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CORPORATE GOVERNANCE IN THE DIMENSION OF INSTITUTIONAL OWNERSHIP MODERATES TAX AVOIDANCE

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A B S T R A C T

Tax evasion is a contradiction between government and company policies. Tax evasion is an operational company activity that is a major concern in corporate management. Tax evasion can be avoided with good corporate governance. The purpose of this study is to evaluate and provide empirical evidence on how corporate governance structures affect tax avoidance in Indonesia. With 140 observations, the data observation uses companies that are members of the Corporate Governance Index *on the Indonesia Stock Exchange from 2017 to 2020. Profitability and leverage are two key business attributes that influence tax avoidance, according to the study. Businesses with greater profits tend to increase tax avoidance. Risk taking executives prefer to increase the composition of their debt with the aim of increasing debt interest so that it will further minimize the amount of tax payable by the company. Executive risk takers affect tax avoidance in a negative direction. The dominance of institutional ownership by risk-taking executives increases tax avoidance. This study found that the greater the proportion of institutional ownership in the ownership structure, the greater the pressure on risk taking executives to increase tax avoidance.*
Keywords: *Tax avoidance, institutional ownership, corporate governance*

Sebuah paradoks antara kebijakan pemerintah dan perusahaan adalah penghindaran pajak. Praktik penghindaran pajak merupakan kegiatan operasional perusahaan yang menjadi perhatian utama dalam manajemen perusahaan. Tata kelola perusahaan yang baik akan memiliki kemampuan untuk menghindari penghindaran pajak. Tujuan dari penelitian ini adalah untuk mengevaluasi dan memberikan bukti empiris tentang bagaimana struktur tata kelola perusahaan berpengaruh terhadap penghindaran pajak di Indonesia. Dengan 140 observasi, pengamatan data menggunakan perusahaan yang tergabung dalam Corporate Governance Index di Bursa Efek Indonesia dari tahun 2017 hingga 2020. Profitabilitas dan *leverage* adalah dua atribut utama bisnis yang memengaruhi penghindaran pajak, menurut penelitian. Bisnis dengan laba yang lebih besar cenderung meningkatkan penghindaran pajak. Eksekutif *risk taker* lebih suka memperbesar komposisi utangnya dengan tujuan memperbesar bunga utang sehingga akan semakin memperkecil jumlah pajak terutang perusahaan. Eksekutif *risk taker* memengaruhi penghindaran pajak dalam arah negatif. Dominasi kepemilikan institusional terhadap eksekutif *risk taker* meningkatkan penghindaran pajak. Temuan penelitian ini adalah proporsi kepemilikan institusional yang lebih besar dalam struktur kepemilikan, akan memberikan tekanan yang lebih besar kepada para eksekutif pengambil risiko untuk meningkatkan penghindaran pajak.
Kata kunci: *Tax avoidance*, kepemilikan institusional, *corporate governance*

INTRODUCTION

Fiscal revenue is a significant source of funding for the state. According to data from the Directorate General of Taxes, Indonesia's annual objective for tax income is increasing, particularly corporate income tax for corporations, although the proportion of corporate tax revenue realized from 2017 to 2021 falls short of the target. The achievement of the corporate tax target averaged 81.91 percent. The causes of unrealized tax revenue are the reduction in tax rates, the existence of tax-intensive policies that are not on target, the occurrence of tax avoidance and tax evasion by taxpayers, and global economic pressures. The main cause of the tax avoidance phenomenon in Indonesia is still the widespread habit of corporate taxpayers evading taxes.

According to the Directorate General of Taxes, "every year, the amount of tax revenue lost due to tax avoidance and tax evasion abroad is estimated to reach 69 trillion rupiah." According to the report The State of Tax Justice 2020: Tax Justice in Time of COVID-19, "it is stated that Indonesia's position in the case of tax evasion by corporate and individual taxpayers is ranked fourth in Asia after China, India, and Japan." In addition, multinational corporations migrate revenues to countries that are called tax utopias. This is done in order not to report the actual amount of profit earned from the country of business. Thus, a business entity that engages in such practices ends up paying less tax than it should.Taxes for the government as a corporate stakeholder are a form of fiscal revenue for the state, while taxes for companies subject to tax are cash outflows that will reduce corporate profits. This issue theoretically encompasses the relationship between shareholders, management, and government as well as agency issues that may arise in corporate tax avoidance. Considering the company's governance structure, tax implications, and potential role of the tax authorities as an additional governance mechanism are all necessary to achieve this. Stakeholder-oriented theory states that there is a conflict between the government's and the company's interests.

Increased predicted earnings for shareholders and the managers in charge of carrying them out are the corporate motivation for tax avoidance tactics (Desai & Dharmapala, 2006). Tax evasion gives management the chance to be shrewd in order to meet short-term profit targets that will probably hurt shareholders in the long run (Minnick & Noga, 2010). Dealing with agency issues in tax evasion tactics is facilitated by corporate governance arrangements (Desai & Dharmapala, 2006; Armstrong, Blouin, Jagolinzer & Larcker, 2015).

In a comprehensive literature review, Wang, Xu, Sun & Cullinan (2020) identified the determinants of tax avoidance as consisting of internal determinants and external determinants. Internal determinants of tax avoidance include: i) firm-level characteristics; ii) ownership structure; iii) executive personal characteristics; iv) executive compensation plan; and v) internal governance. While the external determinants of tax avoidance include: i) institutional factors; ii) the external market; iii) external governance; and iv) social networks, This study follows up on suggestions in future research (Wang et al., 2020) regarding tax decision-makers within firms. While there is empirical research on tax decision-making in firms related to executive character (Dyreng, Hanlon & Maydew, 2010; Aliani, 2014; Wang, 2019), it is uncertain what the "black box" is that organizations use to make tax decisions. The extent to which executives personally decide to avoid paying taxes, create a culture that supports or opposes tax evasion, or put pressure on decision-makers are examples of the "black box." This study will look at the function and personality of CEOs in tax evasion, which will inevitably include a consideration of the core values of the company.

There is a gap in empirical research on executive character in tax avoidance. Some empirical studies with positive effects of executive character on tax avoidance include Dyreng et al. (2010), finding that individual executives have a significant influence on the level of tax avoidance; executive personal character is positively related to tax avoidance (Chyz, 2013); executive risk takers have a positive effect on tax avoidance, among others (Alfiyah, Subroto & Ghofar, 2022); and Ardillah & Prasetyo (2021). More recent research considers specific aspects of executive personal characteristics: CEO narcissism is associated with tax avoidance (Olsen & Stekelberg, 2016); the role and impact of CEO duality in risk-taking activities and decision-making processes (Kolias & Koumanakos, 2022). However, a number of empirical studies have found that executive character has a negative relationship with tax avoidance. For example, Christiansen et al. (2015) found that corporate tax avoidance is negatively correlated with managerial conservatism; Maharani & Baroroh (2019) found that risk-taking executive character has no effect on tax avoidance; and managers with military experience commit tax avoidance at a lower rate. (Law & Mills, 2017).

Individual executives have been proven to influence business tax evasion decision-making (Dyreng, Hanlon & Maydew, 2008); hence, shareholders aim to motivate executives to operate in ways that maximize firm and stakeholder value. executives to act to maximize firm value and stakeholder value. There is a research gap in empirical research on executive compensation and tax avoidance. Top executive incentives are the decisive factor in tax avoidance, according to study results (Rego & Wilson, 2012). This is consistent with the use of post-tax incentives to boost CEO tax aggressiveness, which in turn raises post-tax earnings. According to the results of empirical research on corporate governance practices, executive compensation has a positive effect on tax avoidance (Minnick & Noga, 2010; Armstrong, Blouin & Larcker, 2012; Rego & Wilson, 2012; Kubick & Masli, 2016). According to Phillips (2003), CEO compensation on an after-tax basis generally does not lead to greater tax planning effectiveness. Other studies on the role of executive salary and corporate governance in the causes of tax noncompliance in firms (Hanlon & Heitzman, 2010). According to the findings, there is no correlation between the tax deficit and governance quality, indicating that improper tax evasion is not significantly encouraged by governance quality. Some other empirical studies on the role and executive compensation that provide results in the opposite direction to tax avoidance include Halioui, Neifar & Abdelaziz (2016); and Huang, Ying & Shen (2018). (Hanlon & Heitzman, 2010) explain that the role and compensation of executives have an insignificant effect on tax avoidance. Empirical research on the role and character of executives in determining tax avoidance shows mixed results.

Based on the phenomenon and gap in empirical research results regarding the role and characteristics of executives in tax avoidance, the research problem is how the corporate governance mechanism controls agency problems in the context of executive behavior as a tax avoidance decision-maker within firms. The corporate governance (GCG) mechanism in the institutional ownership dimension is used to fill a research gap on the role and characteristics of executives in tax avoidance. The GCG mechanism in the institutional ownership dimension will encourage increased monitoring of management performance. The greater institutional ownership, the greater the power to supervise management so as to encourage management to improve financial performance and align management interests with stakeholders.

The ownership structure of firms in East Asia, including Indonesia, Singapore, Malaysia, Thailand, and the Philippines, has a high percentage of institutional ownership structures dominated by family firms (Claessens, Djankov & Lang, 2000). Most firms are controlled by a single shareholder. The majority of corporate wealth is spread over multiple family properties. Tax evasion may be controlled by corporate governance from the position of institutional ownership structure. Research by Shinta & Ahmar (2011) examined Indonesia's public share ownership structure between 2004 and 2008. According to the findings, 65–69% of Indonesian enterprises' ownership structure was made up of institutional ownership.

The tax evasion literature has not consistently produced results regarding the role of institutional ownership. A sizable portion of the ownership structure's institutional ownership has the ability to incentivize managers to maximize shareholder wealth, even at the expense of tax evasion. The results of empirical research on the effect of institutional ownership on tax avoidance in a positive direction, e.g., Khan, Srinivasan & Tan (2017); and Chen, Huang, Li & Shevlin, (2019). Research (Huseynov, Sardarli & Zhang, 2017) explains that for companies with low (high) tax avoidance, index inclusion leads to an increase (decrease) in tax avoidance. Changes can be associated with increased institutional ownership and incentive compensation. Meanwhile, Khurana & Moser (2013) state that companies held by long-term institutional shareholders do less tax avoidance.

The prior research (Annuar, Salihu & Obid, 2015) looked into the association between corporate tax evasion in Malaysia and the ownership structure of corporations. The findings indicated a relationship between firm tax evasion and the interaction effect of family, foreign, and government ownership with board composition. The influence and personality of executives in deciding tax avoidance are moderated in this study by institutional ownership. The difference between this proposed research model and research (Annuar et al., 2015) is that this study uses interactive governance factors of executive behavior as decision makers in the firm with ownership structure in the context of institutional ownership on tax avoidance. Meanwhile, research (Annuar et al., 2015) uses interactive governance factors of ownership structure (family, government, and foreign ownership) with board composition on tax avoidance associations. This study aims to investigate the relationship between the elements that predict tax evasion and the corporate governance interaction effect model, using institutional ownership as the moderator effect.

This article consists of five parts. The first section, the introduction, contains phenomena, research gaps on relevant variables, research problems, the determination of factors that are assumed to be able to fulfill the existing gap, and research objectives. The second section consists of a literature review and hypothesis development. In the third section, research methods consist of sampling techniques, proxies used to measure variables, research models, and analysis techniques. The fourth section explains the discussion of test results and research findings. The fifth section contains conclusions, limitations, managerial implications, and suggestions for further research.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Tax Avoidance and Fundamental Firm Characteristics

Tax fraud is a system applied by companies to reduce their tax burden by exploiting the weaknesses of the tax system. The definition of tax evasion (Lim, 2011) is tax planning that occurs to minimize tax liabilities using legally established tax regulations. This is followed by prior research on issues related to tax evasion, firms' fundamental characteristics, and corporate governance systems: firm’s size (Omer, Molloy & Ziebart, 1993; Zimmerman, 1983); ownership structure (Chaganti & Damanpour, 1991); managerial role (Dyreng et al., 2010; Rego & Wilson, 2012); government (Annuar et al., 2015; Minnick & Noga, 2010); and capital (Chaganti & Damanpour, 1991). A study by Annuar et al. (2015) examined the different business powers that affect tax aggressiveness. The findings indicate that the association between board composition and tax evasion is moderated by family, government, and foreign ownership. Some very important aspects of the company, among other things, that affect tax evasion are:

Company size. Different studies used different empirical methods in terms of sample selection, period, data aggregation method, and proxy definition of CETR values and size. As a result, results vary. For example, Zimmerman (1983); Omer et al. (1993); (2003); and Minnick & Noga (2010) found a positive value between company size and CETR indicators, suggesting that large companies are characterized by greater visibility. Numerous studies have examined the impact of business size on ETR; however, the ideas and research findings employed in these studies are not the same. Two explanations are presented in the accounting literature to explain this relationship. The first explains why huge corporations have low ETRs: the theory of political power. This is because large corporations can use their resources to do proper tax planning to minimize their corporate taxes. Research supports this theory (Richardson & Lanis, 2007). The second explanation for large enterprises' high ETRs is the political cost argument, which argues that because these companies have public shares and are governed by laws, governments incentivize them to pay more taxes than they should.

Fiscal loss compensation. Businesses with net operational losses ought to be less motivated to evade taxes. An alternate strategy is to include an indicator variable that is equal to 1 in the case of a positive result and 0 in the absence of one, even though numerous studies have previously removed manufacturing enterprises from the model (Minnick & Noga, 2010; Dunbar, Higgins, Phillips & Plesko, 2010).

Leverage. Credit interest is a deductible expense from taxable income under the tax regulations, specifically Section 6 of Section 1 of the Income Tax Act 36 of 2008. The business's taxable income is decreased by deductible interest expenses. The corporation will pay less in taxes as a result of the decline in taxable income.

Profitability. Profitability is measured by the cash flow of an asset or business. The financial performance of a corporation is gauged by its profitability. According to business theory, owners anticipate large post-tax earnings. High profit margins come with a high tax burden; hence, these businesses often use tax planning and other forms of tax avoidance to get large tax deductions.

Growth. Another factor is growth, as growing companies have more tax planning options (Phillips, 2003). Also, as a business expands, it usually pays more taxes (Minnick & Noga, 2010). *Capital Intensity Ratio*. It frequently has to do with how much capital the business contributes in the form of fixed assets and stock. According to the study (Fernández-Rodríguez & Martínez-Arias, 2012), a business that owns fixed assets can lower its taxes because of the assets' yearly depreciation. Based on the previous literature review and related research, we formulate the following hypothesis:

H1a: Firm size associated tax avoidance;

H1b: Fiscal loss compensation affects tax avoidance;

H1c: The higher leverage will increase tax avoidance;

H1d: The greater the company's profit will increase tax avoidance;

H1e: Growing firms have more tax planning opportunities;

H1f: Capital intensity has a positive effect on tax avoidance.

Executive Character and Tax Avoidance

The character of the leader is divided into two parts, depending on the company and the size of the risk, which are the risk taker and the risk taker. Risk managers are those who are able to communicate risk in their business decisions and are strongly motivated to achieve greater income, status, and well-being. Risk managers do not hesitate to finance debt. Unlike risk-takers, risk-averse managers tend to avoid risky investments, keep more of their assets in safe investments, and avoid debt financing. Tax evasion is more common among managers who take risks (Carolina, Natalia & Debbianita, 2014). The impact of top managers on company tax evasion was examined in an empirical study (Dyreng et al., 2010). Individual business executives contribute significantly to the extent of corporate tax evasion, as demonstrated by the sample of 908 corporate executives drawn from the ExecuComp list. The hypotheses that can be made based on the definition are:

H2: Risk taker executive has an influence on Tax Avoidance.

Compensation-based incentives and Tax avoidance

Individual managers have been shown to determine the level of corporate tax avoidance decisions (Dyreng et al., 2010), thus helping shareholders to try to encourage managers to act to increase more than owner value. The levy will reduce corporate costs for businesses. This is because there is a strong link between compensation and performance that can reduce operating costs for shareholders and encourage management to act in the interests of shareholders.

The role of tax incentives and the effectiveness of corporate tax planning (Phillips, 2003). This is because tax planning can only be considered effective when it maximizes after-tax cash flow, so managers should always focus on after-tax profits. Owners therefore want to encourage managers to engage in tax planning based on their own (financial) interests, that is, the most effective tax planning possible. Executive compensation contracts now include after-tax accounting methods as regular operating procedures to achieve these benefits. The data in Phillips (2003) demonstrates how after-tax compensation can effectively lower businesses and their ETR.

The bonus plan hypothesis asserts that managers of bonus-based firms choose accounting procedures that accelerate earnings from future periods to the current period. A study (Gaertner, 2014) found a positive relationship between after-tax earnings and total CEO compensation, suggesting that CEOs with after-tax compensation require additional risk. Additionally, rewarding CEOs with after-tax benefits has a positive relationship with tax evasion (Gaertner, 2014). According to Armstrong et al. (2012), incentive pay plans have been demonstrated to have an impact on tax avoidance trends; the more incentives executives receive, the more tax avoidance occurs (Minnick & Noga, 2010). Corporate tax aggression is significantly influenced by equity risk incentives, according to research by Rego & Wilson (2012). Better management practices, especially management compensation, are associated with tax evasion (Huseynov et al., 2017). Based on the explanation, the hypotheses that can be developed are:

H3: Compensation-based executive incentives associated on tax avoidance.

Tax Avoidance and Corporate Governance dimensions of institutional ownership

Agency issues can be lessened by institutional ownership's role in corporate governance. According to Lim (2011), investors' growing involvement in shareholder activities increases the value of tax evasion for shareholders; as a result, shareholders support businesses that reduce corporation tax and optimize wealth. This is in line with studies that demonstrate a correlation between higher taxation and greater control (Khan et al., 2017).

Research findings (Khurana & Moser, 2009) show that a high concentration of corporate control influences corporate tax policies. The more concentrated the short-term shareholders, the more aggressive the fiscal policy; conversely, the more concentrated the long-term owners, the less aggressive the fiscal policy. As in Khan et al. (2017), studies have shown that increased ownership affects tax avoidance. The result of the study (Jiang, Zheng & Wang, 2021) investigated the aspects of control in the management practices of tax evasion companies. This study was conducted to determine the concentration of control that influences corporate tax evasion decisions. This study found that governance is positively related to tax evasion. The focus on ownership in corporate governance is linked to tax evasion. An empirical study (Khan et al., 2017) finds that higher quasi-index ownership leads to higher tax savings. An empirical study (Annuar et al., 2015) used corporate governance interactions to evaluate the relationship between ownership structure and corporation tax planning abilities. The findings reveal that business tax evasion is determined by ownership type interacting with board composition. Improved management techniques, particularly high institutional ownership and CEO compensation, can be linked to changes in tax evasion (Huseynov et al., 2017). The purpose of this research is to identify the factors that influence tax evasion by examining how corporate governance and company control interact. Based on the theoretical and historical research, the following hypotheses can be formulated:

H4: High institutional ownership strengthens the factors influencing tax evasion.

RESEARCH METHODS

This study was conducted with listed

companies in Indonesia. The information is taken from the company's annual accounts for 2017–2020. The sampling method is purposive sampling. The observation data are companies included in the Consumer Good Industry Index, up to 43 companies. From 2017 to 2020, 35 companies have consistently published financial statements, so this study uses panel data from the observations of 140 companies.

The model 1 equation depicts the linear association between corporate tax evasion and the explanatory factors found in the study.

$$CETRit = \alpha_i + \beta_1 nTA_{it} + \beta_2 FLC_{it} + \beta_3 DER_{it} + B_4 ROA_{it} + \beta_5 GROWTH_{it} + B_6 CIR_{it} + \beta_7 RISK_{it} + \beta_8 EC_{it} + \beta_9 IO_{it} + e \quad \text{.....................................(1)}$$

From model (1) above, i and t for each exhibiting firm and year. The share of cash tax paid measures corporate tax evasion (Cash Effective Tax Rate - CETR). The stock ownership ratio indicates institutional ownership. Factors influencing the tax burden of a company are company size (Total Asset - TA), profitability (ROA), (Fiscal Loss Compensation - FLC), financial leverage (Debt Equity Ratio - DER), sales growth (GROWTH), and capital intensity (CIR).

Factors affecting tax evasion include management characteristics (RISK) (Carolina et al., 2014), executive compensation (EC) (Phillips, 2003), and institutional ownership (IO) (Chen, Chen, Cheng & Shevlin, 2010). Institutional ownership is one of the most important governance mechanisms that helps manage institutional problems. Institutional ownership plays an important role in monitoring, disciplining, and managing influence so as not to engage in opportunistic behavior. Managers make tax decisions in a company so that the role of the institutional owner in the control mechanism of the company strengthens or weakens (moderates) the relationship between management behavior and tax evasion. The full model for examining the interaction effects of institutional ownership as a moderating variable is as follows:

$$CETRit = \alpha_i + \beta_1 lnTA_{it} + \beta_2 FLC_{it} + \beta_3 DER_{it} + B_4 ROA_{it} + \beta_5 GROWTH_{it} + B_6 CIR_{it} + \beta_7 RISK_{it} + \beta_8 EC_{it} + \beta_9 IO_{it} + \beta_{10} IO_{it} + \beta_{11}(lnTA_{it}*IO_{it}) + \beta_{12}(DER_{it}*IO_{it} + \beta_{13}(ROA_{it}*IO_{it}) + \beta_{14}(GROWTH_{it}*IO_{it}) + B_{15}(CIR_{it}*IO_{it}) + \beta_7(RISK_{it}*IO_{it}) + \beta_{17}(EC_{it}*IO_{it}) + e \quad \text{..............(2)}$$

$\beta 10$-$\beta 17$ are the coefficients of the interaction effect between institutional ownership and corporate tax evasion, determinant corporate tax avoidance.

ANALYSIS AND DISCUSSION

A number of observations were made, processing up to 140 valid data items. Descriptive data for the observations are shown in Table 1. Table 1 illustrates the descriptive statistics of the observation data with the following explanation: The average size (X1) of 0.159299 illustrates that the observation data has a similar size. Financial Loss Compensation (X2) data has an average of 0.107143, illustrating that not much observation data uses FLC. The

Table 1.
Descriptive Statistics

Variables	N	Min	Max	Mean	Std.Dev
Size (X1)	140	0.1256	0.2006	0.1593	0.01675
Fiscal Loss Compensation(X2)	140	0.0000	1.0000	0.1071	0.31040
Leverage (X3)	140	0.0692	0.8406	0.4081	0.17747
Return on Assets (X4)	140	-0.1703	0.5803	0.2579	0.16292
Sales Growth (X5)	140	-0.3177	0.4765	0.0901	0.13545
Capital Intensity Ratio (X6)	140	0.1372	0.8039	0.3925	0.15252
Executive Character (X7)	140	-0.1148	0.6067	0.2885	0.14123
Executive Compensation (X8)	140	3.1396	5.9504	4.2392	0.59782
Institutional Ownership (X9)	140	0.4859	0.9970	0.7918	0.12973
Tax Avoidance (Y)	140	-0.0135	0.2692	0.1477	0.08236

average leverage (X3) is high at 40.8 percent, with the lowest leverage variation of 6.9 percent and the highest of 84 percent. Profitability with the Return on Asset proxy (X4) has a fairly high average of 25.7 percent. Sales growth (X5) has a relatively small average of 9 percent. The average investment activity of the company in the form of fixed assets, or capital intensity ratio (X6), is 39 percent.

The value of executive character (X7) is the minimum value of -11.48, the maximum value is 60.67, and the average value is 28.8479 percent. A negative or below-average EC value indicates the executive has a risk-averse character, while a high EC value above the average indicates the executive has a risk-taking character. Executive compensation (X8), calculated by the natural logarithm of executive compensation, has a fairly high average of 28.24. Institutional ownership (X9) has a very high average of 79 percent of the ownership structure. While the average tax avoidance (Y) is 14.7 percent.

The linear regression equation has met the regression requirements test, including (1) that the data is normally distributed with a prob. value of 0.093, which is greater than 0.05, and (2) that there is no multicollinearity or heteroscedasticity. The results of Equation 1 for Model 1 are shown in Table 2 below. This study examines the determinants of tax avoidance, which are firm-specific characteristics, including firm size, fiscal loss compensation, leverage, profit, sales growth, and capital intensity; and corporate governance dimensions, including executive character, executive compensation, and institutional ownership. Table 2 presents research findings demonstrating a confirmed correlation between tax avoidance and profit, leverage, and managerial character. (proven for H1c, H1d, and H2).

The regression results of equation 1 in table 2 show that firm size as a control variable has an insignificant effect on tax avoidance. This result is not in line with research (Richardson & Lanis, 2007) showing that corporate effective tax rates are associated with firm size. Fiscal loss compensation has a positive and insignificant effect on tax avoidance. If there is a fiscal loss for the prior tax year, compensation for that loss is created and can be applied to lower the tax in the subsequent year. Based on descriptive data, only a small proportion of companies have fiscal loss compensation at the beginning of the year. Leverage increases tax avoidance (prob. 0.1). The cost of debt capital will reduce taxable income, thereby increasing tax avoidance. Research results are in line with Richardson & Lanis (2007), who found that corporate effective tax rates are associated with leverage. Tax evasion is significantly impacted positively by return on assets, a measure of profitability (prob. 0.000). Increased tax evasion correlates with better profitability. These findings back up Dunbar et al. (2010). This research uses ROA as a proxy for corporate profitability. The higher the ROA, the higher the profit or profit the

Table 2.
Results of Equation Model 1

Independent Variable	Coefficient	Prob. Value
Size (X1)	1.053	(0.294)
Fiscal Loss Compensation(X2)	0.219	(0.827)
Leverage (X3)	1.555	(0.122)*
Return on Assets (X4)	3.591	(0.000)***
Sales Growth (X5)	-0.693	(0.490)
Capital Intensity Ratio (X6)	-0.107	(0.915)
Executive Character (X7)	-2.694	(0.008)***
Executive Compensation (X8)	0.996	(0.321)
Institutional Ownership (X9)	-0.560	(0.576)
R^2 = 0.152		

Note : * : significance at 10%; ***: significance at 1%

company has; the impact on the tax burden will increase. So that there is a positive relationship between profitability and the ROA proxy on tax avoidance, it can be concluded that profitability can affect tax avoidance. This relationship encourages many companies with good governance followed by a high level of profitability to tend to take action to avoid tax burdens as a form of maximizing company profits, which aims to prosper stakeholders. Contrary to expectations, sales growth has a negligible and opposite impact on tax avoidance, according to the data. Table 1's descriptive data demonstrate that, at just 9%, the average company growth is quite modest, with several samples even seeing negative sales growth. The amount of money a corporation invests in fixed assets is known as its capital intensity. Large assets will have large depreciation costs as well and result in reduced company profits, so that the tax burden is also reduced. Therefore, the amount of fixed asset intensity in a company will increase earnings avoidance practices. The results showed that the capital intensity ratio had an insignificant effect on tax avoidance.

Executive character affects tax avoidance in a negative direction (prob. 0.008). This result is in line with Oussii & Klibi (2023), CEO power determines tax avoidance; research (Christensen, Dhaliwal, Boivie & Graffin, 2015) states that conservative management is negatively associated with tax avoidance. Empirical research on executive characteristics of tax avoidance (Low, 2009) explains two different executive characteristics, namely risk takers and risk averse. Risk-averse people avoid taking chances, whereas risk-takers are brave enough to take more chances when it comes to tax evasion. The results of this research indicate that the characteristics of risk-averse executives in tax avoidance mean that the executive character is included in the risk-averse category. This is supported by most of the executive characteristic values below the average value of the executive character of 28.8479 percent. Executives take the risk of increasing tax avoidance through the risk of debt financing. The descriptive data in Table 1 implies that the industry has a fairly high average leverage of 40 percent, with the highest reaching 84 percent. (Modigliani & Miller, 1963) assert that risk-taking on debt will raise business value, and debt will lower taxes. Moreover, the larger the debt financing, the lower the tax evasion behavior. The results of this study are not in line with (Carolina et al., 2014); (Alfiyah et al., 2022); (Ardillah & Prasetyo C, 2021); and (Chyz, 2013).

Executive compensation has a positive but insignificant effect on increasing tax avoidance. These results are not in line with research (Armstrong et al., 2012; Minnick & Noga, 2010; and Hauseynov et al., 2017). Equation 1 presents the research findings and demonstrates that institutional ownership, as an independent variable, has no discernible impact on tax evasion. This suggests that institutional ownership is not the company's decision-maker when it comes to tax evasion. The executive makes decisions about tax avoidance within the company. According to Lim (2011), institutional ownership plays a crucial role in the corporate governance mechanism by enhancing the impact of tax avoidance for shareholders. Specifically, institutional shareholders can intervene against management in order to reduce corporate taxation and enhance their personal wealth. The following in Table 3 is the result of the full model equation on the corporate governance mechanism in the dimension of institutional ownership moderating the determinants of tax avoidance.

The moderation variable test uses a residual test to avoid multicollinearity. Table 3 shows that the probability value of the interaction between CEO and institutional ownership is 0.081, significant at α = 10%, thus institutional ownership proved to be a moderating effect of tax evasion. This indicates that an increase in institutional ownership in the ownership structure inhibits the nature of enforcement associated with an increase in tax evasion. This study's findings are consistent with those of Khurana & Moser (2009), Khan et al. (2017), Jiang et al. (2021), and Lim (2011), who have shown that institutional owners' involvement amplifies the benefit of tax avoidance for shareholders by allowing them to intervene in management to reduce corporate income tax and boost wealth. The more institutional ownership a company has, the more voting power the institution has to influence management decisions to keep them from acting in a way that would hurt shareholders. The concentration of institutional ownership affects the aggressive tax policy of the company, where aggressive taxation is one of the tax evasion initiatives (Khurana & Moser, 2009).

Institutional ownership is a corporate governance mechanism that helps manage agency problems. Institutional ownership increases optimal control over management outcomes because institutional ownership is a source of power that can be used to support or otherwise oppose management decisions. The conclusion of this study is that corporate governance through high institutional ownership can reduce executive power and increase tax evasion. The research results from the first equation model show that executive character reduces tax avoidance (Oussii & Klibi, 2023), but in the full model equation, where institutional ownership interacts with executive character, it actually increases tax avoidance (Prasatya, Mulyadi & Suyanto, 2020). The findings of this study indicate that institutional ownership in the corporate governance mechanism makes changes in the direction of executive decisions on tax avoidance.

The results of this study are consistent with the view (Mintzberg, 1983) that institutional shareholders can influence firms in several different ways. For example, there is pressure to control internal decision-making in certain matters and activities through corporate and board membership (Chaganti & Damanpour, 1991). Family business owners gain effective control of their businesses through pyramid and cross-ownership structures. With such structures, companies receive more voting rights than cash flow rights. Voting rights are the rights of firm owners to influence the decisions of subsidiaries, for example, by voting for the executives who run the firm.

Table 3.
Results of the Equation Full Model

Independent Variable	Coefficient	Prob. Value
Size (X1)	-0.322	(0.748)
Fiscal Loss Compensation(X2)	0.483	(0.630)
Leverage (X3)	0.423	(0.673)
Return on Assets (X4)	**3.591**	**(0.000)*** **
Sales Growth (X5)	-0.517	(0.606)
Capital Intensity Ratio (X6)	0.286	(0.775)
Executive Character (X7)	**-2.028**	**(0.045)** **
Executive Compensation (X8)	-0.496	(0.621)
Institutional Ownership (X9)	-0.878	(0.382)
Size * Institutional Ownership	0.409	(0.683)
FLC * Institutional Ownership	-0.395	(0.693)
Leverage * Institutional Ownership	-0.358	(0.721)
ROA * Institutional Ownership	0.632	(0.529)
Growth * Institutional Ownership	-0.433	(0.666)
CIR * Institutional Ownership	0.526	(0.600)
Executive Character * Institutional Ownership	**1.757**	**(0.081)* **
Executive Compensation*Institutional Ownership	0.609	(0.544)
$R^2 = 0.291$		

Meanwhile, cash flow rights are the rights of company owners to profits earned by subsidiaries. Institutional owners, based on their size and voting rights, can force managers to focus on economic performance and avoid opportunities for selfish behavior. Institutional ownership is a party that can monitor the actions of company management and can supervise and influence management in order to avoid management behavior that is concerned with its own interests. This study supports the idea that institutional ownership moderates the relationship between executive character and tax avoidance (Prasatya et al., 2020). Research (Oussii & Klibi, 2023) shows CEO power reduces the level of tax avoidance, and when institutional ownership interacts with CEO power, it still results in a reduction in tax avoidance. The results of this study do not support research (Oktaviani, 2019) that suggests institutional ownership is powerless to moderate the influence of executives on tax avoidance.

CONCLUSION

This study looks at how corporate governance policies affect Indonesian tax evasion. Institutional ownership frequently dominates ownership patterns in corporate governance systems found in developing nations. The system of tax evasion methods is impacted by the strength of institutional ownership. In this research, we present an econometric model to study the association between variables associated with tax evasion in Indonesian-listed companies. This article explains the interaction of corporate governance—institutional ownership—with tax avoidance factors. In this case, agency theory becomes important to explain the fiscal behavior of companies.

In summary, profitability and leverage are firm characteristics that are positively related to tax evasion. Better corporate profitability and leverage increase tax evasion. Executive risk is a determinant of tax evasion with a negative relationship direction. Executives who take risks use loans to lower their pre-tax income. The interaction of risk-taking executives and institutional ownership leads to an increase in tax evasion. Risk-taking CEOs are strengthened by institutional ownership in corporate governance, which increases tax evasion. Inducing risk-taking executives to increase tax evasion is mostly due to institutional ownership.

This study provides empirical evidence that institutional ownership in Indonesia is a dominant internal governance mechanism that drives managerial efficiency so that management avoids shareholder-damaging behavior. Institutional ownership in Indonesia is high, so it has a great impact on CEO control. Higher institutional ownership reduces management characteristics and increases tax evasion. This study shows that CEO power with institutional ownership regulators is an important factor in determining corporate tax avoidance behavior.

The government's role as a tax regulator and stockholders stand to gain much from this research. Investors are aware of how selecting a capable CEO might affect tax evasion tactics. Additionally, this analysis might provide tax regulators with fresh perspectives on how institutional ownership and CEO authority affect tax aggressiveness.

LIMITATIONS AND SUGGESTIONS.

The limitation of this study is that it uses institutional ownership in general and does not use institutional ownership based on different characteristics such as government, family, and foreign institutions. Future research suggests using categories of institutional ownership characteristics.

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