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**DETERMINANTS OF VARIABILITY IN TAX AVOIDANCE AND OWNERSHIP  
PATTERNS ON FIRM VALUE IN INDONESIAN EVIDENCE**

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**ABSTRACT**

This study aims to analyze the effect of corporate tax avoidance and ownership patterns on firm value. The sample derives from the LQ45 Index category listed on the Indonesia Stock Exchange during 2019-2024. The sample uses a purposive sampling method. The LQ45 Index is a market capitalization weighted index apprehend 45 most liquid common stock firms listed on the Indonesia Stock Exchange. This study utilizes a fixed effect model as an estimation of the exact equation model in panel data regression. The results of this study show that (a) effective tax rate (ETR) has a negative effect on firm value; (b) book-tax difference (BTD) has a positive effect on firm value; (c) management ownership has a negative effect on firm value, and; (d) institutional ownership has a positive effect on firm value. This study has an implication from a theoretical perspective, i.e. the ownership pattern provides a mixed results to firm value, in particular institutional ownership affect positively on firm value, while managerial ownership affects negatively on firm value. The negative effect of managerial ownership on firm value due to the small equity share of the managers should be associated with low market valuations due to higher agency cost. Moreover, corporate tax avoidance provides a mixed result to firm value, specifically by using effective tax rate and book tax avoidance as a measurement.

**KEYWORDS:** - firm value, corporate tax avoidance, ownership patterns.

**JEL Classification:** H3, G3, M4

**1.0 INTRODUCTION**

In the age of international economies, corporate taxes have evolved as a significant component of governments' fiscal policies for obtaining money to provide key public services. Through government-issued tax legislation, taxpayers support economic, social, and political interests and pay public expenses. Considering that tax is the biggest source of state revenue, the government is trying to maximize the potential revenue from the tax sector, but this is clearly contrary to the company's goals. Basically, a company is established with an economic goal to obtain maximum net income that will increase the value of the company. Taxes for companies are a burden that will reduce the company's net income so that rationally the company will try to minimize the tax burden so that the company's net income is high.

In Indonesia, the aim set in the State Budget is still not met by the realization of tax income relative to the tax revenue budget. The actual amount of tax revenue collected is known as realization, whereas the expected amount of tax income is known as tax revenue budget. One important measure of fiscal performance is the difference between them, which can be impacted by a number of variables, including the state of the economy, changes in policy, and the efficiency of tax collecting initiatives. According to Bisnis.com, the total tax money received represents 69.3% of total state revenue from January to July 2025. Meanwhile, compared to the 2025 State Budget (APBN) objective, tax revenue generation is only 47.2%.

Firm value is defined as a concept that combines economic theory, decision making, and numerous business tasks to attain maximum profitability and efficiency (Salvatore, 2012). Firm value analyzes the managerial decision-making process with the goal of maximizing the company's value in the context of the global economy. Firm value is an investor's impression of the company, which is frequently linked to stock prices (Salvatore, 2012). To build value for the company, financial managers must strive to make the best investment, funding, dividend, and net working capital investment decisions. Managers are frequently driven by risk-averse shareholders to increase corporate profit and company value (Hanlon and Heitzman, 2010). Aside from that, by reducing the company's tax charges, it can be utilized as a signal to raise the company's value (Sindy, 2024). According to Minnick and Noga (2010), shareholders expect large earnings that improve the company's worth, hence they want the tax paid to be minimized. Maximizing business value is critical because it supports the company's primary purpose of growing shareholder wealth (Hermanto & Lekok, 2024; Felicia & Karmudiandri, 2019).

Differences in interests between taxpayers and the government drive the deployment of significant tax avoidance schemes. This is demonstrated by the government's failure to meet its tax revenue targets. This indicates that Indonesia's state revenue from the tax sector has not been optimal. Tax avoidance is a transaction plan used by a firm to decrease its tax liability by using loopholes in a country's tax legislation (Waluyo, 2017). Tax avoidance encompasses all forms of management initiatives and transactions designed to lower the amount of tax that businesses must pay, whether they are plainly legal, uncertain, or unlawful (Hanlon and Heitzman, 2010).

Jamei (2017) stated that tax avoidance is a legal activity that a firm takes to reduce its tax responsibilities. Firms with high levels of tax aggression are more effective at implementing corporate governance measures (Alkausar et al., 2023). Businesses have options to lessen their tax burden through tax avoidance (Machdar, 2022). Huseynov and Klamm (2012) demonstrated that tax evasion can be employed to save taxes and lower company costs, hence increasing shareholder wealth. Hanlon and Heitzman (2010), on the other hand, claimed that corporations that dodge taxes lack social responsibility, and the market reacts negatively to the company,

resulting in a decline in economic performance. Hanlon and Heitzman (2010) stated that tax avoidance operations provide a variety of unique benefits, including increased cash flow and shareholder welfare. However, excessive tax avoidance operations will result in diminished cash flow and shareholder welfare due to penalty fees, as well as damage to a company's reputation. Tax avoidance is an action that can boost a company's value. Tax avoidance efforts are supposed to help corporations reduce their tax bills in order to improve their net profit, which will have an impact on the company's value. In classical theory, tax evasion is an activity that transfers state benefit to shareholders (Kim et al., 2010).

The function of ownership can oversee tax evasion actions, so favorably influencing the company's worth. Ownership status is a structured arrangement that allows linked parties to manage and control the company's performance in order to maximize the company's value and ensure its survival (Yee et al., 2018). Khan et al. (2017) confirmed that as long as tax avoidance is one approach employed by managers to improve net income after tax, institutional ownership is expected to have a favorable impact on tax avoidance.

This study aims to analyze the effect of tax avoidance and ownership pattern on firm value. This study tries to answer the questions set as follows: (a) Does tax avoidance affect the firm value; (b) Does the ownership pattern affect the firm value? Specifically, this study aims to analyze (a) the effect of cash effective tax rate on firm value; (b) the effect book-tax difference on firm value; (c) the effect of management ownership on firm value; and (d) the effect of institutional ownership on firm value. This study utilizes Tobins'Q as a measurement of firm value. Then, it uses cash effective tax rate and book-tax difference to measure corporate tax avoidance. Moreover, it uses managerial and institutional ownership as a proxied of ownership pattern, because managerial and institutional ownership are considered as the potential mechanisms to reduce agency conflict.

The relationship between corporate tax avoidance and firm value has been the subject of conflicting research on Indonesian companies. While some studies have found a negative impact, others have found no significant effect. This could be because of effective tax management strategies or particular industry characteristics, such as stringent financial sector supervision. Although their separate effects might not be substantial, some research also indicates that tax planning and avoidance combined can raise corporate value. This research is expected to contribute theoretical knowledge while also complementing earlier studies on the influence of tax avoidance and ownership patterns on corporate value. Furthermore, the study's findings are likely to provide policymakers and regulators with practical insights into tax avoidance and strengthen corporate governance on business value. Furthermore, the study's findings give stakeholders with information to consider when making decisions.

## **2.0 LITERATURE REVIEW AND HYPOTHESIS**

In an effort to raise tax collections, the government is constantly working to modernize tax laws. But businesses are also constantly looking for methods to cut taxes, whether that be legitimately through tax avoidance or illegally through tax evasion. Economically speaking, tax is a component of a profit deduction that the business can share or reinvest (Suandy, 2011). Hanlon and Heitzman (2010) described tax avoidance as lowering explicit taxes through completely legitimate tax-saving measures.

Tax avoidance can be achieved by lowering income by deferring recognition of current profits in favor of future realizations, resulting in a small reported income for the current period. In order to lower the profits made, tax avoidance can also be done by classifying personal expenses as business expenses. The tax burden increases with the stated income of the business. When a business engages in tax avoidance, it aims to decrease its profits in order to lower the amount of taxes it must pay. This goes against what investors want, as they undoubtedly want to get the most out of their investment (Santa & Rezende, 2016). Assidi, et al., (2016) found that the corporate tax optimization was measured by cash effective tax rate and firm value was proxied by accrual quality. The result indicated that there was a negative relationship between corporate tax optimization and firm value.

Wahab and Holland (2012) showed that tax planning affected a significant negatively on firm value, while the corporate government did not appear to moderate the effect of tax planning on firm value. Desai and Dharmapala (2009) found that the effect of tax avoidance on firm value depends on corporate governance, where the effect of tax avoidance on overall firm value is not significant. But if the corporate governance is good then there is a more positive influence compared to companies with low governance. Desai and Dharmala (2009) stated that tax avoidance arrangements cause a decrease in firm value when managers have the opportunity to downplay accounting earnings statement and incentives to reduce corporate income tax liabilities by understating taxable income.

Hanlon and Slemrod (2009) tested the market reaction to tax avoidance practices carried out by companies. The results of this study prove that the market reacts negatively. The higher tax avoidance, the lower the firm value. Tax avoidance actions carried out by companies show that tax aggressiveness actions can increase or decrease the firm value. If tax aggressiveness is seen as an effort to make tax efficiency, the effect is positive on the firm value. But if it is seen as an act of non-compliance, this will increase the risk so that it reduces the firm value.

Chen, et al., (2014) found that tax avoidance increases agency costs and reduces firm value. As Jensen and Meckling (1976) argue that agency costs are a burden for monitoring, incentive

spending for interest alignment, bond costs, and residual losses. This expenditure is considered as a reduction in principal welfare as a loss due to agency costs. Decision makers often use effective tax rates as a tool to assess the feasibility of a tax system associated with a company. Effective tax rates are considered very useful because through effective tax rates interested parties can see the effects of various tax incentives and corporate tax rates (Gupta & Newberry, 1997). Richardson and Lanis (2013) state that large companies have lower effective tax rates because they have sufficient resources to carry out processes as desired, such as tax planning and other activities to achieve optimal tax savings. Furthermore, larger companies generate more complex transactions, increasing the likelihood of tax loopholes. This is due to companies using political power in their tax management. Based on the explanation above the first hypothesis formulated as follows:

**Hypothesis 1:** Cash effective tax rate affects a negatively on firm value.

Another measurement of tax avoidance is book-tax difference. Book-tax difference equals to accounting income minus taxable income (Philips, et al., 2003). As Lee, et al., (2015) stated that accounting income is measured based on a generally accepted accounting principle (GAAP), which is intended to fairly represent the firm value. On the other hand, the Internal Revenue Code is designed to collect taxes to fund government operations and, inter alia, support government economic and political policies by providing tax incentives to encourage taxpayers to invest in selected areas. Hanlon and Heitzman (2010) identified that there are specific company characteristics that produce a book-tax difference, but do not always reflect aggressive tax reporting, because the book-tax difference includes tax avoidance that is tolerated by the standard and the wider community. The differences between accounting income and taxable income provide additional information for users of financial statements to assess current earnings quality (Philips, et al., 2003). It is due to tax regulations further limit the discretionary use of discretion in calculating taxable income. Therefore, this difference informs management discretion in accrual processes (Hanlon, 2005). Managerial discretion allowed in measuring both types of accounting income and taxable income can function to widen book-tax differences (Lee, et al., 2015). Book-tax differences can be assessed from the component of deferred tax that is formed from temporary differences or differences in the time of recognition of income and expenses (Phillips, et al., 2003). The deferred tax component reflects income, accrual expenses, and reserve funds that are significantly useful in explaining the possibility of earnings management. Lee, et al., (2015) affirmed that book-tax differences are primarily attributed to two major categories: (1) different rules of computing accounting income and taxable income, and (2) different strategies of income adopted by managers to increase accounting income while hold down taxable income.

Wang (2010) investigated the relationship between tax avoidance, corporate transparency, and firm value for the period 1994-2001. The tax avoidance is proxied by cash effective tax rates and permanent book-tax difference, while the firm value is measured by Tobin's Q. The result found a positively significant relationship between tax avoidance and firm value. Kurniawan and Syafruddin (2017) investigated the effect of tax avoidance which is measured by book-tax difference on firm value. The results showed that book-tax difference affect a positively on firm value. This proves that a large and positive book-tax difference is associated with aggressive tax reporting. Based on the explanation above the second hypothesis tested as follows:

**Hypothesis 2:** Book- tax difference affect positively on firm value.

Managerial ownership can reduce agency conflict because if the management has a part of the company, management will be maximal in carrying out company activities and reducing fraud that occurs in management (Jamei, 2017). In this ownership, the company manager as well as the manager also acts as a shareholder in the company. Managerial ownership will encourage management to increase its work capacity so that it has a good impact on the company in order to meet the wishes of the management itself. Management tends to make careful decisions. Management derives direct benefits from the right decisions, and vice versa bear losses from wrong decisions. In Indonesia, Diastari and Devie (2017), Fajri and Surjandari (2016), and Debby, et al. (2014) found that managerial ownership had a significant and negative influence on firm value. This happens because the implementation of corporate governance in Indonesia is still relatively low as evidenced by statistical evidence which explains that the average managerial ownership in Indonesia is still low. The negative effect of managerial ownership on firms value due to the small equity share of the managers should be associated with low market valuations due to higher agency cost. Based on the explanation above the third hypothesis tested as follows:

**Hypothesis 3:** Managerial ownership affect negatively on firm value.

Jensen and Meckling (1976) stated that institutional ownership has a very important role in minimizing agency conflicts that occur between managers and shareholders. The existence of institutional investors is considered capable of being an effective monitoring mechanism in every decision taken by the manager. Institutional investors are involved in strategic retrieval, so it is not easy to believe in earnings manipulation.

The greater the institutional financial ownership, the greater the power of voice and the encouragement of institutional ownership to control management so as to encourage greater efforts to optimize the value of the company. In other words. Institutional ownership acts as a



preventive measure for management to waste. The higher share ownership by the institution will cause the monitoring effort to be more effective because it can control the opportunistic behavior of management. This action reduces agency costs because it allows companies to use lower debt levels (Khan, Srinivasan, & Tan, 2017).

The existence of institutional ownership in a company will encourage increased supervision to be more optimal for management performance because institutional ownership represents a source of power that can be used to support or vice versa to firm value (Aggarwal, et al., 2011). Supervision carried out by institutional investors is very dependent on the amount of investment made. According to Zemzem and Ftouhi (2016) the higher institutional ownership in a company, the stronger the external control of the company and the lower the agency cost, so the company will use low dividends. Herdjiono and Sari (2017), and Fajri and Surjandari (2016) found that institutional ownership has a positive effect on firm value. This, shows that institutional ownership is a reliable mechanism so that it can motivate managers to improve performance so as to increase firm value. Based on these explanations, the fourth hypothesis can be formulated in this study:

**Hypothesis 4:** Institutional ownership affect positively on firm value.

### **3.0 METHODOLOGY**

#### **3.1 Data and Samples**

The research population comprises of 45 firms that included in the LQ45 stock index on the Indonesia Stock Exchange over the period of 2019-2024. The LQ45 Index is one of the benchmarks of the overall Indonesia Stock Exchange performance. The LQ45 Index is a market capitalization weighted index apprehend 45 most liquid common stock firms listed on the Indonesia Stock Exchange. The LQ45 Index involves at least 70% of the stock market capitalization values in the Indonesia Stock Market. The liquid common stocks that enter into the LQ45 index is evaluated on a 3-month basis and the replacement of stocks into the LQ45 index is issued on a 6-month basis, i.e in early February and August. Samples were selected by using purposive sampling technique. The sample criteria used in this study are as follows: (1) The unit of analysis is firms included in the LQ45 stock index on the Indonesia Stock Exchange during 2019-2024; (2) Firms must be consistently in the LQ 45 stock index for the period 2019-2024; (3) Firms publish audited financial statements during this period, and (4) Firms display all the data needed in the study. On the basis of these criterion, total sample consists of 17 companies. The number of firm-year observations as much as 102 observations. The source of data as follows: (a) The summaries of data on financial reports and capital markets were obtained from Indonesian Capital Market Directory, and (b) The number of accounting data of annual financial

statements and the notes to the financial statements were chosen from Indonesia Stock Exchange website.

This study uses a panel data regression model. This study tests the appropriate regression model with Chow test and Hausman test. When analyzing panel data, the Chow test is used to determine whether to apply the Fixed Effect Model (FEM) or Common Effect Model. This is due to the fact that each cross-section unit exhibits unique behavior, making the assumption that they all behave in the same way impractical. Furthermore, the Hausman test is a statistical test that determines whether the fixed effect or random effect model should be used. It may be determined that the Fixed Effect Model (FEM) is suitable for processing panel data. This study used the program EVIEWS 8.0 (Ghazali&Ratmono, 2013). Before applying the regression analysis model, a number of traditional assumptions are checked. These include tests for multicollinearity, heteroscedasticity, and autocorrelation.

### 3.2 Research Model

The proposed model in this study as follows:

$$ECVAL_{it} = \zeta_0 + \zeta_1 TPCETR_{it} + \zeta_2 TPBTD_{it} + \zeta_3 OWMAN_{it} + \zeta_4 OWINS_{it} + \zeta_5 ROE_{it} + \zeta_6 CAPS_{it} + \zeta_7 SIZE_{it} + \varepsilon_{it}$$

where:

|                    |  |
|--------------------|--|
| $ECVAL_{it}$       | = Firm value of firm i in period year t              |
| $TPCETR_{it}$      | = Cash effective tax rate of firm i in period year t |
| $TPBTD_{it}$       | = Book-tax difference of firm i in fiscal year t     |
| $OWMAN_{it}$       | = Managerial ownership of firm i in fiscal year t    |
| $OWINS_{it}$       | = Institutional ownership of firm i in fiscal year t |
| $ROE_{it}$         | = Return of equity of firm i in fiscal year t;       |
| $CAPS_{it}$        | = Capital structure of firm i in year t              |
| $SIZE_{it}$        | = Size of firm i in year t                           |
| $\zeta_0$          | = Constant   |
| $\varepsilon_{it}$ | = The error of residual firm i in year t             |

### 3.3 Measurement of Variables

The dependent variable, ECVAL is the economic performance is measured by Tobin's Q. The Tobin's Q ratio is defined as the ratio of the company's equity market value plus debt divided by the value of replacing the company's assets (Desai & Dharmapala, 2009). The Tobin's Q ratio is a valuable concept because it shows financial market estimates with a return on each dollar of incremental investment. If the value of the ratio is more than 1, it shows that investment in assets



generates profit which gives a higher value than investment expenditure so that it can attract new investment. If the ratio value is less than 1, investment in assets is not attractive to investors.

The first independent variable is corporate tax avoidance. This study utilizes cash effective tax rate and book-tax difference as a proxy of corporate tax avoidance. Cash effective tax rate is often used by management as a tool to assess the feasibility of a tax system related to various tax incentives and corporate tax rates (Armstrong, et al., 2012). Cash effective tax rate describes the amount of taxes paid by a company relative to its earnings before tax (Appolos, et al., 2016). This study measures the extent of corporate tax evidence as the after tax (net) effect of any difference between earnings before tax with taxable income compared to average assets (Wahab & Holland, 2012).

The second independent variable is the ownership pattern that covers managerial ownership dan institutional ownership. Managerial ownership is measured based on the percentage of shares held by all board members companies from the number of outstanding company shares (Jamei, 2017). Kiesewetter and Manthey (2017) stated that institutional ownership is referred to the company's shares belong to the institution such as government, private, domestic and foreign institution. Institutional ownership is measured based on the percentage of shares held by all institutionals from the number of outstanding company shares (Jamei, 2017).

The control variables consist of return on equity, capital structure and size of the firm. First, return on equity (ROE) represents the company's ability to generate net income by using shareholders' equity owned by the company (Ross, et al., 2013). ROE equals to net income is divided by total shareholders' equity. Second, capital structure is proxied by debt equity ratio (DER). Debt to equity ratio equals to the amount of total debt is divided by the total equity held by the company (Ross, et al., 2013). Third, the size of company is calculated by the logarithm of the company's total assets. Company size (SIZE) is used as a control variable, because it is considered to generate noise on tax avoidance. Manzon and Plesko (2002) stated that the size of the company can provide a noise effect, where large-sized companies can do tax avoidance better so that the effects of book-tax gaps become biased.

## **4.0 ANALYSIS AND DISCUSSION**

### ***4.1 Descriptive Statistics***

Table 1 presents a summary of descriptive statistics of independent, dependent, and control variables used in this research. Statistics indicate the minimum, maximum, mean, and standard deviation. The standard deviation of  $ECVAL_{it}$  is 3,4371 and the mean is 3,2391. It shows that the sample of firms exhibit a reasonable variance. The value of mean for variable  $TPBTD_{it}$  is -0.015 (negative) and the standard deviation of  $TPBTD_{it}$  is -0.069. This indicates that the book-tax

difference have a negative value and the sample of firms implemented the transfer pricing policies. The standard deviation of  $TPCTR_{it}$ ,  $OWINS_{it}$ ,  $ROE_{it}$  and  $SIZE_{it}$  is lower than the mean value. It points out that cash effective tax rate, institutional ownership, return on equity, and size do not have many variances. Further, the standard deviation of  $OWMAN_{it}$  and  $CAPS_{it}$  is higher than the mean value. It indicates that the distribution of data of book-tax difference and capital structure shows abnormal results.

**Table 1.** Descriptive Statistics

|               | Minimum | Maximum | Mean      | Std. Deviation |
|---------------|---------|---------|-----------|----------------|
| $ECVAL_{it}$  | 1,0269  | 18,6404 | 3,239169  | 3,4371845      |
| $TPCETR_{it}$ | 0,0535  | 0,9810  | 0,293137  | 0,1285639      |
| $TPBTD_{it}$  | -0,4475 | 0,0796  | -0,015236 | 0,0690808      |
| $OWMAN_{it}$  | 0,0000  | 0,0092  | 0,000812  | 0,0021438      |
| $OWINS_{it}$  | 0,1788  | 0,9775  | 0,628156  | 0,1726597      |
| $ROE_{it}$    | 0,0595  | 1,2581  | 0,276967  | 0,2518106      |
| $CAPS_{it}$   | 0,1536  | 9,6911  | 1,859741  | 2,4990848      |
| $SIZE_{it}$   | 29,3469 | 34,4445 | 31,475845 | 1,3919636      |

Notes  $ECVAL_{it}$  denotes firm value of firm  $i$  in fiscal year  $t$ ;  $TPCETR_{it}$  denotes the cash effective tax rate of firm  $i$  in fiscal year  $t$ ;  $TPBTD_{it}$  is the book-tax difference of firm  $i$  in fiscal year  $t$ ;  $OWMAN_{it}$  denotes the managerial ownership of firm  $i$  in fiscal year  $t$ ;  $OWINS_{it}$  denotes the institutional ownership of firm  $i$  in fiscal year  $t$ ;  $ROE_{it}$  denotes return of equity of firm  $i$  in fiscal year  $t$ ;  $CAPS_{it}$  is capital structure of firm  $i$  in fiscal year  $t$ ;  $SIZE_{it}$  is the size of firm  $i$  in fiscal year  $t$ .

#### 4.2 Results and Discussion

The regression results of research models use statistical tools Eviews 8, assuming a constant slope coefficient, intercept fixed between individuals and between periods, are summarised in Table 2. By using a fixed effect model, it can be seen that the adjusted  $R^2$  results are 0.953636, which means that in this regression model, the independent variable can explain the variation in the dependent variable of the firm value by 95.3636%. While the remaining 4.6364% is explained by other variables outside the model.

**Table 2.** Summary of Regression Results

$$ECVAL_{it} = \zeta_0 + \zeta_1 TPCETR_{it} + \zeta_2 TPBTD_{it} + \zeta_3 OWMAN_{it} + \zeta_4 OWINS_{it} + \zeta_5 ROE_{it} + \zeta_6 CAPS_{it} + \zeta_7 SIZE_{it} + \varepsilon_{it}$$

| Variable           | Predicted Sign | Coefficient | Std. Error | t-Statistic | Prob.  |      |
|--------------------|----------------|-------------|------------|-------------|--------|------|
| C                  |                | 22.98088    | 10.31785   | 2.227295    | 0.0288 |      |
| TPCETR             | -              | -1.310187   | 0.913722   | -1.433901   | 0.0503 | **)  |
| TPBTD              | +              | 2.905319    | 1.403299   | 2.070349    | 0.0417 | **)  |
| OWMAN              | -              | -2.34523    | 260.1695   | -2.089731   | 0.0287 | **)  |
| OWINS              | +              | 8.643847    | 2.838070   | 3.045678    | 0.0032 | ***) |
| ROE                |                | 0.915130    | 0.749720   | 1.220629    | 0.2259 |      |
| CAPS               |                | -0.089797   | 0.192759   | -0.465848   | 0.6426 |      |
| SIZE               |                | -0.788242   | 0.318340   | -2.476098   | 0.0154 | **)  |
| R-squared          |                | 0.964194    |            |             |        |      |
| Adjusted R-squared |                | 0.953636    |            |             |        |      |
| Prob(F-statistic)  |                | 0.000000    |            |             |        |      |

Notes:  $ECVAL_{it}$  denotes firm value of firm  $i$  in fiscal year  $t$ ;  $TPCETR_{it}$  denotes the cash effective tax rate of firm  $i$  in fiscal year  $t$ ;  $TPBTD_{it}$  is the book-tax difference of firm  $i$  in fiscal year  $t$ ;  $OWMAN_{it}$  denotes the managerial ownership of firm  $i$  in fiscal year  $t$ ;  $OWINS_{it}$  denotes the institutional ownership of firm  $i$  in fiscal year  $t$ ;  $ROE_{it}$  denotes return of equity of firm  $i$  in fiscal year  $t$ ;  $CAPS_{it}$  is capital structure of firm  $i$  in fiscal year  $t$ ;  $SIZE_{it}$  is the size of firm  $i$  in fiscal year  $t$ .

\*\*\*), \*\*), and \*) indicate significance at 1%, 5% and 10% levels respectively.

Based on the test results in Table 2, TPCETR variable has a p value of 0.0503 and tstat value is -1.433901 (negative direction), so hypothesis 1 is accepted. This means that tax avoidance is proxied by the cash effective tax rate (TPCETR) affects negatively the firm value. The results of this study are supported by the studies conducted Nebie& Cheng(2023); Assidi, et al., (2016), Chen, et al., (2014), Wahab and Holland (2012), Desai and Dharmapala (2009), and Hanlon and Slemord (2009). This means that the higher tax avoidance, the lower the firm value. The tax avoidance is seen as non-compliance because these actions can increase risk. Management's actions to carry out tax avoidance activities can reduce the firm value because financial statements can mislead investors. It does not describe the actual condition of the company. Anggara and Subandi (2025) found that tax avoidance negatively impacts firm value, and managerial ownership positively impacts firm value. These findings support Agency Theory and Signaling Theory, which recommend that firms reduce tax avoidance and increase managerial ownership to increase firm value.

TPBTD variable has p value of 0,0417 and the tstat value is 2,070349), so hypothesis 2 is accepted. This means that tax avoidance is proxied by the book-tax difference (TPBTD) affects the firm value. The results of this study are supported by a study conducted by Wang (2010) and Kurniawan and Syafruddin (2017) that the book-tax difference affects positively the firm value. This is because the difference between book income and taxable income is seen as good tax avoidance and tax efficiency and is not an aggressive tax avoidance action, so the market accepts it well. Therefore, tax avoidance activities can increase the firm value.

OWMAN variable has a p value of 0,0287 and the tstat value is -2.089731, so hypothesis 3 is accepted. It means that the managerial ownership affect negatively the firm value. The results of this study are supported by Diastari and Devie (2017), Fajri and Surjandari (2016), and Debby, et al. (2014) found that managerial ownership had a significant and negative influence on firm value. This happens because the implementation of corporate governance in Indonesia is still relatively low as evidenced by statistical evidence which explains that the average managerial ownership in Indonesia is still low. The negative effect of managerial ownership on firms value due to the small equity share of the managers should be associated with low market valuations due to higher agency cost. This result can also be seen from the results of the minimum and maximum values of OWMAN are 0.0000 and 0.0092. The circulating shares did not change much in the six years of observation. It means that there is no change in shares invested or no new shares issued.

OWINS variable has a p value of 0,0032 and the tstat value is 3,045678, so hypothesis 4 is accepted. It means that the institutional ownership affect positively the firm value. The results of this study are supported by Nugroho and Agustia (2017); Herdjiono and Sari (2017); and Fajri and Surjandari (2016) found that institutional ownership has a positive effect on firm value. This, shows that institutional ownership is a reliable mechanism so that it can motivate managers to improve performance so as to increase the firm value. The higher the institutional ownership, the greater the institution's ability to control the performance of the company and management will be more careful in running the company, so that the company's performance is good. This, shows that institutional ownership can be a good driver to motivate managers to increase firm value.

The results of testing the control variables in this study indicate that Return on equity (ROE) has p-value  $0.166 > \alpha 0.05$  and tstat of 1.220629 so that Return on Equity (ROE) does not affect the firm value. Furthermore, capital structure (DER) has a p-value of 0.6426 and tstat of -0.465848 so that the capital structure) does not affect the firm value. Moreover, company size (Size) has p-value -0.0154 and tstat of 2.476098 so that the size of the company proved to have a positive and significant effect on the firm value. Thus the higher the size of the company, the higher the

firm value, this means that the size of the company reflected in the assets will attract investors to invest in larger companies.

## **5.0 CONCLUSION**

This study aims to analyze the effect of corporate tax avoidance and ownership patterns on firm value. The results of this study showed that (a) effective tax rate (ETR) has a negative effect on firm value; (b) book-tax difference (BTD) has a positive effect on firm value; (c) management ownership has a negative effect on firm value, and; (d) institutional ownership have a positive effect on firm value.

This study has an implication from a theoretical perspective, i.e. the ownership pattern provides a mixed results to firm value, in particular institutional ownership affect positively on firm value, while managerial ownership affect negatively on firm value. The negative effect of managerial ownership on firm value due to the small equity share of the managers should be associated with low market valuations due to higher agency cost. Moreover, corporate tax avoidance provides a mixed result to firm value, in particular by using effective tax rate and book tax avoidance as a measurement.

This study has limitations. The results of this study cannot be used as a generalization of results for companies in Indonesia. This is because the sample used comes from companies included in the LQ45 Index category. The LQ45 company category includes 45 companies that have a large market capitalization with at least 70% of the stock market capitalization value on the Indonesia Stock Exchange. Future research should utilize all the number of companies listed on the Indonesia Stock Exchange by making classifications according to the industrial sector. Furthermore, another limitation is that the research period is very short. Future research should use a longer observation period.

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