Ownership Structure of Tax Avoidance: Analysis Before and After Tax Reform Changes

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Abstract. The research team analyzed the way in which forms of ownership influence tax avoidance strategies both before and after tax reform. dividend tax and rate adjustments are components of tax reform. Dividends are tied to the ownership structure in the economy. It is believed that ownership structure plays a role in tax avoidance. The effect of ownership structure on tax avoidance was investigated using quantitative causality research on agency theory through surveys and purposive sampling. Institutional ownership has a negative impact on tax avoidance both before and after tax reform. Both before and after the tax reform, foreign ownership did not have a beneficial effect. Although there is no difference in the effect of concentrated ownership before and after the tax reform, the effect is favorable afterward. Tax avoidance before the reforms was more sophisticated because of the ownership structure.

Keywords: Tax Avoidance, Institutional Ownership, Foreign Ownership, Concentrated Ownership

1. Introduction

Taxes are forced payments made by citizens and businesses to the government. Income from taxes plays a crucial part in the progress of developing nations like Indonesia. Income tax is a key part of the tax system. Income tax has been a major source of state revenue over the past five years. Income tax revenue totaled IDR 646,793,50 billion in 2017. A total of Rp. 749,977.00 billion and IDR. 772,265.70 were added as realized income tax to state revenues in 2018 and 2019, respectively. The collection of income tax in 2020 amounted to a much lower Rp. 594,033.33 billion than it had in previous years. Then in 2021 the realization of income tax has increased compared to 2021, which is IDR. 615,210.00 billion [1].

The Covid-19 pandemic resulted in a decrease in realized income tax on state revenues in 2020[2]. Material losses caused by the spread of Covid-19 had implications for the economic aspect and the welfare of the people, which in turn had an impact on the decline in state revenues, necessitating a number of government efforts, including tax reform.

The tax reform policy set by the government is the issuance of Government Regulation in Lieu of Law of the Republic of Indonesia Number 1 of 2020 which was later ratified into Law Number 2 of 2020 and Law Number 11 concerning Job Creation. Policies in the field of taxation in tax reform in Law Number 2 of 2020 include tax rate adjustments. The adjustment of the Income Tax rate for domestic corporate taxpayers and permanent establishments, which so far has been 25% of the Taxable Income, will gradually decrease to 22% in 2020 and 2021 and 20% in 2022. In 2021 the government will revise the provisions tax rates through Law

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Number 7 of 2021 concerning Harmonization of Tax Regulations. Through this Law on the Harmonization of Tax Regulations, the Corporate Income Tax rate has changed to 22% starting from the 2022 Fiscal Year. As a result, the government has rescinded its intention to increase the Corporate Income Tax rate by 2% in 2022, from its previous projection of 20%. Law No. 2/2020's formerly applicable regulations.

Issues pertaining to the taxation of dividends or the share of profits received or obtained by shareholders are discussed, among other things, in the tax reform provisions of Law Number 11 concerning Job Creation, which was followed by the issuance of the regulation of the Minister of Finance numbered Regulation of the Minister of Finance Number 18/PMK.03/ 2021. With this policy in place, investors will automatically receive a higher return on their money due to the absence of taxation on dividends, provided certain conditions are met. However, this still has implications for the fight against capital flight because these funds are traded on the capital market. Indonesia's tax system was significantly altered as a result of dividend tax reform, which previously taxed both corporate profits and dividend distributions. Unlike when dividends are paid out of a company's earnings, the tax that is levied on the company itself is not taken into account when determining whether or not to pay out dividends.

Different policies issued by the government have contributed to the upward trend in tax collections. While it's true that everyone must pay their fair share of government revenue, doing so can be a burden for taxpayers and lead to lower returns for everyone involved. It is widely accepted that taxes are the single highest expense category for most businesses. Shareholders bear a disproportionate amount of the cost of corporate income taxes [3]. The company's net profit may be impacted by the tax rate applied to taxable profit [4]. Taxpayers engage in a variety of strategies to minimize their tax obligations because taxes are an inevitable part of doing business [5].

Dividends have been linked to the composition of ownership in the economic context. It is speculated that the structure of a company's ownership plays a role in its ability to avoid paying taxes. Although the company's tax policy is ultimately decided by management, the ownership structure is a consideration. This is because the owner is the party with authority over the direction of the organization. Institutional ownership, foreign ownership, and concentrated ownership as a means of evading taxes are all topics explored in various scholarly works.

Institutional ownership and foreign ownership are two forms of ownership that have been extensively examined in relation to tax avoidance. Corporate tax avoidance can be affected by institutional ownership [6] [7]. Still other research has found no link between institutional ownership and dodging taxes[8], [9]. Tax evasion may be influenced by foreign ownership [10] [11]. Other research contradicts this finding, finding that foreign ownership has no bearing on tax avoidance[9]. Concentrated ownership is another form of ownership that is studied for insights into tax avoidance. K Tax evasion is facilitated by concentrated ownership[7]. Furthermore, additional research show that high levels of concentrated ownership contribute to tax avoidance being more successful [12].

This study is motivated by a desire to fill in some of the gaps in the literature by analyzing the impact of ownership structure on tax evasion both before and after tax reform from the perspectives of institutional ownership, foreign ownership, and concentrated ownership. In order to compare the impact of ownership structure on tax evasion before and after tax reform, this study departs from past research by applying agency theory grounded in quantitative causality studies.

2. Literature Review

2.1 Agency theory and forms of ownership

The research base for this work is grounded in agency theory[6] [13]. The principle (the one making the company's strategic decisions) enters into an agency contract with the agent (the one making those decisions) [14]. Management, in its capacity as delegated controller, seeks substantial remuneration, while the principal, as shareholder, prioritizes ever-increasing wealth generated by the value of shares and investment returns. Investors can save money and boost earnings via tax avoidance strategies implemented by their companies. More money coming in means more money going out in the form of dividends and the value of the stock going up. Investors pay people like salespeople more so they'll work more to achieve shareholder goals. The manager will profit financially from efficient tax planning and preparation[10].

2.2 Tax Avoidance and the Organization of Ownership

The ownership structure of a business is the composition of its stockholders. The shareholders, who make up the firm's ownership structure, can steer the corporation toward its stated goals of raising earnings and maximizing value.

Institutional ownership, foreign ownership, and concentrated ownership are three ways to evaluate a company's structure of ownership. A company's ownership structure can be a determining factor in its efforts to minimize its tax liability [15].

The percentage of institutional ownership is determined by dividing the number of shares held by the institution by the total number of shares[8]. To calculate the percentage of foreign ownership, the number of shares owned by foreign individuals and entities is compared to the total number of shares[16]. Meanwhile, the proportion of shares held by the largest shareholder to the total is a proxy for the degree of concentrated ownership [12].

2.2 Tax evasion and institutional ownership

Companies, banks, and philanthropies are all examples of institutions that might become institutional shareholders. Certain for-profit institutions seek to maximize earnings in both their day-to-day operations and their investments. Because of the negative impact that a high tax rate may have on a company's bottom line, many organizations today are actively seeking strategies to minimize their taxable income. Institutional owners actively pursue tax evasion strategies.

Corporate tax avoidance may be affected by institutional ownership [6] [7]. The study's findings show that institutional investors exert pressure on company controllers to reduce taxable income. Institutional ownership might have a different impact on tax avoidance before and after tax reform due to the repercussions of the new tax rates. The theory is based on the above and is stated as:

H1: Institutional ownership has a different impact on tax avoidance both before and after tax rates are considered.

2.3 Ownership Abroad and Tax Evasion

Compliance with paying taxes is part of the manifestation of the level of nationalism as a citizen. On the other hand, some non-citizens engage in profit-driven business and investment activities in other nations in order to minimize taxes and increase earnings, demonstrating a lack of patriotism. Company decisions might be affected by the number of foreign shareholders. Management is believed to have an incentive to adopt taxation strategies that reduce the greater tax burden in order to maximize earnings and share price.

Tax evasion may be affected by foreign ownership[10][11]. The research shows that companies with foreign ownership are pushed to minimize their tax liability in order to maximize profits for their overseas shareholders. The impact of foreign ownership on tax evasion both before and after tax reform can be accounted for by adjusting tax rates. Consequently, it prompts the following theory:

H2: The impact of foreign ownership on tax evasion varies depending on whether one looks at it before or after tax rates have been applied.

2.4 Tax evasion and concentrated ownership

Concentrated-ownership firms are those in which a small group of shareholders owns a disproportionately large number of shares compared to the total number of shares outstanding[17]. When a small number of people or entities possess a large percentage of a company's stock, this is known as concentrated share ownership, and it gives those shareholders disproportionate influence over the business. When there are few owners, tensions arise between the majority and the minority, which can have a negative impact on the business. Shareholders who own a majority stake can put their own interests ahead of those of smaller investors [18].

Because of the small number of people who possess a large percentage of the company's shares, those few people can exert disproportionate control over the company's decisions, especially those related to decreasing the company's tax liability. Consistent with studies that provide an explanation for k The concentration of wealth facilitates tax avoidance[7]. The impact of foreign ownership on tax evasion both before and after tax reform can be accounted for by adjusting tax rates. The following conjectures become clear in light of the above:

H3: The impact of foreign ownership on tax evasion varies depending on whether one looks at it before or after tax rates have been applied.

FRAME WORK

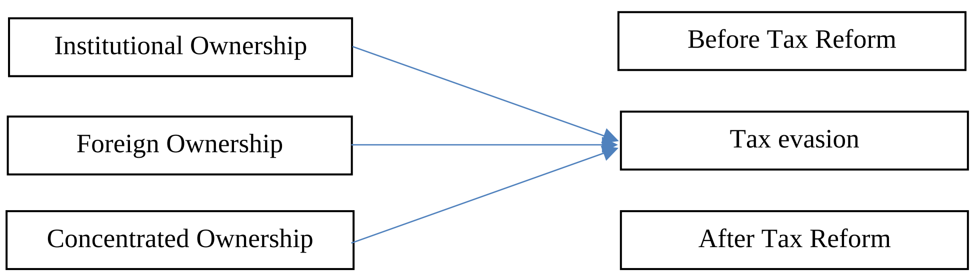

Figure 1

3. Research methods

3.1. Population and sample

The population for this analysis consists of manufacturing firms trading on the Indonesia Stock Exchange between 2018 and 2021. A purposive sampling strategy was used to pick the samples, and the following factors were taken into account: The following criteria must be met: (1) the company is a manufacturer listed on the Indonesia Stock Exchange between 2018 and 2021; (2) the company's financial reports for the preceding four years (2018-2021) are available online; (3) the company's published financial reports include full analytical data. There are 175 manufacturing firms listed on the Indonesia Stock Exchange that make up the population, but 12 of these firms cannot be sampled due to missing or inadequate data..

3.2. Variable Measurement

3.2.1 Dependent Variable

In this study, Tax Avoidance Variable will serve as the dependent variable. Based on previous studies [8] [9], we compare the Taxpayer's Tax Rate (also known as the Statutory Tax Rate; STR) to the Actual Tax Rate (also known as the Actual Tax Rate; ATR) to determine the extent to which tax avoidance has taken place (ATR). All variables are measured using the same standards as those used in previous studies, with each serving as an independent variable..

3.2.2 Independent Variable

In the research model, institutional ownership, foreign ownership, and concentrated ownership are the dependent variables. Institutional ownership refers to the extent to which public and private organizations hold a company's stock. The percentage of institutional ownership is determined by dividing the number of shares held by the institution by the total number of shares [8]. A company's level of foreign ownership indicates how much of its stock is held by investors who are not based in the country where the issuer is headquartered. To calculate the percentage of foreign ownership, the number of shares owned by foreign individuals and entities is compared to the total number of shares [16]. When a few people or organizations possess a disproportionately large amount of a company's shares, this is called concentrated share ownership, and it allows for more thorough oversight of the business. The proportion of a company's shares held by its single largest shareholder is one indicator of concentrated ownership[12].

4. Hypothesis Testing Method

IDX.co.id, Indonesia's stock exchange, provided access to manufacturing sector financial reports. In order to compare tax avoidance measures before and after tax reform, we analyzed the data using STATA, going through numerous steps including model selection and classical assumptions before analyzing the overall regression results and testing sensitivity.

5. Results

5.1. Descriptive Analysis

Table 1 Descriptive analysis

Variable	min	max	mean
Tax evasion	-16.0341	122.3938	0.985029
Institutional Ownership	0.0193	0.9152	0.399385
Foreign Ownership	0.0213	6.95	0.497059
Concentrated Ownership	0.148	0.9631	0.515641

5.2. Hypothesis testing

Classical assumptions were tested first, including normality, multicollinearity, heteroscedasticity, and autocorrelation, before the hypothesis was tested. After producing abnormal data with a sign value of 0.000, which is below the 0.05 significance criterion, a winsorizing operation is performed to transform the data into a normal distribution with a sign value of 0.672. All vif values are less than 10 for the multicollinearity test, Prob>chi2 data is 0.1744 for the heteroscedasticity test, and Prob>F data is 0.8179 for the autocorrelation test, indicating that the study data does not violate any of these three assumptions.

5.2.1 Before Tax Reform

Table 2 Hypothesis Testing Before Tax Reform

Tax evasion	Before Tax Reform	
	Coefficient	Prob t-stat
Institutional Ownership	-9.446096	0.215
Foreign Ownership	1.408741	0.846
Concentrated Ownership	14.52518	0.080 *
N	82	
R-Square	0.0709	
Prob F	0.1232	
Note: * Significant 10%, ** Significant 5%, *** Significant 1%		

The impact of ownership on tax avoidance prior to tax reform is detailed in Table 2. Table 2 shows that institutional ownership does not have a negative influence on tax avoidance when the coefficient is less than -0.05, which can be inferred from the data. This finding contradicts the findings of studies that explain why ownership is not observed but instead indicate that institutional ownership does affect corporate tax avoidance[6] [7]. With a likelihood greater than 0.05 and a positive coefficient value, we can deduce that foreign ownership has no beneficial influence on tax evasion. These findings are supported by another study which explains that foreign ownership has no impact on tax avoidance[9]. The research shows that concentrated ownership does not have a beneficial influence on tax avoidance, with a positive coefficient value greater than 0.05. Previous studies have shown that high levels of concentration of ownership have a detrimental impact on tax avoidance, therefore these findings contradict those findings [12].

5.2.2 After Tax Reform

Table 3 Hypothesis Testing After Tax Reform

Tax evasion	After Tax Reform	
	Coefficient	Prob t-stat
Institutional Ownership	-1.070867	0.315
Foreign Ownership	0.10574	0.676
Concentrated Ownership	1.80566	0.192
N	81	
R-Square	0.0286	
Prob F	0.5220	
Note: * Significant 10%, ** Significant 5%, *** Significant 1%		

You can see how ownership status influenced tax avoidance practices prior to the tax reform in Table 3. According to the data in the table above, institutional ownership has no negative influence on tax avoidance if the coefficient value is less than -0.05 and statistically significant. This finding contradicts the findings of studies that explain why ownership is not observed but instead indicate that institutional ownership does affect corporate tax avoidance [6] [7]. With a likelihood greater than 0.05 and a positive coefficient value, we can deduce that foreign ownership has no beneficial influence on tax evasion.

These findings are supported by another study which explains that foreign ownership has no impact on tax avoidance[9]. The research shows that concentrated ownership does not have a beneficial influence on tax avoidance, with a positive coefficient value greater than 0.05. This finding contradicts the findings of prior studies which found that high levels of concentrated ownership led to less tax avoidance [12].

5.2.3 Before and After Tax Reform

Table 4 Hypothesis Testing Before and After Tax Reform

Tax evasion	Combined	
	Coefficient	Prob t-stat
Institutional Ownership	-5.83166	0.055 *

Foreign Ownership	0.28283	0.777	
Concentrated Ownership	8.96814	0.021	**
N	163		
R-Square	0.0440		
Prob F	0.0662	*	
Note: * Significant 10%, ** Significant 5%, *** Significant 1%			

The impact of ownership on tax evasion is summarized before and after the tax reform in Table 4. Table 4 shows that institutional ownership has a negative effect on tax avoidance, even though the difference test between before and after the policy was enacted and after it was enacted shows no significant effect. This is because the overall coefficient value for institutional ownership is negative and significant, hovering around -0.05. The findings of this study are consistent with other studies that have found that institutional ownership can affect a company's propensity to avoid paying taxes [6] [7].

With a positive coefficient value and probability greater than 0.05, it is possible to explain that foreign ownership does not have a positive influence on tax evasion, and this holds true for both pre- and post-policy difference tests. This study's findings corroborate those of earlier studies which found that foreign ownership has no influence on tax avoidance[9]. Concentrated ownership as a whole has a beneficial influence on tax avoidance, and this may be explained by a coefficient value of less than 0.05, even though the difference test between the years before and after tax reform shows no effect. Previous studies have found that high levels of concentrated ownership contribute to tax avoidance[12], but these findings are distinct.

6. Conclusion

The findings of the study were as follows:

a. Although the difference test between pre- and post-tax reform shows no significant impact, institutional ownership has a negative impact on tax avoidance overall.
b. The overall effect of foreign ownership on tax evasion fails the difference test both before and after tax reform.
c. Despite the ineffectiveness of the difference test both before and after tax reform, concentrated ownership has a beneficial impact on tax avoidance.
d. Before the legislation that lowered the corporate income tax rate, tax evasion was more widespread (R-Square: 7.09%) than it is now (R-Square: 2.86%).

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