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THE EFFECT OF FOREIGN OWNERSHIP AND FINANCIAL LEVERAGE ON TAX AVOIDANCE WITH AUDIT QUALITY AS MODERATING VARIABLES

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Abstract:
Manufacturing companies are the most significant contributors to tax revenues in Indonesia. However, this group experienced negative growth in tax revenues when there was growth in tax revenues in general. The existence of foreign ownership and the use of debt (financial leverage) is suspected to be one of the causes of tax avoidance by the Company, even though external parties have carried out audits. This research uses quantitative causal research to explain the factors that cause tax avoidance. A quantitative approach is applied to investigate or measure the level of phenomena that occur. This research uses a Moderated Regression Analysis on 124 manufacturing companies listed on the Indonesia Stock Exchange. The research results show that foreign ownership has no significant effect on tax avoidance, while financial leverage has a substantial impact on tax avoidance. In addition, audit quality does not significantly moderate the influence of foreign ownership and economic leverage.

Keywords: Tax Revenue, Tax Avoidance, Moderated Regression Analysis, Indonesia Stock Exchange, Audit Quality

INTRODUCTION

Based on the publication of the Ministry of Finance (kemenkeu.go.id), tax revenues in 2019 reached Rp. 1,545.3 trillion, thus only reaching 86.5% of the APBN target. When viewed from the percentage of achievements, this figure is lower than those in 2017 and 2018, which reached 89.7% and 92.4%, respectively. The Manufacturing Industry Sector is a sector that experienced a negative growth of 1.8% in 2019, although in general, tax revenues grew by 1.4%. In addition, if seen from its significance, this sector is the main contributor to tax revenue, as much as 29.4% (Data News, 2020). According to Jefry Batara Salebu (Member of the International Fiscal Association Indonesia Branch), problems that need special attention from the government indicated as the cause of the decline in tax revenues, namely tax evasion schemes through underground economic activities and global tax avoidance practices (business. com).

The Ministry of Finance stated that there were around 2,000 investments in the form of foreign direct investment (PMA) that did not pay taxes in the last 10 (ten) years (bisnis.com). Various examples of cases of tax evasion by foreign-owned companies include the case of TMMI, which was allegedly committed by selling products to international distributors in Singapore at unreasonable prices (Tempo Magazine, April 21, 2014). In addition, there was a case of selling the communications division of PT SI to NSS (Ortax February 20, 2012). The latest, in the Tax Court Decision Number PUT-010834/2018/PP/M. V.B. Year 2020 (pronounced June 26, 2020), there is tax avoidance through the imposition of asset rental fees to affiliated companies in Switzerland amounting to USD 8,399,034 carried out by PT HDSI.

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Regarding tax avoidance by companies with foreign ownership (Satyadini, 2018), foreign companies (Foreign et al. Establishments) have a greater risk of tax evasion than domestic companies. The results of this study were further confirmed by (Shi et al., 2020) and (Suranta et al., 2020). The tendency of foreign-owned companies to avoid tax is contrary to legitimacy theory. Legitimacy theory states that companies should adapt their activities to social values and broader norms (Dowling & Pfeffer, 1975), (Suranta et al., 2020). The decision to pay taxes is an option based on considerations of profit and loss (Kirchler et al., 2010). Companies can choose to save on taxes, but on the other hand, there is the potential for sanctions by the tax authorities if tax evasion is found. Tax savings aim to increase the Company's value (Chen et al., 2016).

The OECD (2021) states that using interest from third parties and affiliates is one of the most straightforward profit transfer techniques in international tax planning. An example of using loans as a medium for tax evasion is contained in the Tax Court Decision Number Put. 61574/PP/M.IVA/15/2015 dated May 26, 2015. The Company uses unreasonable interest expense as a deduction from Taxable Income for tax avoidance. The use of debt is known as financial leverage (Eugene & Daves, 2007). Several studies show that there is a significant effect of financial leverage on tax avoidance (Pfaffermayr et al., 2013), (Hamilah, 2020), (Jama & Harnovinsah, 2018), and (Kim & Im, 2017). Other studies show that leverage does not affect tax avoidance (Salehi & Salami, 2020). Therefore, a quality audit is needed to minimize the taxes paid by the Company while avoiding tax authority sanctions resulting from using this loan.

Previous research has focused on the direct effect of audit quality on tax avoidance. In general, the results of previous studies state that a quality audit reduces the possibility of tax evasion by companies (Waluyo, 2019) and (Riguen et al., 2019). In general, companies with effective risk management and internal control tend to use quality audits and do not do tax evasion. A quality audit is crucial in resolving problems arising from conflicts of interest between the Company and its shareholders (Richardson et al., 2013). A quality audit is considered a means that can prevent companies from avoiding taxes so that, in general, audit quality is a variable that can moderate the factors that affect tax avoidance. For example, research by Gaaya, Lakhal and Lakhal (2017), the results of the study state that a quality audit can reduce the effect of family ownership on tax avoidance. However, not many studies explain the moderating effect of audit quality on factors that influence tax avoidance, such as the effect of foreign ownership and financial leverage. This study focuses on moderating audit quality in moderating factors influencing tax avoidance, namely foreign ownership and the Company's financial leverage.

Agency Theory. Scott (2009:313) states that Agency theory is a branch of game theory that studies the design of contracts to motivate a rational agent to act on behalf of a principal when the agent's interests would otherwise conflict with the principal's. Agency theory suggests a separation between owners and managers in the firm and reveals the forms of relationships that might bind the principal to the agent. The relationship between the two is known as an agency relationship (Daidj, 2017, p. 67). C. Jensen and H. Meckling (1976) explain an agency relationship as: "agency relationship as a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent."

There will be agency costs when there is a difference in interests between the principal and the agent. The term agency costs generally refers to things the parties may do to a contract that are in their interests. However, contrary to the interests of other parties (Cumming and Johan, 2020:15). Everyone works solely based on what they consider to be their interests. The problem to be solved

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is ensuring that when agents act, they consider the consequences that directly affect them and those that affect others to a greater or lesser degree (Becchetti et al., 2020, p. 200).

Corporate Tax Avoidance (CTA). Tax avoidance is an effort to ease the tax burden by not violating the law (Mardiasmo, 2018, p. 11). To lighten/streamline the tax burden, this is done by avoiding taxation by directing it to transactions that are not tax objects (Pohan, 2015, p. 11). Darussalam B. et al. (2017: 643) explain tax evasion by exploiting tax provision loopholes and the tax system's interaction between countries and tax treaties.

Russo (2007:60) states that tax avoidance cannot be clearly distinguished from tax planning, so tax avoidance is often equated with tax planning. In this study, tax avoidance is defined as an effort to ease the tax burden in various ways that are not prohibited by tax provisions. No one measure perfectly describes the extent to which companies engage in aggressive tax planning (Lin et al., 2014). Each measure can describe tax avoidance differently (Gaaya et al., 2017). Each approach must be used to describe tax avoidance as a whole (Salihu et al., 2015). The CTA measure is commonly used in several Effective Tax Rate (ETR) studies.

Wang et al. (2020) explain that ETR is a general indicator of a company's tax burden. Differences between ETRs and statutory rates may arise because income is measured differently under financial reporting standards rather than tax laws. ETR calculations are generally easier for financial statement users to understand (Chen et al., 2016). This measurement is used by several studies such as (Salihu et al., 2015), (Satyadini, 2018), (Shi et al., 2020), (Park et al., 2016), (Yuanita et al., 2020), (Hsu et al., 2018), (Kiswanto et al., 2020), (Suranta et al., 2020) and (Chen et al., 2016). ETR is calculated by the formula: ETR= (Tax Expense)/(Pretax Income).

This study measures tax avoidance using the Effective Tax Rate (ETR). If a Company's tax burden is less than the rate stipulated by law, it can be suspected of tax evasion. Choosing a corporate tax avoidance measure depends on data availability and the purpose of the research question (Gebhart, 2017).

Foreign Ownership. According to (Colin McIntosh, 2013), a shareholder is "a person who owns shares in a company and therefore gets part of the company's profits and the right to vote on how the company is controlled." Law Number 25 of 2007 concerning Investment uses the term "investor" to define shareholders. Foreign investors are defined as individual foreign citizens, foreign business entities, and foreign governments investing in the territory of the Republic of Indonesia. Based on this description, foreign ownership in this study is defined as individual ownership of foreign citizens, foreign business entities, and foreign governments in the form of company shares so that they can earn profits and control the Company.

There are three options for measuring foreign ownership, as used by (Salihu et al., 2015) and (Yuanita et al., 2020):

a. The proportion of foreign ownership compared to the total ownership in the Company;
b. The use of a dummy variable of 1 for companies owned by 5% or more foreigners and 0 for companies owned by less than 5% foreigners;
c. The proportion of foreign directors/management compared to the total number of directors. The presence of foreign directors represents foreign ownership in the Company, which is expected to influence other directors.

Financial Leverage. Van Horne and Wachowicz (2008) stated that financial leverage is a fixed-cost financing company. Meanwhile, Eugene and Daves (2007) use another term, financial leverage, as the use of debt. Furthermore, "the use of debt, or financial leverage, concentrates the firm's

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business risk on its stockholders. This concentration of business risk occurs because debtholders, who receive fixed interest payments, bear none of the business risk." This study defines financial leverage as using debt as company financing.

Financial leverage is generally calculated by the formula of total debt divided by total assets carried out by (Jama & Harnovinsah, 2018) and (Kim & Im, 2017). Meanwhile (Salehi & Salami, 2020) use long-term debt divided by total assets.

Audit Quality. Rittenberg (2016:14) defines audit quality as follows: Quality audit is one performed "by generally accepted auditing standards (GAAS) to provide reasonable assurance that the audited financial statements and related disclosures are presented by generally accepted accounting principles GAAP and (2) are not materially misstated whether due to errors or fraud. Demartini and Trucco (2017:38) state that audit quality may be defined as the skills auditors have in discovering and reporting weaknesses in the accounting system of the client firm. In this study, audit quality is defined as the auditor's ability to find errors or fraud in the financial statements.

When measuring audit quality, several studies use a dummy variable approach to distinguish audit quality, as carried out by (Waluyo, 2019) and (Nugroho et al., 2018). Quality audits are represented by audits conducted by Big4 Public Accounting Firms. Big4 is believed to maintain the office's reputation by increasing accounting transparency (Kanagaretnam et al., 2016). Citing research conducted by (Habib et al., 2017), Big4 is associated with public accounting firms as follows:

a) Tanudiredja, Wibisana and Partners (PWC);
b) Purwantono, Suherman and Surja (EY);
c) Osman Bing Satrio and Partners (Deloitte);
d) Siddharta Widjaja and Partners (KPMG).

Previous research stated that foreign ownership is one factor that influences a company's tax avoidance. Researching companies listed on the Malaysian stock exchange (Annuar et al., 2014) proves that foreign ownership is one of the determinants of tax avoidance. Research further strengthens these results by showing that companies with foreign ownership, namely foreign investment (PMA) and Permanent Establishments (BUT), have more potential to avoid tax than domestic companies (Satyadini, 2018).

Multinational companies tend to do tax avoidance compared to national companies. The Company minimizes the tax burden using an international operating scale (Salihu et al., 2015). The foreign Company avoids tax by utilizing various tax facilities and manipulating transfer pricing (Park et al., 2016). The results of recent studies such as (Shi et al., 2020) and (Yuanita et al., 2020) reaffirm that foreign ownership has a significant effect on corporate tax avoidance. Several research results show that the Company's debt ratio affects the level of tax paid by companies, such as research conducted by (Pfaffermayr et al., 2013) (Jama & Harnovinsah, 2018) and (Kim & Im, 2017); however, other studies show that there is no effect of leverage on tax avoidance (Salehi & Salami, 2020).

Regarding the direct effect of audit quality on tax avoidance, Kanagaretnam et al. (2016) stated that audit quality significantly affects tax avoidance. The results of this study are reinforced by Waluyo (2019) and Kovermann and Velte (2019). The argument that supports the idea that a quality audit can prevent tax evasion is that auditors possess specific skills related to certain industries (Kanagaretnam et al., 2016). The selection of a qualified auditor, in this case, the Big-4 KAP, and directors with expertise in taxation will reduce companies' tax avoidance (Leung et al., 2019). KAP Big-4 will prevent companies from carrying out the Thin Capitalization scheme.

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In contrast to the research results above, Yuniarwati et al. (2017) and (Nugroho et al., 2018) find that audit quality is not related to tax avoidance by companies. In fact (Lee and Kao, 2018) state that there is evidence that auditors assist companies in tax evasion. In addition to directly affecting tax avoidance, audit quality allows for moderating the effect of a variable. The existence of a quality audit can reduce tax evasion by family firms (Gaaya et al., 2017). Owners will reduce their opportunistic behavior when monitored by high-quality external audits to prevent tax avoidance.

The Effect of Foreign Ownership on Tax Avoidance. Zaheer (1995: 343) defines Liability of Foreignness as the cost of running a business abroad due to competitive losses. In general, additional operating costs arise due to operating abroad, whereas domestic companies will not incur these costs. Regarding the concept of Liability of Foreignness, it is explained that:

The firm that wants to settle abroad holds a particular disadvantage (liability of foreignness) compared with domestic firms. Foreign investors must face economic conditions (market, demand structure) and social conditions (labor law, hours of work, protection of employees) by the law they are sometimes unfamiliar with. This relative lack of knowledge (at least in the early stages of internationalization) may engender considerable costs, to the point of inviting multinational firms to leave the country.

Foreign companies will try to minimize competing with domestic companies' financial and tax burdens. The tax avoidance effort aims to prevent the flow of resources to the government so that, in the end, it can optimize the value of the Company (Wang et al., 2020).

Tax avoidance has shifted from domestic to international taxation (Ermasova et al., 2019). The research concludes that the international taxation system allows multinational companies (multinational enterprises or MNEs) to reduce taxes. Shifting earnings can be done using subsidiaries (Park et al., 2016). This is done through intra-company transfer prices, strategic management of the location of intangible assets or distortion of the Company's debt structure (Leask, 2020).

(Heckemeyer and Overesch, 2017) Moreover, Cobham & Janský (2020) reveal that transfer pricing is a tax avoidance effort often carried out by companies by shifting profits. Compared to domestic companies, foreign companies use intra-group transfer pricing and pay high interest rates on intra-group debt to shift profits (Li & Tran, 2020). Therefore, based on the explanation above and previous research, foreign ownership is predicted to affect tax avoidance significantly.

Effect of Financial Leverage on Tax Avoidance. In general, taxes are levied on company profits. The greater the profit, the greater the tax to be paid. Therefore, companies with high profits will avoid taxes through earnings management mechanisms (Kim & Im, 2017). As a result, the greater the Company's profitability ratio, the less reported and paid tax burdens will be (Abdullah et al., 2019). When companies expect high-profit performance shortly, they aggressively engage in current-year tax planning to manage potential future tax and non-tax costs (Lee, 2020).

Using loans as a source of funding is an option for company management. Companies never have to use loans as an alternative to finance operations or purchase assets (Van Horne & Wachowicz, 2008, p. 427). By the Income Tax Law provisions, there are differences in the tax treatment of interest and dividends. In contrast to dividends not deductible from income, interest in return for loans is a deductible expense in calculating income tax. Therefore, there are advantages that companies get when using loans as a source of funding.

Long-term debt decisions are the right step to benefit from tax management (Jama & Harnovinsah, 2018). The higher the level of long-term debt, the more aggressive the management tends to be in tax reporting. If the taxable income is high, the Company will tend to use debt because

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there is a reduction in the interest on the debt (Park & Lee, 2019). Furthermore, Istok and Kanderova (2019) found that companies shift profits to tax haven countries using loan instruments.

Regarding this interest reduction, the study results show that companies with debt benefitting from reduced interest rates are less likely to evade taxes. On the other hand, if the Company does not receive interest reduction restrictions, it will tend to avoid taxes (Kim & Im, 2017).

Several research results show that a Company's debt ratio affects the level of tax paid, such as research conducted by Pfaffermayr, Stöckl and Winner (2013), Hamilah (2020), Jama and Harnovinsah (2018), and Kim and Im (2017). However, other studies show no effect of leverage on tax avoidance (Salehi & Salami, 2020). Based on this explanation and previous research, financial leverage is predicted to affect corporate tax avoidance.

Moderation of Audit Quality. In line with company development, company managers will be more experienced, which will help the company management become more efficient (Karadag, 2016). Companies will learn more from similar industries (Rossi, 2016) and be more selective in spending (Madden et al., 2020). Therefore, in line with the age of the Company, the Company will be able to minimize the taxes paid by avoiding tax. Although, in the short term, it can save the Company's expenses, tax avoidance can also damage the value of the Company (Gul et al., 2018). In this case, the auditor's role significantly influences corporate taxes (Kovermann & Velte, 2019). The greater the value of corporate tax avoidance, the higher the risk of being detected by the tax authorities (Lorenz, 2018) (degl'Innocenti and Rablen, 2017). As a result, there are potential sanctions from the tax authorities for the Company's tax evasion.

With an effective corporate governance mechanism, tax avoidance can be directed at an optimal level (Kovermann & Velte, 2019). More robust governance mechanisms can help companies reduce the negative consequences of tax avoidance (Pay, Huseynov and Sardarli, 2018). Even governance attributes have a stronger relationship with more extreme levels of tax avoidance (Armstrong et al., 2015).

Companies that do tax avoidance tend to produce financial statements that are more difficult to read (Nguyen, 2020). The financial statements are the basis for decision-making, including calculating the payable taxes. Tax risk is a source of risk for external auditors (Abernathy et al., 2019). In response to increased audit risk from tax evasion, auditors devote more hours than usual to achieve a certain level of audit risk (Bae, 2017). This audit time is related to audit quality (Koh et al., 2014). Tax avoidance is further increased when audit quality is low (Gul et al., 2018). In addition, the tax services the auditor provides reduce earnings management in tax costs and tax avoidance (Habib & Hasan, 2016).

Inconsistent research results in previous research on the effect of independent variables on the dependent variable can be a solid reason to test the moderator (Memon et al., 2019). Previous studies indicate that the involvement of auditors and directors of the Big Four with tax expertise can prevent tax evasion (Leung et al., 2019). In addition, the Big 4 tax consultants' role also increases when they act as auditors (Klassen et al., 2016). Auditors who provide tax consulting related to audit quality (Watrin et al., 2019). One explanation states that the use of Big-4 auditors is significantly negatively related to companies that adopt a tax avoidance structure with thin capitalization (Taylor & Richardson, 2013). In addition, the existence of affiliated transactions is one of the factors in choosing a non-Big4 auditor (Habib et al., 2017). These things support the research results that auditor quality is negatively related to the possibility of tax aggressiveness (Kanagaretnam et al., 2016) (Riguen et al., 2019).

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However, research results show that there is more evidence to suggest that auditors assist clients' tax avoidance (Lee & Kao, 2018). In addition, the use of Big4 strongly correlates with the use of the MNE tax haven network (Jones et al., 2018). In several other studies, audit quality does not affect CTA (Yuniarwati et al., 2017) (Nugroho et al., 2018).

In general, the effect of audit quality on tax avoidance tends to be inconsistent even though a quality audit is a means of monitoring tax avoidance by companies. A quality audit is essential in resolving conflicts of interest between the Company and its shareholders (Gaaya et al., 2017). Based on the preceding, a quality audit can influence the factors that influence corporate tax avoidance. The existence of a qualified external auditor is likely to moderate the effect of foreign ownership and financial leverage on corporate tax avoidance.

METHODS

We use quantitative causal research to explain the factors that cause tax avoidance. According to Sekaran and Bougie (2017:112), a causal study aims to test whether one variable causes another to change. A quantitative approach is applied to investigate or measure the level of phenomena that occur. This method is generally formulated and determined based on statistics (Blessing & Chakrabarti, 2009, p. 79).

This study intends to test whether foreign ownership and financial leverage significantly affect tax avoidance and whether audit quality moderates this effect.

Table 1. Measurement Variables

Variable	Measurement
Corporate Tax Avoidance/ CTA (Gaaya, Lakhal and Lakhal, 2017), (Yuanita et al., 2020)	Tax Expense: Pretax Income
Foreign Ownership/ FOW (Yuanita et al., 2020), (Salihu, Annuar and Sheikh Obid, 2015)	Foreign Ownership: Total Shareholder
Financial Leverage/ LEV (Kim and Im, 2017; Jama and Harnovinsah, 2018)	Total Liabilities: Total Assets
Audit Quality/A.Q. (Gaaya, Lakhal and Lakhal, 2017), (Waluyo, 2019) (Kanagaretnam et al., 2016), (Nugroho, Wicaksono and Utami, 2018), (Kim and Im, 2017)	Big4 = 1, or 0 for non-Big4 Auditor

The population in this study are all companies listed on the Indonesia Stock Exchange Manufacturing Industry Sector. According to existing data, 179 companies are still active as of 2019 (www.ShahamU.com). Sample selection and data collection were conducted using secondary data, namely information from someone other than the researcher (Sekaran & Bougie, 2017, p. 133). In this study obtained a sample of 124 companies with the distribution of data as follows:

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. summarize cta fow lev aq
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Variable	Obs	Mean	Std. Dev.	Min	Max
cta	124	.3146444	.1602938	.0004	.9457
fow	124	.1875484	.2895995	0	.9879
lev	124	.4382581	.1899268	.0665	.9114
aq	124	.3467742	.4778739	0	1

Figure 1. Description of Variable

From 124 research sample companies, the average value of the tax avoidance variable is 31.46%. This value is generally higher than the 25% income tax rate. The value of the foreign ownership variable is 18.75% on average. This value is generally lower than the limit for determining a related party on ownership (of 25%) as regulated in the Income Tax Law. Meanwhile, the average value for the financial leverage variable is 43.82%. This shows that the average value of the sample companies' debt and equity ratio is 1: 1.32. This value is far below the limit of the debt and capital ratio allowed to determine the deduction related to the calculation of income tax payable. Meanwhile, the audit quality variable is presented in the figure below.

```
. tabulate aq
```

AQ	Freq.	Percent	Cum.
0	81	65.32	65.32
1	43	34.68	100.00
Total	124	100.00	

Figure 2. Statistic of Audit Quality

As for the audit quality variable for the sample companies, most companies (as much as 65.35%) were audited by Non-Big4 KAP. There is one COne company, PT Asia Sejahtera Mina, with an opinion with an exception, namely P.T. As inventories. Meanwhile, the other 123 companies received Unqualified Opinions (whether with emphasis or not).

RESULT AND DISCUSSION

OLS is used to examine the effect of foreign ownership and financial leverage on tax avoidance before considering audit quality moderation. The results of the OLS to estimate the effect of foreign ownership and audit quality on tax avoidance are shown as follows:

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. regress cta fow aq, vce (robust)

Linear regression                               Number of obs     =        124
                                                F(2, 121)         =       1.22
                                                Prob > F          =     0.3002
                                                R-squared         =     0.0173
                                                Root MSE          =     .16021

------------------------------------------------------------------------------
             |               Robust
         cta |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         fow |   .0575352   .0498285     1.15   0.251    -.0411134    .1561838
          aq |  -.0451311   .0300823    -1.50   0.136     -.104687    .0144248
       _cons |    .319504   .0208799    15.30   0.000     .2781669    .3608412
------------------------------------------------------------------------------
```

Figure 3. OLS Result: The Effect of FOW and A.Q. on CTA

Based on the test results can be explained as follows:

a. The F test value is 0.3002 or more than 5% so that the independent variable has no significant effect on the dependent variable (tax avoidance) simultaneously;
b. The R-Square or Multiple Determination Coefficient yields a value of 0.0173 or 1.73% so that it can be concluded that all independent variables can explain tax avoidance by 1.73%, while other variables outside the research model explain the remaining 98.17%,
c. Root MSE is the Standard Error of Estimate with a value of 0.16021. The value of the standard deviation of the tax avoidance variable is 0.1602938, so the Root MSE value is smaller. It can be said that the regression model is suitable to be used as a forecasting model;
d. The test results show that the effect of foreign ownership on tax avoidance is insignificant, as indicated by P>|t| 0.251 or greater than 0.05. Likewise, the effect of audit quality on tax avoidance is not significant, as indicated by P>|t| 0.136 or greater than 0.05.
e. The regression equation obtained based on the OLS results is as follows: CTA = 0.319504 + 0.0575352 FOW – 0.0451311AQ + e

Based on the explanation above, it can be concluded that foreign ownership has no significant effect on tax avoidance. Meanwhile, the results of the OLS test to examine the effect of financial leverage and audit quality on tax avoidance are shown as follows:

```
.  regress cta lev aq, vce (robust)

Linear regression                               Number of obs     =        124
                                                F(2, 121)         =       5.27
                                                Prob > F          =     0.0064
                                                R-squared         =     0.0961
                                                Root MSE          =     .15365

------------------------------------------------------------------------------
             |               Robust
         cta |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         lev |   .2504163   .0839343     2.98   0.003     .0842462    .4165864
          aq |  -.0246774     .02443    -1.01   0.314    -.0730429    .0236882
       _cons |   .2134549   .0395589     5.40   0.000     .1351376    .2917721
------------------------------------------------------------------------------
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Figure 4. OLS Test Result The Effect of LEV and A.Q. to CTA

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Based on the test results can be explained as follows:

a. The F test value is 0.0064 or less than 5% so that the independent variable has a significant effect on the dependent variable (tax avoidance) simultaneously;
b. The R-Square or Multiple Determination Coefficient yields a value of 0.0961 or 9.61%, so it can be concluded that all independent variables can explain tax avoidance by 9.61%, while other variables outside the research model explain the remaining 90.39%,
c. Root MSE is the Standard Error of Estimate with a value of 0.15365. The value of the standard deviation of the tax avoidance variable is 0.1602938, so the Root MSE value is smaller. It can be said that the regression model is suitable to be used as a forecasting model;
d. The effect of financial leverage on tax avoidance is significant (positive), indicated by P>|t| 0.003. Meanwhile, the effect on audit quality is insignificant, as indicated by P>|t| 0.314 or greater than 0.05.
e. The regression equation obtained based on the OLS results is as follows: CTA = 0.2134549 + 0.2504163 LEV – 0.0246774 AQ + e

Based on the explanation above, financial leverage significantly affects tax avoidance. MRA is carried out by continuing the steps above and adding the interaction of audit quality with independent variables. First, an estimate is made on the interaction of audit quality with foreign ownership with the following test results:

```
. regress cta fow aq fowxaq, vce (robust)

Linear regression                               Number of obs     =        124
                                                F(3, 120)         =       0.81
                                                Prob > F          =     0.4882
                                                R-squared         =     0.0193
                                                Root MSE          =     .16071
```

cta	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf.	Interval]
fow	.0853812	.0888724	0.96	0.339	-.0905801	.2613424
aq	-.0327843	.0347878	-0.94	0.348	-.1016616	.0360931
fowxaq	-.0549847	.1010046	-0.54	0.587	-.2549667	.1449973
_cons	.3167156	.0221214	14.32	0.000	.2729167	.3605145

Figure 5. MRA Test Result of A.Q. in Moderating FOW Effect

The test results show that the interaction effect of audit quality and foreign ownership is insignificant, as indicated by P>|t| 0.587 or greater than 0.05. Thus, the direct effect of audit quality and audit quality moderation on foreign ownership is insignificant (Modating Homologizer or Potential Moderation). The estimation of audit quality moderation on financial leverage is shown from the test results as follows:

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```
. regress cta lev aq levxaq, vce (robust)

Linear regression                               Number of obs     =        124
                                                F(3, 120)         =       5.12
                                                Prob > F          =     0.0023
                                                R-squared         =     0.0961
                                                Root MSE          =     .15429

------------------------------------------------------------------------------
             |               Robust
         cta |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         lev |    .252471   .1124024     2.25   0.027      .029922    .4750199
          aq |  -.0217262   .0615118    -0.35   0.725    -.1435153    .1000628
      levxaq |  -.0068655   .1502703    -0.05   0.964    -.3043901    .2906592
       _cons |   .2125374   .0508198     4.18   0.000     .1119177    .3131572
------------------------------------------------------------------------------
```

Figure 6. MRA Test Result of A.Q. in Moderating LEV Effect

The test results show that the interaction effect of audit quality and financial leverage is insignificant, as indicated by P>|t| 0.964 or greater than 0.05. Thus, the direct effect of audit quality and audit quality moderation on financial leverage is insignificant (Modating Homologizer or Potential Moderation).

The Effect of Foreign Ownership on Tax Avoidance. The leading cause of foreign-owned companies' avo-refrain from taxes by the Liability of Foreignness is the inefficiency foreign companies face in competing with domestic companies. To prove whether this is the case, the authors compare the performance of foreign-owned companies with domestic companies. We use the Mann-Whitney U Test to compare groups of foreign companies-owned companies with purely domestic companies with performance indicators of Return on Assets (ROA). We compare the ROA of companies with foreign ownership with that of domestic companies with no foreign shareholders. The test results are shown in the display below:

```
. ranksum roa if fow==0|fow==1, by(fow)

Two-sample Wilcoxon rank-sum (Mann-Whitney) test

         fow |      obs    rank sum    expected
-------------+---------------------------------
           0 |       75        4368      4687.5
           1 |       49        3382      3062.5
-------------+---------------------------------
    combined |      124        7750        7750

unadjusted variance    38281.25
adjustment for ties        0.00
                     ----------
adjusted variance      38281.25

Ho: roa(fow==0) = roa(fow==1)
             z =  -1.633
    Prob > |z| =   0.1025
    Exact Prob =   0.1032
```

Figure 7. Mann Whitney U Test Results ROA for Foreign Ownership

The test results show no significant difference in the ROA of foreign-owned companies with domestic companies (as indicated by the value of Prob > |z| = 0.1025 or greater than 0.05). Thus, companies with foreign ownership have no inefficiency, so the Company feels the need to avoid

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taxes. This is in line with the comparison of tax avoidance owned by the two types of companies, as shown in the test results below.

```
. ranksum cta if fow==0|fow==1, by(fow)

Two-sample Wilcoxon rank-sum (Mann-Whitney) test

         fow |      obs    rank sum    expected
-------------+---------------------------------
           0 |       75        4493      4687.5
           1 |       49        3257      3062.5
-------------+---------------------------------
    combined |      124        7750        7750

unadjusted variance    38281.25
adjustment for ties       -0.36
                      ----------
adjusted variance      38280.89

Ho: cta(fow==0) = cta(fow==1)
             z =  -0.994
    Prob > |z| =   0.3202
    Exact Prob =   0.3221
```

Figure 8. Mann Whitney U Test CTA Test Results for Foreign Ownership

To avoid tax taxes, companies can use transfer pricing or thin capitalization to minimize their tax burden. The authors do not explore transfer pricing further in this study, considering that an in-depth analysis of the disclosures of PSAK 7 submitted by each Company is required. It is necessary to research the value of affiliated transactions, the types of transactions, the counterparty to the transaction and the Company's pricing policy. Meanwhile, we conducted an in-depth study of thin capitalization by conducting a Mann-Whitney U Test on the Company's Debt Equity Ratio (DER). The test results show no significant difference in the DER of companies with foreign ownership and domestic companies.

```
. ranksum der if fow==0|fow==1, by(fow)

Two-sample Wilcoxon rank-sum (Mann-Whitney) test

         fow |      obs    rank sum    expected
-------------+---------------------------------
           0 |       75        4943      4687.5
           1 |       49        2807      3062.5
-------------+---------------------------------
    combined |      124        7750        7750

unadjusted variance    38281.25
adjustment for ties        0.00
                      ----------
adjusted variance      38281.25

Ho: der(fow==0) = der(fow==1)
             z =   1.306
    Prob > |z| =   0.1916
    Exact Prob =   0.1932
```

Figure 9. Mann Whitney U Test DER Results for Foreign Ownership

Based on the analysis of the causes and methods of companies with foreign ownership mentioned above, foreign ownership has no significant effect on corporate tax avoidance. As stated

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(by Park et al., 2016), companies can avoid tax through subsidiaries. Therefore, the authors further explore the two companies with the highest tax avoidance potential (the smallest CTA value or the lowest tax burden), namely R.V. Tbk. and IRS Tbk.

Table 2. The two companies with the highest tax avoidance potential (the smallest CTA value or the lowest tax burden), namely R.V. Tbk. and IRS Tbk.

Subsidiaries Company	Nationality	Related Party Transaction
P.T. R.V. Tbk. (majority shareholder Geno Tatagraha, PT 37%)		
PT Chitaland Peni (CP),	ID	
PT Chitatex Peni, dan	ID	Tidak terdapat transaksi
PT Dwimitra Graha Mandiri	ID	
IRS Tbk. (majority shareholder Indorama Holdings B.V. 34%		
Fe, Indorama Kokand Textile Jsc	ID	
Indorama Global Pte. Ltd	SG	
Indorama Industri, PT	ID	
Indorama Industry Pte. Ltd.	SG	19.40% of the total purchases on December 31, 2019 (December 31, 2018: 27.50%) were from related parties. 5.13% of total revenue as of December 31, 2019 (2018: 8.60%) is revenue to related parties
Indorama International Ltd	KY	
Indorama Investments Pte. Ltd	SG	
Indorama Trade and Development Services	ID	
Irs Investments Pte. Ltd.	SG	
Isin International Pte Ltd	SG	
Isin Lanka (Private) Limited	LK	
Coastal International Pte. Ltd.	SG	
Indorama Iplik Sanayi Ve Ticaret Anonim Sirketi	TR	
. IRS Global Pte. Ltd.	. SG	
IRS Universal Pte. Ltd.	SG	
Indorama Kokand Textile Jsc	UZ	

Source: Osiris Database and Financial Report

Although the two companies can potentially do relatively high tax avoidance, there are significant differences in characteristics. The Company with the most foreign ownership (Indo-Rama Synthetics) has more overseas subsidiaries and states that there are affiliated transactions. Thus, the authors conclude that there is indeed a potential for tax avoidance that can be carried out through subsidiaries originating from affiliated transactions (especially companies with foreign ownership). However, the absence of subsidiaries and affiliated transactions does not necessarily eliminate the potential for tax evasion. Other mechanisms can be used to avoid taxes.

The Effect of Financial Leverage on Tax Avoidance. In contrast to previous studies, which mostly show that financial leverage has a significant positive effect on tax avoidance, this study shows the opposite. Previous research stated that companies with high financial leverage tend to avoid tax.

The research model shows that when there is an increase in borrowing, it will increase the Company's tax burden. This contradicts the general assumption that interest on loans will reduce the tax owed. Because borrowing costs are one type of fee allowed as a deduction from income. We suspect several reasons behind this:

a. The existence of the provisions of PMK-169/PMK.010/2015 has changed the behavior of companies in responding to borrowing costs. The existence of special provisions related to borrowing costs causes the risk of an audit by the tax authorities on corporate loans to be more

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significant. To avoid possible sanctions arising from tax determination by the tax authorities, the Company has consciously made corrections to borrowing costs by the provisions of the PMK;

b. The Company has effectively utilized the loan obtained so that the income derived from using the loan is greater than the costs arising from the loan.

We then compare companies that carry out financing with the highest financial leverage, namely P.T. Sarana Central Bajatama, with P.T. Multi Prima Sejahtera Tbk as the Company with the lowest level and the following comparison is obtained:

Table 3. Comparison of PT. Saranacentral Bajatama with P.T. Multi Prima Sejahtera Tbk

Comparison	PT Sarana Central Bajatama	P.T. Multi Prima Sejahtera
Liabilities	762,683,580,285	21,617,421,367
Assets	836,870,774,001	324,916,202,729
Leverage	91%	7%
Earnings before Tax	5,026,701,131	31,375,178,612
Income Tax	3,913,717,383	1,456,658,691
Interest Expense	26,797,517,030	-
CTA	77.859%	4.643%

Source: Financial Report

Based on this comparison, it can be seen that P.T. Sarana Central Bajatama pays 77.86% tax of profit before tax, while P.T. Multi Prima Sejahtera pays 4.64%. This proves that the interest expense borne by the Company does not necessarily mean that the income tax paid by the Company has decreased relatively. An explanation that may be relevant in this case is the existence of both positive and negative fiscal corrections on accounting profit. This includes positive corrections to interest costs that exceed the provisions referred to in Article 18, paragraph (1) of the Income Tax Law.

Moderation of Audit Quality. To explore how audit quality moderates the factors that influence tax avoidance, the authors explore the tendency of companies with foreign ownership to choose KAPs to audit their financial statements.

```
. ranksum aq if fow==0|fow==1, by(fow)

Two-sample Wilcoxon rank-sum (Mann-Whitney) test

         fow |      obs    rank sum    expected
-------------+---------------------------------
           0 |       75        4067      4687.5
           1 |       49        3683      3062.5
-------------+---------------------------------
    combined |      124        7750        7750

unadjusted variance    38281.25
adjustment for ties   -12264.94
                     ----------
adjusted variance      26016.31

Ho: aq(fow==0) = aq(fow==1)
             z =  -3.847
    Prob > |z| =   0.0001
    Exact Prob =   0.0002
```

Figure 10. Mann Whitney U Test A.Q. Test Results for Foreign Ownership

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On average, companies with foreign ownership use audit services from KAP Big4. Of the 49 companies that have foreign ownership, 27 use KAP Big4. Meanwhile, domestic companies that do not have foreign ownership—out of 75 companies—only 16 use KAP Big4. The test results show that companies with foreign ownership significantly differ from domestic companies in choosing KAP to audit the Company's financial statements (Prob value > |z| = 0.0001, more diminutive than 0.05).

We further explore the opinions of Bae (2017) and Koh, Choi and Woo (2014) that audit quality is related to the timing of the audit. The time for the audit is calculated by subtracting the date of issue of the independent auditor's report from the date of the financial report.

```
. ranksum ad if aq==0|aq==1, by(aq)

Two-sample Wilcoxon rank-sum (Mann-Whitney) test

          aq |      obs    rank sum    expected
-------------+---------------------------------
           0 |       81      5246.5      5062.5
           1 |       43      2503.5      2687.5
-------------+---------------------------------
    combined |      124        7750        7750

unadjusted variance    36281.25
adjustment for ties      -74.90
                     ----------
adjusted variance      36206.35

Ho: ad(aq==0) = ad(aq==1)
             z =   0.967
    Prob > |z| =   0.3335
    Exact Prob =   0.3356
```

Figure 11. Mann Whitney U Test A.Q. Results for the Day of the Audit

The test results compare the audit time carried out by KAP Big4 rather than as described above. The time of the audit carried out by the KAP to examine the financial statements will be reflected in the number of days spent conducting the audit. The assumption is that the audit begins when the financial statements have been prepared and is completed when the independent auditor's report is issued.

The test results show that the length of time KAP Big4 and not in auditing are similar. This is indicated by Prob > |z| = 0.3335, greater than 5%. Assuming that the audit has been carried out with the established standards, it can be concluded that the auditor's attention to audit risk arising from companies with foreign ownership and high loan amounts for companies is similar. In other words, auditors do not pay more attention to companies with foreign ownership or relatively larger loans.

This has resulted in the tendency of companies audited with Big-4 KAPs not significantly different from non-Big-4 KAPs regarding how tax evasion is carried out (Prob value > |z| = 0.7849, more significant than 0.05). Thus, audit quality has no significant effect on tax avoidance and does not moderate the effect of foreign ownership and financial leverage on tax avoidance.

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```
. ranksum cta if aq==0|aq==1, by(aq)

Two-sample Wilcoxon rank-sum (Mann-Whitney) test

          aq |      obs    rank sum    expected
-------------+---------------------------------
           0 |       81      5010.5      5062.5
           1 |       43      2739.5      2687.5
-------------+---------------------------------
    combined |      124        7750        7750

unadjusted variance    36281.25
adjustment for ties       -0.34
                     ----------
adjusted variance      36280.91

Ho: cta(aq==0) = cta(aq==1)
             z =  -0.273
    Prob > |z| =   0.7849
    Exact Prob =   0.7867
```

Figure 12. Mann Whitney U Test A.Q. Test Results for Tax Avoidance

CONCLUSION

The conclusions obtained from this research are as follows:

1. Foreign ownership has no significant effect on tax avoidance;
2. Audit quality does not moderate the effect of foreign ownership on tax avoidance;
3. Financial leverage has a significant effect on tax avoidance;
4. Audit quality does not moderate the effect of financial leverage on tax avoidance;

Several limitations arise in this study, so the authors suggest the following:

1. In this study, foreign ownership is determined based on the direct ownership of the Company presented in the financial statements. This resulted in companies with foreign ownership indirectly not being detected in the research model. There is still the possibility of indirect control by foreign ownership, which significantly impacts corporate tax avoidance. Therefore, future authors are expected to be able to take into account foreign ownership, which is indirectly included in the research model;
2. Further research is needed to ensure that companies with foreign ownership tend to transfer pricing to avoid tax, including the use of other means of tax avoidance;
3. How companies optimize loans has not been adequately explained in this study so that it can be explained that the increase in corporate loans adds to the tax borne by the Company;
4. The tax authority can develop a Taxpayer supervision model based on measurable ownership risk without ruling out other factors;

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