

1 **THE INFLUENCE OF INSTITUTIONAL OWNERSHIP**
2 **AND FOREIGN OWNERSHIP ON TAX AVOIDANCE**
3 **WITH AUDIT QUALITY AS A MODERATION**
4 **VARIABLE**
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ABSTRACT

Objective:This research was conducted with the aim of examining how institutional ownership, foreign ownership, and audit quality can influence tax avoidance practices.

Time and Place of Research:Consumer Goods Sector Manufacturing Companies listed on the Indonesia Stock Exchange in 2018-2022

Method:This research involved a sample of 72 manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange. The object of study used is company financial data from 2018 to 2022. There are 370 pieces of data in this research population. This research selects samples by selecting data from panels so that the number of data that can be used as a sample is 125. In this research, the analysis technique used is EVIEWS 13 software.

Conclusion:Institutional ownership has a negative effect on tax avoidance, foreign ownership has a positive effect on tax avoidance, audit quality moderates institutional ownership on tax avoidance, audit quality does not moderate foreign ownership on tax avoidance.

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Keywords: Institutional Ownership, Foreign Ownership, Audit Quality, Tax Avoidance

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1. INTRODUCTION

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Indonesia is a country that is experiencing development, where revenue is needed to support the country's development. One source of financial income in Indonesia comes from the taxation sector. The implementation of taxes has a crucial role in economic growth in our country. Collecting taxes is very important for the state because taxes are the main source of income used to support state spending needs, including regular and development spending. The cause of not achieving the tax revenue target can come from steps taken by taxpayers to reduce the amount of tax they have to pay. There are many strategies that can be used to achieve this goal, ranging from those that comply with tax regulations to those that violate them. Another example is not paying taxes. A report from the Tax Justice Network claims that PT Bentoel Internasional Investama Tbk, a company connected to British American Tobacco (BAT) in Indonesia, is involved in tax deductions that cause state losses of US\$ 14 million every year. A research found that BAT subsidiaries in Indonesia were involved in reducing the tax burden in two different ways:

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By making interest payments on loans through local companies as well as paying royalties, fees and information technology costs. One way to avoid this is to move transactions to BAT subsidiaries abroad that have agreed to a tax agreement with Indonesia. In the document, Bentoel announced the payment of debt interest of US\$ 164 million or the equivalent of Rp.

36 2.25 trillion, as well as information technology fees and honorarium to parent company BAT.
37 As a result, Bentoel experienced a net loss of 27%. Only for the Netherlands, the Indonesian
38 government imposes a tax of 20% on these payments. Bentoel used this agreement to obtain
39 a loan facility from Rothmans Far East BV in the Netherlands. The funds given to Bentoel
40 actually came from a BAT subsidiary in England called Pathway 4 (Jersey) Limited, and were
41 channeled through a Dutch company account. The Indonesian government could actually
42 generate tax revenues of 20% of its US\$ 164 million in revenue, which is equal to US\$ 33
43 million or US\$ 11 million annually, through other methods used by Bentoel. BAT's British
44 subsidiary had to pay around US\$ 19.7 million. Indonesia charges a tax rate of 25% on these
45 payments, including royalties, information technology fees and shipping costs. However,
46 thanks to the tax agreement between Indonesia and the UK, the tax rate that must be paid is
47 only 15%. As a result, this plan could result in Indonesia losing US\$ 2.7 million in tax revenue
48 every year. The impact of this tax avoidance is a reduction in the income that the state will
49 receive from the APBN.

50 Many things can influence a company's decision to reduce taxes. All these factors must be
51 considered carefully before making a decision. Some factors that can have an impact include
52 audit quality, institutional ownership, and foreign ownership. Institutional ownership plays a
53 very vital role in monitoring management performance more effectively. As institutional
54 ownership increases, supervision of company management will also become tighter, so that
55 companies' efforts to aggressively avoid taxes will decrease. According to the regulations in
56 Article 1 paragraph 8 of Law Number 25 of 2007, foreign ownership includes investment
57 owned by foreign business entities such as foreign countries, foreign persons, or Indonesian
58 companies that are partially or fully owned by foreign parties. Based on the article that has
59 been described, it can be concluded that foreign shares include the number of ordinary shares
60 owned by individuals, legal entities, countries and institutions from abroad. The presence of
61 foreign investment can influence investors' motivation to utilize their resources to support
62 company activities. Capital control has an impact on the cost of capital, investment levels,
63 technology transfer, and the distribution of profits from foreign investment. In addition, foreign
64 ownership determines how much a foreign company can manage its subsidiaries and maintain
65 its assets. According to research conducted by Priyanto & Qitbthiyyah in 2020, it appears that
66 company performance experiences an initial increase when there is foreign ownership, but
67 after reaching a certain point, company performance begins to decline or even takes an
68 inverted U shape. Shows that domestic ownership is necessary to achieve optimal efficiency.
69 A study conducted by Muhammad Yazzid Muhajirin, Asriani Junaid, Muh Arif, and Andika
70 Pramukti (2021) concluded that foreign ownership contributes positively and significantly to
71 tax avoidance. However, other research conducted by Sri Pujiningsih (2022) found that having
72 foreign institutions actually has a bad effect on tax avoidance efforts. Quality audits are a form
73 of external supervision that aims to monitor management actions in order to prevent tax
74 avoidance. The purpose of this audit is to ensure that the financial reports have been prepared
75 in accordance with applicable standards and do not violate tax regulations. Evaluation of the
76 role of audit quality is considered in relation to the impact of institutional ownership and foreign
77 ownership on the company's efforts to reduce tax liabilities. Several previous studies have
78 been conducted regarding the correlation between audit quality and tax reduction measures
79 and tax risk. Abernathy and his colleagues conducted research on this topic. In 2019, a study
80 was conducted to investigate the response of external auditors to tax risks. This research
81 shows that there are two positive relationships between audit expenditures and increased tax
82 risk with additional costs arising from aggressive actions in terms of taxes. Other studies show
83 that using auditor size as an indicator of auditor quality can have a significant negative impact
84 on tax avoidance (Ahmad Ruslan, 2023; Monika Christin Maria, & Noviani Naniek, 2021).
85 Agency theory is a concept that explains agency relationships and the problems that arise
86 from these relationships (Jensen & Meckling, 1976). An agency relationship is a bond between
87 two entities, where the first entity acts as the principal and the second entity acts as an agent

88 who mediates to represent the principal in carrying out transactions with other parties. The
 89 principal gives authority to the agent to carry out transactions on behalf of the principal and is
 90 expected to make decisions that are most profitable for the principal.
 91 The correlation between the concept of agency and efforts to reduce tax payments has been
 92 proven. If management wants to create the impression of lower company profits in order to
 93 reduce the amount of taxes they have to pay, they may present less accurate data to
 94 shareholders. This also shows that higher tax payments will cause the company's liquidity to
 95 decrease so that profits will also decrease (Hanifah, 2022). Companies try to minimize tax
 96 payments to the state because they see taxes as a large burden. Therefore, managers will
 97 attempt to determine the amount of tax the business must pay so that they can optimize
 98 revenue. Instead, the government and principals aim to collect as much tax as possible from
 99 all people subject to tax obligations. Therefore, institutional ownership is very important to
 100 supervise the management process so that information is transparent and tax exemptions can
 101 be minimized.

102 2. METHODS

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104 2.1 Tax evasion

105 Pohan (2013:23) Tax avoidance refers to legal and safe actions carried out by taxpayers in
 106 accordance with tax provisions. In this case, taxpayers use methods and strategies that tend
 107 to exploit loopholes (gray areas) in tax laws and regulations to reduce the amount of tax that
 108 must be paid. In this study, tax avoidance is measured by comparing the Official Tax Rate
 109 (STR) and the Effective Tax Rate (ETR) (Jamei, 2017). Statutory Tax Rates (TPS) or tax rates
 110 regulated by law are tax rates that are legal and have been determined by the tax authority
 111 based on certain rules. One example of the Income Tax Rate System (PPH) is the 25% tax
 112 rate imposed on companies. According to research conducted by Anggraini et al. According
 113 to the STR report published in 2021, Indonesia was subject to a tax rate of 25% during the
 114 research period from 2007 to 2018. In Indonesia, from 2010 to 2019, the rate applied was 0.25
 115 or 25% based on Article 17 of the Law. Income Tax Act. In 2020 and 2021, the corporate
 116 income tax rate is 22% in accordance with Article 2 of Government Regulation Number . In
 117 2020, 30 years have passed. The percentage of tax imposed on reported pre-tax profits is
 118 known as the Effective Tax Rate (ETR) and is considered the effective tax rate. The decrease
 119 in the effective tax rate indicates an increase in the number of companies that reduce taxes.
 120 This study simplifies the concept of Effective Tax Rate (ETR) by reducing the Sales Tax Rate
 121 (STR) percentage, resulting in a figure that is greater than Tax Avoidance which reflects more
 122 corporate tax avoidance practices. The higher utilization of Tax Tariff Effectiveness achieved
 123 indicates reduced company efforts to reduce tax payments (Rani, 2017). Rani (2017) explains
 124 that the ETR and STR calculation method is as explained by Jamei (2017) and his colleague
 125 Tarmidi. According to a study carried out in 2022, tax evasion calculations use the following
 126 formula.

$$TA = STR - ETR$$

$$ETR = \frac{\text{Tax Paid}}{\text{Profit Before Tax}} \times 100\%$$

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Where: TA = Tax Avoidance

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STR = Statutory Tax Rate

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ETR = Effective Tax Rate

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132 2.2 Institutional Ownership

133 Institutional ownership refers to shares or shares owned by companies within or outside the
 134 country, in which the government does not have ownership or shares. The measurement of

135 institutional ownership variables has been used in research (Pratomo & Rana, 2021) and
 136 Ahmad Gazali (2020). as follows:

$$KI = \frac{Kepemilikan\ Institusional}{Jumlah\ Saham} \times 100\%$$

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138 **2.3 Foreign Ownership**

139 Foreign ownership refers to the share or ownership owned by an entity or individual from
 140 abroad. This can be an investment by a foreign individual or company within a country. The
 141 measurement of foreign ownership variables has been used in research (Alianda, Andreas,
 142 Nasrizal, & Azhar, 2021) and (Sari, 2019) as follows:

$$KA = \frac{Kepemilikan\ Asing}{Jumlah\ Saham} \times 100\%$$

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144 **2.4 Audit Quality**

145 The auditor's ability to identify and report errors or fraudulent acts in the client's financial
 146 records is a sign of the level of audit performance carried out. Audit quality can be measured
 147 using dummy variables as indicators. If a company is audited by a Big 4 KAP, it will get a rating
 148 of 1, but if a company is audited by a non-Big 4 KAP, it will get a rating of 0. This study involved
 149 four leading companies, namely Price Water House Coopers (PWC), Deloitte Touche
 150 Tohmatsu , Klynveld Peat Marwick Goerdeler (KPMG) International, and Ernst and Young
 151 (EY).

152 **2.5 Data Analysis Methods**

153 In this study, the data processing technique used is inferential statistics to test the hypotheses
 154 that have been proposed. Parametric inferential statistics is a technique used in research to
 155 test population characteristics using sample data, or to analyze sample data to draw
 156 conclusions about the population. The data that has been collected for each research variable
 157 is then processed or analyzed using the panel data regression analysis method to determine
 158 whether the independent variable has a significant impact on the dependent variable, so panel
 159 data regression analysis is carried out. Panel data regression is a statistical method used to
 160 analyze the relationship between independent variables and dependent variables using data
 161 collected from various time periods and locations. This method integrates time series and
 162 cross-sectional data so that it can provide more comprehensive information regarding the
 163 influence of independent variables on the dependent variable.

164 **3. RESULTS AND DISCUSSION**

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166 **3.1 Descriptive Statistical Analysis**

167 Descriptive statistical analysis was carried out on 125 financial report data used as samples
 168 in this study. Descriptive statistical analysis involves observing the lowest value (min), highest
 169 value (max), average (mean), middle value (median) and standard deviation for each
 170 company. Table 1 below shows the results of descriptive statistical analysis.

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Table 1 Descriptive Analysis

	Y	X1	X2
Mean	0.133616	0.604546	0.537811
Median	0.020578	0.604580	0.575073
Maximum	6.684553	0.999584	0.999584
Minimum	0.000205	0.054237	0.049916
Std. Dev.	0.616071	0.279645	0.311426

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174 1. In the Tax Avoidance variable (Y), the average value is 0. 133616, while the middle value
 175 is 0. 020578 Companies with the PSDN code (have a maximum value of 6. 684553. In 2019,

176 they have a minimum value of 0.000205 for companies with the code SQBI in 2018, showed
 177 a standard deviation value of 0.616071 for the tax avoidance variable.

178 2. In the Institutional Ownership variable (X1), the average value is 0.604546, the middle
 179 value is 0.604580, and the highest value is 0.999584 which is owned by a company with the
 180 code RMBA. In 2018, it has a minimum value of 0.054237 for companies with the code COCO,
 181 in 2018 it had a standard deviation of 0.279645 for the institutional ownership variable.

182 3. The average value of the Foreign Ownership variable (X2) is 0.537811, while the middle
 183 value is 0.575073. Companies with the code RMBA, have the highest value of 0.999584 in
 184 2018, have a minimum value of 0.049916 owned by the company with the CEKA code, the
 185 standard deviation value is 0.311426 for the institutional ownership variable.

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 187 **3.2 Test Chow**

188 Model evaluation for Chow test depends on whether the P-value (Prob>F) in FE is less than
 189 0. The number 05 shows that the fixed effect model is superior to the common effect model.
 190 If the P Value exceeds 0. The general effects model is preferred over the fixed effects model
 191 because it is able to better capture variations in the data. If the P value is less than 0, vice
 192 versa. Fixed effects models are recommended over general effects models if the independent
 193 variables do not vary from one period to another. Table 2 shows the information obtained from
 194 the Chow test. See the chow test results in table 2 below.

195 **Table 2 Chow test**

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Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.821341	(26,94)	0.0000
Cross-section Chi-square	119.926347	26	0.0000

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 198
 199 From the tests in table 2 it shows that the P Value (Prob>F) is 0.0000 which is smaller than
 200 0.05 so that for the Chow test the Fixed Effect Model (FEM) is better.

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 202 **3.3 Hausman test**

203 The model selected in the Hausman test can be determined using the chi square test as a
 204 guide. If the probability is higher than the chi-square statistical value, then the effect model will
 205 still be superior if the significance level is less than 0.05. However, if the situation were
 206 reversed, then the best option would be a random effects model. The results of the Hausman
 207 test can be seen in Table 3 below.

208 **Table 3 Hausman Test**

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Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.199174	4	0.0372

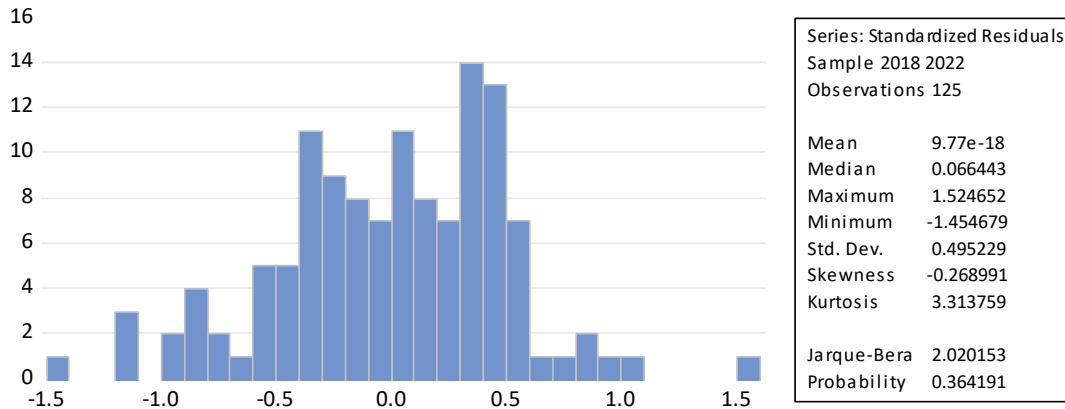
210
 211 Table 44 shows that the chi2 probability value is 0.0372, which indicates that the fixed effects
 212 model is better for the Hausman test in this study. Based on the results of the Chow test and
 213 Hausman test, it was concluded that the FEM model was the best choice.

214 **3.4 Normality test**

215 Examination of the data in this study used the Kolmogrov-Smirnov (KS) method with a test
 216 significance level of $\alpha = 0.05$. If the p value is greater than the significance level $\hat{1}\pm$, then the
 217 residual has a normal distribution. If the p value is less than alpha, it indicates that the residuals
 218 do not have a normal distribution. Graph 1 below shows the normality test results.

219 **Figure 1 Normality Test**

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The normality test results show that the probability value obtained is 0.364, which exceeds the significance value of 0.05. Thus, the conclusion is that the null hypothesis (H0) can be accepted, which means that the data in the study follows a normal distribution.

3.5 Multicollinearity Test

If the relationship between independent variables has a correlation coefficient that exceeds 0.8, then there is a possibility of multicollinearity. If the correlation coefficient between independent variables does not exceed 0.8, then there will be no tendency to multicollinearity. Table 4 below displays the test results to evaluate the presence of multicollinearity. By using data from the table, we can see whether there is multicollinearity in the model being tested.

Table 4 Multicollinearity Test

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	LNY	X1	X2	X1Z	X2Z
LNY	1	0.00642812...	0.11051434...	-0.1373728...	-0.0122903...
X1	0.00642812...	1	0.55583065...	0.68625636...	0.45534560...
X2	0.11051434...	0.55583065...	1	0.27947212...	0.71476529...
X1Z	-0.1373728...	0.68625636...	0.27947212...	1	0.70013204...
X2Z	-0.0122903...	0.45534560...	0.71476529...	0.70013204...	1

Based on the results of the multicollinearity test above, it can be concluded that all correlation coefficient values are still below 0.8 so that the data used in this research do not experience symptoms of multicollinearity.

3.6 F test

The condition for making decisions regarding the F test is that if the significance value is less than 0.05, this indicates that the independent variables as a whole have an important impact on the dependent variable so it can be concluded that the hypothesis can be accepted. However, if the significance value exceeds 0.05, this indicates that there is no linear correlation between the independent variable and the dependent variable, so the hypothesis needs to be rejected. Table 5 shows the results of the f test.

Table 5 F test

R-squared	0.638077	Mean dependent var	-1.686511
Adjusted R-squared	0.522570	S.D. dependent var	0.823185
S.E. of regression	0.568791	Akaike info criterion	1.920373
Sum squared resid	30.41116	Schwarz criterion	2.621795
Log likelihood	-89.02332	Hannan-Quinn criter.	2.205324
F-statistic	5.524130	Durbin-Watson stat	2.269713
Prob(F-statistic)	0.000000		

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252 **3.7 Coefficient of Determination Test**

253 Based on the data in table 5, the coefficient of determination test shows that R2 has a value
254 of 0.638077. This means that the independent variables can explain as much as 63.8% of the
255 tax avoidance variable, while the remaining 36.2% can be explained by other factors not
256 studied.

257 **3.8t test**

258 A significant level of 0.05 ($\hat{\alpha} = 5\%$) is the standard used in t statistical testing. A significance
259 value of less than 0.05 indicates that there is an influence of the independent variable on the
260 dependent variable and the hypothesis is acceptable; while a significance value above 0.05
261 indicates that there is no influence of the independent variable on the dependent variable and
262 the hypothesis must be rejected. The t test data can be found in table 6 below.

263 **Table 6 t test**

R-squared	0.638077	Mean dependent var	-1.686511
Adjusted R-squared	0.522570	S.D. dependent var	0.823185
S.E. of regression	0.568791	Akaike info criterion	1.920373
Sum squared resid	30.41116	Schwarz criterion	2.621795
Log likelihood	-89.02332	Hannan-Quinn criter.	2.205324
F-statistic	5.524130	Durbin-Watson stat	2.269713
Prob(F-statistic)	0.000000		

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The results of the t statistical test show that the results of hypothesis testing for each independent variable on the dependent variable are as follows:

268 1. The Institutional Ownership and Tax Reduction variables have a significance level of 0.0140
269 which is smaller than 0.05, and have a t value of -2.504372. The research results show that
270 there is a statistical relationship between institutional ownership and tax avoidance. Therefore,
271 the first hypothesis can be confirmed. The negative coefficient indicates that institutional
272 ownership has an unfavorable impact on tax avoidance.

273 2. The variable Foreign Ownership in Tax Avoidance has a regression coefficient of 2.876427
274 with a significance level of 0.0050, which shows that there is a significant relationship between
275 these two variables. From the existing data, it can be concluded that the presence of foreign
276 ownership significantly influences tax avoidance practices, so it can be confirmed that the
277 second hypothesis can be accepted. With a positive coefficient, it can be concluded that
278 institutional ownership has a positive impact on tax avoidance efforts.

279 3. The Audit Quality variable can influence the relationship between Institutional Ownership
280 and Tax Avoidance with a confidence level of 95%. This is indicated by a t value of 2.292061
281 and a significance value of 0.0241 which is lower than the significance level of 0.05. This
282 shows that the audit supervision quality variable has the ability to moderate the influence of
283 institutional ownership variables on tax avoidance practices, so that the third hypothesis can

284 be confirmed. With a positive coefficient, this shows that audit quality has a strengthening
285 effect on institutional efforts to reduce tax avoidance.

286 4.The Audit Quality variable does not have a significant influence in moderating the
287 relationship between foreign ownership and tax avoidance, because the t value is -1.658749
288 and the significance value is 0.1005 which is greater than the 0.05 significance level. These
289 results indicate that the audit quality variable does not have a significant effect on the
290 relationship between the foreign ownership variable and tax avoidance, so the fourth
291 hypothesis is not proven. Based on the explanation above, the research model used is as
292 follows:

293 Model 1:

$$294 \quad TA = \alpha - 5.037314INS + 8.153575FOR + \varepsilon$$

295 Model 2:

$$296 \quad TA = \alpha - 5.037314INS + 8.153575FOR + 2.169701INS*AQU - 2.760423FOR*AQU + \varepsilon$$

297 Information:

298 a : Constanta

299 b : Coefficient

300 TA = Tax Avoidance

301 INS = Institutional Ownership

302 FOR = Foreign ownership

303 AQU = Audit quality

304 e = Error

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306 **3.9Discussion of Research Results**

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308 **3.9.1 Institutional Ownership Against Tax Avoidance**

309 According to the results of hypothesis testing, having institutional ownership has a negative
310 impact on efforts to avoid paying taxes. The results of this research show that although
311 company owners generally have an understanding of tax regulations and the impact of tax
312 risks that may occur, as well as the burden on the company if the company engages in tax
313 avoidance, they encourage management to limit tax avoidance practices. This research is
314 related to the concept of agency theory where management, acting as an entrusted agent, will
315 carry out decision making for the company. Management involved in preparing financial
316 reports will influence efforts to reduce tax payments made by management. This statement
317 indicates that the level of company supervision is closely related to the institutional ownership
318 structure of the company. The more ownership by financial institutions, the less supervision
319 there is, while the less institutional ownership, the tighter the supervision. This makes
320 companies vulnerable to fraud. The more shares a financial institution owns, the more taxes
321 it will impose on the company. Thus, companies will face an increasingly higher tax burden.
322 This increase occurred because there was a decrease in opportunities for companies to cut

323 their taxes. The owner of the company has control based on the number of shares and voting
324 rights he owns, so he has the ability to influence managers to focus on financial performance
325 and reduce tax risks that may harm investors in the future for personal gain. Based on the
326 results of this research, Ruslan Ahmad's (2023) findings show that ownership by institutions
327 has a negative impact on efforts to reduce tax payments.

328 **3.9.2 Foreign Ownership Against Tax Avoidance**

329 Based on research results from hypothesis testing, it is proven that investment from abroad
330 has a beneficial impact in efforts to reduce tax payments. The higher the percentage of shares
331 held by foreign investors in a company, the more likely management is to plan for reduced tax
332 payments. It is thought that this is related to the lack of affection for Indonesia from foreign
333 parties, so they only focus on profits from investing in Indonesian companies. According to the
334 agency concept, agency problems occur when there is a difference between the expectations
335 of the principal and the agent. This occurs when someone (the principal) hires another person
336 (the agent) to carry out tasks by giving authority to the agent. The higher the proportion of
337 shares owned by foreign investors in a company, the greater their power in determining
338 company policy. Small tax payments are considered an indication of an effort to avoid tax, so
339 that a smaller amount of tax paid indicates an increase in tax avoidance. The greater the
340 proportion of company ownership by foreign investors, the greater the company's potential to
341 reduce the amount of tax it must pay. The influence of foreign investors who own majority
342 shares in the company will have an impact on decision making, including decisions related to
343 tax policy. They tend to influence company leadership so that decisions are taken that are
344 profitable for them and avoid paying taxes. This impact is also thought to be related to
345 weaknesses in law enforcement in Indonesia, especially in terms of foreign investment
346 policies. Research conducted by Muhajirin and his friends indicates results that are in line with
347 this. Research conducted in 2021 shows that foreign investment has a positive and important
348 impact in reducing tax payments. Companies that are largely owned by foreign entities tend
349 to withhold tax payments more frequently.

350 **3.9.3 Audit Quality Moderates Institutional Ownership of Tax Avoidance**

351 The results of hypothesis testing show that audit quality increases the impact of institutional
352 ownership on efforts to reduce tax payments. With the presence of qualified financial report
353 auditors, companies will be encouraged to reduce tax evasion practices as is also expected
354 by institutional shareholders. Based on the concept of legitimacy, companies have a
355 responsibility to society and the public, so the up-to-date financial reports presented by audit
356 institutions are very important. Quality financial reports reflect the company's integrity and can
357 be trusted, this affects the company's image in the eyes of the public. The quality of financial
358 reports also provides an overview of the company's transparency in terms of operations and
359 tax compliance. Company actions to reduce tax obligations can damage the company's image
360 in the eyes of the public, so they should be avoided. Just as business owners understand the
361 tax impacts that may arise due to tax avoidance actions, external auditors are also concerned
362 about the company's potential future tax risks if the company engages in tax avoidance
363 practices. Therefore, management is ultimately careful in implementing steps to reduce tax
364 payments. This finding is in accordance with previous studies which also stated that skilled
365 auditors can encourage management to minimize tax avoidance practices due to potential tax
366 risks in the future, thereby reducing the company's level of tax avoidance. (Ahmad, 2023;
367 Monika & Noviani, 2021).

368 **3.9.4 Audit Quality Moderates Foreign Ownership on Tax Avoidance**

369 Based on the results of the hypothesis analysis, it can be concluded that the quality of the
370 audit has no impact in regulating foreign ownership of businesses to avoid paying taxes. These
371 findings indicate that companies that are majority owned by foreign investors may not be
372 influenced by external auditors in tax policy, especially in efforts to avoid paying taxes. The
373 influence of foreign parties is believed to be the main factor causing audit quality standards to
374 have less influence on corporate tax avoidance practices. According to the principle of
375 legitimacy, society expects companies to be responsible for every decision they make.

376 Companies will face major consequences if they violate social agreements. If a company
377 experiences foreign ownership, the company may experience pressure from community
378 demands. This research produces findings that are similar to a study conducted by Maisaroh
379 (2021), which concluded that audit quality has no impact on tax avoidance practices.

380 **4. CONCLUSION**

381 Based on the analysis that has been carried out, it is concluded that institutional ownership
382 contributes to detrimental tax avoidance. This is likely related to future tax risks and
383 understanding of tax rules by institutional owners. On the other hand, foreign ownership can
384 provide benefits in avoiding taxes because there is less loyalty to the country and more focus
385 on obtaining optimal profits. In addition, quality audits also increase the impact of institutional
386 ownership on tax reductions. In accordance with the wishes of the company owner,
387 independent auditors also examine potential tax risks in the future, which encourages
388 management to reduce tax fraud practices. Effective audits cannot reduce the influence of
389 foreign ownership on businesses to evade tax payments. With interference from overseas
390 shareholders, external auditors are believed to be unable to force management to stop tax
391 deduction practices.

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