# THE EFFECT OF EARNING MANAGEMENT AND TAX AVOIDING ON COMPANY VALUE

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***Abstract***

This study aims to examine and analyze the effect of earnings management on firm value and tax avoidance on earnings management relationships with firm value on agricultural companies listed on the Indonesia Stock Exchange. This approach uses a quantitative approach, consisting of two independent variables namely earnings management, and tax avoidance, and the dependent variable is the value of the company. The object of this research is agricultural companies listed on the Indonesia Stock Exchange (IDX) during the period 2013-2017. The sample used was 14 agricultural companies listed on the IDX. Testing the hypothesis in this study using multiple linear regression Based on the results showed that (1) earnings management affects the value of the company in agricultural companies on the IDX. (2) tax avoidance affects the value of the company in agricultural companies on the IDX.

***Keywords—Earning Management, Tax Avoiding, Company Value***

## Introduction

The company's management performance is reflected in the profits contained in the income statement. According to the Statement of Financial Accounting Concept (SFAC) No 1, earnings information is the main concern to assess the performance or accountability of management. The amount of company profits is the most important information contained in financial statements. Profit is a description of activities or business in advancing the company.

Profits are often engineered targets by management to minimize or maximize profits, in other words, management practices Earning Management. According to Philips, et al (2003) there are two main incentives that encourage companies to conduct earnings management, namely avoiding earnings decline and avoiding losses. The first incentive aims to avoid a decline in profits. It is intended that the profits presented in the financial statements do not fluctuate because they will have an adverse impact, especially for investors. The second incentive is to avoid losses. This is done because companies that suffer losses have the potential to reduce share prices, will lose trust in investors, and encourage the government to conduct tax audits.

In Indonesia, efforts to optimize tax revenue are not without constraints. Along with the improvement of the taxation system carried out by the government, there are differences in interests between the government and the company. Tax in the eyes of the State is a source of revenue to finance government administration, while taxes for companies as taxpayers are expenses that will reduce net income. Companies try to pay taxes as little as possible because paying taxes reduces the economic capacity of the company.

This difference in interests causes taxpayers to tend to reduce tax payments legally or illegally. Legal tax reduction is called tax avoidance, while efforts to reduce tax payments illegally are called tax evasion.

The phenomenon of the company conducting earnings management on its financial statements is Global Financial Integrity (GFI) which records illicit flows resulting from tax avoidance and illegal activities in Indonesia, the nominal sent abroad reaching US $ 6.6 trillion in the period 2003-2012, the flow of illicit from Indonesia has more than tripled or an average increase of 9.4% per year.

The Executive Director of the Association of Initiatives Setyo Budiantoro estimates that Indonesia will lose up to Rp. 240 trillion a year, approximately 4% of gross domestic product annually. Illegal practices commonly used for tax evasion are transfer pricing. With the practice of transfer pricing, the tax rate paid by business entities can drop dramatically because of the income and profits obtained by taxpayers in countries that are production bases, such as Indonesia is very small.

Tax avoidance is also carried out by the largest palm oil company in Indonesia, PT Asian Agri Group (AAG), which conducts tax evasion and evasion through transfer pricing. In 2011 the Financial and Development Supervisory Agency (BPKP) stated that 14 companies belonging to the palm oil company group AAG were taxed for four years. The total value of arrears reached Rp1.29 trillion. The first mode increases the cost of goods sold actually. Second, by selling products to AAG affiliated companies abroad at very low prices. Third, regarding management fees, there is a consultant service activity that is included in the cost even though the work does not exist. Fourth, by charging costs into finance, the calculation of profit and loss is not in accordance with the actual conditions.

The same case was also carried out by the Indonesian Roundatable on Sustainable Palm Oil (RSPO) which carried out tax evasion and tax evasion of Rp. 8 billion in 2016. Tax avoidance is done by paying contributions and trading premium premiums on sustainable palm oil certificates to the RSPO Malaysia. Fixed tax should be paid by the Indonesian RSPO for income from payment of contributions and sustainable palm oil certificate premiums. The other company that conducts tax evasion and tax evasion is PT Wilmar Group which embezzled taxes of Rp. 500 billion in the mode carried out is to establish 72 companies in different regions that have businesses in the oil palm sector.

The research was conducted to continue the previous research, where the results of research on the effect of earning management on firm value, tax avoidance as a mediating variable produced different conclusions. The research conducted by Zuqni, Rita & Edi (2017) entitled the influence of tax planning and tax avoidance on firm value with financial performance as an intervening variable. The results of the analysis show that tax planning does not have a direct effect on firm value, tax avoidance does not directly affect company value, financial performance has a positive effect on firm value, financial performance mediates tax planning on firm value, financial performance mediates tax avoidance against firm value, tax avoidance

Financial performance shows positive influence and tax planning on positive company performance. Research related to tax avoidance on firm value conducted by Setia & Etna (2017) states that executive gender diversity has a significant positive effect on tax avoidance, tax avoidance does not have a significant effect on firm value, executive gender diversity has a significant negative effect on firm value and no influence mediating tax avoidance against the relationship between executive gender diversity and company value.

## Literature Review

Company Value

One of the main objectives of a company is to maximize the value of the company, the value of the company is used as a measure of the success of the company because the increase in the value of the company means the increasing prosperity of the owner of the company or shareholders. Company value can be seen from the value of the shares of the company concerned. (Martono and Harjito, 2010)

According to Suad Husnan and Enny Pudjiastuti (2012) the value of the company is the price that the prospective buyer is willing to pay if the company is sold. The higher the value of the company the greater the prosperity received by the owner of the company.

According to Agus (2012) company value can be defined as follows: the goal of maximizing shareholder prosperity can be achieved by maximizing the present value or the present value of all shareholder profits will increase if the stock price owned increases.

Margareta (2011) argues that the value of a company that has gone public is reflected in the market price of a company's stock while the value of a company that has not gone public is realized when the company is sold (total assets and prospects, business risk, business environment, etc.) . Based on the above definition, it can be said that company value is the investor's perception of the company which is often associated with stock prices, as stated by Saud Husnan and Enny Pudjiastuti (2012).

### Earning Management

Quoting the opinions of Davidson, Stickney, and Weil published in the book by Sri Sulistyanto (2008), states that the definition of earnings management is that Earnings management is the procces of deliberate steps within the context of the generally accepted accounting principles to bring about desired level of reported earnings .

The purpose of the definition, namely earnings management can be defined as a process to take certain intentional steps within the general acceptable accounting principles to produce the desired level of reported profits. Often this process includes beautifying financial statements, especially the lowest number, namely profit. Earnings management can be in the form of cosmetics, if managers manipulate accruals that have no cash flow consequences. Earnings managers can also be seen clearly, if managers choose actions with the consequences of cash flows with the aim of changing profits.

Dwi Martani (2012) defines earnings management as an act that regulates the recognition of income, expenses, profits, or losses in order to achieve certain desired earnings information, without violating the provisions of accounting standards. Usually earnings management is carried out in the form of increasing profits to achieve certain profit targets and also in the form of decreasing profits in this period, in order to increase income in the coming period.

According to Sri Sulistyanto (2008) defining earnings management is the effort of company managers to intervene or influence information information in financial statements with the aim of tricking stakeholders who want to know the performance and conditions of the company.

According to the National Associate of certified Fraud Examiners in the book Sri Sulityanto (2008) earnings management is a deliberate error or negligence in making reports on material facts or accounting data so that it is misleading when all information is used to make judgments that will eventually cause people to read change or change opinions or decisions. From the above understanding it can be concluded that earnings management is the preparation of financial statements that are intentionally carried out by management that are shown to external parties by leveling, raising and lowering earnings reports with the aim of creating company performance to look better than the actual and to obtain some personal benefits

### Tax Avoidance

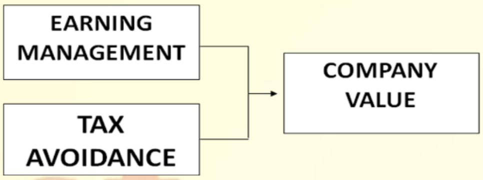
Tax avoidance, also referred to as tax planning, is a process of controlling actions to avoid unwanted tax consequences. Tax avoidance is a truly legal action. Just as a court cannot punish someone because their actions do not violate the law or are not included in the category of violations or crimes, as well as tax that cannot be taxed, if there are no actions / transactions that can be taxed (Mohammad Zain 2003: 49).

Tax planning is the effort of the subject of tax to minimize the tax owed through a scheme that is clearly stipulated in tax laws and regulations and does not cause dispute between the subject of tax and the tax authority. As a citizen who is bound by the rules and laws of a country someone inevitably has to obey existing laws and regulations in order to live well and peacefully.

One that almost certainly exists in every country is the rule regarding the obligation to pay taxes for citizens who are taxpayers. However, most taxpayers are reluctant to pay taxes because the allocation of funds obtained from taxes is misused by some individuals.

This makes taxpayers try to avoid their obligations either by legal or illegal means. One of them is by doing tax avoidance. A tax plan, also known as a successful tax avoidance act, must be clearly distinguished from tax smuggling (Mohammad Zain 2003).

Based on the description of the theory above, the theoretical framework of this research can be described as follows:




**Research Results**

Multiple liner Regression

Multiple regression is used to see whether there is a relationship between the independent variable and the dependent variable using the regression equation Y = a + b1X1 + b2X2 + Ɛ. The value of a = 7.661 with the direction of a positive relationship shows that if all the independent variables are constant or constant (equal to zero), the dependent variable will be worth 7,661. The value of X 1 is 0.327 with a positive relationship indicating that if you experience an increase of 1 time it will cause the Company Value to increase by 0.327 or 32.7% assuming other variables are constant. The value of X 2 is 0.235 with a positive relationship indicating that if X 2 has a 1-time increase the value of the company will increase by 0.235 or by 22.5%, assuming other variables are constant.

**Coeficient**

| Model | | Unstandardized Coefficients | | t | Sig. |
|---|---|---|---|---|---|
| | | B | Std. Error | | |
| 1 | (Constant) | 7.661 | 2.773 | 2.764 | .010 |
| | Eearnings Man | .327 | .134 | 2.397 | .024 |
| | Tax Av | .235 | .091 | 2.473 | .120 |

Hypothesis Testing

**Regression Results**

| **Hypothesis** | **Variable Model** | | | **t** | **sig** | **Results** |
|---|---|---|---|---|---|---|
| H1 | Earnings Management | → | The Value of | 2.764 | 0.024 | Supported |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | the Company | | | |
| H2 | Tax Av | → | The Value of the Company | 1.473 | 0.120 | Supported |

To determine the influence between variables, it is determined that the significance value must be less than 0.05 ($p \leq 0.05$). based on the results of testing the effect of partial Profit Management on the value of the company obtained a significant number of 0.024> 0.05 this means that there is an influence between earnings management on the value of the company. Based on the partial test of Tax Av on company value, the significance value is 0.120> 0.05, which means that there is an influence of Tax Av on the value of companies in agricultural companies listed on the Indonesia Stock Exchange.

## Discussion

Based on the results of the research in the first test, it was explained that earnings management had an effect on the company value of listed companies on the IDX, the results of the study were in line with the theory presented by Subramanyam and Wild (2012) that managers increased profits to increase company value such as mergers to be carried out or securities offers, or plans to sell shares or do other options. Managers also do income smoothing to reduce market perceptions of risk and reduce capital costs. One other related earnings management incentive is to exceed market expectations.

In testing the second hypothesis the results show that tax avoidance has an effect on the value of the company. This hypothesis explains that the management when preparing tax planning by minimizing the income tax burden investors will see

information about whether or not there are earnings management actions carried out by the issuer.

## CONCLUSION

This study concludes that there is an influence between earnings management on firm value on agricultural companies listed on the Indonesia Stock Exchange. Furthermore, this study concludes that there is no influence between tax avoidance on firm value on agricultural companies listed on the Indonesia Stock Exchange

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