International Journal of Economics, Management, Business and Social Science (IJEMBIS)
Peer-Reviewed – International Journal
Volume 4, Issue 2, May 2024
E-ISSN: 2774-5376
https://cvodis.com/ijembis/index.php/ijembis

Exploring The Dynamics Of Tax Avoidance On Firm Value: Insights From Recent Research Trends And Cluster Analysis

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Citation: Oktavia, W.D., Indarwati, T.A., & Kautsar, A. (2024). Exploring The Dynamics Of Tax Avoidance On Firm Value: Insights From Recent Research Trends And Cluster Analysis. INTERNATIONAL JOURNAL OF ECONOMICS, MANAGEMENT, BUSINESS AND SOCIAL SCIENCE (IJEMBIS), 4(2), 830–840. https://cvodis.com/ijembis/index.php/ijembis/article/view/417

Received: April 24, 2024
Accepted: May 15, 2024
Published: May 31, 2024

Abstract.
This study examines the relationship between tax avoidance and firm value, a topic that has gained importance in recent years. The study highlights tax avoidance strategies that involve various methods such as tax deferral, tax arbitrage, and income manipulation to reduce tax liabilities. The findings indicate that effective tax avoidance practices can enhance corporate value; however, this relationship is influenced by factors such as corporate governance structure, ethical considerations, and the regulatory environment. The study employs VOS Viewer to analyze data from 71 relevant articles identified from the Scopus-ScienceDirect database across six major fields, including Business, Management, and Accounting, as well as Social Sciences. Cluster analysis reveals three primary focuses: tax avoidance, firm value, and tax planning. The first cluster indicates that tax avoidance can influence investor perception and valuation, while the second cluster examines how effective tax planning can improve a company's financial performance. The third cluster explores the relationship between tax avoidance and firm value, emphasizing the importance of in-depth analysis to understand the interaction between tax strategies, governance mechanisms, and investor perceptions. The research findings show that the topics of tax avoidance and firm value evolved from 2019 to 2021, with the main concentration on the topics of firm, firm value, and tax avoidance, as well as several smaller but significant topics.

Keywords: *Tax Avoidance, Firm Value, Corporate Governance, Tax Planning, Investor Perception.*

1. Introduction

A recent study by the Tax Justice Network (TJN) reveals that tax avoidance practices by multinational corporations cost countries worldwide up to USD 422 billion annually, equivalent to IDR 6,046 trillion (Tax Justice Network, 2020). Indonesia alone suffers losses amounting to USD 4.86 billion per year, which is equivalent to IDR 68.7 trillion (based on an exchange rate of IDR 14,149 per US dollar) due to these tax avoidance practices (Tax Justice Network, 2020).

These practices involve various techniques, such as shifting profits to low-tax jurisdictions, utilizing tax credits and deductions, and exploiting loopholes in tax legislation (Zucman, 2015). One of the primary motivations for corporate tax avoidance is to enhance financial performance by reducing the tax burden. This allows companies to have more funds available for reinvestment or distribution to shareholders (Duhoon & Singh, 2023).

Tax avoidance is the strategic management of financial activities aimed at reducing tax liabilities within the legal framework (Park et al., 2015). This includes all transactions that result in a decrease in tax obligations. Tax avoidance strategies often involve various methods such as deferring or restructuring taxes, engaging in tax arbitrage across different tax regimes, and manipulating income to minimize tax burdens (Marwat et al., 2021). The ultimate goal of tax avoidance is to optimize the company's tax position while complying with tax laws and regulations.

Moreover, tax avoidance is closely related to corporate value, as evidenced by research exploring the impact of tax planning strategies on corporate performance and valuation (Khuong et al., 2020). Effective tax avoidance practices have the potential to enhance corporate value, particularly when aligned with the interests of controlling shareholders in value creation. However, the relationship between tax avoidance and corporate value is highly complex and varied, influenced by factors such as corporate governance structure, ethical considerations, and the broader regulatory environment.

The relationship between tax avoidance strategies and corporate value has become a focal point in academic literature, with studies highlighting the intricate interactions between tax planning, corporate governance, and financial performance (Desai & Dharmapala, 2009). Corporate value, a fundamental concept in finance and accounting, represents the perceived worth of a company in the eyes of investors, stakeholders, and the market. It is influenced by various factors, including financial performance, growth prospects, risk profile, and strategic positioning within the industry (Jacob & Schütt, 2019). Understanding the dynamics of tax avoidance and its impact on corporate value is crucial for stakeholders, policymakers, and researchers to comprehend the value-enhancing or value-destroying effects of tax planning strategies.

Corporate value is a comprehensive measure reflecting the overall worth of a company. It encompasses the total value of equity, debt, and other financial instruments, providing a holistic view of the company's financial standing and market position (Jacob & Schütt, 2019). Corporate value is influenced by various factors, including profitability, growth potential, operational efficiency, market conditions, and strategic decisions made by management. Investors and analysts frequently use corporate value as a key metric to assess the attractiveness of investment opportunities, evaluate company performance, and make informed decisions regarding capital allocation (Jacob & Schütt, 2019). Essentially, corporate value represents the present value of all future cash flows generated by the business and serves as a crucial indicator of the company's intrinsic value in the market.

The relationship between tax avoidance and corporate value is complex and influenced by factors such as managerial behavior, corporate governance mechanisms, and the transparency of accounting information. Well-governed companies tend to experience a positive relationship between tax avoidance and corporate value, unlike poorly governed companies (Chen et al., 2014). Additionally, the level of tax risk associated with tax avoidance practices can affect investor valuation of a company, highlighting the nuanced interaction between tax planning strategies and corporate value (Drake et al., 2017). To fully understand the implications of tax avoidance on corporate value, a holistic approach that considers governance structure, profitability, growth performance, and investor perception is essential.

Understanding the linkage between tax avoidance and corporate value is crucial in the context of corporate finance. Research provides insights into how tax avoidance strategies can affect corporate value, with varying implications depending on specific factors such as corporate governance structure, financial performance, and investor perception (Desai & Dharmapala, 2009). This study enhances the understanding of how tax avoidance practices can influence investor valuations of corporate value (Habib et al., 2024; Minh Ha et al., 2021).

A more comprehensive view of how tax avoidance practices can impact corporate performance and investment decisions. By considering various aspects such as corporate sustainability, reputation, and risk management, this study aids in formulating tax strategies that account not only for short-term benefits but also for their long-term impact on corporate value (Rudyanto & Pirzada, 2020). Previous research has primarily focused on the effect of tax avoidance on financial performance alone. Therefore, this article maps the main research topics related to the relationship between tax avoidance and firm value within a broad scope and suggests topics for future research.

2. Research Methods

To achieve the objectives of this research, we implemented the VOSViewer software to integrate downloaded data in the research information system format (Xie et al., 2020; Van Eck & Waltman, 2010), and subsequently uploaded it to Mendeley (Suryantini et al., 2021). Our initial step was to search for the keywords "tax avoidance" and "firm value." Considering the increasing attention to the issue of tax avoidance across various fields, we utilized the Scopus-ScienceDirect database in six main categories: (1) Business, Management, and Accounting; (2) Social Sciences; (3) Economics, Econometrics, and Finance; (4) Energy and Engineering; and (5) Arts and Humanities. This search, conducted in March 2024, yielded 71 articles. All these articles underwent a rigorous peer-review process before publication. In Stage 2, we identified and analyzed these articles, resulting in 1,523 terms with a minimum occurrence frequency of 10 times. During this stage, we selected and eliminated articles that did not meet the criteria, such as literature reviews, papers, countries, and irrelevant articles, including those related to China. In Stage 3, we performed bibliographic coupling, which resulted in 12 items within three clusters. In this stage, we again utilized the VOSViewer software to analyze the data in the research information system format.

Figure 1 depicts the research protocol, detailing the process from initial data collection to the identification of key articles, which were then analyzed to meet the research objectives.

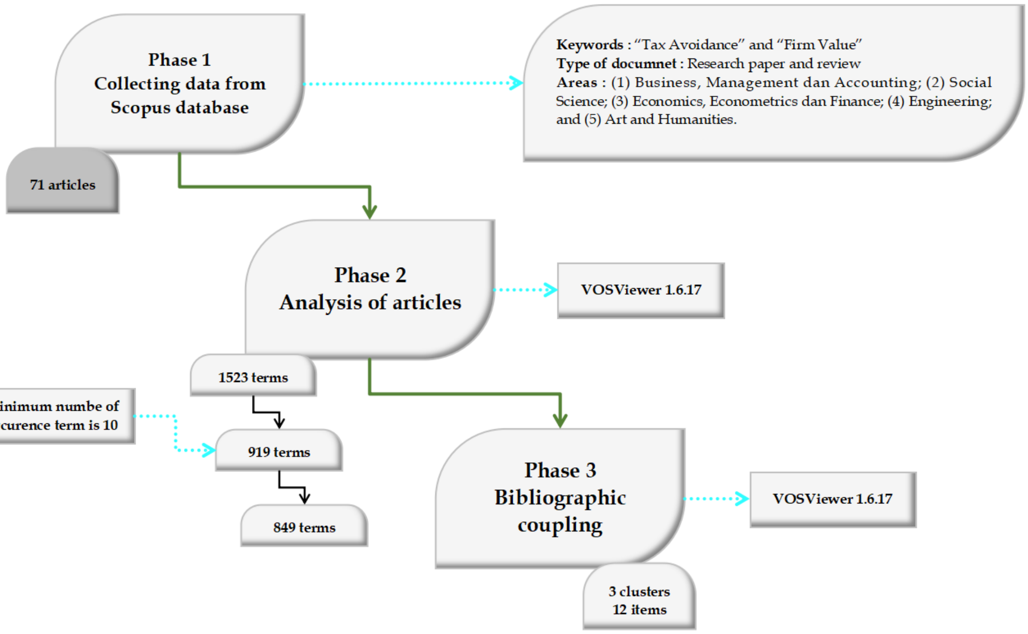

Figure 1. Research protocols of the systematic literature review

3. Results and Discussion

3.1. Results

3.1.1. Descriptive Analysis

Considering the research trends related to tax avoidance and firm value, we integrated multiple data sources to enhance the analysis and achieve the research objectives. Figure 2 provides information showing that the topics of tax avoidance and firm value first appeared in publications in 2009, with a steady increase over the years. There was a significant surge in publications in 2020, with a fourfold increase compared to 2014, followed by a decline despite a brief spike in 2023.

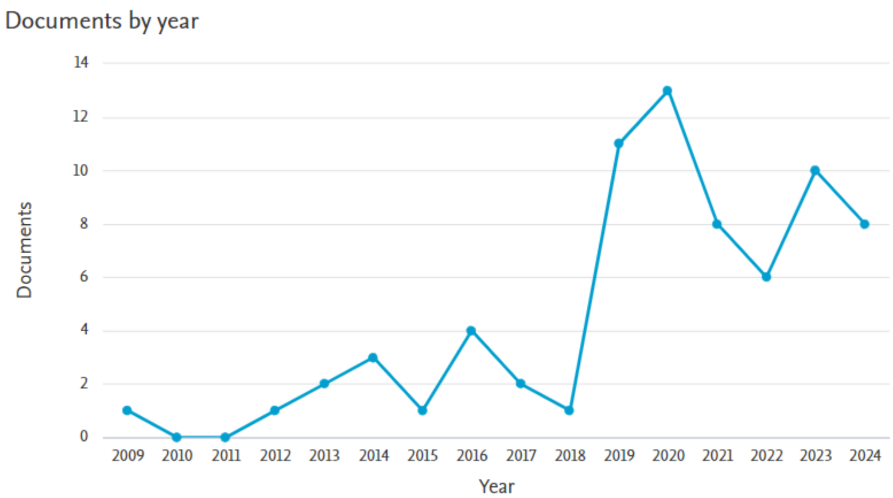

Figure 2. Annual growth in the number of publications

A total of 71 selected articles (Figure 3) were published in various journals, including the Journal of The American Taxation Association (5 articles, 2013-2023); Korean Accounting Review (3 articles, 2019-2022); Cogent Business and Management (3 articles, 2020-2023); Sustainability Switzerland (3 articles, 2019-2021); Advances in Taxation (3 articles, 2014-2024). This indicates that the topic is currently trending.

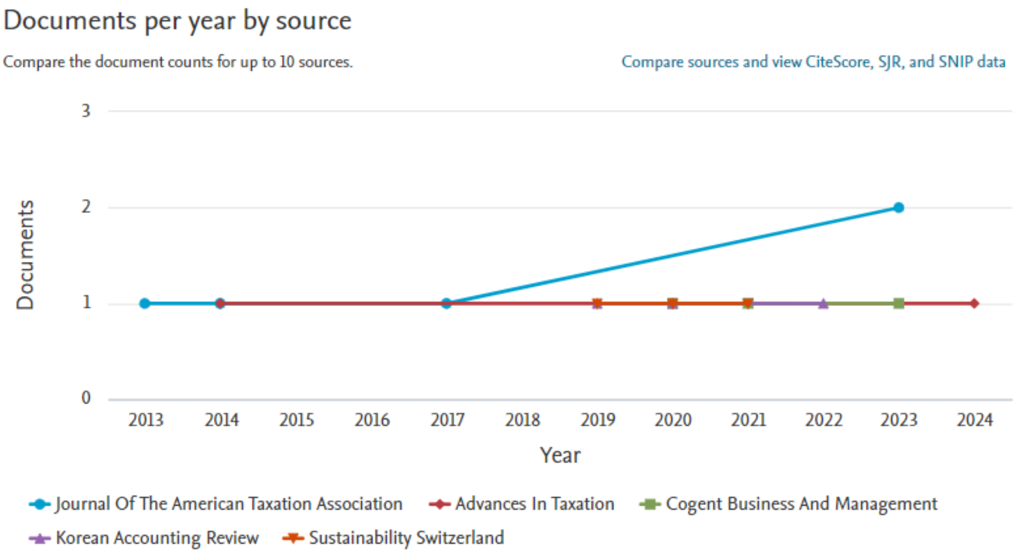

Figure 3. Journal venue for a related topic

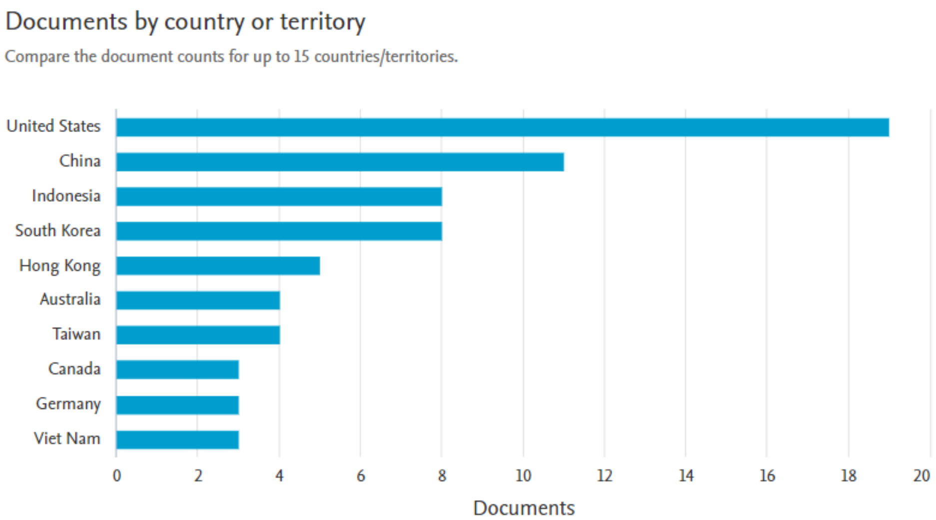

Figure 4. Negara publikasi jurnal untuk topik terkait

Figure 4 illustrates the countries where articles on the topics of tax avoidance and firm value were published. The United States and China are the leading countries in terms of the number of published articles on these topics. This indicates that these two countries have larger economies and more complex tax systems compared to other nations. Consequently, a significant number of articles on tax avoidance and firm value are published in the United States and China. Additionally, Indonesia and South Korea have the same number of journals, reflecting their similar tax structures. Hong Kong, Australia, and Taiwan each have 4-6 publications, while Canada, Germany, and Vietnam each have 3 published articles.

3.1.2. Bibliographic Analysis

To identify research themes concerning tax avoidance and firm value, we utilized the VOSViewer 1.6.17 software to combine the bibliographies of these documents. Each article was analyzed by connecting at least three articles per cluster. The detailed cluster network is presented in Figure 5.

The network visualization findings demonstrate the presence of three primary clusters associated with the research topic. The pertinent components within each cluster are elucidated as follows.

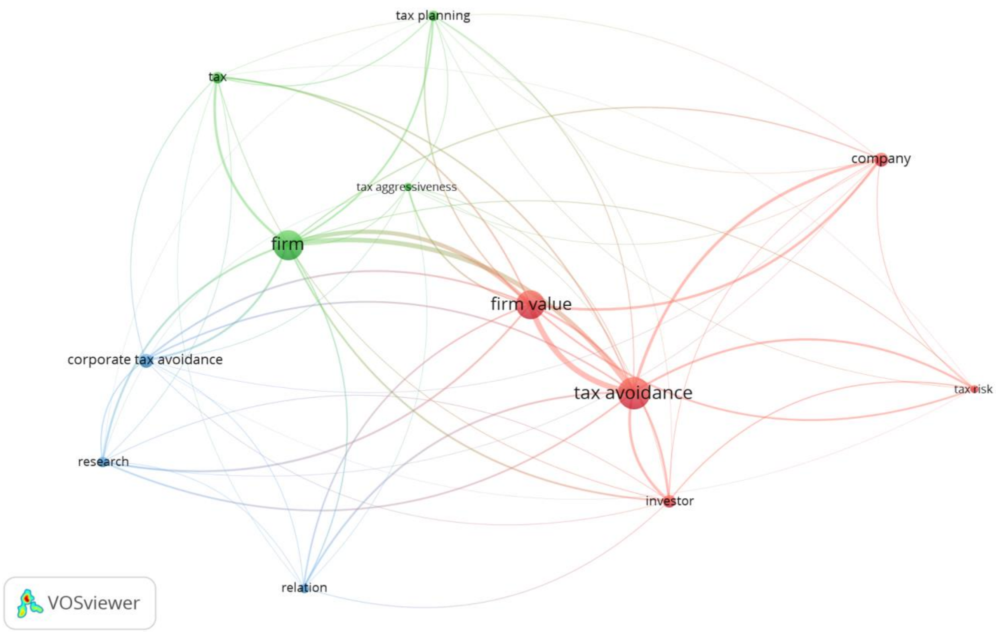

Figure 5. Network visualization of tax avoidance and firm value

3.1.2.1. Cluster 1 Investor Behavior in Tax Avoidance Contexts

Tax avoidance is a strategic approach adopted by companies to minimize their tax liabilities within legal boundaries, aiming to enhance corporate value by increasing post-tax profits. The correlation between tax avoidance and firm value has been extensively studied within the domains of corporate finance and accounting. Studies have shown that tax avoidance practices can influence investor perception and valuation of a company (Drake et al., 2017). Investors typically assess the degree of tax risk linked to tax avoidance strategies when appraising corporate valuation, as such risks can influence the long-term viability and efficacy of these tax planning efforts (Guedrib & Marouani, 2023). Additionally, the presence of tax risk can affect how investors perceive the benefits of tax avoidance, leading to variations in company valuations (Guedrib & Marouani, 2023).

Corporate governance significantly influences the effect of tax avoidance on corporate value. Enhanced tax disclosure and transparent governance mechanisms can alleviate investor concerns regarding agency risks associated with tax avoidance, thereby positively influencing corporate valuation (Habib et al., 2024). Moreover, the interplay between tax avoidance and corporate governance frameworks can enhance or diminish the impact of tax avoidance on corporate value. (Desai & Dharmapala, 2009). Companies with strong governance frameworks are more likely to translate tax avoidance efforts into increased corporate value, highlighting the importance of aligning tax strategies with governance practices to maximize shareholder wealth (Desai & Dharmapala, 2009). In the end, the interaction among tax avoidance, tax risk, corporate governance, and investor perception collectively influences the valuation of companies in the market, highlighting the intricate dynamics that define corporate worth.

3.1.2.2. Cluster 2 Corporate Tax Strategies and Aggressiveness

Tax planning is a crucial component of corporate strategy that can significantly influence corporate value. Research has shown that tax planning practices can positively impact corporate valuation, as they are designed to optimize tax liabilities and enhance financial performance (Jacob & Schütt, 2019). However, the level of tax aggressiveness in tax planning varies among companies, with some employing aggressive tax avoidance strategies while others adopt more conservative approaches (Li et al., 2019). The correlation between tax aggressiveness and corporate value is intricate, with research findings suggesting both positive and negative associations between tax avoidance strategies and corporate valuation (Chen et al., 2014). Understanding the intersection of tax planning, tax aggressiveness, and corporate value is crucial for investors and stakeholders in assessing a company's financial health and long-term sustainability.

Tax aggressiveness in the form of tax avoidance can incentivize managers to manipulate information to present a favorable view of the company's prospects, potentially obscuring underlying risks (Wong et al., 2015). This underscores the importance of transparency and governance in tax planning practices to ensure that tax strategies are aligned with the long-term interests of the company and its stakeholders (Li et al., 2019). Moreover, the interaction between tax avoidance, corporate value, and corporate governance structures can influence how tax planning initiatives are perceived by investors and the market (Desai & Dharmapala, 2009). By examining the influence of tax planning on corporate valuation within the framework of tax aggressiveness, scholars can offer valuable perspectives on the intricacies of corporate decision-making and financial outcomes amidst the contemporary business landscape.

3.1.2.3. Cluster 3 Corporate Tax Avoidance: Relationships and Research Insights

Corporate tax avoidance is frequently employed by firms seeking to optimize their tax obligations and improve financial outcomes. Substantial scholarly investigation has focused on exploring the intricate dynamics that underpin the correlation between corporate tax avoidance and corporate valuation (Drake et al., 2017). Research findings suggest that the extent of corporate tax avoidance can influence firm valuation, with implications that vary based on factors such as corporate governance framework and the intensity of tax planning strategies (Ji & Shan, 2018). A comprehensive understanding of how corporate tax avoidance impacts corporate value requires a thorough analysis of the interaction between tax strategies, governance mechanisms, and investor perceptions (Wang et al., 2019). Researchers strive to provide valuable insights into corporate strategic decision-making processes and broader implications for stakeholders in finance by exploring the intricacies of corporate tax avoidance and its influence on corporate value.

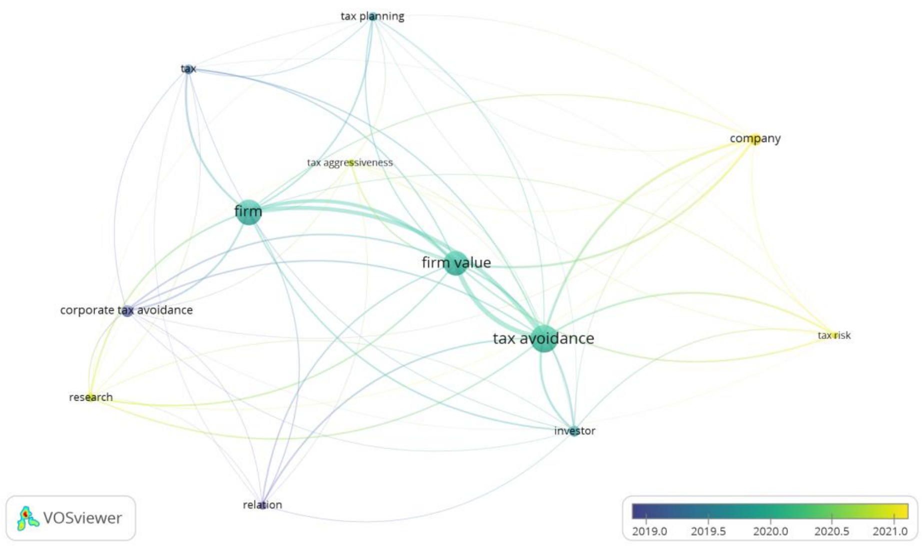

Figure 6. Overlay visualization of tax avoidance and firm value

The research findings indicate that in 2019, tax avoidance and firm value were primarily associated with tax planning strategies, the relationship between tax avoidance and firm value, income smoothing, corporate social responsibility actions, and corporate tax avoidance. In 2020, the most relevant topics included tax avoidance, investors, and firm value. Moving forward to 2021, the most pertinent areas of study were related to company research, task risk, and tax aggressiveness.

The density visualization results (Figure 7) indicate that research on tax avoidance and firm value is concentrated on three main topics: firm, firm value, and tax avoidance. Additionally, it is concentrated on several smaller clusters, including tax planning, tax aggressiveness, tax, company, tax risk, investor, corporate tax avoidance, research, and relation.

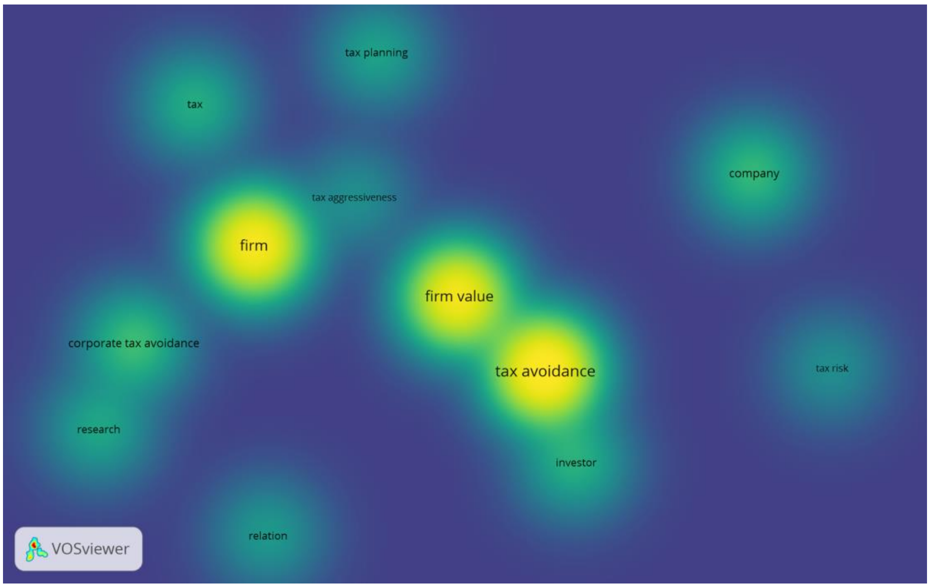

Figure 7. Density visualization of tax avoidance and firm value

3.2. Discussion

Research on tax avoidance and firm value has garnered increasing attention in recent years. This observation underscores the increasing scholarly focus on comprehending the correlation between tax avoidance and corporate valuation. The geographic distribution of publications related to tax avoidance and firm value reveals that the United States and China hold the top positions in terms of the number of published articles, reflecting the size of their economies and the complexity of their tax systems. The significant economies and complex tax regulations in the United States and China make research on tax avoidance and corporate value highly relevant and important. Additionally, Indonesia and South Korea also have a notable number of publications, indicating similar tax structures in both countries. Other countries such as Hong Kong, Australia, Taiwan, Canada, Germany, and Vietnam also contribute to this literature, albeit in smaller numbers. The results of this analysis, shown in Figure 5, provide insights into how the main topics in this research are interconnected. The resulting cluster network aids in understanding the broader research landscape and identifying areas that require further investigation.

Research in Cluster 1 indicates that tax avoidance practices can influence investor perception and valuation of a company. Investors tend to consider the tax risks associated with these strategies when evaluating corporate value, as these risks can impact the sustainability and effectiveness of tax avoidance. Cluster 2 examines how effective tax planning can enhance a company's financial performance and, consequently, its valuation. However, the level of tax aggressiveness varies, with some companies adopting more aggressive approaches while others remain more conservative. Tax aggressiveness can incentivize managers to manipulate information to present better prospects, potentially obscuring risks. Therefore, transparency and good governance in tax planning practices are crucial to ensuring these strategies align with the long-term interests of the company and its stakeholders. Cluster 3 investigates the intricate dynamics influencing the correlation between tax avoidance and corporate valuation. Studies show that the level of tax avoidance affects corporate valuation, depending on governance structure and the aggressiveness of tax strategies. An in-depth analysis is needed to understand the interaction between tax strategies, governance mechanisms, and investor perceptions, providing insights into corporate strategic decision-making and its impact on stakeholders.

The findings of this study illustrate the dynamics and development of themes concerning tax avoidance and firm value between 2019 and 2021. The density map depicted in Figure 7 indicates that research focus on tax avoidance and firm value is predominantly centered around three primary themes: firm, firm value, and tax avoidance. Moreover, there are several smaller yet noteworthy clusters of topics.

4. Conclusion

Research on tax avoidance and firm value has become an increasingly popular topic in recent years, reflecting the growing academic interest in understanding the relationship between these two concepts. Publications on this topic are dominated by the United States and China, which reflects the size of their economies and the complexity of their tax systems. Additionally, Indonesia and South Korea also make significant contributions, while countries such as Hong Kong, Australia, Taiwan, Canada, Germany, and Vietnam contribute as well, albeit in smaller but still important numbers.

Cluster analysis in this study reveals three primary focuses: tax avoidance, firm value, and tax planning. The first cluster indicates that tax avoidance can influence investor perception and valuation, with investors considering tax risks when evaluating corporate value. The second cluster examines how effective tax planning can enhance a company's financial performance, despite varying levels of tax aggressiveness. Transparency and good governance in tax planning practices are crucial to ensuring these strategies align with the long-term interests of the company.

The third cluster investigates the correlation between tax avoidance and firm value, underscoring the necessity for comprehensive analysis to comprehend the interplay among tax strategies, governance frameworks, and investor sentiments. Research outcomes demonstrate that the subjects of tax avoidance and firm value progressed between 2019 and 2021, as evidenced by density visualization highlighting concentration on three primary themes: firm, firm value, and tax avoidance, alongside several smaller yet consequential topic clusters.

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