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Ownership Structure, Profitability, and Dividend Payout Ratio in Explaining Tax Avoidance

Fayakunarto[1], Lucky Nugroho[2*]
[1,2] Universitas Mercu Buana, Jakarta, Indonesia

(*) Corresponden Author: lucky.nugroho@mercubuana.ac.id

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Abstract

Tax avoidance is a salient topic in corporate finance and sits at the intersection of interests between the entity that receives tax—the government—and the firm, for which taxes are an impediment or barrier to maximising profit, cash flow and dividends. The seson 2020-2023 is very interesting since that period is post pandemic recovery and the application of Harmonization of Tax Regulations (HPP) Law—On March 29, 2000 the enactment end date for firms listed in the Main Board of Indonesia Stock Exchange. This research aims to analyze daan empirical test on inflation and the variables (independent) that include ownership distribution by institution (institutional ownership), management ownership, foreign ownership, profitability (represented by ROA), as well as Dividend Payout Ratio on tax avoidance. The data in this study used financial statements and annual reports from 124 companies listed on the Main Board over a period of four years (with a total sample of 496 observations), and panel data regression analysis using Random Effect Model with classical assumption testing. The results demonstrate that institutional, managerial and foreign ownership represents a significant increase in tax avoidance behavior while ROA and Dividend Payout Ratio reveal a significant negative relationship with the behaviors. These results provide insights into how owner pressure may facilitate tax efficiency and that strong dividend performance and policies likely hinder firms' efforts to avoid taxes. The novelty of this research is the opportunity to analyze ownership structure along with profitability and dividend policy at the same time during a period of change in post-pandemic tax rules, providing new perspectives to improve corporate tax governance in Indonesia.

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INTRODUCTION

Taxes are one of the main sources of state revenue, while for corporations, taxes are often seen as a burden that reduces the company's net profit, cash flow, and ability to distribute profits to shareholders. This difference in interests makes tax avoidance an important issue in the fields of finance, accounting, and taxation. Regarding to Jati et al. (2019) and Rizki & Nugroho, (2024) stated that avoidance taxes are not separated from management planning and the existence of tax loopholes. The trend in companies is to minimize tax payments, while for the government taxes are needed as development financing. Avoiding tax within the law is not strictly exempt from prohibition, and such practices can still cost the state revenue when carried out vigorously.

This tax avoidance caught éssence of the 2020–2023 Indonesia. This time period not only serves as the recovery post COVID-19 of the economy, but also this transitional phase applies to Law of Harmonization Regulation Tax (TRHL). This study is also specifically used for companies listed on the Main Board of The Indonesia Stock Exchange in 2020–2023 at the time TRHL transition. On one hand, the TRHL is designed to increase compliance by widening the tax base and reducing leeway for avoidance of taxes. Meanwhile, though, giants with complex ownership structures and profit making abilities will continue to leverage tax planning legal options in particular through global networks of tax and financial consultants. Therefore, the window of observation between 2020 and 2023 is an extreme illustration of whether regulation will serve to mitigate tax avoidance or cause firms rather to modify tax avoidance behavior and be more formal and structured in their efforts.

The gap phenomenon in this study can be seen from the inconsistency of previous research results. Murdijaningsih et al. (2020) found that profitability can increase tax avoidance, while institutional ownership has no effect on tax avoidance in mining companies. In contrast, Zaenuddin & Thamrin (2023) found that ROA and institutional ownership have a significant negative effect on tax avoidance. Yusri et al. (2022) also showed different results, namely managerial ownership had an effect on tax avoidance, while institutional ownership had no effect. In terms of dividends, Hanifah et al. (2024) found that tax avoidance does not have a direct effect on dividend policy, but profitability has an effect on dividend policy. These inconsistencies show that the influence of ownership structure, profitability, and dividend payment ratios on tax avoidance still needs to be retested, especially in the context of IDX Main Board companies during the TRHL transition period.

International research also shows that ownership structure is an important factor in explaining tax avoidance. Velte (2023) through a structured literature review based on 69 archival research, shows that ownership variables are an important element in explaining corporate tax avoidance within the framework of agency theory. Dakhli (2021) examines the influence of institutional ownership on corporate tax avoidance with CSR as a mediating variable in French companies. Alkurdi & Mardini (2020) also examined the influence of ownership structure and board composition on tax avoidance strategies in the Jordanian context. In addition, Colombo & Terra (2022) show that shareholder identity influences profit distribution policies through tax channels; institutional investors can drive profit distribution that provides greater tax benefits. These findings reinforce the argument that ownership structures not only serve as a control mechanism, but can also be a source of economic pressure on management in making tax decisions.

The relevant theoretical study for this research is Agency Theory. The agency theory helps to explain the relationship between shareholders which are the principals and

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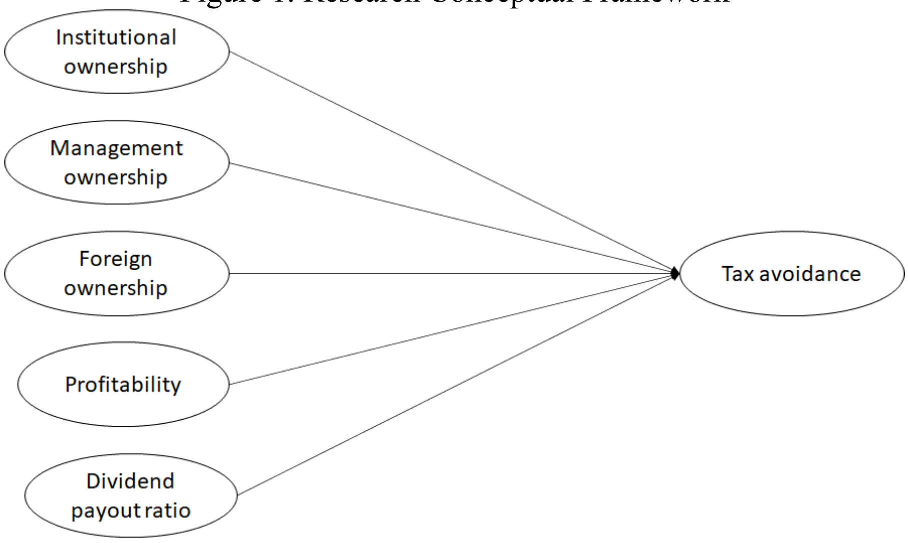
management as agents. Management, with greater information and operational authority than the owner in this relationship, has a potential conflict of interest. Tax avoidance can be a managerial decision to increase after-tax profit, improve performance metrics or meet shareholder requiremen. However, such decisions can also pose risks, such as tax audits, sanctions, and reputational damage. Widadi et al. (2022) emphasized that institutional ownership is important in minimizing agency conflicts between shareholders and management. Therefore, Agency Theory is appropriately used because the variables of institutional ownership, management ownership, foreign ownership, profitability, and dividend payout ratios are directly related to incentives, supervision, and distribution of economic benefits between management and shareholders.

So the problems can be formulated based on this phenomena includes; Is institutional ownership affect tax avoidance, Does management ownership effect tax avoidance, does foreign ownership affected tax avoidance or not, does profitability influence tax avoidable or not and is dividend payout ratio affected tax avoiding or not? So this research is intended to find out whether there is an effect of institutional ownership, management ownership, foreign ownership, profitability and dividend payment ratios on tax avoidance in companies listed on the Main Board of the Indonesia Stock Exchange for the period 2020–2023. The significance of this phase lies in the fact that it is expected to be a transitional phase for the implementation of TRHL.

This research is original because of the three factors. It examines the relations of different ownership structures: institutional, management and foreign, with tax avoidance while controlling profitability and dividend payout. Second, because the analysis is based on data from the period after the pandemic (i.e., 2020–2023) when TRHL was being implemented, this new evidence does not just identify statistical relationships among variables but also relates them to contemporary tax regulations. Finally, this study highlights the dividend payout ratio as a significant variable since dividends could signal to shareholders their expectations for how profits should be allocated in terms of whether earnings will go towards distribution to investors or used in strategies for tax planning.

The theoretical model that will be developed for this study considers tax avoidance as the response variable. In this research, the independent variables are Institutional ownership, Management ownership, Foreign ownership, Profitability and Dividend payout ratio. Hence, the conceptual framework can be represented as follows:

Figure 1. Research Conceptual Framework



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According to Figure1, the information above reflects how the company reacted in light of changes in tax regulations and pressure from shareholders through maintaining profitability whilst being at all times regulatory compliant.

The study defines its variables as the following: Tax avoidance is where a company seeks to reduce its tax burden by taking advantage of loopholes. The institutional ownership shows the percentage of shares still in the hands of financial firms, pension funds, investment companies or similar institutions. Management ownership represents the percentage of stocks managed by executives or internal employees involved in decision-making. Foreign Ownership — Foreign ownership is the percentage of a company's outstanding shares that are owned by foreign investors both individual and institutional. Profitability is defined as the firm's ability to rotate profits from its assets or resources, often measured through return on assets (ROA). Dividend payout ratio is the fraction of earnings allocated to shareholders as dividends.

The connection between institutional ownership and tax avoidance can be approached from two perspectives. Firstly, institutional ownership may enhance oversight of management, prompting companies to exercise greater caution regarding tax avoidance strategies. Conversely, institutions acting as shareholders might exert pressure on management to pursue tax efficiency in order to maximize returns. Given the inconsistencies observed in prior studies, we propose the initial hypothesis: H1: Institutional ownership influences tax avoidance.

Management ownership can align the manager's interests with shareholders because managers also enjoy the economic benefits of increasing the company's value. However, this ownership can also provide room for managers to make tax planning decisions that support after-tax profits. Yusri et al. (2022) found that managerial ownership has an effect on tax avoidance. Therefore, the second hypothesis is formulated: H2: Management ownership has an effect on tax avoidance.

Foreign ownership is suspected to have an effect on tax avoidance because foreign investors have cross-border experience, different tax preferences, and access to international tax planning practices. Research by Hassan et al. (2022) internationally examines the influence of foreign institutional ownership on corporate tax avoidance, thereby strengthening the relevance of foreign ownership in tax avoidance studies. Therefore, the third hypothesis is formulated: H3: Foreign ownership has an effect on tax avoidance.

Profitability is related to tax avoidance because more profitable companies have a greater tax burden. This condition can encourage companies to do tax planning to maintain after-tax profits. However, profitable companies can also choose to be more obedient to maintain their reputation. Because the results of previous research are different, the fourth hypothesis is formulated: H4: Profitability has an effect on tax avoidance.

The dividend payout ratio describes a company's decision to distribute profits to shareholders. Dividends can be a disciplinary mechanism because they reduce the free cash that management can use for opportunistic decisions. However, the pressure to maintain dividend payments can also encourage management to maintain after-tax profits through tax planning. Davidoff et al. (2022) discuss the relationship between corporate dividend policy and tax avoidance, while Jovković & Vržina (2021) show that the relationship between taxation and dividend payout ratio is still an important issue in corporate finance. Therefore, the fifth hypothesis is formulated: H5: The dividend payment ratio has an effect on tax avoidance.

p-ISSN: 3046-7845
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RESEARCH METHODS

Types and Approaches to Research

This study uses a quantitative approach because all variables analyzed are expressed in the form of numbers and processed through statistical procedures. The quantitative approach was chosen because this study aims to examine the influence of several independent variables, namely institutional ownership, board ownership, foreign ownership, profitability, and dividend payment ratio, on the dependent variable, namely tax avoidance.

Furthermore, this study is causal-associative, because it aims to find out whether changes in independent variables have an effect on tax avoidance. The object of the research is a company listed on the Main Board of the Indonesia Stock Exchange during the 2020–2023 period. The variables studied include independent variables, namely institutional ownership, management ownership, foreign ownership, profitability, and dividend payment ratio, as well as dependent variables in the form of tax avoidance.

Population and Research Sample

The population in this study is all companies listed on the Main Board of the Indonesia Stock Exchange during the 2020–2023 observation period. Population is understood as a whole of objects or units that have certain characteristics and are determined by researchers to study and draw conclusions. The number of public companies listed on the IDX Main Board is 352 companies, with an observation period of four years, so that the total observation population is 1,408 company-year data.

The sampling technique uses purposive sampling where the sample chemistry in this study includes: the company has been listed on the IDX Main Board, not a company that has just been listed since 2021, and the company distributes dividends regularly during 2020–2023. After the selection process, 496 observation units were obtained from 124 companies. Thus, the unit of analysis of this research is company data from the company's financial statements that meet the research criteria.

Data Collection Instruments and Techniques

The data used in this study is secondary data derived from financial statements, annual reports, company publication records, and other relevant official information. The secondary data was obtained from the website of the Indonesia Stock Exchange (IDX), the website of the Indonesian Central Securities Depository (KSEI), and the official website of the company that was the subject of the research.

The research instruments used are financial statements and annual reports of companies. The data collection technique is carried out through the documentation method, which is by searching, downloading, checking, and recording the necessary data from the company's reports. The data collected includes the number of institutional shares, the number of management shares, the number of foreign shares, the total outstanding shares, net profit, total assets, the amount of dividends paid, tax expenses, profit before tax, and applicable tax rates. All variables were measured using a ratio scale, because the research data was expressed in the form of numbers and obtained through comparisons between financial posts.

The operationalization of variables in this study is as follows. Institutional ownership is measured by comparing the number of shares owned by an institution to the number of outstanding shares. Management ownership is measured by comparing the number of shares owned by management to the number of outstanding shares. Foreign

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ownership is measured by comparing the number of foreign shares to the number of outstanding shares. Profitability is proxied by Return on Assets (ROA), which is net profit divided by total assets. The dividend payout ratio is proxied by the Dividend Payout Ratio (DPR), which is dividends divided by net profit. Meanwhile, tax avoidance is measured by the difference between the statutory tax rate and the effective tax rate.

Data Analysis Techniques

The data analysis technique in this study uses panel data regression analysis with the help of EViews software. The panel data was chosen because the study combined cross-company data and time-lapse data during the 2020–2023 period.

The analysis stage begins with descriptive statistics to describe the characteristics of the data, such as minimum, maximum, mean, and standard deviation values. After that, the panel data regression model was selected through the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Model selection is carried out by Chow Test, Hausman Test, and Lagrange Multiplier Test to determine the most appropriate model to use in empirical testing.

Furthermore, classical assumption tests were carried out according to the needs of the model, including normality tests, multicollinearity tests, heteroscedasticity tests, and autocorrelation tests. A normality test is used to see if the residual is normally distributed. The multicollinearity test is used to ensure that there is no strong linear relationship between independent variables. The heteroscedasticity test is used to find out if there is a residual variance inequality, while the autocorrelation test is used to see if there is a residual correlation between periods.
The regression model used in this study is formulated as follows:

$$TA = \alpha + \beta 1KI + \beta 2KD + \beta 3KA + \beta 4ROA + \beta 5DPR + \varepsilon \quad (1)$$

Description:
TA = Tax Avoidance
α = Konstanta
$\beta 1$–$\beta 5$ = Regression coefficient
KI = Institutional Ownership
KD = Management Ownership
KA = Foreign Ownership
ROA = Profitability
DPR = Dividend Payout Ratio
ε = Error

Hypothesis testing was carried out through a t-test to determine the influence of each partially independent variable on tax avoidance. In addition, the F test was used to see the influence of independent variables simultaneously, and the Adjusted R Square to determine the model's ability to explain tax avoidance variations. The significance level used is 5%, so the hypothesis is accepted if the significance value is less than 0.05.

RESULTS AND DISCUSSION

Research Results

This research uses panel data from companies listed on the Main Board of the Indonesia Stock Exchange for the 2020–2023 period. After going through the sample

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selection process, 124 companies were obtained with an observation period of four years, so that the number of observations analyzed was 496 company-year observations. The variables tested included institutional ownership, management/management ownership, foreign ownership, profitability, dividend payment ratio, and tax avoidance.

Descriptive Statistics

Table 1. The following presents an overview of the characteristics of the research data:

Variabel	Mean	Maximum	Minimum	Std. Dev.	Observations
Institutional Ownership (KI)	47,35522	85,37000	0,01000	17,21140	496
Management Ownership (KM)	38,86222	71,54000	0,59000	15,51794	496
Foreign Ownership (KA)	16,31385	30,36000	0,07000	8,334645	496
Dividend Payout Ratio (DPR)	54,72609	108,3600	0,39000	30,41299	496
Profitability (ROA)	9,421431	17,45000	1,10000	4,540728	496
Tax Avoidance (TA)	0,157560	0,300000	0,010000	0,083387	496

Source: Data processed using Eviews

Based on these descriptive statistics, (Table 1) the average institutional ownership is 47.36%, which shows that the sample companies are relatively largely owned by institutions. Management ownership has an average of 38.86%, while foreign ownership averages 16.31%. The average value of the DPR of 54.73% shows that the sample company tends to distribute more than half of the profits to shareholders in the form of dividends. Meanwhile, the average ROA of 9.42% illustrates that the companies in the sample have the ability to generate relatively positive profits. The average value of tax avoidance of 0.157560 indicates a variation in tax avoidance practices in IDX Main Board companies during the observation period.

Model Selection and Data Feasibility

Before testing the hypothesis, the selection stage of the panel data regression model was carried out. Based on the results of the model test, this study uses the Random Effect Model (REM) as the main estimation model. This selection is supported by the results of the Hausman Test which shows a probability value of 0.9759, greater than the significance level of 0.05, so that REM is considered more appropriate to be used than the Fixed Effect Model.

The feasibility of the data is also checked through a classical assumption test. The results of the normality test showed a Jarque-Bera value of 4.979824 with a probability of 0.082917, so that the residual can be declared to be normally distributed. The multicollinearity test showed a relatively low correlation between independent variables, so there was no indication of a strong relationship between independent variables. The heteroscedasticity test yielded a Prob(F-statistic) of 0.086184, greater than 0.05, so the model showed no symptoms of heteroscedasticity. The Durbin-Watson value of 1.905282 also indicates that the model does not suffer from serious autocorrelation problems.

Random Effect Model Regression Results

The results of the panel regression test with the Random Effect Model are presented in Table 2 as follows:

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p-ISSN: 3046-7845
e-ISSN: 3047-2261

Table 2. Random Effect Model

Variables	Coefficient	Std. Error	t-Statistic	Prob.	Direction of Influence
C	0,053253	0,017108	3,112776	0,0020	—
Institutional Ownership (KI)	0,001318	0,000198	6,652914	0,0000	Significant positives
Management Ownership/(KM)	0,001462	0,000219	6,674689	0,0000	Significant positives
Foreign Ownership (KA)	0,000961	0,000410	2,345397	0,0194	Significant positives
Profitability (ROA)	-0,001730	0,000751	-2,303184	0,0217	Negative signifikan
Dividend Payout Ratio (DPR)	-0,000261	0,000112	-2,339131	0,0197	Negative signifikan

Source: Data processed using Eviews

Based on the results of the regression (Table 2), the equation of the research model can be written as follows:

$$TA = 0{,}053253 + 0{,}001318KI + 0{,}001462KM + 0{,}000961KA - 0{,}001730ROA - 0{,}000261DPR \quad (2)$$

These results show that three ownership structure variables, namely institutional ownership, management/management ownership, and foreign ownership, have a significant positive influence on tax avoidance. This means that the higher the proportion of institutional ownership, management/management ownership, and foreign ownership, the higher the tendency of companies to do tax avoidance. These findings indicate that ownership structures can be a factor that drives companies to exercise tax efficiency, especially when owners have an interest in increasing after-tax profits.

On the other hand, profitability and dividend payout ratios have a significant negative effect on tax avoidance. This means that the higher the profitability and the larger the dividend payout ratio, the lower the company's tax avoidance rate. This finding is interesting because companies that are more profitable and consistently distribute dividends tend to be more cautious in tax avoidance. One possible explanation is that companies that perform well and pay high dividends have incentives to maintain reputation, transparency, and investor trust.

Coefficient of Determination and Model Feasibility

Table 3. Coefficient of Determination and Model Feasibility

Model Indicators	Value
R-squared	0,196593
Adjusted R-squared	0,188395
F-statistic	23,98058
Prob(F-statistic)	0,000000
Durbin-Watson stat	1,905282

Source: Data processed using Eviews

By referring to Table 3 above, the R-squared value of 0.196593 indicates that the independent variables comprising institutional ownership variable, management/management ownership, foreign ownership, profitability and dividend payment ratio can explain the variation of tax avoidance equal to 19.66%. The other 80.34% is accounted for by factors not covered in this research model. This is evidenced

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by the Prob(F-statistic) 0.000000 probability value less than 0.05, meaning that the regression model can simultaneously influence variables Environmental Performance, Corporate Governance and Leverage on tax avoidance together.

Discussion

The Effect of Institutional Ownership on Tax Avoidance

The results of the study show that institutional ownership has a positive effect on tax avoidance. Thus, the more dominant the institutional ownership in the company, the greater the tendency of the company to carry out tax avoidance strategies. This finding is understandable because institutional investors generally have supervisory capacity, analytical resources, and a strong economic interest in increased after-tax profits. Based on descriptive statistics, institutional ownership in sample companies looks quite dominant and varied, so that institutions as shareholders have considerable room to influence the direction of company policies, including tax policies.

In the perspective of agency theory, institutional shareholders act as principals who can pressure management as agents in order to increase the value of the company. However, these pressures do not necessarily lead to higher tax compliance. In some conditions, institutional shareholders can actually encourage management to carry out cost efficiency, including tax efficiency, as long as the strategy can still be framed as legal tax planning. Widadi et al. (2022) also explained that institutional ownership is related to the relationship between profitability, ROA, thin capitalization, and tax avoidance, and is one of the important issues in managing corporate tax avoidance.

These findings support the research of Khan et al. (2016), and Noorica & Asalam (2021) which show that institutional ownership can encourage tax avoidance practices due to its orientation to financial efficiency and increased shareholder returns. However, these results are different from Murdijaningsih et al. (2020) and Zaenuddin & Thamrin (2023) who found that institutional ownership does not necessarily increase tax avoidance, and can even suppress tax avoidance through supervisory mechanisms.

Implicitly, companies need to ensure that institutional oversight is not only geared towards achieving after-tax profits, but also on compliance and sustainability. For regulators, companies with high institutional holdings need to remain a concern in tax risk mapping, especially during the TRHL transition period when companies may adjust their tax strategies to remain legal, but more complex.

The Influence of Management/Management Ownership on Tax Avoidance

The results of the study show that management ownership or management ownership has a positive effect on tax avoidance. This means that when the company's internal parties own shares, the company's tendency to do tax avoidance increases. Descriptively, management/management ownership in the sample company also shows a significant and varied proportion. This condition indicates that internal parties not only play the role of managers, but also as owners who enjoy economic benefits from increased profit after tax.

In agency theory, management ownership is often understood as a mechanism to align the interests of agents and principals. However, the results of this study show that the alignment of these interests does not necessarily reduce tax avoidance. When management is also a shareholder, they can have a stronger incentive to increase net profit, maintain performance-based compensation, and maintain a positive perception of the market. Tax avoidance can then be an instrument to maintain profit after tax without having to increase operational performance directly.

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These findings are in line with Yusri et al. (2022), who found that managerial ownership has an effect on tax avoidance. Yusri et al. (2022) also explained that companies owned by managers are more likely to practice tax avoidance because management has the power to prepare financial statements and make company policies. These results are also in line with the research of Hassan et al. (2022) which showed that managerial/managerial ownership can be related to tax avoidance. However, this result is different from Novita & Herliansyah (2019) who did not find a significant relationship between managerial ownership and tax avoidance.

Implicitly, companies need to strengthen internal governance through audit committees, tax compliance functions, and independent commissioner management oversight. Shareholding by management should not only be seen as a form of commitment to the company, but also needs to be monitored so as not to encourage overly aggressive tax decisions. For investors, management ownership can be a signal of internal involvement, but it also needs to be read alongside the quality of governance and tax transparency.

The Effect of Foreign Ownership on Tax Avoidance

Study results indicate that foreign ownership positively influences tax avoidance. These results demonstrate that as the foreign ownership of firm increases, firms have more to evade taxes. The descriptive statistics Table 1. show that foreign ownership within the sample is lower than both institutional ownership and management ownership, although it does show a variation. It indicates that even though the proportion is not always dominant, but foreigners might enforce influence on the policies within the company.

These results can be explained by foreign investors being more experienced given their cross-border activity, the access they have to international tax planning structures and practices, and their awareness of global variations in rates and regulations. With regards to agency theory, foreign investors as principals tend to incentivize management to maximize after-tax profits. For example, another aspect of the tax planning space can be much wider for companies with cross border transactions between affiliates through transfer pricing/jurisdictional differences or through the financing structure between companies.

These results conform to Alkurdi & Mardini (2020), and Shi et al. (2020) who advocate an opposite relationship that foreign ownership positively relates with tax avoidance. According to Alkurdi & Mardini (2020) in their research paper, foreign ownership has a positive relationship that can increase the tendency of companies to take advantage of tax avoidance. Such results also corroborate Colombo & Terra (2022), which highlight how the identity of shareholders may alter profit distribution policies through tax channels.

Summary, the foreign owned companies require enhanced documentation of their fair share transactions between affiliated parties, transfer pricing and requirements on beneficial ownership. This finding is all the more relevant for tax authorities in the light of the risk-based supervision required over foreign-owned companies during the TRHL transition period focusing on transparency, tax base expansion and substance over form. Foreign ownership can signal global connectedness for investors, but it also presents tax risks that should be carefully managed..

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The Effect of Profitability on Tax Avoidance

The results of the study show that profitability has a negative effect on tax avoidance. This means that companies that are more profitable tend to have lower tax avoidance rates. Descriptively, the sample companies show positive and varied profitability. This illustrates that IDX Main Board companies in this study have the ability to generate profits, but the response to tax burdens is not always carried out through aggressive tax avoidance.

Theoretically, companies with high profitability do have a greater tax burden. However, in large and established companies, profitability also has to do with reputation, public exposure, investor attention, and regulatory scrutiny. Therefore, more profitable companies can choose a more conservative tax strategy so as not to pose the risk of scrutiny, sanctions, or reputational damage. In the perspective of agency theory, management is not only oriented towards short-term profits, but also maintains the trust of the principal and the market. From a stakeholder perspective, profitable companies have greater responsibilities to the government and society because taxes are part of the company's social contribution.

These findings are in line with Permatasari (2022), and Hidayat (2022) who found that profitability can have a negative effect on tax avoidance. However, these results are different from those of Murdijaningsih et al. (2020), and Khương et al. (2020) which suggest that profitability can increase tax avoidance. Murdijaningsih et al. (2020) explained that companies with large profits have more room to take advantage of gaps in tax burden management. These differences in results show that the effect of profitability on tax avoidance is highly dependent on sample characteristics, research period, governance quality, and regulatory context.

The implication is that high profitability should not only be understood as an indicator of financial performance, but also as an indicator of tax compliance capacity. Profitable companies need to maintain the quality of tax reporting so as not to create the perception that high profits are obtained through aggressive tax strategies. For regulators, profitable companies still need to be supervised, but the supervisory approach can be directed towards transparency and consistency in tax payments. For investors, high profitability accompanied by low tax avoidance can be a positive signal about the quality of profits and corporate governance.

The Effect of Dividend Payment Ratio on Tax Avoidance

The findings evidence that the ratio of dividend payment has a negative impact on tax avoidance. So, the more dividend payments a company has paid out, the less likely it is to attempt tax evasion. Descriptive statistics support that the dividend policy of sample companies is relatively diverse, however on average sample companies are dividend paying companies during in the study period. Because the dividend policy is one of the signals about openness, stability of cash flow, and the focus on shareholders of a company.

According to agency theory of dividend payout, dividends act as a discipline device because they limit the amount of free cash on hand available for management. With profits in the hands of shareholders, management have less scope to put their funds use to best use. Companies which continue to pay dividends are also more likely to be risk averse with tax matters, since the cash flow volatility resulting from an outcome of any disputes or sanctions has an impact on future dividend payments. That is, the dividend payout ratio can give a sign that company wants to keep investor confidence through cleaner financial policies.

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This result is also in accordance with Hanifah et al. (2024). Trained on data until October 2023, they explain that profitability has an impact in dividend policy while tax avoidance sometimes does not have direct effect to dividend decision. Davidoff et al. (2022) studied the effect of corporate dividend policy on tax avoidance and pointed out that although theoretically the interaction between dividend payments and tax avoidance might occur in both directions this relationship has yet to be tested empirically. In their own research letter, Jovković & Vržina (2021) indicated that despite the results of international research, dividends remain important questions in corporate finance.

By implication, the dividend payout ratio can be taken as another proxy measure to evaluate the quality of corporate governance and tax risk. Companies that strike the right balance between tax compliance and cash flow while paying dividends consistently are perceived by investors as having superior measures of profit quality. Management should think of dividend policy not merely as a distribution of profit, but rather a commitment to transparency, stability and sound reputation. In the expense of tax avoidance risk mapping, regulators can exhibit low-dividend-earnings companies one of the groups that need be monitored.

CONCLUSION

This study successfully proves that institutional ownership, management ownership, and foreign ownership have a positive and significant effect on tax avoidance, which is reflected in the positive regression coefficient and significant probability value in the data panel model. This indicates that the larger the portion of institutional, managerial, and foreign owners, the stronger the pressure on management to make tax expense efficiency in order to maximize after-tax profits and returns for shareholders.

On the other hand, the variable profitability (ROA) and Dividend Payout Ratio (DPR) have been proven to have a negative and significant effect on tax avoidance, so companies that are more able to generate profits and consistently pay dividends tend to be more cautious and maintain tax compliance. These findings contribute to the agency theory literature by asserting that owner pressures and financial performance incentives can drive two different directions, namely aggressive tax efficiency on the one hand, and the preservation of investor reputation and trust on the other.

Therefore, specifically, this study answers that: (1) institutional ownership has a positive effect on tax avoidance; (2) management ownership has a positive effect on tax avoidance; (3) foreign ownership has a positive effect on tax avoidance; (4) profitability has a negative effect on tax avoidance; and (5) the dividend payout ratio has a negative effect on tax avoidance at IDX Main Board companies during the 2020–2023 period.

The suggestion for management refers to the results of this study implying the need to balance the orientation of tax efficiency with a commitment to good corporate governance, transparency, and long-term risk management. Companies with strong ownership structures should establish a written tax policy that emphasizes the line between reasonable tax planning and tax avoidance strategies that have the potential to pose reputational and regulatory risks.

While the suggestion for regulators and capital market authorities is that the finding that institutional, managerial, and foreign ownership is positively correlated with tax avoidance can be the basis for strengthening tax policy regulation and disclosure in annual reports and encouraging the integration of tax aspects into GCG and ESG assessments. The development of more explicit tax governance guidelines, including the need to disclose material tax strategies, can help reduce the gray area in tax avoidance practices.

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More specifically, advanced research can extend the model by including more detailed corporate governance variables, such as the characteristics of the board of commissioners, audit committees, auditor quality, or CSR disclosures, to explain the remaining variations in tax avoidance that have not been covered in the current model. In addition, comparative studies between the Main Board and other trade boards, as well as before–after analysis of the full implementation of the TRHL, have the potential to yield new insights into the effectiveness of tax regulation in influencing corporate tax avoidance behavior.

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