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The Effect of Institutional Ownership, Family Ownership, and Thin Capitalization on Tax Avoidance

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Abstract.
Taxpaying companies in Indonesia aim to maximize profit to increase the company's shares value so that more investors are interested in investing in the company. This practice causes companies to try to pay taxes to a minimum by carrying out tax management without violating tax laws. This study examines and analyzes the effect of institutional ownership, family ownership, and thin capitalization on tax avoidance. Data used were from the manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2021, using a purposive sampling technique. In the sample of this study, 6 companies met the criteria. This research uses the panel data regression analysis method which is a combination of time series and cross data to get more informative data. The table of the coefficient regression test result shows that the significant value for Institutional Ownership is 0.0295, <0.05 (alpha 5%) with a positive beta value in accordance with the hypothesis proposed in this study. Therefore, it can be stated that institutional ownership has a significant positive effect on tax avoidance at the 95% confidence level. The significant value for family ownership is 0.2213, >0.05 (alpha 5%) with a negative beta value and is not in accordance with the hypothesis proposed in this study. So, it can be stated that family ownership has no effect on avoidance. And, the significant value for thin capitalization is 0.0103, <0.05 (alpha 5%) with a positive beta value in accordance with the hypothesis proposed in this study. So, it can be stated that thin Capitalization has a significant positive effect on tax avoidance at the 95% confidence level. The F-statistic test was used to measure the accuracy of the sample regression function in estimating the actual value (goodness of fit). The F-test analyzes whether the independent variables are able to explain the dependent variable well or whether the model used is fit or not. The F-test in this study uses a significance level of 5%. From the table, it is known that the significant value is 0.005389 <0.05, which means that institutional ownership, family ownership, and thin capitalization simultaneously affect the dependent variable tax avoidance.

Keywords: tax avoidance, institutional ownership, family ownership, thin capitalization

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1. Introduction

Indonesia is one of the developing countries in Asia where taxes are the spearhead and the main source of state revenue. Taxes paid by taxpayers are used to finance the state budget, and of course the state budget every year continues to increase over time. The government, especially in this case the Directorate General of Taxes, expects the contribution of taxpayers to be able to carry out tax obligations in accordance with the tax regulations in Indonesia. Taxpayers can contribute by paying taxes in accordance with their respective tax obligations so that they can help increase state revenue. Olivia and Dwimulyani [1] said that taxes for companies are considered a burden, but from the fiscal side, taxes are a source of income that has a big contribution to the survival of the nation and state. This condition causes differences in interests between the tax authorities and the company. The company as an agent wants a minimum tax payment, while the tax authorities as the principal want the maximum possible tax revenue from the taxpayer because corporate taxpayers have different tax obligations. This can cause the corporate taxpayer to choose to do tax avoidance to minimize the amount of tax liability that must be paid to the state. Taxes are considered as something that burdens and reduces company profits, so many companies and other business entities finally decide to choose to do tax avoidance.

Tax avoidance is a company's effort to carry out tax planning to have efficiency in the field of corporate taxation so that the taxes paid become more efficient without violating the applicable laws and regulations by taking advantage of the gaps in the applicable tax regulations, while tax avoidance is a company's effort to reduce the amount of tax paid to the state treasury in violation of applicable laws and regulations. Companies in Indonesia as taxpayers have the goal to maximize the amount of profit so that the value of the company's shares can increase so that more investors are interested in investing in the company. This practice causes companies to try to pay taxes to a minimum by carrying out tax management without violating tax laws.

2. Literature Review

Tax avoidance is part of tax planning and is carried out legally by taking advantage of ambiguous tax loopholes [2]. The practice of tax avoidance carried out by the company's management is solely to minimize tax obligations that are considered legal, thus making companies tend to take various ways to reduce their tax burden. On one hand, tax avoidance can reduce state revenues, but on the other hand, it is permissible. Therefore, tax avoidance is a unique and complicated problem [3].

Institutional ownership in the company serves to be the party that monitors and supervises the performance of management. So, with institutional ownership in the company, the management will be more careful in carrying out their obligations.

Family ownership is a company that is run based on descent or inheritance from previous descendants, which directly inherits the company to subsequent descendants [4].

Maharani and Juliarto [5] in their research reveals that a company can be categorized as a family company if a large percentage of share ownership in the company is owned by one or more family members, and holds more than 5% of the company's outstanding shares. The minimum share ownership of 5% is chosen according to the regulations of the Indonesia Stock Exchange which requires shares with ownership of more than 5% to be included in the company's annual report.

Thin Capitalization is the investment decision made by the company in funding the company's operations, where debt financing is the main choice compared to using the equity in its capital structure [6].

Sianipar et al. [7] stated that "that one of the tax avoidance schemes by using the loopholes of the tax provisions is to change the inclusion of capital to the party having a special relationship into lending either directly or through intermediaries or often referred to as thin capitalization." Thin capitalization can be a problem because of the different treatment between debt investment and capital investment. The return of capital in the form of dividends will be taxed according to applicable regulations, whereas if it is through debt funding, it can cause interest expenses that can be used as a deduction for the company's taxable income [1].

Thin capitalization is the formation of a company's capital structure by maximizing debt contributions and minimizing capital contributions. Thin capitalization is a tax avoidance scheme through loopholes in existing tax provisions by changing the capital participation of related parties into lending either directly or through intermediaries [8]. The deduction in the calculation of taxable income is interest expense.

Jumailah [9] in his research with the research object of manufacturing companies in the consumer goods category listed on the Indonesia Stock Exchange (IDX) in 2014-2018 by using institutional ownership as a moderator of the relationship between thin capitalization and accounting conservatism on tax avoidance concluded that thin capitalization has a positive effect tax avoidance. This study uses institutional ownership as a moderating variable.

2.1. Theoretical framework

The theoretical framework can be seen in Fig. 1.

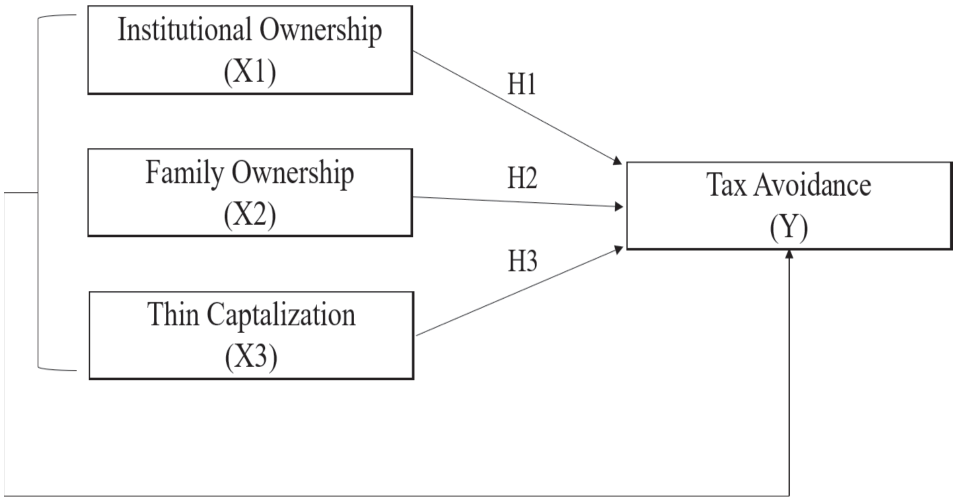

Figure 1: Theoretical framework.

In the effect of Institutional Ownership on Tax Avoidance, the following hypothesis is formulated:

H1: Institutional Ownership has a positive effect on tax avoidance

In the effect of Family Ownership on Tax Avoidance, the following hypothesis is formulated:

H2: Family ownership has a positive effect on tax avoidance

On the effect of Thin Capitalization on Tax Avoidance, the following hypothesis is formulated:

H3: Thin Capitalization has a positive effect on tax avoidance

In the Effect of Institutional Ownership, Family Ownership, and Thin Capitalization simultaneously on Tax Avoidance, the hypothesis is formulated as follows:

H4: Institutional Ownership, Family Ownership, and Thin Capitalization simultaneously have a positive effect on tax avoidance

3. Research Methodology

Scalar in this study, researchers will use causality research. Causality Research explains the causal relationship between each independent variable and the dependent variable which is moderated by the company's risk variable. This study describes the effect of institutional ownership, family ownership, and thin capitalization on tax avoidance decisions.

This study aims to provide empirical evidence of the effect of Institutional Ownership, Family Ownership, and Thin Capitalization on the decision-making of a public company in carrying out tax avoidance practices in manufacturing companies listed on the Indonesia Stock Exchange (IDX) with the year of research from 2017 - 2021.

3.1. Data collection procedure

3.1.1. Method of collecting data

In this study, the researcher used the sampling method, namely the purposive sampling method. The sample to be taken will adjust the sample criteria desired by the researcher.

3.1.2. Data types and sources

In this study, researchers used secondary data. The data was taken from the financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2017 - 2021. The data were obtained by researchers through the website www.idx.co.id.

3.2. Population and sample

The population that the researcher uses are companies listed on the Indonesia Stock Exchange (IDX) in the period 2017 - 2021. The sample that the researcher will take is companies that have the following criteria:

1. Manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2017 – 2021.
2. The company's financial statements with a period end of December 31, 2021.
3. The company did not record any losses during the research period, namely 2017 - 2021.
4. The company presents its financial statements on the IDX in Rupiah.
5. Companies with family ownership percentage > 5%.

3.3. Data analysis method

3.3.1. Descriptive statistics

Ghozali [10] explains descriptive statistics as a data analysis method that provides an explanation of data seen from the average value (mean), standard deviation, variance, maximum value, and minimum value of the sample data.

3.3.2. Panel data analysis method

This study was tested using panel data regression analysis. The explanation of panel data regression analysis is a regression technique that uses a combination of time series data with cross-section data so that more and more data will be generated so that it can produce more informative data. This study uses panel data regression analysis because panel data is a combination of time series data and cross-section data which will provide large research data compared to multiple linear regression so that it will produce greater degrees of freedom so that it can overcome the problem of eliminating variables.

4. Results and Discussion

4.1. Data description

4.1.1. Data characteristics

Secondary data is a variety of information that has been there before and deliberately collected by researchers that are used to complement the needs of research data. Usually, this data is in the form of diagrams, graphs, or tables of important information such as the population census. Secondary data can be collected through various sources such as books, websites, or government documents. secondary data collection process tends to be easy and fast to do. Researchers can get various secondary data by utilizing government publication sources, websites, books, journal articles, internal organization records, and so on. secondary data is data taken from other sources by researchers. Usually, this data is in the form of diagrams, graphs, or tables of important information such as the population census. Secondary data collection techniques are carried out through various sources such as books, websites, or government documents. In getting it, secondary data takes a shorter time when compared to primary data.

4.1.2. Data analysis

This study uses data from manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2021, this study uses a purposive sampling method. In the sample of this study, 6 companies meet the criteria. This study uses the panel data regression analysis method which is a combination of time series and cross data to obtain more informative data.

4.2. Research result

The research result can be seen in Table 1.

TABLE 1: Research result.

Variable	Theory	Beta	Std Error	T-stat	Sig (1 Tail)	Decision
Constant		-0.161250	0.079237	-2.035048	0.0274	
KI	+	0.480235	0.240400	1.997654	0.0295	H1 accepted**
KK	+	-0.217230	0.277538	-0.782703	0.2213	H2 denied
TCAP	+	0.009885	0.003947	2.504643	0.0103	H3 accepted**
Goodness of Fit						
R-squared		0.601164				
Adj R-squared		0.449227				
F-statistic		3.956653				
Prob F-stat		0.005389				

4.2.1. Free variable significance test (T-Test)

1. **H1: Institutional ownership has a positive effect on tax avoidance:** From the table of the results of the ”Coefficient” regression test, it can be seen that the significant value for Institutional Ownership is 0.0295 less than 0.05 (alpha 5%) with a positive beta value in accordance with the hypothesis proposed in this study. So, it can be stated that institutional ownership has a significant positive effect on tax avoidance at the 95% confidence level.

2. **H2: Family ownership has no effect on tax avoidance:** From the table of the results of the regression test ”Coefficient” it can be seen that the significant value for family ownership is 0.2213 more than 0.05 (alpha 5%) with a negative beta value and not in accordance with the hypothesis proposed in this study. So it can be stated that family ownership has no effect on avoidance

3. **H3: Thin Capitalization has a positive effect on tax avoidance:** From the table of the results of the "Coefficient" regression test, it can be seen that the significant value for Thin Capitalization is 0.0103 less than 0.05 (alpha 5%) with a positive beta value in accordance with the hypothesis proposed in this study. So it can be stated that Thin Capitalization has a significant positive effect on tax avoidance at the 95% confidence level.

4.2.2. F model significant test

1. H4: Institutional Ownership, Family Ownership, and Thin Capitalization together have a positive effect on tax avoidance:
2. The F test in this study uses a significance level of 5%. From the table above, it is known that the significant value is 0.005389 <0.05
3. **Coefficient Quantity Test.** Based on the table above, it can be seen that the multiple linear regression equation is:

$$TA_{it} = -0,161250 + 0,480235\ KI_{it} - 0,217230\ KK_{it} + 0,009885\ TCAP_{it} + e_{it}$$

1. (a) i. The constant of -0.161250 states that if the variable is considered constant, then the average value of tax avoidance is -0.161250.
   ii. The regression coefficient of Institutional Ownership is 0.480235 which states that each addition of one unit of Institutional Ownership value increases the amount of tax avoidance value by 0.480235.
   iii. The regression coefficient for Family Ownership is -0.217230 which states that each addition of one unit of Family Ownership value reduces the amount of tax avoidance by 0.217230.
   iv. Thin Capitalization regression coefficient of 0.009885 states that each addition of one unit of Thin Capitalization value increases the amount of tax avoidance value by 0.009885.

5. Conclusions and Recommendations

This study examines and analyzes the effect of institutional ownership, family ownership, and thin capitalization on tax avoidance. This study uses data from manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2021, this study uses a purposive sampling method. In the sample of this study, 6 manufacturing companies meet the criteria. This study uses the panel data regression analysis method which is a combination of time series and cross data to obtain more informative data.

6. Research Contribution

Based on the conclusions put forward, the results of this study can be used either for further theory development or as an application in existing business practices. The implications of this research include:

1. Theoretical implications
2. Support and support theories that develop in the field of management and forensic accounting analyzing institutional ownership, family ownership, and thin capitalization have a significant influence on tax avoidance. For academics and researchers in the same field, this research.
3. Practical Implications
4. For the government sector and institutional management, this study shows the positive influence of institutional ownership, family ownership, and thin capitalization on tax avoidance so that the government's efforts to reduce fraud include strengthening integrity and spirituality in the workplace in various lines of positions and activities. And the government must increase awareness of fraud risk elements that might motivate employees to commit acts of asset misappropriation, one of which is to improve the supervision system so that the element of opportunity risk can be minimized.
5. For investors, research can be used as an information medium for insight into the practice of institutional ownership, family ownership, and thin capitalization.

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