

The Effect of Leverage and Tax Risk on Company Value with Company Size as A Moderating Variable



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ABSTRACT: This research aims to examine the influence of leverage and tax risk on company value with company size as a moderating variable. The sample in this research is manufacturing companies listed on the Indonesia Stock Exchange in the 2017-2022 period. The research method uses quantitative methods with secondary data. Determining the research sample used purposive sampling and observation data based on certain criteria. The data in this study was analyzed using Partial Least Square (PLS) with the help of smartPLS software. The results of previous research show that leverage has a positive and significant effect on firm value and tax risk has a significant negative effect on firm value, and company size strengthens the relationship between leverage and tax risk on firm value. This research is expected to provide an overview of leverage, tax risk and company value in Indonesia so that it can contribute to company decision making and act as information in the context of drafting laws and regulations.

KEYWORDS: Leverage, Tax Risk, Company Size and Company Value.

I. INTRODUCTION

Business in Indonesia are currently causing increased competition in the business world. This is because Indonesia has a fairly large territory and a fairly diverse population distribution, making purchasing power in Indonesia relatively high, causing the business world in all fields to have to compete to survive in this situation. Among companies operating in the manufacturing sector, the five subsectors driving national production growth are steel and automotive, electronics, chemicals, pharmaceuticals, and food and beverages. This of course encourages every company to make various efforts to avoid bankruptcy.

Company often aiming to increase in value over time. Deriyarso (2014) emphasized that increasing company value at a high level is a long-term goal that the company wants to achieve. The aim of increasing company value is a measure of a company's success in achieving projected profits and in order to increase the wealth of company owners. Company value reflects the value of expected future income and is a market index for evaluating the entire company (Manopo and Arie, 2016). Companies must have clear goals. It is said that the goal of a business is to obtain large profits or the maximum profit. Meanwhile, another opinion states that the company's goal is to maximize company value which is reflected in the company's share price.

In This research on company value uses a research model conducted by James Tobin in 1969 called the Tobins Q model. In its use, Tobins Q has undergone many modifications. According to Chung and Pruitt (1994) this model has been simplified and adapted. The company's goals should be achieved through the role of parties who care about and feel the impact of the company's conditions, known as shareholders. The interests of shareholders are often ignored by managers, in this case we often talk about principal-agent relationships. where the agent often acts as if it is in the interests of the principal even though in reality this is not the case.

Management's financial decisions can affect company value. One of the financial decisions taken by management that can affect the value of the company is leverage, namely the level of the company's ability to use fixed cost assets and/or funds (debt or equity, special coupons) to achieve the goal of maximizing the owner's wealth. Apart from that, research results from Drake et al (2017) concluded that tax risk has a negative effect on company value. Considering this, researchers take into account the impact of tax risk on company value. However, because research on the impact of tax risk provides mixed results, researchers want to independently reexamine the impact of tax risk on company value.

Size the company in this study is a moderating variable. According to Yuni & Setiawan (2019), company scale is the capacity, stability and expertise needed to carry out its economic activities. However, large companies tend to focus the government's attention on achieving company value and the tax authorities on paying taxes, so company managers seem to want to act

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compliantly and be more transparent in presenting financial reports. Large companies will think more about the impact of their tax management. These results are supported by research by Windaswari & Merkusiwati (2018) which states that company size can have a positive impact on tax risk. Meanwhile, research by Singly & Sukartha (2015) shows that company size has a negative effect on tax risk. Based on the explanation above, the research problem formulation applied includes: Do leverage and tax risk have a positive effect on company value and does company size increase the impact of leverage and tax risk on company value.

II. LITERATURE REVIEW

Leverage is a ratio that can measure how effectively a company uses debt to finance its operational activities and how much debt the company has to pay off all short-term and long-term obligations that the company uses to finance its operational assets. (Nugraha and Mulyani, 2019). According to Dewi & Noviari (2017), the source of funding for a company's production and business activities does not only come from its own capital or shareholders but also from external financial support for the company or debt. In Novianto and Dwimulyani's (2019) research, leverage has a negative effect on company value, so that when leverage increases, the company value also increases, debt capital is used for company operational activities to obtain profits which can increase company value. Meanwhile, according to Natalya (2018), debt owned by a company will cause fixed costs for the company, especially interest expenses. The higher the debt of a company, the greater the interest burden that the company must bear, high interest expenses can reduce the profits obtained by the company. Therefore, if the debt capital owned by the company increases, it can reduce the value of the company.

H1: Leverage has a significant negative influence on company value.

Risk Taxes are interpreted differently depending on the scientific discipline (Nesbitt et al., 2017). The difference in interpretation of the definition of tax risk is that tax issues cover many different scientific aspects, especially accounting, finance, economics and law (Hanlon and Heitzman, 2010). Therefore, several researchers have their own definitions of what is meant by tax risk. For example, Nesbitt et al define tax risk as variations in the results of tax avoidance actions taken (2017). Nesbitt et al. believe that different actions are taken by management to avoid tax risk in terms of the severity of the action and the extent to which the tax authorities are aware of it, while Drake et al. (2017) conclude that tax risk has a relationship with company value, meaning that investors react negatively to tax risk, company value will decrease if investors perceive the company's tax risk to increase.

H2: Tax risk has a significant positive influence on company value

Size the company in this study is a moderating variable. According to Yuni & Setiawan (2019), company scale is the capacity, stability and expertise needed to carry out its economic activities. However, large companies tend to focus the government's attention on profits earned and the tax authorities' attention on tax payments, so it appears that company managers want to take more compliant and transparent actions in presenting financial reports.

H3: Company size can strengthen or weaken the influence of leverage on company value

Company large will think more about the impact of tax management. Large companies are more stable and profitable than small companies, so they can improve operational efficiency and profit quality (Dewinta & Setiawan, 2016). The value of a business is the price a party is willing to pay if the business is sold. One way to measure the value of a company is to use the Tobin Q ratio. The use of this ratio has been a valuation measure since it was used by Demsetz and Lane in 1997 (Desai and Dharmapala, 2009). This ratio shows the current market estimate regarding the rate of return per unit of investment, where a value greater than one indicates a return on investment that is greater than the investment value, whereas if the value is less than one then the business value is low because the profit margin is smaller than the costs.

H4: Company size can strengthen or weaken the influence of Tax Risk on company value

Research based on theoretical foundations In previous research, this research uses independent variables, namely leverage and tax risk. The dependent variable in this research is Company Value. Meanwhile, company size is a moderating variable. So systematically the researcher's model can be described as follows:

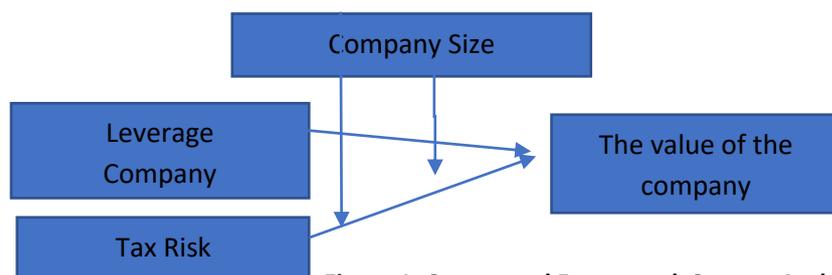


Figure 1. Conceptual Framework Source: Author, 2023

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III. RESEARCH METHODS

In this research, the data used is secondary data obtained from the annual reports of real estate producing companies and issuers listed on the Indonesia Stock Exchange from 2017 to 2022. The manufacturing and real estate sectors were chosen taking into account that these sectors have a level of profitability, investment, high capital expenditure (Al Alam and Firmansyah, 2019). The sampling technique used in this research is purposive sampling with criteria including manufacturing, consumer goods and real estate companies listed on the Indonesia Stock Exchange from 2017 to 2022, the company publishes its financial reports no later than the end of March next year, the company does not reporting a loss before tax in the reporting year, the company does not have a negative ETR.

Size Leverage in this study uses the total debt to total assets (DTA) ratio by comparing total liabilities to total assets. The following are calculations carried out by (Windaswari & Merkusiwati, 2018) and Muliawati & Karyada, (2020) to determine leverage using the Total Debt to Total Assets (DTA) ratio as follows:

$$DTA = \frac{\text{Total Utang}}{\text{Total Aset}}$$

In this research, the index used to measure tax risk is standard deviation. The company's annual ETR from t-4 to t is used by Drake et al. (2017). Similar to Drake et al. (2017), in this study the higher the ETR standard deviation, the higher the company's tax risk. The tax risk measurement equation is as follows:

$$ETR \text{ Volatility} = \frac{STDEV(\sum_{n=1}^5 ETR)}{ETR}$$

In this research, company value is calculated using the Tobin's Q ratio or abbreviated as Q ratio. The Q ratio is a ratio used to measure company value by comparing the market value of equity capital, the value of equity and debt to the book value of total assets. The Q ratio equation can be written as follows:

$$Q = \frac{MVE + D}{TA}$$

Where MVE is the market value of the company's shares, D is the book value of accounts payable, and TA is the company's total assets. The MVE value is taken from the market value of the first day of April. This approach is similar to the approach used by Drake et al. (2017).

Size The company size variable can use total assets using the logarithm of the assets owned by the company. According to calculations carried out by Yuni & Setiawan, (2019) and Windaswari & Merkusiwati, (2018) to determine the size of the company, specifically use the following calculation formula:

$$\text{Size} = \ln(\text{Total Aset})$$

In sample research, analysis techniques can use descriptive or inferential statistics (Sugiyono, 2016). Descriptive statistics aims to describe the concentration and distribution of data without drawing conclusions (Sugiyono, 2016), which is then used to provide an overview of the research variables. In this research, the author will describe the company's leverage status and tax risks that influence company value. Company size is a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange for the 2017-2022 period. The analysis technique used in this research is descriptive analysis to provide an overview of the research variables as well as multiple regression analysis to determine the effect of company debt and tax risk on company value.

IV. RESULT AND DISCUSSION

This research uses descriptive statistical tests to describe the value of Leverage, Tax Risk, Company Value, Size and the total sample studied. Based on the table below, it presents the minimum value, maximum value, average value (mean) and standard deviation value for the company for 5 years, namely 2017 to 2022. The descriptive statistical test results of this research are as follows:

Table 1. Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
LNX1	264	-2.32	.24	-,9731	,52330
LNX2	264	-3.12	1.87	-1.5327	1.03530
LNM	264	2.76	3.56	3.3785	,10306
LNY	264	-1.61	3.15	,4583	,81268
Valid N (listwise)	264				

Source: Author, 2023

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From the table above, it can be seen that the amount of data used in this research is 264 years, where X1 in this research is Leverage with a minimum value of -2.32, a maximum of 0.24, a mean of -0.9731 and a standard deviation of 0.52330. Then X2 in this research is Tax Risk with a minimum value of -3.12, a maximum of 1.87, a mean of -1.15327 and a standard deviation of 1.03530. Then Moderation in this research is Company Size with a minimum value of 2.76, maximum 3.56, mean 3.3785 and standard deviation 0.10306. And the Y variable in this research is Company Value with a minimum value of -1.61, maximum 3.15, mean 0.4583 and standard deviation 0.81268.

Table 2. Normality Test Results: One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residuals
N		264
Normal Parameters, b	Mean	,0000000
	Std. Deviation	,72440367
Most Extreme Differences	Absolute	,036
	Positive	,031
	Negative	-,036
Statistical Tests		,036
Asymp. Sig. (2-tailed)		,200c,d

- a. Test distribution is Normal.
- b. Calculated from data.
- c. Lilliefors Significance Correction.
- d. This is a lower bound of the true significance.

Source: Author, 2023

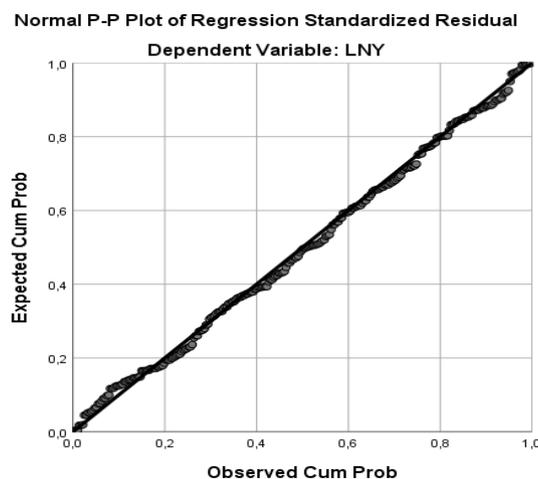


Figure 2. Normal PP Plots

Source: Author, 2023

Based on the table above, it can be seen that the number of samples used in this test was 264 data. The table shows the Kolmogorov-Smirnov Z value of 0.036 with a significant value (Asymp. Sig. (2-tailed)) of 0.200 > 0.050, which means the residual data is normally distributed or H0 is accepted. Then in the Normal PP Plots image above, all the points approach the diagonal line. Thus all residual data is normally distributed.

Multicollinearity Test

Multicollinearity occurs if there is a perfect or almost perfect linear relationship between some or all of the independent variables in the regression model. The multicollinearity test aims to test whether the regression model finds a correlation between the independent variables. A good regression model should have no correlation between independent variables. The results of the multicollinearity test of the data used as a sample are as follows:

Table 3. Multicollinearity Test Results

Coefficients ^a		Collinearity Statistics	
Model		Tolerance	VIF
1	LN _{X1}	,937	1,067
	LN _{X2}	,962	1,040
	LN _M	,974	1,027

a. Dependent Variable: LNY

Source: Author, 2023

Based on the output results above, using the Tolerance (a) and Variance Inflation Factor (VIF) quantities, if you use alpha/tolerance = 10% then VIF = 10. From the output results, the VIF calculated from variable X1 (Leverage), Variable 7%, 0.962 = 96.2% and 0.974 = 97.4% above 10% can be concluded that there is no multicollinearity between the independent variables

Heteroscedasticity Test

If the variance from the residual from one observation to another is constant, it is called homoscedasticity and if it is different it is called heteroscedasticity. A good regression model is one where heteroscedasticity or homoscedasticity does not occur. To detect whether heteroscedasticity is occurring or not, this is done by looking at whether there is a certain pattern on the Scatterplot graph between SRESID and ZPRED where the Y axis is the Y that has been predicted, and the X axis is the residual (predicted Y – actual Y) that has been stagndentized. The basis of the analysis is that if there is a certain pattern, such as the points forming a certain regular pattern (wavy, widening then narrowing), this will indicate that heteroscedasticity has occurred. If there is no clear pattern, and the points spread above and below the number 0 on the Y axis, then heteroscedasticity occurs.

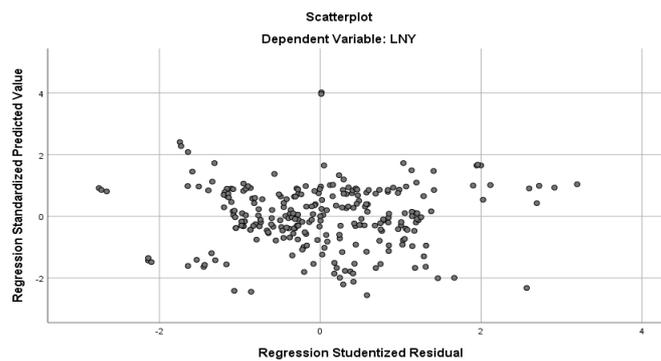


Figure 2. Heteroscedasticity Test

Source: Author, 2023

From the output of the scatterplot image above, a point spread is obtained in all directions outside the zero point and does not have a regular and unclear pattern. So it can be concluded that the independent variables above do not have heteroscedasticity or homoscedasticity. From the irregularity of the data above, there are no symptoms of heteroscedasticity.

Autocorrelation Test

This test aims to identify whether or not in the linear regression model there are deviations from the classic assumption of autocorrelation, namely the correlation that occurs between the residuals from one observation to another in the regression model. One way to detect whether there is autocorrelation is by using the Runs Test. The results of the autocorrelation test carried out in this study are as follows:

Table 5. Autocorrelation Test Results

Test Runs	Unstandardized Residuals
Test Value ^a	-,01089
Cases < Test Value	132
Cases >= Test Value	132
Total Cases	264

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Number of Runs	124
Z	-1,110
Asymp. Sig. (2-tailed)	,267

a. Median

Verification Statistics

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23,033	2	11,517	19,950	,000b
	Residual	150,667	261	,577		
	Total	173,700	263			

a. Dependent Variable: LNY

b. Predictors: (Constant), LNX2, LNX1

Source: Author, 2023

The results of the autocorrelation test show the Asymp value. Sig (2-tailed) of 0.267 is greater than 0.05 ($0.2677 > 0.05$). This means that the Runs Test is greater than 0.05 so it can be stated that there is no autocorrelation

Multiple Linear Regression Analysis Test

Multiple linear regression analysis aims to test the influence, leverage and Tax Risk (ETR) on company value with Company Size as a moderating variable in manufacturing companies listed on the BEI in 2017-2022. The following are the results of multiple regression analysis carried out using the SPSS program.

Table 6. Hypothesis Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11,540	4,914		2,348	,020
	LNX1	-1,521	3,293	-,980	-,462	,644
	LNX2	3,343	2,403	4,259	1,391	,165
	LNM	-3,346	1,455	-,424	-2,300	,022
	LNX1M	,517	,977	1,113	,529	,597
	LNX2M	-1,074	,710	-4,628	-1,512	,132

a. Dependent Variable: LNY

Source: Author, 2023

Based on the determined regression formula, the regression model obtained is as follows:

Tobin's Q = 11,540 – 1,521 DTA + 3,343 ETR – 3,346 Company Size + 0.517 DTA*Company Size – 1,074 ETR*Company Size

1. A constant value of 11.540 indicates that if all independent and moderating variables have a value of 0, then the value of the Company (Tobin's Q) is 11.540
2. In the Leverage (DTA) variable, the coefficient value is -1.521 with a negative sign. This shows that if the Leverage variable (DTA) increases by 1 unit, the Company Value variable (Tobin's Q) will decrease by 1.521 assuming the other independent and moderating variables are in a constant condition.
3. For the Tax Risk (ETR) variable, a coefficient value of 3.343 is obtained with a positive sign. This shows that if the Tax Risk (ETR) variable increases by 1 unit, the Company Value variable (Tobin's Q) will increase by 3.343 assuming the other independent and moderating variables are in a constant condition.
4. For the Company Size variable, the coefficient value obtained is – 3.346 with a negative sign. This shows that if the Company Size variable increases by 1 unit, the Company Value variable (Tobin's Q) will decrease by 3.346 assuming the other independent and moderating variables are in a constant condition.
5. The regression coefficient value of the Leverage variable (DTA) with Company Size (DTA*Company Size) is 0.517 with a positive sign. This shows that when the DTA*Company Size variable increases by 1 unit, the Company Value variable increases by 0.517 assuming the independent and moderating variables are constant.

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6. The regression coefficient value of the Tax Risk (ETR) variable with Company Size (ETR*Company Size) is -1.074 with a negative sign. This shows that when the ETR*Company Size variable increases by 1 unit, the Company Value variable decreases by 1.074 with the assumption that the independent and moderating variables are constant values.

Coefficient of Determination Test

The coefficient of determination (Adjusted R²) was measured to determine the percentage influence of the independent variable on changes in the dependent variable. The results shown explain how much the independent variable can explain the dependent variable, while the rest is explained outside the model. The results of the analysis of the coefficient of determination in the model are presented as follows

Model Summary

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate
1	,462a	,213	,198	,72775

Predictors: (Constant), LNX2M, LNM, LNX1M, LNX1, LNX2

Source: Author, 2023

The results of the analysis show that the coefficient of determination (Adjusted R²) is 0.212 or 21.3%. These results indicate that the size of the firm value variable is influenced by the leverage (DTA), tax risk (ETR) and firm size variables by 21.3%, and the remaining 78.7% of firm value is influenced by other variables.

Hypothesis test

Next, to find out whether the hypothesis proposed in this research is accepted or rejected, the following hypothesis testing will be carried out:

1. The influence of leverage has a significant positive influence on company value

Based on the t test for the Leverage variable (DTA), the regression coefficient value obtained in a negative direction was -1.521, which indicates a negative influence and a significance value of 0.644 which is greater than 0.05; So it can be concluded that the first hypothesis which states that Leverage has a significant positive effect on Company Value is not supported.

2. Tax risk has a significant positive influence on company value

Based on the t test for the Tax Risk (ETR) variable, the regression coefficient value with a positive direction was obtained at 3.293, which indicates a positive influence and a significance value of 0.165 which is greater than 0.05; It can be concluded that the second hypothesis which states that Tax Risk (ETR) has a significant positive effect on Company Value is not supported.

3. Company size can strengthen or weaken the influence of leverage on company value

Based on the results of the analysis, the calculated t value of the interaction variable between Leverage and Company Size (DTA*Company Size) is 0.517 with a significance value of the interaction variable between Leverage (DTA) and Company Size (DTA*UP) of 0.597, indicating a greater value. compared with the value at the previously determined significance level, namely 0.05 (0.597>0.05). Based on the results of the hypothesis test, it can be concluded that the Company Size variable is unable to moderate the influence of Leverage (DTA) on Company Value. The interaction variable between Leverage and Company Size (DTA*UP) has a positive and insignificant effect on Company Value. Thus, the third hypothesis which states that "Company size has a positive effect on the relationship between Leverage and Company Value" is not supported.

4. Company size can strengthen or weaken the influence of Tax Risk on company value

Based on the results of the analysis, the calculated t value of the interaction variable between the interaction between Tax Risk and Company Size (ETR*Company Size) is -1.074 with a significance value of the interaction variable between Tax Risk (ETR) and Company Size (DTA*UP) of 0.132, indicating a value which is greater than the value at the previously determined significance level, namely 0.05 (0.132>0.05). Based on the results of the hypothesis test, it can be concluded that the Company Size variable is unable to moderate the influence of Tax Risk (ETR) on Company Value. The interaction variable between Tax Risk and Company Size (DTA*UP) has a negative and insignificant effect on Company Value. Thus, the fourth hypothesis which states that "Company size has a positive effect on the relationship between Tax Risk (ETR) and Company Value" is not supported.

V. CONCLUSION AND SUGGESTIONS

From the research results, it was concluded that Leverage (DTA) had no significant influence on Company Value (Tobin's Q), individually, Tax Risk (ETR) had no significant influence on Company Value (Tobin's Q), individually, but if Leverage (DTA) and

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Tax Risk (ETR) have a significant influence on Company Value (Tobin's Q), together. Inability of the Company Size variable to moderate Leverage (DTA) on Company Value (Tobin's Q). Company size as proxied by Size does not moderate the relationship between Tax Risk (ETR) and Company Value (Tobin's Q) in manufacturing companies in the Consumer Goods sector on the Indonesia Stock Exchange (BEI) for the 2017-2022 period.

The advice that researchers can convey based on the analysis that has been carried out is that from the research results it is known that partially Tax Risk (ETR) has an effect on Company Value (Tobin's Q). Therefore, investors who want to invest are advised to pay attention to companies that avoid tax as an effort to carry out tax planning and tax efficiency, because it can increase the value of the company, so that investors can achieve their goal of making a profit. Meanwhile, for stakeholders, the results of this research can be used as a guide to increase company value, so that stakeholders can control financial stability more effectively and efficiently. Future researchers should use other proxies besides Tobin's Q in measuring company value, for example by: a) cash flow approach, including the discounted cash flow method; b) dividend approach, including the dividend growth method; c) asset approach, including asset valuation methods; d) share price approach; and e) economic value added approach.

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