Buletin Poltanesa Vol. 26 No. 1 (June 2025) 91-98 p-ISSN 2721-5350 e-ISSN 2721-5369

https://doi.org/10.51967/tanesa.v26i1.3345 © 2025 Politeknik Pertanian Negeri Samarinda

This work is licensed under a Creative Commons Attribution 4.0 License CC BY-SA

How Do Profitability and Tax Avoidance Influence Enterprise Value in the Food and Beverages Sub-Sector?

Nadya Eka Putri *
Accounting, Universitas Tanjungpura, Pontianak, 78124, Indonesia
nadya.ep@accounting.untan.ac.id
**Corresponding author*

Sari Rusmita
Accounting, Universitas Tanjungpura, Pontianak, 78124, Indonesia
sari.rusmita@ekonomi.untan.ac.id

• *Submitted: 2025-05-18; Accepted: 2025-05-29; Published: 2025-06-05*

Abstract—Every company aspires to increase its value through business activities to achieve its goals. Enterprise or firm value is a crucial determinant of a company's overall well-being for investors. Profitability and tax avoidance are some of the many factors that determine this value. This research uses a quantitative method that studies manufacturing companies of the food and beverages sub-sector listed on the Indonesia Stock Exchange (IDX) from 2017 to 2020 as samples. The findings of this study show that profitability, indicated by return on assets (ROA), affects enterprise value, where t-value > t-table (14.156 > 1.674) with a significance of 0.000 > 0.05, so it is concluded that profitability has a positive significant influence on enterprise value. Similarly, Tax Avoidance, measured with effective tax rate (ETR), affects enterprise value, where t-value > t-table (3.901 > 1.674) with a significance of 0.000 > 0.05, so it is deduced that Tax Avoidance has a positive significant influence on enterprise value.

Keywords—Enterprise Value, Profitability, Return on Asset, Tax Avoidance, Effective Tax Rate

I. INTRODUCTION

Enterprise value, or firm value, is pivotal among investors because it provides a more comprehensive picture of a company. Investors' judgment of a company results in accountability in arranging plans to maximize its value, so it is considered accountable and reliable. A firm value is often related to market price, which leads to a belief that a high stock price contributes to firm value. An increment in market price can influence how shareholders maintain their investments and how companies attract investments.

Many aspects can affect the enterprise value of an organization, one of which is profitability. A firm value is highly influenced by how profitable a company can be (Nila & Suryanawa, 2018). A good prospect for a business is visible through high profitability, which allows the company to raise its value and attract investors who aim to earn returns. In other words, the higher profitability a firm possesses, the higher returns the investors expect to receive, which accounts for an increase in the enterprise value. As a result, companies will strive to maximize their value with the role of their financial manager. One of the roles of a financial manager in this matter is making a wise investment decision, managing dividend policies, and managing profit.

Profit management is closely related to a company's tax policies, one of which involves suppressing expenses through tax management, which is to fulfill tax liabilities properly, and the amount is significantly optimized so that the expected profit and liquidity can be earned (Suandy, 2011). The higher the profit a business earns, the higher the taxes imposed on it. Likewise, if the net income decreases, the market price will decline because investors will lose interest in investing. Therefore, the company will take action to minimize tax costs by implementing tax planning.

Tax planning is also called *tax avoidance*, *tax investigation, tax management, tax shelter, or tax shifting*. It encompasses a series of actions to reduce tax costs as significantly as possible by harnessing the existing tax regulations to earn higher earnings after tax, which impacts an increase in the enterprise value, even when ignoring the company's level of compliance. There is a difference between the government's interest in taxes and a company's. For a government, tax is a source of income to fund public services and facilities, while taxpayers pay an imperceptible amount of taxes. Such a distinction causes a firm to investigate possibilities for suppressing tax obligations. One of the approaches for this is through tax avoidance.

Tax avoidance allows managers to conceal unfavorable, misleading, and less transparent information from investors while undergoing operational activities. Tax avoidance is an aggressive strategy to minimize tax costs, so it triggers risks, such as a fine or a tarnished reputation for the company (Annisa & Kurniasih, 2012). Firms that engage in tax avoidance are believed to compromise the quality of their financial statements, which becomes a reason behind the decline in a firm's value. In other words, the higher the tax imposed, the lower the net income earned. It shows the management's actions to maximize the expected income by reducing tax costs.

Tax avoidance has a significant relationship with firm value, but is still highly debated. Tax avoidance activities positively affect enterprise value only for corporations with high institutional ownership (Desai & Dharmapala, 2007). It also triggers an agency conflict between a company and its shareholders (Chen et al., 2014). According *to agency theory*, avoiding tax correlates with good corporate governance, crucial in mediating an agency relationship.

In Indonesia, many companies have committed to tax avoidance, primarily foreign investors or multinational companies, most of which have many assets. In 2005, 750 foreign investing companies were alleged to have committed tax avoidance, according to the *National Development Planning Agency* (Badan Perencanaan Pembangunan Nasional – Bappenas) (Budiman & Miharjo, 2012). These companies had reported consecutive losses for 5 years and had not paid any taxes. Moreover, several entities – *Asian Agri, Bumi Resources, Adaro, Indosat, Indofood, Kaltim Prima Coal*, and *PT Airfast Indonesia*- that indicated avoiding tax have been apprehended by the *Directorate General of Taxes* (Direktorat Jenderal Pajak – DJP) (Rusydi, 2013). Such practices show low compliance in settling taxes in Indonesia, indicating tax avoidance.

A case of tax avoidance in an Indonesian manufacturing company discussed firsthand involves *PT Bentoel Internasional Investama*, the second biggest cigar producer in the country, following *HM Sampoerna*. A tobacco company, *British American Tobacco (BAT),* has engaged in tax avoidance through *PT Bentoel Internasional Investama*, with a high amount of debt, according to the *Tax Justice Network Institute* on Wednesday, 8th of May 2019. The interest payment will reduce the taxable income in Indonesia. Thus, the paid taxes will be lower; consequently, the country will suffer an annual loss of USD 14 million (Dewi, 2019).

Another case of tax avoidance in Indonesia occurred in the *Asian Agri Group* (AAG), which involved 14 other organizations—the Supreme Court, in its ruling under *Decision No. 2239 K/PID.SUS/2012* declared that *Asian Agri Group* was officially guilty of engaging in a tax offense: submitting a tax return and/or statement containing false or incomplete information. The country experienced a loss of IDR 1.25 trillion; thus, the company was sentenced to two years of imprisonment and a fine of IDR 2.5 trillion (Suryowati, 2014).

Furthermore, *PT Indofood Sukses Makmur Tbk*, a food and drink manufacturing company, allegedly practiced tax avoidance totaling IDR 1.3 billion in 2013 (Gresnews, 2013). Their business expansion triggered this by establishing a new company and reallocating their assets, liabilities, equities, and operations from their instant noodles and seasoning factory (Noodle Division) to *PT Indofood CBP Sukses Makmur*. As a result, the *Directorate General of Taxes* (Direktorat Jenderal Pajak—DJP) decided that *PT Indofood* must settle its tax obligation (IDR 1.3 billion).

These cases illustrate how tax-related decisions are closely tied to broader financial strategies that ultimately shape investor perceptions and firm valuation. They underscore the importance of managerial decision-making in tax planning and profitability management, central to how a firm's value is interpreted in capital markets.

Financial managers' and executives' decisions are significant in evaluating enterprise value, especially within publicly listed companies. The firm's ability to sustain profitability is essential for operational continuity and plays a significant role in capital markets. High profitability enhances a company's stock valuation, as it signals sound management, stable earnings, and efficient asset utilization (Hartono, 2017). This aligns with *signaling theory*, which posits that companies communicate their quality through observable financial metrics, such as *return on assets*, to reduce information asymmetry and attract investors (Sartika & Fidiana, 2015).

Enterprise value, particularly for food and beverage companies listed on the IDX, becomes even more vital considering the sector's visibility, scale, and contribution to national economic growth. Investors and analysts often view this sector as a barometer of consumer confidence and purchasing power. A company that consistently demonstrates profitability is better positioned to expand market share, invest in innovation, and respond to changing consumer trends. This, in turn, drives up its market price, reflecting an increased firm value (Nila & Suryanawa, 2018).

Profitability can be used to assess the effectiveness of internal operations and investment decisions. For instance, a high *return on assets* (ROA) indicates that a company efficiently utilizes its resources to generate profit. This efficiency supports both short-term performance and long-term strategic planning, which are crucial for sustaining investor interest and increasing firm value (Ayu & Suarjaya, 2017).

On the other hand, tax avoidance practices – while controversial – can be a part of a firm's broader financial management strategy. As mentioned, tax avoidance refers to legal efforts to minimize tax liabilities using existing tax regulations. These strategies can free up capital that would otherwise be allocated to tax payments, allowing the firm to reinvest in core operations, pay dividends, or strengthen its financial position. When done transparently and ethically, the use of tax avoidance is often interpreted by shareholders as a sign of strategic foresight and strong financial control (Prasiwi, 2015).

Agency theory becomes particularly relevant in this context. Managers, as agents, are entrusted by shareholders, as principals, to act in the firm's best interest. However, agency conflicts may arise when managerial interests diverge from shareholder expectations (Jensen et al., 1976). One area where this conflict becomes evident is in tax-related decisions. While shareholders may support aggressive tax strategies to increase after-tax earnings, managers might weigh reputational risks or regulatory scrutiny more heavily. Hence, depending on how it is implemented and perceived, tax avoidance may either enhance or diminish enterprise value (Victory & Cheisviyani, 2016).

There are distinctive and inconsistent results of previous empirical studies, some of which are by Chasbiandani & Martani (2012), Nugraha & Setiawan

(2019), and Wang (2010), who claimed that tax avoidance positively affects firm value. This contrasts with other studies by Ilmiani & Sutrisno (2014) and Ampriyanti & Aryani (2016), who found that tax avoidance hurts the firm value. This lack of consistency can be caused by differences in choosing samples and research perspectives. Tax avoidance is perceived as positive if it is done for tax planning and efficiency, while it can be damaging if it is done as non-compliant actions. The latter condition can increase risk and, thus, decrease the firm value.

Based on the case of tax avoidance committed by *PT Indofood Sukses Makmur Tbk* as one of the manufacturing companies in the food and drinks subsector listed on the *Indonesia Stock Exchange* (IDX), in addition to the inconsistency in the previous research results, this study will further examine the effect of profitability and tax avoidance on the enterprise value of manufacturing companies in the food and drinks subsector, listed in the IDX. By combining theoretical insights from agency and signaling theories, this research seeks to clarify the dual role of profitability and tax behavior in shaping enterprise value.

II. Literature Review

Agency Theory is a theory that focuses on two individuals, the principal and the agent, introduced by Jensen et al. (1976). The main principle of this theory is that the empowering party *(principal)*, the investors, and the empowered party *(agent)*, the business unit, have a specific relationship (Victory & Cheisviyani, 2016). The owner or the shareholder is the party that appoints the agent to act on their behalf. In contrast, *the agent*, the company's director or manager, is the party designated to run the company. This also applies to companies where management acts as the agent and shareholders as *the principal*. Shareholders are referred to as information evaluators, while their agents are decision-makers. The selection of an information system becomes the responsibility of the information evaluator, as decisions need to be made so that decision-makers can make the best decisions in the owner's interest.

The concept of *agency theory* states that management must act as an agent according to the principal's wishes. However, management may be dedicated solely to its interests to maximize its utility. It may also take actions that are detrimental to the entire company and can damage its profits in the long term. In this case, business owners may use accounting as an engineering tool to realize their profits.

Agency theory assumes that every individual is motivated by self-interest, which can lead to conflicts between the principal and the agent. *Agents* are encouraged to sign more beneficial contracts that lead to success. On the other hand, they are also motivated to maximize their satisfaction regarding their financial and psychological needs. Morally, *agents* are responsible for optimizing the interests and wealth of their owners. Conflicts will also arise due to differences between the goals of shareholders and management. Shareholders aim to increase the company's value through tax avoidance practices to maintain maximum profit, thereby convincing investors that their investments will yield significant returns, such as dividends. Meanwhile, management prioritizes personal interest, meaning managers may engage in tax avoidance practices if the company benefits them.

Signaling Theory, first introduced by Michael Spence in 1973, addresses the issue of information asymmetry between two parties – in this case, company management and external investors. In capital markets, managers typically possess more detailed and accurate information about the firm's financial health and prospects than shareholders or potential investors. To bridge this gap, companies send signals through their financial disclosures, especially profitability indicators, to convey their value and stability. These signals are used to reduce uncertainty and to influence investors' perceptions of the firm. In this framework, profitability is a credible signal because it reflects operational efficiency and the company's ability to generate earnings. When a company reports high profitability, it suggests that management is performing well and that the firm is in a strong financial position, making it more attractive to investors (Hartono, 2017).

Furthermore, the validity of the signal depends on its reliability and transparency. Investors respond positively to financial reports only when they believe the information is accurate and free from manipulation. Genuinely profitable firms are likelier to disclose their performance openly to build trust and maintain investor confidence. This is particularly relevant in industries like the food and beverage manufacturing sector, where competitiveness and brand reputation are closely tied to public perception. By signaling positive financial performance, companies can attract more investment, raise their market valuation, and enhance enterprise value (Sartika & Fidiana, 2015). In this way, signaling theory provides a theoretical foundation for understanding the positive relationship between profitability and firm value, as identified in this study.

According to Jonathan & Tandean (2016), enterprise value is a specific condition reflecting public trust in a company – the higher its value, the more prosperous its owners will be, and vice versa. A lower firm value means a lower likelihood that the company's performance will be perceived positively by the public, leading to decreased investor interest. The main goal of a company is to increase its value by enhancing the wealth of its owners or shareholders. A firm's value can ensure the maximum shareholder wealth as the company's stock price increases. The higher the stock price, the greater the shareholder wealth (Sartika & Fidiana, 2015). For listed companies, fair market value is determined by the stock market's supply and demand mechanism, as reflected in the listed price. Market prices illustrate various managerial decisions and policies. Enterprise value is essential to investors as it is an indicator for evaluating the company.

Profitability is an attractive factor for business owners (shareholders) as it represents the result of fund management efforts where shareholders invest. It also

Putri, N. E., & Rusmita, S. (2025). How Do Profitability and Tax Avoidance Influence Enterprise Value in the Food and Beverages Sub-Sector?. Buletin Poltanesa, 26(1). https://doi.org/10.51967/tanesa.v26i1.3345

determines how much profit is retained for reinvestment and how much is distributed to shareholders as cash dividends or stock dividends. It refers to a company's ability to generate financial returns at certain levels of sales, assets, or equity (Wati, 2019).

Research by Nila & Suryanawa (2018) shows that profitability affects company value. This aligns with the findings of Ayu & Suarjaya (2017), who state that profitability has a significant positive effect, meaning that the higher the profitability a company achieves, the greater its value. These research findings are consistent with the signaling theory perspective, which explains that profitability reported in financial statements serves as an effort to provide a positive signal to investors about the company's performance and future business growth prospects.

H1: Profitability positively affects Enterprise Value in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX).

According to Anderson in Herdiyanto & Ardiyanto (2015), tax avoidance is a way to reduce tax payments within the limits of taxation laws, and it can be justified, mainly through tax planning. Prasiwi (2015) broadly defines tax avoidance as a series of tax planning strategies aimed at maximizing after-tax income. Heber in Mulyani (2014) defines tax avoidance as an effort by taxpayers to take advantage of loopholes in tax laws to reduce their tax payments. Taxpayers generally attempt to minimize their tax payments because paying taxes reduces their economic capacity (Suandy, 2011).

Previous research on the effect of tax avoidance on company value has shown highly varied results. Some studies, such as those by Wang (2010) and Chasbiandani & Martani (2012), found a positive relationship between tax avoidance and company value. Victory & Cheisviyani (2016) also stated that tax avoidance positively influences company value, and the benefits outweigh the costs and risks. Research by Desai & Dharmapala (2007) found that tax avoidance positively impacts company value, particularly in companies with good corporate governance. Similarly,Herdiyanto & Ardiyanto (2015) studied 98 manufacturing companies listed on the IDX from 2010 to 2013 and found that tax avoidance affects company value, and that corporate tax avoidance practices can enhance company value. 60 of these manufacturing companies were subjected again to examine the effect of tax avoidance on firm value, and Nugraha & Setiawan (2019) found that the former affects the latter positively. Tax avoidance undertaken by companies to minimize expenses can increase profits, indicating strong performance and, consequently, higher company value.

However, this contradicts research by Chen et al. (2014) and Ampriyanti & Aryani (2016) , who found that tax avoidance reduces company value due to increased agency costs, which include the time and effort required for tax avoidance practices and risks associated with detection. Simarmata & Cahyonowati (2014) and Jonathan & Tandean (2016) also found no significant relationship between tax avoidance and company value. The conceptual framework of the research is presented in Figure 1.

H2: Tax avoidance positively affects Company Value in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX).

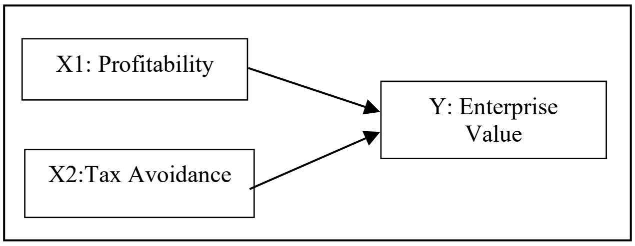

Figure 1. Conceptual Framework of The Research

III. METHODS

This study is an associative quantitative study, which examines the causal influence of the variables studied, and the data is presented in numbers and analyzed statistically (Sugiyono, 2013). Thus, this research uses multiple linear regression as the analytical tool. This study involves 14 financial reports of food and beverage sub-sectoral manufacturing companies listed on the *Indonesian Stock Exchange* (IDX*)* from 2017 to 2020, extracted from IDX's official website. The sampling technique used in this paper is *Purposive Sampling*, so the criteria that the samples must fulfill are:

1. Companies publish financial statements for the years 2017 to 2020; and
2. Companies have positive earnings from 2017 to 2020.

Variables in this study use the formula (1) :

1. Firm value, as the dependent variable, is proxied by *Tobin's Q*.

$$Tobin's\ Q = (MVS + MVD)(RVA) \quad (1)$$

Where:

Q	= Firm's value
MVS	= Market value of all outstanding shares, i.e., the firm's Stock Price* Outstanding Shares
MVD	= Market value of all debt (current liabilities - current assets + long-term debt)
RVA	= Replacement value of assets

2. Profitability is the ability of a company to manage its resources to generate income for investors. This profitability is proxied by *Return on Assets (ROA)* using formula (2). This ratio calculates the percentage of profit earned by the total assets, so the company's efficiency can be perceived through this number.

$$Return\ on\ Assets = \frac{Earnings\ After\ Tax}{Total\ Assets} x\ 100\% \quad (2)$$

3. Tax avoidance is a legal action of avoiding tax by reducing the amount of imposed tax by seeking a

weakness in the regulations applied by the company. This variable is proxied by the *Effective Tax Rate* (ETR) using formula (3).

$$Effective\ Tax\ Rate = \frac{Tax\ Expense}{Earnings\ Before\ Tax} \quad (3)$$

IV. RESULTS AND DISCUSSION

The regression model used to test the hypothesis must avoid potential deviations from classical assumptions, which aim to ensure that the regression equation obtained is accurate, unbiased, and consistent. The assumption tests used include the normality, multicollinearity, and autocorrelation tests. The Classical Assumption Test Results are presented in Table 1.

Table 1. Classical Assumption Test Results

Description	Value
Kolmogorov-Smirnov Test Result	0.200
Multicollinearity Test:	
Tolerance:	
ROA	0.972
ETR	0.972
VIF:	
ROA	1.029
ETR	1.029
Autocorrelation Test (DW)	0.814

Source: Processed Data, 2022

Table 1 indicates that the study passes the classical assumption test, as seen from the values of the normality test, multicollinearity test, and autocorrelation test, which are all above 0.05. This means the research data can proceed to the following data processing stage to determine the results of multiple linear regression. The multiple linear regression results in Table 2.

Table 2. Multiple Linear Regression Results

Variable	Beta
Constant	-0.509
ROA	23.554
ETR	2.803

Source: Processed Data, 2022

Table 2 presents the results of multiple linear regression, resulting in the following regression equation (4):

$$Y = \alpha + \beta 1X1 + \beta 2X2 + e \quad (4)$$

$$Y = -0.509 + 23.554\,X1 + 2.803\,X2 + e$$

where:

Y = Dependent variable – Enterprise Value, measured by Tobin's Q

α = Intercept (Constant)

β1X1 = Coefficient of X1 – Profitability, measured by *Return on Assets* (ROA)

β2X2 = Coefficient of X2 – Tax Avoidance, measured by *Effective Tax Rate* (ETR)

Based on the regression equation above, the conclusions are as follows:

1. The constant value of -0.509 means that if the probability variable measured by *Return on Assets* (ROA) (X1) and the tax avoidance variable measured by *Effective Tax Rate* (X2) are both zero, then the company value measured by *Tobin's Q* (Y) will be -0.509.
2. The regression coefficient of the probability variable measured by *Return on Assets* (X1) is 23.554. A positive regression coefficient indicates that any change in the profitability variable can potentially increase the company's value.
3. The regression coefficient of the tax avoidance variable measured by *Effective Tax Rate* (X2) is 2.803. A positive regression coefficient indicates that any change in the tax avoidance variable can potentially increase the company's value.

To test this study's hypothesis, simultaneous testing *(F-test)* and individual testing *(T-test)* were conducted, and the coefficient of determination was determined to assess the feasibility of the research model. The results of the Hypothesis Testing are presented in Table 3.

Table 3. Hypotheses Testing Results

Hypotheses	Value	Sig	Decision
H1: Profitability positively affects Company Value in the Food and Beverage sub-sector of Manufacturing Companies listed on the IDX.	14.156	0.000	Accepted
H2: Tax Avoidance positively affects Company Value in the Food and Beverage sub-sector of Manufacturing Companies listed on the IDX.	3.901	0.000	Accepted
F-Test: Profitability and Tax Avoidance positively affect Company Value in Food and Beverage sub-sector Manufacturing Companies listed on the IDX.	101.398	0.000	Accepted
R-Square (R2)	0.785		Model Feasible

Source: Processed Data, 2022

Table 3 indicates that the *F-test* results show an *F-calculated* value of 101.398. This value is then compared to the *F-table* value, with n = 56 at a 5% significance level (α = 0.05), which is 4.023. Since 101.398 > 4.023, and the significance value is 0.000, *H0* is rejected, and *Ha* is accepted. This means that all independent variables (profitability and tax avoidance) have a significant simultaneous effect on the dependent variable (enterprise value) in the food and beverage sub-sector manufacturing companies during 2017 and 2020.

The *F-test* results are further supported by an *R-Square* value of 0.785, indicating that variations influence 78.5% of the variations in company value in profitability and tax avoidance. This percentage, close to 100%, suggests a strong relationship between the independent and dependent variables. The remaining 21.5% is influenced by factors such as company size, leverage, and other aspects not examined in this study.

Additionally, the table presents the results of the *T-test*. The *T-calculated* value is compared to the T-table value to determine the hypothesis result. With $n = 56$ at a 5% significance level and degrees of freedom ($df = n-2$), the *T-table* value is 1.674. The results show that:

1. The *T-calculated* Return on Assets variable (X1) value is 14.156. Since 14.156 > 1.674 and the significance value is 0.000 < 0.05, *H0* is rejected, and *Ha* is accepted. This indicates that the *Return on Assets* variable positively and significantly affects *Tobin's Q*.
2. The *T-calculated* value for the *Effective Tax Rate* variable (X2) is 3.901. Since 3.901 < 1.674 and the significance value is 0.000 < 0.05, *H0* is rejected, and *Ha* is accepted. This indicates that the *Effective Tax Rate* variable positively and significantly affects *Tobin's Q*.

The results of this study confirm that profitability, as measured by *Return on Assets* (ROA), exerts a positive and statistically significant influence on enterprise value in food and beverage sub-sector manufacturing companies listed on the *Indonesia Stock Exchange* (IDX). The T-test results confirm this, with T-calculated> T-table (14.156 > 1.674), a significance value of 0.000 < 0.05, supporting the conclusion that profitability has a positive and significant effect on company value. This finding indicates that high profitability reflects strong operational performance and a signal of managerial effectiveness and long-term financial health (Nila & Suryanawa, 2018). In essence, profitability is a critical indicator of how well a company utilizes its assets to generate net income, directly correlating with investor confidence and share price performance (Ayu & Suarjaya, 2017).

From the standpoint of *signaling theory*, this relationship supports the notion that profitability acts as a positive signal to investors (Hartono, 2017) . Information asymmetry between company management and external stakeholders can lead to uncertainty in investment decision-making. However, when firms report high profitability, it implies future growth potential and effective business strategies, encouraging market participants to invest. Profitability thus becomes a critical mechanism for reducing information asymmetry between management and investors, strengthening public perception, and market credibility (Sartika & Fidiana, 2015).

This finding aligns with research by Ayu & Suarjaya (2017), who highlighted that high profitability improves firm value due to increased investor attraction. However, it contrasts with Aprilia (2019) and Nila & Suryanawa (2018), who found no significant effect of profitability on firm value. Differences in sample characteristics, economic conditions, or industry focus may explain this discrepancy.

Furthermore, this study confirms that tax avoidance, proxied by *Effective Tax Rate* (ETR), positively and significantly influences enterprise value in food and beverage sub-sector manufacturing companies listed on the *Indonesia Stock Exchange* (IDX). The *T-test* results confirm this, with *T-calculated* > *T-table* (3.901 > 1.674), a significance value of 0.000 > 0.05, supporting the conclusion that tax avoidance has a positive and significant effect on company value. This result suggests that companies engaging in tax avoidance strategies may experience a subsequent rise in firm value, likely due to the retention of higher post-tax earnings that can be reinvested or distributed to shareholders (Chasbiandani & Martani, 2012). From a financial perspective, tax avoidance may be perceived as a legitimate strategy to improve cash flow and overall performance, mainly when conducted within the legal boundaries of tax regulation (Desai & Dharmapala, 2007). As a result, tax avoidance practices may allow companies to give a higher return to investors, thus increasing their interest in investing (Nugraha & Setiawan, 2019).

From the *agency theory* perspective, managers often pursue strategies that benefit shareholders, including minimizing tax expenses (Jensen et al., 1976). When properly governed, tax avoidance can be a cost-saving strategy, contributing to shareholder wealth and firm value. This is particularly relevant for companies with sound governance mechanisms and transparent tax planning, according to Victory & Cheisviyani (2016). Another relevance is that agency theory assumes that individuals are motivated by self-interest, potentially leading to conflicts between principals and agents. In decision-making, managers should consider benefits and costs, ensuring that benefits outweigh costs.

This finding aligns with Chasbiandani & Martani (2012), Nugraha & Setiawan (2019), and Wang (2010), who stated that tax avoidance positively affects company value. They claim that managerial tax avoidance aims to increase company value, with benefits outweighing costs and risks. When tax avoidance is proxied by the *Effective Tax Rate*, companies engaging in tax avoidance have lower effective tax rates. In other words, tax avoidance is conducted to enhance company value, portraying management positively to shareholders. However, this contradicts Ilmiani & Sutrisno (2014), Ampriyanti & Aryani (2016), and Chen et al. (2014), who found that tax avoidance decreases company value due to increased agency costs caused by excessive or aggressive tax avoidance. This could happen because of reduced transparency and heightened regulatory risk. These mixed findings indicate that the effectiveness of tax avoidance strategies depends heavily on implementation, context, and investor perception.

Additionally, Indonesia presents a complex tax environment, with documented tax avoidance cases among large corporations, such as *PT Bentoel Internasional* and *PT Indofood*. While such strategies can be an efficient tool for financial optimization only if approached within the law, they also lead companies, particularly in the food and beverage sub-sector manufacturing companies listed on the *Indonesia Stock Exchange* (IDX), to reputational and legal risks if conducted aggressively.

Finally, the *R-squared* value of 0.785 shows that profitability and tax avoidance explain 78.5% of the variation in enterprise value, suggesting that these two variables are highly influential in determining firm performance. The remaining 21.5% may involve other factors such as leverage, company size, dividend policy, governance practices, ESG (Environmental, Social, and Governance) performance, or external market conditions, which may be considered to develop a more comprehensive model (Simarmata & Cahyonowati, 2014). This study not only corroborates existing theories in finance and accounting but also contributes to the ongoing discourse about the role of profitability and tax strategies in shaping firm value. It emphasizes the need for companies to adopt financially prudent yet ethically sound practices that enhance shareholder value and ensure long-term business continuity.

V. Conclusion

This study examined the influence of profitability and tax avoidance on enterprise value in food and beverage sub-sector manufacturing companies listed on the *Indonesia Stock Exchange* (IDX) during the 2017 – 2020 period. Based on statistical analysis using multiple linear regression and hypothesis testing, the study found that both profitability (as proxied by *Return on Assets*) and Tax Avoidance (as proxied by *Effective Tax Rate*) have positive and significant effects on enterprise value (measured by *Tobin's Q*).

The results reinforce the theoretical underpinnings of *signaling theory* and *agency theory*. Profitability reflects the company's operational efficiency and ability to generate income, signaling investors that the business is well-managed and financially sound. This encourages investor interest, thereby elevating the firm's market value. Tax avoidance, on the other hand, while often controversial, is shown in this study to be a value-enhancing activity when used strategically and legally. It supports the idea that managerial decision-making, particularly about cost efficiency and earnings optimization, can directly impact the financial valuation of a company.

These findings have several practical implications. For corporate managers, they underscore the importance of consistently improving profitability and adopting tax planning strategies that align with shareholders' interests. Effective financial management and transparent reporting can enhance investor trust and contribute to sustainable enterprise value. For investors and analysts, the results suggest that profitability and effective tax management are key indicators to monitor when assessing the investment potential of firms in the manufacturing sector. For policymakers and regulators, this study points to the importance of fostering a balanced regulatory framework that encourages compliance and ethical tax planning while deterring abusive tax avoidance practices.

The study calls attention to the broader business and economic context in Indonesia, where tax compliance and corporate governance issues remain pertinent. By showing that profitability and tax avoidance can positively influence firm value, the research opens up a dialogue on how companies can leverage financial strategies to drive performance without compromising their legal or ethical responsibilities.

In conclusion, this study contributes to the growing body of literature that seeks to explain firm value determinants in emerging markets. It provides empirical evidence that profitability and tax strategies are essential components in enhancing the value of a company, provided they are implemented with foresight, integrity, and strategic alignment.

References

Ampriyanti, N. M., & Merkusiwati, N. K. L. 2016).Pengaruh tax avoidance jangka panjang terhadap nilai perusahaan dengan karakter eksekutif sebagai variabel pemoderasi. *E-Jurnal Akuntansi*, *16*(3), 2231-2259.

Annisa, N. A., & Kurniasih, L. (2012). Pengaruh corporate governance terhadap tax avoidance. *Jurnal akuntansi dan Auditing*, *8*(2), 123-136.

Aprilia, R. (2019). Pengaruh Leverage, Profitabilitas Dan Ukuran Perusahaan Terhadap Nilai Perusahaan Pada Perusahaan Otomotif Yang Terdaftar Di Bursa Efek Indonesia [Skripsi]. Universitas Muhammadiyah Sumatera Utara.

Ayu, D. P., & Suarjaya, A. A. G. (2017). Pengaruh Profitabilitas Terhadap Nilai Perusahaan Dengan Corporate Social Responsibility Sebagai Variabel Mediasi Pada Perusahaan Pertambangan. *E-Jurnal Manajemen Unud*, *6*(2), 1112–1138.

Budiman, J., & Miharjo, S. (2012). *Pengaruh Karakter Eksekutif Terhadap Penghindaran Pajak (Tax Avoidance)* [Thesis]. Universitas Gadjah Mada.

Chasbiandani, T., & Martani, D. (2012). Pengaruh tax avoidance jangka panjang terhadap nilai perusahaan. *Simposium Nasional Akuntansi XV*, *90*.

Chen, X., Hu, N., Wang, X., & Tang, X. (2014). Tax avoidance and firm value: evidence from China. *Nankai Business Review International*, *5*(1), 25–42. https://doi.org/https://doi.org/10.1108/NBRI-10-2013-0037

Desai, M. A., & Dharmapala, D. (2007). Corporate Tax Avoidance and Firm Value. *The Review of Economics and Statistics*, *91*(3), 537–546. https://doi.org/https://doi.org/10.2139/ssrn.689562

Dewi, H. K. (2019, May 8). *Tax Justice laporkan Bentoel lakukan penghindaran pajak, Indonesia rugi US$ 14 juta*. Kontan.Co.Id. https://nasional.kontan.co.id/news/tax-justice-laporkan-bentoel-lakukan-penghindaran-pajak-indonesia-rugi-rp-14-juta

Gresnews. (2013, September 12). *Indofood Sukses Makmur Kalah di Peninjauan Kembali MA*. Gresnews.Com.https://www.gresnews.com/artikel/81932/Indofood-Sukses-Makmur-Kalah-di-Peninjauan-Kembali-MA/

Hartono, J. (2017). *Teori Portofolio dan Analisis Investasi* (11th ed.). BPFE-Yogyakarta.

Herdiyanto, D. G., & Ardiyanto, Moh. D. (2015). Pengaruh Tax Avoidance Terhadap Nilai Perusahaan. *Diponegoro Journal of Accounting*, *4*(3), 1–10. http://ejournal-s1.undip.ac.id/index.php/accounting

Ilmiani, A., & Sutrisno, C. R. (2014). Pengaruh Tax Avoidance Terhadap Nilai Perusahaan Dengan Transparansi Perusahaan Sebagai Variabel Moderating. *Jurnal Ekonomi Dan Bisnis*, *14*(1). https://doi.org/https://doi.org/10.31941/jebi.v14i1.194

Jensen, M. C., Meckling, W. H., Benston, G., Canes, M., Henderson, D., Leffler, K., Long, J., Smith, C., Thompson, R., Watts, R., & Zimmerman, J. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. In *Journal of Financial Economics* (Issue 4). Harvard University Press.http://hupress.harvard.edu/catalog/JENTHF.html

Jonathan, & Tandean, V. A. (2016). Pengaruh Tax Avoidance Terhadap Nilai Perusahaan Dengan Profitabilitas Sebagai Variabel Pemoderasi. *Proceeding SENDI_U*. www.idx.co.id

Mulyani, S. (2014). *Pengaruh Karakteristik Perusahaan, Koneksi Politik Dan Reformasi Perpajakan Terhadap Penghindaran Pajak (Studi Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Tahun 2008-2012)* [Skripsi]. Universitas Brawijaya.

Nila, L., & Suryanawa, I. K. (2018). Pengaruh Profitabilitas dan Ukuran Perusahaan Terhadap Nilai Perusahaan dengan Pengungkapan Corporate Social Responsibility Sebagai Pemoderasi. *E-Jurnal Akuntansi*, *23*(3), 2145–2174. https://doi.org/https://doi.org/10.24843/EJA.2018.v23.i09.p20

Nugraha, M. C. J., & Setiawan, P. E. (2019). Pengaruh Penghindaran Pajak (Tax Avoidance) Pada Nilai Perusahaan Dengan Transparansi Sebagai Variabel Pemoderasi. *E-Jurnal Akuntansi*, *1*, 398. https://doi.org/10.24843/eja.2019.v26.i01.p15

Prasiwi, K. W. (2015). *Pengaruh Penghindaran Pajak Terhadap Nilai Perusahaan: Transparansi Informasi Sebagai Variabel Pemoderasi* [Skripsi]. Universitas Diponegoro.

Rusydi, M. K. (2014). Pengaruh ukuran perusahaan terhadap aggressive tax avoidance di indonesia. *Jurnal Akuntansi Multiparadigma*, *4*(2), 323-329.

Sartika, D., & Fidiana. (2015). Moderasi Kepemilikan Institusional Terhadap Hubungan Perencanaan Pajak Nilai Perusahaan Dengan. *Jurnal Ilmu & Riset Akuntansi*, *4*(12).

Simarmata, A. P. P., & Cahyonowati, N. (2014). Pengaruh Tax Avoidance Jangka Panjang Terhadap Nilai Perusahaan Dengan Kepemilikan Institusional Sebagai Variabel Pemoderasi (Studi Empiris Pada Perusahaan Manufaktur Yang Terdaftar Di Bei Periode 2011-2012). *Diponegoro Journal of Accounting*, *3*(3), 1–13. http://ejournal-s1.undip.ac.id/index.php/accounting

Suandy, E. (2011). *Perencanaan Pajak*. Salemba Empat.

Sugiyono. (2013). *Statistika Untuk Penelitian*. Salemba Empat.

Suryowati, E. (2014, January 24). *Ini Alasan Kasus Pajak Asian Agri Digiring ke Pelanggaran Administrasi*. Kompas.Com.https://money.kompas.com/read/2014/01/24/1644374/Ini.Alasan.Kasus.Pajak.Asian.Agri.Digiring.ke.Pelanggaran.Administrasi

Victory, G., & Cheisviyani, C. (2016). Pengaruh Tax Avoidance Jangka Panjang Terhadap Nilai Perusahaan Dengan Kepemilikan Institusional Sebagai Variabel Pemoderasi: Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di BEI Tahun 2010-2014. *Jurnal WRA*, *4*(1). https://doi.org/10.24036/wra.v4i1.7219

Wang, X. (2010). Tax Avoidance, Corporate Transparency, and Firm Value. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.1716474

Wati, L. N. (2019). *Model Corporate Social Responsibility (CSR)*. Myria Publisher. https://books.google.co.id/books?id=lKPHDwAAQBAJ&printsec=copyright&hl=id&source=gbs_pub_info_r#v=onepage&q&f=false