate governance practices included here are the principles of accountability, transparency, responsibility, independence, and equality. Investors are expected to pay attention to corporate governance practices adopted by the company. This study uses a corporate governance index (CGPI) to measure the application of the principles of corporate governance. Investors are expected to pay attention to CGPI that has been published to increase investment value.

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