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The Accounting Irregularities, Transfer Pricing Aggresiveness, and Firm Value: Does Tax Aggressiveness Matter?

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Abstract

Introduction / Main Objectives: *This research aims to examine factors that influence firm value, including Accounting Irregularities, Tax Aggressiveness, Transfer Pricing Aggressiveness.* ***Background Problems:*** *The company has the aim of getting profits that continue to grow consistently to increase firm value.* ***Research Method:*** *The notion was tested using Smart Partial Least Square (SmartPLS) version 3.0 software. Numeric data used in the computations is derived from secondary sources. This study focuses on the examination of financial data pertaining to manufacturing enterprises throughout the time frame of 2016 to 2022.* ***Findings / Results:*** *The findings of this study are that Accounting Irregularities and Transfer Pricing Aggressiveness have an effect on Tax Aggressiveness, but Accounting Irregularities, Transfer Pricing Aggressiveness and Tax Aggressiveness have no effect on Firm value. Mediation one and mediation two in this study also had no effect.* ***Conclusion:*** *These results can be a reference for investors in making investment decisions, companies in making decisions regarding tax avoidance can also use this research as a reference. The novelty of this research is the Accounting Irregularities variable with the mediation of tax aggressiveness on firm value, which has not been studied much in previous research.*

Keywords: Accounting Irregularities; Firm value; Tax Aggressiveness; Transfer Pricing Aggressiveness
JEL Classification: E62; M40

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INTRODUCTION

The company has a goal of getting profits that continue to grow consistently from year to year, in the short term. Obtaining profits or profits is one way for companies to increase value (Hasibuan et al., 2016). The company must remain in a profitable condition to maintain its survival and maintain investor confidence. After the short-term goals are achieved, the company will gradually move towards long-term achievements, which not only aim to make a profit but also increase the value of the company and improve the welfare of shareholders. In the eyes of shareholders, a company's worth is proportional to its stock price (Salvatore, 2005). Market confidence in a company's performance and future prospects rises in tandem with its stock price, as shown by the law of diminishing returns (Soebiantoro, 2007). This study will investigate three potential influences on firm value: accounting irregularities, transfer pricing aggressiveness, and tax aggressiveness. Management (agent) tries to present its best performance in financial reports in order to receive rewards (financial or otherwise) from the principal. This is despite the fact that management is tasked with presenting fair financial reports in accordance with accounting standards (PSAK No.1, 2012), which are based on honest and objective principles. Furthermore, in an effort to optimize profits, companies need to carry out cost efficiency. Tax burden is one of the company's obligations that cannot be avoided when the company is in a profitable condition. So companies must ensure that the company resources used to pay taxes are efficient, therefore companies tend to take tax aggressiveness. However, transfer pricing to affiliated companies is often the strategy chosen by companies to optimize profits.

The research gap in this research is as follows. The results of this research are in line with previous research that financial statement fraud affects firm value (Rukmana, 2018; Satria Rukmana, 2020). (Elviani et al., 2020) stated that there is an influence of fraudulent financial reporting on firm value. However, this is not in line with (Quraini & Rimawati, 2019) which states the opposite. (Anagayanti & Maradona, 2018) states that transfer pricing contributes to firm value in a significantly positive way. (Prastiwi & Walidah, 2020), who stated that tax aggressiveness has an impact on firm value. (Surahman & Firmansyah, 2017) concluded their research results that accounting irregularities had a negative and insignificant effect on tax aggressiveness. (Purwaningrum, 2020) found a positive but not significant influence between Accounting Irregularities and effective tax rates (ETR) to measure tax aggressiveness. (Amidu et al., 2019) with the conclusion that transfer pricing aggressiveness has a significant positive effect on tax avoidance. Meanwhile, (Falbo & Firmansyah, 2018), namely transfer pricing aggressiveness has no effect on tax avoidance.

The company has a goal of getting profits that continue to grow consistently from year to year, in the short term. Obtaining profits or profits is one way for companies to increase value (Hasibuan et al., 2016). The company must remain in a profitable condition to maintain its survival and maintain investor confidence. After the short-term goals are achieved, the company will gradually move towards long-term achievements, which not only aim to make a profit but also increase the value of the company and improve the welfare of shareholders.

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Management (agent) tries to present its best performance in financial reports in order to receive rewards (financial or otherwise) from the principal. This is despite the fact that management is tasked with presenting fair financial reports in accordance with accounting standards (PSAK No.1, 2012), which are based on honest and objective principles. Using dishonest means to gain an unfair advantage over another party is considered fraud (Elder et al., 2009). One kind of fraud is the presentation of false financial information (ACFE, 2018). Inaccurate financial reporting may have a negative effect on a company's worth. The price book value per share given is a good indicator of the company's worth. When share prices rise, so does the value of a corporation. This agrees with findings by (Elviani et al., 2020) that fraud in financial reporting may reduce a company's worth. So the hypothesis is

H1: It is suspected that Accounting Irregularities have an influence on firm value.

Investors use many metrics, including company valuation, to evaluate potential returns on their capital. The company's goal is to provide the best possible rate of return to its shareholders. Management reallocated earnings from high-tax to low-tax jurisdictions to sustain the company's worldwide profit growth. This is accomplished via the use of transfer pricing. If the firm is able to sustain its earnings growth, investors will have greater faith in its future success and be more likely to continue purchasing its shares. Shares of a firm that are in high demand will rise in price, signalling to investors that the company is becoming more valuable. According to the findings of (Jian & Wong, 2002), business dealings with related parties (related party transactions/RPT) are motivated by financial gain. If a business is incentivized to artificially inflate its earnings, it is more likely to engage in many transactions with controlling owners and other affiliated parties. This agrees with the findings of (Anagayanti & Maradona, 2018), who found that transfer pricing has a very beneficial effect on the value of companies. So the hypothesis is

H2: It is suspected that Transfer Pricing Aggressiveness has an effect on firm value.

Every company aspires to have high firm value because high firm value indicates a high level of prosperity for shareholders (Yasmin Ester & Hutabarat, 2020). For businesses that have gone public, the long-term goal that must be achieved is significant growth in firm value. The application of managerial functions can help a company achieve its goal of increasing business value because every decision made will have an impact on subsequent decisions and overall business value. Thus, tax aggressiveness can be used to increase firm value by managing company taxes. Tax aggressiveness refers to a company's highly proactive approach in seeking ways to reduce their tax liabilities, even if that involves aggressive interpretation of tax laws or exploiting existing legal loopholes. Practices of tax aggressiveness may include using complex corporate structures, shifting profits to low-tax jurisdictions, or taking advantage of tax incentives and breaks in ways that are unexpected or inconsistent with the spirit of tax law. According to (Lestari & Ningrum, 2018) Tax avoidance is an effort to reduce the amount of tax owed which is done legally and safely for taxpayers because it does not violate the provisions of tax laws and regulations. Anisiran et al, (2023) state that Tax Planning and Tax Avoidance have a positive effect on firm value.

In accordance with research by (Prastiwi & Walidah, 2020), which states that tax aggressiveness has an impact on firm value. So the hypothesis is

H3: It is suspected that Tax Aggressiveness has an effect on firm value.

Furthermore, accounting irregularities regarding tax aggressiveness is an unethical practice in the business world. This includes various actions such as manipulating financial records, ignoring tax rules, and taking advantage of legal loopholes to illegally reduce a company's tax obligations. By doing this, companies can show better financial performance than they actually do, which in turn can increase investor confidence or avoid attention from tax authorities. However, this kind of action can have long-term negative impacts, because it can result in legal sanctions, reputational losses, and decreased trust from various related parties. Therefore, it is important for companies to prioritize integrity and comply with applicable accounting and taxation principles. Research related to accounting irregularities on tax aggressiveness was carried out by (Surahman & Firmansyah, 2017) who concluded the results of their research that accounting irregularities had a negative and insignificant effect on tax aggressiveness. 2016, Hashim in (Purwaningrum, 2020) conducted an analysis of companies listed on the Malaysia Stock Exchange in 2008-2011 and concluded that there was a positive but not significant influence between Accounting Irregularities and effective tax rates (ETR) to measure tax aggressiveness. So the hypothesis is

H4: It is suspected that Accounting Irregularities have an influence on tax aggressiveness.

Transfer pricing aggressiveness is another issue in tax agresiveness. According to the vast majority of research (Amidu et al., 2019), transfer pricing is the primary tax avoidance method used by firms to maximise worldwide profits and minimise taxes. Transfer pricing aggressiveness, as defined by (Eden, L. & Smith, 2011), is a tax and financial incentive gained by a firm via the utilisation of various financial, economic, and jurisdictional distinctions. These advantages result from the likelihood of doing business in a way that minimises or eliminates tax liability by engaging in transactions with related parties in several tax countries (Desai & Dharmapala, 2006). In their studies of the link between transfer pricing and tax avoidance, researchers like (Taylor & Richardson, 2012) and (Amidu et al., 2019) found that more aggressive transfer pricing led to greater tax savings. This might be seen as the firm's proactive approach to transfer pricing for the purpose of minimising tax liability. The more aggressive a corporation is with its transfer prices, the more it is able to avoid paying taxes. (Panjalusman et al., 2018) and (Falbo & Firmansyah, 2018) came to opposite conclusions, finding that aggressive transfer pricing had little impact on tax agresiveness. So the hypothesis is

H5: It is suspected that Transfer Pricing Aggressiveness has an effect on tax aggressiveness.

The presence of accounting irregularities and the implementation of aggressive transfer pricing practises have a substantial influence on the decrease in the overall worth of a firm.

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However, of more significance is the mediating function of tax aggression within this association. In this particular instance, it has been shown that tax aggressiveness serves as the primary determinant connecting accounting irregularities practises and aggressive transfer pricing to a reduction in firm value. This observation suggests that these practises have a dual effect on financial performance, both directly and indirectly via their influence on tax tactics. Hence, more investigation is required to delve into the intricacies of accounting and transfer pricing choices, as well as to ensure meticulous adherence to accounting and taxation standards in order to sustain long-term corporate value. Therefore the hypothesis is:

H6: It is suspected that Accounting Irregularities influence firm value through tax aggressiveness.

H7: It is suspected that Transfer Pricing Aggressiveness influences firm value through tax aggressiveness.

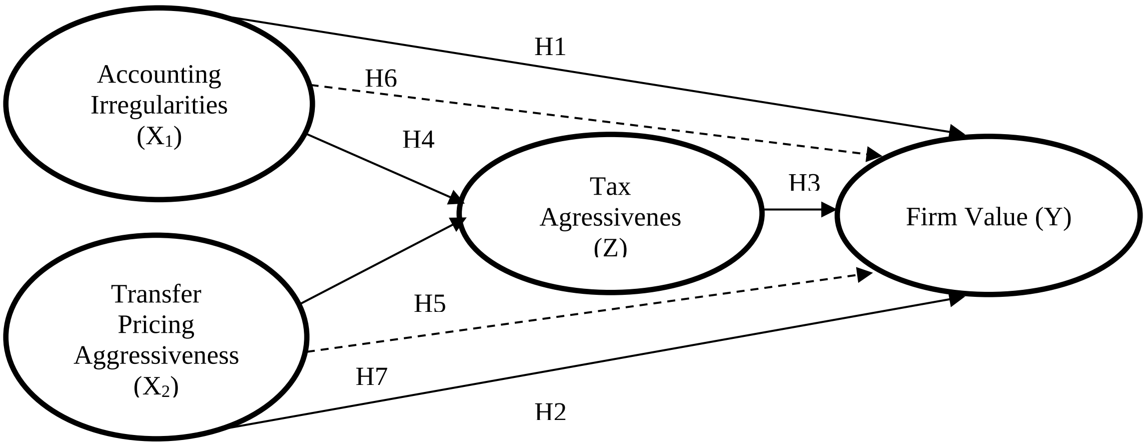

Figure 1. Conceptual Framework

METHOD

The analysis of the hypothesis was conducted using Smart Partial Least Square (SmartPLS) software, namely version 3.0 (Sugiyono., 2019). The computation method utilises quantitative research data, especially secondary data. The focus of this inquiry is to the financial reports of industrial enterprises spanning the years 2016 to 2022. The assessment of the model's validity and reliability is conducted through the utilisation of the measurement model, also known as the outer model(Anam et al., 2023). On the other hand, the examination of the structural model, referred to as the inner model, involves the implementation of various statistical tests such as the Stone-Geisser Q-square test for predictive relevance, the t test, and the evaluation of the significance of the structural path parameter coefficients(Ghozali., 2018). The population consists of all LQ45 enterprises that were traded on the Indonesia Stock Exchange throughout the period from 2019 to 2022. The experimental methodology used in this study was the utilisation of saturated sampling. The study's sample consisted of a total of 45 firms.

The primary objective of any corporation is to enhance its value, therefore contributing to the wealth of its owners or shareholders. The correlation between investors' evaluation of a firm's degree of performance, often referred to as business value, and share prices has been observed by (Bagus et al., 2017). A significant increase in a firm's share price is indicative of a correspondingly elevated valuation of the company. In order to persuade the market of the company's enduring prospects and its present operational achievements. The welfare of shareholders or company owners is positively correlated with the growth in share value. The equation representing the calculation of business value is as follows:

Price to Book Value (PBV) = Share Price / Book Value of Shares

For starters, we use AI (accounting irregularities index) to define accounting irregularities as an independent variable. (Beneish, 1999) investigated the prevalence of accounting irregularities by using AI. Measures of accounting irregularities in 2016 used in this study are derived from work done by Hashim in (Purwaningrum, 2020), who use the (Beneish, 1999) model, a set of eight financial measures that characterise the extent to which profits have been manipulated. Reference: (Purwaningrum, 2020). The following formulation was used to create Accounting Irregularities:

$$\boldsymbol{AI = -4.840 + (DSRI + GMI + AQI + SGI + DEPI + SGAI + LVGI + TATA)}$$

Transfer pricing refers to the pricing of goods, services, or intangible assets transferred between related entities within a multinational corporation. It involves (Sukma & Setiawati, 2022) assert that multinational corporations want to reduce their tax liabilities. The exploitation of tax laws gaps within a nation may lead to the emergence of tax avoidance practises. The corporation has the prerogative to establish transfer pricing for transactions involving entities with significant affiliations. The calculation of transfer pricing in this study is conducted using the formula proposed by (Utami & Irawan, 2022).

$$\mathrm{TP} = \frac{RPT\ Receivables\ (Related\ Party)}{Total\ Receivables}$$

According to the definition provided by (Wardhana et al., 2022), tax aggressiveness refers to a proactive approach used by managers to actively minimise or eliminate tax obligations. A lower effective tax rate (ETR) is indicative of a higher level of tax aggression. The measurement of tax aggression via the use of effective tax rates (ETR) is grounded in the works of (Wardhana et al., 2022).

$$\mathrm{ETR} = \frac{Total\ tax\ expense}{Profit\ Before\ Tax}$$

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RESULTS AND DISCUSSION

The overall data characteristics of each variable are presented in Figure 2 as follows:

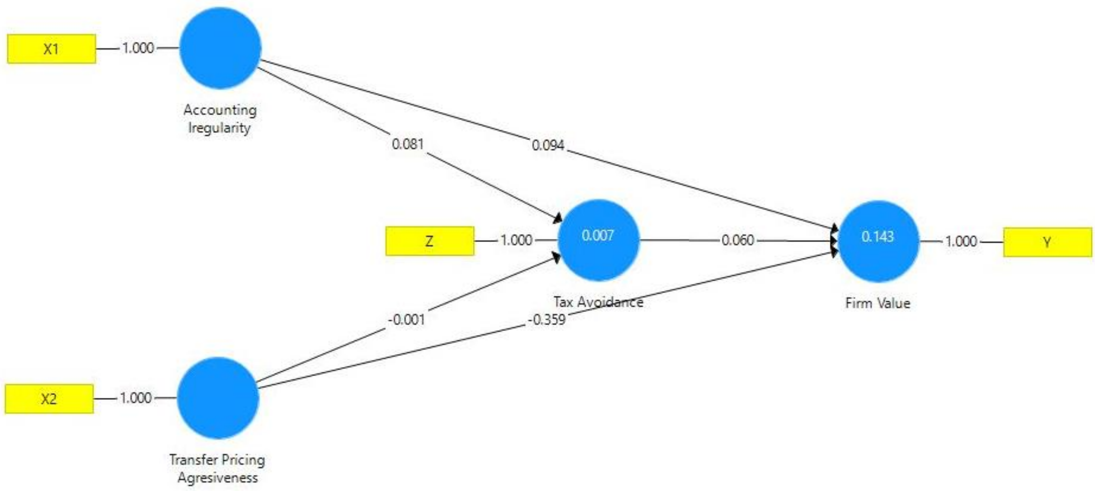

Figure 2. Output Calculate Algorithm
Source: Smart PLS Processing Data, 2023

In this study, the researchers used Partial Least Square (PLS) analysis to examine the hypotheses (Anam et al., 2023). The software tool smartPLS 3.2.7 was utilised for this purpose. Presented above is a schematic representation illustrating the operational framework of the PLS programme under examination (Sugiyono., 2019). The structural analysis model used in this research reveals that the factor loading value of the construct in question is 1.000, while the outer loading value for each individual variable index exceeds 0.7. Based on the results of this study, a robust correlation has been established between the different constructs and their respective indicators. This research aims to investigate seven potential options. By doing a comparison between the T-Statistic and the P-Value, it is possible to evaluate the validity of the null hypothesis. The study hypothesis is accepted when the test statistic (T) exceeds the critical value of 1.96 and the probability value (P) is below the significance level of 0.05. The results of the bootstrapping process and the findings of the hypothesis testing are shown below:

Table 2. T-Statistics Results and P values

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Accounting Irregularity -> Firm Value	0.099	0.101	0.066	1,489	**0.137**
Accounting Irregularity -> Tax Aggressiveness	0.081	0.080	0.041	1,986	**0.048**
Tax Aggressiveness -> Firm Value	0.060	0.053	0.044	1,365	**0.173**
Transfer Pricing Aggressiveness -> Firm Value	-0.359	-0.343	0.104	3,451	**0.001**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Transfer Pricing Aggressiveness -> Tax Aggressiveness	-0.001	0.003	0.045	0.029	**0.977**
Accounting Irregularity -> Tax Aggressiveness -> Firm Value	0.005	0.005	0.005	1,061	**0.289**
Transfer Pricing Aggressiveness -> Tax Aggressiveness -> Firm Value	0,000	0,000	0.003	0.028	**0.978**

Source: Smart PLS Processing Data, 2023

The result of the P value is 0.137, which is greater than 0.05, the significance coefficient with the statistical T value is smaller, namely 1.489 of (1.96), so Accounting Irregularities have no effect on firm value. In short, Accounting Irregularities (AI) are actions taken by companies to manipulate their financial reports. AI can involve forgery, embezzlement, or misuse of company assets. So management is more likely to avoid AI in an effort to improve the company. If a company implements AI, it causes the company to face legal, reputational and financial risks. These risks can reduce firm value. Apart from that, AI can cause distortion of financial information, in 2010 Dyck et al. in (Elviani et al., 2020) found that AI can reduce firm value by 20% and is in accordance with Fan et al. In the following year, namely 2012, (Elviani et al., 2020) found that AI could reduce firm value by 30%.

The result of the P value is 0.173, which is greater than 0.05, the significance coefficient with the statistical T value is smaller, namely 1.365 of (1.96), so that Transfer Pricing Aggressiveness has no effect on firm value. Firm value is not influenced by practices such as transfer pricing and transactions with affiliated parties. Even though the company strives to provide high investment returns for investors and maintain global profit growth, management does not shift profits between companies to take advantage of differences in potential tax payments. This practice is not carried out. Even though profit growth is maintained, this does not affect investors' optimism regarding the company's future performance or their desire to invest in the company's shares. Therefore, demand for shares did not increase significantly, and share prices did not experience a marked increase. This is not in accordance with research by (Anagayanti & Maradona, 2018) which stated the opposite in Nye's research.

The result of the P value is 0.137, which is greater than 0.05, the significance coefficient with a smaller statistical T value, namely 1.489 of (1.96), so that Tax Aggressiveness has no effect on firm value. In this research, tax aggressiveness may not have a direct impact on firm value, this does not mean that there are no long-term risks or consequences. Aggressive tax strategies are often the focus of attention from regulators and governments, and if deemed unethical or unlawful, can result in significant sanctions and

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fines. (Chen et al., 2014) found that tax aggressiveness did not have a significant impact on firm value. This result is in accordance with research by (Aryani & Fauzi, 2023) which stated that tax aggressiveness directly on firm value was proven to have no effect.

The result of the P value is 0.048, which is smaller than 0.05, the significance coefficient with the statistical T value is greater, namely 1.986 than (1.96), so Accounting Irregularities have an effect on tax aggressiveness. Furthermore, accounting irregularities regarding tax aggressiveness is an unethical practice in the business world. This includes various actions such as manipulating financial records, ignoring tax rules, and taking advantage of legal loopholes to illegally reduce a company's tax obligations. By doing this, companies can show better financial performance than they actually do, which in turn can increase investor confidence or avoid attention from tax authorities. However, this kind of action can have long-term negative impacts , because it can result in legal sanctions, reputational losses, and decreased trust from various related parties. Therefore, it is important for companies to prioritize integrity and comply with applicable accounting and taxation principles. Research related to accounting irregularities on tax aggressiveness was carried out by (Utami & Irawan, 2022) who concluded the results of their research that accounting irregularities had a significant effect on tax aggressiveness.

The result of the P value is 0.001, which is smaller than 0.05, the significance coefficient with the statistical T value is greater, namely 3.451 of (1.96), so that Transfer Pricing Aggressiveness has an effect on tax aggressiveness. Another factor that influences tax avoidance is transfer pricing aggressiveness. Most studies reveal that transfer pricing has become the main tax avoidance scheme utilized by companies in maximizing global profits and minimizing taxes (Amidu et al., 2019). (Eden, L. & Smith, 2011) stated that transfer pricing aggressiveness is a tax and financial incentive that a company gets when it uses different financial, economic and jurisdictional differences. These benefits are obtained from the opportunity to avoid taxes through transactions between related parties in different tax jurisdictions (Desai & Dharmapala, 2006). Research on the effect of transfer pricing on tax avoidance has been carried out by, among others, (Taylor & Richardson, 2012) and (Amidu et al., 2019) and (Utami & Irawan, 2022) with the conclusion that transfer pricing aggressiveness has a significant positive effect on tax avoidance. This can be interpreted as the transfer pricing aggressiveness carried out by the company in order to reduce taxes. The higher the value of transfer pricing aggressiveness, the higher the level of tax avoidance carried out by the company

The result of the P value is 0.289, which is greater than 0.05, the significance coefficient with the statistical T value is smaller, namely 1.061 of (1.96), so that tax aggressiveness does not mediate Accounting Irregularities on firm value. In short, tax aggressiveness is a company's effort to minimize the taxes it has to pay. Accounting Irregularities are actions taken by companies to manipulate their financial reports. This research states that tax aggressiveness cannot reduce the negative impact of Accounting Irregularities on firm value. This means that companies that carry out Accounting Irregularities will have a lower firm value, regardless of the level of tax aggressiveness. Accounting Irregularities can reduce investor confidence in the company. Investors will judge that companies that carry out Accounting Irregularities have higher risks, so they will demand higher returns. Tax aggressiveness can also have a negative impact on firm value. However, the negative impact of tax aggressiveness is not as strong as the negative impact of Accounting Irregularities. This is because tax aggressiveness can still be accepted by investors, as long as it does not violate the law. (Purwaningrum, 2020) Research results show that accounting irregularities does not have a significant effect on tax aggressiveness. (Aryani & Fauzi, 2023) stated that tax aggressiveness directly on firm value was proven to have no effect. Research by (Anisran & Ma'wa, 2023) confirms that accounting irregularities cannot strengthen the relationship between the variables Tax Planning and Tax Avoidance on Firm value.

The result of the P value is 0.978, which is greater than 0.05, the significance coefficient with the statistical T value is smaller, namely 0.028 of (1.96), so that tax aggressiveness does not mediate Transfer Pricing Aggressiveness on firm value. Transfer pricing aggressiveness can increase company risk. Investors will judge that companies that carry out transfer pricing aggressiveness have higher risks, so they will demand higher returns. Tax aggressiveness can also have a negative impact on firm value. However, the negative impact of tax aggressiveness is not as strong as the negative impact of transfer pricing aggressiveness. This is because tax aggressiveness can still be accepted by investors, as long as it does not violate the law. Investors will judge that companies that carry out transfer pricing aggressiveness have higher risks, so they will demand higher returns. So tax aggressiveness cannot reduce the negative impact of transfer pricing aggressiveness on firm value. This means that companies that carry out aggressive transfer pricing will have lower firm value, regardless of the level of tax aggressiveness. In accordance with (Sukma & Setiawati, 2022) stated that transfer pricing has no effect on tax avoidance. (Aryani & Fauzi, 2023) stated that tax aggressiveness directly on firm value was proven to have no effect.

CONCLUSION

From the results of this research, Accounting Irregularities and Transfer Pricing Aggressiveness have an effect on Tax Aggressiveness, but Accounting Irregularities, Transfer Pricing Aggressiveness and Tax Aggressiveness have no effect on Firm value. Mediation one and mediation two in this study also had no effect. These results can be a reference for investors in making investment decisions, companies in making decisions regarding tax avoidance can also use this research as a reference.

AUTHORSHIP CONTRIBUTION STATEMENT

The article's writers shared responsibilities for research, writing, and analyzing data.

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