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RELATED PARTY TRANSACTIONS, TAX AVOIDANCE, AND FIRM VALUE: EMERGING MARKET INDONESIA

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ABSTRACT

This study aims to determine the role of tax avoidance in strengthening the effect of related party transactions to increase firm value. The sample in this study were all companies listed on the Indonesia Stock Exchange in the 2016-2021 period, totaling 1,700 financial reports. The results of this study show that tax avoidance moderates the effect of related party transactions on increasing firm value. Tax avoidance is included in quasi-moderation due to tax avoidance interacting with related party transactions showing a significant effect on firm value. RPT is a sound business exchange that meets the economic needs of companies. RPT can have a significant impact on business transactions or business performance.

Keywords: *Related Party Transactions; Tax Avoidance; Firm Value; Emerging Markets*

1. Introduction

As one of the emerging countries in South East Asia, Indonesia's gross domestic product is the highest in the region. Based on data provided by the World Bank, the Indonesian GDP in 2015 reached 861.9 billion USD, while the GDP in Malaysia and Singapore were only 296.2 billion and 292.7 billion USD, respectively. Indonesia's financial markets also display incredible growth. Indonesian market capitalization in 2005 was 81.248 billion USD, while in 2015, the value was 353.271 billion USD—an increase of 334%. This data shows that Indonesian companies are still desirable to investors. The general definition of firm value (FV) is an economic measure reflecting the market value of a business (Wild & Subramayam, 2011). It is a sum of claims by creditors and investors. Firm value is one of the fundamental metrics used for many purposes in business, such as business valuation, financial modeling, accounting, portfolio analysis, and risk analysis (Pratama, 2018).

Most companies in Indonesia have affiliated characteristics in the form of a holding or group. Transactions between companies are sometimes known as related party transactions (RPT). RPT is carried out by companies based on reasons, namely shareholders, to maximize returns on all investments by directing management to conduct transactions with related parties, and the results are expected to increase profits for both the firm and third parties (Pratama, 2018). Globalization allows financial resources to flow from developed to developing countries (Tomedi & Schreiber, 2014). The increasing pace of globalization has boosted the concept of state and state because of the flexibility of transfer pricing and its role in avoiding taxes by shifting public revenues to shareholders (Sikka & Willmott, 2010). Globalization has come to remove the boundaries of corporate territorial jurisdiction. It has opened up more manageable ways to set up subsidiaries, affiliated joint ventures, unique purpose entities, and trusts in jurisdictions with favorable conditions to benefit from low tax havens. Thus, Chang and Lin (2010) show that multinational corporations (MNCs) derive various benefits from international trade, including trade expansion, employment opportunities, technology transfer, international market information flow, frequent industry promotions, technical research and development, economic growth and increased taxes (Amidu, Coffie &Acquah, 2019)

RPT is a transfer of resources, services, or obligations between a reporting entity and related parties, regardless of whether a price is charged (IAS 24, 2018). Related transactions include increasing capital, acquiring production materials, selling firm output, hiring workers, leasing assets, buying and divesting assets, and signing franchise contracts (Huang & Liu, 2010). RPT, on the other hand, is a subject from two competing viewpoints. Insider opportunistic judgments about RPT performance may be detrimental to other shareholders and are unreasonable to consider (Cheung, Jing, Lu, Rau, Stouraitis, 2009; Gordon, Henry, Palia, 2004; Kohlbeck & Mayhew, 2010). The second viewpoint considers RPT to be competent and able to provide beneficiaries to companies through efficient negotiation processes, lower transaction costs (Gordon, Henry, Palia, 2004), risk sharing, strategic cooperation, and contract facilitation (Kohlbeck & Mayhew, 2010; Ismail, El-Deeb, Halim, 2022)

One of the expenses that cannot contribute directly is the tax burden. Indonesia's tax compliance is still low, and many companies engage in tax avoidance practices. As a result, the effect of tax avoidance on firm value could be more consistent. Research by Kim et al. (2011) shows that tax avoidance is positively related to the risk of falling stock prices. Desai and Dharmapala (2006) and Chen et al. (2010) also show that tax avoidance practices reduce firm value. However, research by Soufiene et al. (2016) in Tunisia shows that tax avoidance increases firm value. Similar results were found by Jacob and Schutt (2014) in Germany and Lestari and Wardhani (2015) in Indonesia. A significant factor in limiting tax avoidance is government regulation. Government regulation is expected to be a monitoring tool that controls companies to behave following tax compliance. Jiménez-Mangueira (2018) stated that external monitoring is increased following the scandals of corporations. Prior research (e.g., Chang & Huang, 2017; Moore, 2012) found evidence that government regulation is essential in companies' tax compliance. Studies by Chang and Huang (2017), Jiménez-Mangueira (2018), Leung et al. (2019), and Moore (2012) documented that government regulation is a significant factor in restricting companies' dysfunctional behavior and forces companies to be more aware of tax compliance.

Management can implement tax avoidance as a form of corporate strategy (Cai & Liu, 2009; Hanlon & Heitzman, 2010). Tax avoidance by companies can represent wealth transfer activities within the firm, so it must indirectly increase the value of the firm. Tax avoidance is used to reduce information on the income tax burden of the firm (Hanlon et al., 2005; Ayers et al., 2009). Desai and Dharmapala (2009) found that the effect of corporate tax avoidance activities on firm value showed a positive direction, but only in companies with high levels of institutional ownership. Tax avoidance activities have been the subject of great interest for researchers, regulators, and practitioners alike, given the prominent role of taxation in the economy (Huseynov et al., 2017). In general, firms have plenty of opportunities to 'legally' reduce taxes, but FIrms tend to make anything that reduces their tax payments in a way to keep their cash reserves inside the firm (Dyreng et al., 2010; Boubaker, Derouiche & Nguyen, 2022)

Tax avoidance tends to increase value for well-governed firms but not so for poorly-governed firms. These results emphasize that corporate tax avoidance has two effects on firm value. One is the transfer of resources through transaction activities involving other parties or third parties owned companies to maximize the efficiency of the costs charged. That is done to process information related to taxes that must be paid by the firm so that the information disclosed in the financial statements can be used as an object of corporate tax avoidance. In line with this idea, Kerr (2019) reports that better corporate governance and higher corporate disclosure requirements imply a higher ability to detect tax planning by outside third parties, i.e., investors, tax authorities, and public interest groups, thus making tax avoidance less likely to occur. There is extensive literature documenting that corporate governance quality plays an essential role in shaping tax avoidance practices. In particular, a growing body of evidence suggests that outsiders see tax avoidance as an essential source of agency costs, making corporate governance's role even more prominent in tax-aggressive firms (Boubaker, Derouiche & Nguyen, 2022)

Stakeholders can perceive RPT as a positive or negative action. Companies and firm groups can also increase profits by reducing several types of expenses, especially expenses that cannot directly contribute to firm performance (Anthony & Govindarajan, 2007; Jones, 2012). RPT has mainly been studied in the literature according to two different theories: conflict of interest and efficient transaction perspectives. First, according to the conflict of interest theory, recorded RPT implies moral hazard and is carried out in directors' interests to expropriate wealth from shareholders. RPT demonstrates the potential for the expropriation of firm resources (Gordon et al., 2004). It is suggested here that managers will transfer too much of some benefits or gains to themselves, and this over-consumption is detrimental to the firm's stakeholders (Fama & Jensen, 1983; Jensen & Meckling, 1976).

Two perspectives can help explain why companies are committed to engaging in related party transaction activities. The first considers RPT a rule that becomes a reference in carrying out cost efficiency (Ryngaert & Thomas, 2012). According to this view, RPT is essential in improving the market economy and directly proportional to improving firm performance. Then related party transactions can contribute to meeting the firm's basic needs, reducing transaction costs, and facilitating the fulfillment of property rights and essential contracts for the firm (Fan & Goyal, 2006; Khanna Yafeh, 2005).

RPT results in higher agency costs due to the alignment of decision-making and monitoring rights (Huang & Liu, 2010). Studies that support this perspective explain how RPT can efficiently meet the underlying economic needs of firms (Gordon et al., 2004). This view considers RPT as a sound business exchange that meets the economic needs of firms (Djankov et al., 2008; Peng et al., 2011). RPT can have a significant impact on business transactions or business performance. Thus, transactions between related parties and companies are recorded as involving less information asymmetry between the two parties than would typically occur when transactions occur between companies and third parties. Eliminating the information asymmetry available to management and shareholders will result in a positive effect of RPT on organizational performance (Cai et al., 2015; Cormier et al., 2009; Elbadry et al., 2015).

Traditionally, tax avoidance is seen as a tax-saving method, and there is no economic incentive other than saving taxes. In contrast, agency theorists argue that tax issues are intertwined with corporate governance due to pervasive agency problems. In practice, the real goal for management to engage in tax avoidance is to complicate and obfuscate the transaction process, which provides managers with a haven for self-serving behavior (Desai et al., 2007). Tax avoidance is value-enhancing; however, managers refuse to undertake such activity due to the conflicting interest between managers and shareholders as stipulated by the theory; hence managers only engage in avoidance activities when they stand to gain some personal benefit from engaging in such activities. Amidu 2019. That supports the assumption underpinning the agency theory that human beings are self-interested characters acting reasonably to maximize their private gains (Donaldson and Davis, 1991: Crutchley and Hansen, 1989; Jensen, 2005).

Based on previous research showing how and why corporate income tax affects firm value. The results of previous research focused on the impact of debt protection as a tax on financing decisions (Kemsley & Nissim, 2002; Cooper & Nyborg, 2006). Previous research examines how tax avoidance will shape financial reports and the value relevance of tax information (Hanlon et al., 2005; Ayers et al., 2009). Empirical research on the effect of tax avoidance on firm value varies. Furthermore, there are research results reported in the literature that are not always clear or consistent (Cheung et al., 2009; Pizzo, 2013): some studies report a positive relationship between RPT and firm value (Djankov et al., 2008); other studies report a negative relationship (Gordon et al., 2006); and other studies report that this relationship is conditioned on several factors such as corporate governance (Chen et al., 2018; Yeh et al., 2012).

Helfin & Trisnawati (2020) states a positive influence between related party transactions on tax avoidance. Moreover, research conducted by Oktavia et al. (2012) shows that special-debt relationship transactions significantly affect an effective tax rate (tax avoidance), but unique relationships - receivables do not have a significant effect on an effective tax rate (tax avoidance). The case research conducted by Darma (2019) states that related-party transaction receivables and related-party transaction liabilities significantly do not influence tax avoidance strategies. Several factors, including corporate actions, influence FV. Companies engage in a variety of activities to improve operational efficiency, including (RPTs) and tax avoidance (TA). Previous research has found inconsistencies in whether these actions positively or negatively impact FV. Most of the stakeholders' constituents consider the related party transaction as a risky action by the management and can negatively affect the FV. The literature provides non-conclusive results on the impact of the RPTs on the firm performance in general and on FV in particular (Ismail, El-Deeb & Halim, 2022)

This study aims to determine the role of tax avoidance in strengthening the effect of related party transactions to increase firm value. The background for determining Indonesia as the sample in this study is based on issues from the issuance of regulations on December 30, 2016, Regulation (Minister of Finance) PMK No. 213 PMK.03/2016, which regulates the types of documents or additional information that must be kept by taxpayers who make transactions with related parties or go through management procedures. This regulation aims to reduce tax avoidance by multinational companies through transfer pricing schemes. This research makes two contributions. First, this research shows the empirical results of the effect of related party transaction activities on increasing firm value. Second, this study shows that tax avoidance strengthens the effect of related party transaction activities on increasing firm value.

2. Literature Review and Hypothesis Development

2.1 Agency Theory with Related Party Transactions and Tax Avoidance

The issue of the issuance of regulations on December 30, 2016, Regulation (Ministry of Finance) PMK No. 213 PMK.03/2016, which regulates the types of documents or additional information that must be kept by taxpayers who make transactions with related parties or go through management procedures. This regulation aims to reduce tax avoidance by multinational companies through transfer pricing schemes. Indonesia's tax compliance is still low, and many companies engage in tax avoidance practices. As a result, the effect of tax avoidance on firm value is inconsistent. Research by Kim et al. (2011) shows that tax avoidance is positively related to the risk of falling stock prices. Desai and Dharmapala (2006) and Chen et al. (2010) also show that tax avoidance practices reduce firm value. Stakeholders can perceive RPT as a positive or negative action. Companies and firm groups can also increase profits by reducing several types of expenses, especially expenses that cannot directly contribute to firm performance (Anthony & Govindarajan, 2007; Jones, 2012). RPT has mainly been studied in the literature according to two different theories: conflict of interest and efficient transaction perspectives.

Firms are incentivized to maximize profits by minimizing corporate tax, which is an essential item of cash outflow. Business groups use the strategy to minimize tax at the business group level (Gramlich et al., 2004, Jung et al., 2009, Lee 2010, Choi et al., 2011, Lee and Yoon, 2012). Prior research on tax minimization at the business group level has been done, mainly focusing on income shifting. Lee (2010) and Lee and Yoon (2012) examined the effect of related party transactions on income shifting and suggested that income shifting occurs by the motive of tax minimization by related party transactions (Park, 2018). Desai and Dharmapala (2009) show that tax avoidance increases firm value only for well-governed firms. Brooks et al. (2016) find no relation between tax payments and stock returns. Blaylock (2016) shows that tax avoidance is positively associated with future performance. We provide new evidence that tax avoidance increases firm value for high OC firms (Hasan, Lobo & Qiu, 2021)

This view considers RPT as a sound business exchange that meets the economic needs of firms (Djankov et al., 2008; Peng et al., 2011). RPT can have a significant impact on business transactions or business performance. Tax avoidance is a form of corporate strategy that management can implement (Cai & Liu, 2009; Hanlon & Heitzman, 2010). Tax avoidance by companies can represent wealth transfer activities within the firm, so it must indirectly increase the value of the firm. Tax avoidance tends to increase value for well-governed firms but not so for poorly-governed firms. These results emphasize that corporate tax avoidance has two competing effects on firm value. One is the transfer of resources through transaction activities involving other parties or third parties owned companies to maximize the efficiency of the costs charged. This study aims to determine the role of tax avoidance in strengthening the effect of related party transactions to increase firm value.

Based on empirical research, the effect of tax avoidance on firm value varies. Furthermore, there are research results reported in the literature that are not always clear or consistent (Cheung et al., 2009; Pizzo, 2013): some studies report a positive relationship between RPT and firm value (Djankov et al., 2008); other studies report a negative relationship (Gordon et al., 2006); and other studies report that this relationship is conditioned on several factors such as corporate governance (Chen et al., 2018; Yeh et al., 2012). Studies that support this perspective explain how RPT can efficiently meet the underlying economic needs of firms (Gordon et al., 2004). This view considers RPT as a sound business exchange that meets the economic needs of firms (Djankov et al., 2008; Peng et al., 2011). RPT can have a significant impact on business transactions or business performance. Based on the framework of thinking above and supported by previous research, the researcher determines the research hypothesis as follows:

H_1 : Related party transactions have a positive effect on firm value
H_2 : Tax avoidance has a positive effect on firm value
H_3 : Tax avoidance a role in strengthening the effect of related party transactions on firm value

3. Research Method

The population in this study are all companies listed on the Indonesia Stock Exchange in the 2016-2021 period. The number of samples in this study was 1,700 financial reports. The data source is the sample firm's financial statements from the website www.idx.co.id. The criteria used to select the sample in the study were: 1) Companies listed on the Indonesia Stock Exchange in 2016-2021, 2) Companies that carry out related party transaction activities, and 3) Companies that provide the complete required data related to the variables in the study this.

Table 1. Sample Criteria

Population Criteria	Number of Companies					
	2015	2016	2017	2018	2019	2020
Companies listed on the IDX	647	647	647	647	647	647

Companies do not report a complete annual report according to variables	(449)	(443)	(426)	(403)	(379)	(82)
Total	198	204	221	244	268	565
Target Sample			1700			

Source: Processed data, 2023

This study aims to determine whether tax avoidance can increase firm value. The regression equation used to test the hypothesis is as follows:

$$FV_{it} = \propto + \beta_1 TRANSACT_{it} + \beta_2 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 ROA_{it} + \beta_6 ROE_{it} + \beta_8 SGR_{it} + \varepsilon \ldots\ldots (1)$$

$$FV_{it} = \propto + \beta_1 TAXVOI_{it} + \beta_2 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 ROA_{it} + \beta_6 ROE_{it} + \beta_8 SGR_{it} + \varepsilon \ldots\ldots (2)$$

$$FV_{it} = \propto + \beta_1 TRANSACT_{it} + \beta_2 TAXVOI_{it} + \beta_3 MODER_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 ROA_{it} + \beta_7 ROE_{it} + \beta_8 SGR_{it} + \varepsilon \ldots\ldots (3)$$

The dependent variable in this study is firm value. The independent variable in this study is related party transactions. Tax avoidance is a moderating variable in the relationship between related party transactions and firm value. This research also uses firm size, leverage, profitability, and return on equity as control variables. The following is a description of the operational definitions of the variables that will be used in this study. Firm value is a stakeholder's assessment of the level of success of a firm, in general, firm value is reflected in the firm's stock price. The measurement of firm value in this study uses Tobin's Q ratio. That happens because the more significant the market value of a firm, the greater the desire of investors to invest (Khairani & Yunita Harahap, 2017). Then tax avoidance shows management's interest. That is done by reducing firm profits, which leads to information from financial statements that need to reflect the actual situation and create the potential for information asymmetry between companies and investors. This study uses tax avoidance as a moderating variable. Tax avoidance is measured by the Effective Tax Rate (ETR) to capture a less aggressive and more common form of tax avoidance. The independent variable in this study is related party transactions. Related parties are people or entities related to the entity that prepares the financial statements or the reporting entity. This variable is measured using a ratio scale and by adding the total number of related party transactions in each reporting period divided by total assets (Chen, 2020; Fooladi & Farhadi, 2019; Hasnan et al., 2016). This study also uses firm size, firm leverage, return on assets, return on equity, and sustainable growth as control variables.

4. Result

Table 2 shows that the value of most companies in Indonesia is good. That is an average (mean) value of 1,232, which means that most companies have good stock and financial performance information to increase investor preference. Then this table also shows related-party transactions with an average (mean) value of 0.809, which means that most companies in Indonesia have conducted related-party or third-party transactions for efficiency and transfer of assets to subsidiaries. Lastly is tax avoidance, where the mean value is 0.105. These results indicate that companies in Indonesia are sufficient to avoid taxes to make cost efficiencies outside of the firm's operating activities.

Table 2. Descriptive Statistics

	Means	Median	Minimum	Maximum
FV	1,232	0.806	0.237	4,657
TRANSACTS	0.809	1,000	0.000	1,000
TAXVOI	0.105	0.066	-0.520	0987
SIZE	18,558	18,812	8,425	31,292
Lev	3,228	0.482	0.001	31,978
ROA	0.799	0.536	-0.022	26,560
ROE	0.169	3,945	-58,600	25,450
SGR	-1,886	4,140	-62,480	87610

Source: Processed data, 2023

The Pearson correlation test aims to determine the direction and strength of the linear relationship between two or more variables. Table 3 shows that related party transactions (TRANSACT) are related to firm value (FV) at a significance level of 5%, then tax avoidance (TAXVOI), firm size (SIZE), leverage (LEV), profitability (ROA, ROE) are related to value firm (FV) at a significance level of 1%. Furthermore, tax avoidance (TAXVOI) and probability (ROA, ROE) are negatively related to related party transactions (TRANSACT) at a significance level of 10% and 1%, then firm size (SIZE) is related to related party transactions (TRANSACT) at a significance level of 10 %, while other variables are not related to related party transactions. Then only the profitability variable (ROE) is related to tax avoidance (ROE) at a significance level of 1%, while other variables have no relationship with tax avoidance.

Table 3. Correlation Test

	FV	TRANSACTS	TAXVOI	SIZE	Lev	ROA	ROE	SGR
FV	1,000							
TRANSACTS	0.070 **	1,000						
	(0.047)							
TAXVOI	0.069 ***	-0.041 *	1,000					
	(0.004)	(0.092)						
SIZE	-0.086 ***	0.048 *	-0.034	1,000				
	(0.000)	(0.050)	(0.157)					
Lev	0.094 ***	0.015	-0.005	-0.024	1,000			
	(0.000)	(0.540)	(0.832)	(0.325)				
ROA	0.090 ***	-0.042 *	0.034	-0.103 ***	0.052 **	1,000		
	(0.000)	(0.087)	(0.165)	(0.000)	(0.033)			
ROE	0.139 ***	-0.073 ***	0.167 ***	-0.042 *	-0.235 ***	0.079 ***	1,000	
	(0.000)	(0.003)	(0.000)	(0.091)	(0.000)	(0.001)		
SGR	0.001	-0.019	-0.029	-0.008	-0.001	-0.014	0.073 ***	1,000
	(0.957)	(0.452)	(0.252)	(0.735)	(0.961)	(0.561)	(0.004)	

Source: Processed data, 2023

Based on the statistical analysis in table 4 in section 1 shows that related party transactions (TRANSACT) affect firm value (FV). That is supported by a p-value of 0.79 (p < 0.10). The coefficient of 0.137 indicates that related party transactions (TRANSACT) have a positive influence on firm value (FV), so if there is an increase in related party transactions (TRANSACT) by 1 unit, then the firm value (FV) will increase by 0.137. A constant value of 2,034 indicates that if related party transactions (TRANSACT), firm size (SIZE), return on assets (ROA), leverage (LEV), return on equity (ROE), and firm growth rate (SGR) are 0, then the firm value (FV) is worth 2.034.

Based on the statistical analysis in table 4 in section 2, it shows that tax avoidance (TAXVOI) has an effect on firm value (FV). That is supported by a p-value of 0.45 (p < 0.10). The coefficient of 0.226 indicates that tax avoidance (TAXVOI) has a positive effect on firm value (FV), so if there is an increase in tax avoidance (TAXVOI) by 1 unit, then the firm value (FV) will increase by 0.226. A constant value of 1,973 indicates that if tax avoidance (TAXVOI), firm size (SIZE), return on assets (ROA), leverage (LEV), return on equity (ROE), and firm growth rate (SGR) are 0, then the firm value (FV) is worth 1,973.

Table 4. Regression Test

	(1) FV	(2) FV
TRANSACTS	0.137 *	
	(1.53)	
TAXVOI		0.266 **
		(2.40)
SIZE	-0.028 **	-0.027 **
	(-2.52)	(-2.47)
Lev	-0.757 ***	-0.755 ***
	(-4.86)	(-4.83)
ROA	0.063 ***	0.061 ***
	(2.79)	(2.83)
ROE	0.003 ***	0.002 **
	(2.84)	(2.44)
SGR	0.000 **	0.000 **
	(2.02)	(2.20)
_cons	2,034 ***	1973 ***
	(8.74)	(8.78)
F	7,484	7,711
R2	0.045	0.049
N	1560	1553

Source: Processed data, 2023

Table 5. Moderating Regression Analysis

	(1) FV
TRANSACTS	0.137 *
	(1.53)
TAXVOI	0.438 **
	(1.97)
MODER	0.239 *
	(1.79)
SIZE	-0.027 **
	(-2.45)
Lev	-0.765 ***
	(-4.86)
ROA	0.063 ***
	(2.88)
ROE	0.002 **
	(2.45)
SGR	0.000 **
	(2.13)
_cons	1974 ***
	(8.63)
F	6,558
R2	0.049
N	1553

Source: Processed data, 2023

Based on the statistical analysis in table 5 shows that tax avoidance (TAXVOI) can facilitate companies in carrying out related party transaction activities (TRANSACT) to increase firm value (FV). That is evidenced by a p-value of 0.80 (0.10). The description shows that tax avoidance (TAXVOI) moderates the effect of related party transactions (TRANSACT) on increasing firm value (FV). Tax avoidance (TAXVOI) in this study is included in quasi moderation, and this is because tax avoidance interacts with related party transactions showing a significant effect on firm value.

The coefficient of 0.239 indicates that tax avoidance can facilitate companies in carrying out related party transaction activities (TRANSACT), increasing firm value (FV), so that if there is an increase in related party transactions (TRANSACT) and tax avoidance (TAXVOI) by 1 unit, then the firm value (FV) will increase by 0.239. A constant value of 1,974 indicates that if related party transactions (TRANSACT), tax avoidance (TAXVOI), firm size (SIZE), return on assets (ROA), leverage (LEV), return on equity (ROE), and firm growth rate (SGR)) is 0, then the firm value (FV) is 1,974.

5. Discussion

5.1 Related Party Transactions and Increase in Firm Value

Transactions with related parties show that they can affect the increase in firm value. That is supported by the results of this study which showed a p-value of 0.79 (<0.10). RPT demonstrates the potential for the expropriation of firm resources (Gordon et al., 2004). RPT plays an essential role in improving the market economy and is directly proportional to the increase in firm performance. Then related party transactions can contribute to meeting the basic needs of the firm, reducing transaction costs and facilitating the fulfillment of property rights and essential contracts for the firm (Coase, 1937; Fan and Goyal, 2006; Fisman & Khanna, 2004; Khanna & Palepu, 1997; Khanna & Yafeh, 2005; Kim, 2004; Shin, 1999).

Conformity with the agency theory where the firm or management, that related party transactions can be considered by stakeholders as a positive action. That is proven if companies and groups reduce several types of expenses, especially those that cannot directly contribute to firm performance. RPT can have a significant impact on business transactions or business performance. Thus, transactions between related parties and companies are recorded as involving less information asymmetry between the two parties than would typically occur when transactions occur between companies and third parties. Removing the information asymmetry available to management and the resulting shareholders will result in a positive effect of RPT on organizational performance (Cai et al., 2015; Cormier et al., 2009; Elbadry et al., 2015). Firms are incentivized to maximize profits by minimizing corporate tax, which is an essential item of cash outflow. Business groups use the strategy to minimize tax at the business group level (Gramlich et al., 2004; Jung et al., 2009; Lee 2010; Choi et al., 2011; Lee & Yoon, 2012). Prior research on tax minimization at the business group level has been done, mainly focusing on income shifting. Lee (2010) and Lee and Yoon (2012) examined the effect of related party transactions on income shifting and suggested that income shifting occurs by the motive of tax minimization by related party transactions (Park, 2018).

5.2 Tax Avoidance and Increase in Firm Value

Tax avoidance or tax avoidance shows that it can affect the increase in firm value. That is supported by the results of this study which show a p-value of 0.45 (<0.10). The results of this study are supported by previous research by Soufiene et al. (2016) in Tunisia shows that tax avoidance increases firm value. Similar results were found by Jacob and Schutt (2014) in Germany and Lestari and Wardhani (2015) in Indonesia. Tax avoidance is a form of corporate strategy that management can implement (Cai & Liu, 2009; Hanlon & Heitzman, 2010).

Conformity with agency theory where tax avoidance is seen as a tax saving method, and there are no other economic incentives other than saving taxes on companies with good governance. Desai and Dharmapala (2009) found that the effect of corporate tax avoidance activities on firm value showed a positive direction, but only in companies with high levels of institutional ownership. These results emphasize that corporate tax avoidance has two effects on firm value. One is the transfer of resources through transaction activities involving other parties or third parties owned companies to maximize the efficiency of the costs charged. Previous research examines how tax avoidance will shape financial reports and the value relevance of tax information (Hanlon et al., 2005;

Ayers et al., 2009). Empirical research on the effect of tax avoidance on firm value varies. Furthermore, there are research results reported in the literature that are not always clear or consistent (Cheung et al., 2009; Pizzo, 2013): some studies report a positive relationship between RPT and firm value (Djankov et al., 2008); other studies report a negative relationship (Gordon et al., 2006); and other studies report that this relationship is conditioned on several factors such as corporate governance (Chen et al., 2018; Yeh et al., 2012).

5.3 Related Party Transactions, Tax Avoidance, and Firm Value

Tax avoidance (TAXVOI) moderates the effect of related party transactions (TRANSACT), increasing firm value (FV). Tax avoidance (TAXVOI) in this study is included in quasi-moderation. That is due to tax avoidance interacting with related party transactions significantly affecting firm value. That is supported by the results of this study which showed a p-value of 0.80 (<0.10).

Different perspectives can help explain why the firm is committed to carrying out related party transaction activities. The first considers RPT a rule that becomes a reference in carrying out cost efficiency (Ryngaert & Thomas, 2012). According to this view, RPT is essential in improving the market economy and directly proportional to improving firm performance. Then related party transactions can contribute to meeting the basic needs of the firm, reducing transaction costs and facilitating the fulfillment of property rights and essential contracts for the firm (Coase, 1937; Fan and Goyal, 2006; Fisman & Khanna, 2004; Khanna & Palepu, 1997; Khanna & Yafeh, 2005; Kim, 2004; Shin, 1999).

RPT can have a significant impact on business transactions or business performance. Transactions between related parties and companies are accounted for as involving less information asymmetry between the two parties than is usually the case when transactions occur between a firm and a third party. Eliminating the information asymmetry available to management and shareholders will result in a positive effect of RPT on organizational performance (Cai et al., 2015; Cormier et al., 2009; Elbadry et al., 2015). The results of this study are supported by Djankov et al. (2008); several studies reported a positive relationship between RPT and firm value in other studies; and other studies report that this relationship is conditioned on several factors, such as corporate governance (Chen et al., 2018; Yeh et al., 2012). Fama and Jensen (1983) and Jensen and Meckling (1976) suggest that managers will transfer too much of some benefits or gains to themselves, and this excessive consumption is detrimental to the firm's stakeholders. Helfin & Trisnawati (2020) states a positive influence between related party transactions on tax avoidance.

Moreover, research conducted by Oktavia et al. (2012) shows that special-debt relationship transactions significantly affect an effective tax rate (tax avoidance), but unique relationships - receivables do not have a significant effect on an effective tax rate (tax avoidance). The case research conducted by Darma (2019) states that related-party transaction receivables and related-party transaction liabilities significantly do not influence tax avoidance strategies. Several factors, including corporate actions, influence FV. Companies engage in various activities to improve operational efficiency, including (RPTs) and tax avoidance (TA).

6. Conclusion

This study aims to determine the role of tax avoidance in strengthening the effect of related party transactions to increase firm value. Most companies in Indonesia have affiliated characteristics in the form of a holding or group. Transactions between companies are sometimes known as related party transactions (RPT). RPT is carried out by companies based on reasons, namely, shareholders to maximize. Tax avoidance tends to increase value for well-governed firms, but not so for poorly-governed firms. These results emphasize that corporate tax avoidance has two competing effects on firm value. One is the transfer of resources through transaction activities involving other parties or third parties owned companies to maximize the efficiency of the costs charged. RPT results in higher agency costs due to the alignment of decision-making and monitoring rights. Studies supporting this perspective explain how RPT can efficiently meet the underlying economic needs of firms. This view considers RPT as a sound business exchange that meets the economic needs of companies. RPT can have a significant impact on business transactions or business performance. The results of this research indicate that related party transactions can affect the increase in firm value. RPT plays an essential role in improving the market economy and is directly proportional to the increase in firm performance. Then tax avoidance (TAXVOI) moderates the effect of related party transactions (TRANSACT) increasing firm value (FV). Tax avoidance (TAXVOI) in this study is included in quasi-moderation. That special-debt relationship transactions significantly affect an effective tax rate (tax avoidance), but unique relationships - receivables do not significantly affect an effective tax rate (tax avoidance). Several factors, including corporate actions, influence FV. Companies engage in a variety of activities to improve operational efficiency, including (RPTs) and tax avoidance (TA).

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