


## The Influence Of Family Ownership On Tax Avoidance

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Article Info	ABSTRACT
<p><b>Keywords:</b> Family Ownership, Tax Avoidance, Good Corporate Governance</p>	<p>This study aims to analyze the influence of family ownership on tax avoidance and examine the role of Good Corporate Governance (GCG) as a mediating variable in this relationship. The study employs a quantitative approach with a panel data regression model, applied to manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange (IDX) during the 2013–2020 period. The results indicate that family ownership does not have a significant effect on tax avoidance. Furthermore, GCG fails to mediate the relationship between family ownership and tax avoidance, with a mediation test probability value of 0.7572. These findings suggest that strategic decisions in family-owned companies are more influenced by family values than by formal governance mechanisms. The implications of this research highlight the importance of strengthening corporate governance practices that are more substantive and relevant to the characteristics of family businesses, through both regulatory oversight and internal improvements. This study provides both academic and practical contributions to the development of tax policies and governance in Indonesia.</p>
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### INTRODUCTION

The tax sector is a primary source of revenue for Indonesia and plays a strategic role in financing national development (Najicha, 2022; Yusuf, Anthoni and Fahmi, 2022; Linawati and Widyastuti, 2024). However, tax avoidance practices by taxpayers, both individuals and corporations, present a significant challenge that can reduce the country's potential revenue (Sulaiman and Yusuf, 2024). According to a report by the Tax Justice Network (2020), Indonesia is estimated to lose USD 4.86 billion, or IDR 69.1 trillion, annually due to tax avoidance practices (Fatimah, 2020). Furthermore, the report shows that Indonesia ranks fourth in Asia for tax avoidance cases, after China, India, and Japan. This situation highlights the urgency of identifying factors influencing tax avoidance to formulate more effective policies to address this issue.

One important factor that is the focus of this research is family ownership in companies. Family-owned companies have unique characteristics, where family members often control the company's management and tend to protect the family's reputation (Suwarno and Harianti, 2022). According to Sujannah (2021), family ownership can increase the tendency of companies to engage in tax avoidance to maximize profits. However, Hartono (2022) found

that family ownership does not significantly affect tax avoidance, indicating differences in findings between studies. These inconsistencies suggest the need for a deeper examination of the relationship between family ownership and tax avoidance.

In the context of companies in Indonesia, tax avoidance is often linked to management practices that exploit legal loopholes. The self-assessment system in taxation, which grants taxpayers the authority to calculate and report their taxes independently, provides opportunities for companies to optimize tax avoidance strategies (Mahwiyah, Khotimah and Betara, 2023; Rahayu, 2023). Jensen and Meckling (1976), in their agency theory, explain that the relationship between principals (shareholders) and agents (company management) often creates moral hazard due to the asymmetric information held by agents. This asymmetry can be exploited by agents for personal gain, including in corporate tax management.

Good Corporate Governance (GCG) is often proposed as a solution to reduce the risk of tax avoidance by increasing transparency, accountability, and internal corporate oversight. Rizaldy (2023) emphasize that GCG plays an important role in mediating the relationship between family ownership and tax avoidance. Additionally, Firmansyah *et al.*, (2021) and Dewi, Ruhayat and Suropto (2024) found that good corporate governance improves transparency and accountability, thereby reducing the risk of tax avoidance.

Tax avoidance measurement methods have also evolved significantly. Edwards, Kubata and Shevlin (2021) developed the Cash Effective Tax Rate (CETR), widely used in tax research to quantitatively measure tax avoidance levels. Rustinawati and Wahyudi (2020) state that ineffective company management can create opportunities for agents to implement risky tax avoidance policies. Meanwhile, Panggabean and Hutabarat (2020) argue that tax avoidance can directly affect a company's profitability, either directly or through mediating variables such as solvency. In the context of family-owned companies, Ayunanta, Mawardi, and Malikah (2020) note that family businesses tend to have higher stock values, which may influence tax avoidance levels. However, the dominance of families in decision-making often blurs the line between personal and corporate interests, creating new challenges in implementing GCG.

This research focuses on manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange (IDX) during the 2013–2020 period. This subsector was chosen due to its relevance to the characteristics of family businesses and its significant contribution to Indonesia's economy. Analyzing tax practices in this subsector is expected to provide new insights into the dynamics of tax avoidance in family-owned companies. Using a quantitative approach with a panel data regression model, this study aims to measure the influence of family ownership on tax avoidance while controlling for other relevant variables. Additionally, this research seeks to examine whether Good Corporate Governance mediates this relationship, thereby providing a more comprehensive understanding of tax management dynamics in family-owned companies.

The results of this study are expected to contribute theoretically to the development of agency theory in the context of taxation and corporate governance. Practically, this research is also expected to provide strategic recommendations to policymakers, regulators, and family-owned companies to enhance governance practices that are more transparent and

accountable, thereby reducing the risk of tax avoidance. With better tax management, it is hoped that financial stability can be achieved, supporting sustainable economic growth.

## METHODS

This study employs a quantitative approach aiming to analyze the influence of family ownership on tax avoidance and to examine the mediating role of Good Corporate Governance (GCG) in this relationship. The quantitative method was chosen because it provides objective and measurable results based on numerical data, enabling a more accurate depiction of the relationships among the variables studied (Sugiyono, 2016; Yulyanah and Kurniawati, 2021; Aerlandga, Yulyanah and Putra, 2024).

The population in this study consists of food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2013–2020 period. The selection of this sub-sector is based on its relevance to the characteristics of family-owned companies and its significant contribution to Indonesia's economy. From the total population, the study sample was selected using purposive sampling techniques, with inclusion criteria such as companies having complete data on family ownership, GCG, and tax avoidance during the study period. As a result, 13 companies met these criteria and were included as the sample for this research.

Table 1. The sampling method with criteria

No.	Sample Criteria	Does Not Meet Criteria	Total
1	Manufacturing companies in the food and beverage subsector listed on the IDX from 2013 to 2020	-	32
2	Food and beverage subsector companies that did not publish complete financial statements on the IDX from 2013 to 2020	-14	18
3	Manufacturing companies in the food and beverage subsector that did not have positive earnings from 2013 to 2020	-5	13
4	Manufacturing companies in the food and beverage subsector with CETR above 100%	0	13
Total Sample			13
Observation Years			8
Total Sample Observations			104

The variables in this study consist of dependent, independent, and mediating variables. The dependent variable is tax avoidance, measured using the Cash Effective Tax Rate (CETR) ratio, based on the method developed by Chen and Chu (2010). CETR is calculated by dividing cash taxes paid by pre-tax income. The independent variable is family ownership, measured by the percentage of shares owned by the family relative to the total outstanding shares. The mediating variable is Good Corporate Governance (GCG), measured using compliance indicators with GCG principles as outlined by the Financial Services Authority (OJK).

The data used in this study are secondary data obtained from company annual reports, sustainability reports, and financial data accessed through the official website of the Indonesia Stock Exchange (IDX) and other platforms such as IDX or Bloomberg. These data include information on corporate ownership structure, GCG reporting, and tax payments during the study period.

Data analysis was performed using a panel data regression model, which allows researchers to analyze the relationships between variables across time dimensions and between companies. This model was chosen because it can capture heterogeneity effects across entities and control for biases caused by unobserved variables. Two regression models were used in the analysis: the first model measures the direct effect of family ownership on tax avoidance, and the second model examines the mediating role of GCG.

To ensure data validity and reliability, several statistical tests were conducted, such as multicollinearity tests, heteroscedasticity tests, and autocorrelation tests. Additionally, the Hausman test was used to determine whether a fixed effects model or a random effects model was more appropriate for panel data analysis.

## RESULTS AND DISCUSSION

The following are the panel data statistical test results using Eviews Version 9.0.

**Table 2.** Panel data regression results using Eviews Version 9.0.

Total panel (balanced) observations: 104				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.170350	0.213907	0.796376	0.4277
X2	0.119602	0.385876	-0.309949	0.7572

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### The Influence of Family Ownership on Tax Avoidance

The statistical test results in this study indicate that the family ownership variable has a probability value of 0.4524, which is greater than the significance level of 0.05. This suggests that there is no statistically significant relationship between family ownership and tax avoidance in the food and beverage sub-sector manufacturing companies studied during the 2013–2020 period. These findings align with the results of Irawati *et al* (2020), who also

found that family ownership does not significantly affect tax avoidance. This reinforces the argument that family control within companies does not necessarily encourage tax avoidance practices. However, these results contradict the study by Wijayani (2016), which stated that family ownership could influence tax avoidance. In their research, family-owned companies were considered to have a greater incentive to reduce tax liabilities to maximize company profits and protect family welfare. This inconsistency highlights the complexity of the role of family ownership in tax avoidance, which may depend on various other factors such as corporate governance, tax policies, or market conditions.

One explanation for these findings is the perspective of family reputation. Family-owned companies often prioritize long-term reputation and avoid the risk of sanctions or penalties that could damage their public image. Furthermore, more transparent and accountable corporate governance in family-owned companies may act as a deterrent for management to take risks associated with tax avoidance. This governance structure is often directly overseen by family members who have a significant interest in the sustainability of the company. In the context of agency theory, conflicts between principals (owners) and agents (management) often drive tax avoidance. However, in family-owned companies, the roles of principals and agents often overlap, reducing the potential for conflict. This condition could be one reason why family ownership does not significantly influence tax avoidance. Additionally, Indonesia's tax system, which uses a self-assessment approach, places the responsibility on companies to calculate and report their tax obligations. This system may also affect the level of tax avoidance, particularly in well-organized companies like family-owned businesses.

In some cases, family-owned companies may perceive that tax avoidance efforts are not worth the risks and costs incurred, such as fines or reputational losses. Moreover, Good Corporate Governance (GCG) implemented in family-owned companies could be a factor explaining the lack of a significant relationship between family ownership and tax avoidance. Good governance ensures that all decisions, including those related to taxes, are made ethically and transparently. The specific characteristics of the food and beverage sub-sector manufacturing companies may also influence these findings. Companies in this sub-sector tend to be more stable and oriented toward basic needs, reducing the pressure to engage in tax avoidance compared to other sub-sectors. Furthermore, the study period from 2013–2020 may play a role. During this period, Indonesia's tax policies underwent several changes that could affect corporate tax behavior.

### **The Mediating Influence of Good Corporate Governance**

The research results indicate that the variable Good Corporate Governance (GCG) is unable to mediate the relationship between family ownership and tax avoidance. This conclusion is based on the mediation test probability value of 0.7572, which is far above the significance level of 0.05. Thus, it can be concluded that the role of GCG as a mediator in the relationship between family ownership and tax avoidance is not proven significant in the context of this study. These findings reinforce the argument that although GCG plays an important role in managing a company as a whole, its implementation does not always influence decision-making related to tax strategies, especially in family-owned companies.

These findings are consistent with the research by Priharta (2022), which stated that GCG is not significant in mediating the effect of family ownership on tax avoidance. In this context, the dominance of family decision-making often reduces the effectiveness of GCG mechanisms, especially when governance practices are not optimally implemented or are merely formalities to meet regulatory requirements. In other words, in family-owned companies, strategic decisions are often more influenced by family values and goals than by formal corporate governance mechanisms. However, these results contradict the findings of Priharta (2022), which showed that corporate governance can mediate the relationship between family ownership and tax avoidance under certain conditions. For example, when a strong GCG structure is implemented, such as an independent board of commissioners and an effective audit committee, corporate governance can control management behavior, including tax avoidance. These differing findings indicate that the mediating role of GCG is highly contextual and depends on the specific implementation in each company.

The context of family-owned companies is a critical factor influencing the effectiveness of GCG. In family-owned businesses, governance structures are often designed to serve family interests rather than ensure transparency and accountability in accordance with GCG standards. As a result, corporate governance loses its function as a risk controller, including risks associated with tax strategies. This could be one reason why GCG is unable to mediate the relationship between family ownership and tax avoidance in this study. Moreover, the symbolic role of GCG in family-owned companies may also explain these results. In many cases, the implementation of GCG in family businesses is done merely to meet regulatory requirements without genuine efforts to apply the principles of good governance. For instance, although a company may have an independent board of commissioners, its influence on decision-making is often limited by the dominance of family owners. Consequently, existing GCG mechanisms are not strong enough to influence corporate tax policies.

These results also reflect that the relationship between family ownership and tax avoidance is more influenced by other factors that are not mediated by GCG. These factors may include family values, risk preferences, or external pressures from the market and regulators. In other words, while GCG is an important component of corporate governance, its influence on tax avoidance in family-owned companies may not be as significant as assumed in governance theory .

## CONCLUSION

The research results show that family ownership does not have a significant influence on tax avoidance, indicating that the dominance of families in the ownership structure of companies does not directly drive tax avoidance behavior. This finding contradicts the assumption that family-owned companies tend to be more profit-oriented through aggressive tax strategies. Furthermore, this study found that Good Corporate Governance (GCG) is unable to mediate the relationship between family ownership and tax avoidance. These findings highlight that the effectiveness of GCG in family-owned companies often depends on the quality of its implementation, which in many cases is symbolic to meet regulatory requirements rather than adopting substantive governance principles. The implications of this research emphasize the importance of a more contextual approach in evaluating the tax behavior of family-owned

companies, taking into account factors such as family values, risk preferences, and external pressures. This study provides significant academic and practical contributions to understanding the dynamics of family ownership, corporate governance, and tax avoidance.

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