Asian Journal of Social Science and Management Technology
ISSN: 2313-7410
Volume 4, Issue 4, July-August, 2022
Available at www.ajssmt.com

Moderating Effect of Family Ownership on Profitability and Leverage Relation to Tax Avoidance

Rifda Fitrianty[1], Ali Farhan[2], Wulandari Harjanti[3]

Sekolah Tinggi Ilmu Ekonomi Mahardhika

Abstract: This research aims to describe the mederative role of family ownership in the relationship between profitability (ROE) and leverage (DER) on tax avoidance behavior in companies listed on the Indonesian stock exchange 2018-2019 . The method used is a quantitative approach with multiple linear regression as an analytical tool. The data used are 42 financial statements of companies listed on IDX during 2017 – 2019 The test results show that ROE has a negative and significant effect on tax avoidance, leverage has no significant effect on tax avoidance, meanwhile family ownership does not act as a moderating variable in tax avoidance. ROE and leverage.

Keyword: Tax Avoidance, Family Ownership, Moderating Effect, Profitability

---

1. Background

Taxes play two very important roles in the country's economy. First, it is one of the primary sources of government revenue that is used by the government to fund routine and development expenditures for both central and regional governments. The second role is to implement and manage government policies in various fields, such as the social and economic sectors, and to achieve certain goals outside the financial sector (Official, 2017).

Various efforts are made by taxpayers to minimize the tax burden, either by manipulating taxes (tax evasion) or by carrying out tax planning (tax planning) (Pohan, 2013). According to Manurung (2019) as an employee of the Directorate General of Taxes, with the existence of loopholes and abstract clauses in the tax law, the practice of tax avoidance is often carried out by taxpayers.

Differences in the interests of countries that want high and sustainable tax revenues, are contrary to the expectations of companies that expect minimal tax payments (Hardika, 2007). The volatility of economic activities that must be faced by taxpayers/corporations is often not tolerated by the tax authorities, because the tax department wants progressive and stable tax revenue. The effect of the volatility of economic activity will certainly have an impact on the company's financial reporting and tax reporting (Maria and Tommy, 2013). The difference in perspectives and interests between the company and the government then gave birth to the practice of tax avoidance. Tax avoidance is one way to avoid taxes legally that does not violate tax regulations (Igusti Ayu and Ketut Alit, 2014). According to Gusti Maya Sari (2014) tax avoidance is a transaction scheme shown by minimizing the tax burden by exploiting loopholesin a country's tax provisions.

Several previous studies have shown mixed results regarding the relationship between the company's financial condition and tax avoidance behavior. Nyoman et al (2022), Aulia & Mahpudin (2020), Wahyuni et al.,(2019),

Kepramareni et al., (2020), and Widodo & Wulandari (2021) argue that Return on Equity has no effect on tax avoidance. This research explains that the greater the level of company profitability, the greater the industry's net profit. When the profit earned is large, the amount of income tax will increase from before in accordance with the current increase in industry profits. Companies that make a profit in this case are assumed not to implement Tax Avoidance activities, because these companies are able to control revenue generation and pay their own tax obligations (tax planning) Nyoman et al (2022). Meilinda and Cahyonowati (2013) who use ROA as a variable that represents profitability show the same thing, Meanwhile the investigation results of Kimsen and Siti (2018) state that leverage has a negative effect on tax avoidance, in contrast to the findings of Meilinda and Cahyonowati (2013) stating that leverage does not have a significant effect on tax avoidance. Meanwhile, to find more relevant findings in this behavior, several other researchers tried to examine other variables outside the company's financial performance.

Gaaya et al. (2017) in his research on family ownership relations and tax avoidance behavior, found that companies with family ownership have characteristics that can affect the nature and level of corporate tax treatment. The family as the majority shareholder has significant control over the company. This is relevant to the findings of Chu (2011), which states that family involvement in the board of directors or top management is intended to increase control and control rights in the company. Directors of the family tend to make decisions by prioritizing their interests. Thus, the existence of these characteristics provides a great opportunity for companies with family ownership to avoid taxes. The results of research by Kovermann & Wendt (2019); Sari & Martani, (2010); Wirawan & Sukharta, (2018) show that companies with family ownership tend to be more tax aggressive. Families with greater control over the company provide opportunities for them to avoid taxes and enjoy greater benefits in the form of cash flow and make it easier for families to manipulate and take over (Desai &Dharmapala, 2006).

Based on the previous studies mentioned in the paragraph above, this research next tries to investigate the effect of moderating family ownership on the relationship between profitability and leverage on tax avoidance behavior.

2. Literature Review and Hypothesis Development

Agency Theory

Agency theory is a concept that explains the contractual relationship between principal and agent. The principal is the one who authorizes the agent to carry out all activities on behalf of the principal in the capacity as a decision maker. The purpose of agency theory is first, to increase the ability of individuals (both principals and agents) to evaluate the environment in which decisions should be made (the role of belief revision). Second, to evaluate the results of decisions taken to facilitate the allocation of results between the principal and agent in accordance with the employment contract (evaluation role performance) (Kimsen, Kismanah and Masitoh, 2018).

Stakeholder Theory

Stakeholders are all internal and external parties who have good relations and can influence each other, directly or indirectly with the company. The company considers that the role of stakeholders is very large for the company so that it can influence and be considered in disclosing information in its financial statements statement (Kimsen, Kismanah and Masitoh, 2018)

Return on Equity

According to Kasmir (2016) Return on Equity is used to measure the company's ability to generate profits . This ratio conveys a measure of the level of management efficiency of an entity. This is indicated by the profit generated from sales and investment income. In principle, the use of this ratio

shows the efficiency of the company. The profitability ratio according to Harahap (2018) describes the expertise of a company in order to earn profits through the entire ability of the company. Hanafi & Halim (2018) describe profitability ratios, namely industry expertise in creating profits at certain levels of sales, assets and share capital. Hanafi & Halim (2018) said that there are several ratios to measure the level of profitability of a company, one of which is using Return on Equity. This ratio measures the ability of an industry to generate profits based on a certain share capital. This ratio is a dimension of the company's profitability from the perspective of shareholders. The formula for determining leverage is;

$$ROE = \frac{\text{Net Profit}}{\text{Total Equity}} \times 100\%$$

Dewinta & Setiawan (2016) findings show that when the profit earned by the industry swells, so the amount of income tax will increase in accordance with the increase in industrial profits, so companies may apply tax avoidance to avoid an increase in the tax burden. (Until finally a high Return on Equity will generate high profits, creating companies to avoid tax. Mahdiana & Amin (2020) state that profitability affects Tax Avoidance, Hutajulu & Hutabarat (2020) also explain that Return on Equity has an effect on Wahyuni et al (2019), which explains that profitability has no effect on tax avoidance, based on some of the descriptions above, the following hypothesis is obtained:

H1: Return on Equity has an effect on Tax Avoidance

Leverage

According to Kasmir (2015), leverage or ratio s solvency is a ratio used to measure the extent to which a company's assets are financed with debt. This means how much debt burden is borne by the company compared to its assets. In a broad sense, it is said that the leverage ratio is used to measure the ability to pay all its obligations, both short-term and long-term if the company is dissolved (liquidated). The formula for determining leverage is;

$$DER = \frac{\text{Total Liability}}{\text{Total Equity}} \times 100\%$$

According to Jannah, Azwardi, Siddik (2022) Leverage shows the relationship between company debt and company capital. The higher the leverage, the higher the company's dependence on its creditors. Meilinda and Cahyonowati (2013) reveal that there is no significant relationship between leverage and tax avoidance, although their findings are linear with Jannah, Azwardi, Siddik (2022), Kimsen, Kismanah Imas, Masitoh, Siti (2018) finding different things, that leverage significant effect on tax avoidance. Based on some of the descriptions above, the hypothesis is formulated as follows:

H2: Leverage has an effect on Tax Avoidance

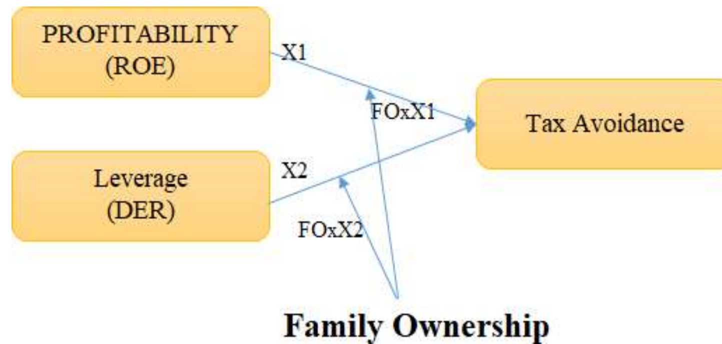
Family Ownership

In research (Landry, Deslandes, & Fortin, 2013), the moderating variables above are able to strengthen the negative influence of corporate social responsibility on tax aggressiveness. . Family ownership can be a moderating variable because it affects the dependent variable and is contingent, as determined by Hartono (2017). Companies that implement tax-aggressive activities are those who feel that paying taxes is a cost that reduces revenue (Pratama, 2019). The choice to implement this activity is also determined by the company's ownership structure. One of the dominant ownership structures in Indonesian companies is family ownership (Claessens, Djankov, & Lang, 1999). Companies owned by families pay more attention to the company's reputation, so they are not aggressive in taxation (Mafrolla & D'Amico, 2016). However, other studies have

different results that family companies tend to tax aggressiveness for cost savings (Sunaryo, 2016), Kimsen, Imas, and Siti (2018).

H3: Family Ownership acts as a moderator variable on Tax Avoidance

From the development of the above hypothesis, the framework of thinking in this study is as follows;



3. Research Methodology

The objects used in this study are companies listed on the Indonesia Stock Exchange in the period 2017 to 2019, from various industrial sectors. Sampling using random sampling. The data used is secondary data by taking a sample of 42 company financial statements for the period 2017 – 2019.

The research approach used in this study is Causal Explanatory. Cooper & Schindler (2011) explain that Causal Explanatory is to explain the relationship between variables and hypothesis testing that has been formulated previously and aims to explain various events and phenomena. The analytical tools used are multiple linear regression and literature study.

Operationalization of Variables

In this study, tax avoidance is measured by the cash effective tax rate (ratio between income tax expense and income before tax), leverage is measured by debt to equity ratio (ratio between debt to capital), profitability is measured by ROE (Return on Equity).

Based on the description of the variables and hypotheses developed, the regression model to be tested in this study is as follows;

CETRit = 0 + 1PROFITi,t + 2LEVERAGE,t + e..

Function 1

CETRit = 0 + β1PROFITi,t + 2LEVERAGE,t + β3FOxPROFITi,t + 4FOxLEVERAGE,t

.........**Function 2**

CETR = tax avoidance as measured by using the CETR proxy

0 = constant

1 1, 3 = regression coefficientPROFITi,t = Profitability

LEVERAGEi,t = Leverage

FOxPROFIT = Family Ownership moderates Profitability

FOxLEVERAGE = Family Ownership moderates Profitabilitye =

error

4. Discussion and Discussion

4.1 Descriptive Statistics

Figure 01. Descriptive statistics

	Tax Avoidance	Leverage	ROE
N	42	42	42
mean	36	49	5
Median	28	52	5

Figure 01. shows that tax avoidance has an average value (mean) of 36 and a median value of 28. These results indicate that the average value (mean) is higher than the median value which means that the average used in this study tend not to avoid tax (tax avoidance) which is seen as cash effective tax rate. The mean DER (leverage) is 49 with a median of 52. These results indicate that the average value (mean) is lower than the median, which means that the average companies used in this study tend to have low debt ratio values, which indicates that these companies have lower debt-to-equity ratios, when compared to the industry average in the sample.
The mean Return on Equity is 5 with a median of 5. These results indicate that the average value (mean) is the same as the median, which means that the average companies used in this study tend to have relatively the same rate of return on capital, or It can be said that the companies used in the sample in this study have similar management capacities.

4.2. Classical Assumption Test

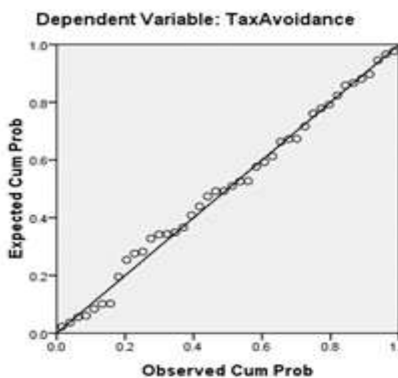
a. Data Normality Test

Figure 0.2 Normality Test DataOne-Sample Kolmogorov-Smirnov Test

	Tax Avoidance	Leverage	ROE
Asymp. Sig. (2-tailed)	0.104	0.419	0.70

Based on the results of the Kolmogorov Smirnov classic assumption test above, it was found that each variable showed sig values of 0.104 (TaxAvoidance), 0.419 (Leverage), and 0.707 (Return on Equity) > 0.05, which is a condition that the data are normally distributed. Thus, it means that the data used in the regression model in this study is normally distributed. Similarly, it can be seen in the scatterplot diagram below;

Figure 03. Scatterplot



b. Multicollinearity Test

Figure 04. Multicollinearity Test

Collinearity Statistics

	Tolerance	VIF
Leverage	.997	1.003
ROE	.997	1.003

Based on the results of the multicollinearity test in figure 04, it shows that the Tolerance and VIF tables show the standard value of Tolerance >0.1 and VIF <10, thus the regression model used in this study is free from multicollinearity.

Regression Test Results.

Figure 05

R	R Square	Adjusted R Square
0.71	0.51	0.48

The results of the R square test in figure 05 show a value of 0.71 (71%) which means that the profitability (Return on Quity) and leverage (Debt to Equty) variables only have an effect of 71%on tax avoidance, while the remaining 29% is influenced by other variables. which were not tested in this study.

Figure 06. F. Test

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9,631,551	2	4,815,776	20,117	000a ,000a
Residual		9,336,092	39	239,387		
Total		18,967,643	41			

From the ANOVA test results in figure 06 above, the value of sig 0.00 < 0.05 means that the ROE and leverage variables simultaneously (together) have a significant effect on tax avoidance.

Figure 07.

Model		B	Sig.
1	(Constant)	45,428	000
	Leverage	.334	.008
ROE		-5,031,000	a

. Dependent Variable: TaxAvoidance

From the results of the t-test in figure 07 above, the beta coefficient value for each variable and also the significance of the dependent variable on the independent variable Leverage has a sig value. 0.008 < 0.05 which

means that partial leverage has a significant effect on tax avoidance behavior, while ROE has a sig value. 0.00 < 0.05 which means that ROE has a significant effect on tax avoidance, while the beta coefficient on a negative ROE indicates that the relationship between ROE and Tax Avoidance is contradictory, the greater the level of ROE (company profitability) the smaller the tax avoidance behavior that will be carried out. Figure 07 also describes the relationship between ROE, Leverage and Tax avoidance variables, as follows;

CETR = 45.42 + 0.334 Leverage - 5.031ROE + e

Test of Moderating Variables

From the results of the multiple linear regression test above, it is known the relationship between ROE, Leverage and tax avoidance, the next is the result of testing the moderating variable for the family ownership variable in the equation above.

Figure 8. Model SummaryModel Summary(b)

.52 Looking

at the R Square table, it can be seen that there is an increase in the value of R Square from 0.51to 0.52, this indicates that the family ownership variable can moderate/strengthen the effect of ROE and Leverage simultaneously on tax avoidance.

Figure 9. T-Test of Moderating Variables

Unstandardized Coefficients

Standardized Coefficients

Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	46,721	7,869		5,937,000	_
	Leverage	.682	.459	.649	.295	.313
ROE		-3.626	4.016	-.473	-.903	.372
	FOxROE	-140	-.435	-.202	.666	.322
	FOxLEV	.002	.052	.021	.032	.975

a. Dependent Variable:
Tax Avoidance

However, partially the family ownership variable cannot moderate the relationship between ROE with Tax avoidance and Leverage with Tax Avoidance, this can be found in figure 9 in the sig column. which shows that each variable partially has a sig value. > 0.05.

a. Return on Equity

Based on the results of the regression test, it shows that ROE (Return on Equity) partially has a negative and significant effect on tax avoidance, this means that the greater the ROE, the smaller the company's potential to carry out tax avoidance. This finding contradicts Aulia & Mahpudin (2020), Wahyuni et al (2019), Kepramareni et al., (2020), and Widodo & Wulandari (2021) which state that Return on Equity does not have a significant effect on tax avoidance. Return on Equity is a reflection of the company's business scale, the greater the ratio, the greater the size of the company, the behavior that appears on tax avoidance can be associated with the size of the company which according to Adelina (2012), Fatharani (2012), Maria and Tommy (2013), Nugroho (2011) found a significantly negative effect on tax avoidance. The results of the multiple regression test indicate that Hypothesis 1 is accepted, that the return on equity variable has a significant effect on tax avoidance.

CETR is a variable that shows the level of corporate tax payments, the lower the coefficient, the lower the level of tax payments made by the company or it can be said that the level of tax avoidance increases (Sari and Kurniasih, 2013; Putri and Putra, 2017; Zhu, Mbroh, Monney and Bonsu, 2019). The results of research on previous researchers regarding the firm size relationship with tax avoidance can be associated with the results of research in this study which found similar things.

The results of testing the family ownership variable as a moderating variable in the partial relationship between Return on Equity and tax avoidance found that family ownership is not a moderating variable for ROE. This finding contradicts the research of Landry, Deslandes, & Fortin (2013), Hartono (2017), (Pratama, 2019) which found that family ownership can increase aggressiveness in corporate tax management. The results of the multiple regression test indicate that Hypothesis 3 is rejected, that the family ownership variable is not a moderating variable for tax avoidance.

b. Leverage

Based on the results of the regression test showing that partial leverage has no significant effect on tax avoidance, the findings in this article are linear with the results that have been mentioned by several previous researchers such as Dewinta and Setiawan (2016), Kurniasih and Maria (2013) and Darmawan (2014), Radiany, Wulandari and Farhan (2022) show that leverage has no effect on tax avoidance. Corporate funding decisions can be an illustration of tax avoidance activities related to effective tax rates. This is because there are tax regulations governing the company's funding structure policy (Gupta and Newberry, 1997). The findings in this article differ from the opinions expressed by Pangaribuan et al (2021), Putri and Putra (2017). From the results of this test, it can be concluded that Hypothesis 2 is rejected.

The results of testing the family ownership variable as a moderating variable in the partial relationship between leverage and tax avoidance found that family ownership is not a moderating variable for leverage. This finding contradicts the research of Landry, Deslandes, & Fortin (2013), Hartono (2017), (Pratama, 2019) which found that family ownership can increase aggressiveness in corporate tax management. The results of the multiple regression test indicate that Hypothesis 3 is rejected, that the family ownership variable is not a moderating variable for tax avoidance.

5. Conclusion

From the review in the discussion chapter, it can be understood that ROE is a variablethat has a negative and significant effect on tax avoidance, thus hypothesis 1 in this research is accepted. Leverage does not have a significant effect on tax avoidance, thus hypothesis 2 in this research is rejected. Family ownership is not a moderating variable, thus hypothesis 3 in this research is rejected.

6. Refferences

1. Aulia, I., & Mahpudin, E. (2020). Pengaruh profitabilitas, leverage, dan ukuran perusahaan terhadap tax avoidance. AKUNTABEL?: JURNAL AKUNTANSI dan KEUANGAN, 17(2), 289–300. http://dx.doi.org/10.29264/jakt.v17 i2.7981.
2. Chen, S., Chen, X., Cheng, Q., & Shevlin, T. (2010). Are family firms more tax aggressive than non-family firms? Journal of Financial Economics, 95(1), 41-61.doi:http://dx.doi.org/10.1016/j.jfineco.2009.02.003.
3. Chu, W. (2011). Family ownership and firm performance: Influence of family management, family control, and firm size. Asia Pacific Journal of Management, 28, 833-851.doi:10.1007/s10490-009-9180-1.
4. Desai, M. A., & Dharmapala, D. (2006). Corporate tax avoidance and high-powered incentives. Journal of Financial Economics, 79(1), 145-179. doi:https://doi.org/10.1016/j.jfineco.2005.02.002.
5. Gaaya , Safa. Lakhal, Nadia. Lakhal, Faten. 2017. Does family ownership reduce corporate tax avoidance? The moderating effect of audit quality. Managerial Auditing Journal © Emerald Publishing Limited 0268-6902. DOI 10.1108/MAJ-02-2017-1530.

6. Jaeni Jaeni, Achmad Badjuri, Zati Rizka Fadhila. 2019. Effect of Good Corporate Governance, Profitability and Leverage on Tax Avoidance Behavior Before and After Tax Amnesty. 2nd International Conference on Banking, Accounting, Management and Economics(ICOBAME 2018).
7. K.B. Prakosa. 2014. “Pengaruh Profitabilitas, Kepemilikan Keluarga, dan Corporate Governanceterhadap Penghindaran Pajak di Indonesia”. Simposium Nasional Akuntansi XVII.Mataram, 2014.
8. Kepramareni, P., Yuliastuti, I. A. N., & Suarningsih, N. W. A. (2020). Profitabilitas, Karakter Eksekutif, Kepemilikan Keluarga Dan Tax Avoidance Perusahaan. Jurnal Bisnis Terapan, 4(1), 93– 106. https://doi.org/10.24123/jbt.v4i1.2789.
9. Kimsen, Kismanah Imas, Masitoh, Siti. 2018. JIAFE (Jurnal Ilmiah Akuntansi Fakultas Ekonomi) Vol. 4 No. 1, Juni 2018, Hal. 29-36 https://journal.unpak.ac.id/index.php/jiafe P ISSN: 2502-3020, E-ISSN: 2502-4159.
10. Kovermann, J., & Wendt, M. (2019). Tax avoidance in family firms: Evidence from large private firms. Journal of Contemporary Accounting & Economics, 15(2), 145-157. https://doi.org/10.1016/j.jcae.2019.04.003.
11. Maharani, W., & Juliarto, A. (2019). Pengaruh Kepemilikan Keluarga terhadap Tax Avoidance dengan Kualitas Audit sebagai Variabel Moderating. Diponegoro Journal of Accounting, 8(4), 1-10..doi:https://ejournal3.undip.ac.id/index.php/accounting/article/view/25659/22832.
12. Meilinda, and N. Cahyonowati. “Pengaruh Corporate Governance terhadap Manajemen Pajak”.Diponegoro Journal of Accounting. 2 (3): 1-13, 2013.
13. Ni Putu Sri Devi Ratna Pratiwi. Imam Subekti. Aulia Fuad Rahman. 2019. The Effect Of Corporate Governance And Audit Quality On Tax Aggressiveness With Family Ownership As The Moderating Variable Intensity, Sales Growth Dan Ukuran Perusahaan . International Journal of Business, Economics and Law, Vol. 19, Issue 5 (August). ISSN 2289-1552.
14. Nyoman, Rosa Cristiana Septya. Kaidun, Irawan Perdana Putra. Lingga, Ita Salsalina. 2022. Pengaruh Firm Size, Return On Equity, dan Current Ratio Terhadap Tax Avoidance pada Perusahaan LQ 45 yang Terdaftar di Bursa Efek Indonesia. Volume 14, Nomor 1, Mei 2022, pp 172-186 Copyright © 2017. Jurnal Akuntansi, Program Studi Akuntansi, Fakultas Bisnis, Universitas Kristen Maranatha. ISSN 2085-8698 | e-ISSN 2598-4977. http://journal.maranatha.edu.
15. Sari, D. K., & Martani, D. (2010). Ownership Characteristics, Corporate Governance, and Tax Aggressiveness. The 3rd International Accounting Conference & The 2nd Doctoral Colloquium. Bali.
16. Tanko, Udisifan Michael. 2020. The Moderating Effect of Profitability on the Relationship Between Ownership Structure and Corporate Tax Avoidance in Nigeria Listed Consumers Goods Firms. International Journal of Business and Technopreneurship. Volume 10, No 2, June 2020[153-172 .
17. Wahyuni, L., Fahada, R., & Atmaja, B. (2019). The Effect of Business Strategy, Leverage, Profitability and Sales Growth on Tax Avoidance. Indonesian Management and Accounting Research, 16(2), 66. https://doi.org/10.25105/imar.v16i 2.4686.
18. Widodo, S. W., & Wulandari, S. (2021).Pengaruh Profitabilitas, Leverage, Capital Intensity, Sales Growth Dan Ukuran Perusahaan Terhadap Penghindaran Pajak. SIMAK, 19(01), 152–173. https://doi.org/10.35129/simak.v19. I01.174.
19. Wirawan, I. G., & Sukartha, I. M. (2018). Pengaruh Kepemilikan Keluarga dan Ukuran Perusahaan Pada Agresivitas Pajak dengan Corporate Governance Sebagai Variabel Pemoderasi. E-Jurnal Akuntansi Universitas Udayana, 23(1), 595-625.https://doi.org/10.24843/EJA.2018.v23.i01.p23.
20. Yetty Murni1, Eka Sudarmaji2, Eneng Sugihyanti3. 2016. IOSR Journal of Business and Management (IOSR-JBM) e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 18, Issue 11. Ver. I (November. 2016), PP 79-85. www.iosrjournals.org.

INFO

Corresponding Author: ***Ali Farhan, Sekolah Tinggi Ilmu Ekonomi Mahardhika.***

How to cite this article: ***Rifda Fitrianty, Ali Farhan, Wulandari Harjanti, Moderating Effect of Family Ownership on Profitability and Leverage Relation to Tax Avoidance, Asian. Jour. Social. Scie. Mgmt. Tech.2022; 4(4): 01-10.***