INTERACTION OF OWNERSHIP STRUCTURE AND AUDIT QUALITY ON CORPORATE TAX AVOIDANCE

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Abstract

The study examined how managerial and institutional ownership affects tax avoidance, how audit quality acts as a moderate variable, and how corporate size, profitability, leverage, capital investment, and cash holdings act as control variables. It focused on companies in the energy sector listed on Indonesian Stock Exchange (IDX) and examined them using Eviews 12. According to the research, managerial and institutional ownership did not significantly affect tax avoidance. In addition, audit quality cannot moderate the connection between managerial and institutional ownership regarding tax avoidance.

Keyword: *Tax Avoidance; Managerial Ownership; Institutional Ownership; Audit Quality*

A. INTRODUCTION

Tax avoidance refers to the lawful measures taxpayers implement to minimize liabilities by exploiting legal gaps in relevant tax laws (Nurdiana, 2021). The Tax Justice Network states that Indonesia suffers annual losses of about $4.86 billion due to its tax avoidance strategy. Most of the loss, around US$ 4.78 billion, comes from tax avoidance by corporate taxpayers, especially multinational companies that often utilize tax havens to reduce their tax burden. The rest is the result of individual taxpayers' tax avoidance. Tax havens allow companies and individuals to exploit loopholes in regulations to hide profits and assets and avoid paying taxes (Tax Justice Network, 2020).

The Prakarsa found the practice of misinvoicing or misreporting of financial flows in the coal sector a significant issue in the energy sector. In particular, misinvoicing, primarily through under-invoicing of exports, is a significant problem for coal. One of the main motives behind this practice is tax avoidance, which is done by reducing income and shifting profits. Companies use this strategy by exploiting loopholes in tax regulations and differences in rules across countries to shift profits to countries with low or tax-free tax rates (The Prakarsa, 2023). Over the past decade, export under-invoicing in Indonesia's coal sector for 2012-2021 totaled US$77.5 billion. The potential revenue loss from this under-invoicing is estimated at US$1.16 billion from income tax (1.5%) and US$3.87 billion from royalties (5%). On the export under-invoicing side, the loss of state revenue occurred with trading partner India. The practice of under-invoicing exports causes the country to lose revenue from royalties and Income Tax (The Prakarsa, 2023). This phenomenon shows the need for more stringent and effective policies to overcome tax avoidance practices and ensure optimal state revenue.

The study highlighted the importance of corporate ownership structure and audit quality. It revealed the role of managerial ownership and corporate ownership in tax avoidance in energy sector companies in Indonesia, where audit quality is a moderator variable. Existing phenomena suggest that companies are actively involved in the possible loss of state revenues, taking advantage of tax regulatory loopholes. This study extends the scope of analysis of previous studies that focused solely on managerial ownership. Therefore, this study helps gain more insight into how the interaction between managerial ownership, institutional ownership, and audit quality influences tax avoidance-related decisions.

Previous research has shown that managerial ownership has a significant negative impact on tax avoidance (Ibrahim et al., 2022; Wongsinhirun et al., 2024). When the increase in managerial ownership goes up, it is inversely proportional to the level of tax avoidance. However, other studies show managerial ownership does not affect tax avoidance (Harahap R.B.E., 2023). In addition (Qawqzeh, 2023) studies have shown that managerial ownership positively and significantly impacts tax avoidance. A study conducted by (Faiz Hilmi et al., 2022) stated that institutional ownership does not significantly impact tax avoidance. However, in research (Qawqzeh, 2023), have revealed that institutional ownership significantly negatively impacts tax evasion activities in listed companies in Jordan.

B. LITERATURE REVIEW

Agency theory is a framework that describes a relationship in which shareholders (principals) authorize managers (agents) to make business decisions and manage the company on behalf of shareholders (Jensen, &, 1976). According to research (Wongsinhirun et al., 2024), tax avoidance is usually affected by agency conflict, so increasing manager ownership has been shown to significantly reduce it because it more effectively orchestrates the interests of managers and shareholders. Managerial ownership refers to the part of the shares held by managers, including directors and executives, who influence corporate decisions (Melyaningrum et al., 2022). This study found a significant negative relationship between managerial ownership and tax avoidance (Ibrahim et al., 2022; Seifzadeh, 2022; Tuljannah & Helmy, 2023; Wongsinhirun et al., 2024) i.e., the higher managerial ownership, the inclination of businesses to engage in tax avoidance is low.

According to (Anggraini & Widarjo, 2020), institutional ownership refers to the percentage of shares held by institutions such as mutual funds, investment companies, pension funds, insurance companies, private foundations, or other important institutions that manage funds for others. High institutional ownership tends to reduce agency conflicts and increase oversight of management performance through monitoring and evaluating decisions taken (Putri & Aristantia, 2022). Research shows that institutional ownership has a significant negative impact on tax avoidance (Dakhli, 2022; Duan, 2023; Qawqzeh, 2023; Susilawati & Tarmidi, 2024).

Large public accounting firms, including Deloitte, Pricewaterhouse Coopers, Ernst & Young, and KPMG(Big Four), are considered more adept at auditing financial statements and discovering violations as external controllers (Mayani & Effendy, 2024). Previous research has shown that the quality of audits of these significant companies can affect the connection between institutional ownership and managed ownership regarding tax avoidance. (Qawqzeh, 2023; Susilawati & Tarmidi, 2024; Tarekegn & Ayele, 2020). According to institutional theory, the quality of external audits is essential to minimize conflicts of interest between management and owners. Public accounting firms with industry knowledge are more adept at identifying fraud, but executives who own shares tend to avoid tax evasion (Harahap & Masripah, 2023). In light of these results, the suggested hypothesis is:

H1: Managerial ownership has a significant negative effect on tax avoidance.

H2: Institutional ownership has a significant negative effect on tax avoidance.

H3: Audit quality can moderate managerial ownership and tax avoidance.

H4: Audit quality can moderate institutional ownership and tax avoidance.

C. RESEARCH METHODE

The data sources from the company's annual reports and financial statements obtained through the company's official website. The sampling technique used purposive sampling and was analyzed using Eviews 12. Then, this study measured tax avoidance measures using CashETR(CETR), commonly acknowledged as the most straightforward measure for determining corporate tax obligations (Wongsinhirun et al., 2024). In addition, the use of CETR is consistent with most previous studies focusing on effective tax rates, allowing for a more valid comparison of results in related academic literature.

Table 1. Sample Description

Sample Criteria	***Total***
Energy sector companies listed on IDX in 2019-2023	83
Financial reports that do not have information about the variables used	(20)
Financial reports that are not denominated in rupiah	(44)
Total Sample	19
Research period	5

Final Sample	95

Source: Eviews 12, data processed 2024

The analytical method used multiple regression analysis involving moderating variables. Specifically, Moderated Regression Analysis (MRA) is applied to test the effect of moderating variable audit quality, measured by a dummy variable worth 1 if the company is audited by one of the Big 4 audit firms and 0 otherwise. This study uses managerial ownership (percentage of managerial ownership) and institutional ownership (percentage of institutional ownership) Then FSIZ (LN'Total assets), PROF (EBIT divided by total assets), LEV (Total debt divided by total assets), CAPINV (Capital expenditure divided by total assets), and CASHOL (Cash and cash equivalents divided by total assets). The regression model used in this study is as follows:

Model 1:

$$CETR = \beta_0 - \beta_1 \text{ MAOWN} - \beta_2 \text{ INSOWN} + \beta_3 \text{ FSIZ} + \beta_4 \text{ PROF} + \beta_5 \text{ LEV} + \beta_6 \text{ CAPINV} + \beta_7 \text{CASHOL} + \epsilon \quad (1)$$

Model 2 with moderation audit quality:

$$CETR = \beta_0 - \beta_1 \text{ MAOWN} - \beta_2 \text{ INSOWN} + \beta_3 \text{ MAOWN*AQ} + \beta_4 \text{ IN SOWN*AQ} + \beta_5 \text{ FSIZ} + \beta_6 \text{ PROF} + \beta_7 \text{ LEV} + \beta_8 \text{ CAPINV} + \beta_9 \text{CASHOL} + \epsilon \quad (2)$$

D. RESULT AND DISCUSSION

Table 2. Descriptive Statistic

	CETR	MAOWN	INSOWN	AQ	FSIZ	PROF	LEV	CAPINV	CASHOL
Mean	0.159950	0.046653	0.599895	0.168421	27.64272	-0.029060	0.623688	0.044228	0.093322
Median	0.053281	0.000000	0.634431	0.000000	27.56491	0.025134	0.505351	0.020664	0.055428
Maximum	9.547362	0.360049	0.998499	1.000000	31.44563	0.410592	2.418443	0.526718	0.808876
Minimum	-12.66071	0.000000	0.000000	0.000000	22.08088	-4.454757	0.000294	-0.447243	0.000119
Std. Dev.	2.028378	0.107589	0.234919	0.376225	1.727937	0.489850	0.476254	0.108855	0.120977

Source: Eviews 12, data processed 2024

The Random Effects Model (REM) was selected in the model selection test. However, the F value is not significant, so this study then switched to using the Fixed Effects Model (FEM). This is supported by [36], which reveals that if the research cross-section unit is selected randomly (random), REM is better. However, if it is not taken randomly, then a more suitable approach is FEM. In this study, the companies in the sample meet specific criteria following the research needs and are not randomly selected from the entire population of companies. Therefore, FEM would be a more appropriate model of choice.

Table 3. Results of Regression Testing Model 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-22.80464	27.07746	-0.842200	0.4026
MAOWN	-2.174445	7.365138	-0.295235	0.7687
INSOWN	-3.732539	4.085827	-0.913533	0.3641
FSIZ	0S.911032	0.958335	0.950641	0.3451
PROF	-0.185867	0.536960	-0.346147	0.7303
LEV	-0.125460	1.224068	-0.102494	0.9187
CAPINV	-1.437717	2.395055	-0.600286	0.5503
CASHOL	2.766649	2.514455	1.100297	0.2750
Adjusted R-Square				0.236803
Prob (F-Statistic)				0.006189

Table 4. Results of Regression Testing Model 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-24.27487	27.80242	-0.873121	0.3858
MAOWN	-3.048988	7.663004	-0.397884	0.6920
INSOWN	-4.570072	4.335673	-1.054063	0.2957

AQ	-15.11685	33.30293	-0.453920	0.6514
MAOWN_AQ	-110.4262	194.0294	-0.569121	0.5712
INSOWN_AQ	16.64028	33.96366	0.489944	0.6258
FSIZ	1.011304	0.986509	1.025134	0.3090
PROF	-0.221974	0.547684	-0.405295	0.6866
LEV	0.014962	1.255281	0.011919	0.9905
CAPINV	-1.495479	2.436303	-0.613831	0.5414
CASHOL	3.098571	2.582919	1.199639	0.2346
Adjusted R-Square				0.211948
Prob (F-Statistic)				0.016890

Note: The regression results have passed the heteroscedasticity test and multicollinearity test.

Source: Eviews 12, data processed 2024

The test results showed that managerial and institutional ownership did not significantly affect tax avoidance, which aligns with studies from (Rakayana et al., 2021; Resti Yulistia et al., 2020). The lack of influence of managerial ownership is due to managers' limited rights in the company's decision-making process (Khamisan et al., 2020). These limitations in rights and authority reduce the possibility of managerial ownership will effectively affect tax avoidance. The limited impact of institutional ownership also occurs because the percentage of ownership is not too large. In addition, some institutional investors are more concerned with the stability of investment value and financial performance than the control of corporate tax policy (Qawqzeh, 2023).

The audit quality showed that it cannot moderate the relationship between managerial and ownership of agencies related to tax avoidance in line with the results of studies (Faiz Hilmi et al., 2022; Mulyati et al., 2023; Wagiu et al., 2022). Although the role of audit quality is expected to increase control over tax avoidance, the influence of ownership structures and strong stakeholders can make it difficult for auditors to maintain their independence (Khamisan et al., 2020). Big 4 public accounting firms may struggle to mitigate tax avoidance practices when a robust ownership structure exists, potentially overshadowing or sidelining the audit function regulating tax-related management actions

E. CONCLUSION

The study concluded that managerial and institutional ownership did not significantly affect tax avoidance for energy sector companies. In addition, audit quality cannot moderate the connection between managerial and institutional ownership concerning tax avoidance. This can be attributed to a relatively small percentage of managerial and institutional ownership, so most shareholders tend to dominate the company's strategic decisions, including tax policy.

The limitations of this study are the research variables that focus only on two types of ownership structures, without considering other ownership structures that can affect tax avoidance for future research, paying attention to the impact of various ownership structures: foreign, public, family and government ownership is recommended. Reviewing these various ownership structures is expected to provide a deeper understanding of how ownership structures affect tax avoidance and the importance of audit quality in a broader context.

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