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The Effect of Managerial Ownership on Tax Avoidance with Firm Size as a Moderating Variable

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Abstract

The purpose of this study was to empirically examine the effect of managerial ownership on tax avoidance moderated by firm size. The population of this study are manufacturing companies listed on the Indonesia Stock Exchange during the 2020-2022 period. The sample determination in this study used a purposive sampling technique and resulted in 280 observations. The research method used in this research is the quantitative research method. Moderated Regression Analysis (MRA) was used to test the effect of moderating variable interactions. The results showed that managerial ownership has a significant effect on tax avoidance. Firm size as a moderating variable weakens the effect of managerial ownership on tax avoidance. This study's results align with the theory used, namely agency theory.

Keywords: tax avoidance, managerial ownership, firm size.

INTRODUCTION

Taxes have a very important role in state revenue because the taxation sector is the largest source of state revenue compared to other sources of income (Madani et al., 2023). Based on data obtained from the page (www.bps.co.id), it is known that from the last three years (2021-2023), the country's largest income comes from the taxation sector. Apart from being the country's largest income, revenue from the taxation sector from year to year has also increased (Kusufiyah & Anggraini, 2019) namely in 2021, the state tax revenue was IDR 1,547,841.10 billion, in 2022, IDR 1,924,937.50 billion and in 2023 IDR 2,016,923.70 billion.

The increase in tax revenue each year will result in an increase in taxpayers' tax targets for the next year (Sari, 2020). Companies, as corporate taxpayers, are obliged to pay taxes to the state by applicable laws and regulations (Yuni & Setiawan, 2019). Meanwhile, the company's main goal is to maximize profits (Putra et al., 2023). The existence of a goal

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to maximize profits is often the reason why companies take tax avoidance actions (Nailufaroh et al., 2022).

Tax avoidance is a strategy used by personal and corporate taxpayers to minimize taxes payable (Santi et al., 2023). Tax avoidance can be done in two ways, namely, legally by utilizing existing legal loopholes to minimize taxes paid without violating tax regulations (Ridhawati & Mulyani, 2022). Meanwhile, illegal, namely, tax avoidance, is not by tax regulations (Mocanu et al., 2021). The case of illegal tax avoidance has occurred in Indonesia. In 2015, PT Coca-Cola Indonesia was suspected of having engineered the amount of tax avoidance in 2002-2006, resulting in a lack of tax payable to be paid of 49.24 billion (Widyastuti et al., 2022).

One of the factors that determine tax avoidance practices is the existence of a percentage of managerial ownership (Febriyan & Kalao, 2023). Managerial ownership is a situation where a manager plays a dual role, namely as an investor as well as a decision-maker in a company (Septanta, 2023). The greater the percentage of shares owned by managers, the better corporate governance will be because investors are directly involved in the decision-making process related to company management (Nailufaroh et al., 2022). A manager has a big responsibility in choosing accounting principles to manage the company (Wulandari & Purnomo, 2021). The existence of large managerial ownership can assist companies in setting strategies to manage companies, including better tax avoidance strategies (Olanisebe et al., 2023).

Based on agency theory, tax avoidance can cause agency conflicts (Maulana, 2020). The existence of agency conflicts can lead to agency costs (Nugrahanto & Gramatika, 2022). When agency conflicts decrease, the agency costs that arise will decrease (Ilmi et al., 2023). The way to reduce agency conflict is to increase managerial ownership, so agency conflict will decrease as well as tax avoidance (Nailufaroh et al., 2022).

Previous research related to the effect of managerial ownership on tax avoidance shows mixed results. The positive influence is shown by (Ashari et al. 2020; Hendrianto, 2021; Deef et al., 2021). The negative effect is shown by (Nurmawan, 2022; Meila, 2020; Regina et al. 2021; Nugraha et al., 2021). A significant effect is shown by (Nailufaroh et al. 2022; Sari, 2020; Prastiyanti & Mahardhika, 2022; Addilah, 2022; Putri & Sitorus, 2024). No effect is shown by (Ridhawati & Mulyani, 2022; Harahap & Masripah, 2023; Setianti, 2019; Walidayni & Fidiana, 2022; Veronika & Yohanes, 2022; Dirman, 2020; Wulandari & Purnomo, 2021; Septanta, 2023; Krisna, 2019).

The effect of managerial ownership on tax avoidance will strengthen or weaken depending on the firm size (Prabowo & Sahlan, 2022). According to Praditasari & Setiawan

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(2023), firm size affects the way companies manage taxes. Larger companies tend to have more resources to influence tax policy (Kusufiyah & Anggraini, 2019). The existence of abundant resources will also tend to encourage companies to take tax avoidance actions (Sari et al., 2020). According to Nabila & Kartika (2023), companies with larger firm sizes generally have a strict level of supervision of tax compliance, which has the potential to influence tax decision-making. As a result, managers tend to be obedient in carrying out tax obligations, which in turn can minimize tax avoidance (Madani et al., 2023).

Based on the background and previous research that has been described, the researcher aims to further examine the effect of managerial ownership on tax avoidance with firm size as a moderating variable because there is still no clarity on the extent of the effect of managerial ownership on tax avoidance, especially when firm size is considered as a moderating factor.

LITERATURE ANALYSIS AND METHODOLOGY

According to Jensen & Meckling (1976), agency theory is a contractual relationship between the principal and the manager (agent) where a principal gives authority to the agent to manage his company, including in decision-making policies. The agent is obliged to be responsible for the tasks assigned by the principal (Bakhtiar et al., 2021). Principals are not only business owners, but shareholders, creditors, and the government can also be referred to as principals (Alianda et al., 2021). Agency theory also reveals that there is an agency conflict between the agent and the principal due to differences in interests (Lutfitriyah & Anwar, 2021). The difference in interests in question is that managers as agents tend to focus on tax avoidance to minimize taxes, while for shareholders, maintaining the company's reputation is more important than taking tax avoidance actions that can harm the company's image and sustainability (Regina et al., 2021).

Based on agency theory, managers are considered as parties who prioritize their interests (Addilah, 2022). Providing opportunities for managers to be involved in shared ownership can align the objectives between managers and shareholders so that the manager's desire to prioritize his interests will be reduced (Sumantri et al., 2021). According to Pertiwi & Juniarti (2020), the existence of share ownership in managers can reduce conflicts of interest. This happens because the manager as an agent also acts as a principal, which results in managers and shareholders having the same goals (Wulandari & Purnomo, 2021). According to (Anisah & Hartono, 2022), the higher the share ownership by the manager, the more likely the manager will act according to the wishes of the shareholders.

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The existence of the same goal can reduce tax avoidance to maintain the company's reputation (Regina et al., 2021).

According to agency theory, conflicts of interest between the government and companies often occur (Praditasari & Setiawan, 2023). This conflict occurs because companies with larger sizes tend to have higher taxes payable (Sari et al., 2020). In addition, companies with larger sizes have good tax management that can minimize taxes payable (Kusufiyah & Anggraini, 2019). Based on this, tax avoidance carried out by large corporate companies is considered detrimental because it can reduce substantial state revenues (Sari & Nailufaroh, 2022).

The company's goal is to maximize profits (Nailufaroh et al., 2022). The obligation to pay taxes can reduce company profits (Sari et al., 2020). Tax companies want to reduce costs, which can reduce company profits, including tax expenses (Lutfitriyah & Anwar, 2021). Companies can do two events to reduce the tax burden. The first is to reduce the tax burden while still complying with tax regulations. Second, the tax burden can be reduced by taking actions that violate tax regulations (Sari & Nailufaroh, 2022).

Tax avoidance is an effort made by companies to minimize the tax burden owed without violating the applicable tax laws and regulations (Septanta, 2023). Tax avoidance is carried out by companies only to reduce taxes payable legally (Tamala, 2022). Opportunities to take tax avoidance actions often occur because the tax collection system in Indonesia uses a self-assessment system (Razif & Rasyidah, 2020). Taxpayers are given the freedom to calculate, report, and pay taxes themselves (Hendrianto, 2021). This taxation system can allow taxpayers to manipulate the amount of tax payable (Stawati, 2020).

According to Cabello et al. (2019), tax avoidance can be measured in various ways. According to Sari et al. (2020), measuring tax avoidance can be done using book-tax difference (BTD), which is a proxy that describes the difference between accounting profit and fiscal profit. Measurement of tax avoidance can be done with ETR (Effective Tax Rate), namely the company's tax burden divided by profit before tax (Sari, 2020). In this study, tax avoidance is measured using ETR (Effective Tax Rate). According to Santi et al. (2023), measuring tax avoidance using ETR is more effective because it is considered more capable of measuring the aggressiveness of tax avoidance actions.

Managerial ownership is the percentage of share ownership owned by management in the company (Maryanto, 2023). According to Ayem & Ongirwalu (2020), the higher the share ownership by managers, the less likely the company is to defer irregularities. In other words, the higher the percentage of shares owned by managers, the less likely it is to take tax avoidance actions (Arsanti et al., 2021). Due to the higher percentage of managerial

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ownership, managers tend to be committed to prioritizing the interests of shareholders (Ridhawati & Mulyani, 2022). Managerial ownership can be measured by the percentage of managerial ownership divided by the number of shares outstanding (Pertiwi & Juniarti, 2020).

Firm size is a scale of the size of a company that can be seen in terms of total assets, log size and others (Utami & Yohanes, 2023). According to Putra et al. (2023), the scale of the company can be seen from the number of employees, total revenue, and the number of company branches. Firm size can be seen from the total assets it has (Yuni & Setiawan, 2019). Companies that have larger total assets tend to have stable economic activity (Puspitasari & Wulandari, 2022). In addition, measuring the company in terms of total assets is considered more sustainable between periods than other proxies (Permata Sari & Nailufaroh, 2022).

The Effect of Managerial Ownership on Tax Avoidance

According to Arsanti et al. (2021), the higher the percentage of share ownership by managers, the smaller the opportunity to commit irregularities, including tax avoidance. Based on agency theory, a higher percentage of share ownership by managers will reduce conflicts of interest between agents and principals because managers and shareholders have the same interests, so managers tend to minimize tax avoidance (Pertiwi & Juniarti, 2020). According to Bakhtiar et al. (2021), one way to reduce conflicts of interest is to equalize the interests of managers and shareholders. This statement is supported by research conducted by (Nailufaroh et al., 2022; Prastiyanti & Mahardhika 2022; Ilmi et al., 2023; Olanisebe et al., 2023;) that managerial ownership has a significant effect on tax avoidance. Thus, the following hypothesis can be formulated:

H_1 = Managerial ownership has a significant effect on tax avoidance.

Firm Size Moderates the Effect of Managerial Ownership on Tax Avoidance

Based on agency theory, managers tend to act to prioritize their interests (Regina et al., 2021). In the case of large companies that have stricter supervision, managers will be more compliant with tax regulations to avoid high risks (Krisna, 2019).

Companies that are included in the large category will be more stable in generating resources compared to small companies (Anggara et al., 2023). the existence of a large firm size can trigger tax avoidance (Almasah, 2023). This is because large companies tend to utilize their resources (Putra et al., 2023).

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According to Purbowati (2021), companies with a larger scale demand for information disclosure from the government will be wider. According to Tamala (2022), the larger the company, the stricter the supervision of the company will be. The demand for information disclosure and strict supervision will result in a manager being more careful in carrying out corporate governance (Arsanti et al., 2021). Especially when considering high managerial ownership. The existence of high ownership can reduce managers' motivation to take tax avoidance actions (Meila, 2020). This happens because managers want to avoid the bad risks of decisions that can harm their investment (Sari, 2020). Thus, the following hypothesis can be formulated:

H_2= Firm size weakens the effect of managerial ownership on tax avoidance

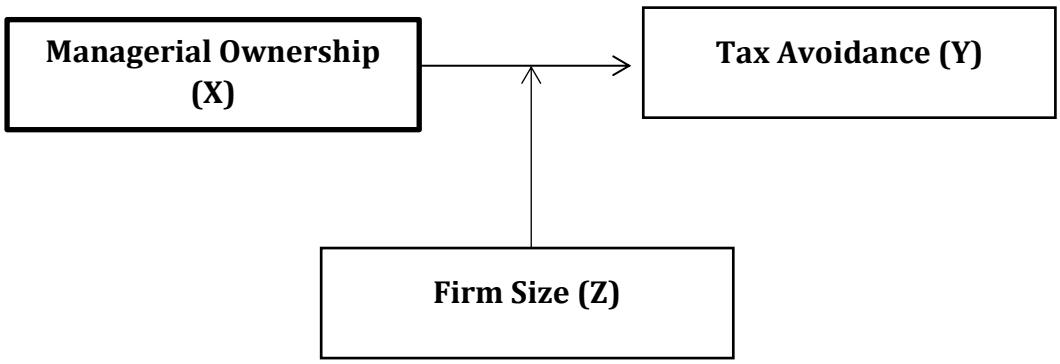


Figure 1. The Effect of Managerial Ownership on Tax Avoidance with Firm Size as a Moderating Variable

This study uses quantitative research with secondary data sourced from the annual reports of each manufacturing company listed on the Indonesia Stock Exchange during the 2020-2022 period. The sample used in this study used a purposive sampling technique, namely research sampling, by considering certain criteria desired to determine the number of samples to be studied. The sample criteria in this study are as follows:

1. Manufacturing sector companies listed on the Indonesia Stock Exchange during the period 2020-2022
2. Manufacturing sector companies that publish annual reports consistently during the period 2020-2022
3. Manufacturing sector companies that have managerial share ownership during the period 2020-2022

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Table 1. Sample Determination Criteria

No	Information	Total		
		2020	2021	2023
1	Manufacturing companies listed on the Indonesia Stock Exchange	232	248	248
2	Manufacturing companies that do not publish annual reports in 2020-2022	(27)	(13)	(14)
3	Companies with no managerial share ownership	(122)	(135)	(137)
Total of Samples		83	100	97
Total of Observation		280		

Data collection in this study uses documentation techniques. Namely, data collection is carried out by accessing the official website of the Indonesia Stock Exchange (www.idx.co.id) and the official website of each company to obtain public data related to manufacturing companies listed during the 2020-2022 period.

Variable identification in this study is tax avoidance (dependent variable), managerial ownership (independent variable), and firm size (moderating variable). The research instruments are presented in the following table:

Table 2. Research Instruments

No	Variable	Description	Source
1	Tax Avoidance	Tax avoidance is an action taken by taxpayers to minimize the amount of tax payable without violating existing tax regulations. Variable measurement: ETR= $\frac{Income\ Tax\ Expenses}{Profit\ Before\ Tax}$	Addilah (2022) dan (Lutfitriyah & Anwar, 2021)
2	Managerial Ownership	Managerial ownership is the percentage of common shares owned by managers who actively take part in	Septanta, (2023) dan Regina et al,(2021)

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		company decision-making. Variable measurement : KM = $\frac{Number\ of\ Manager\ Shares}{Oustanding\ Shares}$	
3	Firm Size	Firm size is the scale of the size of the company, which can be calculated using the company's total assets. Pengukuran variable : Firm Size = Ln (Total Asset)	(Siahaan et al., 2022) dan (Pravitasari & Khoiriawati, 2022)

The data analysis technique in this study uses descriptive data analysis, pairwise correlation, classical assumption tests and hypothesis testing. Hypothesis testing in research using Moderated Regression Analysis (MRA). Moderated Regression Analysis contains elements of interaction with independent variables in the form of multiplication between two or more variables. In other words, MRA is used to determine whether the moderating variable can strengthen or weaken the influence of the independent variable on the dependent variable. In this study, MRA aims to test the moderating variable, namely firm size, in moderating the effect of managerial ownership on tax avoidance.
The moderation regression equation model of this study is expressed in the following form :

$$ETR = \beta_0+\beta_1 KM+\beta_2 FS+\beta_3 FS_{i,t} \text{ x } KM_{it} +\varepsilon_{it} \quad \text{.....(1)}$$

Keterangan :

KM	: Managerial Ownership (independent)
ETR	: Effective Tax Rate (dependent)
FS	: Firm Size (moderation)
β_0-β_3	: Regression coefficient
ε	: error term

RESEARCH AND RESULTS

Descriptive Statistic Test

Descriptive statistical tests aim to test how much the maximum, minimum, mean, and standard deviation values are so that it is known how much the accuracy of the data is. (Sari & Nailufaroh, 2022).

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Table 3. Descriptive Statistic Test Results

Variable	Obs	Mean	Std. Dev.	Min	Max
ETR	280	.306	.553	.001	8.032
KM	280	.217	.282	.001	1
FS	280	11.275	1.88	4.444	16.994
Source: Data processed by researchers					

The results of Table 3 show that ETR, which is the dependent variable, has a minimum value of 0.001 and a maximum value of 8.032 the higher the ear, the higher the tax paid compared to profit before tax. The mean value for the extra variable is 0.306, which means that the average tax paid by all observation companies is 0.306 in profit before tax. While for the standard deviation value on our of 0.553 above the mean value, means that the ETR variable has a high level of data variation.

The mean value for the managerial ownership (KM) variable is 0.217, which means that the average share ownership (KM) by managers is 0.217 of the total shares outstanding, while the standard deviation value is 0.282 above the mean value, it can be concluded that the level of variation in the company's managerial ownership data is high.

In the firm size variable (FS), which is a moderating variable, the minimum value is 4,444, and the maximum value is 16,994. The mean value for the firm size variable (FS) is 11,275, which means that the average sample company has total assets of 11,217, while the standard deviation of 1.88 is lower than the mean value, so the level of variation in firm size data is low.

Normality Test

The normality test aims to test whether the data is normally or abnormally distributed (Maulana, 2020). In this study, the normality of the data was tested using the Shapiro-Wilk W Test, which has a significance value of 0.5. This means that the research data is normally distributed if it has a prob value> 0.5, and the research data is not normally distributed if it has a prob value <0.5. The following table shows the results of the normality test in this study:

Table 4. Normality Test Result

Variable	Obs	W	V	z	Prob>z
FS	280	0.24641	151.039	11.739	0.00000

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ETR	280	0.26056	148.203	11.694	0.00000
KM	280	0.76797	46.505	8.983	0.00000

Source: Data processed by researchers

In Table 4, it can be seen that the prob value of each variable is 0.00000 <0.05, which means that the data is not normally distributed. This is due to company-specific factors that vary in each column, namely the standard error of the company's estimate (Petersen, 2009). Therefore, the amount of observation data and the ratio of the amount of data to the variables are high, so the normality of the data can be ignored. In other words, further testing can be continued.

Multicollinearity Test

The multicollinearity test aims to test whether the regression model found a correlation between independent variables (Sari, 2020). In this study, the data multicollinearity test used Tolerance (1 / VIF) and Variance Inflation Factor (VIF). If the value (1 / VIF)> 0.10 and the value (VIF) < 10, then there are no symptoms of multicollinearity (passes the multicollinearity test). The following table shows the results of the multicollinearity test in this study:

Table 5. Multicollinearity Test Result

Variable	VIF	1/VIF
FS	1.00	0.999215
KM	1.00	0.999215
Mean VIF	1.00	

Source: Data processed by researchers

In Table 5, it can be seen that the VIF value of each variable is 1.00 < 10, and the value of 1/vif is 0.999215> 0.10, so it can be concluded that there are no symptoms of multicollinearity (passing the multicollinearity test).

Heteroscedasticity Test

The heteroscedasticity test aims to test whether, in the regression model, there is an inequality of variance from the residuals of one observation to another (Siahaan et al., 2022). In this study, the heteroscedasticity test was carried out using the white test; namely, if the p-value> 0.5, then there are no symptoms of heteroscedasticity (passing the

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heteroscedasticity test). The following table shows the results of the heteroscedasticity test in this study:

Table 6. Heteroscedasticity Test Result

Source	chi2	df	p
Heteroskedasticity	0.78	5	0.9783

Source: Data processed by researchers

In Table 6, it can be seen that the p-value (prob> chi2) is 0.9783> 0.05, so it can be concluded that there is no heteroscedasticity (passes the heteroscedasticity test).

Pairwise Correlation

Pairwise Correlation is the measurement of the statistical relationship between two variables to test the extent to which two variables move together or against each other.

Table 7. Pairwise Correlation

Variables	(1)	(2)	(3)
(1) ETR	1.000		
(2) KM	-0.061	1.000	
(3) FS	0.027	0.381*	1.000
** shows significance at p<.01*			
Source: Data processed by researchers			

In Table 7, it is known that Managerial Ownership (KM) does not correlate with ETR. The correlation value for ETR against firm size (FS) 0.027 is also not correlated.

Hypothesis Test

Table 8. Hypothesis Test Results

ETR	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
KM	-.534	.182	-2.93	.004	-.892	-.175	***
FS	-.01	.01	-1.03	.302	-.029	.009	
KM*FS	.04	.017	2.31	.021	.006	.074	**

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Constant	.446	.116	3.84	0	.217	.674	***

Mean dependent var	0.306	SD dependent var	0.553
R-squared	0.005	Number of obs	280
F-test	3.457	Prob > F	0.017
Akaike crit. (AIC)	468.821	Bayesian crit. (BIC)	483.360

*** p<.01, ** p<.05, * p<.1

Source: Data processed by researchers

Tax Avoidance is influenced by Managerial Ownership.

In Table 8, it is known that managerial ownership (KM) has a significant effect on tax avoidance (ETR) at the 1% level, where the coefficient is -0.534 with a p-value of 0.004 <0.05. This means that the higher the managerial ownership (KM), the lower the tax avoidance. These results indicate that **hypothesis 1 is accepted**. Managers are agents who act as shareholders by the wishes of shareholders. The existence of share ownership in the company gives managers a greater interest in the long-term welfare of the company. Therefore, they tend to minimize excessive tax avoidance, which can harm the company in the long run.

The results of this study are by agency theory, which states that a high percentage of managerial ownership will reduce the conflict of interest between managers and shareholders because managers have the same interests as shareholders, so managers will reduce tax avoidance. The results of this study are in line with research conducted by Sari (2020) and Prastiyanti & Mahardhika (2022), which state that managerial ownership has a significant effect on tax avoidance.

The Effect of Managerial Ownership Moderated by Firm Size

Table 8, namely testing firm size (FS) in moderating the effect of managerial ownership (KM) on tax avoidance (ETR), has a coefficient value of 0.04 and a p-value of 0.021 <0.05. This means that firm size (FS) can moderate the effect of managerial ownership (KM) on tax avoidance (ETR) at the 5% level. This means that firm size (FS) can moderate the effect of managerial ownership (KM) on tax avoidance (ETR) at the 5% level. These results indicate that **hypothesis 2 is accepted**. Companies that are large in scale often have a greater reputation to maintain. Deviant tax avoidance actions can damage the company's

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reputation. Therefore, managers are more careful in making decisions that can damage the company's reputation, including in terms of tax avoidance.

This result is by agency theory, which states that large companies tend to be more compliant with tax regulations due to strict supervision from the government, and managers will comply with tax rules to avoid high risk. The results of this study are not in line with research conducted by Hendrianto (2021), which states that firm size is unable to moderate the effect of managerial ownership on tax avoidance.

CONCLUSION AND RECOMMENDATIONS

Based on the research conducted, the results of the study can be concluded that managerial ownership has a significant effect on tax avoidance. Furthermore, firm size as a moderating variable weakens the effect of managerial ownership on tax avoidance. This shows that companies that have a larger scale, managerial ownership tend to have a lower impact on tax avoidance practices. This is due to the role of supervision and stricter tax compliance in large-scale companies. Therefore, for policymakers, especially in the field of taxation, such as the OJK, it is advisable to develop sustainable tax policies by providing tax incentives to companies that practice high tax compliance. For investors, it is recommended to conduct an in-depth analysis of tax avoidance practices in investment target companies to identify risks related to tax avoidance practices, such as reputational, legal, and financial risks, to make accurate investment decisions. Meanwhile, future researchers are expected to consider other factors that can moderate the relationship between managerial ownership and tax avoidance, such as audit quality, corporate governance, or different tax regulatory environments.

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