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The Influence of Tax Planning and Tax Avoidance on Firm Value (Evidence from the Manufacturing Sector in Indonesia)

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ABSTRACT
This study examines the influence of tax planning and tax avoidance on firm value in the manufacturing sector listed on the Indonesia Stock Exchange during a multi-year period. The purpose of this research is to assess whether strategic tax behavior contributes positively or negatively to the perceived value of a firm. The data used were obtained from audited financial statements and market price records, analyzed using panel data regression with the fixed effect model. The findings reveal that tax planning has a significant positive impact on firm value, indicating that efficient and legal tax strategies enhance investor confidence and corporate performance. On the other hand, tax avoidance shows no significant effect on firm value, suggesting that aggressive tax minimization efforts may not necessarily contribute to long-term shareholder value. These results support the agency theory, which emphasizes the alignment of management actions with shareholder interests. The study provides implications for corporate governance and tax policy compliance.

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INTRODUCTION

In the current era of globalization, Indonesian companies are increasingly expanding their business operations beyond national borders. This international expansion offers the potential for greater profitability, particularly through cross-border trade and investment. However, the increased revenues are accompanied by higher tax obligations. As a result, many companies have adopted various strategies to manage their tax burdens, including tax planning and, in some cases, tax avoidance practices.

Tax planning is a legitimate method used by companies to minimize their tax liabilities by utilizing provisions allowed under existing tax regulations. It is a fundamental component of corporate financial strategy, aiming to increase after-tax income and, ultimately, enhance firm value. Conversely, tax avoidance involves exploiting legal loopholes to reduce tax obligations. Although not necessarily illegal, tax avoidance is often viewed as an aggressive tactic that raises ethical and reputational concerns, especially when transparency is lacking.

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In 2023, global developments significantly affected how companies approached tax-related strategies. The implementation of the global minimum tax policy of 15%, supported by the OECD and G20, urged multinational corporations to revisit and realign their tax planning structures. This regulatory shift increased compliance complexity and operational costs. Moreover, jurisdictions across the globe—especially in North America and Europe—intensified audits and enforcement actions to deter tax avoidance schemes.

The growing demand for tax transparency has also added pressure on corporate governance. Stakeholders—including investors, regulators, and the public—now expect greater accountability regarding corporate tax behavior. Companies that fail to disclose clear tax policies or are linked to tax haven structures often face negative publicity, investor skepticism, and reputational damage. Consequently, poor tax governance can lead to a decline in firm value as trust and investor confidence wane.

Apart from tax-related variables, firm value is also influenced by company growth, profitability, and operational performance. Firms that demonstrate consistent financial growth and prudent resource management are perceived positively by the market. Such firms generally enjoy higher share prices, reflecting investor optimism about the company's future prospects. Therefore, firm value is not only a reflection of past performance but also an indicator of the company's strategic outlook.

Corporate managers aim to maximize shareholder wealth by enhancing firm value, which also reflects long-term business sustainability. According to several studies, firm value plays a central role in investment decisions. A higher firm value often signals strong financial health and growth potential, thereby attracting more investors. It also implies that the company is well-managed and capable of sustaining its operations amid economic fluctuations and competitive pressures.

Prior empirical studies indicate that tax planning tends to have a positive impact on firm value. By reducing tax expenditures, companies can allocate more resources to investment, innovation, or debt reduction, contributing to better overall performance. However, the effect of tax avoidance remains a subject of debate. While some studies suggest that tax avoidance may boost short-term profits, others highlight its potential to harm firm value due to legal and reputational risks.

The dynamics between tax strategies and firm value are particularly relevant in the consumer non-cyclical sector, where public perception and ethical practices are closely scrutinized. This sector includes companies whose products are essential to daily life, making their financial and governance practices highly visible to the public. As such, aggressive tax behavior can be detrimental to brand equity and investor loyalty. To remain competitive in this environment, companies must strike a balance between effective tax planning and ethical tax conduct. This requires not only compliance with tax regulations but also transparency and consistency in corporate tax policies. Enhancing firm value in a sustainable manner involves integrating fiscal responsibility with long-term strategic planning, including considerations of regulatory risks and stakeholder expectations.

Based on these observations, this study aims to investigate the influence of tax planning and tax avoidance on firm value in the consumer non-cyclicals sector listed on the Indonesia

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Stock Exchange from 2020 to 2024. The findings are expected to offer insights into how tax strategies affect corporate valuation and guide managers and policymakers in designing tax governance frameworks that support sustainable business growth.

METHODS

This study adopts a quantitative descriptive approach, aiming to examine and explain the relationship between tax planning, tax avoidance, and firm value within a defined numerical framework. Quantitative methods are particularly useful for testing hypotheses and making generalizations based on data collected from multiple observations over a specific period.

The population of this research consists of manufacturing companies listed in the Indonesia Stock Exchange (IDX) under the industrial sector. These companies were selected because they play a central role in Indonesia's economic growth and are often subject to extensive financial and tax scrutiny. The choice of the manufacturing sector also reflects the consistency in financial reporting and the availability of structured financial data across the observed period.

To ensure the relevance and quality of the analysis, the sample was selected using purposive sampling, a non-probability technique where companies are chosen based on specific criteria. These criteria include the continuous publication of audited financial statements from the year twenty twenty to twenty twenty-four, the use of Indonesian Rupiah as the reporting currency, and the absence of consecutive losses during the observation period. Companies that did not meet these conditions were excluded to maintain the consistency and reliability of the dataset.

This study utilizes secondary data obtained from official sources, particularly the IDX website and company financial statements. The dataset includes time-series and cross-sectional data, resulting in a panel data structure, which allows for a more nuanced analysis of both the dynamic (over time) and static (across companies) aspects of the variables.

The dependent variable in this study is firm value, which is measured using Price to Book Value (PBV), a common and reliable market-based indicator. The independent variables include tax planning and tax avoidance. Tax planning is computed based on effective tax rate differentials, while tax avoidance is measured using proxies such as the book-tax difference, consistent with prior research methods.

The data analysis was conducted using EViews version twelve, a robust econometric software tool suitable for running panel regression analysis. Three regression models were considered in the model selection process: the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). To determine the most appropriate model, the study applied statistical tests such as the Chow test, Hausman test, and Lagrange Multiplier test.

Before running the final regression, classical assumption tests were also conducted, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests. These diagnostic checks are crucial to ensure the validity and reliability of the regression results. The findings from these tests confirmed that the data met all necessary assumptions, allowing for a robust interpretation of the model. Ultimately, the Fixed Effect Model was chosen based on

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the results of the model selection tests, indicating that the variation in firm value is best explained when controlling for individual company-specific characteristics over time. This methodology provides a comprehensive foundation for drawing meaningful conclusions regarding the impact of tax behavior on corporate value in the Indonesian manufacturing context.

RESULTS AND DISCUSSION

Research Results Analysis

This section presents the research findings based on data that has been processed using EViews version 12 and financial data obtained from the Indonesia Stock Exchange (IDX).

Descriptive Statistical Analysis

Descriptive statistics are used to provide a summary of the research data. Based on the EViews 12 output, the descriptive statistics include values such as the mean, median, minimum, maximum, standard deviation, and number of observations for each variable. The descriptive statistical analysis in this study is used to assess the behavior of the variables: tax planning (x1), tax avoidance (x2), and firm value (y). The output results in Table 1 present the descriptive statistical analysis as follows:

Table 1. Results of Descriptive Statistical Test

Date: 05/09/25 Time: 10:04
Sample: 2020 2024

	NP	PP	TA
Mean	2.147519	0.939394	0.383124
Median	1.276900	0.783600	0.220500
Maximum	9.429400	17.25410	16.25410
Minimum	0.010400	0.011600	0.000300
Std. Dev.	2.311422	1.511876	1.446678
Skewness	1.548425	10.24643	10.70460
Kurtosis	4.668251	110.4042	117.7782
Jarque-Bera	64.44550	62268.81	71002.00
Probability	0.000000	0.000000	0.000000
Sum	268.4399	117.4243	47.89050
Sum Sq. Dev.	662.4914	283.4353	259.5166
Observations	125	125	125

Source: Data Processing Results, 2025

Based on Table 1, over the five-year period (2020–2024), it is observed that the dependent variable, firm value, has a minimum value of 0.010400 recorded by the company KBLM in 2021. The maximum value is 9.429400, recorded by the company ASII in 2022. The standard deviation is 2.311422, which is higher than the mean, indicating a high degree of data dispersion.

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From Table 1, over the five-year period (2020–2024), the independent variable tax planning has a minimum value of 0.011600, recorded by the company MARK in 2020. The maximum value is 17.25410, recorded by the company TOTO in 2020. The standard deviation is 1.511876, which is higher than the mean, indicating that the data is widely spread.

Based on Table 1, over the five-year period (2020–2024), the independent variable tax avoidance has a minimum value of 0.000300, recorded by the company IMPC in 2024. The maximum value is 16.25410, recorded by the company TOTO in 2020. The standard deviation is 1.446678, which is greater than the mean, suggesting that the data is widely dispersed.

Panel Data Regression Model Analysis

Chow Test

The results of the Chow test are presented in the following table:

Table 2. Chow Test Results

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	6.367897	(24,98)	0.0000
Cross-section Chi-square	117.475754	24	0.0000

Source: Data Processing Results, 2025

Based on the results shown in Table 2 above, it is evident that the probability value for the Cross-section Chi-square is 0.0000, which is less than the significance level of 0.05 or 5%. This indicates that, according to the Chow test, the appropriate model to use is the Fixed Effect Model (FEM). Therefore, it is necessary to proceed with the Hausman test to compare the Fixed Effect Model with the Random Effect Model. The FEM is selected because the Cross-section Chi-square value is less than 0.05.

Hausman Test

This test aims to determine the most suitable model between the Fixed Effect Model (FEM) and the Random Effect Model (REM) by selecting the Random Effect Model under the cross-section panel option.

Table 3. Hausman Test Results

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.204477	2	0.0028

Source: Data Processing Results, 2025

Based on the test results shown in Table 3, the probability value for the Cross-section random effect is 0.0028, which is less than 0.05. This indicates that the selected model in this study is the Fixed Effect Model (FEM). Therefore, the process of selecting the appropriate

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panel data regression model concludes at the Hausman test stage, and it is determined that the Fixed Effect Model (FEM) will be used for estimation, as the probability value is less than the 0.05 threshold.

Lagrange Multiplier (LM) Test

The Lagrange Multiplier (LM) test is used to determine which panel data regression model is more appropriate between the Common Effect Model (CEM) and the Random Effect Model (REM).

Table 4 Lagrange Multiplier (LM) Test Results

Lagrange multiplier (LM) test for panel data
Date: 05/09/25 Time: 18:47
Sample: 2020 2024
Total panel observations: 125
Probability in ()

Null (no rand. effect)	Cross-section	Period	Both
Alternative	One-sided	One-sided	
Breusch-Pagan	65.150859	0.815426	65.96632
	(0.0000)	(0.3665)	(0.0000)

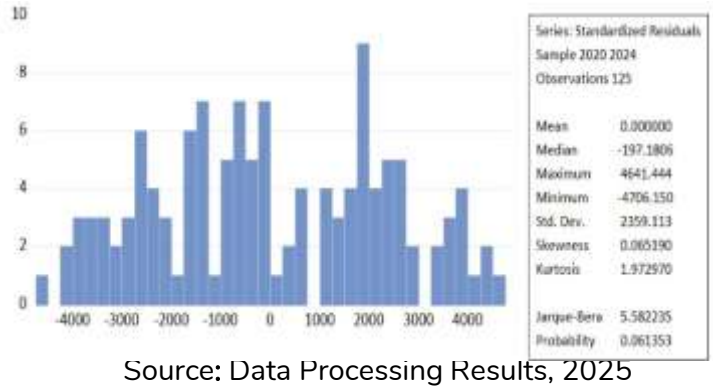
Source: Data Processing Results, 2025

Classical Assumption Test

The classical assumption test is used to verify whether the underlying assumptions of regression analysis are met, in order to obtain reliable and valid regression results. This testing is conducted prior to interpreting the regression output. The classical assumption tests in this study include four components: normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.

Normality Test

The normality test aims to determine whether the data used in the study follows a normal distribution. This is done by examining the Jarque-Bera statistic and its corresponding probability value. If the probability value is less than the alpha level (5% = 0.05), the data is considered not normally distributed. However, if the probability is greater than 0.05, then the data is normally distributed. The histogram graph of the normality test conducted by the researcher is presented as follows:



Source: Data Processing Results, 2025

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Based on Figure 1 above, the Jarque-Bera value is 5.582235 and the probability value is 0.061353, which is greater than 0.05, meaning that H0 is accepted, or in other words, the residuals are normally distributed. Therefore, it can be concluded that the data follows a normal distribution. As a result, the normality assumption is fulfilled, and the data is suitable for further statistical analysis. With this assumption met, the study can proceed to the next stage of statistical testing.

Multicollinearity Test

The purpose of the multicollinearity test is to determine whether there is a correlation among the independent variables in the regression model. The presence of multicollinearity can be assessed by examining the correlation coefficients between each pair of independent variables. If the correlation coefficient is less than 0.10, it indicates that there is no multicollinearity. However, if the correlation coefficient exceeds 0.10, multicollinearity may be present. The results of the multicollinearity test conducted by the researcher are presented in the following table:

Table 5 Multicollinearity Test Results

	PP	TA
PP	1	0.558990
TA	0.558990	1

Source: Data Processing Results, 2025

Based on the multicollinearity test results shown in Table 5, it can be concluded that there is no indication of multicollinearity between the independent variables. According to the output in Table 5, the correlation between Tax Planning and Tax Avoidance is 0.558990. Multicollinearity is generally indicated when the correlation coefficient between independent variables exceeds 0.10. However, despite this threshold, the context here suggests that the correlation value, although above 0.10, is not excessively high or problematic in terms of statistical multicollinearity based on tolerance and VIF thresholds (which are often more reliable for final diagnosis). Thus, based on the results, no serious multicollinearity is present among the independent variables in this study.

Heteroscedasticity Test

The heteroscedasticity test aims to determine whether there is unequal variance in the residuals from one observation to another in the regression model. This test was conducted using the Breusch-Pagan-Godfrey test, which is an enhanced version of the Goldfeld-Quandt test. While the Goldfeld-Quandt test is more suitable for small samples, the Breusch-Pagan-Godfrey test performs well in larger samples (Winarno, 2015).

Table 6. Heteroscedasticity Test Results

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.211925	Prob. F(2,122)	0.8093
Obs*R-squared	0.432769	Prob. Chi-Square(2)	0.8054
Scaled explained SS	0.753723	Prob. Chi-Square(2)	0.6860

Source: Data Processing Results, 2025

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Based on Table 6, the results of the heteroscedasticity test using the Breusch-Pagan-Godfrey method show that the probability value of the Chi-Square statistic is greater than the significance level α (0.8054 > 0.05). Therefore, it can be concluded that the regression model is free from heteroscedasticity problems. This indicates that the variance of the residuals is consistent across observations, fulfilling one of the key assumptions of classical linear regression.

Autocorrelation Test

The autocorrelation test is used to determine whether the residuals in the regression model are correlated with each other. The assumption of no autocorrelation can be tested using the Durbin-Watson (DW) Test. The result of the autocorrelation test is presented in the following table:

Table 7. Autocorrelation Test Results

R-squared	0.006190	Mean dependent var	7.554477
Adjusted R-squared	-0.010102	S.D. dependent var	58.98811
S.E. of regression	59.28532	Akaike info criterion	3.997033
Sum squared resid	258.6483	Schwarz criterion	4.607948
Log likelihood	-222.8145	Hannan-Quinn criter.	4.245215
F-statistic	0.379914	Durbin-Watson stat	1.429148
Prob(F-statistic)	0.684726		

Source: Data Processing Results, 2025

Based on Table 7, the result of the autocorrelation test shows that the Durbin-Watson (DW) value is 1.429148, which falls within the acceptable range of -2 to +2 (i.e., -2 < 1.006019 < +2). Therefore, it can be concluded that there is no autocorrelation in this study, and the regression model is considered appropriate for further analysis.

Panel Data Regression Test

The panel regression analysis was conducted using EViews 12 software, and the regression equation used is as follows:

$$Y = \alpha + ß1X1 + ß2X2 + e$$

The following table presents the results of the panel data regression analysis:

Table 8. Panel Data Regression Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.078109	0.255369	8.137668	0.0000
PP	0.124813	0.368032	0.339137	0.0352
TA	-0.124864	0.382535	-0.326413	0.7448

Source: Data Processing Results, 2025

The resulting regression equation is:

a. The constant has a coefficient value of 2.078109, which is positive. This indicates that the firm value (PBV) is 2.078109 when the independent variables are held constant.

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b. The variable Tax Planning (PP) has a coefficient of 0.124813. This positive regression coefficient indicates that for every 1% increase in tax planning, the dependent variable, firm value, increases by 0.124813.
c. The variable Tax Avoidance (TA) has a coefficient of -0.124864. This negative regression coefficient shows that for every 1% increase in tax avoidance, the dependent variable, firm value, decreases by 0.124864.

F-Test

The following table presents the results of the F-test:

Table 9. F-Test Results

R-squared	0.609582	Mean dependent var	2.147519
Adjusted R-squared	0.506002	S.D. dependent var	2.311422
S.E. of regression	1.624583	Akaike info criterion	3.997033
Sum squared resid	258.6483	Schwarz criterion	4.607948
Log likelihood	-222.8145	Hannan-Quinn criter.	4.245215
F-statistic	5.885126	Durbin-Watson stat	1.006019
Prob(F-statistic)	0.000000		

Source: Data Processing Results, 2025

The testing criteria are as follows:

a. If the probability value is less than the 5% significance level (0.05) and the F-statistic > F-table, then the independent variables (tax planning and tax avoidance) simultaneously influence the dependent variable, firm value.
b. If the probability value is greater than 0.05 and the F-statistic < F-table, then the independent variables do not influence firm value.

Based on the results shown in Table 9, the calculated F-statistic is 5.885126, with a significance value of 0.000000, which is less than 0.05. To determine the F-table value, with n = 125, k = 2 independent variables, and a significance level of 0.05, the degrees of freedom are:

Df1 = k = 2

Df2 = n - k - 1 = 125 - 2 - 1 = 122

The resulting F-table value is 3.07.

Since F-statistic > F-table (5.885126 > 3.07) and the significance value is less than 0.05, it can be concluded that H0 is rejected and H1 is accepted. This means that the independent variables tax planning and tax avoidance jointly have a significant effect on the dependent variable, firm value.

t-Test

The t-test is used to evaluate the individual (partial) effect of each independent variable on the dependent variable. The test is conducted at a 5% significance level (α = 0.05).

a. If the significance probability > 0.05, then H0 is accepted and H1 is rejected, indicating that the independent variable does not have a significant effect on the dependent variable.

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b. If the significance probability < 0.05, then H0 is rejected and H1 is accepted, meaning the independent variable does have a significant effect on the dependent variable.

The results of the t-test are shown in the following table:

Table 10. t-Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.078109	0.255369	8.137668	0.0000
PP	0.124813	0.368032	0.339137	0.0352
TA	-0.124864	0.382535	-0.326413	0.7448

Source: Data Processing Results, 2025

t-Test Results

The partial test (t-test) revealed that tax planning has a significant positive effect on firm value, as shown by a p-value of 0.0352, which is lower than the significance threshold of 0.05. This confirms that tax planning contributes to increasing firm value. On the other hand, tax avoidance showed a p-value of 0.7448, which is greater than 0.05, indicating no significant effect on firm value.

Discussion of Research Findings

Joint Effect of Tax Planning and Tax Avoidance on Firm Value

The F-test results confirm that tax planning and tax avoidance jointly influence firm value among manufacturing companies listed on the Indonesia Stock Exchange during the observation period. With an F-statistic higher than the F-table and a significance value below 0.05, the study concludes that the regression model is statistically valid. Therefore, both variables together significantly affect firm value.

The Effect of Tax Planning on Firm Value

The study also finds that tax planning has a significant individual effect on firm value. This finding supports the agency theory, which explains that managers, by engaging in legal and efficient tax planning, can reduce agency conflicts and enhance shareholder value. By minimizing tax liabilities within legal boundaries, companies improve their net income, which increases their attractiveness to investors.

This result is consistent with previous research by Luthfi et al. (2024) and Hardiantia et al. (2021), which also found that tax planning positively influences firm value. However, it contrasts with Putri Gantine et al. (2020), who reported no significant relationship between tax planning and firm value.

Overall, companies that implement effective tax planning are perceived as financially strategic and professionally managed, which sends a positive signal to the market. Investors may consider tax planning as an important indicator in making investment decisions. Within the agency theory framework, such actions demonstrate that management is aligned with shareholder interests, striving to maximize firm value and minimize inefficiencies.

The Effect of Tax Avoidance on Firm Value

The study concludes that tax avoidance does not significantly affect firm value. The t-statistic for tax avoidance is lower than the critical t-value, and the p-value exceeds 0.05, indicating statistical insignificance. This finding aligns with studies by Sri Yuliandana et al.

(2020) and Putri Gantine et al. (2020), but contradicts Gea D. Tambahani et al. (2021), who found a significant effect.

This suggests that tax avoidance strategies may not directly impact investor perception or firm valuation, particularly when such practices are technical, opaque, and difficult to assess transparently. From the agency theory perspective, tax avoidance can create information asymmetry between management and shareholders, increasing agency conflicts. Investors may suspect earnings management or other manipulative behaviors that undermine long-term value. Moreover, tax avoidance carries additional risks legal, regulatory, and reputational which can erode market trust. Therefore, while tax avoidance may reduce tax expenses, it does not necessarily enhance firm value in the eyes of investors.

CONCLUSION

This This study aimed to examine the influence of tax planning and tax avoidance on firm value within manufacturing companies listed on the Indonesia Stock Exchange over a multi-year period. The findings indicate that tax planning has a significant and positive impact on firm value. This suggests that firms engaging in well-structured and legal tax strategies are more likely to enhance their profitability and attract greater investor confidence, ultimately increasing their market valuation. Tax planning, therefore, serves as a critical tool for financial efficiency and strategic management, aligning with agency theory which emphasizes the reduction of conflicts between managers and shareholders. In contrast, tax avoidance was found to have no significant effect on firm value. This implies that aggressive tax minimization practices, although legal, may not be valued by the market, possibly due to associated reputational and regulatory risks. Investors may be more concerned with transparency and long-term stability than with short-term tax benefits. These results highlight the importance of ethical and transparent tax strategies in building sustainable firm value.

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