JURNAL
Riset Akuntansi dan Keuangan Indonesia
URL : http://journals.ums.ac.id/index.php/reaksi/index

Tax Avoidance: Do Foreign Interests Have a Role?

Sifit Dwi Nurcahya[1], Doddy Setiawan[2], Y. Anni Aryani[3], Eko Arief Sudaryono[4].
[1234]Faculty of Economics and Business, Universitas Sebelas Maret
sifitd.nurc@student.uns.ac.id
doddy.setiawan@staff.uns.ac.id,
y_anniaryani@staff.uns.ac.id,
ekoarief_fe@staff.uns.ac.id

Keywords:
tax avoidance, foreign ownership, foreign board of commissioner, foreign board of director

ABSTRACT

FDI may have beneficial effects on economic development. On the other hand, the presence of foreign investment leads to foreign interest, which has the potential to minimize tax burden by exploiting cross-border tax policy discretion. This study examines the influence of foreign interest on the tax avoidance practices of firms in Indonesia. This is quantitative research using a sample of firms listed in the IDX80 index with a financial reporting period of 2018-2021. The results of this study indicate that foreign ownership has a positive effect on tax avoidance. Meanwhile, the number of foreign commissioners and the number of foreign directors does not affect tax avoidance. Apart from contributing to the theory, this study is also a concern for the DGT in anticipating the risk of tax avoidance by foreign capital firms.

INTRODUCTION

The Sustainable Development Goals (SDGs) were set to solve the problem of poverty and promote inclusive and sustainable growth by 2030 (Bappenas, 2015). To achieve this, significant resources are needed, including financial resources. In this case, taxation is one of the main sources of revenue in the Indonesian APBN. Tax revenue reaches 70% of the total government revenue.

It is important to maintain the resilience of tax revenue. It is still necessary to increase Indonesia's tax-to-GDP ratio. Indonesia's tax ratio is still below the Asia-Pacific average tax ratio of 19,1% (OECD, 2022). Indonesia's tax ratio in the period 2016-2022 is still at 9% - 11% (Damara 2023). This figure illustrates the narrowness of Indonesia's tax base and low tax compliance in Indonesia.

Tax avoidance erodes tax contributions to the country. Tax avoidance schemes can limit the government's ability to fund public facilities, thereby hindering progress towards the SDGs (UNCTAD, 2019). Tax avoidance is an effort to minimize the amount of taxes paid through a tax planning strategy (Hanlon and Heitzman 2010). Tax avoidance can be used as an option to minimize the tax burden listed in financial reports in a way that does not violate the law (Mardiasmo 2018). However, the government does not want this.

Foreign direct investment (FDI) is cross-border investment where an investor based in one economy has long-term interests and significant influence in an enterprise based in another economy (OECD, 2022). FDI in Indonesia was recorded at US$20,1 million in 2021 and is the second largest in Southeast Asia (dataindonesia.id, 2022). FDI can boost economic growth in developing countries.

FDI is an important channel for technology transfer between countries, promotes international trade through access to foreign markets, and can be an important means of economic development. Today's business world is interconnected between countries. The challenge is that multinational companies may be able to minimize or double non-taxation (Indonesia.go.id, 2023). Base Erosion and Profit Shifting (BEPS) is a threat to tax fairness in many countries through profit shifting, especially in developing countries.

Tax avoidance attracts policymakers' and researchers' attention. Atwood et al. (2012), stated that firms avoid taxes due to various factors, such as firm-internal factors (firm size, leverage, operating costs, firm performance, operations of multinational firms) as well as cross-country factors that can influence corporate tax avoidance, such as tax rates, earnings volatility, and institutional factors. The presence of foreign ownership can also influence tax avoidance (Yuanita et al. 2020; Suranta et al. 2020). In Malaysia, as a developing country, the level of tax avoidance by multinational firms is closely related to the presence of foreign direct investment (Salihu, Annuar, and Sheikh Obid 2015). Meanwhile, in other studies, foreign institutional ownership has a negative relationship with tax avoidance (Pujiningsih & Salsabyla 2022; Akbar et al. 2021; Maisaroh & Setiawan, 2021; Idzni & Purwanto, 2017).

Based on the above description, this research will examine the influence of foreign ownership on the tax avoidance practices of firms in Indonesia. In addition, fundamental financial factors such as profitability, leverage, capital intensity, and firm size will be considered as control variables.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Positive accounting theory explains the hypothesis that leads management to engage in earnings management. Based on the political cost hypothesis, firms lobby the government when legal or accounting standards reduce their profits (R. L. Watts and Zimmerman 1978). Based on the tax hypothesis, management makes discretionary decisions to choose accounting policies that can increase or decrease tax payments (Watts & Zimmerman 1986, 1990). Management strives to maximize the book value of the firm, but this may affect the firm's earnings. If a firm tries to manipulate tax rules to pay less tax, it can earn higher profits. This means that profits influence the company's tax policy.

Tax Avoidance

Tax avoidance is considered an effort to reduce taxes through tax planning, both legally (tax avoidance) and illegally (tax evasion) (Frank, Lynch, and Rego 2009). Tax avoidance is an effort to minimize the amount of tax paid by a company through a series of tax planning strategies (Hanlon

p-ISSN:1411-6510
e-ISSN :2541-6111

and Heitzman 2010). A transaction can be described or referred to as tax avoidance when the company attempts to pay less tax than it should by taking advantage of the reasonable interpretation of tax regulations. The scheme of a series of transactions by paying attention to weaknesses in tax regulations in a country is an action called tax avoidance (Dyreng et al. 2008; Richardson et al. 2013; Krisna 2019).

Salihu et al. (2015) explained that tax avoidance has an impact on increasing profits and saving the company's cash from tax obligations that need to be paid. The firm value and dividends will increase with these savings. Based on the agency theory, large companies will utilize the company's resources to maximize the increase in agent performance compensation. The agents charged with running the firm's operations are responsible for creating a firm size that has increased profits. On the other hand, companies view taxes as an additional cost that has the potential to reduce company profits. For this reason, the company carries out systematic planning to minimize the taxes paid so that they do not reduce the real profits earned by the company.

Foreign Direct Investment

Foreign direct investment (FDI) is a structure in which parties from one country have capital or ownership of assets to exercise control over the production, distribution, and other activities of firms in other countries (Moosa and Cardak 2003). The United Nations World Investment Report, published by the United Nations Conference on Trade and Development (UNCTAD), defines FDI as a long-term investment that results in the long-term interest and control of an economic entity in one country of origin in an entity in another country.

According to Law No. 25 of 2007 on Investment, foreign investment is the activity of capital investment for the purpose of conducting business in the territory of the Republic of Indonesia, which is carried out by foreign investors, whether using foreign capital solely or jointly with domestic investors. Meanwhile, foreign ownership structures can be individuals, legal entities, and/or foreign governments.

Foreign institutional ownership has been believed to be able to bring good practices to investment firms to improve and sustain firm quality (Aggarwal et al. 2011). This is an indication that foreign institutional investors have a significant influence on business decisions (Luong et al. 2017; Tsang et al. 2019).

Foreign ownership structure in Indonesia is measured by the proportion of shares owned by foreign investors to the total outstanding shares of the firm (Suranta et al. 2020; Pujiningsih & Salsabyla 2022, Yudanto & Damayanti 2022). In addition, FDI can be measured by the proportion of foreign directors who influence the company (Yuanita et al. 2020).

Tax Avoidance dan Foreign Direct Investment

If a country sets a tax rate that is too high, it will reduce foreign investment from multinational companies and increase corporate tax planning (Hong and Smart 2010). This indicates that multinational companies tend to avoid taxes. Multinational companies that are classified as high-income companies have lower effective tax rates compared to domestic companies (Atwood et al. 2012). Therefore, tax avoidance cannot be said to be an ethical act because large companies may pay less tax compared to small companies.

Hasan et al. (2022) found that foreign ownership has a negative impact on tax avoidance. This is due to geographical differences that increase asymmetric information. Foreign institutional investors often do not understand the tax regulations of the country in which they invest, including those related to tax avoidance (Baik et al. 2013). Technically, foreign institutional investors vote on the firm's involvement in aggressive tax avoidance, so they can prevent management decisions for high tax avoidance (Hasan et al. 2022). The presence of foreign parties in the ranks of shareholders puts pressure on management to reduce tax avoidance (Maisaroh and Setiawan 2021). Several other studies also show that foreign institutional ownership is negatively associated with tax avoidance (Badertscher et al. 2013; Pujiningsih & Salsabyla 2022; Akbar et al. 2021).

On the other hand, research findings by Yudanto & Damayanti (2022), and Idzni & Purwanto (2017) indicate that foreign ownership does not have a significant effect on tax avoidance. A country's tax policy can increase foreign investment, which many countries often simultaneously use to limit multinational tax planning (Blonigen & Davies 2002; Hong & Smart 2010).

Salihu et al. (2015), Khan et al. (2017), Shi et al. (2020), and Alkurdi & Mardini (2020), emphasized that foreign ownership has a positive impact on tax avoidance. These findings suggest that management will maintain good firm performance by avoiding taxes to satisfy interested owners, including foreign investors. (Nainggolan and Sari 2020) found that foreign directors with short-term interests have a positive effect on tax avoidance. Salihu et al. (2015) found that foreign directors affect tax avoidance. Considering that Indonesia uses a two-tier system as regulated by Law No. 40 of 2007 on Limited Liability Companies, the board of directors is divided into a board of commissioners (supervisors) and a board of directors (managers).

Based on the description above, this study hypothesizes the following:
H1: The amount of foreign ownership has a positive effect on tax avoidance.
H2: The foreign boards of commissioners have a positive effect on tax avoidance.
H3: The foreign boards of directors have a positive effect on tax avoidance.

RESEARCH METHODS

This research uses quantitative methods to process and analyze data so that conclusions can be drawn in the form of relationships between observed variables. Indonesia was chosen as the population because Indonesia's tax ratio is still below the Asia-Pacific average tax ratio, while FDI into Indonesia is recorded as the second largest in Southeast Asia.

The sampling technique used is purposive sampling. The criteria used are companies that are included in the IDX80 index category, and the company does not have a negative pre-tax income in 2018-2021. The IDX 80 Index is an index that includes the 80 most liquid stocks on the exchange. The index considers liquidity factors and fundamental factors such as financial condition and growth prospects, which are naturally of interest to investors (IDX.co.id, 2021).

Table 1. Sample Selection

Criteria	Firm-year Observation
Listed on IDX80 Index (2nd semester of 2021)	320
Less:	
Firms-year that have negative Pre-tax Income	85
Annual report that has incomplete data	13
Final sample	222

The proxy used in this study to calculate tax avoidance is the book-tax difference (BTD). BTD is the difference between accounting profit (pre-tax income) and taxable income as reported in the financial statements. These differences arise due to different treatment in financial accounting standards and tax regulations. ETR was not used in this study because it has weaknesses when used with panel or time series data. ETR is measured only on an annual basis, which can lead to significant volatility. ETR also does not consider temporary book-tax differences (Firmansyah, Legowo, and Yuliana S.F. 2021).

The company could increase its book income to show investors that its economic performance is strong. On the other hand, companies need to report taxable income to reduce their tax burden. This can be seen through the BTD proxy, which can indicate tax avoidance. Refer toLietz et al. (2013); Saragih et al. (2021) the formula for calculating the book-tax difference (BTD) is as follows:

$$BTD_{i,t} = PreTaxIn_{i,t} - \left(\frac{CurrTax\ i,t}{StatRate\ i,t}\right)$$

then divided by $Total\ Aset_{it}$

were,
$BTD_{i,t}$ = Book Tax Difference
= Pre-tax income (accounting based)
= Current tax expense
= Corporate income tax rate in year t

The interests of foreign parties in this research represent foreign influence. This reflects the foreign direct investment made by a firm. In this research, the foreign influence variable is measured using a proxy adopted from Salihu et al. (2015).

p-ISSN:1411-6510
e-ISSN :2541-6111

First, foreign influence is measured by the proportion of foreign ownership divided by the total number of shares in the firm. The second proxy is the proportion of the board of directors. Considering that Indonesia has a two-tier system as regulated by Law No. 40 of 2007 on Limited Liability Enterprises, the board of directors is divided into a board of commissioners (supervisors) and a board of directors (management). For this reason, the second proxy is measured by the proportion of the board of commissioners in the firm. The third proxy is seen from the proportion of the board of directors in the firm.

In addition to the dependent and independent variables observed as described above, fundamental financial factors such as profitability, leverage, capital intensity, and firm size are considered as control variables.

Profitability is the ability of a company to make a profit during a certain period (Khan and Nuryanah 2023). Profitability influences tax avoidance practices because it is used as a basis for calculating corporate income tax (Fauzan et al. 2019; Sunarto et al. 2021). In this study, profitability is measured using the return on assets (ROA) ratio (Salihu et al. 2015; Yuanita et al. 2020).

Leverage reflects the portion of financing that comes from debt. High leverage allows companies to incur higher interest costs. Increased interest costs will reduce corporate profits that are subject to taxation. Leverage is one of the factors that affect the tax policy of companies (Fauzan et al. 2019; Maharani & Baroroh 2019). In this study, leverage is measured by the ratio of long-term debt divided by total assets (Chen et al. 2010; Salihu et al. 2015; Yuanita et al. 2020).

A firm's capital investment is determined by its decision to finance itself by investing in the firm's assets to conduct its business and earn a profit. Capital intensity affects the firm's depreciation expense. Large assets result in high depreciation expenses for the firm. High depreciation expense will result in lower firm profits, so the income tax payable will be lower. In this study, capital intensity is measured by the ratio of fixed assets to total assets (Chen et al. 2010; Salihu et al. 2015; Yuanita et al. 2020).

Company size is a metric used to indicate the size of a company. It is important to control for variations in the level of company investment in assets with tax incentives (Salihu et al. 2015) due to the possibility of differences in load recognition times (Chen et al. 2010). A larger company size typically indicates greater funding, which in turn may lead to higher return expectations. Management's desire for maximum profits can lead to the encouragement of tax avoidance, as highlighted by (Dewinta and Setiawan 2016). This study measures company size using the natural logarithm of total assets (Salihu et al. 2015; Yuanita et al. 2020) to avoid extreme fluctuations in variable data compared to the sizes of other variables in this study.

Table 2. Definition and measurement of the variables

	Proxy	Formulation
Dependent variable	*BTD =* *Book Tax Differences*	$BTD_{i,t} = \dfrac{PreTaxIn_{i,t} - \left(\frac{CurrTax\ i,t}{StatRate\ i,t}\right)}{Total\ Aset_{i,t}}$
Independent variables	Foreign Ownership	The ratio of shares owned by foreign parties ÷ total company shares
	Foreign BoC	The ratio of foreign Board of Commissioners to the number of BoCs in the company
	Foreign BoD	The ratio of foreign Board of Directors to the number of BoDs in the company
Control variables	Profitability = ROA	Net income ÷ total assets
	Lev = Leverage	Long-term debt ÷ total assets
	CapInt = Capital Intensity	Fixed assets ÷ total assets
	FSize = Firm size	Log total assets
	FAge = Firm Age	Log firm age

To understand each studied variable, we first carry out descriptive data processing. A series of panel data estimation model tests were conducted, including the Chow test, Hausman test, and Lagrange test. These tests are used to determine the most appropriate regression model for the panel data at hand. Based on the results of the selected panel data regression estimation model, classical assumptions are tested, and hypotheses are tested.

This research employs the regression model described above.

$$BTD_{it} = \boldsymbol{\alpha}_i + \boldsymbol{\beta}_1 foreign\_own_{it} + \boldsymbol{\beta}_2 foreign\_BoC_{it} + \boldsymbol{\beta}_3 foreign\_BoD_{it} + \boldsymbol{\beta}_4 profitability_{it} + \boldsymbol{\beta}_5 Capint_{it} + \boldsymbol{\beta}_6 lev_{it} + \boldsymbol{\beta}_7 logFsize_{it} + \boldsymbol{\beta}_8 logFage_{it} + \boldsymbol{\varepsilon}_{it}$$

RESULTS AND DISCUSSION

Table 3 presents descriptive statistics describing the characteristics of the research sample. Tax avoidance, as measured by the book-tax difference (BTD), has a maximum value of 0,1930 and a minimum value of -0,3672. A positive value means that the pre-tax income according to the accounting books is higher than the taxable income. The median value of 0,0006 shows that there are still more companies that have a high BTD or can be said to practice tax avoidance. The standard deviation of BTD is 0,0488 while the mean is -0,0010. The standard deviation is greater than the average, which indicates that the distribution of the book-tax difference variable is heterogeneous or varied.

The foreign ownership ratio has the lowest value of 0,0013 (0,13%), which means that all public companies included in the IDX80 index have foreign investors. The lowest value is owned by PT Kimia Farma Tbk, which is a state-owned company. The highest percentage of foreign ownership was 93,10%, namely PT Unilever Indonesia Tbk in 2020.

The highest ratio of foreign board of commissioners is 0,75, which means that 75% of the board of commissioners are foreign nationals. The highest ratio is owned by Indofood Sukses Makmur Tbk but the highest number is owned by Astra International Tbk. The average composition of the Board of Commissioners is 10,68%, which indicates that the position of the Board of Commissioners is small in Indonesia.

Meanwhile, the highest ratio of foreign boards of directors is 0,67, which means 67% of the board of directors are foreign nationals. The highest ratio is owned by H.M. Sampoerna Tbk at the same time as the highest number of foreign boards of directors. Overall, the proportion of foreign Board of Directors is even lower with an average of 9,90%.

Table 3. Descriptive Statistics

Variable	Ob	Maximum	Min	Mean	Median	Std. Dev.
Dependent variable						
BTD	222	0,1930	-0,3672	-0,0010	0,0006	0,0488
Independent variables						
Foreign_Ownership	222	0,9310	0,0013	0,2822	0,2234	0,2631
Foreign_BoC	222	0,7500	0,0000	0,1068	0,0000	0,1979
Foreign_BoD	222	0,6667	0,0000	0,0990	0,0000	0,1571
Control variable						
Profitability	222	0,4468	0,0006	0,0799	0,0593	0,0730
Capint	222	3,5629	0,0082	0,3502	0,3145	0,3127
Leverage	222	0,6749	0,0027	0,2048	0,1698	0,1523
FIRM_AGE (Year)	222	39	1	19	18	10
FIRM_SIZE (In Million Rupiah)	222	367.311.000	758.844	46.505.733	26.297.460	60.184.022

Profitability has an average value of 0,0799 with a standard deviation of 0,730. This value indicates that, on average, the companies included in the IDX80 Index have relatively competitive profitability. A positive minimum profitability value ensures that the sample in the study does not have a negative pre-tax profit. The highest profitability is led by PT Unilever Indonesia Tbk in 2018, 2019, and 2020. This also shows that the non-cyclical consumer industry sector was able to survive the impact of the Covid-19 pandemic wave. Capital intensity has an average value of 0,3502 and

p-ISSN:1411-6510
e-ISSN :2541-6111

a standard deviation of 0,3127. Similarly, leverage has a mean of 0,2048 and a standard deviation of 0,1698. Both show a lower standard deviation than the average, which means that capital intensity and leverage in companies included in the IDX80 index have relatively standard values.

The firm age in the descriptive statistics is explained based on the age of the company from the time of its IPO to the year the financial report was prepared. The oldest is 39 years old in 2021, namely PT Unilever Indonesia Tbk. Meanwhile, the youngest company is PT Buyung Poetra Sembada Tbk (HOKI), which has only been registered since June 2017. In testing the regression model later, the company age uses the log value so that it does not have a value that is too unequal to other ratio variables.

The firm size in this descriptive statistical table is explained based on the total value of the firm's assets in millions of rupiah. The highest value is owned by PT Astra International Tbk in 2021 with a value of IDR 367,3 trillion, while the lowest value is owned by PT Buyung Poetra Sembada Tbk with a value of IDR 758,8 billion. In testing the regression model later, company age uses the log value so that it does not have a value that is too unbalanced with other ratio variables.

The results of testing the accuracy of the selection of the panel data regression model are presented in Table 4.

Tabel 4. Pemilihan Model Regresi Panel

Variable	Common Effect Model		Fixed Effect Model		Random Effect Model	
	Koefisien	t-statistic	Koefisien	t-statistic	Koefisien	t-statistic
C	0,1475	2,9482	0,0004	0,0017	0,1088	1,4577
FOREIGN_OWNERSHIP	0,0156	1,0435	0,0977	2,7168***	0,0464	2,2886**
FOREIGN_BOC	-0,0032	-0,1535	0,0165	0,4414	-0,0130	-0,5213
FOREIGN_BOD	-0,0184	-0,8801	-0,0103	-0,1936	-0,0281	-0,9805
PROFITABILITY	0,0513	1,1166	0,1703	2,6290***	0,1222	2,4153**
CAPINT	-0,0828	-8,7562***	-0,0726	-7,5329***	-0,0817	-9,9608***
LEVERAGE	0,0378	1,5952	0,0125	0,3428	0,0223	0,8342
LOGFSIZE	-0,0215	-2,7771***	0,0117	0,3630	-0,0108	-0,9410
LOGFIRMAGE	0,0212	1,7012*	-0,0897	-2,5568**	-0,0213	-1,1869
F-statistic	10,9622	Prob = 0,0000	10,6116	Prob = 0,0000	14,6317	Prob = 0,0000
Adj. R-squared	0,2650		0,7473		0,3304	
	Chow test		Hausman test		Lagrange multiplier test	
Choosing the Best Panel Regression Model	Cross-section F. 7,7753 d.f. (60,153), Chi-square Prob. 0,0000		Cross-section Rand. (d.f.) 14,7607 (8) Prob. 0,0640		Cross-section Breusch-Pagan 90,6904 Prob. 0,0000	
Conclusion	Fixed Effect Model		Random Effect Model		Random Effect Model	

*Notes: significance at level *p<0,1 ; **p<0,05 ; ***p<0,01*

The results of the Chow test show that the probability value of the chi-square cross section is 0,0000. At the confidence level (α = 95%), it is concluded that FEM is more appropriate than CEM. Next, the results of Hausman's test show that the probability value of the random cross-section is 0,0640. This value is greater than α 0,05, so it can be concluded that it is more appropriate to use REM rather than FEM. The next step in selecting the best model is to perform a Lagrange multiplier test. Based on the Lagrange multiplier test, it can be concluded that it is more appropriate to use REM than CEM. Thus, of the three best panel regression model test results above, REM is the most appropriate to use at the α level of 0,05.

Table 5. Correlation matrix among the independent and the control variables.

Correlation	F_OWN	F_BOC	F_BOD	PROF	CAPINT	LEV	LOGFSIZE	LOGFIRMAGE
F_OWN	1,000							
F_BOC	0,627	1,000						
F_BOD	0,374	0,427	1,000					
PROF	0,215	0,146	0,236	1,000				
CAPINT	0,058	-0,009	-0,094	-0,063	1,000			
LEV	-0,006	-0,239	-0,051	-0,424	0,206	1,000		
LOGFSIZE	0,265	0,214	0,017	-0,207	-0,057	0,324	1,000	
LOGFIRMAGE	0,354	0,266	0,082	0,059	-0,088	0,083	0,597	1,000

Hypothesis testing in this research was carried out after the classical assumption test was satisfied. The classical multicollinearity assumption test was carried out to show that there is no correlation between the independent variables that exceed 0,8 (Ghozali 2017). Table 5 shows the results of the multicollinearity test, and it can be seen that the highest value is only 0,62. Therefore, the data in this study did not experience multicollinearity problems. Based on the panel regression model that was selected and passed the classical assumption test for panel data, the results of regressing the random effects model are shown in Table 6 below. The F-statistic test results show a Prob (F-statistic) value of 0,0000 or less than the α value of 0,05. This shows that the independent variables and control variables can simultaneously influence the dependent variable (tax avoidance) in the company. This research model is suitable to be tested using regression.

Table 6. Results of the hypothesis test with REM

Variable	Coefficient	Prob.
C	0,1088	0,1464
FOREIGN_OWNERSHIP	0,0464**	0,0231
FOREIGN_BOC	-0,0130	0,6027
FOREIGN_BOD	-0,0281	0,3280
PROFITABILITY	0,1222**	0,0166
CAPINT	-0,0817***	0,0000
LEVERAGE	0,0223	0,4051
LOGFIRMAGE	-0,0213	0,2366
LOGFSIZE	-0,0108	0,3478
Dependent variable = BTD		
Adj. R-square	0,3304	
Durbin-Watson stat	1,9321	
F-statistic	14,6318	
Prob	0,0000	

*Keterangan: *p<0,1 ; **p<0,05 ; ***p<0,01*

Based on Table 6, it is known that the adjusted R square of this model is 0,3304. This shows that the independent variable can explain 33,04% of the tax avoidance measured by BTD, while the rest is explained by other variables outside this research.

Foreign ownership has a positive effect (α<0,05) on tax avoidance with a coefficient of 0,0464. This means that the higher the composition of foreign investors, the higher the tendency of the firm to engage in tax avoidance. These results suggest that management will maintain good corporate performance by reporting high pre-tax income but lower taxable income to avoid taxes. This is to satisfy interested owners, including foreign investors. These results are in line with previous studies conducted by Salihu et al. (2015), Khan et al. (2017), Shi et al. (2020), Alkurdi & Mardini (2020), Nainggolan & Sari (2020).

p-ISSN:1411-6510
e-ISSN :2541-6111

Meanwhile, foreign boards of directors and foreign boards of commissioners do not affect tax avoidance. These results suggest that the number of directors or commissioners does not necessarily affect a firm's tax policy. They do not aggressively exploit the differences between tax and accounting rules. Given that the companies included in the IDX80 index are companies that are of primary interest to investors, it is even more important to maintain the company's reputation. Research by Suranta et al. (2020) also found no evidence of the influence of foreign commissioners on tax avoidance practices. The regulations on access to financial information for tax purposes (AEOI), which came into effect in August 2017, as regulated in PMK number PMK-70/PMK.03/2018, may also support the findings of this research.

The control variable in this research, namely profitability, shows a significance value of 0,0166 ($\alpha<0,05$) with a coefficient of 0,1222, which proves that the profitability ratio has a positive effect on tax avoidance. This result is consistent with the research findings of Richardson et al. (2013b) which state that the profitability ratio has a positive effect on tax avoidance practices. Meanwhile, capital intensity in this study shows a negative effect on tax avoidance. These results suggest that the lower the capital intensity, the more aggressive the tax avoidance. The capital intensity variable is related to depreciation costs, which may affect the amount of taxes paid. These results are consistent with the research of Yuanita et al. (2020). This research cannot show that the leverage ratio, firm age, and firm size affect tax avoidance.

CONCLUSION

The results of this research show that foreign ownership has an impact on tax avoidance. The higher the value of shares or investments owned by foreign parties, the higher the book-tax difference value. This is evidence that companies with foreign direct investment may be able to minimize their tax burden due to the complexity of regulatory differences.

Meanwhile, the number of foreign directors and the number of foreign commissioners does not affect tax avoidance. This shows that the tax policy of the company does not depend on the number of directors. This research is limited to dividing the number of foreign directors by the total number of directors, but it does not consider whether the position is that of a finance director or similar positions that influence the company's tax policy. To overcome this limitation, future research could consider looking at specific positions of foreign directors or using audit committee variables that are directly related to financial reporting.

With purposive sampling, it is possible that the data obtained may not be fully representative of the population of all types of firms. Therefore, further research is needed beyond the IDX80 index.

This research may contribute to positive accounting theory. Shareholders want managers to be able to increase their wealth. For this reason, managers use policy discretion to choose accounting methods that can reduce the tax burden but still show a high book value. This research also serves as an input for the DJP in anticipating the risk of tax avoidance by foreign corporations.

REFERENCE

Aggarwal, Reena, Isil Erel, Miguel Ferreira, and Pedro Matos. 2011. “Does Governance Travel around the World? Evidence from Institutional Investors.” *Journal of Financial Economics* 100 (1): 154–81. https://doi.org/10.1016/J.JFINECO.2010.10.018.

Akbar, M., Chandra. T., and Priyati. R.Y. 2021. “Pengaruh Kepemilikan Saham Asing, Kualitas Informasi Internal, Publisitas CEO, ROA, Leverage Dan Ukuran Perusahaan Terhadap Penghindaran Pajak.” *Jurnal Manajemen Dan Keuangan* 10 (2): 156–70.

Alkurdi, Amneh, and Ghassan H. Mardini. 2020. “The Impact of Ownership Structure and the Board of Directors’ Composition on Tax Avoidance Strategies: Empirical Evidence from Jordan.” *Journal of Financial Reporting and Accounting* 18 (4): 795–812. https://doi.org/10.1108/JFRA-01-2020-0001/FULL/PDF.

Atwood, T. J., Michael S. Drake, James N. Myers, and Linda A. Myers. 2012. “Home Country Tax System Characteristics and Corporate Tax Avoidance: International Evidence.” *Accounting Review*. https://doi.org/10.2308/accr-50222.

Badertscher, Brad A., Sharon P. Katz, and Sonja O. Rego. 2013. “The Separation of Ownership and Control and Corporate Tax Avoidance.” *Journal of Accounting and Economics* 56 (2–3): 228–50. https://doi.org/10.1016/J.JACCECO.2013.08.005.

Baik, Bok, Jun-Koo Kang, Jin-Mo Kim, Joonho Lee, Bok ; Baik, Jun-Koo ; Kang, and Jin-Mo; Kim. 2013. “The Liability of Foreignness in International Equity Investments: The Liability of Foreignness in International Equity Investments: Evidence from the U.S. Stock Market Evidence from the U.S. Stock Market Citation Citation.” *Journal of International Business Studies*. Vol. 44. https://ink.library.smu.edu.sg/soa_research.

Bappenas. 2015. “Menuju 2030 Peta Jalan SDGs Indonesia.” 2015. https://sdgs.bappenas.go.id/website/wp-content/uploads/2021/02/Roadmap_Bahasa-Indonesia_File-Upload.pdf.

Blonigen, Bruce A, and Ronald B Davies. 2002. “Do Bilateral Tax Treaties Promote Foreign Direct Investment?” *Nber Working Paper Series*. http://www.nber.org/papers/w8834.

Chen, Shuping, Xia Chen, Qiang Cheng, and Terry Shevlin. 2010. “Are Family Firms More Tax Aggressive than Non-Family Firms?” *Journal of Financial Economics* 95 (1): 41–61. https://doi.org/10.1016/J.JFINECO.2009.02.003.

Damara, Dioniso. 2023. “Tax Ratio Rendah, Target Pendapatan Negara Masih Bisa Naik?” Bisnis.Com. May 23, 2023.

dataindonesia.id. 2022. “Investasi Asing Ke Indonesia Terbesar Kedua Di Asean Pada 2021.” Dataindonesia.Id. September 20, 2022. https://dataindonesia.id/keuangan/detail/investasi-asing-ke-indonesia-terbesar-kedua-di-asean-pada-2021.

Dewinta, Ida Ayu Rosa, and Putu Ery Setiawan. 2016. “Pengaruh Ukuran Perusahaan, Umur Perusahaan, Profitabilitas, Leverage, Dan Pertumbuhan Penjualan Terhadap Tax Avoidance.” *E-Jurnal Akuntansi Universitas Udayana* 14 (3): 1584–1613.

Dyreng, Scott, Michelle Hanlon, and Edward L Maydew. 2008. “Long-Run Corporate Tax Avoidance.” *The Accounting Review* 83 (1): 61–82.

Fauzan, Fauzan, Dyah Ayu Wardan, and Nashirotun Nissa Nurharjanti. 2019. “The Effect of Audit Committee, Leverage, Return on Assets, Company Size, and Sales Growth on Tax Avoidance.” *JURNAL Riset Akuntansi Dan Keuangan Indonesia* 4 (3). http://journals.ums.ac.id/index.php/reaksi/index.

Firmansyah, A., W.W., Legowo, and Yuliana S.F. 2021. “Agresivitas Pajak Pada Perusahaan Perdagangan Di Indonesia: Profitabilitas, Capital Intensity, Leverage, Dan Ukuran Perusahaan.” *Jurnal Bina Akuntansi* 8 (1): 84–108.

p-ISSN:1411-6510
e-ISSN :2541-6111

Frank, Mary Margaret, Luann J. Lynch, and Sonja Olhoft Rego. 2009. "Tax Reporting Aggressiveness and Its Relation to Aggressive Financial Reporting." In *Accounting Review*, 84:467–96. https://doi.org/10.2308/accr.2009.84.2.467.

Ghozali, I. 2017. *Teori, Konsep dan Aplikasi Dengan IBM SPSS 24*. Semarang: Badan Penerbit–UNDIP.

Hanlon, Michelle, and Shane Heitzman. 2010. "A Review of Tax Research." *Journal of Accounting and Economics* 50 (2–3): 127–78. https://doi.org/10.1016/J.JACCECO.2010.09.002.

Hasan, Iftekhar, Incheol Kim, Haimeng Teng, and Qiang Wu. 2022. "The Effect of Foreign Institutional Ownership on Corporate Tax Avoidance: International Evidence." *Journal of International Accounting, Auditing and Taxation* 46 (March): 100440. https://doi.org/10.1016/J.INTACCAUDTAX.2021.100440.

Hong, Qing, and Michael Smart. 2010. "In Praise of Tax Havens: International Tax Planning and Foreign Direct Investment." *European Economic Review* 54 (1): 82–95. https://doi.org/10.1016/J.EUROECOREV.2009.06.006.

IDX.co.id. 2021. "Index Saham." Https://Www.Idx.Co.Id/Id/Data-Pasar/Data-Saham/Indeks-Saham/. 2021. https://www.idx.co.id/id/data-pasar/data-saham/indeks-saham/.

Idzni, Irsalina Nur, and Agus Purwanto. 2017. "Pengaruh Ketertarikan Investor Asing Dan Institusional Terhadap Penghindaran Pajak Perusahaan." *DIPONEGORO JOURNAL OF ACCOUNTING* 6 (1): 1–12.

Indonesia.go.id. 2023. "G20 Indonesia 2022 | Praktik Penghindaran Pajak Jadi Isu Serius G20 India." 2023. https://indonesia.go.id/g20/kategori/kabar-terkini-g20/7368/praktik-penghindaran-pajak-jadi-isu-serius-g20-india?lang=1.

Khan, Mozaffar, Suraj Srinivasan, and Liang Tan. 2017. "Institutional Ownership and Corporate Tax Avoidance: New Evidence." *Accounting Review* 92 (2): 101–22. https://doi.org/10.2308/accr-51529.

Khan, Muhammad Arsalan, and Siti Nuryanah. 2023. "Combating Tax Aggressiveness: Evidence from Indonesia's Tax Amnesty Program." *Cogent Economics and Finance* 11 (2). https://doi.org/10.1080/23322039.2023.2229177.

Krisna, A Maharani. 2019. "Pengaruh Kepemilikan Institusional Dan Kepemilikan Manajerial Pada Tax Avoidance Dengan Kualitas Audit Sebagai Variabel Pemoderasi. Wacana Ekonomi." *Jurnal Ekonomi Bisnis Dan Akuntansi* 18 (2): 82–91. https://doi.org/10.22225/we.18.2.1162.82-91.

Lietz, Gerrit, I Thank, Bradford Hepfer, Adrian Kubata, Sven Nolte, John Robinson, Tim Wagener, Christoph Watrin, and Ryan Wilson. 2013. "Tax Avoidance vs. Tax Aggressiveness: A Unifying Conceptual Framework." http://ssrn.com/abstract=2363828https://ssrn.com/abstract=2363828Electroniccopyavailableat:http://ssrn.com/abstract=2363828.

Luong, Hoang, Fariborz Moshirian, Lily Nguyen, Xuan Tian, and Bohui Zhang. 2017. "How Do Foreign Institutional Investors Enhance Firm Innovation?" *Journal of Financial and Quantitative Analysis*. Cambridge University Press. https://doi.org/10.1017/S0022109017000497.

Maharani, F. S., and Niswah Baroroh. 2019. "The Effects of Leverage, Executive Characters, and Institutional Ownership to Tax Avoidance With Political Connection as Moderation." *Accounting Analysis Journal* 8 (2): 81–87. https://doi.org/10.15294/aaj.v8i2.30039.

Maisaroh, S., and D. Setiawan. 2021. "Kepemilikan Saham Asing, Dewan Komisaris Asing Dan Direksi Asing Terhadap Penghindaran Pajak Di Indonesia." *Jurnal Akuntansi Dan Bisnis* 21 (1): 29–42.

Mardiasmo. 2018. *Perpajakan Edisi Terbaru 2018*. Yogyakarta: Andi Publisher.

Moosa, Imad A, and Buly A Cardak. 2003. "The Determinants of Foreign Direct Investment: An Extreme Bounds Analysis." *Journal of Multinational Financial Management* 16 (2): 199–211.

Nainggolan, C., and D. Sari. 2020. "Kepentingan Asing, Aktivitas Internasional, Dan Thin Capitalization: Pengaruh Terhadap Agresivitas Pajak Di Indonesia." *Jurnal Akuntansi Dan Bisnis* 19 (2): 147.

OECD. 2022. “Tax-to-GDP Ratio Revenue Statistics in Asia and the Pacific 2023 Indonesia.” https://doi.org/10.9.

Pujiningsih, Sri, and Nisa Aurelya Salsabyla. 2022. “Relationship of Foreign Institutional and Management Incenives to Ta Avoidance.” *Jurnal Akuntansi Dan Keuangan Indonesia* 19 (2): 244–62. https://doi.org/10.21002/jaki.2022.12.

Richardson, Grant, Grantley Taylor, and Roman Lanis. 2013a. “The Impact of Board of Director Oversight Characteristics on Corporate Tax Aggressiveness: An Empirical Analysis.” *Journal of Accounting and Public Policy* 32 (3): 68–88. https://doi.org/10.1016/J.JACCPUBPOL.2013.02.004.

———. 2013b. “Determinants of Transfer Pricing Aggressiveness: Empirical Evidence from Australian Firms.” *Journal of Contemporary Accounting & Economics* 9 (2): 136–50. https://doi.org/10.1016/J.JCAE.2013.06.002.

Salihu, Ibrahim Aramide, Hairul Azlan Annuar, and Siti Normala Sheikh Obid. 2015. “Foreign Investors’ Interests and Corporate Tax Avoidance: Evidence from an Emerging Economy.” *Journal of Contemporary Accounting & Economics* 11 (2): 138–47. https://doi.org/10.1016/J.JCAE.2015.03.001.

Saragih, Arfah Habib, Mutya Nurmala Raya, and Adang Hendrawan. 2021. “The Moderating Role of Firm Size on the Association between Managerial Ability and Tax Avoidance.” *Jurnal ASET (Akuntansi Riset)* 13 (1): 39–49. https://doi.org/10.17509/jaset.v13i1.30783.

Shi, Ailyn A., A. A., Concepcion, F. R. Shi, C. M. R., Laguinday, T. A. T. Ong Hian Huy, and A. A. Unite. 2020. “An Analysis of the Effects of Foreign Ownership on the Level of Tax Avoidance Across Philippine Publicly Listed Firms.” *DLSU Business and Economics Review* 30 (1): 1–14. https://www.researchgate.net/publication/343877979.

Sunarto, Sunarto, Budiadi Widjaja, and Rachmawati Meita Oktaviani. 2021. “The Effect of Corporate Governance on Tax Avoidance: The Role of Profitability as a Mediating Variable.” *Journal of Asian Finance, Economics and Business* 8 (3): 217–27. https://doi.org/10.13106/jafeb.2021.vol8.no3.0217.

Suranta, Eddy, Pratana Midiastuty, and Hairani Ramayanti Hasibuan. 2020. “The Effect of Foreign Ownership Structure and Foreign Commissioners’ Board of Tax Avoidance.” *Journal of Economics, Business, & Accountancy Ventura* 22 (3). https://doi.org/10.14414/jebav.v22i3.2143.

Tsang, Albert, Fei Xie, and Xiangang Xin. 2019. “Foreign Institutional Investors and Corporate Voluntary Disclosure around the World.” *Accounting Review* 94 (5): 319–48. https://doi.org/10.2308/accr-52353.

United Nations Conference on Trade and Development. 2019. “World Investment Report 2019.” https://unctad.org/system/files/official-document/wir2019_en.pdf.

Watts, R. L., and J. L. Zimmerman. 1978. “Towards a Positive Theory of the Determination of Accounting Standards.” *Accounting Review*, 112–34.

Watts, Ross L., and Jerold L. Zimmerman. 1986. *Positive Accounting Theory*.

———. 1990. “Positive Accounting Theory: A Ten Year Perspective.” *The Accounting Review* 65 (1): 131–56.

Yuanita, Dielanova Wynni, Christine Novita Dewi, Arief Zuliyanto Susilo, and Kusharyanti Kusharyanti. 2020. “Foreign Investor’s Interest and Tax Avoidance: Contingency Perspectives Depending on Coun-Try’s Protection Level and Law Systems *.” *Gadjah Mada International Journal of Business* 22 (1): 74–98. http://journal.ugm.ac.id/gamaijb.

Yudanto, Limpat Akbar, and Theresia Woro Damayanti. 2022. “Political Connection, Foreign Ownership, and Tax Avoidance: Does Executive Gender Moderate the Relationship?” *Journal of Economics, Business, & Accountancy Ventura* 24 (3): 408–19. https://doi.org/10.14414/jebav.v24i3.2899.