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The Effect of Ownership Structure and Company Transparency on Tax Avoidance with Profitability as Moderating Variables

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Abstract

The purpose of this research is to examine the moderating role of institutional ownership and corporate transparency on tax avoidance and profitability among manufacturing firms traded on the Indonesia Stock Exchange throughout the period 2018-2020. The quantitative approach was taken in the planning of this study. Purposive sampling was utilized to collect data from as many as 64 businesses per year. During the study's three-year observation period, 192 participants were served as the overall sample size. As shown by the data, institutional ownership and corporate openness are factors that reduce tax avoidance. Then, Profitability moderates the institutional ownership of Tax Avoidance, but it does not moderate the corporate transparency that results from Tax Avoidance.

Keywords
tax avoidance; ownership structure; corporate transparency; profitability.

I. Introduction

Using Indonesia's state tax percentage as an indicator of tax avoidance, we can see that it is a problem in that country. An indication of a healthy tax revenue is the tax ratio, which is the proportion of tax revenue to GDP. Better tax collection performance is indicated by a larger tax ratio. Over the past six years, the average percentage of income tax paid to the Indonesian government has been 12.14 percent. In 2019, for example, the manufacturing division of PT Bentoel Internasional Investama took the TA step by borrowing money from its Dutch parent company, Rothmans Far East BV, between 2013 and 2015 to pay off debt, acquire new equipment, and restructure existing obligations. Since the amount of tax owed can be reduced by the amount paid.

With this research, we want to answer questions like, "Does Ownership Structure Affect Tax Avoidance?" To what extent does (2) Tax Avoidance depend on Corporate Transparency? Does Ownership Structure Arrangement for Tax Avoidance Affect Profitability? Does a company's transparency in tax avoidance depend on its level of profitability?

Profitability is used as a moderator to examine the effect of ownership structure and company transparency on tax avoidance, as determined by researchers using stakeholder theory. Ownership Structure and Company Transparency Independent Variables. Tax avoidance as the dependent variable. profitability as a moderating variable.

II. Review of Literature

Surjandari & Indah (2022) found that institutional ownership, moderated by profitability, affects tax avoidance. Lynne (2019) aims to examine two responses to calls for increased transparency about multinational entity tax transactions: first, country-by-country reporting that provides information to tax authorities, and secondly the UK

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requirement for publication of tax strategies, in which large corporations enter information into in the public domain. Sanchez Research (2020) With profitability as a moderator, this study tries to examine how leverage and institutional ownership influence tax avoidance. After that, L Cen et al. (2017) find and apply tax avoidance tactics in the context of customer and supplier interactions along the supply chain. Studying how firm size mediates the relationship between CSR, profitability, and aggressive tax planning is the focus of Fitri et al. (2018). Organization must have a goal to be achieved by the organizational members (Niati et al., 2021). The success of leadership is partly determined by the ability of leaders to develop their organizational culture. (Arif, 2019).

Fitria (2018) finds that firm size has an effect on tax avoidance, institutional ownership, independent commissioners, and managerial character does not.

The government knows that tax money is essential to the prosperity of the country and works to increase it every year. However, there are challenges, especially with the Indonesian tax system, which has undergone a modification from the official valuation system to a self-assessment system. Taxes can be collected centrally through the government through an official appraisal system, or can be collected independently by taxpayers through a self-assessment system.

The case of tax evasion of 4.6 billion is one example of the phenomenon of tax avoidance that often occurs in Indonesia. The Directorate General of Taxes found allegations of tax manipulation of Rp 4.6 billion carried out by safriadi in 2017 by falsifying tax invoices and tax collection. Albertus Irwan Tjahjadi Oedi was charged with tax evasion on January 26, 2018 for failing to deposit Rp. 32 billion VAT to the Indonesian government after collecting taxes from businesses but failing to deposit funds into the state treasury. According to research by Lidia Wahyuni, Robby Fahada, and Billy Atmaja (2017), a larger leverage ratio indicates a larger capitalization of third-party debt used by the company, which in turn reduces the company's taxable income. debt interest, then the increase in costs will have a negative impact on the company's after-tax profit. The aims of this investigation are twofold, but one of its main aims is to provide empirical evidence on the role of leverage in tax avoidance. Profitability as a determinant in legal tax avoidance strategy. The extent to which business disclosure increases or decreases the impact on tax avoidance is an important consideration. Corporate secrecy encourages or prevents tax evasion, which impacts profits The extent to which business disclosure increases or decreases the impact on tax avoidance is an important consideration. Corporate secrecy encourages or prevents tax evasion, which impacts profits The extent to which business disclosure increases or decreases the impact on tax avoidance is an important consideration. Corporate secrecy encourages or prevents tax evasion, which impacts profits.

2.1 Hypothesis

H1: Ownership structure affects tax avoidance.
H2: Corporate Transparency has an effect on Tax Avoidance.
H3: Profitability strengthens or weakens the Relationship Between Ownership Structure Tax Avoidance.
H4: Profitability Moderates or weakens the Relationship between Corporate Transparency and Tax Avoidance.

III. Research Method

3.1 Methodology

This study is quantitative in nature and draws on its findings from surveys and interviews with executives at Indonesian manufacturing companies listed on the Jakarta Stock Exchange between 2018 and 2020.

3.2 Data Analysis

Purposive sampling was used to produce a statistically valid and large enough sample for the purposes of this study. A total of 142 manufacturing companies were screened to 64 that best met the study requirements.

3.3 Model

The ownership structure of a company and the extent to which information about the organization is published becomes the dependent variable and the independent variable, respectively, in this study. The issue of tax avoidance is used as the dependent variable. A moderating factor of profitability. The functional definitions of variables are presented in the following table:

	Variabel	Indikator	Skala Pengukuran
	Penghindaran Pajak (Y)	$GAAP\ ETR = \frac{\sum income\ tax\ expense}{\sum pre\ tax\ accounting\ income}$	Perbandingan
	Struktur kepemilikan (X1)	$INST \frac{\text{Jumlah Saham Institusional}}{\text{Total keseluruhan Saham Perusahaan}}$	Perbandingan
	Transparansi T perusahaan _ (X2)	$TP = \frac{\sum Xi}{\sum X}$	Perbandingan
	Profitabilitas (M)	$ROA = \frac{Net\ Profit\ After\ Tax}{\text{Total Asset}}\ x\ 100\%$	Perbandingan

Research Model:

TA it = + 1 OS it + 2 CT it + 3 P it +

Yang: Constant; 1, 2: Coefficient; Error; i: Company I; t: Year t

IV. Result and Discussion

4.1 Research Results

a. Descriptive Data

Table 1. Descriptive statistics

	INST	Tp	ROA
Berarti	0,451060	0.373395	0.236061
Median	0.470107	0.306124	0.119746
Maksimum	0,855335	0,974130	0,997000
Minimum	0,002538	0,052156	0,000922
Std. Dev.	0.172168	0.176768	0.237321
Kecondongan	-0,284542	0,877563	1.029520
Kurtosis	2.734918	3.039636	3.076932

The study sampling findings for the calculation of institutional ownership range from a low of 0.002538 for the 2018 KRAH stock code to a maximum of 0.855335 for the 2018 CNTX stock code. Since the mean value is 0.451060 greater than the 0.172168 standard deviation value, we can conclude that the ownership structure in 64 organizations over the last three years is fairly balanced. The calculated transparency of the companies in the study sample ranges from a low of 0.052156 in the 2020 AISA stock code to a high of 0.974130 in the 2018 CNTX stock code. The standard deviation is less than or equal to 0 in this case, coming in at 0.176768. The average is now at 0.373395. The average is greater than the standard deviation, so it can be said that 64 organizations over the last three years have had a somewhat transparent management structure. Return on assets ranged from 0.000922 in the RMBA stock code in 2019 to 0.997000 in the TRST stock code in 2019, according to research sample data. The average value of 0.236061 is smaller than the standard deviation of 0.237321, indicating that the composition of asset returns in 64 companies over the last three years is very poor.

b. Selection of Panel Data Regression Model

Table 2. Panel Data Regression Model Selection

Type/Model	Common Effect	Fixed Effect	Random Effect	Result
Variabel Dependen tax avoidance				
Chow	√	√		Fixed Effect
Hausman		√	√	Random Effect
Model yang terpilih				Random Effect
Variabel Dependen tax avoidance dan profitabilitas sebagai variabel moderasi				
Chow	√	√		Fixed Effect
Hausman		√	√	Random Effect
Model yang terpilih				Random Effect

From the Summary Table of Panel Data Regression Model Selection Test Results, it can be explained that for the dependent variable Tax Avoidance the model chosen is the Random Effect Model and for the dependent variable Tax Avoidance and Profitability as the moderating model the chosen model is the Random Effects Model.

4.2 Discussion Results

The coefficient value for Prob Ownership Structure (INST) is 0.167917 (=0.0061 0.05). As a result, it appears that the ownership ratio structure helps in avoiding taxes. Stakeholder theory predicts that ETR will decrease as institutional ownership increases. Since institutional ownership tends to reduce the likelihood of a firm to evade tax, the greater the amount of tax that must be paid by the firm, the greater the importance of institutional ownership. Managers may be incentivized to prioritize economic success by institutional owners and not be encouraged to pursue opportunities for self-serving behavior. Studies (Iqbal, 2022), (Putri, 2019), (Dakhli, 2021), and (Sachez, 2020) corroborates this finding by showing how institutional ownership affects tax avoidance. Nonetheless, research (Kenny, 2022), (Oktaviyani, 2017) contradicts these findings (Indah, 2020) The acquisition of institutional ownership does not result in different tax avoidance consequences.

Calculated using the Prob Corporate Transparency (TP) model, this value is 0.0000 0.05, with a coefficient of 0.378857. This shows that corporate disclosure affects tax avoidance practices. In accordance with stakeholder theory, this shows that all businesses have an obligation to disclose relevant information to their stakeholders in the form of an Annual Report in accordance with regulation 29/POJK.04/2016 issued by the Financial Services Authority (OJK) (stakeholders). More transparent companies make it easier for regulators, investors and other interested parties to monitor the data they provide, which benefits everyone involved in the business. Research (Kharisma, 2019), (Madeleine, 2020), and (Chen et al., 2014) corroborate this,

However, this finding contradicts research (Anggraini, 2019) and (Paul, 2021). These studies find that increasing corporate disclosure reduces tax avoidance. The results of the study (Lynne, 2019) show that increasing corporate disclosure does not reduce tax avoidance. The coefficient of the moderating effect of profitability on INST is 1.422980, with a probability value of 0.0000 0.05. This shows how profits reduce the impact of ownership structure on tax avoidance strategies. Stakeholder theory, which predicts a correlation between greater institutional ownership and less tax avoidance, is consistent with these findings. Companies can use this to their advantage by engaging in tax planning aimed at minimizing their tax liability. Consistent with previous research that found that profitability can weaken the relationship between institutional ownership and tax avoidance (Octaviani, 2017; Surjandari, 2022; Michael, 2020), our findings support this hypothesis. However, other studies contradict these findings, suggesting that profitability can reduce the relationship between ownership structure and tax avoidance (Sanchez, 2020; Regina; 2020; Sujannah, 2021). The findings of this study indicate that the Moderation Predictor is the best categorization of the type of moderation (Variable Moderation Predictor). So, in the relationship model built, this moderating variable only functions as a predictor (independent) variable.

There is no relationship between profit and tax avoidance as measured by a prob value of 0.9351 0.05 for profit as a moderator of the effect of corporate transparency (TP). Since stakeholder theory states that transparency cannot be used as a yardstick to measure the level of tax avoidance by companies, this finding contradicts this notion. The findings of this study are consistent with the findings of Kharisma (2019), which also shows that increasing business openness does not reduce tax avoidance even when profitability is taken into account. However, findings from a different study (Anggraini, 2019) show that the profitability variable strengthens the relationship between corporate disclosure and tax avoidance. It follows from this finding that the Moderation Predictor is the best metric to classify the moderate character of the behavior seen in this investigation (Variable Moderation Predictor). This shows that in the established relationship model, the moderating variable only functions as a predictor (independent) variable.

V. Conclusion

When it comes to avoiding taxes, ownership structure matters. According to this study, the size of an organization's share in the ETR decreases as its share increases.

Tax avoidance is a problem that can be mitigated by more open corporate practices. This includes demonstrating that public companies with higher levels of transparency are more competitive with private companies in the region and around the world, giving investors more assurance in making financial commitments, and improving the quality of publicly available information. Avoidance of paying taxes.

The results of this study indicate that the profitability of companies that act as moderators can be used as a predictor of ownership structure of tax avoidance and moderation. For this reason, it can be argued that firms with many institutional investors are less likely to engage in tax avoidance strategies. Decreasing Profit Margin This study examines the relationship between corporate transparency and tax avoidance, focusing on the moderating role of several predictor variables. Since the degree of tax evasion by a company cannot be measured by the extent to which the company is transparent, more profit cannot be compared with how open the company is in general.

Research on the effects of institutional ownership and disclosure on tax evasion suggests that companies should tighten their control on loopholes in their tax strategies, while at the same time being as transparent as possible to the public.

For companies to improve corporate tax planning, it is better for companies to be required for company transparency in collecting and disclosing relevant information for the company so that stakeholders can monitor and supervise the implementation of tax planning in the company that has been running optimally.

Companies with high levels of profitability are more likely to engage in thorough tax planning, which often results in optimal tax avoidance, and investors should be aware that the level of transparency and ownership structure of the company may reflect this.

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