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Tax Avoidance, Tax Risk, and Firm Value: Evidence from Indonesia's Consumer Non-Cyclicals Sector

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ABSTRACT
This study examines the influence of tax avoidance and tax risk on firm value among companies in the consumer non-cyclicals sector listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. Using a quantitative approach and panel data regression analysis, the research observes 16 firms (80 firm-year observations) selected through purposive sampling based on data completeness and consistent profitability. The findings show that tax avoidance and tax risk jointly exert a significant effect on firm value, confirming that corporate tax behavior plays a critical role in shaping investor perception and market valuation. In partial testing, tax avoidance has a significant positive impact on firm value, indicating that efficient tax strategies are perceived as value-enhancing when aligned with managerial prudence and compliance. Conversely, tax risk does not exhibit a statistically significant effect, suggesting that the market does not fully penalize fiscal uncertainty when disclosure and governance mechanisms are adequate. These results imply that firms must balance tax efficiency with transparency to maintain investor confidence and sustainable performance. The study contributes to the literature on corporate governance, taxation, and financial policy by providing empirical evidence on how tax-related decisions influence firm value within an emerging market context.

Keywords: Firm Value, Tax Avoidance, Tax Risk, Consumer Non-Cyclicals.

I. Introduction

Indonesia, as a developing country, continues to prioritize sustainable economic growth and social welfare through national development initiatives, particularly in the infrastructure and public service sectors. To achieve these objectives, the government relies heavily on tax revenues as a stable and strategic source of financing. Taxes not only serve as the primary contributor to state income but also function as a fiscal policy instrument that promotes social equity and strengthens the relationship between the state and its citizens. The effectiveness of taxation, therefore, depends on the compliance and awareness of both individuals and corporate taxpayers (Stiawan & Sanulika, 2021). According to Law No. 16 of 2009 on General Provisions and Tax Procedures, taxes represent mandatory contributions imposed by law on individuals and entities without direct compensation, to support state expenditure and public welfare. Among all taxpayers, corporations are the largest contributors to national tax revenue. However, taxes are often perceived by companies as a burden that reduces profitability, creating a natural conflict with management's goal of maximizing shareholder

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value. As a result, many firms engage in various tax management strategies to reduce their tax obligations while remaining within legal boundaries (Santoso & Muid, 2022).

One of the most common strategies is tax avoidance, defined as corporate efforts to minimize tax liabilities through legal means by exploiting allowable deductions, exemptions, and regulatory loopholes. While tax avoidance is not illegal, it often becomes controversial because it decreases government revenue and may be perceived as a form of fiscal opportunism (Dewi et al., 2024). Inkirawang and Kevin (2017) estimated that tax avoidance costs Indonesia tens to hundreds of billions of rupiah in lost tax revenue annually, consequently hindering economic equality, infrastructure development, and public welfare. Another concept closely related to tax avoidance is tax risk, which refers to the potential variability in tax outcomes arising from tax planning activities. Nesbitt et al. (2017) defined tax risk as the degree of uncertainty and potential consequences associated with tax avoidance practices, encompassing both the likelihood of detection by authorities and the magnitude of potential adjustments. Similarly, Drake et al. (2017) argued that while tax avoidance generates expected tax savings, tax risk represents the possibility that such savings will not materialize or will lead to penalties if challenged by regulators. From this perspective, tax risk captures both the opportunity and uncertainty inherent in corporate tax strategies (Arfiansyah, 2021).

The value of a firm is a key indicator of its market performance and investor confidence. It reflects how effectively management utilizes company resources to generate returns and maximize shareholder wealth. High firm value suggests that investors perceive strong prospects and sustainable profitability (Septyaningrum, 2020). In this study, firm value is measured using Tobin's Q, which captures the market's valuation of a company relative to its assets. A Tobin's Q ratio greater than one indicates that investors value the firm's assets more than their book value, signaling managerial efficiency and growth potential (Arfiansyah, 2021). From the theoretical standpoint, Agency Theory posits that managers, as agents, may engage in tax avoidance to enhance short-term profitability and, in turn, firm value—actions that align with shareholders' interests but may involve risk of regulatory scrutiny. In contrast, Signalling Theory suggests that transparent and responsible tax management signals sound governance and ethical behavior, thereby reinforcing investor trust. Therefore, the impact of tax avoidance on firm value is not purely financial but also influenced by governance quality and risk perception.

Empirically, studies on the relationship between tax avoidance, tax risk, and firm value have shown mixed results. Some research finds that tax avoidance enhances firm value by improving cash flows and profitability (Lanis & Richardson, 2018), while others suggest that excessive tax avoidance can harm corporate reputation and increase agency costs (Hanlon & Heitzman, 2010). In the Indonesian context, studies focusing on the consumer non-cyclicals sector remain limited, despite its strategic importance in national consumption and economic resilience. This sector, encompassing food, beverage, and household goods industries, is characterized by stable demand even during economic downturns, making it an ideal setting for analyzing fiscal behavior and market response. Previous evidence of tax avoidance in large Indonesian corporations, such as PT Indofood Sukses Makmur Tbk and PT Unilever Indonesia Tbk, demonstrates that aggressive tax strategies can create controversy and invite scrutiny from tax authorities (www.gresnews.com; www.jpnn.com). These cases highlight the challenges within Indonesia's self-assessment tax system, where taxpayers are responsible for calculating, paying, and reporting their taxes independently. While designed to promote compliance, this system also increases opportunities for tax avoidance, particularly when internal controls and transparency are weak.

Given these considerations, it is important to understand how tax avoidance and tax risk jointly and individually influence firm value, especially within Indonesia's consumer non-cyclicals sector. Understanding this relationship provides valuable insights for investors, policymakers, and corporate managers seeking to balance tax efficiency and corporate transparency in an emerging market context. This study aims to: (1) analyze the effect of tax avoidance on firm value; (2) examine the effect of tax risk on firm value; and (3) evaluate the simultaneous influence of tax avoidance and tax risk on firm value among companies listed in Indonesia's consumer non-cyclicals sector. The research contributes to the literature on corporate governance, taxation, and market valuation by offering empirical evidence on how fiscal strategies shape firm value within a developing economy framework.

II. Literature Review and Hypothesis Development

2.1. Agency Theory

Agency Theory, first proposed by Jensen and Meckling (1976), explains the relationship between shareholders (principals) and managers (agents) within an organization. The theory highlights that this relationship is governed by a contractual arrangement in which the principal delegates authority to the agent to manage resources on their behalf. However, due to information asymmetry, where managers possess more complete and timely information than shareholders, agency conflicts inevitably arise (Sugiyanto, 2018; Rohyati & Suripto, 2021). Managers are expected to act in the best interests of shareholders by optimizing firm value in both the short and long term. Yet, divergent objectives, risk preferences, and compensation structures often cause managers to prioritize short-term financial performance or personal gains over long-term shareholder wealth (Suripto, 2020). One manifestation of this conflict is tax avoidance behavior, where managers seek to minimize the company's tax obligations to increase reported earnings and enhance their performance evaluation. While moderate tax avoidance can improve profitability and thus firm value, aggressive tax strategies may expose the company to tax risk, reputational damage, and regulatory scrutiny (Hanlon & Heitzman, 2010; Lanis & Richardson, 2018). From an agency perspective, the firm's approach to taxation reflects how effectively managerial actions align with shareholder interests while managing risk and transparency.

2.2. Firm Value

Firm value represents the market's perception of a company's success, capturing investor confidence and management effectiveness in utilizing resources to generate long-term returns. It integrates the effects of internal decisions—such as investment, financing, and dividend policy—and external factors like market sentiment and macroeconomic stability (Jecky & Suparman, 2021; Inggrida et al., 2023). Investors interpret firm value primarily through stock market performance, where higher stock prices indicate better prospects and increased shareholder wealth. Conversely, a declining share price reflects reduced confidence in the company's future profitability and risk management (Arfiansyah, 2021). To quantify this, one of the most widely adopted indicators is Tobin's Q ratio, introduced by James Tobin (1967), which measures the market value of a firm relative to the replacement cost of its assets.

A Tobin's Q greater than one indicates that the market values the firm's assets more than their book value, suggesting optimism about growth opportunities and managerial efficiency. A Tobin's Q below one, on the other hand, implies that the market perceives the firm as underperforming or undervalued (Arfiansyah, 2021). This measure is especially useful in emerging markets, where financial disclosure quality varies and market valuations incorporate not only profitability but also governance quality and risk exposure. In the context of taxation, investors often interpret effective tax management as a sign of operational efficiency, which can positively influence firm value. However, if tax strategies are perceived as too aggressive or unethical, they may undermine investor trust, leading to a negative market reaction (Lanis & Richardson, 2018; Dewi & Suripto, 2024). Therefore, firm value ultimately reflects the balance between financial performance, transparency, and perceived governance integrity.

2.3. Tax Avoidance

Tax avoidance refers to legal efforts undertaken by companies to minimize tax liabilities by utilizing provisions, deductions, or loopholes within existing tax laws. Mortenson (1958), as cited in Oktavia et al. (2020),

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defines tax avoidance as the process of arranging transactions or operations in a way that reduces tax obligations without violating statutory rules. From a business standpoint, tax avoidance is a strategic response to high tax burdens, allowing firms to optimize post-tax profits and enhance competitive advantage (Lestari & Marlinah, 2022). While tax avoidance can increase after-tax income and short-term profitability, it also raises concerns about corporate ethics, transparency, and long-term sustainability. Excessive reliance on tax avoidance may signal opportunistic managerial behavior that prioritizes short-term gains over corporate reputation and social responsibility (Hanlon & Heitzman, 2010). In Indonesia's self-assessment tax system, where taxpayers are responsible for reporting their own tax liabilities, the opportunity for tax avoidance becomes even more prevalent. According to Suandy (2008) in Marlinda et al. (2020), tax avoidance is part of tax planning, which encompasses strategic decisions made to minimize tax burdens within legal boundaries. However, the distinction between acceptable tax planning and aggressive tax avoidance often depends on disclosure transparency and the company's attitude toward compliance. Therefore, tax avoidance can be seen both as an efficiency-enhancing mechanism that supports firm value and as a potential source of agency conflict if perceived as excessive or risky.

2.4. Tax Risk

Tax risk refers to the potential variability in a company's tax position arising from uncertain interpretations of tax laws, operational errors, or changes in fiscal policy. It encompasses the risk that tax authorities may challenge a firm's reported tax positions, leading to adjustments, penalties, or reputational damage (Hutchens & Rego, 2015, as cited in Hengki, Bambang, & Heru, 2022). Tax risk thus represents the downside of tax avoidance, as firms that adopt aggressive tax strategies may face increased regulatory scrutiny and financial exposure (Widodo & Firmansyah, 2021). Proper tax risk management is essential to maintain investor trust and ensure sustainable performance. Companies that effectively manage their tax risks demonstrate good corporate governance, transparency, and accountability—traits that investors reward through higher valuations (Lanis & Richardson, 2018; Nesbitt et al., 2017). Conversely, poor tax governance may lead to volatility in earnings and erode investor confidence. A widely used measure of tax risk is the Cash Effective Tax Rate (CETR) volatility, which captures the standard deviation of a firm's cash effective tax rate over multiple years (Widodo & Firmansyah, 2021). A higher CETR volatility indicates inconsistent tax payments, reflecting uncertainty and potential instability in tax management practices. In this study, tax risk is viewed as a moderating factor that may either amplify or mitigate the effect of tax avoidance on firm value, depending on how the market interprets the company's fiscal transparency and compliance.

2.5. Relationship Between Tax Avoidance, Tax Risk, and Firm Value

Previous studies have produced mixed findings regarding how tax avoidance and tax risk influence firm value. Desai and Dharmapala (2006) found that tax avoidance enhances firm value when strong governance mechanisms constrain managerial opportunism. Conversely, Chen et al. (2010) demonstrated that in weak governance environments, aggressive tax strategies may destroy firm value due to increased agency costs and reputational risk. In the Indonesian context, Arfiansyah (2021) and Lestari & Marlinah (2022) showed that moderate tax avoidance improves profitability and market value, while Widodo & Firmansyah (2021) emphasized that high tax risk negatively affects performance. These findings suggest that tax avoidance and tax risk interact in complex ways, with firm value outcomes depending on the market's perception of transparency and compliance. Therefore, this study extends the literature by simultaneously examining the impact of tax avoidance and tax risk on firm value in the consumer non-cyclicals sector, a defensive industry that remains stable across economic cycles. By doing so, it contributes to a deeper understanding of how fiscal behavior, governance quality, and market confidence intersect in shaping corporate value in emerging markets like Indonesia.

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III. Research Method

This study adopts a quantitative research approach to empirically examine the relationship between tax avoidance, tax risk, and firm value among companies operating in the consumer non-cyclicals sector listed on the Indonesia Stock Exchange (IDX). The quantitative design is considered appropriate because it enables the use of measurable indicators and objective statistical testing to evaluate causal relationships among variables. Furthermore, the use of panel data regression enhances analytical precision by capturing both cross-sectional and time-series variations, which are essential for assessing firm-specific financial behavior over time.

3.1. Population and Sample Selection

The research population comprises all consumer non-cyclicals companies listed on the IDX during the 2019–2023 observation period. This sector was chosen because of its strategic importance in Indonesia's economy, its contribution to household consumption, and its stable performance during different economic cycles, making it suitable for evaluating taxation and value-creation strategies. In accordance with Sugiyono (2018), the population represents the total number of elements possessing characteristics defined by the researcher. From this population, a purposive sampling technique was employed to obtain a representative sample that met specific inclusion criteria. The criteria are as follows:

a. The company remained continuously listed on the IDX throughout the observation period (2019–2023).
b. The company published audited financial statements in Indonesian Rupiah.
c. The company consistently reported positive pre-tax income during the observation period.
d. Complete data for the variables used in this study (firm value, tax avoidance, and tax risk) were available.

Companies failing to meet these criteria were excluded to ensure consistency and reliability of the dataset. Based on these parameters, the final sample consisted of 16 firms, resulting in 80 firm-year observations. This approach ensures that the sample reflects firms with stable operations, transparent reporting practices, and comparable financial characteristics.

3.2. Data Type and Sources

The research utilizes secondary data, obtained from audited annual reports, financial statements, and official IDX publications. Secondary data were selected because they are standardized, verifiable, and publicly accessible, which minimizes measurement bias and enhances reliability. Additional data on stock prices were collected from the IDX and financial information databases to calculate market-based indicators such as Tobin's Q. The use of audited financial data ensures credibility, as these reports have undergone independent external verification in accordance with generally accepted accounting principles.

3.3. Operational Definition of Variables

To ensure conceptual clarity and measurement precision, operational definitions and measurement formulas were established for each research variable, following prior studies in taxation and corporate finance (Hanlon & Heitzman, 2010; Lanis & Richardson, 2018; Widodo & Firmansyah, 2021).

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Table 1. Operational Definition of Variables

Variable	Definition	Measurement Formula / Proxy	Source
Firm Value (FV)	The market's assessment of a company's performance and prospects reflects its ability to generate future profits.	Tobin's Q = (Market Value of Equity + Book Value of Debt) / Total Assets	Arfiansyah (2021)
Tax Avoidance (TA)	Legal efforts by firms to minimize tax liabilities within the framework of tax regulations.	Cash Effective Tax Rate (CETR) = Cash Tax Paid / Pre-Tax Income	Lestari & Marlinah (2022)
Tax Risk (TR)	The degree of uncertainty associated with tax outcomes due to variations in tax planning results and regulatory interpretation.	Tax Risk = Standard Deviation of CETR over the 5 years	Widodo & Firmansyah (2021)

To ensure comparability, extreme CETR values (greater than 1 or less than 0) were winsorized, as suggested by prior empirical research, to reduce distortion in statistical estimation.

3.4. Data Analysis Technique

The study employs panel data regression analysis, which integrates both cross-sectional (differences between companies) and time-series (changes over time) components. This method is chosen because it can control for unobserved heterogeneity in firm-specific characteristics that remain constant over time but differ across firms (Baltagi, 2005). The general model used in this study can be expressed as follows:

$$\mathbf{FV_{it} = \alpha + \beta 1\ TA_{it} + \beta 2\ TR_{it} + \epsilon_{it}}$$

Where:
FV_{it} = Firm Value of company i in year t
TA_{it} = Tax Avoidance
TR_{it} = Tax Risk
α = Constant
β_1, β_2 = Regression Coefficients
ϵ_{it} = Error Term

To determine the most appropriate model, three specification tests were conducted:

a. Chow Test – to compare the Common Effect and Fixed Effect Models.
b. Hausman Test – to decide between the Fixed Effect and Random Effect Models.
c. Lagrange Multiplier (LM) Test – to assess whether the Random Effect Model is more efficient than the Common Effect Model.

The chosen model—Fixed Effect or Random Effect—was selected based on these tests to ensure robustness and accuracy in estimation.

3.5. Classical Assumption Tests

Prior to hypothesis testing, several classical assumption tests were conducted to verify the validity and reliability of the regression model:

a. Normality Test: Evaluates whether the residuals are normally distributed using the Jarque–Bera test.

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b. Multicollinearity Test: Assessed using Variance Inflation Factor (VIF) values to ensure no redundancy among independent variables (VIF < 10 indicates no multicollinearity).
c. Heteroskedasticity Test: Conducted using the Breusch–Pagan–Godfrey test to confirm constant variance of error terms across observations.
d. Autocorrelation Test: Utilized the Durbin–Watson statistic to ensure that residuals are independent over time.

All statistical analyses were performed using EViews 12 software, ensuring consistency, precision, and reproducibility of results.

3.6. Model Validity and Reliability

To enhance model robustness, data were subjected to winsorization for outlier control, and descriptive statistics were analyzed to confirm the normal range distribution of variables. Additionally, the Adjusted R^2, F-test, and t-test results were used to evaluate model fit and the significance of each independent variable. The F-test determines the joint significance of tax avoidance and tax risk on firm value, whereas the t-test assesses their individual impacts. These methodological procedures collectively ensure that the findings are empirically reliable, statistically valid, and theoretically grounded in assessing how tax-related decisions influence firm value in Indonesia's consumer non-cyclicals sector.

IV. Results and Discussion

4.1. Descriptive Statistics Test

Descriptive statistical analysis was employed to provide an overview of the research variables, namely Firm Value (Y), Tax Avoidance (X1), and Tax Risk (X2) of food and beverage companies listed on the Indonesia Stock Exchange during the period of analysis. The output in section 1 presents the mean, standard deviation, minimum, and maximum values for each variable. These results offer useful insights into the distribution and characteristics of the data, serving as a basis for further analysis in this study.

Table 2. Descriptive Statistics Test Results

	NP	CETR	STDV
Mean	1.575930	0.439867	2.911059
Median	1.234929	0.206328	2.878530
Maximum	3.833203	5.422770	8.988482
Minimum	0.558634	0.016228	0.023634
Std. Dev.	0.820237	0.870197	1.944399
Skewness	0.639366	4.445310	0.590887
Kurtosis	2.305315	23.655790	3.449186
Jarque-Bera	7.059141	1685.682618	5.327867
Probability	0.029318	0.000000	0.069674
Sum	126.074389	35.189392	232.884729
Sum Sq. Dev.	53.150343	59.822176	298.674175
Observations	80	80	80

Based on Table 2, the study involved sixteen companies observed over five years, resulting in a total of eighty samples. The results can be summarized as follows:

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a. Firm Value
The average firm value was 1.575930 with a standard deviation of 0.820237. The lowest value was recorded by PT Sekar Laut Tbk in 2022, while the highest was achieved by PT Siantar Top Tbk in 2020. These findings indicate considerable variation in firm value across the sample.

b. Tax Avoidance
The mean of tax avoidance was 0.439867 with a standard deviation of 0.870197. The lowest value was found in PT Sinar Mas Agro Resources and Technology Tbk in 2019, while the highest occurred in PT Budi Starch & Sweetener Tbk in 2022. This suggests significant variation in corporate tax avoidance practices.

c. Tax Risk
The average tax risk was 2.911059 with a standard deviation of 1.944399. The lowest value was reported by PT Budi Starch & Sweetener Tbk in 2020, and the highest by PT Siantar Top Tbk in 2021, highlighting substantial differences in tax risk levels.

4.2. Panel Data Regression Model Test

The determination of the appropriate panel data regression model depends on statistical assumptions and requirements to ensure reliability. In this study, three models, Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM), were applied to the dataset for comparison and selection of the best-fitting model.

Table 3. Panel Data Regression Model Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.880857	0.136192	6.467751	0.0000
CETR	-0.140685	0.082167	-1.712184	0.0909
STDV	0.260027	0.036773	7.071142	0.0000
R2	0.420925	Mean dependent var		1.575930
Adjusted R^2	0.405884	S.D. dependent var		0.820237
S.E. of regression	0.632230	Akaike info criterion		1.957651
Sum squared resid	30.77802	Schwarz criterion		2.046977
Log likelihood	-75.30605	Hannan-Quinn criterion.		1.993465
F-statistic	27.98537	Durbin-Watson stat		0.752251
Prob(F-statistic)	0.000000			

The results of the Common Effect Model regression indicate a significant positive constant. Tax avoidance shows a negative but insignificant coefficient, whereas tax risk demonstrates a positive and significant coefficient. The adjusted R^2 suggests that approximately 40% of the variation in firm value is explained by these two variables, while the remaining portion is influenced by other factors not examined in this study.

4.3. Model Selection

a. Fixed Effect Model

Table 4. Panel Data Regression Using the Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.650774	0.057418	28.74997	0.0000
CETR	0.035798	0.013067	2.739548	0.0080
STDV	-0.031119	0.020617	-1.509408	0.1363
Effects Specification				
Cross-section fixed (dummy variables)				

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Weighted Statistics				
R^2	0.953576	Mean dependent var		2.936419
Adjusted R^2	0.940847	S.D. dependent var		1.498953
S.E. of regression	0.335635	Sum squared resid		6.984359
F-statistic	74.91349	Durbin-Watson stat		1.542290
Prob(F-statistic)	0.000000			

Panel data regression using the Fixed Effect Model is applied to analyze the influence of independent variables on the dependent variable while accounting for differences across firms or observational units. This model controls for entity-specific effects, thereby producing more accurate estimation results.

b. Random Effect Model

Table 5. Random Effect Model Results

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	1.256998	0.178693	7.034398	0.0000
CETR	-0.069204	0.060171	-1.150128	0.2537
STDV	0.120016	0.041923	2.862730	0.0054
Effects Specification				
			S.D.	Rho
Cross-section random			0.522057	0.6784
Idiosyncratic random			0.359465	0.3216
Weighted Statistics				
R^2	0.088627	Mean dependent var		0.463788
Adjusted R^2	0.064955	S.D. dependent var		0.389330
S.E. of regression	0.376474	Sum squared resid		10.91339
F-statistic	3.743939	Durbin-Watson stat		1.399260
Prob(F-statistic)	0.028074			
Unweighted Statistics				
R-squared	0.299900	Mean dependent var		1.575930
Sum squared resid	37.21054	Durbin-Watson stat		0.410386

The results of the Random Effect Model regression reveal a significant positive constant. Tax avoidance has a negative but insignificant coefficient, while tax risk shows a positive and significant coefficient. The adjusted R^2 indicates that the independent variables explain only about 6% of the variation in firm value, with the remaining portion influenced by other factors not included in the study.

c. Chow Test

Table 6. Results of the Chow Test

Effects Test	**Statistic**	**d.f.**	**Prob.**
Cross-section F	11.746146	(15,62)	0.0000
Cross-section Chi-square	107.675476	15	0.0000

The results of the Chow Test indicate a Cross-Section Chi-Square probability value of 0.0000, which is lower than the 5% significance level. This implies that the Fixed Effect Model (FEM) is the appropriate model to use. Subsequently, the Hausman Test is conducted as a follow-up step to determine the most suitable model.

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d. Hausman Test

Table 7. Results of the Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	9.459103	2	0.0088

The Hausman Test results show a Cross-Section Random probability value of 0.0088, which is below the 5% significance level. This confirms that the Fixed Effect Model (FEM) is more appropriate than the Random Effect Model (REM). The LM Test was not conducted since the model had already been determined through the comparison between FEM and REM. Both the Chow and Hausman tests consistently indicate that FEM is the most suitable model, and therefore, FEM is used as the primary model in this research.

4.4. Classical Assumption Tests

a. Normality Test

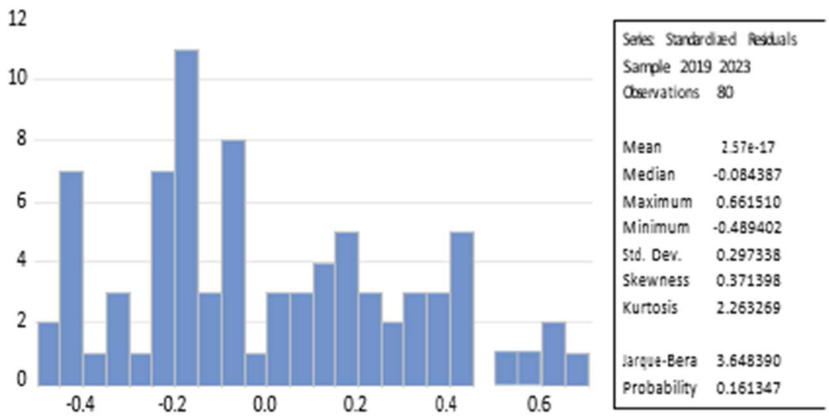

Figure 1. Normality Test Results

The normality test results indicate a Jarque-Bera probability value of 0.161347, which is greater than 0.05, confirming that the data are normally distributed.

b. Multicollinearity Test

Table 8. Results of the Multicollinearity Test

	CETR	STDV
CETR	1.000000	-0.101605
STDV	-0.101605	1.000000

The multicollinearity test results show that the correlation coefficients among the independent variables do not exceed 0.80. This indicates that the selected model (FEM) does not encounter multicollinearity issues.

c. Heteroscedasticity Test

Table 9. Results of the Heteroskedasticity Test

Statistics	Value	Probability
F-statistic	2.125787	0.1489
Obs*R-squared	2.122408	0.1452

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The heteroskedasticity test results show a Chi-Square probability value of 0.1452, which is greater than 0.05. Therefore, the data meet the requirements and do not exhibit heteroskedasticity problems.

d. Autocorrelation Test

Table 10. Results of the Autocorrelation Test

R2	0.953576	Mean dependent var	2.936419
Adjusted R^2	0.940847	S.D. dependent var	1.498953
S.E. of regression	0.335635	Sum squared resid	6.984359
F-statistic	74.91349	Durbin-Watson stat	1.542290
Prob(F-statistic)	0.000000		

The autocorrelation test results show a Durbin-Watson value of 1.542290. Since this value falls within the range of -2 to +2, the data are considered free from autocorrelation issues.

4.5. Panel Data Regression Test

a. Fixed Effect Model Regression

Table 11. Results of the Fixed Effect Model Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.650774	0.057418	28.74997	0.000
CETR	0.035798	0.013067	2.739548	0.008
STDV	-0.031119	0.020617	-1.509408	0.1363

The regression equation indicates that the constant value of 1.650774 reflects the firm value when the independent variables are zero. The tax avoidance coefficient (CETR) is positive at 0.035798, suggesting that an increase in tax avoidance leads to higher firm value. Conversely, the tax risk coefficient (STDV) is negative at -0.031119, indicating that an increase in tax risk reduces firm value.

b. Coefficient of Determination Test (R^2)

Table 12. Coefficient of Determination Test (R^2) Results

Statistics	Value
R-squared	0.953576
Adjusted R-squared	0.940847
S.E. of regression	0.335635
F-statistic	74.91349
Prob (F-statistic)	0.00000
Mean dependent var	2.936419
S.D. dependent var	1.498953
Sum squared resid	6.984359
Durbin-Watson stat	1.54229

The Adjusted R^2 value of 0.940847 indicates that approximately 94% of the variation in the dependent variable can be explained by the independent variables examined in this study, while the remaining 6% is influenced by other factors not included in the model.

c. Simultaneous Significance Statistical Test (F-Test)

Table 13. Simultaneous Significance Statistical Test (F-Test) Results

Statistics	Value
R-squared	0.953576
Adjusted R-squared	0.940847
S.E. of regression	0.335635
F-statistic	74.91349
Prob (F-statistic)	0.0000
Mean dependent var	2.936419
S.D. dependent var	1.498953
Sum squared resid	6.984359
Durbin-Watson stat	1.54229

The F-test results show a probability value of 0.000000, which is lower than 0.05. This indicates that tax avoidance and tax risk simultaneously affect firm value. These findings confirm that the applied model is valid and appropriate for use in this study.

d. Partial Significance Statistical Test (t-Test)

Table 14. t-Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.650774	0.057418	28.74997	0.000
CETR	0.035798	0.013067	2.739548	0.008
STDV	-0.031119	0.020617	-1.509408	0.1363

The partial test results reveal that tax avoidance has a probability value of 0.0080 (< 0.05), indicating a significant effect on firm value. In contrast, tax risk has a probability value of 0.1363 (> 0.05), suggesting that it does not have a significant effect on firm value.

4.6. Discussion

a. The Effect of Tax Avoidance and Tax Risk on Firm Value

The results of the F-test (simultaneous test) show a Prob (F-statistic) value of 0.000000, which is below the 0.05 threshold, indicating that tax avoidance and tax risk jointly influence firm value. This finding confirms the acceptance of Hypothesis 1 (H1) and demonstrates that corporate strategies in managing tax obligations and tax-related uncertainties collectively shape investor perceptions and market valuation. The combined influence of tax avoidance and tax risk reflects the dual dimensions of fiscal strategy: efficiency and uncertainty. On one hand, legally and prudently executed tax avoidance can enhance net income and profitability by minimizing the effective tax burden, which investors interpret as improved operational efficiency. On the other hand, unmitigated tax risk, arising from aggressive or opaque practices, can introduce fiscal uncertainty that undermines investor trust and increases perceived investment risk (Hanlon & Heitzman, 2010; Nesbitt et al., 2017).

In the context of Indonesia's self-assessment tax system, firms must balance between optimizing tax savings and maintaining compliance transparency. When companies disclose their tax strategies clearly and demonstrate responsible governance, investors tend to interpret tax avoidance as a signal of managerial efficiency, thereby enhancing firm value (Lanis & Richardson, 2018). However, excessive risk exposure may reduce market confidence and erode firm valuation. This study's findings align with those of Souisa, Iskandar, and Sari (2022), who reported that effective tax management reduces corporate tax burdens and strengthens investor confidence by increasing profitability. Similarly, Drake et al. (2017) noted that while moderate tax avoidance increases cash flow and value creation, unmitigated tax risk introduces uncertainty in earnings

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forecasts, dampening investor optimism. Therefore, companies should pursue balanced tax strategies that enhance fiscal efficiency while maintaining transparency and compliance—key elements in sustaining long-term firm value and investor trust.

b. The Effect of Tax Avoidance on Firm Value

The partial significance test reveals that tax avoidance has a probability value of 0.0080 (< 0.05), indicating a significant positive effect on firm value. Thus, Hypothesis 2 (H2) is accepted. This result suggests that tax avoidance, when managed strategically and within legal boundaries, contributes positively to firm valuation. From the lens of Agency Theory (Jensen & Meckling, 1976), tax avoidance can be viewed as a managerial action aimed at increasing shareholders' wealth by improving profitability through reduced tax expenses. When conducted transparently and accompanied by strong governance mechanisms, it signals managerial efficiency and fiscal discipline. However, excessive or opaque tax avoidance may give rise to agency problems, where managers exploit tax savings for private benefits, such as discretionary spending or earnings manipulation, ultimately harming firm value (Desai & Dharmapala, 2006).

This finding is consistent with Kurniawan and Syafruddin (2017), who found that tax avoidance positively and significantly influences firm value among Indonesian firms. Likewise, Chasbiandani and Martani (2012) observed that companies often perceive tax avoidance as more beneficial than risky, viewing it as a legitimate tool for enhancing profitability. In contrast, Krisyadi and Triana (2021) discovered that tax avoidance had no significant effect, emphasizing that investors may prioritize profitability and dividend policies over tax behavior. The present study supports the notion that moderate, transparent, and well-documented tax avoidance—consistent with signalling theory—can convey positive information to investors about the firm's financial acumen. Investors interpret efficient tax management as a signal of sound governance, thereby increasing market confidence. However, when tax avoidance becomes aggressive and lacks disclosure, it can be interpreted as an indicator of managerial opportunism, undermining firm value and long-term reputation (Lanis & Richardson, 2018; Dewi & Suripto, 2024).

c. The Effect of Tax Risk on Firm Value

The results of the partial test indicate that tax risk has a probability value of 0.1363 (> 0.05), suggesting that tax risk does not significantly affect firm value. Accordingly, Hypothesis 3 (H3) is rejected. This implies that investors in Indonesia's capital market may not yet fully incorporate tax risk considerations into their valuation models, treating such risks as part of the broader systemic and regulatory uncertainty already anticipated in investment decisions. One possible explanation is that tax risk disclosure remains limited in corporate financial reports, reducing its visibility and perceived materiality among investors. Furthermore, firms with effective internal controls and robust compliance frameworks may mitigate the potential negative impact of tax risk through proactive management, internal auditing, and transparent reporting (Widodo & Firmansyah, 2021).

These results are consistent with Santo and Sari (2024), who found that tax risk does not significantly influence firm value because it is often perceived as a secondary factor compared to profitability and dividend distribution. Indonesian investors, in particular, tend to focus more on financial outcomes rather than on the level of fiscal uncertainty, which explains the insignificant effect of tax risk on market valuations. However, other studies, such as Drake et al. (2017), provide contrasting evidence, showing that tax risk can adversely affect firm value, as it reflects fiscal uncertainty, reputational exposure, and weak governance. From a theoretical perspective, tax risk embodies a governance signal—its absence may indicate transparency and compliance, while high volatility in tax positions may imply opportunistic behavior. According to Signalling Theory, firms that consistently demonstrate compliance and maintain stable tax positions send positive signals to the market, reinforcing investor confidence and reducing information asymmetry. In the Indonesian setting, this finding highlights that tax risk awareness among investors is still evolving. As regulatory enforcement, disclosure requirements, and corporate governance standards improve, it is expected that tax risk will become a more relevant factor in investment evaluation and firm valuation. Therefore, future research should consider incorporating moderating variables such as disclosure transparency or board effectiveness to further explain the nuanced relationship between tax risk and firm value.

d. Synthesis and Theoretical Integration

The findings of this study provide empirical support for both Agency Theory and Signalling Theory. Agency Theory explains that tax avoidance represents a managerial decision influenced by the trade-off between maximizing shareholder wealth and minimizing agency costs, while Signalling Theory elucidates how transparency in tax management serves as a signal of governance quality. In this study, tax avoidance—when practiced transparently and within legal boundaries—serves as a positive managerial signal that enhances firm value. Conversely, unmanaged or undisclosed tax risk tends to weaken market perception, although its statistical insignificance suggests that Indonesian investors have not yet fully integrated tax risk into firm valuation models. These findings contribute to the understanding of corporate fiscal behavior in emerging markets, particularly under Indonesia's self-assessment tax regime. The results underscore the importance of developing balanced tax policies that optimize efficiency while ensuring compliance and accountability, thereby supporting both corporate sustainability and national fiscal stability.

V. Conclusion

This study concludes that corporate tax behavior significantly affects firm value in Indonesia's consumer non-cyclicals sector. The results reveal that tax avoidance has a positive and significant effect on firm value, implying that efficient and lawful tax planning enhances profitability and strengthens investor confidence. When conducted transparently and in compliance with regulations, tax avoidance can serve as a legitimate managerial strategy that improves financial outcomes and signals sound governance to the market. Conversely, tax risk does not show a significant influence on firm value, indicating that investors place greater emphasis on profitability, stability, and governance quality rather than on fiscal uncertainty. This finding suggests that tax-related risks are either already internalized by market participants or overshadowed by broader macroeconomic and industry factors. Limited disclosure of tax risk information may also explain its minimal impact on investor perception.

The findings reinforce Agency Theory and Signalling Theory, demonstrating that transparent tax management can align managerial actions with shareholder interests while reducing information asymmetry. Effective tax planning, when balanced with accountability and disclosure, contributes to both financial efficiency and the firm's reputation. Practically, the study highlights that companies should integrate tax strategy into long-term governance frameworks to achieve sustainable value creation. Managers are encouraged to pursue tax efficiency responsibly, ensuring compliance and transparency. Regulators, meanwhile, are advised to strengthen tax disclosure requirements to enhance accountability and investor trust. This research is limited by its five-year observation period and single-sector focus, which may restrict generalization. Future studies could extend the time horizon, include additional variables such as board composition or leverage, and compare results across sectors to deepen understanding of how tax behavior interacts with firm performance and market perception. The study emphasizes that tax avoidance remains a key determinant of firm value, while the market's sensitivity to tax risk continues to evolve alongside Indonesia's governance and disclosure standards.

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