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THE ASSOCIATION BETWEEN DOMINANT OWNERSHIP STRUCTURE AND TAX AGGRESSIVENESS

Dini Purnamasari, Yulianti Abbas

purnama.dini1801@gmail.com, yuli.a@ui.ac.id

Program Studi Ilmu Akuntansi Universitas Indonesia

Abstract

The purpose of this study is to analyze the association between dominant family ownership and tax avoidance. Tax avoidance in this study is separated into conforming and non conforming tax avoidance. This study used data of listed companies in Indonesia Stock Exchange from 2017-2021. It is hypothesized that firms with conforming tax avoidance of dominant family firms is higher than other firms and nonconforming tax avoidance of dominant family firms is lower than other firms. The results show that conforming tax avoidance at dominant family firms is higher than other companies and we did not find a significant relationship between firms with higher family ownership and nonconforming tax avoidance. Family-dominant firms take less-aggresive tax avoidance strategy compared to other companies. Consistent with the SEW theory, the family-dominant firms have greater affective values and care more about company's reputation.
Keywords: Socioemotional Wealth, family ownership, dominant ownership, tax aggressiveness, conforming tax avoidance, nonconforming tax avoidance

Abstrak

Tujuan penelitian ini adalah untuk meneliti hubungan antara kepemilikan keluarga dominan dengan penghindaran pajak. Penghindaran pajak dalam penelitian ini dipisahkan menjadi penghindaran pajak *conforming* dan *nonconforming*. Penelitian ini menggunakan data perusahaan yang terdaftar di Bursa Efek Indonesia tahun 2017-2021. Penelitian ini memiliki hipotesis bahwa perusahaan keluarga dominan melakukan penghindaran pajak *conforming* lebih tinggi dibandingkan perusahaan lain dan perusahaan keluarga dominan melakukan penghindaran pajak *nonconforming* lebih rendah dibandingkan perusahaan lain. Hasil penelitian menunjukkan bahwa penghindaran pajak *conforming* pada perusahaan keluarga dominan lebih tinggi dibandingkan perusahaan lain dan kami tidak menemukan hubungan yang signifikan antara perusahaan dengan kepemilikan keluarga lebih tinggi dengan penghindaran pajak *nonconforming*. Perusahaan keluarga dominan mengambil strategi penghindaran pajak yang tidak terlalu agresif dibandingkan perusahaan lain. Konsisten dengan teori SEW, perusahaan yang didominasi keluarga memiliki nilai afektif yang lebih besar dan lebih peduli terhadap reputasi perusahaan.

Kata Kunci: *Socioemotional Wealth*, kepemilikan keluarga, kepemilikan dominan, agresivitas pajak, penghindaran pajak *conforming*, penghindaran pajak *nonconforming*

I. INTRODUCTION

Growing business conditions cause problems related to company management. The need to delegate management responsibility to the second party. The value of the company will be influenced by financial decisions made by management (Jensen and Meckling, 1976). Badertscher, Katz, Rego, and Wilson (2018) provides another perspective on tax avoidance: tax avoidance can be divided into two types, namely conforming and nonconforming. The strong influence of the owner of the company, the more able to supervise the performance of management to meet the interests of company owners. The strong influence is dominant ownership (Krivogorsky and Burton, 2012). Previous research found that family ownership is negatively related to tax aggressiveness (Chen, Chen, Cheng, and Terry, 2010; Mafrolla and D'Amico, 2016). The company owner has an interest in maximizing prosperity through increasing company value. The company owner will try to influence the company's financial decisions, one of which is related to company tax (Mafrolla and D'Amico, 2016).

Measurement of tax avoidance that divides the activity into conforming and nonconforming is very new and has never been done in Indonesia. Ownership structure has been found to affect tax avoidance. This study extends prior literature by focusing on the types of tax avoidance strategy taken by a company with a dominant family ownership. This study intends to prove that companies with dominant family ownership have higher conforming tax avoidance compared to companies with dominant non-family ownership. This research also wants to prove that companies with dominant family ownership will have lower non-conforming tax avoidance compared to companies with non-family ownership.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Family Ownership

According to Chen Chen, Cheng, and Terry (2010) a family company is a company in which founding family members hold positions in top management, occupy board positions, or blockholders in the company.

La Porta, Lopez-De-Silanes, and Shleifer (1999) stated that some company ownership is in the United States and has a dispersed ownership structure, this is different from company ownership outside the United States and Europe which are plantations (centralized). This is supported by the research of Claessens, Djankov, and Lang (2000) who found that the ownership structure in East Asia tends to be ownership of ownership owned by the family as the ultimate owner. Indonesia is one of nine countries

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included in the research object of Claessens, Djankov, and Lang (2000) which has the largest pattern of concentration of family ownership.

According to research by Diyanty, Utama, Rossieta, and Veronica (2012), ownership in Indonesia is obtained through ownership or what is known as a pyramid structure with the majority of ownership in Indonesia obtained by a chain of control, either directly or indirectly. According to Claessens and Djankov (1999), companies with family control through a pyramidal structure in the form of family business groups tend to expropriate non-controlling shareholders. Diyanty, Utama, Rossieta, and Veronica (2012) highlighted acts of expropriation on non-controlling shareholders driven by the presence of family members who sit at the top leadership. Managers from the company's founding family have high control rights compared to professional managers who do not have significant shareholdings. The strong right of control by managers from the founding family makes them not easily subject to disciplinary sanctions.

Family ownership is also unique according to research by Chen, Chen, and Cheng (2014) which explains that family ownership tends to have a longer investment time horizon and investments that are not diversified. This causes the family to be more sensitive to long-term problems. Research by Schulze, Lubatkin, and Dino (2003) has the view that family owners are more likely to behave altruistically. Altruism in belonging to the family, like parental altruism, is a utility function in that the welfare of the parents is positively related to the welfare of their children. Altruism may have some positive effects, such as creating a self-sustaining incentive system that encourages family members to be considerate of one another.

Dominant Ownership

According to Krivogorsky and Burton (2012) dominant ownership is shareholders who have the power to govern or the capacity to control. Shareholders who have the power to govern or the capacity to control can delegate control functions and not actively manage the controlled entity. The decisions that owners make to exercise or not exercise control affect agency costs and impact company performance. As controlling shareholders hold large shares for long periods of time, they tend to have greater incentives either to monitor managers effectively or to manage the company.

Socioemotional Wealth (SEW)

SEW is a nonfinancial aspect that is related to the affective needs of the company. SEW causes companies to maintain social relations and company status, or preserve emotional ties with the company. Family firms will have greater SEW. Based on socioemotional wealth theory, family ownership seeks to maintain family identification with the company, maintain social relations and company status, preserve emotional ties with the company, renew family ties with the company through dynamic succession, and maintain family

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influence or control (Berrone, Cruz, & Gomez, 2012).

Conforming and Nonconforming Tax Avoidance

Badertscher, Katz, Rego, & Wilson's research (2019) proposed that the measurement of tax avoidance must be differentiated into conforming and non-conforming strategies. Conforming tax avoidance is when tax avoidance is carried out not only reducing fiscal profit, but also profit according to accounting. While nonconforming tax avoidance is when tax avoidance does affect fiscal profit, but it does not affect accounting profit.

Previous accounting research has focused on tax strategies that reduce income tax liabilities but not financial statement profits (eg book profits) which is called non-conforming tax avoidance. Companies can actually reduce their income tax obligations by carrying out transactions that reduce book profits and income tax at the same time, which is called conforming tax avoidance (Badertscher, Katz, Rego, & Wilson, 2019).

Tax avoidance is broadly defined by Badertscher, Katz, Rego, & Wilson (2019) as all transactions that have an explicit impact on the company's liabilities. Meanwhile, conforming tax avoidance is defined as all book-tax conforming transactions that reduce the company's explicit tax liability. Most of the tax studies measure tax avoidance with the effective tax rate (ETR) or book-tax difference-based measurements which are included in the non-conforming tax strategy. An understanding of the extent to which a company uses a conforming tax strategy is important because some companies can show a high effective tax rate or a low book-tax difference which causes external parties to conclude that the company does not avoid income tax, but in fact the company relies on a book-tax strategy. tax conforming which was previously not detected by tax.

Relationship of Dominant Family Ownership and Tax Aggressiveness in Conforming and Non-conforming

The ownership structure in Indonesia is mostly owned by the family as the main controlling shareholder and tends to be attracted to the majority shareholder who owns most of the company's shares (Siregar, 2008; Diyanty, Utama, Rossieta, and Veronica, 2012). Chen, Chen, and Cheng (2014) explain that family ownership tends to have a longer investment time horizon and investment that is not diversified. This causes the family to be more sensitive to long-term problems. Based on the theory of SEW (social emotional wealth risk), SEW affects decisions that are not always related to economic reasons, such as reputation. Family companies are more socially responsible than non-family companies because of the tendency to protect good names and build a good image and reputation.

According to SEW theory, Schulze, Lubatkin, and Dino (2003) have the view that family owners will be more likely to behave altruistically. Altruism in family ownership, like parental altruism, is a utility function in that the parents' welfare is positively related to the welfare of their children. Chen, Chen, Cheng, and Terry (2010) examines the implications of considering non-tax costs that arise from agency conflict from tax management activities in family firms. Family owners tend to avoid these non-tax costs because of the view that the non-tax costs will outweigh the tax benefits arising from tax aggressive activities. Therefore, family owners will avoid non-tax costs and damage to the company's reputation. Tax aggressiveness is an activity that will damage the good name of the company if this activity becomes known to the public. Tax aggressive activities also generate non-tax costs if detected by the tax authorities and will also have an impact on agency conflict in the company.

Badertscher, Katz, Rego, and Wilson's (2019) research provides a new perspective in measuring tax avoidance. Badertcscher et al. (2019) suggested that there is a possibility that family companies do not completely avoid tax avoidance. So far, research on corporate tax avoidance focuses on measurements that only capture non-conforming tax strategies and do not take into account conforming tax strategies. In addition, family companies have an interest in maintaining socioemotional wealth (SEW), so this study hypothesizes that companies with dominant family ownership will perform higher conforming tax avoidance than other companies. Companies with dominant family ownership will have lower non-conforming tax avoidance than other companies.

H1 : Conforming tax avoidance of dominant family firms is higher than other firms.

H2 : Nonconforming tax avoidance of dominant family firms is lower than other firms.

This research model refers to the research model of Mafrolla and D'Amico (2016) and then modified by adding the dependent variable conforming tax avoidance from Badertscher's research (2019). The model can be seen from the following formula:

$$\textbf{Conform\_Tax} = \beta_0 + \beta_1 \textbf{FamOwn}_{it} + \varepsilon_{it} \ \ldots\ldots\ldots\ldots\ldots\ (1)$$

$$\textbf{Nonconform\_Tax} = \beta_0 + \beta_1 \textbf{FamOwn}_{it} + \varepsilon_{it} \ \ldots\ldots\ldots\ (2)$$

where **Conform_Tax** is conforming tax avoidance of firm *i* on year *t*; firm *i*'s conforming tax avoidance in year *t* is calculated as the residual (ε) from the following regression, which we estimate by 3-digit NAICS and fiscal year combinations:
$TAXESPAID\_TO\_ASSETS_{it} = \beta_0 + \beta_1 BTD_{it} + \beta_2 NEG_{it} + \beta_3 BTD_{it} \times NEG_{it} + \beta 4NOL_{it} + \beta_5 \Delta NOL_{it} + \beta_6 SALES\_TO\_NOA + \varepsilon_{it}$. We require at least 10 observations be available for each industry and fiscal year combination.
TAXESPAID_TO_ASSETS is the ratio of cash taxes paid (CTP) to lagged total assets (AT); *BTD* is book-tax differences; *NEG* is an indicator variable set to one for observations with negative book-tax differences (and 0 otherwise); *BTD* × *NEG* is the interaction of *BTD* and *NEG*; *NOL* and *ΔNOL* capture the level and change in net operating loss carryforwards; *SALES_TO_NOA* is the ratio of sales to net operating assets (Badertscher, Katz, Rego, and

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Wilson's, 2019). **Nonconform_Tax** is nonconforming tax avoidance of firm *i* on year *t*; The variable used to calculate the rate of tax avoidance is the Cash Effective Tax Rate (CASHETR) obtained by dividing cash taxes paid with total assets. **FamOwn** is family ownership of firm *I* on year *t*; The shareholder is the dominant owner of the company and holds the largest single share and owns more than 25% ownership (Mafrolla dan D'Amico, 2016).

III. DATA AND RESEARCH TECHNIQUE ANALISYS

Public companies listed on the Indonesia Stock Exchange are a total of 738 companies which include 30 companies in the healthcare sector, 98 companies in the basic materials sector, 31 companies in the transportation and logistic sector, 37 companies in the technology sector, 117 companies in the consumer non-cyclicals sector, the industrial sector with 57 companies, the energy sector with 78 companies, the consumer cyclicals sector with 141 companies, the infrastructures sector with 63 companies, the properties and real estate sector with 86 companies, and the financials sector with 106 companies.

Based on the sample selection criteria, this study uses a total number of observations of 965 companies divided during the 2017-2021 period with 193 companies per period. Public companies that are not used as research samples are financial sector companies.

IV. RESULT AND DISCUSSION

Table 4.1. Descriptive Statistics

	Mean	Minimum	Maksimum	Std. Dev.	Obs.
CONF	-0.3684	-2.5510	0.9668	0.6600	965
NONCONF	0.2456	0	0.9993	0.2161	965
FAM_OWN	0.6943	0.0000	1.0000	0.4609	965

The average of the company's conforming tax avoidance that is used as a research sample is -0.3684. The negative number shows that on average the company carries out conforming strategies that reduce the amount of cash issued to pay taxes. Standard Deviation in Conforming Tax Avoidance of 0.6600 which shows the difference in the tendency of the company in carrying out aggressive tax management activities. The minimum value of conforming tax avoidance is -2.5510. While the maximum value is 0.9668.

Measurement for nonconforming tax avoidance uses the measurement of cash effective tax rate (CETR). The average amount of CETR in the company used as a sample is 24.56%. This figure is smaller than the compulsory tax rate (statutory tax rate) that is applied in Indonesia, which is 25% which indicates the existence of tax management activities to reduce the amount of tax that must be paid. Standard deviation in nonconforming tax avoidance of 21.61% shows a quite diverse level of tax aggressiveness. The minimum value of nonconforming tax avoidance is 0%. While the minimum value of nonconforming tax avoidance is 99.93%.

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Panel Model Test

The best models are obtained by conducting several tests, namely Chow Test, Multiplier Lagrange Test, and Hausman Test (Gujarati and Porter, 2010). The results of this research method test are :

Table 4.2. Panel Model Test

	Test	Test Results
Model 1	Chow Test	Prob > chi2 = 0.0000
	Hausman Test	Prob > chi2 = 0.7367
	Lagrange Multiplier Test	Prob > chi2 = 0.0000
	Conclusion: Use RE	
Model 2	Chow Test	Prob > chi2 = 0.0000
	Hausman Test	Prob > chi2 = 0.1653
	Lagrange Multiplier Test	Prob > chi2 = 0.0000
	Conclusion: Use RE	

Multicollinearity Test

If the VIF value is greater than 10 then it indicates the occurrence of multicollinearity in the research model (Gujarati and Porter, 2010). The following are the results of multicollinearity tests :

Table 4.3. Multicollinearity Test

	VIF	Conclusion
Model 1	1.31	There is no multicollinearity
Model 2	1.31	There is no multicollinearity

Analysis of Regression Results

Table 4.4. Analysis of Regression Results

CONF : Prob. F = 0.0000; Adj R-Squared = 0.0225; **NONCONF :** Prob. F = 0.0000; Adj R-Squared = 0.0419;						
Variabel	**Prediksi**	**CONF**		**Prediksi**	**NONCONF**	
		Koef	**Prob**		**Koef**	**Prob**
FAM_OWN	(-)	0.0032	0.00375**	(+)	0.0002	0.449

The probability value of F Statistics shows the value below α, which is 5%. From the test results it was found that the value of R^2 for the avoidance of the conforming tax, the value of R^2 was 2.25% while the R^2 value for nonconforming tax avoidance was 4.19%. This concluded that the independent variable using the measurement of conforming tax avoidance was only able to explain 2.25% of the things that affect the dependent variable, while the independent variable with the measurement of nonconforming tax avoidance is only able to describe 4.19% of things that affect the dependent variable.

The research results show a significant value to prove hypothesis 1 is we found that firms with higher family ownership has higher conforming tax avoidance. And then, The research results show a significant value to prove hypothesis 2 is we did not find a significant relatinship between firms with higher family ownership and nonconforming tax avoidance.

V. CONCLUSION

The results show that conforming tax avoidance at dominant family firms is higher than other companies and we did not find a significant relatinship between firms with higher family ownership and nonconforming tax avoidance. Family-dominant firms take less-aggresive tax avoidance strategy compared to other companies. Consistent with the SEW theory, the family-dominant firms have greater affective values and care more about company's reputation, causing them to be less aggresive in tax avoidance.

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