Ownership Structure On Tax Avoidance: Evidence On Manufacturing Companies

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An agency problem arises when corporate decision-making is centralized through voting rights, and ownership rights are concentrated where voting rights exceed cash flow rights (Richardson et al., 2016). This indicates that ownership structure can influence actions taken in a company, including those related to tax avoidance. This study investigates the effects of ownership structure on tax avoidance as determined by institutional and public ownership. The population of this study is manufacturing companies listed on the IDX in 2019. Purposive sampling is used in the sampling process, which includes criteria such manufacturing enterprises listed on the IDX in 2019 and businesses that filed annual reports in 2019. The findings demonstrate that, for manufacturing companies listed on the Indonesian Stock Exchange in 2019, the managerial ownership structure impacts tax avoidance, but neither the public ownership structure nor the institutional ownership structure does. These findings imply that management-owned businesses are more prone to committing tax fraud than institutional or publicly held ones since they have complete control over the preparation of the financial statement, demonstrating their outstanding quality. Stakeholders will benefit from knowing which ownership structures are most likely to result in tax avoidance, thanks to the results of this research.

Keywords: ownership institutional, ownership managerial, ownership public, tax avoidance
INTRODUCTION

Taxes are a driving factor in many corporate decisions. Besides being an important element in the company, taxes are also important for a country, especially for developing countries; this is because taxes are a source of state revenue. Every nation strives to maximize state revenues through the tax system. However, sometimes efforts to optimize tax revenue have problems, this happens because of the efforts made by companies to avoid paying taxes, because taxes are a burden for companies that can reduce company profits. Since the beginning of tax laws, there has also been a problem with tax avoidance, which is widespread in all societies where taxes are collected. Due to the high corporate income tax rate, this threat is even more common among corporate taxpayers. The never-ending fight against corporate tax avoidance may be due to the fact that taxes now account for a larger portion of a company's pretax income and further reduce distributable profits, and employing pricy accountants to uncover increasingly intricate tax-reducing ways (Annuar et al., 2014).

The conflicting interests between taxpayers and countries and the underperformance of average tax rates indicated significant tax avoidance activity. In fact, tax lawsuits and claims of tax avoidance have been filed in various countries such as Hong Kong, Ghana, Nigeria, Croatia, the United Kingdom, the United States, Thailand, and even Indonesia (Pangaribuan et al., 2021). The tax rates of Indonesia's provinces provide evidence of the country's tax avoidance phenomenon. A tax rate (tax rate) indicates a state's ability to collect tax revenue or reabsorb GDP (gross domestic product) from its citizens through taxes. The higher the tax rate in a country, the higher the tax collection rate in that country. The Directorate General of Taxes (DGT) revealed that the tax ratio to gross domestic product (GDP), or Indonesia's tax ratio was 10.7 percent in 2019. This figure was down from 2018, which was 11.5 percent. Hestu Yoga Saksama, Director of Counseling, Services, and Public Relations at DGT cited the deteriorating economic climate in Indonesia during the same period as the cause of the decline in the tax ratio. The economy only grew 5.02 percent. This realization is lower than in 2018, which was 5.17 percent.

Tax avoidance policy is inseparable from company owners and management policies, where company owners can comprise various ownerships. A company can be owned by several shareholders, where the percentage of ownership can vary. The ownership structure is believed to have the ability to influence the company, which in turn can affect the company's performance. A company's performance can also be impacted by another type of ownership structure, known as managerial ownership. The reason is that because of his ownership, he cares more about the company's profits. Recent data suggests that management practices solely focused on minimizing corporate taxes through tax avoidance activities are becoming more prevalent among corporations in many nations around the world (Hardyment et al., 2011).

Agency theories, agency problems may have an impact on tax avoidance behavior (Jensen and Meckling, 1976). Information accepted by executives is used to add rewards for high-income executives. On the other hand, shareholders are happy that compliance with existing tax laws will increase the value of their shares. In order to respond to the client's request, agency costs will be incurred. Intended to assist representatives or executives in protecting the interests of shareholders in achieving their intended goals. According to agency theory, ownership structures are control-their mechanisms that reduce the interests between principals and agents (Jensen and Meckling, 1976). The mechanism of the ownership structure is one element that helps to bridge the gap between the opportunistic behavior of information management and the willingness of the shareholders to run the company as they see fit. The element that a company's network can include in its operations and decision-making is an ownership structure. Tax avoidance may be possible with a centralized ownership structure. Executives strategically decide to employ tax avoidance techniques to lower a company's tax liability and increase profitability.

Since it causes significant revenue losses for governments in many developed and developing countries, corporate tax avoidance appears to be the biggest issue facing today's generation. Tax avoidance is therefore defined as any strategy, activity, or decision to lower a company's effective tax rate. Tax avoidance is the ability of a company to pay less tax than it owes. Shareholders are expected to compare the advantages of tax avoidance to the costs to the business of potential legal action, fines, and reputational harm if its plan is discovered by tax authorities (Hanlon and Heitzman, 2010). Corporate managers affect tax avoidance individually (Dyreng et al., 2010). Given its significance in corporate governance, ownership structure was investigated by (Shackelford and Shevlin, 2001) as a predictor of the likelihood of corporate tax avoidance. Managers significantly influence the extent of tax avoidance in a company.

According to Saifudin and Yunanda (2016), From 2011 to 2014, tax avoidance among manufacturing companies listed on the Indonesian Stock Exchange increased yearly. The average ETR in 2012 increased by 0.240 to 0.260, an increase of 0.02 units over the previous year. This increase occurred again the following year. That is, it increased to 0.270 in 2013 and 0.271 in 2014. This situation shows that the tax avoidance phenomenon is increasing yearly. The research of (Annuar et al., 2014) proposes to consider possible determinants of corporate tax avoidance in a concentrated ownership environment in emerging markets. The comparison of institutional ownership versus state ownership and control has significant implications for tax avoidance (Ying et al., 2017). (Cabello et al., 2019) provide evidence that managerial ownership significantly affects tax avoidance.

This study intends to experimentally investigate the impact of ownership structure (managerial ownership, public ownership, and institutional ownership) on tax
avoidance in light of the issues as mentioned earlier. Research on the ownership structure of tax avoidance is still lacking. This study's objective is to aid in and offer a fresh perspective on how the current ownership structure—divided into three categories for this study—affects tax avoidance.

LITERATURE REVIEW

Tax avoidance is a transaction plan intended for the use of taxes by exploiting the weaknesses of a country's tax provisions so that tax experts state that tax avoidance does not violate tax regulations. The more developed a country's economy, the more foreign companies or business entities will invest in the country to get the maximum profit (Ady et al., 2010). Given this, there are several definitions of corporate tax avoidance put forward by researchers recently. There are several ways of tax avoidance, namely refraining, moving locations, and legal tax avoidance (Hanlon and Heitzman, 2010). In dealing with tax avoidance plans in the form of unacceptable and acceptable tax avoidance, the state generally issues provisions to prevent tax avoidance as regulated in tax laws and regulations. These laws and regulations include the Specific Anti- Avoidance Rule (SAAR) and the General Anti- Avoidance Rule (GAAR).

The ownership structure is a factor that significantly affects tax avoidance (Hanlon and Heitzman, 2010). Where tax avoidance is a useful activity, owners may make sure that managers make effective tax decisions, according to the theory of separate ownership and control (Hanlon and Heitzman, 2010). The effect of ownership structure on tax avoidance has been studied in many research projects (Badertscher et al., 2013); (Richardson et al., 2016); (Bradshaw et al., 2016). Controlling owners are likelier to take shareholders' wealth through tax avoidance (Richardson et al., 2016). Ownership structure affects how businesses comply with their tax responsibilities (Friesi et al., 2008).

Furthermore, this structure helps create an environment conducive to the company's needs and sustainable growth within the company (Siswanti et al., 2017). According (Mangoting et al., 2019), management's vision affects all types of decisions, including tax avoidance. There is even another type of owner in the ownership system. As in other significant research, the current study concentrates on the management foreign It concentrates on people-owned and institution-owned structures, which are thought to be the most significant groups of structures that can influence the extent and efficacy of tax avoidance (Landry et al., 2013, Richardson et al., 2016). A contract made by a principal authorizing the use of another person's authority (the agent) for a company's strategic decisions is known as agency theory (Jensen and Meckling, 1976). Agency theory is an agreement that encourages agents to act on behalf of owners while the interests of managers do not serve those of owners (Shane, 2003). Within a firm, principal ownership and agency control division frequently leads to agency issues. Principals, as shareholders, want to increase the value of the company's stock as a result of their investments, while management wants the principals to be incentivized to run the company and receive high compensation. Principals, as equity owners, want to increase the value of the company's shares through the results of their investments, while executives want the principals to be incentivized to run the company and to be highly compensated. This differentiation to gain an advantage means that management makes arrangements that are inconsistent with the interests of shareholders. The need to maximize everyone's benefit can sometimes lead to agency problems as policy decisions do not align with goals.

Managerial ownership is the ownership of shares by the manager of a company. The presence of assets under management further enhances corporate performance. Owning a company encourages management to run the company well because they feel they own it. The higher the management participation rate, the better the company's performance. (Ruan et al., 2011) found that managerial ownership affects firm performance. Company ownership in the management side (executive officers) allows management to act as owners and managers. This role requires management to be more prudent in fulfilling the obligations and responsibilities embodied in the strategic tax plan, which could lead to litigation if not diligent, and to prevent management from getting caught up in the consequences. Therefore, increasing ownership can promote greater alignment between managerial and shareholder interests (Mai and Patmaningsih, 2017). (Mai and Patmaningsih, 2017) gives the opinion that when the largest shareholder occupies the management level, it will reduce the conflict between the interests of management and its shareholders. The shareholders will take all considerations for the company's welfare as the company's main managers. Therefore, management will limit risks such as legal fraud that can result in fines. So it can be said that increasing managerial ownership can reduce tax avoidance.

Public ownership is the percentage of public ownership of a company's total number of shares, i.e., a person or entity who owns less than five percent (5%) of his non-management shares and is unaffiliated with the company (Abdullah et al., 2017). The higher the percentage of public ownership, the more information the parties will need about the company and the more detailed information they will need to disclose in their annual report. The more shares go public, the more information should be told, and the public wants as much corporate transparency as possible (Anisma et al., 2015). Public ownership will cause the company to act in the first place according to its own will. Still, the ownership of shares by the community makes the company more careful in taking action (not according to its own will). The larger the public shareholding, the more information the company has known to the public. For this reason, managers cannot freely take opportunistic actions, one of which is tax avoidance.

Shares in a company that is majority owned by an institution or other bodies are subject to institutional ownership (insurance companies, banks, mutual funds, asset managers, and other institutional ownership). According to (Ginting, 2016), the ownership of shares by the government and institutions other than those with public shareholders. Examples of such institutions include financial institutions,
legal companies, and foreign institutions. Research by (Ngadiman and Puspitasari, 2017) shows that the institutional ownership variable strongly affects tax avoidance. The corporation must pay more taxes the more institutional ownership it has. This is due to the decreased likelihood of corporate tax avoidance. Through their deeds of voice and power, institution owners can compel managers to concentrate on financial performance and avoid possibilities for selfish behavior. Institutional ownership oversees the numerous administrative policies that managers adopt in the decision-making process of decisions to be implemented in the organization (Nugroho and Agustia, 2018).

Management's decisions are driven by personal interests rather than advancing the firm's value and its shareholders' interests when management has little or a small investment in the company. However, when managers control a significant amount of stock or equity in a company, they are more likely to align their interests with those of shareholders in order to boost pay and dividends (Alzoubi, 2016). Risk of business tax avoidance might increase with high management engagement (Cabello et al., 2019). A company's risk of tax avoidance might increase with active management engagement (Rego and Wilson, 2009). Research (Boussaidi and Hamed, 2015) show that managerial ownership significantly affects tax avoidance. Their findings indicate that the rate of business tax avoidance increases as management proportion increases. The percentage of common stock owned by management that participates actively in corporate decision-making is known as management ownership (Hadi and Mangoting, 2014). From the theory and explanation of the previous researchers above, the hypothesis in this study is as follows:

**H1: Managerial ownership structure has an effect on tax avoidance.**

Public ownership means minority shareholders not exceeding 5% of the total number of shares outstanding. Low public ownership does not significantly affect corporate decision-making. Investors coming from the community usually look for companies with high profitability and high corporate value. Public ownership of shares has the power to influence a company's actions, especially commentary and criticism in the mass media (Hatta and Fenny, 2019). Public ownership causes the company initially to act according to its own will, but with the existence of public share ownership, the company is careful in taking actions (not according to its own will). The greater the ownership of public shares, the more information in the company that is known by the public about the company. This causes managers to be unable to freely take opportunistic actions, one of which is tax avoidance (Prayogo and Darsono, 2015). From the theory and explanation of the previous research above, the hypothesis in this study is as follows:

**H2: The structure of public ownership has an effect on tax avoidance.**

Equity ownership in financial institutions like insurance firms, banks, pension funds, and investment banks is what Ngadiman and Puspitasari (2017) define as institutional ownership. Shares in a company that are majority owned by an institution or other body are said to be subject to institutional ownership (insurance companies, banks, mutual funds, wealth managers, and other institutional ownership). Institutional controlling stockholders frequently give up the interests of other shareholders. On the other hand, high executive profits impact how much tax the business must pay, which lowers business performance (Darsani and Sukarthi, 2021). Managers seek ways to lower their taxes because businesses are exposed to high tax rates. Due to information asymmetry, the manager's information in the financial statements does not accurately depict the company's situation. For the advantage of the shareholders and the management, the company engages in tax avoidance. A firm's tax policy may be impacted by a modest or significant investment in the company (Khurana and Moser, 2013). (Bird and Karolyi, 2017) discovered a positive correlation between institutional ownership and tax evasion. They contend that corporate cooperation with institutional investors with expertise in tax planning will result in better tax planning and more utilization of tax relief. The study's hypothesis, which is based on the theory and earlier research, is as follows:

**H3: Institutional ownership structure affects tax avoidance.**

**METHOD (FOR RESEARCH ARTICLE)**

Associative research is the methodology used. Purposive sampling, a technique for selecting samples based on certain criteria, is used in sampling procedures. Manufacturing businesses listed on the Indonesian Stock Exchange in 2019 made up the study population. The Indonesian Stock Exchange listed manufacturing companies in 2019 and required businesses to provide 2019 financial statements when selecting the sample for this study. This kind of study using secondary data. The data used is a sample that represents the existing population because the population is too large. The secondary data for this study is in the form of annual reporting data for manufacturers listed on the IDX in 2019. The data source used in this study is from his website at IDX (www.idx.co.id). The data collection method in this study is documentation. Documentation studies are carried out by downloading secondary data, namely the annual report in 2019.

There are three variables in this study, namely managerial ownership structure, public ownership structure, and institutional ownership structure. In this case the independent variable is represented by the type of ownership; Current studies include managerial ownership, public ownership, and institutional ownership. The percentage of a company's shares controlled by management is known as management ownership, whereas foreign ownership refers to non-Indonesian nationals and a portion of the company's shares that are located outside of Indonesia, such as persons and legal entities. His modest stake in the outstanding shares, which cannot exceed 5%, is considered public ownership. The final measure of institutional ownership, excluding pension funds, is a percentage of all the shares held by institutions. The
formulas for the three variables contained in the ownership structure are as follows:

• Calculation of ownership structure using a dummy, in example, if there is a managerial value in the calculation, it is changed to 1, if there is no managerial value, the number remains 0
• Calculation of public ownership uses a dummy, for example, if there is a public value in the calculation, it is changed to 1; if there is no public, the number remains 0
• Calculation of institutional ownership uses a dummy, in example if there is an institutional value in the calculation, it is changed to 1; if there is no institutional, the number remains 0

The dependent variable for this survey is tax avoidance, represented by ETR and CETR. ETR refers to the total tax accrued on pretax income. Much of the literature indicates that ETR and CETR reflect companies' tax avoidance differences (Dyreng et al., 2010). In this study, tax avoidance, measured by the cash effective tax rate (CETR), is the ratio of tax payments to corporate income. Taxes in cash are included in the statement of cash payments for the following year in the post of payment of income taxes in cash for operating activities, while profit before income tax is included in the income statement for the current year.

Formula:
CETR = tax paid in cash/income before tax

To determine the relationship between the dependent, independent and control variables, tax avoidance was combined with the CETR indicator; Therefore, this study developed two regular size regression models as follows: Formula:
CETR = a + B1MAO + B2POW + B3INO + e

Information:
MAO = Managerial ownership
POW = Public ownership
INO = Institutional ownership
e = error

15 statistical tools were utilized in this study to process and analyze the data to produce a summary of the processed data, Stata. Meanwhile, to assess the accuracy of the data, traditional acceptance tests including tests for normality, multicollinearity, and heteroscedasticity were carried out.

RESULTS AND DISCUSSION

Sample selection in this study was determined using a multi-constraint objective-driven sampling method. A sample of this survey is shown in the table below:

Table 1. About here

Descriptive survey variables based on 135 manufacturing company data from the Indonesia Stock Exchange in 2019 show that the highest average value is on the public ownership structure variable of 0.99, while the average institutional ownership structure variable is 0.94, the average ownership structure variable managerial value is 0.61, and the average CETR variable is 0.69. While the highest standard deviation value is in the CETR variable of 1.67, then the standard deviation value for the managerial ownership variable is 0.48, the standard deviation value for the institutional ownership variable is 0.22, and the standard deviation value for the public ownership variable is 0.08. It can be concluded that based on the kurtosis skewness test, the distribution is normal, with a probability value of 0.638, which means that the value is more than 0.05, which indicates the residual value is normally distributed. The results of the Multicollinearity Test in this study were to test whether the regression model found a correlation between the independent variables. From the test results above, it shows the acquisition of the vif value is 1.04 indicating the result is smaller than ten and the 1/VIF value is 0.99 greater than 0.1, so that from these results it states that there is no relationship between variables so it can be concluded that the test results are free from multicollinearity symptoms. It can be said that the regression model passed the multicollinearity test. A heteroscedasticity test was performed to see if there is variance inequality from the residual results of one observation to another in the regression model. If you have variance inequalities, you can conclude that your data have a heteroscedasticity problem or are not homoscedastic. Heteroscedasticity test results in this study showed the value of chi2(1) = 0.052 and Prob>chi = 0.8271, so it can be concluded that there is no homogeneity, avoiding the symptoms of heteroscedasticity and homoscedasticity.

[Table 2. About here]

The value of Prob > F on the Tax avoidance variable is 0.0966, the result is above 0.01, while the value of Adj R-Square for the tax avoidance variable is 0.0252, which means that the tax avoidance variable is able to explain the institutional and public managerial ownership structure variables of 2.5%.

[Table 3. About here]

The first test was performed to test the first hypothesis that management ownership structure influences tax avoidance. The test results show that the probability value is 0.02 when the value is less than or equal to 0.05, which indicates that the hypothesis is acceptable when the relationship between management ownership structure and tax avoidance has an effect. The t-value is greater than 1.96 when the t-value is 2.35.

The second test was run to test his second hypothesis that the structure of public ownership influences tax avoidance. A probability value of 0.19, or greater than 0.05, rejects the second hypothesis that the association between public ownership structure and tax avoidance has no effect, indicating a t-value of 1.31. Public ownership structures cannot control tax avoidance.
The third test was performed to test Hypothesis 3 that organizational ownership structure influences tax avoidance. The results of this test show that if the value is greater than 0.05, the probability value is 0.19. This indicates that the third hypothesis is rejected if the institutional ownership structure has no effect on tax avoidance. The t-value is 1.31, indicating that institutional ownership structure has a negative impact on tax avoidance.

Based on the first hypothesis test results, the output of stata 15 obtained a probability value of 0.02, indicating that managerial ownership structure affects tax avoidance; thus, the hypothesis is accepted. So that the independent variable managerial ownership structure can affect tax avoidance, the existence of managerial ownership will further improve the company’s performance. Because with managerial ownership of the company, the manager will feel that the company belongs to him, so he will try to run the company well. This means that the more managerial ownership, the more opportunities for managers to avoid tax. So the increase in the number of share ownership by managers can increase the company’s tendency to avoid tax. The reason is that managerial ownership of shares will tend to make managers supervise their companies directly so that tax policies will support tax avoidance to be carried out. Following the submission of the first hypothesis, this study is in line with research (Ratnawati et al., 2018) which states that managerial ownership has a positive value of 0.003 less than 0.05, so it can be concluded that managerial ownership affects tax avoidance. Managers will be careful in making decisions because it will affect the manager, namely the manager's excellent name, so he will try his best to make the right decisions for the company's welfare (Septiadi et al., 2017). In this case, managers have the opportunity to use tax aggressiveness strategies to increase their bonuses and dividends.

A third test was performed to test Hypothesis 3: Organizational ownership structure influences tax avoidance. The results of this test show that if the value is greater than 0.05, the probability value is 0.19. This indicates that the third hypothesis is rejected if the institutional ownership structure does not affect tax avoidance. The t-value is 1.31, indicating that institutional ownership structure has a negative impact on tax avoidance (Badertscher et al., 2013). As the pressure on financial reporting increases, managers become more focused on financial reporting, resulting in lower planned taxes and, ultimately, less tax avoidance. This suggests that public company ownership is still invisible. This is likely because public shareholders typically hold minority shares. This research is in line with research conducted by (Prayogo and Darsono, 2015) which states that public ownership does not affect tax avoidance.

Based on the tests, the probability score was 0.19, suggesting that institutional ownership structure does not affect tax avoidance, and the third rejected the hypothesis. Institutional ownership helps to oversee administrative policies because it serves to unify the various policies administrators take to make decisions that bring effectiveness to their organizations (Nugroho and Agustia, 2018). Institutional ownership is the percentage of shares owned by an organization. Organizations can include foundations, banks, insurance companies, investment firms, financial institutions, legal entities, and other institutions. Institutional ownership of the company implies actively monitoring management's performance (Desai and Dharmapala, 2009). Institutional ownership is important in controlling administrative policy and can be a governmental mechanism (Alzoubi, 2016).

CONCLUSION

Based on the hypothesis and research results, it can be concluded that there are three important things. First, the influence of managerial ownership structure affects tax avoidance. Managers who control the company have considerable responsibilities. Managers who manage the company themselves are required to be able to maximize the company's profit and should report it to the owner of the company. Great responsibility makes managers want to get big rewards. Because the decision to avoid tax is a company policy, both public ownership structures do not affect tax avoidance. The increase in shares owned by the public makes the company have to provide good performance and comply with tax payments because it affects its image. Because public share ownership has characteristics like the general public. People expect contributions from companies to the government through paying taxes that are charged or not avoiding taxes so that they can help the government develop their country. Third, the institutional ownership structure does not affect tax avoidance. Companies with high institutional ownership will reduce tax avoidance actions. The smaller the ownership by the institution, the easier it will be for tax avoidance. This study concludes that institutional ownership focuses on obtaining more benefits by avoiding potential costs from the tax authorities.

Limitations in this study have not identified family and foreign ownership and whether family ownership affects tax avoidance, in this study also identifies how the company's strategy affects tax avoidance. Based on the limitations mentioned, the authors hope that further research will be able to minimize the existing limitations. The right suggestion for further research is to add variables such as the structure of family and foreign ownership and the year period.
REFERENCES


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Conflict of Interest Statement: The authors declare that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

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### Table 1 | Sample Distribution

<table>
<thead>
<tr>
<th>No</th>
<th>Criteria</th>
<th>Number of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Manufacturing companies that have been listed on the Indonesia Stock Exchange (IDX) in 2019</td>
<td>181</td>
</tr>
<tr>
<td>2.</td>
<td>Does not disclose annual report</td>
<td>(46)</td>
</tr>
<tr>
<td></td>
<td><strong>Total Research Sample Companies</strong></td>
<td>135</td>
</tr>
</tbody>
</table>
Table 2 | Adj R-Square Table

<table>
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<tr>
<th>Variable</th>
<th>Prob&gt;F</th>
<th>Adj R-Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Avoidance</td>
<td>0.0966</td>
<td>0.0252</td>
</tr>
</tbody>
</table>

Source: Processed Secondary Data
### Table 3 | Multiple Linear Regression Test Table

| Variable                  | T     | p>|t|  | Conclusion |
|---------------------------|-------|------|------------|
| Manajerial→ Tax Avoidance | 2.35  | 0.02 | Accepted   |
| Public→ Tax Avoidance     | 0.57  | 0.56 | Rejected   |
| Institutional→ Tax Avoidance | 1.31  | 0.19 | Rejected   |

Source: Processed Secondary Data