VALUE RELEVANCE OF COMPREHENSIVE INCOME: TAX AVOIDANCE AND DERIVATIVE INSTRUMENTS

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Abstract

The existence of comprehensive income as the adoption of IFRS, which has been carried out in Indonesia since 2012, has resulted in this figure information as one of the important information used by investors. Company policies originating from operating and non-operating activities can affect financial information quality. This study deals with the effect of tax avoidance and derivative instruments on the value relevance of comprehensive income. Research data is derived from the financial data of non-financial companies listed on the Indonesia Stock Exchange (IDX) from 2012 to 2019, sourced from www.idx.co.id and finance.yahoo.com. This study’s total number of samples is 202 observations through purposive sampling with several criteria. Data in this research is included cross-section data so that the hypothesis testing employed in this research is ordinary least square regression analysis. This study finds that tax avoidance and derivative instruments are not associated with the value relevance of comprehensive income. This study suggests that investors’ investment decisions are not influenced by information on tax avoidance and ownership of derivative instruments. However, tax avoidance is positively associated with value relevance using the book value of equity basis, while derivative instruments ownership is negatively associated with value relevance with the comparable basis.

Keywords: Derivatives, Tax Avoidance, Management Policies, Value Relevance, Comprehensive Income, IFRS Adoption


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1. INTRODUCTION

Today's global business development no longer recognizes national boundaries (Sianipar & Marsono, 2013). Stakeholders need accounting standards that are widely accepted and can be compared between countries (Firmansyah & Irawan, 2018, 2019). Thus, businesses must compile their company's financial statements using accounting language that the international community can understand. The uniformity of the accounting language employed for corporate financial reporting facilitates the use of financial statements by stakeholders from different countries in making decisions. It can be achieved by applying applicable and internationally accepted accounting standards (Sianipar & Marsono, 2013). In 2000, the IASC carried out an institutional restructuring with the establishment of the IASC Foundation (IASCF), which oversees the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretation Committee (IFRIC) (Bharata, Susilo, & Nugraheni, 2020). The IASB makes accounting and financial reporting standards under the name International Financial Reporting Standards (IFRS) which are enforced in addition to the existing IAS (Bharata et al., 2020). Global financial accounting standards implementation in a country aims to produce financial reports with high credibility (Ghosh, Bairagi, & Mondal, 2020). Silva, Jorge, and Rodrigues (2021) argued that the implementation of IFRS could increase financial reporting quality because it decreases opportunistic management actions. Yamani, Hussainey, and Albitar (2021) found that IFRS adoption can reduce risk by reducing the cost of capital that the company must bear. Several studies found that IFRS implementation enhances accounting information quality (Houve, Monem, Tareq, & van Zijl, 2016; Isaboke & Chen, 2019; Okafor, Anderson, & Warsame, 2016). These studies prove that the IFRS adoption can improve the financial reporting quality, as claimed by the IASB. However, other studies concluded that IFRS adoption has no association with accounting information quality (Doukkakis, 2014; Kouki, 2018).

Indonesia is committed to implementing an internationally agreed accounting standard (Wulandari & Adiati, 2015). Indonesia began to adopt IFRS as an accounting standards used nationally in 2008. This process was carried out in stages that would be completed in 2012 (Suprihatin & Tresnaningsh, 2013). The adoption stage started in 2008 until 2010, then the final preparation stage was carried out in 2011, and the implementation stage was carried out in 2012 (Sari, 2019). The convergence of IFRS in Indonesia is expected to increase the growth of the equity market in Indonesia by providing high-quality financial reports that can serve the needs of investors and other stakeholders (Wulandari & Adiati, 2015). High-quality financial reporting can be suggested from a high level of value relevance (Firmansyah & Yusuf, 2020; Ghosh et al., 2020). Accounting information is considered value relevant if it can create a difference in decision-making (Alexander & Meiden, 2017). Value relevance is a direct indicator of the benefits of the information presented for decision-making because the accounting information presented can provide important information to investors (Udeh & Ezejiofor, 2018).

IFRS adoption in developing countries is not certain to increase value relevance. On the one hand, the adoption of IFRS is expected to enhance financial quality reporting. On the other hand, management is always looking for opportunistic loopholes despite implementing new accounting standards. Management has more perfect information on the company’s finances than shareholders. In addition, managers can enforce certain company policies that are unknown to shareholders. These policies can impact the quality of financial statements contained in value relevance.

Works of literature related to value relevance have been investigated, such as IFRS adoption (Cutillas-Gomariz, Sánchez-Ballesta, & Yagüe, 2016; Garcia, Alejandro, Saenz, & Sanchez, 2017; Irmawati & Diana, 2016; Isaboke & Chen, 2019; Srivastava & Mularam, 2021), accounting information (Alexander & Meiden, 2017), tax avoidance (Ariff & Hashim, 2014; Haryatih, 2016; Midlustruty, Suranta, & Dita, 2014; Wardana, 2017), corporate social responsibility (Firmansyah & Yusuf, 2020), corporate governance (Firmansyah & Yusuf, 2020), cash holding (Trinh, Elnahass, & Cao, 2021), carbon disclosure (Jiang, Luo, Xu, & Shao, 2021). Managers can influence accounting numbers in financial statements because managers can run the company. The value relevance that shows the manager's policies will affect the quality of the company's operations and non-operational companies.

This study analyzes tax avoidance and derivative instruments on the value relevance of comprehensive income. After IFRS adoption, net income is no longer the lowest information in the income statements because it is replaced with comprehensive income (Firmansyah, Utami, Umar, & Mulyani, 2020b). After IFRS adoption in Indonesia, comprehensive income information is important for the investor. Tax avoidance and ownership of derivative instruments allegedly result in asymmetric information between managers and shareholders. Tax avoidance will decrease shareholder value (Hanlon & Heitzman, 2010). Meanwhile, derivative instruments are closely related to earnings management practices (Oktavia & Martani, 2013) and can increase the firm risk in developing countries (Firmansyah, Utami, & Mulyani, 2020a; Lau, 2016). Ariff and Hashim (2014), Mayberry, McGuire, and Omer (2015), and Wardana (2017) only examined tax avoidance on the value relevance of net income, not comprehensive income. Comprehensive income may be higher value relevance than net income (Sinarto & Christiawan, 2014; Haryatih, 2016; Wardana, 2017). Management is always looking for opportunistic loopholes despite implementing new accounting standards. Management has more perfect information on the company’s finances than shareholders. Therefore, it is necessary to investigate the value relevance of tax avoidance related to IFRS implementation adoption using data from developing countries such as Indonesia.

Furthermore, Murwaningsari et al. (2013) and Oktavia et al. (2017) examined the association of financial derivatives and the value relevance of pre-adoption of IFRS. In contrast, this study examined the association between financial derivatives and the value relevance after adopting IFRS, where the measurement of financial derivatives employs fair value. However, the adoption of IFRS...
should be able to increase the reporting of derivative instruments, but it is not effective if implemented in developing countries because it can pose risks and harm the company (Cao, Chen, Goetzmann, & Liang, 2018; Firmansyah et al., 2020b; Huang, Kabir, & Zhang, 2017; Lau, 2016). Thus, using financial derivative instruments after adopting IFRS and the risks that may arise in developing countries are interesting to investigate further.

The remainder of this paper is structured as follows. Section 2 elaborates on the theoretical framework and hypotheses development. Section 3 describes the methodology employed. Section 4 contains results and descriptive statistics analysis. Section 5 provides discussions on the hypotheses testing results. Section 6 concludes this research, the limitations of the study, and highlights the implications of our findings.

2. THEORETICAL FRAMEWORK

According to Ross (1977), signaling theory is based on managers announcing good information to increase firm value to investors. Spence (1973) stated that the management attempts to provide relevant information for investors in determining investment decisions by providing a signal. The theory is related to asymmetric information because the information received by each party is not the same or that one party to a transaction has a better information than the other party (Fahmi, Hadjaat, & Yudaruddin, 2019). The accounting numbers presented in financial statement information need to have a high level of relevance (Scott, 2015) so that signals that describe the firm value can be appropriately interpreted (Rokhinlasari, 2015). In addition, value relevance is information presented for decision-making so that the accounting information presented can provide important information to investors (Udeh & Ezejiofor, 2018).

If the information presented is considered relevant, it will positively signal investors in making investment decisions. Investors who have high trust in the company will respond to the company with stock price movements that tend to rise, increasing the company’s stock return. Information on financial statements has value relevance if the information presented can explain (explanatory power) the value of a company (Firmansyah & Yusuf, 2020; Ohlson, 1995). Value relevance is the ability of information in financial statements to cause market reactions and influence decision-makers decisions (Islam & Maswari, 2019). If the information presented from financial statements is considered relevant, it will positively signal investors in making investment decisions. Investors who have high trust in the company will respond to the company with stock price movements that tend to rise, increasing the company’s stock return.

The comprehensive income statement is part of the financial statements that measure how successfully the company’s performance is in one period. Comprehensive income statement information is very important for users of financial statements, such as investors, creditors, and management, to determine the direction of future decisions (Windarto, Lubis, & Solikhun, 2018). The main components of comprehensive income are net income and other comprehensive income (Aryati & Wibowo, 2017). Dhaliwal, Subramanyam, and Trevezan (1999) found that comprehensive income has more relevant to stock returns and stock prices than net income. Biddle and Choi (2006) concluded that the information content of comprehensive income has better information content than the income information. Choi and Zang (2006) proved that comprehensive income in the current period is better than net income in the same period. Cahan, Courtenay, Gronewoller, and Upton (2000) suggested that comprehensive income in aggregate has more value relevance than the income. Kanagaretnam, Mathieu, and Shehata (2009) found evidence that combined comprehensive income is more significant in explaining stock prices and returns than net income.

Asymmetric information causes managers to have more complete information than shareholders (Scott, 2015). Managers can take certain policies that are considered not in line with the interests of shareholders. These policies include tax avoidance activities (Ariff & Hashim, 2014; Haryathith, 2016; Midiausty et al., 2020; Wardana, 2017) and derivative instruments ownership (Cao et al., 2018; Firmansyah et al., 2020b; Huang et al., 2017; Lau, 2016; Murwaningsari et al., 2015; Oktavia et al., 2017). Investors consider that tax avoidance is employed to manipulate earnings. It will reduce investors’ valuation in making investment decisions, as indicated by falling stock prices. Adityamurti and Ghozali (2017) found that the higher the interest of investors, the higher the stock price because the outstanding shares will be limited. Ariff and Hashim (2014) and Wardana (2017) found that investors consider tax avoidance relevant to financial statement information. The level of company profitability boosts the tax avoidance practice (Dewinta & Setiawan, 2016). Mayberry et al. (2015) found that tax avoidance decreases value relevance. Tax avoidance actions can reduce investors’ quality of financial statements in decision-making. Investors do not understand that such efforts can align the interests of managers and investors or that managers, for certain motives, carry out such actions.

Furthermore, derivative instruments can be defined as financial instruments that value depends on the underlying variables (Donohoe, 2015). The use of derivative instruments has a policy that is negatively related to share prices and earnings (Murwaningsari et al., 2015). Oktavia and Martani (2013) stated that the ambiguity of derivatives instruments ownership in Indonesia relates to earnings management activities. Also, most companies restrict information on using their derivatives (Ayturk, Garber, & Yanzik, 2013). Investors are considered not in line with the interests of shareholders. Therefore, the company’s stock return, which is increasing.

The comprehensive income statement is part of the financial statements that measure how successfully the company’s performance is in one period. Comprehensive income statement information is very important for users of financial statements, such as investors, creditors, and management, to determine the direction of future decisions (Windarto, Lubis, & Solikhun, 2018).
disclosing the derivative instruments used in financial statements also poses problems because they are only related to the risk of derivative instruments, not how they are employed (Ryu, 2015).

Tax avoidance can reduce comprehensive income information quality because it is considered that the reported comprehensive proceeds are not associated with the firm’s actual value. Investors perceive tax avoidance as a form of earnings manipulation so that the financial statement information reflects a negative signal. Although this activity does not violate the provisions of laws and regulations, this activity has the potential for disputes between the company and the tax authorities in the future. While, derivative instruments ownership in developing countries is associated with earnings management activities, resulting in firm risk. The company must bear the loss in the future due to the instrument. Employing derivative instruments can increase the firm’s risk in developing countries. Thus, the comprehensive income is of low-value relevance because the instrument’s ownership results in greater risk borne by the company. Both managers’ policies from operating activities, tax avoidance, and non-operating activities in the form of ownership of derivative instruments can reduce the information quality from the financial statements data. The asymmetric information on the two policies reduced investor response to tax avoidance companies and have derivative instruments.

Thus, the two hypotheses in this study are as follows:

- **H1**: Tax avoidance reduces the value relevance of the comprehensive income.
- **H2**: The derivative instrument reduces the value relevance of the comprehensive income.

### 3. METHODOLOGY

This research employs data obtained through the company’s financial statements and stock price from 2012 to 2019. The data is derived from www.idx.co.id and www.finance.yahoo.co.id. The data in this study are companies that have derivative transactions from 2012 up to 2019. Regarding the purposive sampling, the research sample is as follows:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesian companies listed as of March 2021</td>
<td>728</td>
</tr>
<tr>
<td>Companies in the financial sector</td>
<td>105</td>
</tr>
<tr>
<td>Companies that do not have derivative instruments</td>
<td>581</td>
</tr>
<tr>
<td>Number of companies that can be used in research</td>
<td>42</td>
</tr>
<tr>
<td>Number or year</td>
<td>8</td>
</tr>
<tr>
<td>Total observations before adjustment</td>
<td>336</td>
</tr>
<tr>
<td>Companies that have a negative effective tax rate value and zero derivative value in a specific year</td>
<td>134</td>
</tr>
<tr>
<td>Total observations</td>
<td>202</td>
</tr>
</tbody>
</table>

Source: Processed data.

The dependent variable in this study is value relevance. In line with Almagtome and Abbas (2020), Firmansyah and Yusuf (2020), and Irnawati and Diana (2016), the measurement of value relevance in this study employs a model developed by Ohlson (1995), using the price model, measured using the following formula:

\[
PRICE_{it+1} = \beta_0 + \beta_1 EPS_{it} + \beta_2 BVE_{it} + \epsilon_{it}
\]  

(1)

where,

- **PRICE**<sub>it+1</sub>: Share price as of the end of March of the following year;
- **EPS<sub>i</sub>**: Book value of equity per share of the company i in year t;
- **Price<sub>i,t</sub>** is share price information at the announcement of financial statement information in the following year, the end of March of the following year, obtained in the capital market. Meanwhile, information on the book value of equity and net income derives from the financial statements for the current year. This value relevance model is part of capital market-based accounting research. There is a test of financial statement information on the company’s condition in the capital market (Firmansyah et al., 2020b; Kothari, 2001). Financial statement information can have value relevance if net income and book value of equity positively affect stock price information when the announcement of financial statements to the public. The relevance of the value in this study uses the relationship between net income and stock prices widely used in previous studies.

This study expands earnings per share (EPS) into comprehensive income per share (CIPS) based on the formula. Also, this study divides CIPS into EPS and other comprehensive income per share (OCIPS) and EPS. This study employs tax avoidance and derivative instruments (DERIV) as independent variables to interact with ICPS, EPS, and OCIPS. CIPS refers to Meichyel and Dewi (2020) and Yudiman, Darmansyah, and Ahmar (2017) and is measured by:

**CIPS** = \[\frac{\text{Comprehensive income}}{\text{Number of shares outstanding}}\]  

(2)

**OCIPS** refers to Yudiman et al. (2017) and Elshamy, Alyousef, and Al-Mudhaf (2019) and is measured by:

**OCIPS** = \[\frac{\text{Other comprehensive income}}{\text{Number of shares outstanding}}\]  

(3)

**EPS** refers to Utomo, Andini, and Raharjo (2016) and Firmansyah and Yusuf (2020), is measured by:

**EPS** = \[\frac{\text{Net income}}{\text{Number of shares outstanding}}\]  

(4)

**BVE** refers to Almagtome and Abbas (2020) and Firmansyah and Yusuf (2020) and is measured by:
Furthermore, the measurement of tax avoidance in this study employs the effective tax rate (ETR), following Ardys and Kristanto (2015), Damayanti and Prastiwi (2017), Sandy and Lukviarman (2015), Saputra, Rifa, and Rahmawati (2015). ETR is the best proxy for tax avoidance because it can reflect the difference between book income and fiscal income on a fixed basis (Pebriyanti, Firmansyah, Wijaya, & Irawan, 2022; Sandy & Lukviarman, 2015). The smaller (larger) value of ETR indicates that the tax avoidance by the company is getting bigger (smaller).

\[
ETR = \frac{Total\,\,tax\,\,expense}{Income\,\,before\,\,tax}\quad (6)
\]

The derivative instruments proxy follows Devi and Efendi (2018), Firmansyah and Purnama (2020), and Oktavia and Martani (2013) and is measured by the formula:

\[
DERIV = \frac{Abs(PV\,derivative\,assets-PV\,derivative\,liabilities)}{Total\,assets_{0-1}}\quad (7)
\]

This study includes profitability, leverage, and company size as control variables. Profitability proxy follows Ayturk et al. (2016) and Utomo et al. (2016), which employ return on assets (ROA).

Model 1

\[
PRICE_{it} = \beta_0 + \beta_1BVE_{it} + \beta_2CIPS_{it} + \beta_3ETR_{it} + \beta_4DERIV_{it} + \beta_5(BVE_{it} \times ETR_{it}) + \beta_6(CIPS_{it} \times ETR_{it}) + \beta_7(BVE_{it} \times DERIV_{it}) + \beta_8(CIPS_{it} \times DERIV_{it}) + \beta_9ROA_{it} + \beta_{10}LEV_{it} + \beta_{11}SIZE_{it} + \epsilon_{it}\quad (11)
\]

Model 2

\[
PRICE_{it+1} = \beta_0 + \beta_1BVE_{it} + \beta_2EPS_{it} + \beta_3OCIPS_{it} + \beta_4ETR_{it} + \beta_5DERIV_{it} + \beta_6(BVE_{it} \times ETR_{it}) + \beta_7(EPS_{it} \times ETR_{it}) + \beta_8(OCIPS_{it} \times ETR_{it}) + \beta_9(BVE_{it} \times DERIV_{it}) + \beta_{10}(EPS_{it} \times DERIV_{it}) + \beta_{11}(OCIPS_{it} \times DERIV_{it}) + \beta_{12}ROA_{it} + \beta_{13}LEV_{it} + \beta_{14}SIZE_{it} + \epsilon_{it}\quad (12)
\]

where,

- \(PRICE_{it,}\): Share price as of the end of March of the following year;
- \(BVE_{it}:\): Book value of equity per share of the company \(i\) in year \(t\);
- \(CIPS_{it}:\): The comprehensive income per share of the company \(i\) in year \(t\);
- \(EPS_{it}:\): Earnings per share of the company \(i\) in year \(t\);
- \(OCIPS_{it}:\): Other comprehensive income per share of the company \(i\) in year \(t\);
- \(DERIV_{it}:\): Derivative ownership of company \(i\) in year \(t\);
- \(ETR_{it}:\): Effective tax rate of the company \(i\) in year \(t\);
- \(ROA_{it}:\): Profitability of company \(i\) in year \(t\);
- \(LEV_{it}:\): Leverage of company \(i\) in year \(t\);
- \(SIZE_{it}:\): Natural logarithm of firm size \(i\) in year \(t\).

4. RESULTS

Table 2 shows descriptive statistics for each variable employed in this study. The descriptive statistics presented in this study include the mean, median, maximum value, minimum value, and standard deviation of the research data. The mean describes the average of each of the observed variables. The median aims to see the middle value between the mean and the extreme points. The maximum and minimum values describe the highest and lowest extreme values. Meanwhile, the standard deviation shows the difference between individual data points to the average. The summary of descriptive statistics for all variables processed in this study is shown in Table 2.

The multicollinearity test between the independent variables in Model 1 and Model 2 is as follows in Tables 3 and 4.
Table 2. Research descriptive statistics

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>BVE</td>
<td>3.95249</td>
<td>1.195</td>
<td>35.150</td>
<td>44.4</td>
<td>0.30129</td>
<td>202</td>
</tr>
<tr>
<td>EPS</td>
<td>744.551</td>
<td>107.437</td>
<td>55,587.32</td>
<td>-516.26</td>
<td>4,207.213</td>
<td>202</td>
</tr>
<tr>
<td>CIPS</td>
<td>2.233.36</td>
<td>8.036</td>
<td>46,808.43</td>
<td>163,593</td>
<td>1,492,313</td>
<td>202</td>
</tr>
<tr>
<td>OCIPS</td>
<td>16.338</td>
<td>0.0086</td>
<td>1,003.69</td>
<td>-63.906</td>
<td>120,736.2</td>
<td>202</td>
</tr>
<tr>
<td>DERIV</td>
<td>0.00016</td>
<td>0.01016</td>
<td>0.11018</td>
<td>2.8377</td>
<td>0.1147</td>
<td>202</td>
</tr>
<tr>
<td>ETR</td>
<td>0.07927</td>
<td>0.2515</td>
<td>3.9703</td>
<td>0.00794</td>
<td>0.3334</td>
<td>202</td>
</tr>
<tr>
<td>DER</td>
<td>1.5860</td>
<td>0.10510</td>
<td>13.3432</td>
<td>0.1872</td>
<td>1.0688</td>
<td>202</td>
</tr>
<tr>
<td>ROA</td>
<td>0.1028</td>
<td>0.0654</td>
<td>0.8672</td>
<td>-0.1627</td>
<td>0.1203</td>
<td>202</td>
</tr>
<tr>
<td>SIZE</td>
<td>50.2392</td>
<td>30.3866</td>
<td>33.4945</td>
<td>27.7726</td>
<td>1.3934</td>
<td>202</td>
</tr>
</tbody>
</table>

Source: Processed data.

Table 3. Multicollinearity test results for Model 1

<table>
<thead>
<tr>
<th>Variable</th>
<th>BVE</th>
<th>CIPS</th>
<th>DERIV</th>
<th>ETR</th>
<th>DER</th>
<th>ROA</th>
<th>SIZE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>1.0000</td>
<td>0.8240</td>
<td>-0.0211</td>
<td>0.0450</td>
<td>-0.1349</td>
<td>0.2911</td>
<td>0.1136</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.8240</td>
<td>0.0256</td>
<td>-0.0196</td>
<td>-0.0441</td>
<td>0.4278</td>
<td>-0.1045</td>
<td></td>
</tr>
</tbody>
</table>

Source: Processed data.

Table 4. Multicollinearity test results for Model 2

<table>
<thead>
<tr>
<th>Variable</th>
<th>BVE</th>
<th>EPS</th>
<th>OCIPS</th>
<th>ETR</th>
<th>DERIV</th>
<th>DER</th>
<th>ROA</th>
<th>SIZE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>1.0000</td>
<td>0.8277</td>
<td>0.5343</td>
<td>1.0000</td>
<td>0.1824</td>
<td>0.0338</td>
<td>0.1053</td>
<td>0.0038</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.8277</td>
<td>0.0256</td>
<td>-0.0196</td>
<td>0.0272</td>
<td>0.0338</td>
<td>1.0000</td>
<td>0.3555</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

Source: Processed data.

Tables 3 and 4 above show that the relationship between CIPS and BVE and EPS and BVE has a coefficient above 0.8, namely 0.8240 and 0.8277, so that the two variables experience multicollinearity. However, based on Gujarati and Porter (2009) and Widarjono (2013), models whose independent variables experience multicollinearity as long as they are not full multicollinearity, model testing is still being carried out. Furthermore, Table 3 shows that hypothesis testing in Model 1 was conducted to examine the effect of tax avoidance and derivative ownership on the value relevance of comprehensive income. Meanwhile, hypothesis testing in Model 2 was conducted as an additional test to examine the effect of tax avoidance and derivative instrument ownership on the value relevance of other comprehensive income. Both models were tested with OLS and have passed the classical assumption test.

Table 5. The summary of regression test results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-7.31720</td>
<td>-1.791</td>
</tr>
<tr>
<td>BVE</td>
<td>2.83</td>
<td>8.127</td>
</tr>
<tr>
<td>EPS</td>
<td>-2.02</td>
<td>-3.177</td>
</tr>
<tr>
<td>CIPS</td>
<td>0.4308</td>
<td>0.5343</td>
</tr>
<tr>
<td>ETR</td>
<td>-0.0218</td>
<td>0.1824</td>
</tr>
<tr>
<td>DERIV</td>
<td>-0.0637</td>
<td>0.0513</td>
</tr>
<tr>
<td>ROA</td>
<td>0.2853</td>
<td>0.1153</td>
</tr>
<tr>
<td>SIZE</td>
<td>-0.0737</td>
<td>-0.0258</td>
</tr>
</tbody>
</table>

Source: Processed data.
5. DISCUSSION

The result of Model 1 suggests that the interaction between tax avoidance and comprehensive income has no association with stock prices. Thus, tax avoidance is not related to the value relevance of comprehensive income. Model 2 testing suggests that the interaction between tax avoidance and net income and tax avoidance and other comprehensive income are not associated with stock prices. Investors consider no significant difference in presenting comprehensive income information after IFRS adoption in Indonesia with net income in the previous financial accounting standards. The addition of other comprehensive income in the comprehensive income component is not too significant. Meanwhile, the value relevance test based on the book value of equity suggests that the effective tax rate in both models shows a negative association with value relevance or that tax avoidance is positively associated with value relevance. This test suggests that the value relevance based on the book value of equity is more stable than based on comprehensive income and net income. The result of the multicollinearity test shows that the book value of equity has a high correlation with comprehensive income and net income. The book value of equity information is more stable than the comprehensive income component in the value relevance test. Thus, the following discussion employs value relevance based on the book value of equity.

The result is in line with Ariff and Hashim (2014), Mayberry et al. (2015), and Wardana (2017). Based on descriptive statistics, the average ETR of 0.3072 (close to zero) indicates that the tax avoidance practice is quite high. It aligns with each company’s primary goal to obtain the maximum possible income (Oktaviana, Pratomo, & Sunarno, 2018). Tax avoidance may enhance asymmetric information because the management attempts to attract investors’ interest in investing in their sources by presenting relevant financial statements (Scott, 2015). On the other hand, investors consider management’s tax avoidance practices as the best strategies to plan tax expenses. It is assumed that tax avoidance is good news for investors because managers attempt to save tax expenses. Although the information received by investors and company management is not the same, the company management has more and better information than investors (Fahmi et al., 2019). Still, managers attempt to align investor interest in tax avoidance activities. Tax avoidance becomes a benchmark for investors in making investment decisions. Tax avoidance practice is still within the limits of tax laws and regulations and can be justified (Hetiati, Kustiawan, & Fitriana, 2021). The usefulness of information on the presentation of the book value of equity can be increased due to tax avoidance activities. Therefore, investors assume that tax avoidance actions can increase the value of the company because these actions can align investors’ interests over the company’s future (Desai & Dharmapala, 2005; Drake, Lusch, & Stekelberg, 2019; Firmansyah, Febrian, & Falbo, 2022; Irawan & Turwanto, 2020; Widodo & Firmansyah, 2021).

Furthermore, the interaction of derivative instruments and comprehensive income is not associated with stock prices. Thus, the derivative instrument is not related to the value relevance of comprehensive income. Investors do not consider that derivative instruments owned by the company can influence investors’ decisions in making investments. In Model 2, the study result also suggests that the interaction of derivative instruments and net income is unrelated to stock prices. Derivative instruments do not cause a market reaction on comprehensive income and net income. However, the value relevance test based on the book value of equity suggests that the derivative instruments in both models show a negative association with value relevance. As with the tests of tax avoidance and value relevance in the previous section, the following discussion employs value relevance based on the book value of equity. This result is in line with. This study confirms the result of Oktavia et al. (2017). This study employs non-financial companies based on Ohlson (1995), while Oktavia et al. (2017) utilized data from the financial industry sector and referred to the model of Ahmed, Kille, and Lobo (2006).

The presentation of derivative transactions in the financial statements depends on essential variables with different characteristics (Mahardika, 2018). Derivative instruments are presented based on the underlying variables so that changes in the primary variables will cause changes in the instrument value. Using the instruments in developing countries will not be effective, pose risks, and harm the company (Firmansyah et al., 2020b). Derivative instruments ownership will affect investors’ company assessment because investors (risk-neutral) will always avoid risk-valued information. In line with that, derivative instruments have market risk in exchange rates and interest rates that are negatively related to share prices and earnings (Murwaningsari et al., 2015). Also, derivative instruments ownership is associated with firm risk (Firmansyah et al., 2020a). Apart from the company’s non-operating activities, the policy in derivative instruments ownership is related to asymmetric information that is not in line with investors’ interests. The losses due to derivative instruments will compensate for net income, so the company’s net income is not affected by fluctuations in derivative transactions. In addition, hedging attempts can reduce the negative realization and costs due to financial distress (Donohoe, 2015). The derivative instrument ownership is also considered to have unclear objectives so that the information cannot be used to determine investment decisions in the capital market. Furthermore, Indonesia does not have an active futures exchange, making derivative instruments less popular in Indonesia (Firmansyah et al., 2020b). It causes the low value of derivative ownership so that investors do not consider the ownership of the derivative instrument in investment decision-making. This study also confirms the findings of Cao et al. (2018), Huang et al. (2017), and Lau (2016), which stated that derivative instruments ownership in any form could increase companies’ risk in developing countries. Although regulated by financial accounting standards, derivative instruments ownership also needs to be supported by good governance related to its implementation.
6. CONCLUSION

This study finds that value relevance is more stable using the information on equity's book value than comprehensive income and net income. Comprehensive income information that has emerged since 2012 since the implementation of IFRS adoption in Indonesia is considered by investors not to provide a significant change compared to net income using previous accounting standards. This study finds that tax avoidance is positively associated with value relevance because it is considered to align investors' interests. Tax avoidance can be considered one of the managers' strategies in supporting the positive response of investors. This finding confirms Desai and Dharmapala (2017), Drake et al. (2019), Firmansyah et al. (2022), Irawan and Turwanto (2020), and Widodo and Firmansyah (2021) that tax avoidance can increase the firm value. Meanwhile, derivative instruments ownership reduces investors' belief because the action contains a high level of asymmetric information. This study confirms the findings of Cao et al. (2018), Huang et al. (2017), and Lau (2016), which stated that derivative instruments ownership in developing countries, with any purposes, cannot run optimally because it needs adequate governance support.

The limitation of this study is the data used is limited to data on non-financial companies that have derivative instruments from 2012 up to 2019 as one of the criteria. Second, the scope of observations in this investigation is limited since there is an adjustment to companies that have negative ETR values and zero derivative values. Future research can examine tax avoidance separate from the criteria for companies with derivative instruments to obtain a larger amount of data and produce a more comprehensive test. In addition, future research can use data from other developing countries to compare the results of this test with the research. The study indicates that the Indonesian Tax Authority needs to focus on regulation and supervision and increases literacy among investors in Indonesia regarding the importance of using financial reports to make investment decisions and investor protection in the capital market.

REFERENCES


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