THE INFLUENCE OF TAX AGGRESIVENESS ON FIRM VALUE WITH CORPORATE GOVERNANCE AS A MODERATING VARIABLE

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Abstract
The objective of this study is to investigate whether tax aggresiveness has an impact on firm value. In addition, this study also examines whether the mechanism of corporate governance influences the relationship between tax aggresiveness and firm value. Examining the moderating effect of corporate governance in the relationship between tax aggresiveness and firm value for the context of Indonesia is still rarely done. Using 213 firm-year samples from 2015-2019 data of 76 public firms registered at BEI from consumer cyclinal sector, this study regresses (1) tax aggresiveness toward firm value, (2) the interaction between tax aggresiveness and corporate governance toward firm value. The test result provides an evidence that tax aggresiveness has a negative impact on firm value. However, this study does not provide an empirical evidence that the influence of tax aggresiveness on firm value can be moderated by corporate governance mechanism.

Keywords: Tax aggressiveness; Firm Value; Corporate Governance

INTRODUCTION

This study investigates the impact of tax aggresiveness on firm value and investigates whether the influence of tax aggresiveness on firm value will be different among companies with different level of corporate governance mechanism. Basing on agency theory, this study examines the impact of management (as agent) action, in term of tax aggresiveness, on the principal interest, in term of firm value, and examines whether corporate governance, a mechanism that ensures the principal interest protected, will interfer such the impact. It is expected that corporate governance mechanism can minimize the impact of negative management actions (in this case, tax aggresiveness) on firm value.

The actions taken by companies in minimizing tax expenses will make companies more aggressive in taxation (Chen et al., 2010). Tax expense is one of company's operating burdens so that companies try to minimize it in order to increase net income. According to Frank et al., (2009), tax aggressiveness represents a plan to make tax burdens as lowest as possible by implementing tax planning, both through a legal way (tax avoidance) and an illegal way (tax evasion). For companies the primary benefit of tax aggressiveness is an explicit reduction of tax paid to government so that the profitability will increase.

In implementing tax aggresiveness, companies spend certain significant expenditures that may have negative impacts on firm value. The expenses caused by tax aggresiveness actions are influenced by the nature of tax policy employed by the company (Chen et al., 2014). Besides these expenditures, companies also should take actions to make sure that tax aggresiveness activities will be not detected by tax authority (Desai dan Dharmapala, 2009). Tax authority will punish companies that are caught doing illegal tax aggresiveness during tax audit process (Campbel et al., 2020). In addition, companies that do not pay tax to government will cause a negative perception among investors (Drake et al., 2017)

Agency theory explains about the efforts by companies in minimizing tax expense. In that theory, agency relationship represents the agreement between at least one principal (government) and agents (companies) to conduct several activities on behalf of the principal interest and agents are given the authority to do so (Jensen dan Meckling, 1976). Conflicts emerge when the agents do not act in accordance with the interest of principal. For the context of this study, agents (management) are given authority to fulfill taxation obligations using self-assessment approach. Principal (government) has a right to receive tax for net income of companies (agents) based on tax laws. However, agents (companies) have a goal of maximizing the profitability by minimizing the payment of income tax. This conflict of interest between agent (companies) and pricipal (government) has an impact on tax revenue for government, which is not optimal yet.

Tax aggresiveness is influenced by different and conflicting interests between government and companies. This can be overcome by corporate governance mechanism. Corporate governance is defined as a system to provide added values to all stakeholders by governing and controlling companies (Desai & Dharmapala, 2007). There are several major elements of corporate governance, such as fairness, transparancy, accountability, and responsibility, to promote the quality of financial statements. These elements can make financial statements showing the real financial conditions of companies. In turn, it can be utilized to reduce the risk of tax aggresiveness at companies.

Corporate governance mechanism indirectly explains about corporate governance that directs company's policy, including taxation policy (Monk et al., 2011). In the context of taxation, corporate governance plays roles of building and monitoring the behaviour of company management, including in taxation aspect. The differences in tax management strategy among companies are affected by the differences in corporate governance mechanisms employed within companies (Wahab et al., 2017).

There are several empirical literatures related to the examination of the impact of tax aggresiveness on firm value with the context of developed countries, especially US (Hanlon & Slemlord, 2009; Desai & Dharmapala, 2009; Drake et al., 2017; Wilson, 2009; Shevlin et al., 2020). Those studies show inconclusive empirical results, some provide evidences of positive impact of tax aggresiveness on firm value and others suggests negative ones. For the context of Indonesia, the study by Putri & Hudiwinarsih (2018), Lestari & Ningrum (2018), and Budiman & Firtriana (2018) can be mentioned.

However, the studies of the impact of tax aggressiveness on firm value with corporate governance as a moderating variable are rarely done in Indonesia. One of the few is the study by Budiman & Fitriana (2021). That study concludes that tax aggressiveness negatively influences firm value, but corporate governance does not affect the relationship between tax aggressiveness and firm value. Budiman & Fitriana (2021) argue that tax aggressiveness causes agency problems between shareholders and managers, so that tax aggresiveness makes firm value decrease. Further, the reason for the failure of corporate governance to influence the relationship between tax aggressiveness and firm value is that tax aggressiveness is more related to accounting issues meanwhile corporate governance has a broader scope and does not specifically influence accounting policy. Therefore, corporate governance can not play the role of moderating variable.

This study has two main research questions. First, does tax aggresiveness have influence on firm value. Second, does corporate governance mechanism have influence in the relationship between tax aggresiveness and firm value. Two hypotheses are proposed and examined with linear regression statistic method using 213 firm-year samples from 2015-2019 data of 76 public firms registered at BEI from consumer cyclinal sector. Hypothesis of the negative influence of tax aggresiveness on firm value is supported by this study. Tax aggresiveness is considered as a negative management action by capital market so that it

decreases firm value. However, hypothesis of moderating effect of corporate governance on the relationship between tax aggresiveness and firm value is not supported by this study. There is no difference in the negative impact of tax aggresiveness on firm value between firms with strong corporate governance and firms with weak corporate governance.

This study provides several important implications to the literatures and practices of management accounting and taxation. The result indicates the negative impact of tax aggresiveness on firm value. Therefore, firms should undertake deep and thorough analysis before deciding to implement a certain tax aggresiveness action since its impact on market perception that may lead to the decrease in firm value. Meanwhile, this study shows a negative association between tax aggresiveness and firm value can not be interfered by corporate governance. Current coverage of corporate governance that is limited to strategic level and not in operational level may be the factor that make it can not hinder accounting policy that lead to tax aggresiveness actions. The result of this study may suggest that the current coverage of corporate governance mechanism at strategic level only should be contemplated.

The remainder of the paper is organized as follows. **Section II** discusses theoretical framework, literature review and hypothesis development. **Section III** presents the research method, including research model, variable operationalization and sample data. **Section IV** analyzes tha data and results. Finally, this paper is closed by **Section V**, which presents the summary and conclusions of this study.

THEORETICAL FRAMEWORK, LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory decribes the substance of the relationship between firm managers (agents) and shareholders (principal) in governing the entity, both in operational decision making as well as in strategic decision making (Jensen dan Meckling, 1976). Agents do not always act for the interest of pricipal and often act for self interests. That will raise the agency costs for the principal (Chen et al., 2014). The company accounting policies enacted by managers are considered as opportunistic actions, where agents reallocate the shareholders' wealth to managers (Godfrey et al., 2010).

Watts & Zimmerman (1986) describe some hypotheses for the reasons of managers pursuing opportunistic actions in deciding accounting policies for the company. Those hypotheses are described in the context of positive accounting theory. One of hypotheses, which is relevant to this study, is Political Cost Hypothesis. Under this hypothesis, as increasing political costs has a potent to increase the probability of managers in deciding accounting policies that will minimize the costs. One of the political costs is taxation.

Tax can reduce firm's net income and dividend payment to shareholders. Tax also will reduce firm incentives so that it will trigger managers doing opportunistically in deciding accounting policies in order to decrease tax payment to government. This is a tax aggresiveness action. In doing so managers utilize information asymmetry existed between shareholders (a principals) and themselves (as agents)

Firm Value

Firm value can be defined as actual value per share that will be received by shareholders if the assets of a company are sold at the share price (Gitman & Zutter, 2011). Firm value is also defined as present value of future free cash flows at the discount rate as much as weighted average cost of capital (E. F. Brigham & Ehrhardt, 2005). Free cash flow is cash flow of the

company available for investors (creditors and owners) after considering company expenditures for operating expenses, investment and net current asset.

Promoting firm value by maximizing the profitability is one of the goals of the firms. The success of firms is measured by firm value that increases over time. Firm value is the price paid by incestors (Husna, 1996). Firm value can not be merely seen in the nominal price of share in the market but also in the performance of the firm. Promoting firm value by maximizing the wealth of shareholders reflects the primary goal of the firm to be achieved (Gitman dan Zutter, 2011).

Tax Aggressiveness

According to Frank et al., (2009) tax aggressiveness refers to actions with the purpose of gaining tax benefits through tax planning that can be done using a legal way (tax avoidance) or using an illegal way (tax evasion). Tax aggressiveness takes advantages of grey zones in tax rules (Oktaviyani dan Munandar, 2017). In this case, efforts of reducing tax burdens are done by minimizing tax expenses that do not meet the tax rules, however, by doing so the company does not violiate the tax rules.

In implementing tax aggressiveness, companies should be careful since there is a very slight difference between tax avoidance (legal) and tax evasion (illegal). In tax evasion, tax payers try to hide the real conditions from tax authority in order to reduce their tax obligations (Obafemi, 2014). Actions of reducing tax burdens in tax evasion category includes not reporting all income, expensing non-deductible items, expensing fictitious expenses and fabricating information relevant to taxation.

Companies are said to be aggressive in taxation if they deliberately utilize the loop holes in tax rules to implement tax avoidance even though such actions do not violate the laws. Tax aggresiveness is an effort done by companies to minimize tax obligations (Balakrishnan et al., 2011). Agresiveness in tax reporting is a condition where companies implement certain taxation policies, which have risks of violating the laws (Sari & Martani, 2010).

Corporate Governance

Organization of Economic Cooperation and Development (OECD) defines corporate governance as a system to direct and control the business of companies. Corporate governance structure defines the distribution of rights, obligations and authority of each member in the corporation and defines the rules and procedures of decision making process. According to Komite Nasional Kebijakan Governance (KNKG) (2004), corporate governance represents corporation system and structure that are constructed to promote firm value and in long term to promote the welfare of investors and stakeholders based on the existing rules and laws.

According to Forum for Corporate Governance in Indonesia (FCGI), corporate governance is a bundle of regulations consisting of rights and obligations of parties involved in managing and controlling companies. The parties involved include board of commissioners, board of directtors, managers, shareholders, and stakeholders. A good corporate governance within the company should promote firm value. In this case, company will have clear vision, misssion, goals and strategies. Company also will have code of ethics and values and utilize them as control devices so that company will have policies that ensure conflicts of interest and deviations in business process can be avoided. So, companies will be able to manage business risk in a good way (Price Waterhouse Coopers, 2000).

Tax Aggressiveness and Firm Value

Political Cost Hypothesis in Agency Theory describes that higher political costs will increase the probability of firm managers to employ accounting policies that minimize political costs. One of such accounting policies is implementing tax aggressiveness, where firms try to

reduce tax expenses. Tax aggressiveness has implications on firm value since it includes managerial policies that influence dividend payment, cash retention, cost of capital and capital structure of firms (Herron & Nahata, 2020).

There are two views related to the relationship between tax aggressiveness and firm value. In the first view, managers incresae the wealth of shareholders by minimizing firm tax obligations (Cook et al., 2017; Drake et al., 2017; Goh et al., 2016). Tax aggressiveness tends to reduce cost of equity of the firm so that it can increase firm value (Goh et al., 2016; Cook et al., 2017). In the second view, tax aggressiveness increase the uncertainty and cost of capital, also the behaviour of self interest of managers. Tax aggresiveness activities at present will cause a large amount of cash flows in the future when tax authority audits the company (Henry, 2018). The later view supports that tax aggressiveness decreases firm value.

In addition, tax aggressiveness tends to worsen the agency problem between shareholders and managers. Tax aggressiveness may decresae transperancy so that the delivery information may be hindered or delayed (Balakrishnan et al., 2018). Tax aggressiveness also incresae tax audit risk that will cause direct costs (such as fines or interests) as well as indirect costs (suc ahs reputation). Therefore, investors reject the implied risk, in which it is reflected in discounts for the firm valuation. (Drake et al., 2017).

A study by Putri & Hudiwinarsih (2018) provides a conclusion that tax avoidance has a negative impact on firm value. That result is aligned to that of Lestari & Ningrum (2018), Budiman & Fitriana (2018), and Arora & Gill (2021). The increase in efforts by management to impose tax aggresiveness makes firm value decrease. Wahab & Holland (2012) said that shareholders' concern of the moral hazard related to tax aggresiveness is the reason for the negative relationship between tax aggresiveness and firm value. In general managers tend to be reluctant to convey information regarding tax aggresiveness activities done by the comopany to the shareholders. The market views tax aggressiveness as a negative action so that it can surpress the share price to decrease market value.

For the relationship bertween tax aggresiveness and firm value, this study proposes the following hypothesis.
Hypothesis 1: **Tax aggressiveness has negative influence on firm value.**

Moderating Effect of Corporate Governance on the Relationship Between Tax Aggresiveness and Firm Value

According to Desai & Dharmapala (2006), tax aggressiveness causes the decrease in firm value because of the complementarity between tax aggresiveness activities and managerial rent extraction. It can be caused by the fact that managers tend to reduce transperancy and to promote the chance for the company to realocate company resources for self interest. Shareholders will consider tax aggresiveness activities as negative ones if the company has a weak corporate governance. In contrary, if the company has a strong corporate governance, managers can not pursue managerial rent extraction. Tax aggresiveness activities are viewed as benefecial for the shareholders if the company is well governed (Desai & Dharmapala, 2009). So, shareholders view tax aggresiveness activities through company corporate governance (Hanlon & Slemrod, 2009; Wilson, 2009).

Meanwhile, according to study by Lee et al., (2015), the trust of shareholders to firm managers will increase as aligned to the strength of corporate governance. Under the strong corporate governance environment, tax aggressiveness can be considered as medium to increase firm value. Corporate governance is the mechanism of controlling that is perceived by the market as a mechanism to protect shareholders' interest. Even though companies implement tax aggressiveness, the market will have a positive perception about it because of the existence of strong corporate governance so that the firm value is still high even though tax aggresiveness

activities are high. Therefore, corporate governance weakens the negative impact of tax aggresiveness on firm value.

However, studies by Ramadhani & Azmi (2019) and Arora & Gill (2021) provide different conclusions, in term of those studies conclude that corporate governance does not influence the relationship between tax avoidance and firm value. According to Ramadhani & Azmi (2019), that result is based on argument that tax avoidance is related to accounting issues but coverage of corporate governance is broader and not specifically covers accounting policy. Meanwhile, in study by Arora dan Gill (2021), the majority of sample is Indian companies included in S&P BSE 500 and the companies are governed by families (Bang et al., 2018). Therefore, the low level of institutional ownership in family-owned firms makes firm more vulnerable toward managerial rent extraction related to tax aggresiveness activities by the companies. Consequently, corporate governance can not play the role of moderating variable.

For the moderating effect of corporate governance in the relationship between tax aggresiveness and firm value, this study proposes the following hypothesis.

Hypothesis 2: **Corporate governance weakens the negative impact of tax aggresiveness on firm value.**

RESEARCH METHODS

Research Models

To examine **Hypothesis I** this study regresses the proxy of tax aggresiveness toward the proxy of firm value, using the following Research Model 1:

$$\begin{aligned}\textbf{FirmValue} = \alpha_0 + \alpha_1\, \textbf{TaxAggresiveness} + \alpha_2\, \textbf{CorpGovernance} + \\ \alpha_3\, \textbf{Profitability} + \alpha_4\, \textbf{Leverage} + \alpha_5\, \textbf{Size} + \alpha_6\, \textbf{Growth} + \varepsilon \qquad (1)\end{aligned}$$

To examine **Hypothesis II** this study regresses the interaction of the proxy of tax aggresiveness and the proxy of corporate governance toward the proxy of firm value, using the following Research Model 2:

$$\begin{aligned}\textbf{FirmValue} = \beta_0 + \beta_1\, \textbf{TaxAggresiveness} + \beta_2\, \textbf{CorpGovernance} + \\ \beta_3\, \textbf{TaxAggresiveness*CorpGovernance} + \beta_4\, \textbf{Profitability} + \\ \beta_5\, \textbf{Leverage} + \beta_6\, \textbf{Size} + \beta_7\, \textbf{Growth} + \varepsilon \qquad (2)\end{aligned}$$

where

FirmValue	Proxy for firm value
TaxAggresiveness	Proxy for tax aggresivenes
CorpGovernance	Proxy for corporate governance
Profitability	Controlling variable for profitability
Leverage	Controlling variable for leverage
Size	Controlling variable for firm size
Growth	Controlling variable for firm growth

The construct of tax aggresiveness is represented by Adjusted Tobin's Q. The formula is (MVE+D)/(BE+D), where MVE is market value of outstanding shares based on the year end closing price, BVE is book value of equity, which is total equity shown in the year end balance sheet, and D is book value of total liability (Budiman & Fitriana, 2021).

The main independent variables in this study are tax aggresiveness and corporate governance. Tax aggresiveness is represented by effective tax rate, calculated using the formula of total tax expense divided by net income before tax (Lestari & Ningrum, 2018; Arora & Gill,

2021). The higher/lower of effective tax rate indicates the lower/higher of tax aggresiveness (Budiman & Setiyono, 2012). Meanwhile, corporate governance is represented by the percentage of institutional ownership, where the higher percentage indicates the stronger corporate governance mechanism. This study uses a dummy variable, where 1 if the percentage of institutional ownership is above or on the median in the sample and 0 if the percentage of institutional ownership is below the median in the sample (Huang et al., 2018).

Then, this study includes four controlling variables into the research model: profitability, leverage, firm size and firm age. The profitability of firm is represented by Return on Assets (ROA). The formula is net income/total assets. The leverage of firm is represented by Debt to Assets Ratio (DAR). The formula is total liability/total assets. The size of firm is represented by log value of total assets for research periods. Finally, the growth of firm is calculated by $(Sales_t - Sales_{t-1})/Sales_{t-1}$, where $Sales_t$ is total sales in year t and $Sales_{t-1}$ is total sales in year t-1.

For **Research Model I** the focus is placed on coefficient α_1. This coefficient indicates the influence of tax aggresiveness on firm value (Hypothesis 1). This study predicts that coefficient α_1 will be positive and significant. The positive value of coefficient α_1 indicates that tax aggresiveness is associated with a lower of firm value. Meanwhile, for **Research Model 2** the focus is placed on coefficient β_3. Coefficient β_3 inicates the moderation effect of corporate governance on relationship between tax aggresiveness and firm value (Hypothesis 2). According to Hypothesis 2, this study predicts that coefficient β_3 will be negative and significant. This negative β_3 coefficient will indicate that corporate governance weakens the negative influence of tax aggresiveness on firm value.

Sample Data

Population for this study includes all Indonesian public companies that are registered in Bursa Efek Indonesia (BEI). From that population, 213 firm-year samples from 2015-2019 data of 76 public firms registered at BEI from consumer cyclinal are selected as sample. The selection of this sample is undertaken by using purposive sampling method with the criteria including firms from cunsumer cyclical sector have been registered in BEI (previously Bursa Efek Jakarta) since 2015, firms are never delisted from BEI (BEJ), and financial statements for 2015 to 2019.

THE RESULTS AND DISCUSSIONS

Descriptive Statistics

Table 1 summarizes the descriptive statistics of 213 observations. The achievement of performance for sample firms is represented by average firm value (Adjusted Tobin's Q) 1,525, with the lowest value 0,004 and the highest value 7,320. In the sample, firms have an average level of tax aggresiveness of 0,309, with the lowest ETR 0,005 and the highest ETR 0,858. Meanwhile, proxy for corporate governance shows that in average 50,20 percent of sample has a strong corporate govenance mechanism.

Tabel 1. Descriptive Statistics

Variables	Minimum	Maximum	Mean	Median	Standard Deviation
Dependent Variable:					
FirmValue	0,004	7,320	1,525	1,015	1,442
Independent Variables:					
TaxAggresiveness	0,005	0,858	0,309	0,309	0,156
CorpGovernance	0	1	0,502	1	0,501

Controlling Variables:					
Profitability	-0,007	0,458	0,059	0,036	0,076
Leverage	-2,214	3,751	0,899	0,710	0,760
Size	11,130	17,620	14,655	14,910	1,391
Growth	-0,998	1,543	-0,122	0,022	0,441

Variables definition:

FirmValue = Firm value, proxied by Ajusted Tobin's Q, calculated with the formula: (MVE+D/BE+D)

TaxAggresiveness= Tax aggresiveness, proxied by ETR, calculated with the formula (Total Tax Expense/Net Income Before Tax)

CorpGovernance= Corporate Governance, proxied by the percentage of institutional ownership. 1 for the percentage of institutional ownership above median and 0 otherwise

Profitability= Profitability, proxied by Return on Assets (ROA), calculated as Net Income After Tax/Total Assets

Leverage = Leverage, proxied by Debt to Assets Ratio (DAR), calculated as Total Liability/Total Assets

Size = Firm size, proxied by logarithm of total assets

Growth= Firm growth, proxied by the growth of sales, calculated as $Sales_t$-$Sales_{t-1}$/$Sales_{t-1}$

Then, **Table 2** shows Pearson correlation for all dependent and independent variables used in this study, including interaction variables. The analysis results indicate that almost all independent variables have correlation below 0,8000 except for the interaction variable (TaxAggresiveness*CorpGovernance). The strongest correlation is shown by interaction variables, i.e. between TaxAggresiveness*CorpGovernance and CorpGovernance (0,8607). The weakest correlation is shown by FirmValue and TaxAggresiveness (-0,0262).

Table 2 may also provide the preliminary prediction of hypothesis testing results. For the relationship between tax aggresiveness and firm value is -0,0262. This can be considered as a preliminary indication that Hypothesis 1 is not supported by this study. It seems that Hypothesis 2 will also be not supported by this study if observing the correlation between TaxAggresiveness*CorpGovernance and FirmValue, where the correlation between the two is -0,1414.

Table 2. Correlation Among Research Variables

	1	2	3	4	5	6	7	8
1. FirmValue	1							
2. TaxAggresiveness	-0.0262	1						
	0.7035							
3. CorpGovernance	-0.1930	0.0932	1					
	0.0047	0.1753						
4. Size	-0.1616	-0.1132	-0.1301	1				
	0.0182	0.0994	0.0580					
5. Growth	0.1004	-0.0188	-0.0388	0.0560	1			
	0.1442	0.7849	0.5732	0.4163				
6. Profitability	0.3390	-0.2715	-0.1984	0.1360	0.0300	1		
	0.0000	0.0001	0.0037	0.0474	0.6637			
7. Leverage	-0.1888	0.2761	-0.0651	0.1973	0.1304	-0.1318	1	
	0.0057	0.0000	0.3442	0.0038	0.0575	0.0548		
8. TaxAggresiveness*	-0.1414	0.3928	0.8607	-0.1697	0.0281	-0.2279	0.0595	1
CorpGovernance	0.0392	0.0000	0.0000	0.0132	0.6832	0.0008	0.3875	

Variables definition:

FirmValue = Firm value, proxied by Ajusted Tobin's Q, calculated with the formula: (MVE+D/BE+D)

TaxAggresiveness=	Tax aggresiveness, proxied by ETR, calculated with the formula (Total Tax Expense/Net Income Before Tax)
CorpGovernance=	Corporate Governance, proxied by the percentage of institutional ownership. 1 for the percentage of institutional ownership above median and 0 otherwise
Profitability=	Profitability, proxied by Return on Assets (ROA), calculated as Net Income After Tax/Total Assets
Leverage =	Leverage, proxied by Debt to Assets Ratio (DAR), calculated as Total Liability/Total Assets
Size =	Firm size, proxied by logarithm of total assets
Growth=	Firm growth, proxied by the growth of sales, calculated as $Sales_t$-$Sales_{t-1}$/$Sales_{t-1}$

The Results of Hypotheses Tests

Table 3 shows the results of Hypothesis 1 and Hypotheis 2 testing. The regression models have R squared value or determination coefficient value of 0,2168 for Model 1 dan 0,2188 for Model 2, meaning that 21,68 percent and 21,88 percent of variation in FirmValue can be explained by independent variables in the Model 1 and Model 2 respectedly. Meanwhile, the test of significance of model (the test results are not shown) provides F-value of 9,50 with the significance of 0,0000 in Model 1 and 8,20 with the significance of 0,0000 in Model 2. These values indicate that at α=1 percent, the regression models can be used to predict the value of Firm Value or it can be said that TaxAgresiveness and CorpGovernance variables and controlling variables simultaneously influence FirmValue. Therefore, both research models are fit and valid.

Table 3. The Results of Hypothesis Testing

This table shows the results of hypothesis testing using 213 firm-year observations. The related research models as as follows:

Model 1

$$FirmValue = \alpha_0 + \alpha_1\ TaxAggresiveness + \alpha_2\ CorpGovernance + \alpha_3\ Profitability + \alpha_4\ Leverage + \alpha_5\ Size + \alpha_6\ Growth + \varepsilon$$

Model 2

$$FirmValue = \beta_0 + \beta_1\ TaxAggresiveness + \beta_2\ CorpGovernance + \beta_3\ TaxAggresiveness*CorpGovernance + \beta_4\ Profitability + \beta_5\ Leverage + \beta_6\ Size + \beta_7\ Growth + \varepsilon$$

	Model 1			Model 2		
	Coefficient	t Value	Sig.	Coefficient	t Value	Sig.
TaxAggresiveness	0,937	2,37	** 0,019	0,993	1,88	**0,062
CorpGovernance	-0,087	-0,69	0,492	-0,040	-0,14	0,890
TaxAggresiveness*CorpGov	-	-	-	-0,149	-0,18	0,856
Profitability	4,422	5,72	***0,000	4,434	5,07	***0,000
Leverage	-0,102	-1,35	0,179	-0,100	-1,12	0,262
Size	-0,205	-3,98	***0,000	-0,205	-4,38	***0,000
Growth	0,254	1,96	*0,051	0,254	1,97	*0,075
Constant	2,738	3,67	***0,000	2,731	3,85	***0,000
F Value	9,50 (0,000)			8,20 (0,000)		
R Square	0.2168			0.2188		

Variables definition:

FirmValue =	Firm value, proxied by Ajusted Tobin's Q, calculated with the formula: (MVE+D/BE+D)
TaxAggresiveness=	Tax aggresiveness, proxied by ETR, calculated with the formula (Total Tax Expense/Net Income Before Tax)
CorpGovernance=	Corporate Governance, proxied by the percentage of institutional ownership. 1 for the percentage of institutional ownership above median and 0 otherwise

Profitability=	Profitability, proxied by Return on Assets (ROA), calculated as Net Income After Tax/Total Assets
Leverage =	Leverage, proxied by Debt to Assets Ratio (DAR), calculated as Total Liability/Total Assets
Size =	Firm size, proxied by logarithm of total assets
Growth=	Firm growth, proxied by the growth of sales, calculated as $Sales_t$-$Sales_{t-1}$/$Sales_{t-1}$
*	Signifikan pada α=10%
**	Signifikan pada α=5%
***	Signifikan pada α=1%

The testing of Hypothesis 1 is focused on coefficient α_1 in Model 1. This coefficient indicates the influence of tax aggresiveness implemented by management on firm value. The test results show that α_1 is positive 0,937 and significant at α=5%. Since the higher ETR indicates the lower level of tax aggresiveness, it can be concluded that tax aggresiveness has a negative impact on firm value. The higher level of tax aggresiveness is associated to the lower of firm value. Therefore, Hypothesis I is supported.

Tax aggressiveness may be considered as positive or negative action by the market, depending on how the market assess such an action. If tax aggresiveness implemented by management is assessed as a management action to violate the tax rules, market perception is negative so that tha action may decrease the firm value. However, tax aggressiveness may be a positive action if the market assesses such actions as an effort to increase efficiency so that it can incresae firm value (Hanlon & Slemrod, 2009). The hypothesis testing result in this study shows that tax aggresiveness negatively influences firm value. This result indicates that within the companies in samples tax aggresiveness activity is considered as a negative management action by the market.

The test result of this study supports the study by Arora & Gill (2021). Arora & Gill (2021) argued that the negative relationship between tax aggresiveness and firm value is caused by moral hazzard related to taxation. In this case, in general companies did not disclose the information related to activities of tax aggresiveness done by management to the market so that it increase information asymetry. In turn, this information asymetry enforced the firm value to decrease.

The test result of this study is also aligned to the study by Putri & Hudiwinarsih (2018). That study provides the evidence that the decrease in firm value occurs when the company tries to avoid taxation obligation. This result supports signalling theory, where information disclosed by companies for external parties sends signal for investors and propective investors to invest or not to invest. When companies implement tax aggresiveness by manipulating their financial statements, investors receive inappropriate information of companiy condition. Therefore, investors (capital market) provide negative signal to the companies by decreasing their firm values.

Meanwhile, the result of Hypothesis 2 testing is shown by the value of coefficient β_1 in Model 2. This coefficient indicates the influence of corporate governance mechanism on the relationship between tax aggresiveness and firm value. Contrary to the initial prediction, the regression result produces coefficient β_1 with a negative value and not significant. This means that corporate governance mechanism does not have a moderation effect on the relationship between tax aggresiveness and firm value. Therefore, Hypothesis 2 is not supported.

The test result suggests that the negative perception by capital market about tax aggresiveness activity can not be interfered by quality of corporate governance mechanism. The coverage of corporate governance mechanism that does not take tax aggresiveness actions by management into account may be the factor. In this case, the decrease in firm value is caused by accounting matters related to tax aggresiveness, meanwhile corporate governance mechanism does not specifically involved in accounting policy (Ramadhani & Azmi, 2019).

Budiman & Fitriana (2021) provides another explanation about the lack of moderating effect of corporate governance. Their study argues that tax avoidance can not be detected by corporate governance mechanism. Companies implement tax aggresiveness by exploiting the loopholes in tax rules so that it does not violate the existing tax rules and companies are still able to reveal accounting information without jeopardizing transparency. In addition, like Ramadhani & Azmi (2019), that study argues that tax aggressiveness is related to accounting policy, meanwhile corporate governance mechanism is related to non-accounting scope, so it can not moderate the relationship between tax aggresiveness and firm value.

Also, Yee & Sapiei (2018) provide evidence that the strength of corporate governance mechanisam does not have moderating effect of the relationship between tax avoidance and firm value. Their study further examines whether the impact of tax avoidance on firm value will be different among firms with good corporate governance and firms with weak corporate governance. The result shows that the negative impact of tax avoidance on firm value can not be reduced by good corporate governance.

SUMMARY AND CONCLUSIONS

The purposes of this study are to examine whether tax aggresiveness has an influence on firm value. In addition, this study examine whether the influence of tax aggresiveness on firm value will be different among firms with different strength of corporate governance mechanism. Those two purposes are represented in two hypotheses proposed in this study. The two hypotheses are examined with linear regression statistic method using 213 firm-year samples from 2015-2019 data of 76 public firms registered at BEI from consumer cyclinal sector

Hypothesis of the negative influence of tax aggresiveness on firm value is supported by this study. Tax aggresiveness is considered as negative management action by capital market so that it decrease firm value. However, hypothesis of moderating effect of corporate governance on the relationship between tax aggresiveness and firm value is not supported by this study. There is no difference in the negative impact of tax aggresiveness on firm value between firms with strong corporate governance and firms with weak corporate governance.

This study provides several important implications to the literatures and practices of management accounting and taxation. The result indicates the negative impact of tax aggresiveness on firm value. Therefore, firms should undertake deep and thorough analysis before deciding to implement a certain tax aggresiveness action since its impact on market perception that may lead to the decrease in firm value. Meanwhile, this study shows a negative association between tax aggresiveness and firm value can not be interfered by corporate governance. Current coverage of corporate governance that is limited to strategic level and not in operational level may be the factor that make it can not hinder accounting policy that lead to tax aggresiveness actions. The result of this study may suggest that the current coverage of corporate governance mechanism at strategic level only should be contemplated.

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