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THE EFFECT OF TAX AVOIDANCE ON THE STOCK PRICES OF CHEMICALS AND CHEMICAL PRODUCTS COMPANIES ON THE INDONESIA STOCK EXCHANGE

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ABSTRACT

The progress of a country certainly looks at how big it is in the development process. The funds sought by the government are not only from domestic sources but also from international sources. Only around 60% to 70% of corporations actually pay taxes as reported. Hence, the government's way of saying that tax literacy is important. Some manufacturing companies practice tax avoidance to minimise their tax burden and increase profits according to their goals. The reason is that there are still many taxpayers who continue to carry out tax avoidance strategies. Examining the effect of tax avoidance on stock prices empirically is the purpose of this study. This study uses the SPSS 24 for Windows application to take a sample of 96 companies listed on the Indonesia Stock Exchange in 2019-2023. The companies are involved in the chemical and chemical products industry. This study describes the independent and dependent variables and the relationship between these variables using multiple regression analysis and descriptive statistics. The results showed that tax avoidance has a significant effect on stock value. One of the limitations of this study is that this analysis only covers the years 2019-2023.

Keywords: Tax Avoidance, Stock Price.

INTRODUCTION

The capital market is an organization that facilitates the buying and selling of stocks by providing a place where buyers and sellers can interact. The capital market connects those who need financial resources with individuals who share the same interests and provides the necessary infrastructure. The position of the capital market in Indonesia's development is very important. The Indonesian capital market is also considered a model for capital markets in Southeast Asia due to its technological advancements. Investors choose various investments with the expected levels of return and risk. The capital market is utilized by public companies as an alternative source of financing. It provides a way to observe the financial condition and performance of companies. Before investing, investors typically predict and analyze a company's condition and track record.

According to Situngkir and Lumban Batu (2020), before putting their money into the market, investors will look at which stocks will provide the highest returns. There are several variables that affect stock prices, and investors must be cautious about them. The dynamics of supply and demand in the stock market are the main drivers of price changes and variations in stock certificates, which in turn represent the wealth of the issuing company (Putri, 2015). The general trend is that stock prices rise in response to increasing demand. Conversely, as supply increases, stock prices often fall. Stock prices fluctuate periodically, as stated by Hawa (2021). One measure of a company's management performance is its stock price. Investors seeking financial gain also anticipate rising stock prices, although investors with a longer time horizon are usually unaffected by these fluctuations. The general consensus is that rising stock prices are due to competent resource management by the company, which includes various functions ranging from financial and operational management to strategic planning. Effective resource management enhances investor confidence and generates sustainable added value for shareholders.

Taxes are an essential source of revenue for Indonesia, accounting for 80% of the country's revenue. Taxes play a role in accelerating the nation-building process. Tax avoidance is an action taken by taxpayers with the aim of reducing their tax liabilities, particularly in corporations. Tax avoidance is the best strategy for companies that want to save money. A company's credibility and profitability may suffer if it attempts to avoid paying a fair amount of tax. From a business perspective, taxes are part of the expenses that reduce company income. Therefore, tax avoidance is not explicitly prohibited by law. On the other hand, tax avoidance can harm the country if it leads to unnecessary compulsion, thereby reducing tax revenues (Anisran & Ma'wa, 2023). Among the many reasons contributing to recent fluctuations in stock values is tax avoidance. If tax avoidance is seen as an effort to increase tax efficiency, then the company's value will rise. On the other hand, if a company is found to be violating regulations or not complying with them, its value may fall (Apsari & Setiawan, 2018). Various studies show conflicting findings. Tax avoidance has been shown to affect and contribute to stock values, according to research (Fattah et al., 2023). However, other research suggests that tax avoidance reduces company value (Noviadewi & Mulyani, 2020). Due to these differences in findings from other studies, this research continues to explore this area. From 2019 to 2023, this data will be used to study how tax avoidance affects the stock prices of chemical and chemical goods companies listed on the Indonesia Stock Exchange (IDX).

LITERATURE REVIEW

Agency Theory

Agency Theory explains the dynamics between the owners of a company and its management, as stated by Jensen and Meckling (1976). The authority to run the business and make decisions about its operations lies in the hands of the agent based on the principal, as stated by Afiah et al. (2023). Differences in the interests of agents and principals can certainly lead to problems, especially related to funding and policy aspects in terms of taxation. In this study, the agents are companies, especially those in the manufacturing sector, and the principal is the government. The fact that agents, in their role as operational executors, have access to more confidential company information than the principal further exacerbates this scenario. In most organizations, agency conflicts arise when principals and agents have different levels of authority over internal operations (Puwarningsih & Trianti, 2022).

Tax Avoidance

According to Kim et al. (2011), managers may use tax avoidance strategies to conceal negative information from investors, resulting in a decline in stock prices after the issue subsides. When taxpayers use tax avoidance strategies and techniques, they do so legally and safely without violating any tax regulations. Butje and Tjondro (2014) state that these strategies aim to exploit loopholes or areas of uncertainty in tax regulations. The chosen metric for this study is the Cash Effective Tax Rate (CETR). The formula for CETR is as follows:

$$\text{Cash effective taxes rate} = \text{Total Income Tax Expense} / \text{Profit Before Tax}$$

Tax Avoidance affects stock valuation. This can be seen as the extent to which a company can meet its investors' demand for returns. A decrease in tax avoidance means the company has a stronger ability to pay its taxes, and the reverse is also true. This is supported by previous research conducted by Fattah et al. (2023), which found that tax avoidance does indeed impact stock prices. Based on the provided information, the following theory is proposed:

H1: Tax Avoidance affects the stock prices of Chemicals and Chemical Products companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023.

The proposed hypothesis forms a conceptual framework that illustrates the relationships between the variables arranged. The conceptual framework is presented in Figure 1.

Figure 1. Conceptual Framework
Source: processed by researchers (2024)

RESEARCH METHOD

From 2019 to 2023, all business entities listed on the Indonesia Stock Exchange (IDX) in the chemicals and chemical products sector used quantitative methods and secondary data in this study. The researchers obtained numerical data from the Osiris Database, which documents audited financial accounts from 2019 to 2023, as well as financial transactions and legal information about the companies. A method known as purposive sampling was used by the researchers to collect data. For this study, the researchers relied on the SPSS 24 program. Several criteria indicating the use of purposive sampling in this study are as follows: first, companies that have published financial statements from 2019 to 2023; second, companies listed on the Indonesia Stock Exchange under the LQ-45 index, which have

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recorded positive profits during the same period. Multiple linear regression and descriptive statistics were the tools of choice in this study.

RESULT AND DISCUSSION

Research Result

Descriptive Statistical Analysis

First, a descriptive statistical analysis is conducted to describe all the variables in the study. The companies in the chemicals and chemical products sector that meet the sample criteria are included in this analysis. The following is the descriptive statistical analysis:

Table 1. Descriptive Statistical Analysis

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CETR(X1)	96	-0,10	0,26	0,0867	0,07970
HARGA SAHAM (Y)	96	0,00	0,10	0,0240	0,02266
Valid N (listwise)	96				

Source: Data processed by the researcher (2024)

A total of 96 samples were used, determined through descriptive statistical analysis. The Cash Effective Tax Rate (CETR) data shows a mean of 0.0867 and a standard deviation of 0.07970. There appears to be an increase in the standard deviation value of the Cash Effective Tax Rate (CETR) because the mean of the obtained results is greater than the standard deviation. The average stock price is 0.0240, with a standard deviation of 0.02266. The fact that the average stock price exceeds the standard deviation of the stock price indicates that the quality of the data for the variables used is very good.

Classical Assumption Test

Normality Test

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		96
Normal Parameters[a,b]	Mean	0,0000000
	Std. Deviation	0,07825481
Most Extreme Differences	Absolute	0,089
	Positive	0,089
	Negative	-0,058
Test Statistic		0,089
Asymp. Sig. (2-tailed)		0,058[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Source: Data processed by the researcher (2024)

Based on the results of the normality test using the One-Sample Kolmogorov-Smirnov test, a p-value of 0.058 was obtained, which is greater than the Kolmogorov-Smirnov test value of 0.05. Given this, it seems reasonable to continue using the regression model with the assumption that the model follows a normal distribution.

Autocorrelation Test

Table 3. Autocorrelation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,189[a]	0,036	0,026	0,02237	0,886

a. Predictors: (Constant), CETR(X1)

b. Dependent Variable: HARGA SAHAM (Y)

Source: Data processed by the researcher (2024)

According to the Durbin-Watson autocorrelation test, the value is 0.886, which lies between the two extremes, dL and du. Thus, it is proven that there is no autocorrelation.

Heteroscedasticity Test

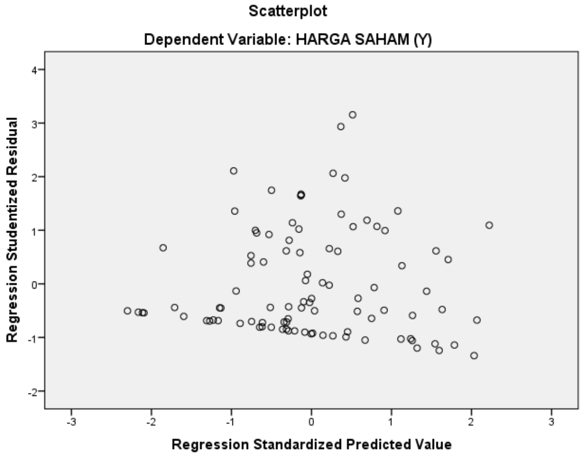

Figure 4. Heteroscedasticity Test
Source: Data processed by the researcher (2024)

Based on the heteroscedasticity test, the points are scattered and their transformation pattern does not follow a regular pattern. This indicates that the heteroscedasticity test was successful and there is no heteroscedasticity.

Multiple Linear Regression Analysis Test

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	90,0% Confidence Interval for B Lower Bound	90,0% Confidence Interval for B Upper Bound
1	(Constant)	0,019	0,003		5,733	0,000	0,014	0,025
	CETR(X1)	0,053	0,029	0,187	1,841	0,069	0,005	0,101

a. Dependent Variable: HARGA SAHAM (Y)

Figure 5. Multiple Linear Regression Analysis Test
Source: Data processed by the researcher (2024)

Another outcome from the multiple linear regression analysis test is the following regression equation:

SP = $\alpha + \beta 1X1 + \varepsilon$
SP = 0,019 + 0,053(X1) + 0,003ε
SP = Stock Price
α = Konstanta
β = Coeficient Regression
X1 = Tax Avoidance

With a constant assumption or a value of 0, the findings of the regression analysis in this study indicate that the stock price will increase by 0.019, as shown by the constant value (α) of 0.019. The tax avoidance coefficient (X1) is 0.053, meaning X1 will increase by 0.053 in the stock price for every 1% increase. Additionally, a significant value of 0.069 < 0.1 (with a significance threshold of 10%) was obtained for the tax avoidance variable based on the partial test results from the t-test. Therefore, it can be concluded that the tax avoidance variable has a significant partial effect on stock prices.

Discussion

Effect of Tax Avoidance on Stock Prices

The results of the multiple linear regression analysis show that tax avoidance affects stock prices. This is supported by a significance level of 10% and a confidence interval of 90%, with a significance value of 0.069* < 0.1. This leads us to adopt the first hypothesis. When a taxpayer attempts to minimize their tax liability by adjusting their income sources, they engage in tax avoidance. However, this is in compliance with Indonesian tax laws and regulations. The stock prices of companies listed on the Indonesia Stock Exchange, particularly those in the chemicals and chemical products sector, may fluctuate between 2019 and 2023 due to the impact of tax avoidance strategies used to reduce taxable income. This indicates that the stock price of a chemical or chemical products company is influenced by its tax avoidance strategies.

Since tax avoidance affects stock prices, it is important for investors to know that chemical and chemical products companies with high liquidity can meet their profit demands if the company can maximize anticipated tax avoidance. Effective communication with all involved parties is crucial for company management in conveying the progress of stock price strategies. Ideally, companies should be able to pay taxes, as the chemical and chemical products industries engage in minimal tax avoidance. This explanation of the tax avoidance process aligns with agency theory. Kusufiyah and Anggraini (2018) found that tax avoidance affects stock prices, thus supporting their findings.

CONCLUSION

The independent variable of tax avoidance has a significant effect of 0.069 < 0.1 according to the hypothesis testing results. These chemical and chemical products companies are recognized because their significance level is lower than 10% and significant at a 90% confidence interval, indicating that tax avoidance indeed affects stock prices (closing price). This underscores the importance of company disclosures to investors, as they evaluate the company's success based on these disclosures, which in turn helps to reduce tax avoidance. There is also research supporting this. The study period is from 2019 to 2023. It is believed that additional factors affecting stock prices and a longer study period would allow for further exploration in future research, in order to build upon and refine previous studies.

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