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# FAMILY OWNERSHIP AND TAX AGGRESSIVENESS: MODERATE EFFECTS OF AUDIT QUALITY

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**Abstract:** This study aims to analyze the effect of family ownership toward tax aggressiveness and the moderating effect of audit quality variables toward the relationship between family ownership and tax aggressiveness in manufacturing companies listed between the periods of 2013 – 2019. Sampling used purposive sampling method and obtained 55 family firm manufacturing with a period of 7 years of observation. Through several additional analyzes, the results of this study were quite varied. First, family ownership had a negative and significant effect on tax aggressiveness ($H_1$ was accepted). Second, audit quality strengthened the negative effect of family ownership on tax aggressiveness ($H_2$ was accepted). Third, testing of family versus non-family firms based on the dummy variable showed that it does not significantly affect tax aggressiveness. Fourth, testing of companies, especially ethnic Chinese, showed that there is no significant effect toward tax aggressiveness. Fifth, the examination of family companies on display showed that a significant effect toward tax aggressiveness. Sixth, testing of all estimation models with ETR (Effective Tax Rate) as an alternative measurement of BTD (Book Tax Differences) shows that there is a negative and no significant effect between family ownership and tax aggressiveness. Audit quality also does not significantly affect the moderate of family ownership relationships and tax aggressiveness, especially in the comparison of family and non-family firm, Chinese ethnic family firm, and multinational family firm.

***Keywords:*** *Audit Quality, Chinese Ethnic, Family Ownership, Multinational Family Firm, Tax Aggressiveness.*

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## 1. Introduction

Indonesia is one of the countries with high tax revenues. The different perspectives are seen from the point of view between the government that wants as much tax revenue as possible and companies that want the smallest tax expenditure resulted in a significant difference between budget revenues and tax realization in the last 10 years, data from the Ministry of Finance of the Republic of Indonesia. This indicated the existence of non-compliance by taxpayer's in paying their taxes. In several tax cases in Indonesia, there was taxpayer's non-compliance, including the tax case of PT. Asian Agri in 2014 resulted in requiring company managers to pay a fine of IDR 2.5 trillion and be sentenced to prison. PT Bumi Resources

Tbk (Bakrie Group), which is a family company in Indonesia, has tax evasion with a total of IDR 2.1 trillion. Its subsidiaries, namely PT Kaltim Prima Coal (KPC) and PT Arutmin Indonesia, also participated in tax evasion. PT Nestle, which is a subsidiary of PT Unilever Indonesia Tbk (UNVR), carried out tax evasion through transfer pricing. The most phenomenal case related to taxation is the Panama Papers which dragged the names of big businessmen in Indonesia.

Various factors can affect tax aggressiveness, some of which are shown in the following literature, for example family ownership (Chen *et al.*, 2010), executive compensation (Armstrong *et al.*, 2012), and leverage (Kubick & Lockhart, 2016). An important factor that can be examined further in Indonesia is family ownership. A study by reference Chen *et al.* (2010) explained that family ownership is considered a unique arrangement of an economic organization and is also a factor that greatly affects the economy in a country today. Family-controlled businesses had a significant role in job creation. Apart from being owned, managed, and supervised by members of the family generation, the family company also maintained the values, vision, and mission that have been set by its main founder. The existence of family shareholding is allegedly to be able to influence the company's tax aggressiveness measures. The agency conflict that arises will be greater regarding the majority and minority shareholders than the agency conflict between the owners and managers of the company. The company's aggressiveness in terms of taxes depends on the size of the benefits received and the costs borne by the family.

Inconsistent research results related to the effect of family ownership on tax aggressiveness were shown by the research of (Chen *et al.*, 2010), (Steijvers & Niskanen, 2014), and (Mafrolla & D'Amico, 2016) which showed negative results related to the effect of family ownership on tax aggressiveness. Different results were shown by the studies of (Martinez & Ramalho, 2014) and (Sanchez *et al.*, 2016) which had a positive effect related to the effect of family ownership on tax aggressiveness. The inconsistency of the results of previous studies was influenced by several factors, such as differences in tax regulations that differ in each country and between research periods, the observation variables used were different, and the measurement of the variables used was also different (especially on family ownership variables, tax aggressiveness, and audit quality). In most of the previous studies, tax aggressiveness was measured using ETR (Effective Tax Rate), GAAP ETR, Cash ETR, and Current ETR. Meanwhile, this study used BTD (Book Tax Differences) measurements. Using the abnormal value of BTD as a result of the residual value derived from the estimation model of Tang & Firth (2012), BTD measurement is considered more accurate in measuring tax aggressiveness.

This study used audit quality variables to moderate the negative effect of family ownership on tax aggressiveness. Auditors with industry specialization estimates are considered to have better audit quality than non-specialist auditors. The specialization in the client industry owned by Public Accounting Firm can be seen from the market share related to audit services in the same industry. Research Results of (Balsam *et al.*, 2003) and (Kwon *et al.*, 2007) showed that audits provided by industry-specialized auditors had higher quality. Audit quality is related to the effectiveness of supervision from external auditors. Audit quality can also be used as a control in ethnic Chinese family companies and multinational family companies related to the preparation and disclosure of financial statements with tax aggressiveness measures.

The sampling of this research was through companies listed on the Indonesia Stock Exchange in 2013 – 2019 by specializing in manufacturing companies. Manufacturing

companies have a very large contribution to state tax revenues and also the complexity of the business that they run will affect the diversity of accounts which causes a greater chance of book tax differences due to differences in commercial accounting and tax accounting from the regulatory side. Manufacturing companies also have the opportunity to carry out related-party transactions or transfer pricing, especially for multinational companies to minimize the payment of higher taxes compared to other industrial sectors.

The presentation of this research section was then discussed as follows. Section 2 described the literature review and hypothesis development. Section 3 showed a discussion of research methods. Section 4 described the results and discussion of the study. Section 5 related to the conclusions of the study which included the limitations, suggestions, and contributions of the research.

## 2. Literature Review and Hypothesis Development

### 2.1 Family Ownership and Tax Aggressiveness

This study connected three concepts at once to find out more deeply the relationship among the three in influencing each other, including family ownership, tax aggressiveness, and audit quality. As we know that tax aggressiveness is part of tax planning which aims to reduce taxable profit (Frank *et al.*, 2009). This measure is more directed to tax avoidance that is carried out legally, where taxpayers disclose overall information related to taxes to tax authorities and in accordance with tax laws and regulations. If the tax planning measure is excessive, it will have an impact on tax evasion. Family ownership is shareholding which refers to all individuals and companies with registered ownership of > 5% (Chen *et al.*, 2010). Exceptions are financial institutions (insurance, investment institutions, banks, mutual funds, pension funds, cooperatives), state companies, foreign companies, and the public whose ownership is not required to be recorded.

In various Asian and European countries, public companies controlled by families were quite significant. Public companies in America that were controlled by families account for about 1/3 of the existing public companies (Anderson & Reeb, 2003). Regarding the level of tax aggressiveness, both family and non-family companies depend on how much benefit they receive or the costs incurred by the measures on the owners of the company from the founding family. It could also be the influence received by managers of non-family companies. The agency problem in this family business is quite unique because the conflict between the majority and minority shareholders is greater than the conflict between the agent and the principal. Agency conflict can be caused by information asymmetry between majority and minority shareholders. The relevance of the use of agency theory in this study was because the dimensions of family ownership in practice arise type II agency relationships, namely between majority shareholders and minority shareholders.

Companies with majority shareholding by families tend to have strong incentives related to the alignment of goals between the interests of managers and company owners to keep the good name of the "family name" protected. A study by reference Chen *et al.* (2010) explained that companies with family ownership had greater equity as assurance and a longer investment period as well as are more concerned with company reputation. Furthermore, Chen *et al.* (2010) documented the results of their research that family companies had a negative effect on tax aggressiveness measure, which means that their tax aggressive behavior tended to be low compared to non-family companies. Family companies are more away from opportunistic attitudes and tend to avoid risky actions and activities, including tax

avoidance (Steijvers & Niskanen, 2014). Based on the theoretical study and the research results above, the first hypothesis can be formulated as follows:

**$H_1$:** ***Family Ownership has a negative effect on Tax Aggressiveness.***

### 2.2 Moderating Effect of Audit Quality

Research by Chen *et al.* (2010) found that the level of tax aggressiveness measure in family businesses was lower than in non-family businesses due to greater agency problems between owners and managers in non-family businesses. This was also related to the quality of the audits produced by family companies. Audit quality is an important part of an auditor that must be maintained when conducting the auditing process, especially auditing a company's financial statements. It is said to be qualified if the auditors perform their work in accordance with their professionalism.

Auditors also have incentives to influence their clients' tax aggressiveness measures (Kanagaretnam *et al.,* 2016). First, the company's involvement in tax aggressiveness measures will have a higher probability of misstatements and restatements of its financial statements. Second, previous research stated that aggressive tax measures can reduce stock prices (Hanlon & Slemrod, 2009) and the risk of falling stock prices increases. The selection of auditors by clients in a company depends on the resulting audit quality factors. Auditors with industry specialization had high credibility and reliable sources assuring audit quality compared to auditors with non-industrial specialization (Balsam *et al.,* 2003). The resulting audit quality will improve the quality of the company's financial reporting which had an impact on the level of information asymmetry with stakeholders which is easier to control (DeAngelo, 1981).

The results of research by Balsam *et al.* (2003) and Kwon *et al.* (2007) showed that audits conducted by industry-specialized auditors had higher quality than those of non-industrial specialization. These results were confirmed by the alternative measurement of audit quality that has been carried out by Kanagaretnam *et al.* (2016) which showed that industrial specialization auditors as measured by industry market share had a negative effect on tax aggressiveness measure. Control of the behavior of company management, especially family companies that will carry out tax planning can also be controlled so that they are not too aggressive and do not cause poor audit quality results. Based on the theoretical study and the research results above, the second hypothesis can be formulated as follows:

**$H_2$:** ***Audit quality is able to strengthen the negative effect of Family Ownership on Tax Aggressiveness.***

## 3. Research Methods

### 3.1 Population and Samples

The population in this study included all financial statement data and annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2013 – 2019. The total sample was obtained through the purposive sampling method was 55 family companies with an observation period of 7 years. Quantitative data was obtained from annual reports and financial statements as of 31$^{st}$, December, manufacturing companies listed on the Indonesia Stock Exchange (IDX) through the documentation method. More details can be seen in the following table 1.

**Table 1: Selection Procedure of Research Sample**

| | Description | Total |
|---|---|---|
| 1. | Companies listed on the IDX in 2013 – 2019 | 116 |
| 2. | Company belonged to the family | 58 |
| 3. | Family companies that did not meet the sampling criteria | 3 |
| 4. | Companies that were used as research samples | 55 |
| 5. | Total companies that were used as research samples (55 x 7 years) | 385 |

Source: Result of data processing

### 3.2 Operational Definition and Variable Measurement

The dependent variable in this study was tax aggressiveness. Referring to the research by (Chen *et al.*, 2010), (Steijvers & Niskanen, 2014), and (Mafrolla & D'Amico, 2016), measurement of tax aggressiveness used the Book Tax Differences (BTD) indicator. Adopting research (Tang & Firth, 2012), the BTD value was sourced from Abnormal Book Tax Differences (ABTD). ABTD is BTD sourced from the company's opportunistic activities, such as tax management and earnings management. The residual value results were obtained from the BTD component regression was then used as regression analysis in this study. Before performing the regression, all variables in the BTD component equation were scaled to the average total value of assets.

The residual value of the BTD value was obtained from the following components (Tang & Firth, 2012) : 1) changes in property investment, fixed assets, and intangible assets from year t -1 to year t, 2) changes in income from year t-1 to year t, 3) the value of BTD in year t-1 to take into account the effect of changes in accounting and tax standards from year to year on normal BTD. Measurement of family ownership as an independent variable in this study used a comparison between the number of shares owned by the family and the number of company shares outstanding (see Anderson & Reeb, 2003; Gaaya *et al.*, 2017 ; and Madyan *et al.*, 2019). Measurement of audit quality variable with industry specialization auditor proxy was calculated through the market share ratio of audit services multiplied by the total assets of company clients audited by Public Accounting Firm in the same industry (see Balsam *et al.*, 2003; Adiwangsa *et al.*, 2019).
Furthermore, the measurement of BTD and other variables can be seen in table 2.

**Table 2: Operational Definition and Variable Measurement**

| | Research Variables | Indicator | Measurement | Scale | Sources |
|---|---|---|---|---|---|
| 1 | **Dependent Variable (Tax Aggressiveness)** | | | | |
| | BTD value is sourced from Abnormal Book Tax Differences which is the result of residual value obtained from BTD component regression. | BTD | $BTD_{it} = \beta_0 + \beta_1 \Delta INV_{it} + \beta_2 \Delta REV_{it} + \beta_3 BTD_{it-1} + \varepsilon_{it}$ | Ratio | (Chen *et al.*, 2010; Manzon, G. B., & Plesko, 2002; Tang & Firth, 2012) |
| 2 | **Independent Variable (Family Ownership)** | | | | |

| | Research Variables | Indicator | Measurement | Scale | Sources |
|---|---|---|---|---|---|
| | The ratio between the number of shares owned by the family and the number of outstanding company shares. | FAM | $\text{FAM} = \frac{\text{Shares owned by the family}}{\text{Outstanding Shares}}$ | Ratio | (Anderson & Reeb, 2003; Gaaya *et al.*, 2017; Madyan *et al.*, 2019) |
| 3 | **Moderate Variable (Audit Quality)** | | | | |
| | Calculated using the market share ratio of audit services multiplied by the total assets of the company's clients audited by KAP (Public accounting firm) in the same industry. | SPEC | $\text{SPEC} = \frac{\sum \text{Client}}{\sum \text{Emitten}} \text{ x } \frac{\bar{x} \text{ Client Assets}}{\bar{x} \text{ Emitten Assets}}$ | Ratio | (Balsam *et al.*, 2003; Neal & Riley, 2004) |
| | **Control Variables** | | | | |
| 4 | **Profitability**<br>Ratio that measures corporate ability in earning profit available to stockholders through total assets | ROA | $\text{ROA} = \frac{\text{Earning After Tax}}{\text{Total Assets}}$ | Ratio | (Chen *et al.*, 2010; Mafrolla & D'Amico, 2016; Martinez & Ramalho, 2014) |
| 5 | **Leverage**<br>Financial ratio that describes relative proportion between assets and debt used to fund corporate assets | DAR | $\text{DAR} = \frac{\text{Total Liability}}{\text{Total Assets}}$ | Ratio | |
| 6 | **Firm Size** | SIZE | SIZE = *Ln (Total Assets)* | Ratio | |

| | Research Variables | Indicator | Measurement | Scale | Sources |
|---|---|---|---|---|---|
| | Calculated using Natural Logarithm from the total assets of each company | | | | |
| 7 | **Property, Plant, & Equipment**<br>The ratio between the value of property, plant, and equipment with the total assets owned by the company. | PPE | $\text{PPE} = \frac{\text{Total Property, Plant, and Equipment}}{\text{Total Assets}}$ | Ratio | |
| 8 | **Intangible Assets**<br>The ratio between total intangible assets and total assets owned by the company. | INTANG | $\text{INTANG} = \frac{\text{Total Intangible Assets}}{\text{Total Assets}}$ | Ratio | |

### 3.3 Data Analysis Techniques and Hypothesis Test

The initial step of analysis in research was to detect deviations that occurred in the regression equation, namely by testing the classical assumptions which include: normality, multicollinearity, heteroscedasticity, and autocorrelation tests. This study used the Eviews program as a tool in analyzing panel data. In panel regression, the CEM (Common Effect Model) and FEM (Fixed Effect Model) models used the OLS (Ordinary Least Squares) approach, while the REM (Random Effect Model) model used the GLS (Generalized Least Squared) approach. The CEM, FEM, and REM models can be analyzed through the selection of panel data estimation techniques consisting of the Chow Test, Hausman Test, and Lagrange Multiple Test (LM).

The following is the MRA equation regression model that can be formed in this study:

$$\mathbf{BTD_{it} = \beta_0 + \beta_1 FAM_{it} + \beta_2 SPEC_{it} + \beta_3 FAM*SPEC_{it} + \beta_4 ROA_{it} + \beta_5 DAR_{it} + \beta_6 SIZE_{it} + \beta_7 PPE_{it} + \beta_8 INTANG_{it} + \varepsilon_{it}}$$

Information:

BTD : *Book Tax Differences*
$\beta_1,\ldots, \beta_8$ : Regression coefficient from each variable,
$\beta_0$ : Constant,
FAM : Family Ownership,
SPEC : Audit quality with industry specialization proxies,
ROA : *Return on Assets,*
DAR : *Debt to Total Assets Ratio,*

SIZE : Natural Logarithm of total assets,
PPE : *Property, Plant, and Equipment,*
INTANG : *Intangible Assets,*
i : *cross sectional units,*
t : year time period,
ε : *error term*

The data analysis stages of this research included: *First*, testing was carried out through the MRA regression equation according to the model above. *Second*, compare the results of the MRA regression with data testing used non-family company objects. *Third*, testing the data was carried out through different research objects, namely ethnic Chinese family companies. *Fourth*, testing the data was carried out using the research object of a multinational family company. *Fifth*, carried out a test with a different analysis of the measurement of tax aggressiveness, namely ETR. *Sixth*, concluded and compared all the results of data analysis through both BTD and ETR measurements.

## 4. Results and Discussion

### 4.1 Results

**Descriptive Statistics**

The results showed that it was free from deviations from classical assumptions. Furthermore, the results of descriptive statistics can be seen in table 3 below.

**Table 3: Descriptive Statistics of Research Variables**

| | BTD | FAM | SPEC | ROA | DAR | SIZE | PPE | INTANG |
|---|---|---|---|---|---|---|---|---|
| **Mean** | -0.003963 | 0.657479 | 0.434208 | 0.038081 | 0.454264 | 14.39799 | 0.380515 | 0.010554 |
| **Median** | -0.004624 | 0.712621 | 0.339752 | 0.034183 | 0.463839 | 14.11903 | 0.340944 | 0.003324 |
| **Max** | 0.028873 | 0.923698 | 0.905476 | 0.260609 | 0.959867 | 18.38545 | 0.916690 | 0.156966 |
| **Min** | -0.036153 | 0.107712 | 0.305296 | -0.391843 | 0.032674 | 11.47984 | 0.027676 | 0.000108 |
| **Std. Dev.** | 0.012281 | 0.191274 | 0.179378 | 0.073266 | 0.216227 | 1.494368 | 0.191713 | 0.017722 |
| **Observ.** | 385 | 385 | 385 | 385 | 385 | 385 | 385 | 385 |

Source: Result of data processing

Table 3 illustrated that the total companies that were used as research samples were 385 companies obtained from 55 manufacturing companies belonged to families with a period of 7 years. The average BTD value was -0.003963 with the lowest value of -0.036153 owned by PT Martina Berto Tbk (MBTO) and the highest value of 0.028873 at PT Malindo Feedmill Tbk (MAIN). The average of family shareholding (FAM) in these companies was 0.657479 with the lowest value of 0.107712 owned by PT Gunawan Dianjaya Steel Tbk (GDST) and the highest value of 0.923698 at PT Suparma Tbk (SPMA). The SPEC variable as a proxy for audit quality had an average value of 0.434208 with the lowest value of 0.305296 owned by PT Duta Pertiwi Nusantara Tbk (DPNS) and the highest value of 0.905476 at PT Shoes Bata Tbk (BATA). The average of the control variable value in this study was 0.038081 (ROA); 0.454264 (DAR); 14,39799 (SIZE); 0.380515 (PPE); and 0.010554 (INTANG).

**Hypothesis 1 and Hypothesis 2**

Hypothesis 1, the result of moderated regression analysis (MRA) was obtained through the common effect model (CEM) approach. The following is the complete model estimation result.

**Table 4: Results of Panel Data Regression Estimation with Cem Approach**

| *Variable* | *Coeff.* | *t - statistic* | *p - value* |
|---|---|---|---|
| *C* | 0.001195 | 0.160316 | 0.8727 |
| *FAM* | -0.028129 | -3.681771 | 0.0003 |
| *SPEC* | -0.020803 | -2.077487 | 0.0384 |
| *FAM_X_SPEC* | 0.037540 | 2.324504 | 0.0206 |
| *ROA* | 0.072733 | 7.729219 | 0.0000 |
| *DAR* | -0.000310 | -0.103172 | 0.9179 |
| *SIZE* | 0.000597 | 1.329762 | 0.1844 |
| *PPE* | 0.004505 | 1.387950 | 0.1660 |
| *INTANG* | -0.027482 | -0.811158 | 0.4178 |
| $R^2$ | 0.240368 | | |
| *Adj* $R^2$ | 0.224206 | | |
| *F-value* | 14.872090 | | |
| *Sig.* | 0.000000 | | |
| *N* | 385 | | |

Source: Result of data processing

Hypothesis 1 stated that family ownership has a negative effect on tax aggressiveness. This hypothesis was tested based on the regression coefficient of the FAM variable and its t statistical test. Based on table 4, the regression coefficient for FAM was -0.0281 with a p-value of 0.0003. With the regression coefficient was negative and p-value < 0.05, it was decided that $H_a$ was accepted and $H_0$ was rejected. The conclusion is that family ownership had a negative effect on tax aggressiveness (hypothesis 1 was accepted).

Hypothesis 2 stated that audit quality strengthens the negative effect of family ownership on tax aggressiveness. Strengthening the effect means that the moderation was positive. This hypothesis was tested based on the regression coefficient of the FAM_x_SPEC variable and its t statistic test. Based on table 4, the regression coefficient for FAM_x_SPEC was 0.0375 with a p-value of 0.0206. With a positive regression coefficient and p-value < 0.05, it was decided that $H_a$ was accepted and $H_0$ was rejected. The conclusion is that audit quality strengthened the negative effect of family ownership on tax aggressiveness (hypothesis 2 was accepted).

**Additional Analysis**

Additional analyzes of this study included: *First*, an analysis that involved family versus non-family companies. *Second*, an analysis that only involved ethnic Chinese family companies. *Third*, an analysis that involved only multinational family companies. *Fourth*, the analysis used ETR as an alternative to measuring BTD. Following are the results of each analysis. Test on family versus non-family companies based on the dummy variable showed no significant effect on tax aggressiveness. Test on companies, especially ethnic Chinese, showed that there was no significant effect on tax aggressiveness. Test on multinational-scale

family companies showed that there was a significant effect on tax aggressiveness. Test of all estimation models with ETR (Effective Tax Rate) as an alternative to measuring BTD (Book Tax Differences) showed that there was a negative and no significant effect between family ownership and tax aggressiveness. Audit quality also did not have a significant effect in moderating the relationship of family ownership and tax aggressiveness, especially in the comparison of family versus non-family companies, ethnic Chinese family companies, and multinational family companies.

The summary of the overall results of hypothesis testing on each model based on the probability value can be seen in the following table 5.

**Table 5: Summary of Hypothesis Testing for Each Model**

| Model | Information | *Adj R²* | *p (F statistic)* | $H_1$ | $H_2$ |
|---|---|---|---|---|---|
| 1 | Family Companies | 0,2242 | 0,0000 | ✓ | ✓ |
| 2 | Family Companies versus non-family companies | 0,1987 | 0,0000 | ✗ | ✗ |
| 3 | Chinese Family Companies | 0,3264 | 0,0000 | ✗ | ✗ |
| 4 | Multinational Family Companies | 0,1001 | 0,0048 | ✓ | ✗ |
| 5 | ETR as an alternative to BTD | –0,0054 | 0,6553 | ✗ | ✗ |

Information: ✓ = Hypothesis was accepted; ✗ = Hypothesis was not accepted
**$H_1$** = First hypothesis; **$H_2$** = Second hypothesis
Source: Result of data processing

### 4.2 Discussions

The results of the research analysis confirmed that family ownership had a negative and significant effect on tax aggressiveness ($H_1$ was accepted). In accordance with the results of previous research Chen *et al.* (2010) and Steijvers & Niskanen (2014), family companies tended to be more concerned with the reputation / good name of the company by taking less tax aggressive measures and being willing to pay high taxes compared to having to face tax penalties from the tax authorities. Family companies tended to be less aggressive in their tax management. This means that the increase in costs from aggressive tax management activities will be greater than the increase in benefits that will be received by the company later. The argument put forward by Badertscher *et al.* (2010) stated that shareholding concentrated in the family had a tendency to be centered on decision-making by a few parties, especially the family.

The results of testing hypothesis 2 indicated that audit quality strengthened the negative effect of family ownership and tax aggressiveness ($H_2$ was Accepted). These results confirmed the previous research, namely Gayaa *et al.* (2017), that audit quality was able to moderate the effect of family ownership and tax aggressiveness. This means that auditors with high quality, especially auditors with industry specialties, can reduce the uncertain tax position of the company and are more concerned with damage to its reputation (Kanagaretnam *et al.,* 2016). The existence of a qualified auditor will minimize errors made by the management of family companies in taxation policies and calculations.

Test on family and non-family companies based on dummy variables showed that the results of the effect were not significant on tax aggressiveness and audit quality did not have a significant effect in moderating the relationship between family ownership and tax

aggressiveness. This means that the number of shares owned by non-family members in a company did not have a major effect on aggressive tax measures from company management. Similar to family companies, non-family companies also had a low level of tax aggressiveness. Both of them chose to avoid the future risks that were received from the tax authorities.

Test on companies, especially ethnic Chinese, showed that there was no significant effect on tax aggressiveness. Audit quality also did not have a significant effect in moderating the relationship between family ownership and tax aggressiveness. The characteristics of ethnic Chinese businesses in family companies had an impact on non-aggressive tax management practices. The results showed that the Chinese preferred to avoid the risks that arose as a result of avoiding taxes. Test on multinational family companies showed that there was a significant effect on tax aggressiveness and audit quality did not have a significant effect in moderating the relationship between family ownership and tax aggressiveness. These results indicated that multinational companies, especially family companies, will be more aggressive in their tax management and allow greater opportunities for tax avoidance through transfer pricing.

Test of all estimation models with ETR as an alternative to BTD measurement showed that there was a negative and not significant effect between family ownership and tax aggressiveness. Audit quality also did not have a significant effect in moderating the relationship between family ownership and tax aggressiveness. A negative ETR value means the higher the level of tax aggressiveness in family companies. These results concluded that the tax aggressiveness of manufacturing companies in Indonesia was determined by the size of the shares owned by the family. The four additional analyzes showed that audit quality has not been able to moderate the effect of family ownership on tax aggressiveness. It is possible that the audit quality factor was not corporate governance that was able to control the practice of tax aggressiveness in family companies.

## 5. Conclusion

The conclusion of all estimation models in this study is as follows. *First*, family companies had a negative and significant effect on tax aggressiveness ($H_1$ was accepted). This result was consistent with previous research Chen *et al.* (2010) and Steijvers & Niskanen (2014) which showed that family companies were more concerned about maintaining their good name/reputation by being more obedient to tax rules, so they had a low level of aggressiveness. *Second*, audit quality strengthened the negative effect of family ownership on tax aggressiveness ($H_2$ was accepted). These results were consistent with the findings of (Gaaya *et al.*, 2017) which showed that although the company's decisions taken from the family were quite good and had a negative impact on the level of tax aggressiveness, the role of external auditors was also needed by family companies in reducing company decisions related to taking rent from a tax-saving position (rent extraction).

*Third*, the test on family versus non-family companies based on the dummy variable showed no significant effect on tax aggressiveness and audit quality did not have a significant effect in moderating the relationship between family ownership and tax aggressiveness. This means that the number of shares owned by non-family members in a company did not have a major effect on aggressive tax measures from company management. *Fourth*, the test on companies, especially ethnic Chinese, showed that there was no significant effect on tax aggressiveness. Audit quality also did not have a significant effect in moderating the relationship between family ownership and tax aggressiveness. The characteristics of ethnic

Chinese businesses in family companies had an impact on non-aggressive tax management practices. The results showed that the Chinese preferred to avoid the risks that arose as a result of avoiding taxes.

*Fifth*, the test on multinational-scale family companies showed that there was a significant effect on tax aggressiveness and audit quality did not have a significant effect in moderating the relationship between family ownership and tax aggressiveness. These results indicated that multinational companies, especially family companies, will be more aggressive in their tax management and allow greater opportunities for tax avoidance through transfer pricing. *Sixth*, the test on all estimation models with ETR as an alternative to BTD measurement showed that there was a negative and not significant effect between family ownership and tax aggressiveness. Audit quality also did not have a significant effect in moderating the relationship between family ownership and tax aggressiveness.

Practical contributions from this research included, for investors, which are related to making decisions to invest in certain companies so that they are more considerate of tax management practices, especially in family companies. For companies, the results of this study can be a reference for company management in reducing aggressive tax measures to avoid any risk from the tax authorities. The need for the presence of an external auditor also triggered companies to make transparent financial reports and reduce the detection of financial statement errors from auditors so that the audit quality produced by the company also gets reasonable results without exception. For tax authorities, this research can be as a reference to better monitor and evaluate company performance related to aggressive tax management practices. Theoretically, this research can provide a reference and inspiration for further researchers to conduct research related to family ownership and tax aggressiveness as well as auditor quality in moderating the effect between the two.

The limitations of this study included the following. *First*, the sample data on family ownership variables was limited to only direct ownership, so that the research data used as the sample did not reflect the real family company data in the manufacturing sector for the 2013 – 2019 period. *Second*, to focus this research, the author only used one independent variable. *Third*, in additional analysis, this study has not been able to prove the moderating effect of audit quality concerning family ownership and tax aggressiveness. *Fourth*, the adjusted R-squared value in the main analysis of this study was 22.42%, which means that there were other factors of 77.58% that affected tax aggressiveness that was not included in this research model.

Suggestions that the author can give to further researchers included the following. *First*, the next researcher can re-examine family companies which were not limited to direct ownership, but overall, to direct ownership and indirect ownership or commonly referred to as ultimate ownership. *Second*, it can add independent variables to provide varied results regarding its effect on tax aggressiveness. *Third*, further research is expected to re-examine the audit quality variable in moderating the relationship between family ownership and tax aggressiveness by using other test methods. *Fourth*, further research is expected to include other variables that may affect tax aggressiveness, for example institutional ownership, management ownership, and government ownership.

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