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The Impact of Ownership Structure on Tax Avoidance: Audit Quality as Moderating Variable

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Abstract
Purpose: This research is aimed at giving empirical evidence related to the correlation of ownership and corporate tax avoidance as well as describing the moderating effect of audit quality.
Method: The sample comprises 315 observations from manufacturing companies listed on the IDX (Indonesia Stock Exchange) during the period of 2015-2019. For data analysis, panel data regression techniques were employed to ascertain the effect of ownership on tax avoidance moderated by audit quality.
Findings: The results indicated that institutional, family, and foreign ownership were positively related to corporate tax avoidance. Moreover, the effect of audit quality was found to moderate the correlation of family and foreign ownership to tax avoidance.
Originality/Value: This research contributed fresh evidence that elevated external audit quality held a moderating effect on tax avoidance in family-owned companies and those under foreign ownership.
Keywords: Tax Avoidance, Ownership, Audit Quality
Paper Type: Research Paper

1. Introduction

Tax revenues in Indonesia play a significant role in state finances. This can be proven by the fact that over the last decade, state revenue has been consistently dominated by tax revenues, with an average contribution of around 75%. In the 2020 State Budget, tax revenue was targeted at IDR 1,865,702.8 billion, accounting for approximately 83.54% of the total state revenue (Kementerian Keuangan, 2020).

The OECD provided insights into the tax landscape in the Asia Pacific region through the Revenue Statistics in Asian and Pacific Economies report for 1990-2018. Within this context, Indonesia's tax ratio, the ratio of tax revenue to GDP, stood at a comparatively low 11.9% in 2018, positioning it with the lowest tax ratio among 21 other Asia Pacific countries. Furthermore, The State of Tax Justice 2020: Tax Justice in the Time of COVID-19 report sheds light on Indonesia's tax landscape in terms of avoidance cases by Corporate and Individual Taxpayers in Asia. In this regard, Indonesia ranks fourth, trailing China, India, and Japan. This pattern of tax avoidance is anticipated to result in annual losses of approximately US$ 4.86 billion for Indonesia, which is equivalent to Rp. 68.7 trillion (calculated using an exchange rate of Rp. 14,149 per US dollar).

Tax avoidance is reduced when good corporate governance is implemented (Noviani & Suardana, 2019). The concept of corporate governance revolves around establishing a framework of internal and external checks and balances. This structure ensures that companies remain accountable to their stakeholders while conducting their operations with a commitment to social responsibility (Atkins et al., 2005). The implementation of corporate governance in a company plays a significant role in influencing management decisions, including those related to tax compliance. Indonesia's journey toward robust corporate governance is marked by the introduction of the inaugural Code of Good Corporate Governance (GCG) by the KNKG (National Committee on Governance) in 1999, subsequently revisited in both 2001 and 2006. The mechanisms of corporate governance can be categorized as internal and external. Internal mechanisms encompass elements such as independent and non-executive directors, audit committees, and boards of directors. External mechanisms, including audit quality, also play a pivotal role in effectively controlling and overseeing managerial decisions (Islam et al., 2010).

In prior research, it has been stated that a concentrated ownership structure has dual effects on corporate tax avoidance: a negative effect, as indicated by Badertscher et al. (2013) and Khurana and Moser (2013), as well as a positive effect, as demonstrated by Huseynov et al. (2017) and Khan et al. (2017). Consequently, the effect of ownership structure on tax avoidance remains uncertain. Based on agency theory, the pivotal factor for all predictions concerning tax avoidance is the division between ownership and control (Badertscher et al., 2013). This division fosters tax avoidance, while ownership and control simultaneously reduce the inclination towards tax avoidance (Kovermann & Velte, 2019).

This research addresses the inquiry made by Hanlon and Heitzman (2010) regarding the factors influencing corporate tax avoidance. It highlights the role of ownership concentration in explaining the diversity in tax avoidance, considering a moderating variable of audit quality. The quality of audits performed by independent auditors can have a profound impact on the transparency and accountability of a company's financial reporting, including its tax management practices. High-quality audits ensure that tax-related transactions are properly recorded and reported, reducing the likelihood of tax avoidance (King & McKennie, 2023). This is particularly important in tax management, where accurate and transparent reporting is crucial for compliance and regulatory purposes.

This research is motivated by the prevalence of tax avoidance instances observed among companies with concentrated ownership (Alkurdi & Mardini, 2020; Gaaya et al., 2017; Khan et al., 2017; Lenz, 2020; Ha et al., 2021; Salihu et al., 2015) which cloncluded that the characteristics of share ownership, such as the proportion of shares held by different types of shareholders, significantly influence the objectives, power, and control that each owner has over management, including tax management. Moreover, it expands on prior research by examining how external audit quality effect on tax avoidance. Prior studies have found that audit quality has a negative effect on tax avoidance. For example, research by Rizqia and Lastiati (2021) demonstrated that audit quality, significantly reduces tax avoidance practices. Qawqzeh (2023) concluded that tax avoidance practices can be reduced in companies with high-quality external audits. AlQadasi and Abidin (2018) demonstrated that internal corporate governance and audit quality play a significant role in reducing tax avoidance practices in Malaysia.

A body of research explores the relationship between monitoring devices and corporate tax avoidance practices. Audit quality is regarded as a significant aspect of corporate governance that is anticipated to affect the relationship between ownership and corporate tax avoidance (Qawqzeh, 2023) . Furthermore, the findings indicate that the size of the audit firm is not just a symbolic representation, but it actually contributes to reducing and limiting tax aggressiveness. The size of the audit firm, which is often associated with higher quality audits, has a tangible impact on reducing tax avoidance practices. Therefore, audit quality assumes a pivotal role in addressing issues stemming from conflicts of interest between companies and their shareholders (Lanis & Richardson, 2012).

2. Literature Review

Tax avoidance involves taxpayers intentionally making efforts to reduce their tax liabilities without violating relevant tax laws (Hanlon & Heitzman, 2010). This is achieved through the utilization of methods and techniques that capitalize on ambiguities existing in the tax regulations and laws, commonly referred to as gray areas. The purpose of tax avoidance is to minimize the amount of taxes owed (Hanlon & Heitzman, 2010). Tax avoidance is considered a legitimate tactic for companies to minimize their tax obligations, as it can lessen the tax burden by capitalizing on loopholes within the relevant tax legislation. Nevertheless, engaging in tax avoidance can indeed undermine the revenue that the state is entitled to receive.

Lenz (2020) provides his perspective on tax avoidance and categorizes it into three levels: responsible, aggressive, and abusive tax avoidance. Responsible tax avoidance constitutes the first level, characterized by actions carried out legally (according to applicable regulations), in line with the existing legal spirit, and morally justifiable. Aggressive tax avoidance, as described by Lenz (2020), is concluded to be an act that tends to be immoral. This involves aggressively interpreting the law to stay within the scope of existing regulations. Meanwhile, abusive tax avoidance, often referred to as unacceptable tax avoidance, is a form of tax evasion that involves misusing methods not intended by the law. This activity exploits regulations that are not explicitly stated in legal statutes.

2.1 Managerial Ownership

Managerial ownership refers to the percentage of shares held by actively involved management members, including directors and commissioner shareholders, who play a pivotal role in decision-making processes. Such ownership has the potential to enhance more effective supervision and can impact the formulation of tax avoidance policies by the management (Sunarsih & Oktaviani, 2016). Managerial ownership signifies that managers will consider the company's sustainability. Managers would prefer to avoid company audits due to taxation issues, which makes them less likely to support tax avoidance actions (Pramudito & Sari, 2015).

Studies have consistently found that higher managerial ownership is associated with lower tax avoidance. For example, a study by Alkurdi and Mardini (2020) found that firms with higher managerial ownership had lower cash effective tax rates. Higher managerial ownership can lead to better alignment between managers and shareholders, which can reduce the likelihood of tax avoidance. This is because higher managerial ownership brings managers and shareholders' interests into better alignment, reducing the incentive for managers to engage in tax avoidance practices that benefit themselves at the expense of shareholders.

H_1: Managerial ownership negatively affects tax avoidance

2.2 Institutional Ownership

Institutional ownership involves the holding of shares within companies and is typically held by financially significant organizations such as pension funds and endowments (Saona et al., 2020). Generally, institutions purchase substantial portions of publicly traded company stocks, thereby exerting a significant influence on their management. The presence of institutional ownership plays a crucial role in overseeing and influencing the behavior of managers. A substantial ownership percentage enables these parties to effectively monitor the company's activities, signifying an increased capacity to oversee management practices (Sonia & Suparmun, 2019).

Khurana and Moser (2013) discovered that companies tend to reduce their tax burden when under the ownership of long-term-oriented institutional investors, who generally exhibit greater risk aversion. In contrast to this finding, more recent research conducted by Huseynov et al. (2017), Khan et al. (2017), as well as Chen et al. (2019), indicates that higher levels of institutional ownership are associated with an increase in tax avoidance.

H_2: Institutional ownership positively influences tax avoidance

2.3 Family Ownership

Similar to firms with blockholdings and institutional ownership, family firms provide an environment where the separation between ownership and control is minimal or nonexistent. A specific category of long-term-focused investors consists of families who hold a substantial and often controlling portion within a single company. As the number of family shareholders increases, family firms often seek to satisfy the increasing demand for dividends (Kovermann & Wendt, 2019). One way they achieve this is by adopting tax avoidance strategies. By minimizing their tax liabilities, these firms can allocate more of their profits to dividends, thereby keeping their family shareholders satisfied. Research conducted by Gaaya et al. (2017) revealed that family ownership typically leads to heightened levels of tax avoidance. Gaaya et al. (2017) construe their results as indicative of families prioritizing opportunistic and personal financial objectives ahead of those belonging to minority shareholders.

H_3: Family ownership positively affects tax avoidance

2.4 State Ownership

In certain nations, either state-controlled investment funds or the state itself participates as long-term stakeholders. The logic presented here is clear, indicating that the state, being the recipient of tax payments, would lack any motivation to promote tax avoidance. Nonetheless, the state could prove to be a less effective overseer compared to alternative investors. In the research conducted by Chan et al. (2013), it was found that companies with government shareholders exhibit decreased instances of tax avoidance. Supporting these findings, Bradshaw et al. (2019) demonstrated an increase in tax avoidance following the privatization of state-owned enterprises.

H_4: State ownership negatively affects tax avoidance

2.5 Foreign Ownership

Several countries have conducted empirical research on the correlation of foreign ownership and tax avoidance. Alkurdi and Mardini (2020) argued that when a significant portion of a company's ownership structure is concentrated in the hands of foreign owners, these owners are more likely to engage in tax avoidance practices. Foreign shareholders often have a strong incentive to maximize their returns by minimizing tax liabilities, which can be achieved through various tax avoidance strategies. This behavior is driven by their primary interest in the financial performance of their investment rather than the long-term growth and stability of the company or the host country's economy.

Moreover, research conducted by Salihu et al. (2015) stated that multinational companies have taken advantage of their global operations to evade taxes in both the host and parent countries. Multinational companies use their global presence to reduce their tax liabilities by shifting profits from high-tax to low-tax jurisdictions through transfer pricing and other mechanisms. They often establish subsidiaries in tax havens to funnel profits and avoid higher taxes in both the host and parent countries. By exploiting double taxation agreements, they ensure that income is taxed minimally or not at all in either country.

H_5: Foreign ownership positively affects tax avoidance

2.6 Audit Quality

Ensuring a high standard of audit quality plays a pivotal role in alleviating conflicts of interest between external shareholders and managers. Moreover, Guenther et al. (2017) discovered that external auditors evaluate whether their clients adopt aggressive tax positions that could enter a gray area as well as potentially come under scrutiny by tax authorities. Gaaya et al. (2017) discovered that the quality of external audits moderates the relationship between family ownership and tax avoidance. This study support the agency theory's notion that managers and other ownership entities may prioritize their own interests over those of other owners when there is no market control. As a result, companies require robust governance mechanisms, including high-quality external audits, to prevent and restrict such exploitation. Prior study by Qawqzeh (2023) concluded that tax avoidance practices can be reduced in companies with high-quality external audits, suggesting that different ownership structures behave more responsibly when subjected to rigorous auditing. This highlights the significant role of major audit firms in identifying and addressing risky tax avoidance practices. This research then proposes the sixth hypothesis:

H_6: Audit quality moderates the relationship between ownership structure and tax avoidance

3. Research Method

3.1 Sample

The sample includes 63 manufacturing companies registered in the IDX data within the 2015-2019 period. Company characteristics and tax data were sourced from the financial reports of publicly registered companies, accessible on their official websites and the IDX website. The ownership data were manually gathered from the registered companies' annual reports.

Table 1. Sample Selection

Criteria	Total
Indonesia manufacturing companies registered on IDX	195
(-) Manufacturing companies with negative profit before tax	66
(-) Manufacturing companies in foreign currency units	13
(-) Manufacturing companies whose financial statements are incomplete	53
Total sample (number of companies)	63
Number of year observation per company	5
Total observation	315

Table 2. Sample Data per Sector

Sector	Sample	Percentage
Basic Industry & Chemicals	22	34.92%
Consumer Goods & Industry	25	39.68%
Miscellaneous Industry	16	25.40%
Total	63	100.00%

3.2 Research Variable

ETR is typically utilized as a proxy for gauging tax avoidance, with several justifiable reasons for its application in assessing companies' tax avoidance tendencies. Its capacity to encompass various avenues of tax reduction, including those stemming from tax shelters and legal loopholes, further validates its appropriateness as a measure (Dyreng et al., 2017). ETR exhibits an inverse relationship with tax avoidance, where diminished ETR values signify heightened engagement in corporate tax avoidance (Gaaya et al., 2017; Wulandari & Purnomo, 2021). ETR pertains to the comprehensive tax expenditure normalized by the pre-tax income.

Table 3. Measurement of Variables

Variable Name	Variable Measurement	Resources
Dependent Variable		
Effective Tax Rate (ETR)	Income tax expense//Pretax income	Gaaya et al. (2017)
Independent Variable		
Managerial Ownership	Percentage of shares owned by shareholders belonging to the manager Number of shares owned by manager/Total outstanding share x 100%	Saona et al. (2020)
Instittutional Ownership	Percentage of shares owned by shareholders belonging to institution Number of shares owned by instituion/Total outstanding share x 100%	Alkurdi and Mardini (2020)
Family Ownership	Percentage of shares owned by shareholders belonging to the same family Number of shares owned by family//Total outstanding share x 100%	Gaaya et al. (2017)
State Ownership	Percentage of stace ownership in the company Number of shares owned by government//Total outstanding share x 100%	Ha et al. (2021)
Foreign Ownership	Percentage of shares owned by foreign investors Number of shares owned by foreign investors//Total outstanding share x 100%	Ha et al. (2021)
Moderating Variable		
Audit Quality	Dummy variable 1 = audited by Big 4 0 = otherwise	Gaaya et al. (2017)
Control Variable		
Return on Asset (ROA)	Net income/Total asset	Alkurdi and Mardini (2020)
Debt to Asset Ratio (DAR)	Total long term debt/Total asset	Gaaya et al. (2017)
Size	Natural logarithm of total asset	Gaaya et al. (2017)

This research examined the independent variable of ownership structure, categorized into five distinct types: managerial, institutional, family, state, and foreign ownership. They were quantified by determining the proportion of shares held by shareholders within the company. As an integral aspect of governance features, this research incorporated audit quality as the moderating variable. A proxy for audit quality was established through a dummy variable, assigned a value of 1 when the company underwent an audit by a Big 4 company (Deloitte, PwC, Ernst & Young, and KPMG) and 0 otherwise.

In the regression models, this research introduced a collection of control variables representing company characteristics that could potentially affect tax avoidance behavior. In this research, three categories of control variables were employed: Return on Assets (ROA) serving as a proxy for profitability ratio; Debt to Asset Ratio (DAR) acting as a proxy for leverage; and size.

3.3 Analysis Method

This research employed panel data regression to analyze data, aiming to ascertain the correlation of ownership and tax avoidance moderated by audit quality. To find out the effect of these variables, a test was carried out with software in the form of E-Views 10, which then the results could be employed as a reference for the relationship direction of the variables in this research. This research utilized ordinary least squares multiple regression analysis to explore how ownership structure affects the phenomenon of tax avoidance. This empirical model utilized company-level data spanning five financial periods, ranging from 2015 to 2019. To mitigate omitted variable bias (OVB), this analysis incorporated a year fixed-effect, while ensuring model robustness through the use of heteroskedasticity-consistent standard errors and covariance. Drawing upon the established theory and empirical model from prior research, like Alkurdi and Mardini (2020), Gaaya et al. (2017), and Ha et al. (2021), this research formulated the following model for assessing the correlation of ownership and tax avoidance, presented in Table.

$$TA = \alpha + \beta 1MO + \beta 2IO + \beta 3FAMO + \beta 4SO + \beta 5FORO + \beta 6ROA + \beta 7DAR + \beta 8SIZE + \beta 9AQ + \varepsilon \quad (1)$$

In order to investigate the moderating role of audit quality, this research introduced an interaction term involving ownership as well as audit quality, and proceeded to estimate the following model:

$$TA = \alpha + \beta 1MO + \beta 2IO + \beta 3FAMO + \beta 4SO + \beta 5FORO + \beta 6MO{*}AQ + \beta 7IO{*}AQ + \beta 8FAMO{*}AQ + \beta 9SO{*}AQ + \beta 10FORO{*}AQ + \beta 11ROA + \beta 12DAR + \beta 13SIZE + \beta 14AQ + \varepsilon \quad (2)$$

4. Results and Discussion

4.1 Descriptive Statistics

The descriptive examination offers an overview of both the data and its distribution in the research. The data presentation encompasses descriptive statistics such as standard deviation, minimum, maximum, as well as mean values, elucidating the distribution within the research. Based on the descriptive statistic test results in Table 4, ETR as the dependent variable holds a minimum value of 0,006, namely from PT. Pelangi Indah Canindo Tbk (PICO) in 2017 and a maximum value of 0,971, namely from PT Buana Artha Anugerah Tbk (STAR) in 2018. The ETR value demonstrates a mean of 0,281, accompanied by 0,127 of standard deviation. The mean of the ETR value is higher than the standard deviation explains that aggressive tax avoidance in manufacturing companies is still possible. This condition is relevant to the large amount of tax potential lost from the manufacturing sector.

Table 4. Descriptive Statistics

Variable	Mean	Med	Max	Min	SD
TA	0,281	0,254	0,971	0,006	0,127
MO	0,003	0,000	0,329	0,000	0,026
IO	0,550	0,584	0,952	0,000	0,297
FAMO	0,481	0,571	0,984	0,000	0,337
SO	0.038	0,000	0,900	0,000	0,160
FORO	0,214	0,000	0,984	0,000	0,302
ROA	0,087	0,061	0,921	-0,001	0,095
DAR	0,390	0,370	0,933	0,071	0,180
SIZE	21,746	21,505	26,587	18,888	1,583
AQ	0,422	0,000	1,000	0,000	0,495

The average results show that the average proportion of managerial ownership (MO) is very low compared to other ownership structures. The low percentage of managerial ownership symbolizes the small effect of management as a shareholder in company decisions. Meanwhile, the Indonesian manufacturing company has high institutional ownership (IO), showing a mean of 0,550. Meanwhile, the average results show that the majority of manufacturing companies have large total assets (SIZE). Large total assets illustrate the characteristics of companies that are increasingly complex and have larger resources so that they have many loopholes to reduce the tax burden.

4.2 Correlation

The correlation matrix in Table 5 demonstrates a weak pairwise correlation among all independent variables. Table 5 also exhibits that the correlation coefficient of all independent variables on the dependent variables, on average, is weak. The person correlation coefficient between the variables used does not exceed the value of 0,80, so the model in the research used does not experience multicollinearity problems (Gujarati, 2015). This can be seen from the value of each correlation, MO -0,034, IO −0,161, FAMO -0,090, SO 0,063, FORO −0,040, ROA -0,236, DAR 0,101, SIZE -0,139, and AQ -0,137.

Table 5. Correlation

Cor	-1	-2	-3	-4	-5	-6	-7	-8	-9	-10
TA	1									
MO	-0,034	1								
IO	-0,161	-0,157	1							
FOMO	-0,090	0,084	0,377	1						
SO	0,063	-0,024	-0,393	-0,337	1					
FORO	-0,040	-0,062	-0,067	-0,731	-0,110	1				
ROA	-0,236	0,057	-0,231	-0,075	-0,051	0,218	1			
DAR	0,101	-0,140	-0,034	-0,046	0,001	0,124	-0,061	1		
SIZE	-0,139	0,000	-0,034	-0,063	0,160	-0,104	0,201	0,080	1	
AQ	-0,137	-0,076	-0,093	-0,218	-0,064	0,261	0,440	-0,114	0,492	1

4.3 Hypothesis Testing

Derived from the findings of Model 1 in Table 6, it becomes evident that managerial ownership (MO) holds a significance value of 0,194, surpassing α (0.1) with a t-statistic value of -1,302. This value is not supported H_1. Institutional ownership (ISO) has a significance level of 0,001 or less than α (0,01) and a t-statistic of –3,419. This implies that as institutional ownership increases, there is a tendency for the company to exhibit a lower

ETR value. This result supported hypothesis 2 that the higher institutional ownership will increase the tax avoidance practice performed by the company. Family ownership (FAMO) has a significance level of 0,065 or less than α (0,1) with a t-statistic of –1,849 on ETR. This implies that with higher family ownership within a company, there is a propensity for the company to possess a lower ETR value. This finding reinforced hypothesis 3 that greater family ownership contributes to an increased tendency for the company to engage in the tax avoidance practice.

Table 6. Regression Result

Variable	Model 1			Model 2		
	Coef	**t-stat**	**Sig.**	**Coef**	**t-stat**	**Sig.**
MO	-0,113	-1,302	0,194	0,003	0,025	0,980
ISO	-0,078	-3,419	0,001***	-0,061	-0,963	0,336
FAMO	-0,088	-1,849	0,065*	-0,257	-2,432	0,016**
SO	-0,078	-1,192	0,234	-0,178	-1,925	0,055*
FORO	-0,098	-1,920	0,056*	-0,235	-2,113	0,035**
MO*AQ				-15,342	-4,289	0,936
ISO*AQ				-0,009	-0,129	0,897
FAMO*AQ				0,309	2,729	0,007***
SO*AQ				0,086	0,810	0,419
FORO*AQ				0,271	2,351	0,019**
M_AQ	0,009	0,610	0,543	-0,197	-2,853	0,005***
C_ROA	-0,295	-2,767	0,006***	-0,345	-2,851	0,005***
C_DAR	0,083	2,371	0,018**	0,079	1,966	0,050**
C_SIZE	-0,013	-2,977	0,003***	-0,008	-2,102	0,036**
C	0,681	5,626	0,000***	0,694	5,807	0,000***
R-squared	0,146			0,208		
Adjusted R-squared	0,109			0,160		
F-statistics	3,969			4,331		

Notes: *, **, and *** signs indicate a significance level of 10%, 5%, and 1%, respectively.

Government ownership (SO) has a significance value of 0,234 greater than α (0,1) with a negative t-statistic value of -1,192. This value is not in This value is not supported H_4. Foreign ownership (FORO) has a significance level of 0,056 or less than α (0,1) with a t-statistic value of –1,920. This implies that as foreign ownership of a company increases, there is a tendency for the company to exhibit a lower ETR value. Therefore, greater foreign ownership is likely to lead to an escalation in the company's tax avoidance practice. This result supported hypothesis 5.

Based on the Model 2 statistical results presented in Table 6, the t-test result of the moderating variable MO*AQ (managerial ownership and audit quality) is -4,289 with a sig of 0,936, which is above 0.05. The t-test result the moderating variable ISO*AQ (institutional ownership and audit quality) is -0,129 with a sig of 0,897, which is above 0,05. The same result was also obtained in SO*AQ (state ownership and audit quality) that showed 0,810 for the t-test with a sig of 0,419, which is above 0,05. This indicates that, for the period of 2015-2019, audit quality did not exert a moderating role on the correlation of state, managerial, and institutional ownership to tax avoidance within manufacturing companies. On the other hand, the t-test result for the moderating variable FAMO*AQ (family ownership and audit quality) was 2,729 with a sig of 0,007, which is lower than 0,05. Furthermore t-test result for the moderating variable FORO*AQ (foreign ownership and audit quality) was 2,351 with a sig of 0,019, which is lower than 0,05. It means that audit quality can potentially moderate the correlation of foreign and family ownership to tax avoidance in manufacturing companies for the 2015-2019 period.

4.4 Ownership and Tax Avoidance

Tax legislation could potentially encompass any attempts at tax reduction using tax shelters. As a result, institutional investors may promote tax avoidance practices by adjusting resource allocation toward tax strategy, aiming to minimize their tax liability (Annuar et al., 2014). Previous research has similarly demonstrated a positive correlation of institutional ownership and tax avoidance (Khan et al., 2017). They contended that the presence of knowledgeable institutional investors within a company renders tax planning more feasible, leading to a substantial utilization of tax shelters.

Family-owned companies are motivated to employ strategies aimed at minimizing corporate taxes in order to amplify tax-related savings. The results corroborate the expropriation hypothesis (Jensen & Meckling, 1976), indicating that families anticipate greater advantages from extracting rent through enhanced tax savings, potentially disadvantaging minority shareholders. This research is in harmony with Gaaya et al. (2017) who discovered that Tunisian family-owned companies exhibit a more assertive approach towards tax avoidance compared to non-family companies, aiming to effectively curtail their tax liability.

Foreign investors who own shares in a Indonesian company are likely to own shares in companies outside Indonesia, so that there is a potential between companies to carry out transfer pricing, which is a loophole for tax avoidance. In particular, they capitalize on the chance to redistribute profits among their different operating outlets, prompting multinational companies to participate in tax avoidance within the host country (Alkurdi & Mardini, 2020). Earlier research has identified a positive relationship between foreign ownership and tax avoidance (Alkurdi & Mardini, 2020; Khan et al., 2017; Salihu et al., 2015). In accordance with agency theory, tax avoidance decisions can give rise to agency conflicts stemming from divergent shareholder and management interests, particularly in instances where foreign investors are inclined to dissent against extensive tax avoidance pursued by management (Yoo & Koh, 2014).

4.5 Audit Quality as Moderation

This research presents compelling new evidence indicating that a high level of audit quality plays a moderating role in mitigating tax avoidance within both family-owned companies and those under foreign ownership. In particular, auditors of high-quality exhibit reduced inclination to partake in aggressive tax avoidance strategies, given the potential adverse repercussions they can face if tax authorities identify such practices. Kanagaretnam et al. (2016) discovered that big auditors are linked to reduced instances of corporate tax avoidance due to their heightened concern for preserving their reputation. The presence of high audit quality serves to alleviate the extent of tax avoidance within family-owned companies, underscoring that effective corporate governance, particularly through enhanced audit quality, curtails opportunistic actions like rent extraction by families when under stringent supervision.

5. Conclusion

In conclusion, this research aimed to explore the correlation between family ownership and corporate tax avoidance practices, as well as examine the role of external audit quality as a moderating factor, within a sample of 63 Indonesian manufacturing companies for the period of 2015-2019. This research contributed fresh evidence that elevated external audit quality held a moderating effect on tax avoidance in family-owned companies and those under foreign ownership. Moreover, the results indicated that the correlation of foreign and family ownership to tax avoidance in well-supervised companies was negative. External auditors played a critical role in providing an impartial evaluation of companies' financial statements. Additionally, they evaluated whether their clients adhered to aggressive tax positions situated in the grey area, which could potentially come under scrutiny by tax authorities.

Furthermore, This research has limitations, including its focus solely on the manufacturing sector and its examination of a five-year period (2015-2019). Future research is expected to expand the scope of data, utilize different measurements of tax avoidance (Effective Tax Rate (ETR), Cash Effective Tax Rate (CETR), Book-Tax Differences (BTD)), and incorporate additional corporate governance variables.

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