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The Effect of Tax Avoidance and Agency Costs on Company Value with Profitability as a Mediating Variable

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Abstract
This study examines the effect of tax avoidance and agency cost on company value by using profitability as a mediation variable. The independent variables used in this study are tax avoidance as measured by Cash Effective Tax Rate (CETR) and agency cost using the STA (Sales to Total Equity) ratio. The dependent variable in this study is the company's value measured using price-to-book value (PBV). Then the variable for the mediating variable is profitability which is measured using the ROA (Return on Assets) ratio. This study replicates the research conducted by Enggar Adityamurti, and Imam Ghozali, 2017 using secondary data of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2017-2021 – test analysis using multiple analysis regression analysis model. The results of this study show that tax avoidance has a significant and positive effect on company value. Then, profitability can mediate the relationship between tax avoidance and agency cost to company value.

Keywords: Tax Avoidance, Agency Cost, Company Value, Profitability.

1. Introduction

In Indonesia, there are still tax avoidance practices, this is due to the lack of taxpayer awareness which has an impact on the tax ratio in Indonesia which is still below 15%. Over the last 5 years the tax ratio has only reached 10% to 12%, so there is still potential to increase taxpayer compliance (www.kemenkeu.go.id/apbn2019). Tax avoidance is one of the factors that still apply low tax rates, thus triggering multinational companies to invest or divert income to the country.

Factors that encourage companies to avoid taxes include low tax rates, accurate tax data, and lack of transparency in tax collection mechanisms Ozili (2020). From these factors, it can be seen that many companies are more concerned with being able to generate maximum profits to increase company value, so that not a few companies are making tax avoidance efforts to reduce their tax burden. The ability to make a company's profit and loss is called profitability. Profitability is used as a mediation indicator used to assess whether *tax avoidance* actions taken by the company can really get optimal profits to increase company value. High company profitability can increase the value of a company.

This study includes profitability as a mediating variable used as a function of the independent variable operating in any situation, and helps to conceptualize and explain the effect of the relationship between the independent variable on the dependent variable. This study aims to analyze tax *avoidance and agency costs* on company value. Research on the effect of tax avoidance on company value still has inconsistent results. This is because tax avoidance can reflect the personal interest of managers in manipulating company profits which results in incorrect information for investors, this will have an impact on investors who give low valuations to the company. The higher the profitability generated by the company, the effect of tax planning on company value will also be more optimal.

Previous research has examined the relationship between tax avoidance, agency costs, and company value and has shown mixed results. Such as research conducted by Rosaina et al (2013) and Wulandari et al (2016). Revealed that profitability as a mediator can strengthen the relationship between *Corporate Social Responsibility* (CSR) disclosure and the value of manufacturing companies. This result is different from Tandean & Jonathan's (2016) research which states that profitability weakens the relationship between tax avoidance and company value. Research conducted by Yuliansyah (2018) states that tax avoidance turns out to have a negative and significant effect on company value. This means that the higher the tax avoidance, the lower the value of the company. Meanwhile, according to research from Eskandarlee and Sadri (2017) shows that there is a significant positive relationship between tax avoidance and company value. Meanwhile, according to research from Warno & Fahmi (2020) and Adityamurti & Ghozali (2017) in their research found that significantly positively, agency costs affect company value.

Based on several previous research results showing inconsistent results, therefore the author intends to reexamine the effect of *tax avoidance* and *agency costs* on company value by adding profitability as mediation. In this study, the author uses manufacturing companies as the research population because manufacturing companies have the largest number of companies on the Indonesia Stock Exchange consisting of several industrial sub-sectors so that they can reflect the reaction of the capital market as a whole. In addition, manufacturing companies are the main source of contributors to Indonesia's tax revenue.

Based on the description above, the author wants to make a study entitled **"The Effect of Tax *Avoidance* and *Agency Cost* on Company Value with Profitability as a Mediation Variable in Manufacturing Companies Listed on the IDX in 2017-2021.**

2. Research Methods

The manufacturing business listed on the Indonesia Stock Exchange (IDX) between 2017-2021 is the object of research. Due to the phenomenon there are several phenomena in which some industrial enterprises falsify financial statements, the population is used. And it is estimated that the results will be more accurate because manufacturing companies are the company sector with the largest population listed on the Indonesia Stock Exchange (IDX).

This study used secondary data and quantitative data. The population used in this study is all manufacturing companies. This research uses manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period Purposive sampling is a method of selecting criteria based on predetermined criteria. The sample criteria used in this study are: (1) Manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period are expressed in units (Rp); (2) Companies that present complete financial data between 2017-2021; and (3) Companies that did not experience losses and had positive profits during the 2017-2021 period.

The type of data used in this study is secondary data in the form of Financial Statements, Annual Reports for the 2017-2021 observation period being secondary data sources in this study which are officially accessed on the Indonesia Stock Exchange *website (www.idx.co.id).* Data to calculate tax avoidance derived from the Annual Financial Statements, namely the Cash Flow Statement and Income Statement.

This analysis is used to determine the magnitude of the influence of the relationship between two or more independent variables on one dependent variable and predict the dependent variable using the independent variable. According to Ghozali (2016), this linear regression analysis can estimate the direction of the relationship and measure the degree of closeness of the relationship between the dependent variable and the independent variable. Hypothesis testing is carried out with regression analysis equations as follows:

$$\mathbf{PBV=a+ \beta_1ETRit+ B_2STAit+ B_3ROAit+B_1ETRit*B_2STAit*ROAit+e}$$

Information:
PBV= Company Value I= Number of Companies t= Period 2017-2021 a= constant
ETR= *Effective Tax Rate* STA= *Sales Total to Assets* ROA= *Return on Assets*
ETR*STA*ROA= Interaction between ETR, STA and ROA e= Residual Error

The F statistical test is carried out with the aim of showing that all independent variables are included in the model that have a joint influence on the dependent variable (Ghozali, 2018: 98). The test criteria use a significance level of 0.05. If the significance value<0.05 means that the research model is feasible to use and if the significance value>0.05 means that the research model is not feasible to use.

The statistical test t was carried out to determine the influence of each independent variable on the dependent variable (Ghozali, 2018: 98). This test is carried out with criteria if the significance value<0.05 then the hypothesis is accepted and if the significance value>0.05 then the hypothesis is rejected.

3. Results and Discussion

3.1. Double Regression Analysis Test

Multiple regression analysis is a statistical model used to examine the relationship between variables *Depend on* with multiple variables *independent*. Where there are two or more variables *independent* as well as one variable *Depend on*. In this study tested the influence between variables *Independent* (X1) *Tax Avoidance*, (X2) Agency Cost, and (Y) Company Value. The regression equation formula used is as follows:

$$Y = \alpha+\beta1X1+\beta2X2+e$$

The following are the results of multiple linear regression analysis tests conducted by researchers in the SPSS 26 program in the table as follows:

Table 1. Multiple Regression Analysis Results

Unstandardized Coefficients		Standardized CoefficientsBeta	t	Sig.
B	Std. Error			
,278	,456		,609	,543
3,600	,426	,482	8,447	,000
1,562	,408	,218	3,824	,000

The constant of (α) = 0.278 which has a positive sign which can be interpreted if there is no change in (X1) *Tax Avoidance*, (X2) *Agency Cost* together then the Company Value is 0.278.

The Tax Avoidance regression coefficient *of 3,600 states that the relationship between the* Tax Avoidance variable and Company Value is positive. So it means that if every increase in *Tax Avoidance* value will increase, the Company Value will increase by 3,600.

The Agency Cost regression coefficient *of 1.562 states that the relationship between the* Agency Cost variable and Company Value is positive. So that means if every increase in *Agency Cost* value will increase, the Company Value will increase by 1,562.

Model feasibility test (F test) is used to assess the feasibility of a regression model that has been formed. The test is done by comparing F count with F table. If the F value is calculated > F table or the sig value is < 0.05 (α = 5%) then it can be concluded that the regression model used is fixed or feasible. The following are the results of the model feasibility test (F test) conducted by researchers in the SPSS 26 program in the following table:

Table 2. ANOVA F-Test Results

Model	Sum too Squares		d f	Mean Square	F	Sig.
1	Regression	6.989,506	2	3.494,753	104,190	,000b
	Residual	9.961,967	297	33,542		
	Total	16.951,473	299			

Based on the results of statistical F test data processing in table 4.10, it can be seen that F counts (104.190) > F table (2.75) and sig (0.000) < α (0.05), so it can be concluded that the independent variable is able to explain the dependent variable tested. This shows that the research model is fixed and feasible to be used to predict the effect of *Tax Avoidance* and *Agency Cost* on Company Value.

The statistical test t basically shows how far the influence of one *independent variable (*X) individually in explaining the variation of the *dependent variable* (Y). Tests were conducted using a significant 5%. If the sig value < 0.05 then *the independent* variable individually affects the *dependent variable*. If the value of t is calculated > t table, then the independent *variable (X) partially* affects the dependent variable (Y) (Sujarweni, 2014: 155). The following are the results of the Model Meaningfulness Test (Test t) conducted by researchers in the SPSS 26 program in the table as follows:

Table 3. T-Test Results

Unstandardized Coefficients		Standardized CoefficientsBeta	t	Sig.
B	Std. Error			
,278	,456		,609	,543
3,600	,426	,482	8,447	,000
1,562	,408	,218	3,824	,000

a. Dependent Variable: Company Value

H_1: *Tax Avoidance* has a significant and positive effect on Company Value

Based on table 4. it is known that the results of Tax Avoidance have a sig value. 0.000 < 0.050 means that Ho is rejected and H1 is accepted and the coefficient value is 3.600 which means positive so that it can be concluded that *Tax Avoidance* has a significant and positive effect on Company Value.

H_2: *Agency Cost* has a significant and positive effect on Company Value

Based on table 3 it is known that the results of Agency Cost have a sig value. 0.000 < 0.050 means that Ho is rejected and H2 is accepted and the coefficient value is 1.562 which means positive so that it can be concluded that Agency Cost has a significant and positive effect on Company Value.

Table 4. T Coefficients[a] Test Results

Unstandardized Coefficients				Standardized Coefficient's	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	,074	,005		14,654	,000
	Profitability	,018	,005	,215	3,792	,000

H3: Profitability as a mediator has a significant and positive effect on *Tax Avoidance*. Based on table 4, it is known that the results of Profitability have a sig value. 0.000 < 0.050 means that Ho is rejected and H1 is accepted and the coefficient value is 0.018 which means positive so that it can be concluded that Profitability as a mediator has a significant and positive effect on Tax Avoidance.

Table 5. T-Test Results of Equation II

Unstandardized Coefficients				Standardized Coefficient's	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	,061	,006		9,613	,000
	Profitability	,021	,004	,266	4,769	,000

H4: Profitability as a mediator has a significant and positive effect on *Agency Cost*

Based on table 5, it is known that the results of Profitability have a sig value. 0.000 < 0.050 means that Ho is rejected and H1 is accepted and the coefficient value is 0.021 which means positive so that it can be concluded that Profitability as a mediator has a significant and positive effect on *Agency Cost*

Table 6. T-Test Results of Equation II

Unstandardized Coefficients				Standardized Coefficient's	t	Sig.
Model	B		Std. Error	Beta		
1	(Constant)	-,788	,511		-1,544	,124
	Profitability	47,249	4,380	,530	10,787	,000

H5: Profitability as a mediator has a significant and positive effect on Company Value.

Based on table 4.13, it is known that profitability as a mediator has a sig value. 0.000 < 0.050 means that Ho is rejected and H1 is accepted and the coefficient value is 47.249 which means positive so that it can be concluded that Profitability as a mediator has a significant and positive effect on Company Value.

3.2. Discussion

Based on the results of the data analysis obtained, it can be discussed about the influence *Tax Avoidance*, *Agency Cost* to Company Value with Profitability as a mediating variable in manufacturing companies listed on the IDX, namely as follows:

The Effect of *Tax Avoidance* on Company Value

Tax avoidance is an effort made by management to reduce the company's tax burden. The purpose of tax avoidance is to minimize liability by engineering the tax burden to be as low as possible by utilizing existing regulations and trying to maximize after-tax return. In addition, taxes are an element of profit reduction that is useful both to be distributed to shareholders and reinvested. When the company can minimize spending for tax purposes, it means that there will be fewer expenses incurred by the company. Expenses are a deduction in getting company profits. The smaller the burden incurred by the company, the greater the profit obtained by the company and the higher the value of the company. This shows that it is suspected that tax avoidance has an effect on the value of the company. This research is in line with research from Wang (2010), Martani *et.al.* (2012) and Victory & Charoline (2016) stated that *Tax Avoidance* has a significant and positive effect on Company Value. The discovery of this positive relationship, it can be said that managerial tax avoidance in order to increase the value of the company and the *benefits* obtained outweigh the *costs* and risks.

H1: *Tax Avoidance* has a positive effect on Company Value

The effect of *agency costs on* company value

Agency costs are costs incurred due to conflicts of interest between managers and shareholders. Conflicts of interest between managers and shareholders will cause excessive costs, namely *free cash flow* if *agency costs* in a company Conflicting differences of interest between management and shareholders can cause conflicts. Management often prioritizes vested interests that will benefit the company but lower shareholder profits. Conflicts between interests are what cause excessive costs, to monitor management behavior in making decisions that can harm shareholders. The agency fee is incurred in order for management to act in accordance with shareholder objectives. With the incentives that have been given to management, it is expected to increase the value of the company with good governance. According to research by Adityamurti & Ghozali (2017: 10) states that *Agency Cost* has a significant and positive influence on Company Value because companies that have larger agency costs tend to have higher company value.

H2: *Agency Cost* has a positive effect on Company Value

The Effect of Profitability Mediates Tax *Avoidance*

Tax avoidance is carried out by companies in different ways but has the same goal, namely to get maximum profit by minimizing the tax burden borne which will later affect the value of the company. Then it can be concluded that avoidance is able to increase the value of the company. The greater the tax avoidance, the greater the value of the company.

The company generates profits in accordance with the company's operations, the higher the profit obtained by a company, the company will have a good performance in managing its company assets. Companies with high profitability have the opportunity to position themselves in tax *planning* which is used to reduce the number of tax obligations. With a high profitability value, the company will do better tax planning so as to produce optimal taxes. Profitability affects *Tax Avoidance* because companies that have large profits will have an impact on the amount of tax to be paid, so companies will look for loopholes to minimize their taxes in order to get maximum profit. This is in line with the results of previous research conducted by Margaret &; Simanjuntak (2020), Ichsani (2019), Prabowo (2020), Luh & Puspita

(2017), Jasmine et al., (2017), and Harahap (2021) which stated that Profitability affects *Tax Avoidance*. So that companies with high profitability will tend to make tax avoidance efforts.
H3: Profitability as a mediator has a positive effect on *Tax Avoidance*

The Effect of Profitability Mediates *Agency Costs*

Profitability with *agency costs* are related to each other because, when the company is good, stakeholders consisting of *creditors,* suppliers, and investors will see the extent to which the company can generate profits from the sale and investment of the company. With the company's good performance, it will also increase the value of the company. Companies that have high profitability and manage to book profits that continue to increase will show that the company is performing well, so that it will create a positive response to shareholders and make the company's stock price increase. Profitability provides an overview of how effectively the company operates so that it provides benefits for the company, without profits it is very difficult to attract investors Rahayu and Sari (2018) Investors will certainly see how much profit is generated by a company so that they can see profits when investing in the company. High profitability also indicates good company prospects, so it will create positive sentiment for shareholders and the value of the company will also increase.
H4: Profitability as a mediator has a positive effect on Agency Cost

The Effect of Profitability Mediates Company Value

Profitability is a ratio to determine the ability of a company to make profits during the current period (Mayogi, 2020). A large level of profitability is able to indicate a positive signal to investors to make investments. The cause of this is a rising stock price and is able to guarantee profits to investors with a stable level of *profit*. According to research conducted by Hidayat & Triyonowati (2019) that profitability is directly proportional to the value of the company, which means that if profitability is high, investors will assume if the company is in good condition and able to make a profit. Rudangga (2016) explained that increasing profitability can increase company value. Mufidah & Purnamasari (2018) stated that high profitability value is able to attract investors. Novari & Lestari (2016) said that the more the company is able to streamline its asset management, the company will be able to score high profits and increase company value.

Putri Ayu Dea (2017) in her research revealed that profitability is an important indicator in assessing a company to see the extent of a company's performance. So the higher the value, the higher the value of the company. Indriyani (2017) revealed that high profitability shows that the company has abundant internal funds. Sutama & Lisa (2018) revealed that the higher the level of shareholder prosperity indicates a high level of profitability and company value.
H5: Profitability as a mediator has a positive effect on Company Value.

4. Conclusion

This research is about the effect of Tax Avoidance (*Tax Avoidance)* and *Agency Cost* against Company Value with Profitability as a mediating variable. Sample data of 300 annual reports *(annual report)* from 60 companies over five years. The research was conducted on manufacturing companies listed on the Indonesia Stock Exchange for the 2017-2021 period. Based on the results of the tests and discussions described in the previous chapter, it can be concluded that Tax Avoidance has a significant and positive effect on Company Value. The smaller the burden carried by the company, the greater the profit obtained by the company, the higher the value of the company. This indicates that tax evasion is suspected (*tax avoidance*) influence on the value of the company. *Agency Cost* significant and positive effect on Company Value Conflicts of interest between managers and shareholders will incur excessive costs, namely: *free cash flow* if *agency cost* in a high company, the value of the company will decrease. Profitability as a mediator has a significant and positive effect on *Tax Avoidance*. With a high profitability value, the company will carry out good tax planning so as to produce optimal taxes. Profitability affects *Tax Avoidance* Because companies that have large profits will have an impact on the amount of tax that must be paid, so companies will look for loopholes to minimize their taxes in order to get maximum profit. Profitability as a mediator has a significant and positive effect on *Agency Cost*. A highly profitable and profitable company consistently shows that the company is performing well and therefore gets a good response from shareholders and makes the company's stock price increase. Profitability as a mediator has a significant and positive effect on the Value of the Company. Profitability is an important indicator in assessing a company to see the extent of a company's performance. So the higher the value, the higher the value of the company.

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