Nanotechnology Perceptions
ISSN 1660-6795
www.nano-ntp.com

The Effect of Tax Avoidance, Tax Risk, Audit Tenure, on Firm Value Through Financial Performance

Riana Rachmawati Dewi, Sri Hartono, Endang Masitoh

Faculty of Economic, Universitas Islam Batik Surakarta, Indonesia
Email: rianardewi1@gmail.com

This research investigates the influence of tax avoidance, tax risk, and audit quality on firm value, with financial performance serving as a mediating variable. The study is motivated by the need to enhance firm value in the face of increasing government tax policies and declining economic conditions during the COVID-19 pandemic. The research adopts a quantitative approach using Partial Least Square Structural Equation Modelling (PLS-SEM) to analyze data from 40 companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. The results show that tax avoidance harms financial performance, but positively influences firm value. Audit quality positively affects both financial performance and firm value. However, tax risk does not have a significant effect on either financial performance or firm value. Financial performance partially mediates the relationship between tax avoidance, audit quality, and firm value, indicating that strong financial performance enhances the positive impact of audit quality on firm value. The findings highlight the importance of tax management and audit quality in maintaining financial performance and enhancing firm value.
Keywords: tax avoidance, tax risk, audit quality, financial performance, firm value.

1. Introduction

The sluggish and declining economic conditions when COVID 19 hit the world made many countries make many policies to save state finances. During the 2019-2020 period, Indonesia made policies in the field of special taxes for MSMEs and tax relaxation for public companies. Starting in 2022, the government will begin to increase taxes to increase state revenue. Companies included in the IDX in 2020 are in the manufacturing, agribusiness, transportation, construction and financial sectors whose economic growth is slowing because

people's purchasing power is decreasing. that are still borne and taxes that are charged. In order for companies to be sustainable, ultimately they still need firm value as part of their efforts to attract investors to invest. Audit quality is important to convince investors that the financial reports presented by management are reliable and trustworthy. The problems raised are audit quality, tax risk, tax avoidance and their impact on financial performance and firm value. Researcher also want to prove concept (1) which states that tax risk and tax avoidance are considered together when examining firm value.

Research in Indonesia regarding tax risk is still not popular because investors and management already make tax planning and management at the beginning of the year to minimize existing tax risks.

2. Research Methodology

A. Theoretical Foundation

Problems arise when audit quality is questioned, thereby threatening the integrity of financial information due to pressure, regulatory complexity and conflicts of interest.

Tax risk and tax avoidance are important elements in company financial management (2) The emergence of tax risk and tax avoidance is due to the uncertainty of tax policy, tax regulations which are always changing so that if a company does not make effective efforts to manage tax risk and tax avoidance it will face consequences in the form of tax sanctions, loss of reputation and a negative impact on company value (3).

Regarding firm value, companies cannot ignore the impact of audit quality and tax risk on company value (6). Low audit quality or tax risks that are not managed well will provide uncertainty to the financial information that investors need for making investment decisions (7). In the USA, it is explained that in multinational companies, the market reaction will be positive when they manage taxes a little aggressively (1).

Regarding firm value, companies cannot ignore the impact of audit quality and tax risk on company value (4). Low audit quality or tax risks that are not managed well will provide uncertainty to the financial information that investors need for making investment decisions (5). In the USA, it is explained that in multinational companies, the market reaction will be positive when they manage taxes a little aggressively (1).

1. Agency Theory

In business entities, there is a separation between owners and managers which creates a principal and agent relationship (Jensen and Meckling, 1976). The relationship that exists so as not to create risks, agents do not merely act in the interests of the owner, but there are limits.

Financial reporting as a form of agent responsibility allows information to be free from information asymmetry. Management has an interest in intensive care and this is very dependent on sales results and net profit after deducting all existing tax burdens (9). Tax decisions are management's responsibility, so managing taxes and risks is an effort to avoid taxation or keep information secret that has a negative impact on management (6).

2. Signal Theory

Signal theory provides an explanation that all actions taken contain information and it is possible for information asymmetry to arise. According to (7), signal theory is an action taken by management that can provide information to investors regarding the company's perspective from a management perspective. This theory is possible to provide signals to users or investors who make investments. This is in the form of information that has been implemented by management in plans to realize what investors want.

3. Firm Value

The value of the company from an investor's perspective is the success of the Company's management in managing the resources it owns as well as an overview of the Company's condition, namely performance. Measuring company value by using price to book value (PBV),

which compares the share price with the book value per share (8).

4. Tax Avoidance

Tax avoidance is a taxpayer's action to reduce the burden of taxes paid or the amount of tax still owed using certain techniques and methods but not deviating from or not complying with applicable tax regulations. Tax Avoidance exploits loopholes in legalized tax regulations and accounting policies (8). In this research, tax avoidance uses the GAAP ETR measurement, comparing the total income tax burden with profit before tax.

5. Tax Risk

Tax risk is uncertainty regarding the Company's future taxes (9) because the Company cannot maintain its tax rating in the long term. At ISO 2018, the International Organization for Standardization explained that tax risks previously came from economic risks, changes in tax policy and inaccurate information. Economic risk is the possibility of rewards given from investment, changes in taxation policy, namely uncertainty in efforts to apply taxation rules and inaccurate information possible due to financial management, accounting policies, managerial systems, and experience in making decisions (10).

6. Audit Quality

a. External audit quality is an important indicator for trusting a financial report companies because audit quality can limit opportunistic and earnings management practices highlighting risks such as major misstatements or exceptions in financial statements (11) Jensen and Meckling, 1976). The external auditor is responsible for the identification company financial reports and provide an independent opinion on these reports.

Most research on audit quality has concentrated on differences between auditors large firms and large non-firm auditors. Big firm auditors will be more motivated to uncover managers' fraud because they can provide oversight more effectively for the company, and they will experience losses if they fail audit occurs (12). Plus, they have a lot of clients to fall back on attention so that large firm auditors have a strong incentive to develop and maintain a high-quality audit scope, improve potential use of resources in the audit process to protect the client's reputation.

b. Tenure Audit

Based on 17/PMK.01/2008 and Republic of Indonesia Government Regulation Number 20 of 2015, namely the 2008 regulation, the limitation period for providing audit services by KAP is limited to 6 (six) consecutive financial years and by a public accountant and 3 (three) consecutive financial years by a public accountant to the same client, and public accountants and KAPs can receive assignments again after one financial year of not providing audit services to that client. Republic of Indonesia Government Regulation Number 20 of 2015 no longer limits the period for providing audit services by KAP and for public accountants it is extended to 5 (five) consecutive financial years (15), and reassignment is carried out after 2 (two) financial years.

7. Financial Performance

Financial performance is measured by profitability ratios. Profitability explains the Company's ability to generate profits from sales. In calculating profitability using ROA and ROE. ROA is a profitability rasio to assess the company's ability to generate profits with assets (13). ROE, Return on Equity Ratio (ROE) is a profitability ratio to assess the company's ability to generate profits from the investment of the company's shareholders expressed as a percentage. Return on equity shows how successfully the company manages its capital (net worth), so the level of profit is measured from the investment of the company's capital owners or shareholders. ROE is the profitability of own capital or what is called business profitability (14).

This research uses a population of manufacturing companies during the 2019-2023 period of 147 issuers registered on the IDX. The sampling technique is purposive sampling with the following criteria:

1. Companies that are consecutively listed on the IDX

2. Publication of annual reports consecutively during the observation period

3. Publication of financial reports in rupiah currency

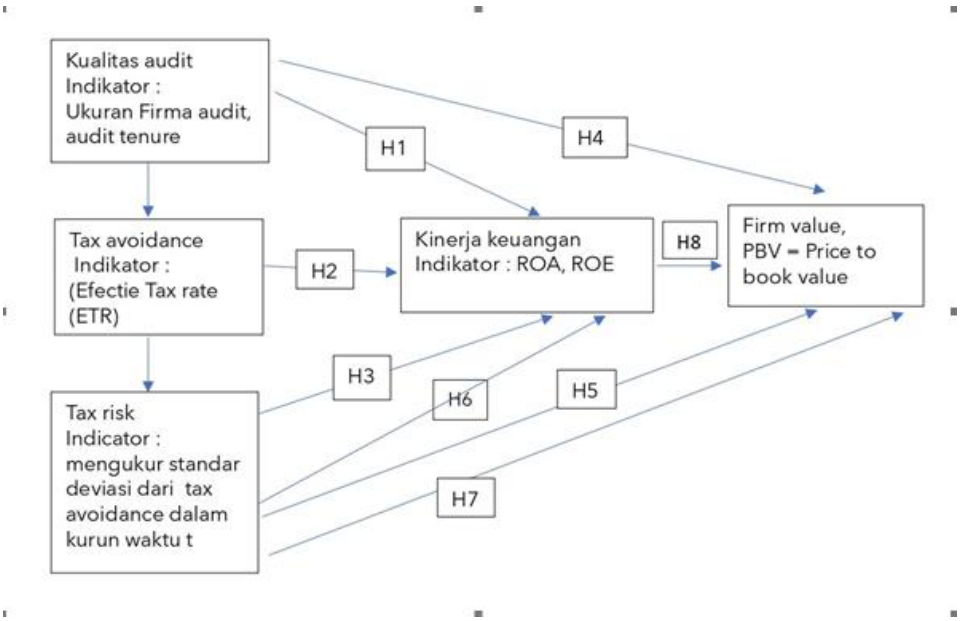
4. Experienced profit during the observation period

5. Have the data needed for research

There are 147 listed companies listed, 47 of which do not publish annual reports in a row, 23 issuers publish financial reports using dollars. During the observation period, 37 companies reported losses. The total sample was 40 issuers that could be used as samples. The amount of data processed was only 200 observation data.

This research uses path analysis to test direct and indirect relationships so it uses path analysis. (1)Guedrib's research uses multiple linear regression with data for 12 years in Tunisia.

3. Research framework



4. Results and Discussion

A total of 200 observation data. The analysis method used in this study is Partial Least Square - Structural Equation Modelling (PLS-SEM) using SmartPLS statistical software version 4. Furthermore, the research model can be seen in the following figure:

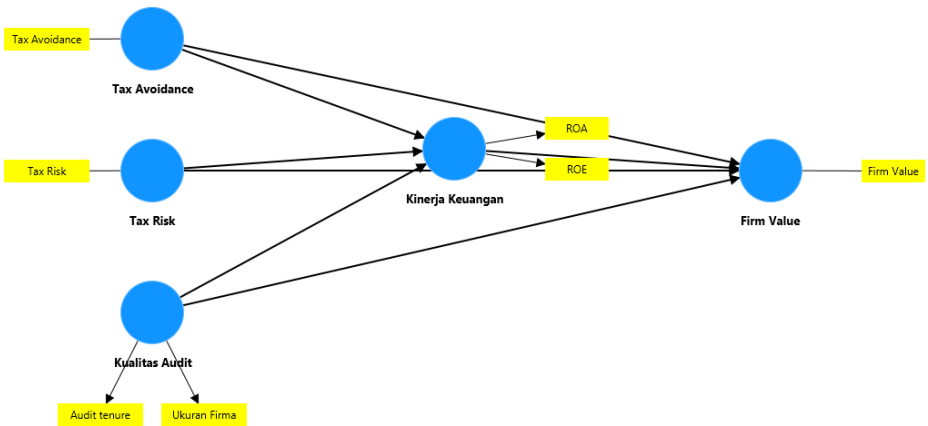


Figure 1 Path Diagram of the Research Model

Source: SmartPLS.4.0 Data Processing Results

Descriptive Analysis of Research Variables

According to Ghozali (2014), descriptive statistics are descriptive or an overview of data that

can be seen from the mean, standard deviation, minimum and maximum for numerical type data and can be seen through frequency distribution if the data is of categorical type. The variables in this study include tax avoidance, tax risk, audit quality which consists of two dimensions, namely audit tenure and firm size as independent variables, financial performance consisting of two dimensions, namely ROA and ROE as mediating variables, and firm value as a dependent variable. In this study, the variables tax avoidance, tax risk, financial performance (ROA and ROE), and firm value are numerical data, while audit quality (audit tenure and firm size) is categorical data. The sotware or statistical program used for descriptive analysis in this study is SPSS Version 26. The following are the results of the descriptive analysis of variables in this study:

Results of Descriptive Analysis

Variable		N	Min	Max	Mean	Standard deviation
Tax Avoidance		200	0,002	1,354	0,251	0,138
Tax Risk		200	0,133	0,359	0,205	0,080
Financial Performance	ROA	200	0,000	0,420	0,092	0,079
	ROE	200	0,000	1,400	0,170	0,219
Firm Value		200	0,030	60,670	3,660	8,061

Source: SPSS Data Processing Results Version 26

Based on the table above, it is known that the variable tax avoidance has a minimum value of 0.002 and a maximum of 1.354, with an average of 0.251 and a standard deviation of 0.138. The tax risk variable has a minimum value of 0.133 and a maximum of 0.359, with an average of 0.205 and a standard deviation of 0.080. The ROA variable has a minimum value of 0.000 and a maximum of 0.420, with an average of 0.092 and a standard deviation of 0.079. The ROE variable has a minimum value of 0.000 and a maximum of 1.400, with an average of 0.170 and a standard deviation of 0.219. The firm value variable has a minimum value of 0.030 and a maximum of 60.670 with an average of 3.660 and a standard deviation of 8.061. Based on the description above, it can be said that tax avoidance, tax risk and ROA data have good data quality, because the average value is greater than the standard deviation value.

Table of Descriptive Analysis Results

Audit Quality Variables		Sum	Percentage
Firm Size	Not the Big Four	101	50,5%
	Big Four	99	49,5%
Audit Tenure	Less than 3 years	14	7,0%
	More than 3 years	186	93,0%

Source: SPSS Data Processing Results Version 26

Of the 200 observation data, 101 observation data (50.5%) are not in the Big Four category and 99 observation data (49.5%) are in the Big Four category. This shows that based on the category of firm size indicators on the audit quality variable, the observation data of this study is quite balanced. Meanwhile, based on the category of audit tenure indicators on audit quality variables, the companies/observation data in this study are dominated by companies/observation data whose audit tenure is more than 3 years, namely 186 observation data (93.0%), while companies/observation data whose audit tenure is less than 3 years as many as 14 companies/observation data (7.0%).

Result of Data Analysis Partial Least Square - Structural Equation Modelling (PLS-SEM)

In this study, the data analysis method used is Partial Least Square Structural Equation Modelling (PLS-SEM) analysis using SmartPLS Version 4 software. The series of data management processes includes testing the measurement model (outer model) and testing the structural model (inner model).

Evaluation of Measurement Model (Outer Model)

The first stage of PLS-SEM analysis is to test the measurement model or outer model. The evaluation of the measurement model or outer model aims to see the validity of the indicator and the reliability of the construct. In this study, there are all latent variables formed with reflective indicators. In the reflective relationship model, the evaluation of the outer model consists of convergent validity, discriminatory validity and reliability.

Convergent variable testing

The convergence validity test aims to test whether the indicator variables used are significant in terms of reflecting construct or latent variables. A reflective indicator is said to be valid, if the outer loading/factor loading value is greater than 0.7 (Hair, 2022) Sarstedt, M. (2022) That is, if the refractive indicator has an outer loading value of less than 0.7, it will be eliminated and retested. The following are the results of the convergent validity analysis in this study:

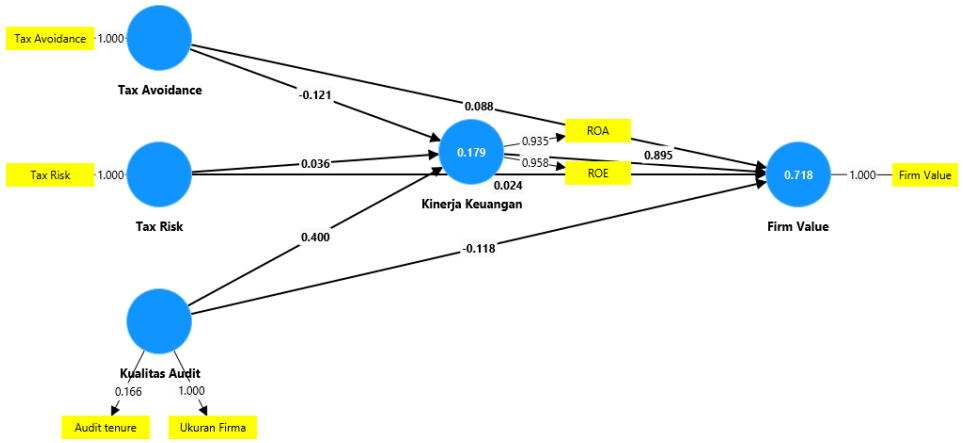


Figure of Measurement Model Evaluation (Outer Loading) (1)

Table of Results of Convergent Validity Testing Based on Outer Loading (1)

Variable	Indicator	Outer Loadings
Tax Avoidance		1,000
Tax Risk		1,000
Audit Quality	Audit Tenure	0,166
	Firm Size	1,000
Financial Performance	ROA	0,935
	ROE	0,958
Firm Value		1,000

Source: SmartPLS.4.0 Data Processing Results

Based on the results of the measurement model in the table above, it is known that there is an indicator that has an outer loading/factor loading value of less than 0.7, namely the tenure audit, with a value of 0.166 (<0.7). Thus the audit tenure indicator on the audit quality variable is omitted or removed in the model. So, a re-analysis was carried out with the following results:

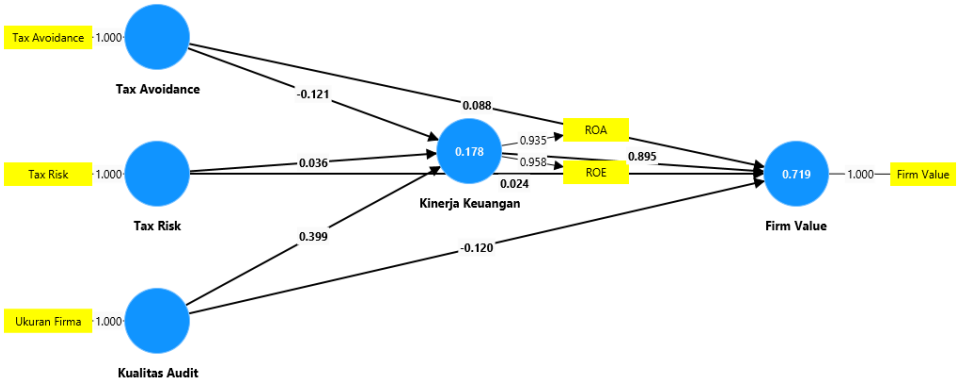


Figure of Measurement Model Evaluation (Outer Loading) (1)

Table of Results of Convergent Validity Testing Based on Outer Loading (2)

Variable	Indicator	Outer Loadings
Tax Avoidance		1,000
Tax Risk		1,000
Audit Performance	Firm Size	1,000
Financial Performance	ROA	0,935
	ROE	0,958
Firm Value		1,000

Source: SmartPLS.4.0 Data Processing Results

After the tenure audit indicator is issued in the model, it can be seen in Table XXX that all indicators have an outer loading / factor loading value of more than 0.7. Thus, it can be concluded that the model has met the validity of convergence.

For latent variables, convergent validity tests are also carried out by looking at AVE (Average Variance Extracted) values. It is stated that the construct meets convergent validity if the AVE value of the construct is more than 0.5 (Hair, 2019). The latent variabes in this study are financial performance, which consists of ROA and ROE indicators. The following are the results of the convergence validity test based on the AVE score:

Table of Results of Convergent Validity Testing Based on AVE

	Average Variance Extracted (AVE)
Financial Performance	0,895

Source: SmartPLS.4.0 Data Processing Results

Based on Table XXX, the AVE value of financial performance is 0.895 (>0.5). Which means that the variable has met the convergence validity criteria.

Discrimination Validity Testing

The validity of discrimination is carried out to ensure that each concept of each latent

variable is different from the other variables. The validity of discrimination can be seen through the Fornell-Lacker Criterian test, which believes that the model has good validity of discrimination if the square value of AVE of each exogenous construct (value at the diagonal) exceeds the correlation between the construct and other constructs (value below the diagonal) (Henseler et al, 2015) [Bibliography: Henseler, J., Ringle, C. M., and Sarstedt, M. (2015). A new criterion for assessing discriminant validity in variance-based structural equation modeling., Journal of the Academy of Marketing Science, 43(1): 115-135]. The results of the Fornell Larcker criterion test were obtained as follows:

Table of Discrimination Validity Test Results Through the Fornell Larcker Criterion Test

	Firm Value	Financial Performance	Audit Quality	Tax Avoidance	Tax Risk
Firm Value	1,000				
Financial Performance	0,835	0,946			
Audit Quality	0,237	0,404	1,000		
Tax Avoidance	-0,024	-0,135	-0,048	1,000	
Tax Risk	0,052	0,018	-0,006	0,122	1,000

Source: SmartPLS.4.0 Data Processing Results

Based on the results of the Fornell Larcker criterion test in Table XXX, it can be seen that the value of the square root of AVE of each construct is greater than the value of the correlation between constructs and other constructs in the model. So that the requirements for the validity of discrimination have been met.

In addition, the validity of discrimination can be seen through the Heterotrait-Monotrait Ratio (HTMT) test. The recommended HTMT value should be less than 0.9 to ensure the validity of discrimination between two reflective constructs (Franke & Sarstedt, 2019) [Bibliographic Reference: Franke, G. R., & Sarstedt, M. (2019). Heuristics versus Statistics in Discriminant Validity Testing: A Comparison of Four Procedures, Internet Research, 29(3): 430-447]. The results of the Heterotrait-Monotrait Ratio test were obtained as follows:

Criminal Validity Test Results Table

	Firm Value	Financial Performance	Audit Quality	Tax Avoidance	Tax Risk
Firm Value					
Financial Performance	0,873				
Audit Quality	0,237	0,437			
Tax Avoidance	0,024	0,147	0,048		
Tax Risk	0,052	0,02	0,006	0,122	

Source: SmartPLS.4.0 Data Processing Results

Based on the results of the HTMT test produced in Table XXX and Table XXX showing that all HTMT values are less than 0.9, it can be stated that all constructs have been valid in terms of discipline validity.

Reliability Testing

Reliability tests are carried out to determine the level of internal consistency of indicators in measuring certain latent constructs or variables. In this study, the latent variables are only found in financial performance, which consists of ROA and ROE. Good reliability or

questionnaires used as reliable and consistent research tools if the value of Cronbach's alpha and composite reliability is more than 0.70 (Hair at al, 2024). [Hair, J. F., Sarstedt, M., Ringle, C. M., & Gudergan, S. P. (2024). Advanced issues in partial least squares structural equation modeling (PLS-SEM), 2nd ed., Thousand Oaks, CA: Sage.]. The statistical results of the reliability test can be seen in the following table:

Table. Reliability Test Results

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)
Financial Performance	0,884	0,913	0,945

Source: SmartPLS.4.0 Data Processing Results

Table XXX shows that all research variables have a Cronbach's alpha value and composite reliability of more than 0.7. Thus, it can be concluded that the construction of financial performance indicators consisting of ROA and ROE has met the required reliability so that the analysis can be carried out to the next stage, namely the inner model.

Structural Model Evaluation (Inner model)

In the second part of the PLS SEM analysis, the inner model consists of an evaluation of the structural model and the significance level of the path coefficient. The evaluation of the structural model was carried out to ensure that the structural model built was robust and accurate by looking at several indicators including the model fit test (Goodness of Fit) through the Standardized Root Mean Square Residual (SRMR), Q-Square predictive relevance (Q2), multicollinearity test (VIF) and R-Square determination coefficient (R2). Furthermore, the evaluation of the inner model also looks at the level of significance of the path coefficient used for hypothesis testing, namely predicting the relationship between latent variables.

Value Testing Standardized Root Mean Square Residual (SRMR)

After the conditions in the measurement model are met, the model fit test (Goodness of fit model) is then carried out. The PLS model match can be seen from the Standardized Root Mean Square Residual (SRMR) value of the model. The PLS model is declared to have met the criteria of Goodness of fit or the model is declared fit if the SRMR value < 0.1 (schermelleh et al 2003) [Bibliography: Schermelleh-Engel, K., Moosbrugger, H., & Müller, H. (2003). Evaluating the Fit of Structural Equation Models: Tests of Significance and Descriptive Goodness-of-Fit Measures]. The following are the results of the SRMR value in the PLS model of this study:

Table Value Standardized Root Mean Square Residual (SMRM)

	Saturated Model	Estimated Model
SRMR	0,051	0,051

Source: SmartPLS.4.0 Data Processing Results

The results of the Goodness of fit model test in Table XXX show that the SRMR value of the model in the saturated model and the estimated model is 0.051 (<0.1). Thus, it can be concluded that the model is declared fit and suitable to be used to test the research hypothesis.

Predictive Relevance (Q^2) Testing

Q-Square Predictive Relevance (Q2) in PLS (Partial Least Square) analysis shows the predictive power of the model. A model Q2 value of more than 0 indicates that the model has good predictive relevance, while a Q^2 value of less than 0 indicates that the model has less predictive relevance (Chin (1998), Ghozali & Latan (2014)) [Bibliography: Chin, W. W. (1998). The Partial Least Squares Approach to Structural Equation Modeling. Modern Methods for Business Research, 295, 336 and Ghozali, I. & Latan, H. (2014). Partial Least Squares Concepts, Techniques, and Applications Using the SmartPLS 3.0 Program for Empirical Research. Semarang: Diponegoro University Publishing Board.] According to Garson (2016), if the predictive relevance value of Q2 is more than 0.02 to 0.15, the predictive relevance of the model is weak; between 0.15 to 0.35 stated the predictive relevance of the moderate model; Above 0.35 indicates that the validity of the model's predictive relevance is strong. [bibliography: Garson, G. D. (2016). Partial least squares. Regression and structural equation models].

Table Nilai Q Square Predictive Relevance (Q^2)

Variable	Q^2	Information
Financial Performance	0,155	Have good and moderate predictive relevance values
Firm Value	0,694	Have good and strong predictive relevance values

Source: SmartPLS.4.0 Data Processing Results

Based on Table XXX, it was obtained that the Financial Performance variable had a Q2 value of 0.155 and the firm value variable had a Q2 value of 0.694. The calculation results show that the prediction of the relevance value (Q2) of the two variables is more than 0, so the model can be said to have a relevant prediction value or the model is fit or feasible for hypothesis testing.

Multicollinearity Test

The Multicollinearity Test was carried out to find out whether there were symptoms of multicollinearity or a high correlation between independent variables in the research model. The good result was that there was no high correlation between the independent variables (Hair et al., 2014). Decision-making assumes that if the VIF value is < 5, then there are no symptoms of multicollinearity, if the VIF value is > 5, then symptoms of multicollinearity occur (Hair, Ringle & Sarstedt, 2011). The results of the Multicollinearity Test in this study are as follows:

Table. Multicollinearity Test Results

	Financial Performance	Firm Value
Financial Performance		1,217
Audit Quality	1,002	1,196
Tax Avoidance	1,017	1,035
Tax Risk	1,015	1,017

Source: SmartPLS.4.0 Data Processing Results

Based on Table XXX, all VIF values are less than 5 (VIF <5). Thus, it can be said that there is no multicollinearity problem in this study.

R Square determination coefficient (R2)

The R Square determination coefficient (R2) shows how much the exogenous variable explains the endogenous variable. The value of R2 is zero to one. If the R2 value is getting closer to one, then the independent variables provide all the information needed to predict the variation of endogenous variables. Conversely, the smaller the R2 value is closer to 0, the more limited the ability of independent variables to explain the variation of endogenous variables. According to Garson (2016), the R2 value is categorized as strong if it is more than 0.67, moderate or moderate if it is more than 0.33 but lower than 0.67, and weak if it is more than 0.19 but lower than 0.33. [bibliography: Garson, G. D. (2016). Partial least squares. Regression and structural equation models]. The results of the R2 determination coefficient of this study are in the following table XXX.

Tabel. Nilai R Square (R^2)

Endogenous Variables	R Square (R^2)	Criterion
Financial Performance	0,178	Very Low
Firm Value	0,719	Tall

Source: SmartPLS.4 Data Processing Results

Based on Table XXX, it can be stated that tax avoidance, tax risk, and audit quality simultaneously affect the financial performance variables, which are 0.178 or 17.8%, while the remaining 82.2% are influenced by other factors outside the model. Then, tax avoidance, tax risk, audit quality and financial performance simultaneously affected the firm value variable by 0.719 or 71.9%, while the remaining 28.1% was influenced by other factors outside the model.

Path Coefficient Significance Level (Hypothesis Testing)

The analysis of the level of path coefficient significance in PLS-SEM was carried out using the bootstrapping technique which aimed to determine the direction of the relationship and the significance of the relationship between exogenous latent variables and endogenous latent variables. The assessment of the relationship between exogenous latent variables and endogenous latent variables is carried out by looking at t-statistical values or p-values. The PLS-SEM analysis hypothesis test in this study used a two-way hypothesis test with a significance of 5% or with an error tolerance of $\alpha = 0.05$. The decision-making in the PLS-SEM analysis for the two-way hypothesis with a 5% significance test is that if the |t-statistic| value > 1.96 or the significance value (p-value) < 0.05, then reject H0 or accept H1, which means that there are exogenous variables that have a significant effect on endogenous variables. Conversely, if the value of |t-statistic| ≤ 1.96 or a significance value (p-value) ≥ 0.05, then accept H0 or accept H1, which means that the influence of exogenous variables does not have a significant effect on endogenous variables (Hair et al, 2014). Bibliography: Hair Jr, J. F., Hult, G. T. M., Ringle, C. and Sarstedt, M. (2014). A primer on partial least squares structural equation modelling (PLS-SEM). Sage Publication]. The results of the structural or inner model tests are described in Figure XXX and Table XXX:

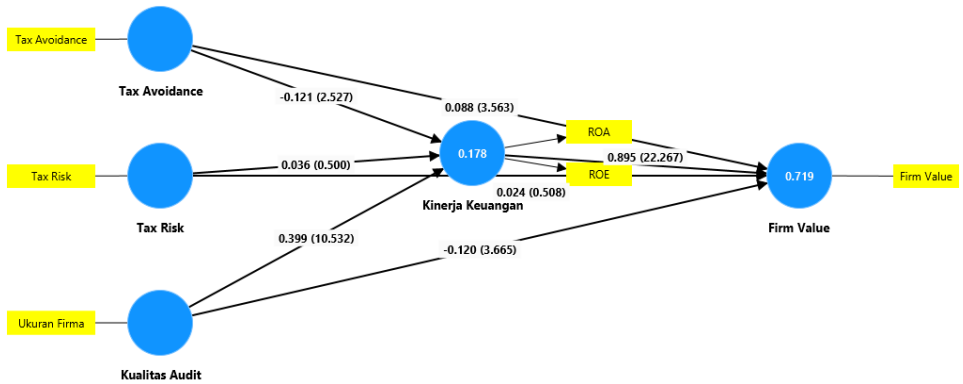


Figure Path Diagram Path Coefficient & t-Value Inner model

Source: SmartPLS.4.0 Data Processing Results

Table. Results of Testing the Direct Influence Hypothesis

Hypothesis		Coeff. Path	T statistics	P values	Information
H1	Tax Avoidance -> Financial Performance	-0,121	2,527	0,012*	Signifikan
H2	Tax Risk -> Financial Performance	0,036	0,500	0,617	No Definition
H3	Audit Quality -> Financial Performance	0,399	10,532	0,000*	Signifikan
H4	Tax Avoidance -> Firm Value	0,088	3,563	0,000*	Signifikan
H5	Tax Risk -> Firm Value	0,024	0,508	0,612	No Definition
H6	Audit Quality -> Firm Value	-0,120	3,665	0,000*	Signifikan
H7	Financial Performance -> Firm Value	0,895	22,267	0,000*	Signifikan

*Significant at α=5% (p-value <0.05)

Source: SmartPLS.4.0 Data Processing Results

Based on the test table, the direct influence hypothesis can be known:

H1: There is an effect of tax avoidance on financial performance (Accepted or Data Support Hypothesis)

Based on Table XXX on Tax Avoidance -> Financial Performance, a t-statistics value of 2.527 (>1.96) with a p-value of 0.012 (<0.05) was obtained. Thus, in accordance with decision-making using the 5% significance test, it can be concluded that there is a significant influence between tax avoidance and financial performance. Thus the first hypothesis of the study (H1) is accepted or the data support the hypothesis. Furthermore, the value of the tax avoidance coefficient is negative -0.121, which means that tax avoidance has a negative effect on financial performance. This means that an increase in tax avoidance will result in a decrease in the company's financial performance.

H2: There is an effect of tax risk on financial performance (Rejected or Data Does Not Support the Hypothesis)

Based on Table XXX on Tax Risk -> Financial Performance, a t-statistics value of 0.500 (≤1.96) with a p-value of 0.617 (≥0.05) was obtained. Thus, in accordance with decision-making using the 5% significance test, it can be concluded that there is no significant influence between tax risk and financial performance. Thus, the study's second

hypothesis (H2) was rejected or the data did not support the hypothesis.

H3: There is an effect of audit quality on financial performance (Accepted or Data Support Hypothesis)

Based on Table XXX on Audit Quality -> Financial Performance, a t-statistics value of 10.532 (>1.96) with a p-value of 0.000 (<0.05) was obtained. Thus, in accordance with decision-making using the 5% significance test, it can be concluded that there is a significant influence between audit quality and financial performance. Thus the third hypothesis of the study (H3) is accepted or the data support the hypothesis. Furthermore, the value of the audit quality coefficient is positive at 0.399, which means that audit quality has a positive effect on financial performance. This means that, with better audit quality, it will result in an improvement in the company's financial performance.

H4: There is an effect of tax avoidance on firm value (Accepted or Data Supports the Hypothesis)

Based on Table XXX on Tax Avoidance -> Firm value, a t-statistics value of 3.563 (>1.96) with a p-value of 0.000 (<0.05) was obtained. Thus, in accordance with decision-making using the 5% significance test, it can be concluded that there is a significant influence between tax avoidance and firm value. Thus the fourth hypothesis of the study (H4) is accepted or the data support the hypothesis. Furthermore, the value of the tax avoidance coefficient is positive at 0.088, which means that tax avoidance has a positive effect on firm value. This means increased tax avoidance will increase the company's firm value.

H5: There is an effect of tax risk on firm value (Rejected or Data Does Not Support the Hypothesis)

Based on Table XXX on Tax Risk -> Firm value, a t-statistics value of 0.508 (≤1.96) with a p-value of 0.612 (≥0.05) was obtained. Thus, in accordance with decision-making using the 5% significance test, it can be concluded that there is no significant influence between tax risk and firm value. Thus the fifth hypothesis of the study (H5) was rejected or the data did not support the hypothesis.

H6: There is an effect of audit quality on firm value (Accepted or Data Supports Hypothesis)

Based on table XXX on Audit Quality -> Firm value, a t-statistics value of 3.665 (>1.96) with a p-value of 0.000 (<0.05) was obtained. Thus, in accordance with decision-making using the 5% significance test, it can be concluded that there is a significant influence between audit quality and firm value. Thus the sixth hypothesis of the study (H6) is accepted or the data support the hypothesis. Furthermore, the value of the audit quality coefficient is negative -0.120, which means that audit quality has a negative effect on firm value. This means that better audit quality, it will result in a decrease in the firm's value.

H7: There is an effect of financial performance on firm value (Accepted or Data Supports Hypothesis)

Based on Table XXX on Financial performance -> Firm value, a t-statistical value of 22.267 (>1.96) with a p-value of 0.000 (<0.05) was obtained. Thus, in accordance with decision-making using the 5% significance test, it can be concluded that there is a significant

influence between financial performance and firm value. Thus the seventh hypothesis of the study (H7) is accepted or the data support the hypothesis. Furthermore, the value of the financial performance coefficient was positive at 0.895, which means that financial performance has a positive effect on firm value. This means that, an increase in financial performance, it will result in an increase in the company's firm value.

Table Results of Indirect Influence Hypothesis Testing (Mediation)

Hypothesis		Coeff, Path	T statistics	P values	Information
H8	Tax Avoidance -> Financial Performance -> Firm Value	-0,108	2,635	0,009*	Significance
H9	Tax Risk -> Financial Performance -> Firm Value	0,032	0,503	0,616	No Definition
H10	Audit Quality -> Financial Performance -> Firm Value	0,357	8,402	0,000*	Significance

*Significant to α=5% (p-value <0,05)

Source: SmartPLS.4.0 Data Processing Results

H8: There is an effect of tax avoidance on firm value through financial performance (Accepted or Data Supports Hypothesis)

Based on Table XXX on Tax Avoidance -> Financial Performance -> Firm Value, a t-statistics value of 2.635 (>1.96) with a p-value of 0.009 (<0.05) was obtained. Thus, in accordance with decision-making using the 5% significance test, it can be concluded that there is a significant influence between tax avoidance on firm value through financial performance. Thus the eighth hypothesis of the study (H8) is accepted or the data support the hypothesis. Furthermore, the role of financial performance as mediation in this relationship is as partial mediation. This is because, with or without financial performance, variable tax avoidance has a direct effect on firm value, as decided in H4.

H9: There is an effect of tax risk on firm value through financial performance (Rejected or Data Does Not Support the Hypothesis)

Based on Table XXX on Tax Risk -> Financial Performance -> Firm Value, a t-statistics value of 0.503 (>1.96) with a p-value of 0.616 (<0.05) was obtained. Thus, in accordance with decision-making using the 5% significance test, it can be concluded that there is no significant influence between tax risk on firm value through financial performance. Thus the ninth hypothesis of the study (H9) was rejected or the data did not support the hypothesis. It can also be stated that financial performance does not mediate the influence of tax risk on firm value. Thus, the role of financial performance as mediation in this relationship is no mediation.

H10: There is an effect of audit quality on firm value through financial performance (Accepted or Data Supporting Hypothesis)

Based on Table XXX on Audit Quality -> Financial Performance -> Firm Value, a t-statistics value of 3.665 (>1.96) with a p-value of 0.000 (<0.05) was obtained. Thus, in accordance with decision-making using the 5% significance test, it can be concluded that there is a significant influence between audit quality on firm value through financial performance. Thus the tenth hypothesis of the study (H10) is accepted or the data support the hypothesis. Furthermore, the role of financial performance as mediation in this relationship

is as partial mediation. This is because, with or without financial performance, the variable audit quality has a direct effect on firm value, as decided from H6.

Discussion

The Effect of Tax Avoidance on Financial Performance

Based on the results of the PLS-SEM analysis in this study, it was concluded that there was a significant influence between tax avoidance and financial performance so the H1 hypothesis in this study was accepted. Researchers have not found the results of previous research.

Furthermore, it was found that tax avoidance harmed financial performance. This means that an increase in tax avoidance will result in a decrease in the company's financial performance.

The Effect of Tax Risk on Financial Performance

Based on the results of the PLS-SEM analysis in this study, it was concluded that there was no significant influence between tax risk and financial performance, so the H2 hypothesis in this study was rejected.

The Effect of Audit Quality on Financial Performance

Based on the results of the PLS-SEM analysis in this study, it was concluded that there was a significant influence between audit quality and financial performance, so the H3 hypothesis in this study was accepted.

Furthermore, it was found that audit quality had a positive effect on financial performance. This means that, with better audit quality, it will result in an improvement in the company's financial performance.

The Effect of Tax Avoidance on Firm Value

Based on the results of the PLS-SEM analysis in this study, it was concluded that there was a significant influence between tax avoidance and firm value, so the H4 hypothesis in this study was accepted.

Furthermore, it was found that tax avoidance had a positive effect on firm value. This means that an increase in tax avoidance will result in an increase in the company's firm value. The results of the study on tax avoidance are different from the results of the study in China (15) and Malaysia (14) because tax avoidance cannot affect firm value. The condition of developing countries that tend to deteriorate during covid 19 has made management in Indonesia make improvements in the financial sector and company operations by carrying out tax planning and management. The company focuses on efforts to increase sales and take advantage of government tax policies as well as restore the company's condition. The results of this study are in line with the results of the research (1) in Tunisia which explains that the influence of tax avoidance can increase firm value.

The Effect of Tax Risk on Firm Value

Based on the results of the PLS-SEM analysis in this study, it was concluded that there was no significant influence between tax risk and firm value, so the H5 hypothesis in this study

was rejected. The results of the study on the influence of tax risk on firm value. This is the same as the results of the study (14). In the case of taxes in Indonesia, it still has not attracted the attention of shareholders. Shareholders still tend to ignore tax risk because they think that management can already manage it in the field of tax risk management (16).

The Influence of Audit Quality on Firm Value

Based on the results of the PLS-SEM analysis in this study, it was concluded that there was a significant influence between audit quality and firm value so the H6 hypothesis in this study was accepted. This is in accordance with the research

Furthermore, it was found that audit quality harms firm value. This means that, with better audit quality, it will result in a decrease in the firm's value. This is in line with the research (17)

The Effect of Financial Performance on Firm Value

Based on the results of the PLS-SEM analysis in this study, it was concluded that there was a significant influence between financial performance and firm value, so the H7 hypothesis in this study was accepted. This is in accordance with further research (13), it was found that financial performance has a positive effect on firm value. This means that, an increase in financial performance, it will result in an increase in the company's firm value.

The Role of Financial Performance in Mediating the Influence of Tax Avoidance on Firm Value

Based on the results of the PLS-SEM analysis in this study, it was concluded that there was a significant influence between tax avoidance on firm value through financial performance, so the H8 hypothesis in this study was accepted. Furthermore, the role of financial performance as mediation in this relationship is as partial mediation. This is because, with or without financial performance, variable tax avoidance has a direct effect on firm value as decided in H4.

The Role of Financial Performance in Mediating the Influence of Tax Risk on Firm Value

Based on the results of the PLS-SEM analysis in this study, it was concluded that there was no significant influence between tax risk on firm value through financial performance, so the H9 hypothesis in this study was rejected. It can also be stated that financial performance does not mediate the influence of tax risk on firm value through financial performance.

The Role of Financial Performance in Mediating the Influence of Audit Quality on Firm Value

Based on the results of the PLS-SEM analysis in this study, it was concluded that there was a significant influence between audit quality on firm value through financial performance, so the H10 hypothesis in this study was accepted. Furthermore, the role of financial performance as mediation in this relationship is as partial mediation. This is because, with or without financial performance, the variable of audit quality has a direct effect on firm value as decided from H6.

5. Conclusion

This study has explored the effects of tax avoidance, tax risk, and audit quality on firm value, with financial performance serving as a mediating variable. The findings reveal that tax avoidance has a significant negative impact on financial performance, but a positive effect on firm value, highlighting the dual nature of tax avoidance in corporate financial strategy. Meanwhile, audit quality positively influences both financial performance and firm value, emphasizing the importance of high-quality audits in ensuring transparency and trustworthiness of financial reports. On the other hand, tax risk was found to have no significant impact on either financial performance or firm value, suggesting that the risks associated with tax management may not be a major concern for firms in the studied context.

Furthermore, financial performance plays a partial mediating role between tax avoidance and audit quality on firm value, reinforcing the idea that a company's financial health amplifies the effects of these factors on firm value. The lack of mediation between tax risk and firm value through financial performance implies that tax risk alone is not a sufficient determinant of firm success in this setting.

These results offer critical insights for corporate management, investors, and policymakers. Effective tax planning and high audit quality can enhance firm value, even in challenging economic times. Future research could further investigate the contextual factors that might influence the relationship between tax management strategies and firm performance.

References

1. Guedrib M, Marouani G. The interactive impact of tax avoidance and tax risk on the firm value: new evidence in the tunisian context. Asean Rev Account. 2023;31(2).
2. Craig L, Burman DD, Bitan T, Booth JR, Hawkins AJ, Christiansen SL, et al. No 主観的健康感を中心とした在宅高齢者における 健康関連指標に関する共分散構造分析Title. Father A J Theory, Res Pract about Men as Father [Internet]. 2013;24(1):1689–99. Available from: http://dx.doi.org/10.1016/j.jsames.2011.03.003%0Ahttps://doi.org/10.1016/j.gr.2017.08.001%0Ahttp://dx.doi.org/10.1016/j.precamres.2014.12.018%0Ahttp://dx.doi.org/10.1016/j.precamres.2011.08.005%0Ahttp://dx.doi.org/10.1080/00206814.2014.902757%0Ahttp://dx.
3. Kurniawan YI, Rahmawati A, Chasanah N, Hanifa A. Application for determining the modality preference of student learning. In: Journal of Physics: Conference Series. 2019. p. 1–11.
4. Perdana BC. Analisis Penghindaran Pajak dan Profitabilitas Terhadap Nilai Perusahaan Melalui Good Corporate Governance pada Perusahaan Manufaktur di Bursa Efek Indonesia. J Kewarganegaraan. 2023;7(2):1588–98.
5. Ayu Arifiani Nurfajri, Dirvi Surya Abbas, Hesty Ervianni Zulaecha. Pengaruh Struktur Modal, Kualitas Audit , Ukuran Perusahaan Dan Kinerja Keuangan Terhadap Nilai Perusahaan. Digit Bisnis J Publ Ilmu Manaj dan E-Commerce. 2022;1(3):16–30.
6. B MAD, Dharmapala D. Corporate tax avoidance and high-powered incentives. J financ econ. 2006;79(1):145–79.
7. Eugene F. Brigham JFH. Fundamentals of Financial Management. 16th ed. USA: Cengage Learning, 2021; 2021. 864 p.
8. Hapsari I, Supriyanti, Herlina E. Tax Avoidance dan Nilai Perusahaan: Studi Pada Perusahaan

Publik di Indonesia. AKUNESA J Akunt Unesa [Internet]. 2023;11(2):180–94. Available from: https://journal.unesa.ac.id/index.php/akunesa/180

9. David A. Guenther; Steven R. Matsunaga; Brian M. Williams. Is Tax Avoidance Related to Firm Risk. Account Rev. 2017;92(1):115–136.
10. Putri Setya Dewi A, Didik Ardiyanto M. DIPONEGORO JOURNAL OF ACCOUNTING PENGARUH PENGHINDARAN PAJAK DAN RISIKO PAJAK TERHADAP BIAYA UTANG (Studi Empiris Perusahaan Perbankan yang Terdaftar di Bursa Efek Indonesia Tahun 2013-2018). Diponegoro J Account [Internet]. 2020;Volume 9(3):1–9. Available from: http://ejournal-s1.undip.ac.id/index.php/accounting
11. Ruhana C. Review of Enterprise Risk Management (ERM) Literature Salinah Haji Togok. 2014;
12. Chen H, Chen JZ, Lobo GJ, Wang Y. Effects of audit quality on earnings management and cost of equity capital: Evidence from China. Contemp Account Res. 2011;28(3):892–925.
13. Sucuahi W, Cambarihan JM. Influence of Profitability to the Firm Value of Diversified Companies in the Philippines. Account Financ Res. 2016;5(2).
14. Prastyatini SSLY, Utami MLP. Pengaruh Inflasi, Profitabilitas Dan Kinerja Keuangan Terhadap Nilai Perusahaan. J Ilm Manajemen, Ekon Akunt. 2024;8(1):2480–96.
15. Xudong Chen, Na Hu, Xue Wang XT. Tax avoidance and firm value: evidence from China. Nankai Bus Rev Int. 2014;5(1):25–42.
16. Arfiansyah Z. Pengaruh Penghindaran Pajak Dan Risiko Pajak Terhadap Nilai Perusahaan Dengan Komisaris Independen Sebagai Pemoderasi. J PAJAK Indones (Indonesian Tax Rev. 2021;4(2):67–76.
17. Ratna SD, Dwi C, Astrid M. Pengaruh Ukuran Dewan Komisaris dan Risk Management Committee Terhadap Pengungkapan Enterprise Risk Management. J Akunt Profesi. 2019;10(2):139–49.