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Institutional Ownership, Managerial Ownership, Corporate Size, and Tax Avoidance: An Analysis from Indonesian Manufacturing Corporate Views

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Abstract:
This study examines how institutional ownership, managerial ownership, and corporate size affect tax avoidance. The object under study was a manufacturing corporate on the Indonesia Stock Exchange for the period of 2016 to 2018. Seventy-eight manufacturing corporates were determined as research samples, which were obtained through purposive sampling. This study used techniques of panel data regression analysis with the help of EViews 9. The results of this study indicated that institutional ownership, managerial ownership, and corporate size did not significantly influence tax avoidance.

Keywords: *Institutional ownership, managerial ownership, corporate size, and tax avoidance.*

I. INTRODUCTION

In the 2018 State Expenditure Budget, state revenue was estimated at Rp. 1,894.7 trillion. The amount came from various income, namely tax revenue worth Rp. 1,618.1 trillion, Non-Tax State Revenues of Rp. 275.4 trillion, and grants valued at Rp. 1.2 trillion. To achieve the target of the State Revenue Budget, the government will strive to provide the power of reform in various fields, namely taxation, customs, and excise, with other information. However, in a survey report made jointly by Ernesto Crivelly, an investigator from the IMF in 2016, as well as an analysis of the UN University using ICTD, it was stated that Indonesia was ranked as the 11th largest in the world with a tax avoidance of $ 6.48 billion US dollars. Tax avoidance behavior is still widely practiced by corporates in Indonesia because tax avoidance is considered to have more benefits than seeing it as a risk that can be borne in the future (Oktaviani et al., 2019). In carrying out tax avoidance, some factors can influence it, including institutional ownership, managerial ownership, and corporate size.

In the research of Zahira (2017), Sonia and Suparmun (2019), and Murni et al. (2016), they prove that institutional ownership has a positive effect on tax avoidance. In contrast to the research Marselawati and Masitoh (2018), it states that institutional ownership negatively affects tax avoidance. Also, the research of Jaeni et al. (2019) and Sunarsih and Oktaviani (2016) states that institutional ownership does not affect tax avoidance. Further, Putri and Lawita (2019) state that managerial ownership has a positive effect on tax avoidance. However, the research by Sunarsih and Oktaviani (2016) states that managerial ownership has a negative effect on tax avoidance. Likewise, the research by Sonia and Suparmun (2019) and Zahira (2017) states that managerial ownership has no effect on tax avoidance. Then, Putri and Putra (2017) and Zahira (2017) state that corporate size has a positive effect on tax avoidance. In contrast to the research of Maula et al. (2019) and Rani et al. (2018), it states that corporate size has a negative effect on tax avoidance. While the research of Sonia and Suparmun (2019) and Yuniarwati et al. (2017) states that corporate size does not affect tax avoidance.

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency theory describes conflicting economic agents, namely principals and agents. Agency theory views that the corporate as an agent of shareholders will act with awareness for its own interests (self-interest), not as a wise, prudent, and fair party to shareholders (Solihin, 2011). In addition, tax avoidance is the same effort as exploiting the gaps contained in the provisions of tax legislation, where the taxation apparatus cannot take any action (Zain, 2003). Moreover, institutional ownership is ownership of shares owned by an agency, namely government agencies, finance agencies, and other agencies (Zahira, 2017)(Ifada, Faisal, Ghozali, & Udin, 2019). Further, managerial ownership is ownership of shares owned by managers who are directly involved in decision making (Krisna, 2019). At last, corporate size can describe the position of a corporate, whether classified as large, medium, or small corporate. The measurement used to determine corporate size can be seen from the number of assets owned by the corporate(Zahira, 2017).

a. The Effect of Institutional Ownership on Tax Avoidance

The existence of institutional ownership will increase oversight of all managerial policies that tend to be selfish. Institutions expect that the shares they invest have good and guaranteed sustainability. Corporates are encouraged to avoid taxation so that the profits obtained are higher, which then has a high impact on dividends. Zahira (2017), Sonia and Suparmun (2019), and Murni et al. (2016) state that every shareholder always wants a high profit, which is reflected by the profit earned by the corporate. The higher the ownership of shares by the institution will have an impact on the higher the pressure obtained by managers to do tax avoidance.

H1: Institutional ownership has a positive effect on tax avoidance

b. The Effect of Managerial Ownership on Tax Avoidance

Managers have an essential role in deciding policy, including reporting the corporate's achievements to the corporate owner. However, managers can also feel the direct impact on the policy taken, either risk or return. In this case, managers try to avoid taxation pressure to minimize the impact that occurs on them. As stated by Sunarsih and Oktaviani (2016), managerial ownership can optimize managerial performance so as not to do tax avoidance.

H2: Managerial ownership has a negative effect on tax avoidance

c. The Effect of Corporate Size on Tax Avoidance

The corporate strives for optimal performance so that it will produce good financial reports. The greater the level of assets owned by the corporate indicates that the corporate has a large size. Large corporates will tend to be monitored by various parties (Chabachib, Yudha, Hersugondo, Pamungkas, & Udin, 2019). If corporate does tax avoidance, it will have an impact on the corporate's image. Then, the greater the corporate size, the more it will suppress the practice of tax avoidance. Maula et al. (2019) and Rani et al. (2018) state that the larger the corporate size, the

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lower the avoidance of tax that is done because the corporate does not use its power to do tax planning due to restrictions in the form of the possibility of being targeted by regulator decisions.

H3: Corporate size has a negative effect on tax avoidance

III. RESEARCH METHODS

The object of this research was manufacturing corporates listed on the Indonesia Stock Exchange from 2016 to 2018. The sampling technique used was purposive sampling, namely by selecting samples based on specific characteristics, including 1) Manufacturing corporates listed on the Indonesia Stock Exchange from 2016 to 2018; 2) Manufacturing corporates that reported the 2016-2018 financial statements in a row; 3) Had the complete data as needed in research. The type of data in this study was secondary in the form of financial statements of manufacturing corporates listed on the Indonesia Stock Exchange in 2016-2018. The data collection technique was the method of documentation by recording and obtaining data taken from www.idx.co.id. The proxy used in calculating tax avoidance was ETR (*Effective Tax Rate)*. The data analysis techniques used were descriptive statistics and panel data regression that chose between the FEM (fixed-effect model) and REM (random effect model) models. Then, the data were tested with the Hausman test. After the selection of the model, then it was followed by testing the model, namely the coefficient of determination and F-test.

IV. RESULTS AND DISCUSSION

The sample in this study were 78 manufacturing corporates listed on the Indonesia Stock Exchange from 2016 to 2018. The model used was the FEM.

Table 1. Model Test Results

Adjusted R^2	F test
0.307475	0.007082

Table 2. Hypotheses Testing

Variables	**B**	**t**	**Sig**
Constants	0.059657	0.216068	0.8298
Institutional ownership	0.142842	1.097463	0.2778
Managerial ownership	0.324307	0.785604	0.4359
Corporate size	0.002592	0.305467	0.7613

Table 1 shows the adjusted R^2 value of 0.307475, which means that a 30.75% change in tax avoidance can be explained by changes in institutional ownership, managerial ownership, and corporate size while the remaining 69.25% change in tax avoidance is explained by load variables outside the research model. The F-test value of 0.007082 indicates that 0.007082 < 0.05, which means that together the independent variables in the study could significantly influence the fixed variables.

Table 2 shows that institutional ownership does not affect tax avoidance. It can be seen from sig 0.2778 > 0.05. Managerial ownership has no effect on tax avoidance, as seen from sig 0.4359 > 0.05. Corporate size does not affect tax avoidance seen from sig 0.7613 > 0.05. Based on the results of statistical tests, it can be said that H_1 was rejected.

One of the goals of the institution is to have shares in other corporates, which is to get dividends. However, dividend payments to shareholders cannot reduce physical profit. These results are in line with the

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research of Jaeni et al. (2019) and Sunarsih and Oktaviani (2016). Testing the second hypothesis resulted in H_2 rejected.

Dividends arising from managerial ownership may be subject to final tax and may reduce fiscal profits. However, in the research sample, the managerial shareholding was relatively small when compared to institutions. Thus, it did not really affect tax avoidance. This result is in line with research by Sonia and Suparmun (2019) and Zahira (2017), which states that managerial ownership does not affect tax avoidance. Testing the third hypothesis resulted in H_3 was rejected.

In the sample of corporates studied, the average assets of the corporate were land and buildings. Land cannot be depreciated, while buildings have a 20-year depreciation year, so the percentage of depreciation is only 5%. It can lead to lower depreciation expense and ultimately reduce insignificant taxable income. These results are in line with research by Sonia and Suparmun (2019) and Yuniarwati et al. (2017).

V. CONCLUSION

The results of this study are that institutional ownership, managerial ownership, and corporate size had no significant effect on tax avoidance. For the limitations in this study, researchers only used samples from manufacturing corporates that had been observed for three years, in which the results of this study could not provide a clear enough picture of the rise and fall of tax avoidance factors. The researcher only used the variables of institutional ownership, managerial ownership, and corporate size, which only had an adjusted R^2 value of 30.75%. Thus, researchers could then add variables that can consistently affect the level of tax avoidance.

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