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THE EFFECT OF FAMILY OWNERSHIP AND INSTITUTIONAL OWNERSHIP ON TAX AVOIDANCE WITH FIRM VALUE AS A MODERATION VARIABLE

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ABSTRACT

This study aims to examine whether family ownership and institutional ownership have an effect on tax avoidance moderated by firm value. The research was conducted on manufacturing companies listed on the IDX from 2018 to 2020. The research sample was 368 - company years. This study uses Eviews to process research data. The results of this study indicate that family ownership and institutional ownership in manufacturing companies listed on the Indonesia Stock Exchange in 2018-2020 have proven to have an effect on tax avoidance. Family ownership has a positive effect on tax avoidance. Meanwhile, institutional ownership has a negative effect on tax avoidance. In this study, firm value moderates the relationship between family ownership and tax avoidance. However, firm value cannot moderate the relationship between institutional ownership and tax avoidance.

KEYWORDS: Tax avoidance, family ownership, institutional ownership, firm value.

1. INTRODUCTION

Taxes are generally considered to be the biggest expense incurred by companies. Therefore, the manager takes action to reduce his tax liability. Tax avoidance is one of various plans that companies can use to avoid paying taxes (Gaaya et al., 2017). Pohan (2013: 23) states that tax avoidance is a strategy or technique that is legal and safe for taxpayers because it does not conflict with tax provisions. A number of studies recognize family ownership and institutional ownership as unique arrangements of economic organization. There are two different views explaining the effect of family ownership on tax avoidance activities. First, the aggressive tax actions taken by family firms are lower than non-family firms (Chen et al., 2010). Second, the opposing view shows that family firms tend to act as controlling shareholders and take personal advantage of control at the expense of minority shareholders (Shleifer & Vishny, 1986). On the other hand, tax avoidance will also reduce the level of corporate transparency, so that good corporate governance is needed, one of which is institutional ownership. The greater the institutional share ownership, it is expected to be able to provide better corporate control. Tax avoidance will cost money, including reputation costs, implementation and potential penalties that will be borne by the company. These costs are then referred to as agency costs. Agents take tax avoidance actions with the aim that the company's value looks high so that it will attract investors' interest because investors will also see the company's profits every year. Increasing firm value is something that shareholders want because they can get increased welfare and prosperity (Pertiwi & Pratama, 2012). In accordance with agency theory, this tax avoidance action can provide an opportunity for management to design all of its activities in order to cover up incorrect information because in carrying out operational activities they are less transparent in reporting it (Arieftiara, 2019). Furthermore, signal theory emphasizes that information provided by internal parties (management) to external parties (investors) of the company can be used as a consideration tool in investment.

The explanation above is the reason for using the variables of family ownership and institutional ownership as well as firm value as a moderation of tax avoidance and there are still differences in the results of previous studies, so this research is an additional enrichment of the literature. This research was conducted at manufacturing companies listed on the Indonesia Stock Exchange in 2018-2020.

2. LITERATURE REVIEW

2.1 Agency Theory

According to Kustono (2009) the basic assumption of agency theory is that each individual will try to do everything that can be done optimally to optimize their own interests. The agency theory in this study also explains that there are problems that will arise between shareholders (family ownership and institutional ownership) as principals and company management. Related to tax avoidance, agency problems can also occur between companies and the government as stakeholders.

2.2 Tax Avoidance

Pohan (2013) reveals that tax avoidance is an effort that is carried out legally and safely for taxpayers because it does not conflict with tax provisions. The main purpose of tax avoidance is to make the tax burden paid lower than it should be because companies perceive tax payments as a very large additional cost or transfer of wealth from the company to the government which can reduce company profits.

2.3 Family Ownership

Indonesia is a country that is still dominated by family ownership. Asian firms historically and sociologically have been family owned or controlled (Claessens et al., 2000). Even though the company grew and became a public company (conducted an IPO), control was still held by the family and was still very significant.

2.4 Institutional Ownership

Institutional ownership is share ownership by parties in the form of institutions (institutions), be it other companies, insurance companies, banks or state agencies. Ngadiman & Puspitasari (2017) define institutional ownership as those who oversee companies with large institutional ownership (more than 5%) and also identify the ability of an institution to oversee company management.

2.5 Firm Value

Firm value is investors' perception of the company, which is often associated with stock prices. The value of the company, which is formed through stock market indicators, is strongly influenced by investment opportunities. Investment spending provides a positive signal from investment to managers about company growth in the future, thus increasing stock prices as an indicator of firm value. High stock prices make the firm value also high (Brealey et al, 2007).

2.6 Conceptual Framework

In summary, the conceptual framework that explains the effect of institutional ownership and family ownership on tax avoidance with firm value as a moderating variable can be seen in the following figure:

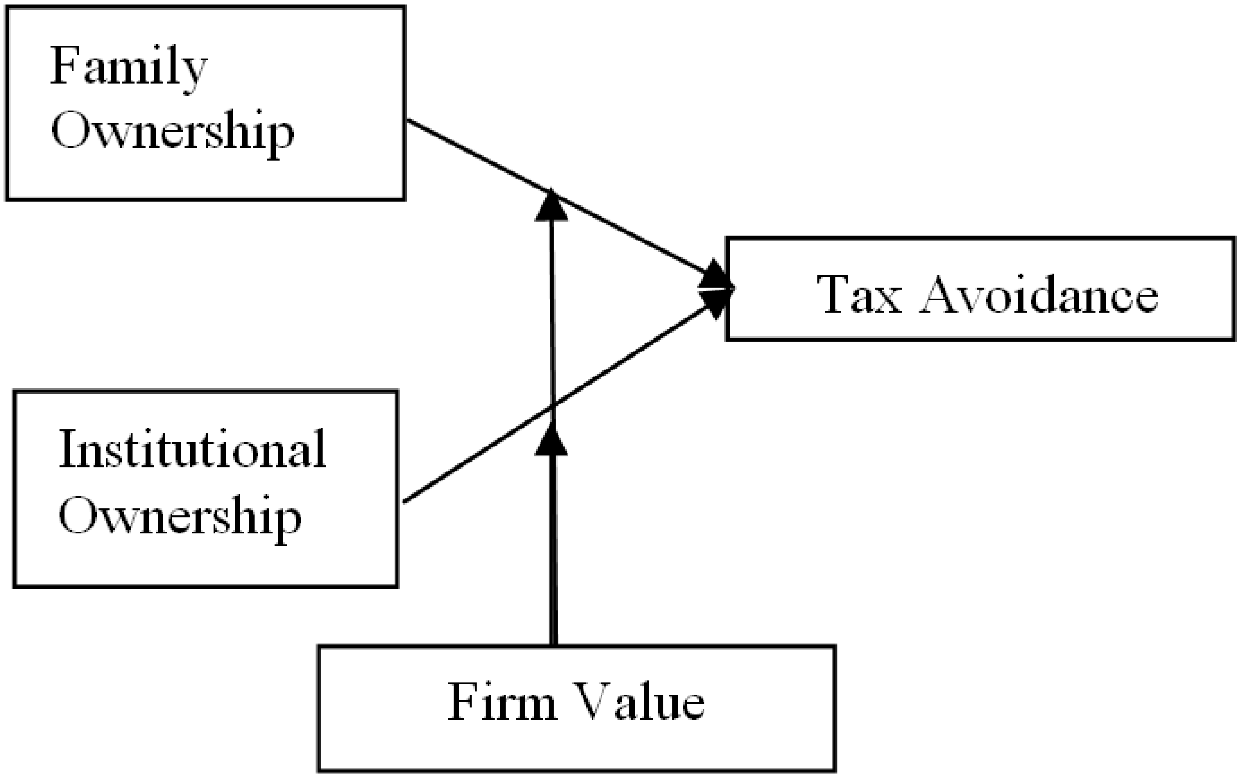

Figure 1: Conceptual Framework

2.7 Research Hypothesis

H1: Family ownership has a positive effect on tax avoidance.
H2: Institutional ownership has a negative effect on tax avoidance.
H3: Firm value moderates the relationship between family ownership and tax avoidance.
H4: Firm value moderates the relationship between institutional ownership and tax avoidance.

3. METHOD

This research was conducted using secondary data. The unit of analysis in this study is a manufacturing company that has gone public in Indonesia for a period of three years, namely during 2018-2020. This study used a non-probability sampling method with a purposive sampling technique. The data analysis method in this study uses multiple linear regression analysis and Moderated Regression Analysis (MRA). The data analysis tool used is the Eviews 9 application.

4. RESULT

4.1 Analysis Results

Based on the tests that have been carried out, the panel data model used is the fixed effect model (FEM).

Table1: Fixed Effect Models Results of Linear Regression

Dependent Variable: CETR				
Method: Panel Least Squares				
Sample: 2018 2020				
Periods included: 3				
Cross-sections included: 123				
Total panel (unbalanced) observations: 368				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.384643	0.148331	2.593142	0.0101
KEP KLG	0.047811	0.008602	5.557967	0.0000
KEP INS	-0.008863	0.001577	-5.620191	0.0000
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.625034	Mean dependent var		0.188778
Adjusted R-squared	0.433694	S.D. dependent var		0.310007
S.E. of regression	0.233290	Akaike info criterion		0.191260
Sum squared resid	13.22512	Schwarz criterion		1.518734
Log likelihood	89.80822	Hannan-Quinn criter.		0.718652
F-statistic	3.266609	Durbin-Watson stat		2.817847
Prob(F-statistic)	0.000000			

Source: Processed Research Data (2022)

The results of simultaneous testing between family ownership (KEP KLG) and institutional ownership (KEP INS) on tax avoidance measures (CETR) obtained an calculated F value of 3.267 with a significance value of 0.000. These results show a significance value of less than 0.05 (sig <0.05) so that it is stated that there is a simultaneous significant effect of family ownership (KEP KLG) and institutional ownership (KEP INS) on tax avoidance (CETR).

Table 2: Fixed Effect Moderation Regression Model Results

Dependent Variable: CETR				
Method: Panel Least Squares				
Sample: 2018 2020				
Periods included: 3				
Cross-sections included: 123				
Total panel (unbalanced) observations: 368				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.698296	0.182661	3.822902	0.0002
KEP KLG	0.037327	0.009437	3.955280	0.0001
KEP INS	-0.011726	0.002004	-5.850936	0.0000
PBV	-346.7026	115.6676	-2.997405	0.0030
KEP KLG*PBV	13.59728	6.751518	2.013960	0.0451
KEP INS*PBV	2.280828	0.873901	2.609939	0.0096
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.639038	Mean dependent var		0.188778
Adjusted R-squared	0.448029	S.D. dependent var		0.310007
S.E. of regression	0.230319	Akaike info criterion		0.169503
Sum squared resid	12.73121	Schwarz criterion		1.528836
Log likelihood	96.81152	Hannan-Quinn criter.		0.709552
F-statistic	3.345589	Durbin-Watson stat		2.854396
Prob (F-statistic)	0.000000			

Source: Processed Research Data (2022)

The results of simultaneous testing between family ownership (KEP KLG) and institutional ownership (KEP INS) with moderation of firm value (PBV) on tax avoidance measures (CETR) obtained a calculated F value of 3.346 with a significance value of 0.000. These results show a significance value of less than 0.05 (sig <0.05) so that it is stated that there is a simultaneous significant effect of family ownership (KEP KLG) and institutional ownership (KEP INS) with firm value moderation (PBV) on tax avoidance (CETR). The results of testing the coefficient of determination obtained an R-square value of 0.639, which means that the effect on tax avoidance (CETR) can be explained by family ownership (KEP KLG) and institutional ownership (KEP INS) with a moderate firm value (PBV) of 63.9 percent, while the rest of the influence is explained by other variables outside the research.

4.2 Hypothesis Testing

Statistical test T means to test the regression coefficients individually to determine the significance of the role partially between the independent variables in influencing the dependent variable by assuming that the other independent variables are considered constant. If the significance probability is <0.05 then it is significant, otherwise if the significance probability is > 0.05 then it is not significant (Ghozali, 2018).

Based on the test results in table 2, it shows that there is a significant positive effect between family ownership (KEP KLG) on tax avoidance (CETR) based on a significance value of less than 0.05, so hypothesis 1 is accepted.

Furthermore, there is a significant negative effect between institutional ownership (KEP INS) on tax avoidance (CETR) which is characterized by a significance value of less than 0.05. With these results it is stated that hypothesis 2 is accepted.

Firm value moderates the relationship between family ownership and tax avoidance has a positive effect based on a significance value of less than 0.05, so hypothesis 3 is accepted.

Based on the test results obtained a regression coefficient of 2.281 with a calculated t value of 2.610 and a significance value of 0.010. These results show a significance value of less than 0.05 (sig <0.05) so that it is stated that there is a significant positive effect between institutional ownership (KEP INS) and firm value moderation (PBV) on tax avoidance (CETR). With these results it is stated that hypothesis 4 is rejected.

4.3 Discussion

The results of this study prove that family ownership has a positive effect on tax avoidance. Large family owners tend to act as controlling shareholders and take personal advantage of control at the expense of minority shareholders (Chen et al., 2010). Conflicts of interest between family owners and minority shareholders cause family firms to take private advantage of tax savings.

Institutional ownership has a negative effect on tax avoidance. According to agency theory, to prevent agency problems within a company, it is necessary to have supervision from outsiders. Outsiders who can supervise parties (managers and owners) who have different interests are institutional ownership.

Firm value can moderate the relationship between family ownership and tax avoidance. So it can be concluded that if family ownership is high, coupled with high firm value, then the level of tax avoidance will be higher, so that firm value will strengthen the effect of family ownership on tax avoidance.

The results in this study cannot provide evidence that firm value moderates the relationship between institutional ownership and tax avoidance. This is possible because of the rationalization that if the firm value is low then government (institutional) supervision will not be strict so that there are opportunities for managers who understand the company better to act in tax avoidance.

Firm value is related to the profit earned by the company because shareholders or investors tend to pay close attention to the net profit that the company earns, net profit is stated directly to show the actual conditions for firm value (Chen et al., 2014; Wardani & Susilowati, 2020).

4.4 Conclusion

The results of this study indicate that family ownership and institutional ownership in manufacturing companies listed on the Indonesia Stock Exchange in 2018-2020 have been shown to have an effect on tax avoidance by management. Family ownership has a positive effect on tax avoidance. Meanwhile, institutional ownership has a negative effect on tax avoidance. In this study, firm value moderates the relationship between family ownership and tax avoidance. However, firm value cannot moderate the relationship between institutional ownership and tax avoidance.

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