Research Article

Ownership Structure and Tax Aggressiveness: Empirical Evidence from Indonesia

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Abstract.
This research paper examined how tax aggressiveness is influenced by ownership structure (managerial ownership, foreign ownership, and family ownership). The study used a population of 53 companies that engage in manufacturing sector and have been listed on the Indonesian Stock Exchange (BEI) from 2020 to 2022. In this study, tax aggressiveness was measured by effective tax rate and book-tax difference models. It also examined the relationship between foreign ownership, family ownership, and managerial ownership with tax aggressiveness using a regression model analysis with the aid of STATA. It was found that a significant relationship exists between managerial ownership and effective tax rate, similar to family ownership and book-tax difference. This implies that manufacturing companies in Indonesia that were dominated by family ownership and managerial ownership could reduce tax aggressiveness. In addition, this research also found that large companies in Indonesia tend to do more tax aggressiveness than small companies.

Keywords: tax aggressiveness, management ownership, foreign ownership, family ownership, Indonesia.

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1. Introduction

Taxes play an important role in the economy within a country because they are one of the main sources of income for a country. Due to the important role of taxes, various regulations and programmes have been created by the Indonesian government to increase the revenue from the tax sector. One of the government's efforts to increase revenue from taxes has been through regulations number 36 (2008), Article 17 paragraph (2b) and Government Regulation Number 46 (2013) where tax reduction incentives were provided. However, many government programmes and policies have been misused in carrying out aggressive activities with an effort to reduce the payment of the tax expense.

Tax avoidance actions carried out by taxpayers is purposely meant to pay the lowest possible tax legally but not to intentionally violate the existing laws and regulations for tax payment in a given country. The behavior of taxpayers in avoiding tax payment is categorized into two types, namely: avoiding to pay acceptable taxes and avoiding to pay unacceptable taxes. This act of tax avoidance affects the achievement of state revenue's target and this is seen as an action that is not only detrimental to the state but to detrimental to the entire society. In every year, in Indonesia, there is approximately IDR 110 trillion that is lost in tax evasion and 80% of these tax evasion acts are being carried out by business entities. Mostly, the level of tax ratio of a country is determined by the tax avoidance actions. Tax ratio is being determined from percentage of tax revenue to gross domestic product. As such, it can be deduced that tax ratio is a yardstick in assessing tax performance of a given country. Reports from the Finance Ministry of Indonesia's website reveals that Indonesia's tax ratio was relatively low in 2018, but moving at a steady rate from 11% to 12% of the total Indonesian economy.

Tax deductions are something that businesses and shareholders want because tax costs are part of a company's expenses and are usually considered due to their potentiality to minimize taxes, such as transaction costs and implementation, reputation risk, and tax authority penalties. Tax aggressiveness entails the manipulation of corporate taxable income through legal (tax avoidance) or illegal (tax evasion) means [1,2] and there are many factors that cause tax aggressiveness. For example, ownership structure, is among the factors that influence it [3,4]. Based on the aforementioned studies, their findings revealed that, managerial ownership has adverse and positive relationship with tax aggressiveness. A proportion of state-owned companies is lower in tax aggressiveness. Also, ownership structure is related to several aspects, including the government, institutions, managers, or families with a reasonable number of shares in companies, such as foreign share ownership, managerial share ownership, and family share ownership. It is considered as a monitoring mechanism for corporate governance effectiveness [4] Thus, this paper plans to close up the existing gap by employing two tax avoidance measurements: ETR and BTD, with a view to understanding the differences between these two measurements. Therefore, the effect of Family Ownership (FmO), Managerial Ownership (MO), and Foreign Ownership (FrO) on TAis ought to be determined in listed manufacturing companies in Indonesia.

2. Literature Review and Hypotheses

The concentrated value of shares owned by foreigners, families, managers, institutions, and the government are called the ownership structure [5]. Ownership structure is categorized into two namely: internal monitoring and external monitoring mechanisms of corporate governance. Example of the former include FrO and institutions; whilst FrO and MO and FmO are examples of internal monitoring mechanism [5]. Likewise, Al-Sartawi and Sanad (2019) are in the same opinion with the aforementioned assertion [6].

Theoretically, Jensen and Meckling (1976) argued that two things that causes agency problems are the structure of the business control and ownership [7]. Thus, it implies that, ownership structure also affects a company which include the identity of equity and capital [8]. Furthermore, FO, MO and can monitor management activities and cut-down agency costs with a view to protecting the shareholders.

2.1. Managerial Ownership and Tax Aggressiveness

Normally, ownership tends to align with the interests of management and shareholders with a view to reducing conflicts of interest as well as agency problems. It is evident that when the management of a given company own shares in it, they always try to reduce the tax costs so as to optimise company's profits for their own benefits. Ding et al. (2007) found that companies controlled by managers tend to forgo the interest of shareholders and maximise their own interests [9]. He also found that the lower the cost of taxes, the higher the chances of a manager's wealth being compensated by the shareholders. However, Salaudeen and Ejeh (2018), found that managers will seldom opt for aggressiveness to increase their investment because it is considered not directly profitable to them [10]. This finding is also supported by Badertscher et al. (2013) who found that managers will not take risks by managing taxes to make investment decisions [11]. Thus, this study postulates a hypothesis as:

H_1: Managerial ownership has an adverse significant effect on tax aggressiveness.

2.2 Family Ownership and Tax Aggressiveness

According to Bagnoli et al. (2011), companies with family ownership are very normal [12]. Family companies in significant parts of Europe and the Asia are seen to be non-family companies [13]. Family companies have a longer investment horizon and owners of family companies have greater equity and are more concerned with reputation [1]. Whereas, managers of non-family firms are indifferent. In addition, FmO companies have greater agency conflicts between the major and minor shareholders. With equity ownership dominated by FmO, it provides greater benefits than tax avoidance [1]. Thus, FmO enjoys higher incentive on tax aggressiveness. Thus, it is hypothesized that:

H_2: Family ownership has an adverse significant effect on tax aggressiveness.

2.2. Foreign Ownership and Tax Aggressiveness

This is an ownership structure that related to TAtoo. The studies of Lawrence and Kinney (2000) [14] and Grubert and Mutti (1991) [15]revealed that United States (US) multinationals pay low taxes in the home country irrespective of the profitability level [16]. But in developing countries, like Indonesia, this has not been examined. It was established that FrO will increase the capital income tax if there is no coordinated international tax policy [17]. The study found that FrO has an effect in a country in increasing welfare through coordinating tax policies and reducing the capital income taxes. One reduction in taxation by shifting expenditure and income between low and high tax-jurisdictions. Base on the aforementioned, we postulate that:

H_3: Foreign ownership has an adverse significant effect on tax aggressiveness.

3. Methods

Fifty-three (53) manufacturing companies from IDX that reports between 2020-2022 were used as the population. The choice of the manufacturing companies is justified because they are the largest sector in Bursa Indonesia. The data used winzorising 4 percent to avoid the influence of outliers for the independent and dependent variable data [18]. It is in line with the aforementioned that this study aimed at looking how ownership structure (family, managerial, and foreign) influences TA. Tax aggressiveness was measured by Book Tax Difference (BTD) and Effective Tax Rate (ETR). Firm size and leverage were used as the control variables with triangulation.

Below are the regression models developed:

$$\text{TAXAG}_{it} = \beta_0,\text{-.} + \beta_1\,\text{MANOWN}_{it} + \beta_2\text{FAMOWN}_{it} + \beta_3\text{FOROWN}_{it} + \beta_4\,\text{LEV}_{it} + \beta_5\text{FSIZE}_{it} + \boxtimes_i$$

4. Results and Discussion

TABLE 1: Measurement Variables.

Dependent Variable TAXAG (Tax aggressiveness)	Measure
ETR	Total income tax expenses / earnings before income tax
BTD	(earnings before income tax – taxable income) / total assets
Independent variables	
MANOWN- Management ownership	MO proportion within the ownership structure (OS) of the firm
FAMOWN- FmO	Proportion of FmO within the OS of the firm
FOROWN- FrO	Proportion of FrO within the OS of the firm
Control variables:	
LEV- leverage	Proportion of debt to equity
FSIZE-firm size	Natural logarithm of the total assets

Source: Own tabulation

4.1. Descriptive Analysis

The sample used were manufacturing companies registered with the IDX between 2020 to 2022, which was obtained from the IDX database. Table 2 presents the descriptive statistics of the study variables:

TABLE 2: Descriptive Statistics.

Variable	Obs	Average	SD	Minimim	Maximum	Skew.	Kurt.
ETR	159	.2875738	.1626178	.064	.87516	2.407153	9.386749
BTD	159	.0005154	.0222578	-.04316	.06526	.771998	4.646413
MANOWN	159	.0557096	.1077627	0	.37322	2.116043	6.077893
FAMOWN	159	.3104505	.3484312	0	.91	.4184805	1.458453
FOROWN	159	.293844	.3171542	0	.96248	.9514181	2.607384
FSIZE	159	15.14652	1.617234	11.82495	19.65822	.3744381	2.843818
LEV	159	.399128	.1950948	.11606	.78305	.2980067	2.037001

Source: Processed data

4.2. Results

Table 3 presents the correlations amongst the variables. Looking at Table 3, the negative correlation of the FmO variable was greater than the other variables. This shows that the companies with the majority of FO have lower TA with the ETR whilst the BTD had a positive correlation, which indicates that the FmO tends to have a bigger gap in book income and the taxable income was more aggressive from the ETR. Also, companies with a dominant MO structure were found to have tax aggressiveness. Thus, it shows that ETR was lower in TA than the BTD.

Table 3: Correlations Amongst the Variables.

	ETR	BTD	MANOWN	FAMOWN	FOROWN	FSIZE	LEV
ETR	1.0000						
BTD	-0.6232	1.0000					
MANOWN	-0.0622*	-0.0234	1.0000				
FAMOWN	0.0478	-0.1550*	-0.0068	1.0000			
FOROWN	-0.0078	0.1024*	-0.2582	-0.2349	1.0000		
FSIZE	-0.1671	0.0368	-0.3170*	-0.2006	0.1416*	1.0000	
LEV	0.0450	-0.0741	-0.1595	-0.0642	0.0699	0.0554	1.0000

Source: Processed data

Table 4 shows that the relationship between TA (ETR) and MO was negative and significant, where the t-statistic value was ($t = -1.81$, $p < 0.10$). This shows that the more a company was dominated by MO, the lower the tax aggressiveness. Thus, H_1 has been accepted. This result is in agreement with the findings of Salaudeen and Ejeh (2018) who assert that managers are not TA because it does not benefit them directly. Contrasted with that, the TA as measured by the BTD had insignificant effect on the amount of MO. Thus, the finding is in line with the findings of Boussaidi and Hamed (2014) [3], and Salaudeen and Ejeh (2018) [10].

Table 4: Multiple Regression Results.

Variables	Predict	ETR			BTD		
		Coef.	t-stat.	P>t	Coef.	t-stat.	P>t
_cons	+/-	.6002235	3.50	0.001	.0072895	0.34	0.734
MANOWN	+/-	-.1880605	-1.81	0.073*	-.0046286	-0.30	0.767
FAMOWN	+/-	.0024052	0.07	0.947	-.0093025	-1.71	0.090*
FOROWN	+/-	-.0062648	-0.14	0.890	.0048723	0.67	0.507
FSIZE	+/-	-.0207072	-2.11	0.036**	-.0000584	-0.04	0.965
LEV	+/-	.0314769	0.47	0.637	-.0104596	-1.24	0.216
F-value	1.39				1.10		
Sig	0.02322				0.03647		
R-squared	0.0442				0.0369		
N	159				159		

Where: * = p-value < .10; ** = p-value < .05; *** = p-value < .01
Source: Processed data

Table 4 also shows the connection between FmO and the ETR with the results not having a significant effect. However, FmO had an adverse significant effect on TA as measured by the BTD. The t-statistic value was ($t = -1.71$, $p < 0.10$). These results indicate that the companies which were dominated by FmO were less tax aggressive and thus H_2 is accepted. This research finding is also supported by the work of Martinez and Ramalho (2014) who found that the companies with large FmO paying effective tax rates was indicated by a negative correlation between TA (BTD) and FmO [19]. The result of this study does not align with the findings of Gaaya et al. (2017) that found FmO with positive and significant effect on TA [20]. Therefore, it can be concluded that this research is not in line with agency theory which forestall FmO to provide external monitoring within the company. Also, since there was no significant effect on the relationship between FrO and TA with both the measurement of the ETR and BTD, H_3 was rejected. This result is also supported by previous studies like Yetty et al. (2016) [21] and Hairul et al. (2014) [22] who established non insignificant relationship between FrO and TA. Thus, it can be concluded that TA using ETR measurements shows that FrO has a positive significant relationship to TA. Meanwhile, using BTD measurement, it shows that FrO has no influence on aggressive taxation.

This study has also documented that the relationship between the control firm size variable was positive and significant to the ETR. Thus, the bigger the company, the higher the tax aggressiveness. This result is supported by Salawu and Adedeji (2017) [23] and Mohammed (2017) [4] who found significant relationships between FSIZE and TA. In contrast, the relationship between leverage and TA was not significant. This finding is supported by Mohammed (2017) who found that the level of leverage did not have any significant relationship with tax avoidance [4].

5. Conclusion

The structure of ownership (foreign, managerial, and family) in TA measured by ETR and BTD was examined and found a significant but adverse relationship between FmO and MO with TA in manufacturing companies in Indonesia. Thus, it can be concluded that companies that are dominant by MO are increasingly effective in tax aggression, as managers are not interested in reducing tax rates because is not profitable. It was also established that the greater the FmO, the more effective company monitoring to reduce TA. In addition, the contribution of this study has also noted that large companies are more aggressive in implementing TA. Finally, the shortfall of this paper is its scope. The use of manufacturing sector and ownership structure variables (family, foreign and managerial) are not adequate. Future researchers can look at other contextual considerations with more elaborative scope as well as other sectors other than manufacturing sector. Therefore, future researchers should seek to test the effectiveness of ownership structures with different measures and periods such as external audit quality as part of external governance monitoring. Finally, this study recommends that regulators monitor companies that have high FmO in order to minimize the occurrence of tax avoidance.

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