

The Effect of Ownership Structure on Tax Avoidance with Company Performance as a Moderation

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ABSTRACT

This study examines the influence of ownership structure on tax avoidance and its impact on company performance. The focus is on manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. The method used is multiple linear regression analysis with panel data covering both time and cross-sectional data. Data were collected from 16 companies using a purposive sampling technique. The results show that public ownership has a negative effect on tax avoidance, while institutional and foreign ownership have no significant effects. Furthermore, company performance strengthens the influence of public ownership and weakens foreign ownership on tax avoidance.

INTRODUCTION

Taxes aim to optimize and increase state revenues and income. However, there are several government obstacles in this regard. One of them is the emergence of *tax avoidance*. *Tax avoidance* is carried out by companies with the aim of achieving greater profits than necessary. This, of course, carries risks, including fines and negative publicity that can damage the company's reputation or reputation. Companies undertake these *tax activities* with the primary goal of minimizing their tax burden (Muhammad Hidayat, 2019).

The author's background in conducting this research is related to the *tax avoidance phenomenon* in Indonesia, namely manufacturing companies in the food and beverage sector that have known that a single disconnection from their manufacturing area contributes significantly to the cost threshold for cost assessment in Indonesia.

According to a 2024 World Bank report, approximately one in four companies in Indonesia is suspected of *tax avoidance*. IMF estimates also indicate that the potential loss of state revenue due to the tax gap reaches 6.4% of Indonesia's GDP, equivalent to approximately IDR 944 trillion in the 2016–2021 period. Furthermore, in early 2025, the Indonesian government will set a global minimum wage of 15% for multinational companies. This measure aims to combat cost avoidance practices implemented by some companies. It is expected to improve worker welfare and ensure fairness in the workplace. This phenomenon demonstrates that *tax avoidance* has become a real challenge in national fiscal management and corporate governance.

On the other hand, corporate ownership structure is believed to be a significant determinant of *tax avoidance practices*. Institutional, public, and foreign ownership have different incentives and interests in strategic corporate decision-making, including tax policy.

Many factors influence corporate tax avoidance behavior. One crucial factor is corporate asset ownership. As company owners, they wield power over management. Institutional owners tend to be more aggressive in encouraging companies to minimize their tax burdens with the goal of achieving high returns. This explains the correlation between higher institutional ownership and higher levels of corporate *tax avoidance*. This is consistent with research by Elis Susilawaiti (2023), who found a positive effect of institutional ownership on *tax avoidance*, although other studies have found the opposite, with institutional ownership having a negative effect on *tax avoidance* (Salsabila & Titik, 2023) *tax avoidance practices*.

As a publicly traded company, its image is constantly monitored by the public. Unfavorable actions can damage its image and reduce its value. Generally, *tax avoidance* refers to the process of manipulating taxpayer transactions to increase profits. The impact of this action is additional tax costs due to penalties or fines, which can damage the company's image and reduce its assets. Therefore, the higher the public capital, the more companies will be encouraged to reduce their *tax avoidance practices*. This is in line with research by Prayitno (2023), which found a negative effect of public ownership on *tax*

avoidance. However, Ayu et al. (2023) found a different result, stating that public ownership has a positive effect on *tax avoidance*.

Foreign ownership is one factor suspected of influencing corporate *tax avoidance practices*. Foreign shareholders, as foreign taxpayers, are generally focused on maximizing returns on their investments and tend to overlook the company's fiscal contribution to their host country. This is due to their tax obligations being in different jurisdictions. Taxes are viewed as costs that can reduce a company's net profit, thus creating an incentive for foreign owners to encourage management to minimize the tax burden. Therefore, the level of foreign ownership tends to have a positive relationship with *tax avoidance practices*.

This finding aligns with research by Indri and D. Anggana (2023), which demonstrated a positive relationship between foreign ownership and *tax avoidance*. However, a different finding was presented by Akmat et al. (2023), who found that public ownership actually had a negative effect on *tax avoidance*.

Apart from the ownership structure, the company's internal financial performance is suspected has an impact on corporate *tax avoidance*. Companies with good financial performance in the previous year tend to be encouraged to maintain their financial performance in the following year, or even better. This encouragement is implemented by management through various policies, one of which is *tax avoidance* this year to maintain after-tax profit compared to the previous year. Ultimately, a company's financial performance can influence *tax avoidance actions*. This financial performance can interact as a moderator of the influence of ownership structure on *tax avoidance*. This is in line with research by Margaretha Amandha (2023), which found a positive effect of financial performance on *tax avoidance*.

Based on the existing phenomena and research gaps, researchers are interested in analyzing the influence of institutional ownership, public ownership, and foreign ownership on *tax avoidance*, as well as the moderating role of financial performance on *tax avoidance*.

LITERATURE REVIEW

Agency Theory

This study uses *Agency Theory* as a theoretical basis, explaining that the existence of a conflict of interest between managers and company owners can encourage opportunistic behavior such as *tax avoidance*. A strong ownership structure is expected to suppress agency conflicts, while company performance as an indicator of managerial success can moderate the relationship between ownership structure and *tax avoidance practices*, thus becoming the main focus of this study.

Tax Avoidance

Indonesia's tax system uses a self-assessment system, where taxpayers calculate, pay, and report their taxes independently. The Directorate General of Taxes oversees this compliance. Taxes affect a company's net profit. This system provides taxpayers with the opportunity to reduce their taxes, both legally and

illegally, including through *tax avoidance*. This is a company strategy to reduce tax liabilities by exploiting loopholes in tax regulations (Nursari & Nazir, 2020).

Ownership

Institutional ownership indicates comparable ownership. This ownership helps improve oversight of management performance, as share ownership provides a source of power to support or oppose management. The greater the investment in an organization, the more robust the monitoring system will be.

Institutional ownership as a supervisory authority is emphasized through their large investments in the capital market. If they are dissatisfied with managerial performance, they will sell shares.

Foreign Ownership

Foreign ownership includes individuals, legal entities, and governments from abroad that own shares in companies in Indonesia. According to agency theory, agents must Providing financial information to principals, including tax data, is important because foreign investors want to know the tax liability for their investment returns. Shareholders generally desire a low tax burden.

Statutory Tax Rate (STR)

The Statutory Tax Rate (STR) is the official tax rate established by a country's tax laws. The STR reflects the standard rate legally applicable to a company's taxable profit before any adjustments or deductions (Helcmanovska & Andrejovska, 2021). In Indonesia, the Corporate Income Tax (PPh Badan) rate has undergone several changes. In accordance with Law Number 7 of 2021, the PPh Badan rate is set at 22% starting in 2021. There are plans to lower it to 20% if fiscal conditions permit.

Financial Performance

Financial performance in a company can be defined as an indicator of the assessment of the financial status of a company that can show the company's ability to generate profits and revenue (Kusumawardani et.al, 2021). So it can be concluded simply that financial performance is defined as the achievement or accomplishment of a company in a period that represents the financial health of a company with indicators of capital adequacy, liquidity and profitability.

The inclusion of financial performance variables as the basis for testing the moderating hypothesis is based on the theoretical approach proposed by Baron and Kenny (1986). Rustiarini (2021) summarizes five conditions that explain the relationship between political ties and *tax avoidance* . The diagram shows the following:

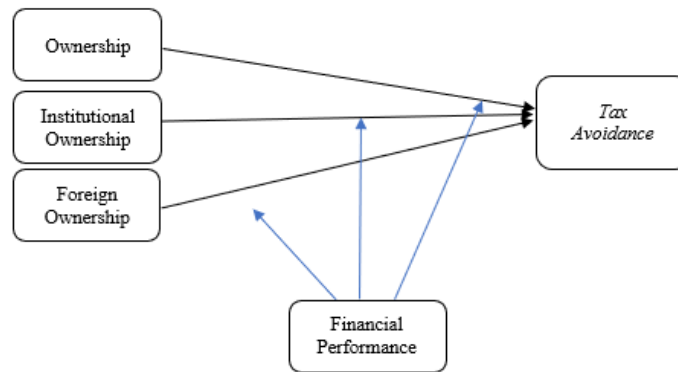


Figure 1: Research Framework

METHODOLOGY

Dependent Variable

Table 1. Purposive sampling criteria

No	Information	Amount
1	Population	171
2	Companies that do not upload complete annual and financial reports on their respective websites and the IDX website.	(69)
3	Companies that do not fully disclose in their annual and financial reports any of the author's research variables.	(86)
4	Research Sample	16
Year of Research 5 Years		
Number of Panel Data 5 X 16		80

Source: Data Processed, 2025

The dependent variable in this study is *tax avoidance*, which refers to activities aimed at reducing tax payments through strategic use of tax provisions in accordance with regulations. *Tax avoidance* is undertaken by issuers to minimize their tax liabilities, involving actions aimed at reducing or eliminating tax costs while considering the associated tax consequences. *Tax avoidance* is distinguished from tax payment, which is the actual obligation to pay taxes to the government (Fadilah, *et. al.*, 2021) formulated as follows:

$$\text{ETR} = \text{Tax Expenses} / \text{Profit Before Tax}$$

Independent Variable

An independent variable is a variable that can influence a dependent variable. The independent variable in this study is *Ownership Structure*. This study using 3 independent variables, namely public ownership, institutional ownership and foreign ownership.

Moderation Variable

The moderating variable in this study is financial performance. As a company's financial performance improves, management may feel less motivated to engage in *tax avoidance practices*.

If independent and moderating variables are created and combined, the operational research variables are described as follows:

Table 2. Operational Research Variable

No	Definition	variable	Indikator	Scale	Unit
1	Ownership Structure	Public Ownership (X1)	$\frac{KP \times \text{Public Ownership Number}}{\text{of Shares}} \times 100\%$	Ratio	Percent
2		Institutional Ownership (X2)	$\frac{KI \times \text{Institutional Ownership Number}}{\text{of Shares}} \times 100\%$	Ratio	Percent
3		Foreign Ownership (X3)	$\frac{KA \times \text{Foreign Ownership}}{\text{Total Shares}} \times 100\%$	Ratio	Percent
4	Tax Avoidance	Tax Avoidance (Z)	$TA = STR - ETR$ $ETR = \frac{\text{Tax Paid}}{\text{Profit Before Tax}} \times 100\%$	Ratio	Percent
5	Company performance	Profitability (Y)	$\frac{\text{Net Profit Total}}{\text{Asset ROA}} \times 100\%$	Ratio	Percent

RESEARCH RESULT

Results of Descriptive Statistical Analysis

Table 3. Statistic Descriptive

	N	PUB	INS	FOR	ROA	TA
Maximum	80	0.498560	0.986620	0.922910	0.358020	0.256200
Minimum	80	0.013380	0.000580	0.000440	-0.203200	-0.478860
Mean	80	0.210630	0.654839	0.263207	0.086384	-0.014887
Std. Dev.	80	0.151263	0.250050	0.328040	0.096884	0.096258

This value indicates that publicly held shares in the company are still relatively low, indicating that public influence in controlling managerial decisions is relatively limited. The small proportion of public ownership may also reflect the weak role of the public in overseeing the company's strategic policies, including taxation policies. This aligns with the assumption that public shareholders have dispersed and disorganized control.

Selection of Panel Data Regression Model

Lagrange Multiplier Test

If the probability value (*Breusch-Pagan cross-section*) $< \alpha = 0.05$ then H_0 is rejected, which means the best model is *Random Effect*. Conversely, if > 0.05 then the best model is *Common Effect*. Therefore, the model selected in this study is *the Random Effect Model*.

a. Multicollinearity Test

If the correlation coefficient is < 0.8 , the model is free from multicollinearity, and vice versa. This indicates that there is no multicollinearity in the model, so all independent variables can be used simultaneously in the regression analysis without causing estimation distortion.

b. Heteroscedasticity Test

The heteroscedasticity test results were carried out by regressing the exact value of the residual (*ABS_RES*) against the independent variable. Thus, it can be concluded that there are no symptoms of heteroscedasticity in the L model.

Panel Data Regression Results

Based on the table above, the panel data regression equation is:

$$TA = 0.331770 - 1.870876KP + 0.006423KI + 0.215042KA - 1.583614KPn + 6.082103KP \times KPn + 1.466107KI \times KPn - 2.229491KA \times KPn$$

Table 4. Results Data Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.331770	0.151512	2.189723	0.0327
PUB	-1.870876	0.570119	-3.281554	0.0018
INS	0.006423	0.106458	0.060337	0.9521
FOR	0.215042	0.276656	0.777290	0.4402
ROA	-1.583614	0.975135	-1.623995	0.1099
PUBXROA	6.082103	2.021756	3.008328	0.0039
INSXROA	1.466107	1.192600	1.229338	0.2240
FORXROA	-2.229491	0.759948	-2.933742	0.0048

The equation above can be interpreted as follows:

- 1) The constant (α) of 0.331770 states that if all independent variables are zero, then the company's *Tax Avoidance level* is 0.331770.
- 2) The Public Ownership Coefficient (PUB) of -1.870876 indicates that every one unit increase in PUB will reduce *Tax Avoidance* by 1.870876, assuming other variables remain constant. (Significant)
- 3) The Institutional Ownership Coefficient (INS) of 0.006423 indicates that every one unit increase in INS will increase *Tax Avoidance* by 0.006423, but is not statistically significant.
- 4) The Foreign Ownership Coefficient (FOR) of 0.215042 indicates that every one unit increase in FOR will increase *Tax Avoidance* by 0.215042, but is not statistically significant.
- 5) The Company Performance Coefficient (ROA) of -1.583614 shows that every one unit increase in ROA will reduce *Tax Avoidance* by 1.583614, but is not statistically significant.
- 6) The PUB×ROA interaction coefficient of 6.082103 shows that company performance moderates the relationship between PUB and *Tax Avoidance* positively and significantly, meaning that the higher the ROA, the stronger the influence of PUB on increasing *Tax Avoidance* .
- 7) The INS×ROA interaction coefficient of 1.466107 shows that company performance positively moderates the relationship between INS and *Tax Avoidance* , but the effect is not significant.
- 8) The FOR×ROA interaction coefficient of -2.229491 shows that company performance moderates the relationship between FOR and *Tax Avoidance*

negatively and significantly, meaning that ROA weakens the influence of FOR on *Tax Avoidance*.

T-Test

$df = 80 - 7 - 1 = 72$, and t table ≈ 1.666 (two-tailed test, $\alpha = 0.05$).

Table 5. Results t Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.331770	0.151512	2.189723	0.0327
PUB	-1.870876	0.570119	-3.281554	0.0018
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ROA	-1.583614	0.975135	-1.623995	0.1099
PUBXROA	6.082103	2.021756	3.008328	0.0039
INSXROA	1.466107	1.192600	1.229338	0.2240
FORXROA	-2.229491	0.759948	-2.933742	0.0048

- 1) The test results show that the Public Ownership (PUB) variable has a p-value of $0.0018 < 0.05$ and a calculated t-value of -3.281554 which is smaller than the t-table (around -1.666), with a negative coefficient direction. This indicates that public ownership has a significant effect on *Tax Avoidance*, so that the H1 hypothesis is accepted.
- 2) In the Institutional Ownership (INS) variable, the p-value obtained is $0.9521 > 0.05$ and the calculated t is 0.060337 which is smaller than the t table (1.666). Thus, it can be concluded that institutional ownership does not have a significant effect on *Tax Avoidance*, so that the H2 hypothesis is rejected.
- 3) The Foreign Ownership Variable (FOR) shows a p-value of $0.4402 > 0.05$ and a calculated t-value of $0.777290 < 1.666$. With these results, it can be concluded that foreign ownership does not have a significant influence on *Tax Avoidance*, so that the H3 hypothesis is rejected.
- 4) For the interaction between Public Ownership and Company Performance (PUB×ROA), the p-value is $0.0039 < 0.05$ and the calculated t is $3.008328 > 1.666$, indicating that company performance significantly moderates the effect of public ownership on *Tax Avoidance*. Therefore, hypothesis H4 is accepted.
- 5) Meanwhile, the interaction between Institutional Ownership and Company Performance (INS×ROA) produces a p-value of $0.2240 > 0.05$ and a calculated t of $1.229338 < 1.666$. These results indicate that company performance does not moderate the effect of institutional ownership on *Tax Avoidance*, so that hypothesis H5 is rejected.
- 6) The interaction between Foreign Ownership and Company Performance (FOR×ROA) shows a p-value of $0.0048 < 0.05$ and a calculated t of $-2.933742 < -1.666$. This means that company performance significantly moderates the effect of foreign ownership on *Tax Avoidance*, so that hypothesis H6 is accepted.

F test

Based on the F-test results, it was found that the independent variables (Public Ownership, Institutions, Foreign Ownership, ROA, and their interaction) influence *Tax Avoidance*. Thus, the model is suitable for use in further analysis.

Test the Coefficient of Determination (R2)

The coefficient of determination (R2) test was conducted to measure the proportion of the dependent variable to the independent variable. Based on the R-squared value, it shows that approximately 57.47% of the variation in *Tax Avoidance* can be explained by the independent variables in the model (public, institutional, foreign ownership, company performance, and their interactions).

DISCUSSION

The Effect of Public Ownership on Tax Avoidance

The results of the study show a correlation or relationship between the variables studied, namely the public ownership variable has a significant effect on tax avoidance. This is indicated by a large probability value and a smaller t-value than the t-table. A negative coefficient indicates that the higher the proportion of public ownership in a company's structure, the lower the level of tax avoidance the company practices.

These findings indicate that the greater the proportion of shares owned by the public, the lower the level of *tax avoidance* practiced by the company. This means that public ownership plays a significant role in suppressing *tax avoidance practices*, as the presence of public shareholders can strengthen external pressure on management to act more transparently and accountably. This phenomenon can be explained through *Agency Theory*, which emphasizes the potential for a conflict of interest between the principal (shareholder) and the agent (management).

In the current situation, this phenomenon is relevant considering the increasing demands for transparency from public investors in the era of information disclosure, as well as the strengthening of financial reporting and tax regulations in Indonesia through the implementation of the *Core Tax Administration System* by the Directorate General of Taxes, which increasingly limits the room for companies to engage in *Tax Avoidance*.

The Effect of Institutional Ownership on Tax Avoidance

Based on the results of statistical tests, the institutional ownership variable also does not have a significant effect on *Tax Avoidance*, as indicated by a p-value that is smaller than the t table.

These findings indicate that the presence of institutional shareholders in the ownership structure has not been able to reduce or control *tax avoidance practices*. However, theoretically, institutions, as professional shareholders, are expected to be able to provide more effective oversight of management.

The Effect of Foreign Ownership on Tax Avoidance

The results of the study indicate that the correlation or relationship between the variables studied, namely foreign ownership, does not have a significant effect on

tax avoidance. A negative coefficient indicates that an increase in foreign ownership tends to be followed by a decrease in *tax avoidance practices*, although this relationship is not statistically significant.

The presence of foreign investors is often assumed to substantially improve corporate governance standards because they generally bring stricter oversight and higher accountability. However, these results do not demonstrate a strong effect, possibly due to the limited influence of foreign shareholders within the organizational structure of domestic companies or the presence of cultural, language, and regulatory barriers that reduce the effectiveness of their control over corporate tax practices.

The Effect of Public Ownership on Tax Avoidance is Moderated by Company Performance

The results of the study show a correlation or relationship between the variables studied, namely the interaction variable between ownership.

Public participation and company performance have a significant effect on *tax avoidance*, with the coefficient being positive. High company performance is often associated with management effectiveness and increased external oversight. However, in this context, these results indicate that the public's role does not necessarily hinder *tax avoidance practices*, even if the company demonstrates good performance. This could occur because public shareholders, although dispersed, still have an interest in maximizing returns, including by approving management policies to minimize the tax burden (Congleton, 2025).

From an agency theory perspective, these findings suggest that when a company performs well, reflected in high profitability, public shareholders tend to be more permissive of management strategies, including tax avoidance practices, as long as those strategies increase the company's value. Conversely, high capital intensity encourages companies to utilize tax incentives or asset depreciation, thereby reducing the tendency to engage in *tax avoidance*.

The Effect of Institutional Ownership on Tax Avoidance is Moderated by Company Performance

Based on the analysis, the interaction between institutional ownership and company performance also did not significantly influence *tax avoidance*. The positive direction of the relationship indicates that increasing company performance is not sufficient to moderate the influence of institutional ownership on *tax avoidance practices*.

Agency theory explains that institutional shareholders act as principals with a long-term interest in the company's value, and therefore should encourage ethical and transparent managerial policies. However, if institutional ownership is passive or has no direct influence on the company's strategic policies, even if the company performs well, its oversight function regarding *tax avoidance* remains suboptimal. This reflects the limited effectiveness of institutional ownership in moderating company performance.

The Effect of Foreign Ownership on Tax Avoidance is Moderated by Company Performance

The results of the study show a correlation or relationship between the variables studied, namely the interaction between foreign ownership and company performance, which has a significant effect on tax avoidance .

This indicates that the higher the company's performance, the effect of foreign ownership on *tax avoidance* tends to decrease. In other words, company performance acts as a moderating variable that weakens the relationship between foreign ownership and *tax avoidance practices* . This phenomenon is also relevant to the current context, where global regulatory pressures such as *Base Erosion and Profit Shifting* (BEPS) initiated by the OECD, as well as the transparency of tax information between countries (*Automatic Exchange of Information*), make high-performing companies tend to maintain their reputation and tax compliance to remain attractive to international investors.

Thus, Improved company performance not only functions as an indicator of profitability, but also as an internal control mechanism that can reduce the tendency to practice *tax avoidance* in companies with significant foreign ownership.

These findings suggest that high corporate performance can be a positive signal for foreign investors to trust and control management, thus encouraging the implementation of more ethical and transparent business strategies.

CONCLUSIONS AND RECOMMENDATIONS

- 1) Public ownership has a significant influence on *Tax Avoidance*, which shows that public involvement in share ownership can put pressure on management to be more compliant with tax obligations.
- 2) Institutional ownership does not have a significant effect on *Tax Avoidance*, which indicates that the existence of institutional shareholders has not shown an active or effective role in controlling *tax avoidance practices* carried out by the company.
- 3) Foreign ownership does not have a significant effect on *Tax Avoidance*, which indicates that the presence of foreign shareholders is not enough to influence managerial behavior in terms of tax compliance, even though it is generally assumed to have stricter governance standards.
- 4) Company performance moderates the effect of public ownership on *tax avoidance*, meaning that companies with high performance tend to strengthen the influence of public ownership in reducing *tax avoidance practices*. This suggests that the combination of good performance and public involvement can be a more effective oversight mechanism.
- 5) Company performance does not moderate the effect of institutional ownership on *tax avoidance*, so regardless of how well a company performs, institutional ownership still does not have a significant effect in encouraging tax compliance or inhibiting *tax avoidance*.
- 6) Company performance moderates the influence of foreign ownership on *Tax Avoidance*, which indicates that companies with high performance tend to weaken the negative influence of foreign ownership on *Tax Avoidance*, so that the better the company's performance, the less the

management's tendency to engage in *tax avoidance* in the context of foreign ownership.

- 7) The limitations of this study lie in the scope and data used, where the sample only includes 16 manufacturing companies listed on the IDX during the 2019–2023 period, so the results may not be generalizable to all industrial sectors in Indonesia. Furthermore, the variables used are limited to public ownership, institutional ownership, and foreign ownership as factors influencing tax avoidance, so other factors such as Tax policies, corporate governance, or macroeconomic conditions are not analyzed in depth. Another limitation is the use of secondary data, which relies on the accuracy and completeness of company financial reports, potentially introducing bias if reporting inaccuracies are present.

ADVANCED RESEARCH

- 1) Company management is advised to increase transparency and accountability in financial reporting, particularly regarding tax policies. Although public, institutional, and foreign ownership have not been shown to significantly influence *tax avoidance*, companies still need to implement good governance practices to maintain their reputation and comply with applicable tax regulations.
- 2) Investors and shareholders, especially institutions and foreign parties, need to increase their active role in overseeing managerial policies, including taxation. Involvement in strategic decision-making and the exercise of collective voting rights can strengthen control over practices that could potentially harm the company in the long term.
- 3) For future researchers, it is recommended to add other relevant variables, such as corporate governance, leverage, or company size as factors that may have a greater influence on *tax avoidance*. Furthermore, using a longitudinal data approach with a longer time period and increasing the number of company samples can increase the validity and generalizability of the research results.

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