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The Impact of Ownership Structure and Tax Avoidance

Abstract. Introduction. *The ownership structure issues on tax avoidance must be thoroughly investigated. Tax avoidance is a management strategy used by companies to maximize profitability by lowering their tax burden. Secondary data from the company's annual financial statements were used in this analysis. The sample was 407 observations made at manufacturing companies between 2016 and 2019. The Ordinary Least Squares method was used to test this research hypothesis.*

Purpose. *The purpose of this study is to analyze the effect of ownership structure on tax avoidance using agency theory in terms of government, foreign, family, and public ownership.*

Results. *The finding showed that whereas government, family, and public ownership all had a significant effect on tax avoidance, foreign ownership had no significant effect.*

Conclusions. *The policies that the government may implement to reduce tax avoidance by raising state revenues are the most significant, one of which is on the tax side. State revenues continue to increase in line with the percentage of taxpayer contributions, but tax revenue realization has fallen short of the government's target, and the existence of strict supervision by the Directorate General of Taxes, which is conducted regularly, enables it to prevent deviant company activities while also benefiting the State by increasing tax revenue. This research still has limitations, namely the companies used only focus on manufacturing companies with observations during 2016-2019, which are still relatively small. Regarding these limitations, it is recommended for further research to add measurements on calculate tax avoidance, using different proxies such as the Book Tax Differences (BTD), Long Run Effective Tax Rate and Effective Tax Rate (ETR) as well as adding conditions during and before the Covid pandemic-19 which may affect the practice of increasing tax avoidance. In addition, it can add independent variables that affect tax avoidance, such as executive ownership. Finally, researchers can compare the practice of tax avoidance in Indonesia with other developed countries.*

Keywords: *ownership structure; tax avoidance; agency theory.*

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Вплив структури власності та ухилення від сплати податків

Анотація. *Проблеми структури власності щодо ухилення від сплати податків мають бути ретельно досліджені. Ухилення від сплати податків – це стратегія управління, що використовується компаніями для максимізації прибутковості шляхом зниження податкового тягаря. Для цього аналізу були використані дані річної фінансової звітності компаній. Метою цього дослідження є аналіз впливу структури власності на ухилення від сплати податків з використанням теорії агентства з точки зору державної, іноземної, сімейної та громадської власності.*

Доведено, що в той час як державна, сімейна та державна власність мали значний вплив на уникнення сплати податків, іноземна власність не мала істотного впливу. Найважливішою є політика, яку уряд може впровадити, щоб зменшити ухилення від сплати податків шляхом збільшення державних доходів, одна з яких стосується податкової. Державні надходження продовжують зростати відповідно до відсотка внесків платників податків, але реалізація податкових надходжень не досягла цільового показника уряду, а натомість суворого нагляду з боку Генерального директорату з податків, який проводиться регулярно, дає йому змогу запобігти тінізації економіки, а також приносить користь державі шляхом збільшення податкових надходжень.

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Ключові слова: *структура власності; уникнення від сплати податків; агентська теорія.*

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Formulation of the problem. This research is inspired by the declining taxpayer compliance rate in the submission of the Annual Income Tax Return (SPT) in 2016, which fell below the target of 8.6%, and in 2020, which also fell short of the target of 77.63% of 80%. A low tax compliance rate will have an impact on taxpayers, showing that tax avoidance is being practiced. Decreased compliance by taxpayers in reporting this SPT will have an effect on tax revenue. Tax revenue realization declined by 84.44% in 2019. Weak tax revenue, which is the state's backbone. Each country establishes revenue targets, as taxes play an important role in the functioning of the state. The government's objective is to maximize tax revenue in order to avoid obstacles, one of which is the incidence of tax avoidance operations.

This is an interesting indicator to investigate in Indonesia, which has a unique ownership structure (Masripah et al., 2016). This means that ownership concentration in Indonesia is typically rather high, with 80% share ownership in an entity (Yulistia et al., 2020). Along with family and institutional ownership, foreign ownership of entities in Indonesia has increased in recent years. This suggests that the Indonesian economy's fundamentals have a positive effect, attracting investors to invest in Indonesia, particularly in manufacturing enterprises. Manufacturing companies with a high volume of activity processes create an opportunity for tax avoidance.

Tax avoidance can be influenced by several factors, including the government ownership structure Chang & Huang (2017); Thanh & Quyen (2017); Maherthrian & Kasipillai (2014); Salihu et al. (2014); Bradshaw et al. (2013); Chan et al. (2013); dan Jian et al. (2012). foreign ownership Alkurdi & Mardini (2020); Suranta et al. (2020); Yulistia et al. (2020); Li (2018); Kusbandiyah & Norwani (2018); Saputra et al. (2017); Chang & Huang (2017); Park et al. (2016); Hasan et al. (2016); dan Salihu et al. (2014), family ownership Rego & Wilson (2012); Gaaya et al. (2017); Kusbandiyah & Norwani (2018); Bimo et al. (2019); Kovermann & Wendt (2019); Masripah et al. (2015); dan Nuritomo et al. (2020) last, public ownership Yulistia et al. (2020).

Analysis of recent research and publications. Lau & Tong (2008) the government ownership structure is share ownership by the government, whether it is a private or private company characterized as Government-Linked Companies (GLCs). GLCs are subject to less stringent monitoring of the capital market, which will cause information asymmetry problems (Salihu et al., 2014). Due to the absence of capital markets, minority shareholders are unable to discount the company's stock price in reaction to its involvement in tax avoidance activities.

A foreign ownership structure is one in which a foreign citizen or a foreign-owned corporate entity, legal body, or foreign government invests in the Republic of Indonesia, where ownership of a company's shares does not prevent foreign investors from participating. Foreign ownership structures play an important role in shaping company policy (Hasan et al., 2016). By investing in a company's shares, foreign investors expect to get a rate of return consistent with their expectations. A multinational company makes sacrifices in order to maximize profits for the benefit of the corporation. Entities with high foreign ownership will tend to take policies, this is because they have controlling rights and to reduce tax burdens that aim to minimize tax payments and tend to do tax avoidance. Park et al. (2016) explains how the company's mechanism for expanding its business tries to minimize tax burden through the use of taxation strategies that comply with state regulations. This will have an effect on the number of foreign ownership, particularly in Indonesia.

Family ownership of the company will enhance the company's reputation in the community, as family ownership will place a priority on the company's good name. This is done in order to ensure the family company's continuity on an ongoing basis. Family involvement will mitigate the conflict of interests between the principal and the agent.

Public ownership is a minority shareholder that holds less than 5% of the company's outstanding shares. One could argue that public shareholders hold a minority stake in the corporation (Yulistia et al., 2020). This will encourage management to be more transparent, ensuring that the business is not driven by the interests of particular parties. Public share ownership undoubtedly has an intensity that can motivate entity behavior when it is questioned in the mainstream media. While public ownership initially enabled enterprises to act independently, businesses must exercise caution in light of the existence of public ownership shares. This will make it more difficult for management to take advantage of opportunities, particularly tax avoidance.

Formulation of research goals. The purpose of this study was to determine the impact of tax avoidance on government, foreign, family, and public ownership structures. Theoretically, this research should be beneficial in terms of expanding the body of knowledge regarding the impact of ownership structure on tax avoidance. The author hopes that this research will be useful for future research. In practice, this research can serve as a reference to the Directorate General of Taxes' authority on the impact of ownership structure on tax avoidance. The findings of this study are likely to assist tax authorities in contributing information on tax avoidance activities conducted by companies in Indonesia in compliance with current tax procedures.

Outline of the main research material. Agency theory according to Jensen & Meckling (1976), as controlling shareholders, the government has the authority to exercise control over management in carrying out the entity's operations and over the implementation of government regulations. On the management side, those responsible for operating the organization will be compensated by the government for performance that benefits the government. Managers of government-owned enterprises have a motive to appease the government, as doing so benefits shareholders through significant tax payments. Many previous studies also corroborate this theory Bradshaw *et al.* (2013) Salihu *et al.* (2014), and Mahenthrian & Kasipillai (2014) which proves that government ownership is related to tax avoidance. Based on this, the relationship between government ownership structure and tax avoidance is hypothesized:

H_1= Government ownership and has a significant positive relationship with tax avoidance.

Agency theory according to Jensen & Meckling (1976), the more foreign ownership structure a corporation has, the larger the voting rights of investors engaging in company policies. Thus, investors will choose companies that provide them with earnings in exchange for their shares, based on their expected rate of return. If a foreign entity has a significant level of foreign ownership, the focus is on minimizing the deferred tax burden (Rego & Wilson, 2012). The company seeks to maximize the deferred tax burden by practicing tax avoidance activities, this is because taxes are part of the deduction of corporate income. This theory is also supported by several previous studies Suranta *et al.* (2020), Alkurdi & Mardini (2020), Yulistia *et al.* (2020), Kusbandiyah & Norwani (2018), Saputra *et al.* (2017) and Park *et al.* (2016), which proves that foreign ownership is related to tax avoidance. Based on this, the relationship between foreign ownership structure and tax avoidance is hypothesized:

H_2= Foreign ownership and has a significant positive relationship with tax avoidance

Agency theory according to Jensen & Meckling (1976). Because a family ownership structure has a tendency to pass the company on to the next generation, it has an obligation to preserve the company. Family involvement helps to match the interests of owners and managers, so reducing agency problem. Additionally, family involvement motivates managers' oversight to take activities that benefit the company, allowing managers to perform effectively and efficiently. There is an unique agency problem with entities, in that conflicts tend to be more intense between majority and minority shareholders and less intense between owners and managers. Because the presence of the entity's owner as the majority shareholder will have an effect on tax avoidance. Numerous previous studies also support this theory. Kovermann & Wendt (2019), Bimo *et al.* (2019), Kusbandiyah & Norwani (2018), Gaaya *et al.* (2017), and Rego & Wilson (2012) which proves that family ownership is related to tax avoidance. Based on this, the relationship between family ownership structure and tax avoidance is hypothesized:

H_3= Family ownership and has a significant positive relationship with tax avoidance

Agency theory according to Jensen & Meckling (1976), states that proving that the ownership structure affects agency costs, if ownership will share the ease of management control. Public ownership of large companies in a developed country holds the control of public shareholders by 80% to almost 100% (La Porta *et al.*, 1999). In contrast to the state in Indonesia, the public owns only 10% of the company. However, there is an advantage to publicly owned shares; this ensures that the company performs well and that tax payments are made on time. Thus, with strong performance comes a strong company image. Publicly held shares require the entity to contribute to the government through tax obligations in order to assist the government in developing the country. This theory is not supported by Yulistia *et al.* (2020) proves that public ownership has a negative relationship with tax avoidance. On this basis, a hypothesis is made regarding the relationship between public ownership structure and tax avoidance:

H_4= Public ownership and has a significant negative relationship with tax avoidance

The population of this study is composed of manufacturing companies listed on the Indonesia Stock Exchange, companies that publish audited financial annual reports, and companies that have complete financial records regarding corporate share ownership information in the preceding four years (2016-2019). Between 2016 and 2019, this study sampled 116 manufacturing companies, totaling 407 companies.

This study uses Ordinal Least Square (OLS) to explain changes in independent variables together or separately. The research regression model is:

$$TA = \beta_1 GOVERN + \beta_2 FOREIGN + \beta_3 FAM + \beta_4 PUB \quad (1)$$

where,

TA	- is Tax Avoidance;
$\beta_{1,2,3}$	- is coefficient;
$GOVERN$	- is government ownership structure;
$FOREIGN$	- is foreign ownership structure;
FAM	- is family ownership structure;
PUB	- is public ownership structure.

Tax avoidance has been described as the amount of tax paid that is still within the limits of the tax law's provisions and is permitted through tax planning in previous studies (Tandean & Winnie, 2016). In the reality of tax avoidance, there are still many taxpayers who do not openly violate the law or interpret the law as not commensurate with its aims and objectives. Suranta *et al.* (2020); Alkurdi & Mardini (2020); Yulistia *et al.* (2020); Kovermann & Wendt (2019); Bimo *et al.* (2019);

Kusbandiyah & Norwani (2018); Gaaya *et al.* (2017); Thai Ha & Quyen (2017); Park *et al.* (2016); Masripah *et al.* (2015); Salihu *et al.* (2014); sing the Cash Effective Tax Rate (CETR) in measuring tax avoidance.

Meanwhile, previous research indicates that the government's ownership structure acts as the shareholder's authority over management and oversees the implementation of government regulations. The government ownership structure is quantified using a dummy variable that has a value of 1 if the government owns the shares and 0 if the government does not own the shares (Salihu *et al.*, 2014). Government ownership is measured by models from research Salihu *et al.* (2014), Tang (2016) dan Thai Ha & Quyen (2017).

Foreign ownership structures play an important role in shaping company policy (Hasan *et al.*, 2016). This share ownership uses the dummy method for each shareholder. Value 1 if share ownership is owned by foreigners and value 0 if share ownership is not owned by foreigners (Salihu *et al.*, 2014), Kusbandiyah & Norwani (2018) and Yulistia *et al.* (2020).

The family ownership structure is unique in that it is typically family-oriented, including the supervision of the entity (Suárez, 2017). This share ownership uses the dummy method for each shareholder. Value 1 if share ownership is owned by the family and value 0 if share ownership is not owned by the family (Gaaya *et al.*, 2017) dan Kovermann & Wendt (2019).

Public ownership is categorized as public shares (not affiliated with the company) whose ownership is not more than 5% each. It can be said that public shareholders have minority power in the entity. Value 1 if share ownership is owned by the public and value 0 if share ownership is not owned by the public (Yulistia *et al.*, 2020).

Manufacturing companies listed on the Indonesia Stock Exchange in 2016-2019, as many as 407 observations over four years that meet the criteria for this research sample. The general description of the research object is described in the descriptive statistical results in Table 1.

Table 1. **Descriptive Statistical Analysis**

Variable	Total	Mean	Median	Standard Deviation	Minimum	Maximum
TA	407	0,649352	0,280000	2,747893	0,000000	56,38000
Govern	407	0,060475	0,000000	0,238623	0,000000	1,000000
Foreign	407	0,466523	0,000000	0,499418	0,000000	1,000000
Fam	407	0,328294	0,000000	0,470100	0,000000	1,000000
Pub	407	0,574082	1,000000	0,159062	0,000000	1,000000

Source: generated and supplemented by authors based on materials

Table 2. **Multiple regression test results**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.680802	0.049871	13.65120	0.0000
GOVERN	0.056573	0.031734	1.782732	0.0075
FOREIGN	0.006451	0.015407	0.418714	0.0756
FAM	0.018440	0.016350	1.127842	0.0260
PUB	-0.048267	0.049519	-0.974707	0.0302

R-squared	0.623908	Mean dependent var	0.646281
Adjusted R-squared	0.590720	S.D. dependent var	0.153282
S.E. of regression	0.152970	Akaike info criterion	-0.904910
Sum squared resid	9.383336	Schwarz criterion	-0.855571
Log likelihood	188.6968	Hannan-Quinn criter.	-0.885383
F-statistic	14.13984	Durbin-Watson stat	1.995879
Prob(F-statistic)	0.022850		

Source: generated and supplemented by authors based on materials

Table2. Explaining the regression above can be interpreted as follows:

TA = 0,680802 + 0,056573GOVERN + 0,006451FOREIGN + 0,018440FAM – 0,048267PUB

The constant-coefficient value of 0.680802 means that if the variables of government, foreign, family and public ownership are constant, the dependent variable of tax avoidance will decrease by 0.680802. The Adjusted R-squared value of 0.590720 shows that the independent variable can explain 59% of the contribution effect to the tax avoidance variable and the other 41% is influenced by factors outside the independent variable. From the regression results above, it can be seen that the value of Prob (F-Statistic) (0.022850) <0.05 so it can be concluded that the variable ownership structure of government, foreign, family and public jointly affects tax avoidance.

Table 3. **Hypothesis Test Results**

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Hasil
GOVERN	0,056573	0,031734	1,782732	0,0075	Accepted
FOREIGN	0,006451	0,015407	0,418714	0,0756	Rejected
FAM	0,018440	0,016350	1,127842	0,0260	Accepted
PUB	-0,048267	0,049519	-0,974707	0,0302	Accepted

Source: generated and supplemented by authors based on materials

Hypothesis research results (H_1) shows that the percentage of tax avoidance activities is smaller in the calculation conditions based on the tax burden, but if the nature of accruals is ignored, there is a greater possibility of tax avoidance occurring. Examined from agency theory according to Jensen & Meckling (1976), The government is the shareholder with the authority to direct how the company operates and how government rules are implemented. This study is consistent with Bradshaw *et al.* (2016); Mahenthrian & Kasipillai (2014); and Salihu *et al.* (2014). However, this study contradicts Thai Ha & Quyen (2017); Chang & Huang (2017); Chan *et al.* (2013); and Jian *et al.* (2012) shows that government ownership structure is not positively related to tax avoidance.

Hypothesis research results (H_2) pada penelitian ini menunjukkan bahwa hubungan variabel struktur kepemilikan Foreigners are not associated with tax avoidance. Foreign ownership structure plays a role in controlling minority shares with a market capitalization of less than 5% of total outstanding shares. Principal-agent conflicts occur between majority and minority shareholders, according to agency theory. As majority shareholders, investors and management are chosen to make decisions that benefit the majority shareholder, who is also the controlling stakeholder of the business. This means that increased shareholder control will promote the entrenchment effect, which encourages controlling owners to act in ways that benefit their personal interests compared to non-controlling shareholders. It is in line with Hasan *et al.* (2016); Li (2018); Salihu *et al.* (2014); and Chang & Huang (2017). However, this study contradicts Saputra *et al.* (2017) and Yulistia *et al.* (2020). shows that foreign ownership structure is positively related to tax avoidance.

Hypothesis research results (H_3) this study shows that the relationship between family ownership structure variables is positively related to tax avoidance. Family ownership has little effect on tax avoidance, this is a family company oriented to maintaining a good name, including in company supervision. If family ownership increases, it will affect the level of aggressiveness that affects management for the benefit of the owner. In agency theory, this uniqueness will help to reduce the agency costs that exist in the company when these agency costs adjust the interests of minority shareholders in family shares. (Shleifer & Vishny, 1986). Additionally, there is some family engagement among the directors and top management as a form of strong corporate governance, as outside shareholders will limit potential managerial opportunities. It is in line with Bimo *et al.* (2019); Gaoya *et al.* (2017); Kovermann & Wendt (2019); Rego & Wilson (2012) and Kusbandiyah & Norwani (2018). However, this study contradicts Mustipah *et al.* (2016) and (*Nuntomo et al.* (2020) shows that family ownership structure is positively related to tax avoidance.

Hypothesis research results (H_4) This study shows that the association between public ownership structure characteristics is negatively associated to tax avoidance. The public shareholding corporation owns a majority ownership in the company. The community wants businesses to contribute to increased tax compliance by prioritizing the country's development before of profit. Public owners are minority shareholders who possess no more than 5% of the total number of outstanding shares. Jensen & Meckling (1976) In agency theory, it is demonstrated that the ownership structure has an impact on agency costs, particularly when ownership shares the ease of management control. If public ownership of public shares continues to grow, the public will get access to a great deal of information about the company. As a result, managers will be unable to participate in tax avoidance. However, this study contradicts Yulistia *et al.* (2020) shows that public ownership structure is positively related to tax avoidance.

Conclusion. It is easy for companies in Indonesia to do tax avoidance, because companies sometimes take advantage of loopholes in the tax law. This encourages companies to take advantage of tax avoidance by reducing the tax burden. Supervision from the Directorate General of Taxes is carried out periodically, which allows it to prevent deviant company activities, as well as provide benefits to the State in increasing tax revenues. Thus, the purpose of this study to examine the effect of share ownership structures owned by the government, foreigners, families and the public on tax avoidance has been achieved. This research still has limitations, namely the companies used only focus on manufacturing companies with observations during 2016-2019, which are still relatively small. Regarding these limitations, it is recommended for further research to add measurements to calculate tax avoidance, using different proxies such as the Book Tax Differences (BTD), Long Run Effective Tax Rate and Effective Tax Rate (ETR) as well as adding conditions during and before the Covid pandemic-19 which may affect the practice of increasing tax avoidance. In addition, it can add independent variables that affect tax avoidance, such as executive ownership. Finally, researchers can compare the practice of tax avoidance in Indonesia with other developed countries.

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