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Tax Avoidance Analysis: The Role of Institutional Ownership and Fiscal Loss Compensation

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Abstract: *This research aims to examine how tax avoidance in manufacturing firms listed on the Indonesia Stock Exchange is impacted by institutional ownership and financial loss compensation. Because a lower ETR score indicates a larger degree of tax avoidance by the corporation, ETR is used in this study as a proxy for tax avoidance. Multiple linear regression is employed as one of the quantitative study approaches. One hundred thirty-nine companies were chosen for the sample using purposive sampling in the observation period between 2018 and 2021. The findings showed that the firm's propensity to evade taxes is weakly associated with institutional ownership. While tax avoidance is equally influenced by fiscal loss compensation, it indicates that firms utilize fiscal loss accumulation as a device to mitigate tax avoidance. The findings of this study reflect the importance of sound corporate governance and financial management in discouraging tax avoidance practices and enlightening the authorities on the provision of fiscal loss compensation under the tax system of Indonesia.*

Keywords: *Agency theory, Fiscal loss compensation, Institutional ownership, Tax avoidance.*

1. Introduction

Corporation tax avoidance is a common problem in most countries, such as Indonesia (Handoyo et al., 2022; Oktaviani et al., 2023). It is mainly in corporate finance where tax avoidance utilizes legal methods of minimizing the tax to be paid. It concerns researchers, policy makers, and practitioners due to its likely impact on government revenue and economic stability (Wardana & Asalam, 2022). Companies are more likely to resort to sophisticated tax planning by exploiting loopholes and uncertainties in the tax code to reduce their tax avoidance, which may result in erosion of the tax base and passing the burden to other taxpayers (Schwab et al., 2022). The prevalence of avoidance activities dictates that an understanding of drivers and boundaries of such activities, as well as corporate governance practices and accounting reporting procedures, be acknowledged (Nadhifah & Arif, 2020). Despite not being directly against the law, tax avoidance is still a moral and financial concern since it may lessen the company's contribution to the general welfare. Understanding tax avoidance is also essential since businesses utilize it to reduce taxes by taking advantage of legal loopholes (Ghasani et al., 2021). One strategy is to avoid taxes. Taxpayers attempt to reduce taxes payable by taking advantage of legal loopholes as long as they do not violate tax rules (Payne & Raiborn, 2018).

Institutions are believed to provide an incentive to monitor management performance closely, so they are frequently linked to more effective internal control methods. The proportion of a company's shares owned by institutional investors, such as mutual funds, pension funds, and insurance companies, is known as institutional ownership (Ftouhi & Ghardallou, 2020; Sakawa & Watanabel, 2020). Institutional investors may significantly impact corporate governance. Due to their sizable shareholdings and fiduciary responsibilities, institutional investors have the means and motivation to monitor management and influence corporate choices actively (Darlis et al., 2024). According to agency theory, institutional ownership can reduce agent problems and align managers' incentives with shareholders (Moeljadi et al., 2022).

Institutional investors play an important role in monitoring the behavior of managers, so they will reduce conflicts of interest in a business (Alkurdi & Mardini, 2020). By leveraging dividend expenses, the proportion of shares held by institutional investors can lower the company's taxable earnings when businesses use tax planning to lower the tax burden (Putri & Suryarini, 2017). It can be inferred that the likelihood of tax avoidance activities is reduced when institutional ownership is strong (Dakhli, 2022). By avoiding possible expenses from tax authorities brought on by tax avoidance behavior, institutional owners concentrate on gaining more profits (Alkurdi & Mardini, 2020).

Institutional investors may be able to prevent opportunistic behavior and encourage prudent tax preparation because they are more experienced and knowledgeable about the company (Fitri & Hakim, 2021; Darlis et al., 2024). Institutional ownership is significant since it can affect firm value and performance (Rahman et al., 2023). According to the previous study, this is negatively related to the hypothesis that a firm's tax avoidance activity will be higher if institutional ownership is higher. Creating particular incentives to trigger tax avoidance is feasible since institutional investors would rather consider the company's short-term financial achievement (Jiang et al., 2021).

This study considers how fiscal losses and tax avoidance coincide, explicitly focusing on the contribution made by fiscal policy. Fiscal losses, aggregate losses incurred by a firm over a period, significantly affect its taxable base and offer possibilities for tax planning and evasion (Zhang et al., 2023); lower their subsequent taxable income (Liu & Zhang, 2023). Institutional investors may be more forgiving of tax avoidance mechanisms if they are sure it is required to sustain the company's financial health and maximize shareholder value. Fiscal loss can also influence their behavior. Fiscal loss compensation defines firms' prospects of allocating their losses in subsequent periods (Kurnia et al., 2020).

Businesses that receive fiscal loss compensation are exempt from the obligation to engage in tax avoidance measures to reduce their tax liability (Putri & Suryarini, 2017). Upon receiving fiscal loss compensation, the business might utilize it to reduce its tax liability for the upcoming year (Lestari & Solikhah, 2019). However, previous research reveals that no discernible link between tax avoidance and fiscal loss compensation (Putri & Suryarini, 2017; Kurnia et al., 2020). Assume that tax avoidance is unaffected by fiscal loss compensation. Corporate tax avoidance activities will not be impacted by the existence or lack of fiscal loss compensation in that scenario, since the corporation does not escape its tax avoidance. It cannot be claimed that the business is relieved of its tax obligations, even if compensated for its losses. Although the corporation can use fiscal loss compensation from the prior year to settle tax bills, it still has to do so when it does not incur losses (Reschiwati & Khoirunnissa Haniifah, 2023).

Previous research has examined the relationship between ownership structure and tax avoidance (Alkurdi & Mardini, 2020; Dakhli, 2022; Velte, 2024). Although some studies have explored the impact of ownership concentration on corporate social responsibility (Qaderi et al., 2024), few have specifically examined how institutional ownership interacts with fiscal loss compensation as an independent variable to influence tax avoidance behavior. This study contributes to the literature by providing a deeper understanding of the relationship between institutional ownership and tax avoidance and highlighting the existence of a conditional effect, namely, fiscal loss compensation. This study also differs from previous research by considering the combined impact of institutional ownership and fiscal losses on tax avoidance.

The motivation behind this study comes from the importance of tax avoidance for various reasons (Wen et al., 2020). To begin with, aggressive tax avoidance activities enable governments to lose revenue, thus making it hard to fund infrastructure and public services (Payne & Raiborn, 2018). Tax avoidance is claimed to hurt taxpayers who are skillful in tax planning, injure competition, and create an uneven playing field (Damayanti et al., 2021). Third, if tax avoidance is erroneously interpreted as abusive or aggressive tax strategies, a company’s reputation will be tarnished, and ethical issues will be raised (Abdelmoula et al., 2022). Fourth, climate-first companies are appreciated by investors and regulators (Darlis et al., 2024). Overall, overly complicated tax structures might not be adequately explained to outside parties, such as investors and lenders, which could contribute to transparency problems (Ahrens et al., 2022).

This study investigates the relationships among tax avoidance, fiscal losses, and institutional ownership to provide insight into how these factors impact corporate tax behavior. Assessing the influence of institutional investors on business tax strategies in the context of recent fiscal losses and expanding our knowledge of the causes and consequences of tax avoidance are the main objectives. Additionally, this study attempts to elucidate the circumstances in which institutional owners, contingent on the extent and duration of fiscal losses, may facilitate or impede tax avoidance. In order to help regulators, businesses, and investors better understand and deal with the complexities of corporate tax avoidance, this investigation will fill in gaps in the existing literature and offer practical implications.

2. Literature Review & Hypotheses Development

2.1. Agency Theory

Agency theory seeks to explain the conflict of interest between shareholders (principal) and management (agent) in tax decisions. A principal as a capital provider certainly wants the maximum profit from the investment results. At the same time, the agent authorized to manage the company is assumed to want to get high profits from the company (Lestari & Solikhah, 2019). This difference in interests can be realized in various company decisions, including tax avoidance strategies. Agency theory describes the relationship between shareholders and managers (Dewanta & Arifin, 2020; Budiarto & Nugraha, 2024). Agency issues can arise due to information asymmetry when managers have more information than shareholders (Sugiyanto et al., 2020). Managers can undertake tax avoidance to maximize short-term profit at the risk of long-term financial well-being (Saragih & Ali, 2023).

Managers are encouraged to maximize profits, even through aggressive tax planning, by performance-based compensation, which can incentivize the aforementioned practices (Kim et al., 2020). A company's ownership structure is crucial in reducing agency issues associated with tax avoidance (Elbardan et al., 2023). With substantial resources and share ownership, institutional investors can better monitor management and shape corporate taxation. Increased shareholder oversight of agents who steer clear of profits is the goal of institutional ownership (Li & Ji, 2021). The presence of institutional investors can reduce tax aggressiveness due to their role in monitoring management actions (Darlis et al., 2024).

It is critical to acknowledge that institutional investors might not always behave in the best interests of minority shareholders. Short-term profits may be more important to some institutional investors than long-term wealth generation. Increased audit committees should be correlated with institutional ownership (Fitri & Hakim, 2021). This may cause them to support tax avoidance strategies that increase current profits, despite the risk to the company's reputation and sustainability. Managerial ownership can also influence tax avoidance behavior, where managers own most of the company's shares (Darlis et al., 2024). Because of this, the relationship between institutional ownership and tax avoidance is complicated and contingent on several variables, including ownership level and the efficiency of corporate governance systems.

2.2. Institutional Ownership

Institutional ownership is one of the most important parts of the company's ownership structure (Moradi et al., 2022). Institutional ownership has a significant and valuable impact on monitoring company management performance (Saleh et al., 2020). Institutional ownership significantly impacts monitoring management since it will surely promote the development of more effective firm supervision (He et al., 2017). Because institutional parties may restrict managers' opportunistic conduct, the more shares they own, the more successful the observation will be. Stated differently, firms with a larger percentage of their shares held by the government and institutions have management that performs well in generating the targeted profits (Kutha & Susan, 2021). Institutional ownership has a significant role in enhancing business performance, particularly in monitoring and minimizing agency issues. Businesses with low institutional ownership percentages generally have poor governance and performance (Dakhli, 2022).

2.3. Fiscal Loss Compensation

According to Law no. 36 of 2008, article 6, paragraph (2), as amended by Law no. 7 of 2021 concerning Harmonization of Tax Regulations regarding income tax, businesses that incur losses after deductions from their gross income calculation may receive consecutive compensation for the following five years. The government also offers fiscal loss compensation, sometimes known as a respite from paying taxes, to businesses that suffer losses (Lestari & Solikhah, 2019). In other words, this fiscal loss compensation can be used to cover the current year's corporate tax burden so that the fiscal loss is compensated for the next 5 years. Fiscal loss compensation can also be interpreted as shifting losses from one period to the next (Kurnia et al., 2020). As a result, during this time, the company will avoid the tax burden because taxable profit is used to reduce the compensation for company losses.

2.4. Tax Avoidance

In order to minimize the amount of tax due, tax avoidance refers to using strategies and tactics that exploit loopholes in tax rules and regulations (Kurnia et al., 2020). Tax avoidance is a strategy used to reduce the tax owed, both legally and illegally. Because tax avoidance does not involve any criminal activity, it is safe and lawful for taxpayers to do so (Dianova, 2023). According to a comprehensive analysis in the international literature, tax avoidance behavior is influenced by internal and external firm variables, including corporate governance and shareholding characteristics (Duhoon & Singh, 2023). This study uses the effective tax rate (ETR) proxy to measure tax avoidance. Since it established the tax avoidance, it contend that ETR is the appropriate metric to evaluate a firm's actions when engaging in tax avoidance (Aronmwan & Okaiwele, 2020). Other research found an inverse relationship between ETR and tax avoidance, meaning that the more aggressive the tax avoidance scheme, the lower the ETR value (Alkurdi & Mardini, 2020). ETR measures the relationship between the total tax avoidance, including deferred taxes, and the year's pre-tax revenue.

2.5. Profitability

Profitability is the capacity of a company to generate profits from sales, assets, and certain share capital (Lestari & Solikhah, 2019). Companies with high profitability are considered to have good financial capabilities. Profitability is important in maintaining a company's operations because profitability indicates whether the company has a profitable future (Asalam & Pratomo, 2020). A company can profit from its business activities if its profitability figures are high. This is why company management will take various measures to ensure high profitability, as high profitability means that agents will receive higher compensation from principals (Lestari & Solikhah, 2019). Furthermore, when a company is highly profitable, investors' response to the company also improves.

2.6. Leverage

Leverage is the amount of debt a company uses to finance the purchase of an asset that will later be used in its operational activities (Ma et al., 2022). Previous studies found that the higher a company's leverage, the higher the likelihood that the company will engage in tax avoidance activities because debt will generate a fixed rate of return (Asalam & Pratomo, 2020). Furthermore, the higher the interest expense a company bears, the more it can be used as a deduction to reduce tax liability, thereby decreasing the amount of tax owed (Challoumis, 2024). Thus, the higher the leverage ratio, the greater the amount of debt financing from third parties used by the company, and the higher the increase in interest expenses arising from such debt.

2.7. Firm Size

The larger the company's size, the greater the opportunity to engage in tax avoidance to obtain profits for its interests. By reducing the company's tax avoidance, the company's profits will increase, which is what management wants (Putri & Suryarini, 2017). Company or firm size can be classified into large, medium, and small categories, as reflected in market capitalization, total assets, and total sales. The larger a company is, the more it can generate profits that impact tax avoidance (Ma et al., 2022). The larger the company, the greater its total assets. However, firm size can also be measured by the number of shares issued by the company. Large firms require significant capital from issuing shares (Stereńczak & Kubiak, 2023).

2.8. Effect of Institutional Ownership on Tax Avoidance

The tax avoidance dilemma exhibits an intricate relationship with an institution's ownership structure (Baghdadi et al., 2018). Tax planning and avoidance are optimally done with a sophisticated performance management system. Such ownership can enhance a performance management system within the matrix of the company's scope (Xiao, 2024). This will also enable the avoidance of tax liabilities if the multilevel organizational structure has a complex policing or monitoring system. Furthermore, strong corporate governance mechanisms established by large institutional shareholders can improve the management's monitoring function, thus mitigating agency problems and agency costs (Sakawa & Watanabel, 2020). On the other hand, long-term institutional investors focused on corporate social responsibility may forgo tax avoidance for ethical, reputational, and long-term value considerations (Darlis et al., 2024).

Aggressive tax avoidance tactics can draw attention from tax authorities, lead to audits and costly legal action, damage the company's reputation, and erode investor and consumer loyalty. A company's institutional ownership guides its tax avoidance (Alkurdi & Mardini, 2020). Tax avoidance has been linked to a rise in institutional investors' ownership of Chinese companies (Jiang et al., 2021). They support their conclusion by pointing to the actions of institutional investors, who prioritize the company's immediate financial gains and hence provide powerful incentives for the company to engage in more tax avoidance. According to the agency theory, institutional ownership is significant in monitoring management to counteract tax avoidance tactics. According to previous findings, there is an inverse relationship between institutional ownership and tax avoidance, meaning that the more institutional ownership a company has, the less it engages in tax avoidance (Alkurdi & Mardini, 2020). This means that corporations as shareholders support tax compliance and transparency in corporate taxation to keep up with their reputational capital and long-term value. Therefore, the following hypothesis can be formulated:

H_1: Institutional ownership affects tax avoidance

2.9. Effect of Fiscal Loss Compensation on Tax Avoidance

The mitigation of losses is one of the components of the tax law that aims to lessen the effect of corporate activity on the effective rate of corporate tax (Damahendra & Kristanto, 2021).

This measure allows the companies to adjust their current losses against our profits from previous years or to be earned in the future, smoothing out tax payments over the years (Wardana & Asalam, 2022). The assumption is that a company's fiscal loss compensation policy affects the company's tax avoidance strategy significantly. Tax payment avoidance strategy is designed to minimize payment expenses to maximize the company's available funds (Mappadang, 2021). Numerous tax regulations and the diverse possibilities for tax-organized planning give rise to the problem of organized tax evasion within companies (Ftouhi & Ghardallou, 2020).

The selection to undertake tax avoidance is motivated by firm aspects, political ties, and corporate social responsibility (Duhoon & Singh, 2023). The existence of fiscal loss compensation may soften the course of aggressive tax avoidance (Krieg & Li, 2021). Businesses with losses may prefer to exploit fiscal loss compensation to lessen their tax obligations in the future, rather than resorting to complicated tax avoidance strategies. Loss compensation strategies afford businesses legitimate means of mitigating their tax liability. On the other hand, fiscal loss compensation may provoke certain types of tax avoidance behavior. In particular, companies could exploit loss compensation provisions by manipulating earnings to generate fictitious losses, especially when there are reasonable future profit expectations (Mappadang, 2021). Other tax planning activities can be interconnected with fiscal loss compensation, resulting in more sophisticated tax avoidance schemes. Hence, the following hypothesis may be proposed:

H_2: Fiscal loss compensation affects tax avoidance

3. Method

Data samples from 139 manufacturing companies listed on the Indonesia Stock Exchange between 2018 and 2021 are used in this study. Purposive sampling allows the researcher to focus on businesses that meet specific requirements relevant to the study's objectives (Memon et al., 2024). First, by using this method, researchers can pick manufacturing firms that fit specific requirements, like having complete financial statements available, institutional ownership that has been documented, and a track record of compensating for fiscal losses during the observation period. Second, non-probability sampling is appropriate for regression analysis that requires homogeneous data because it is more effective for case studies that concentrate on particular variable relationships (Institutional ownership and fiscal loss compensation) without making broad population generalizations.

This study's focus on the manufacturing sector enables it to provide timely and pertinent insight into the financial dynamics of the Indonesian manufacturing sector. The following empirical factors served as the basis for choosing manufacturing companies: (1) Complex and capital-intensive transactions, such as transfer pricing or depreciation cost allocation, are common in the manufacturing sector and can lead to tax avoidance opportunities; (2) Manufacturing companies typically have higher institutional ownership than other sectors, allowing for the testing of the effects of monitoring or conflicts of interest among institutional shareholders; and (3) The industry's profit volatility, which is caused by changes in raw material prices or market demand, makes fiscal loss compensation more pertinent. Previous studies also used a similar sample to test a similar relationship, strengthening the validity of this design (Asalam & Pratomo, 2020). The availability of complete and consecutive annual and financial report data during the research period is critical to ensure that all data required for analysis is available and reliable. The selection of the period 2018 to 2021 is also considered relevant because it covers the period before and during the COVID-19 pandemic, which makes it possible to analyze the impact of the pandemic on the financial performance of manufacturing companies. The final sample size used in this study can be seen in Table 1.

Table 1. Research Sample Criteria

Sample Criteria	Number of Observations
Manufacturing companies listed on the IDX	195
Companies newly listed on the IDX in 2018-2021	(29)
Manufacturing companies that do not use the rupiah as their currency	(8)
Manufacturing companies that did not publish complete and sequential annual reports and financial reports for 2018-2021, as well as all data required for the study	(19)
Number of companies used	139
Year of data	4
Amount of data used in this study	556

Table 2. Variable Descriptions

Variable	Description	Sources
Tax Avoidance (TA)	Measured using the ETR proxy, where total tax expense for a given period is divided by income before tax expense	(Alkurdi & Mardini, 2020; Dyreng et al., 2019).
Institutional Ownership (IO)	The ratio is measured by the number of shares owned by institutions divided by the number of shares issued.	(Dakhli, 2022; Kovermann & Velte, 2019).
Fiscal Loss Compensation (FLC)	Measured using a dummy variable. A value of 1 is assigned if compensation was provided in the current fiscal year, and a value of 0 if none was provided	(Kurnia et al., 2020).
Return on Assets (ROA)	The ratio measuring net profit after tax divided by total company assets	(Dakhli, 2022; Lestari & Solikhah, 2019).
Debt-to-Asset Ratio (DAR)	The ratio measuring total company debt divided by total company assets	(Asalam & Pratomo, 2020).
Firm Size (SIZE)	The logarithm of total assets	(Jiang et al., 2021; Kurnia et al., 2020).

Institutional ownership and fiscal loss compensation are the main emphasis of this study's analysis of the variables influencing tax avoidance. The dependent variable in this study is tax avoidance, which is conceptually defined as businesses' legitimate attempts to reduce their tax avoidance (Payne & Raiborn, 2018). This covers tax planning that takes advantage of tax law gaps, favorable interpretations of tax laws, and the use of current tax benefits (Wardana & Asalam, 2022). In order to operationally measure tax avoidance, the effective tax rate (ETR) proxy is calculated by dividing a company's total tax expense by its pre-tax income (Dyreng et al., 2017). Fiscal loss compensation and institutional ownership are the study's independent variables. Control variables like firm size, debt-to-asset ratio, and return on assets reinforce these even more. The factors employed in this investigation are described in Table 2.

4. Result

The descriptive statistics in this study are shown in Table 3. The dependent variable in this study is tax avoidance, which is measured using the effective tax rate (ETR). The minimum value of -0.09 was obtained from Lionmesh Prima Tbk in 2021, and the maximum value of 0.5 was obtained from Cita Mineral Investindo Tbk in 2018 and Asia Pacific Fibers Tbk in 2021. The standard deviation value of 0.107 is smaller than the mean value of 0.216, indicating that the data is less varied. The mean explains that the total tax expense composition is 0.216 of income before tax. The first independent variable in this study is institutional ownership. The minimum value of 0.85 was obtained from Globe Kita Terang Tbk in 2018, and the maximum value of 99.95 was obtained from Fajar Surya Wisesa Tbk from 2019 to 2021. The deviation of 23.224 is smaller than the average value of 71.675, indicating that the data is less varied. The average explains that the composition of the number of shares owned by institutions is 71.675 of the total outstanding shares.

The second independent variable in this study is fiscal loss compensation. This dummy variable will be given a value of 1 if there is fiscal loss compensation in the current year and a value of 0 if no fiscal loss compensation is given in that year. The minimum value is zero, and the maximum value is 1. The standard deviation value of 0.261 exceeds the average value of 0.073, indicating that the data varies. The first control variable in this study is profitability, which is measured using ROA. The minimum value of ROA is- -479.87, obtained from Globe Kita Terang Tbk in 2019, and the maximum value is 44.68, obtained from Unilever Indonesia Tbk in 2018. The standard deviation value of 36.469 exceeds the average of 1.335, indicating that the data is varied. The average explains that the composition of net income is 1.335 of total assets.

The second control variable in this study is leverage, which is measured using DAR. The minimum DAR value of 0 was obtained from Buana Artha Anugerah Tbk in 2020-2021, while the maximum value of 90.99 was obtained from Globe Kita Terang Tbk in 2019. The standard deviation value of 5.754 is greater than the average value of 0.976, indicating that the data varies. The average explains that the composition of total liabilities is 0.976 of total assets. The third control variable in this study is firm size, which is measured using the natural logarithm of total assets. The minimum value of firm size is 21.26, obtained from Buana Artha Anugerah Tbk in 2020, while the maximum value of 34.56 was obtained from Astra International Tbk in 2018. The standard deviation value of 1.872 is smaller than the mean value of 27.914, indicating that the data is less varied. The mean explains that the composition of the natural logarithm of total assets is 27.914.

Data from 139 manufacturing companies from 2018 to 2021 yielded 556 manufacturing companies over 4 years. The data was then tested using SPSS software, and classical assumption tests were conducted for normality, autocorrelation, multicollinearity, and heteroscedasticity. Subsequently, hypothesis testing was conducted for the determination coefficient and simultaneous and partial tests, resulting in the data presented in Table 4.

Table 3. Descriptive Statistics Results

	N	Mean	Std. Deviation	Min	Max
Tax Avoidance	556	0.216	0.107	-0.09	0.5
Institutional Ownership	556	71.675	23.224	0.85	99.95
Fiscal Loss Compensation	556	0.073	0.261	0	1
Profitability	556	1.335	36.469	-479.87	44.68
Leverage	556	0.976	5.754	0	90.99
Firm Size	556	27.914	1.872	21.26	34.56

Table 4. Hypothesis Testing Results

Determination Coefficient Test Results			
R Squared	**Adj-R Squared**	**Root MSE**	
0.1344	0.126	0.100	
Simultaneous Test Results			
Source	**Sum of Squares**	**df**	**Mean Square**
Regression	0.867	5	0.173
Residual	5.585	550	0.010
Total	6.452	555	0.011
Partial Test Results			
Model	**t**	**Significant**	**Information**
Constant	0.023	0.715	
Institutional Ownership	0.000	0.003*	H_1: accepted
Fiscal Loss Compensation	-0.057	0.001*	H_2: accepted
Return on Assets	0.001	0.000**	
Debt-to-Asset Ratio	0.008	0.000**	
Firm Size	0.005	0.023*	

** Sig < 1%; * Sig < 5%

Regression analysis results reveal that the independent variables evaluated, institutional ownership and fiscal loss compensation, account for roughly 13.44% of the variation in corporate tax avoidance, with a coefficient of determination of 0.134. However, the rest is influenced by additional factors not included in the model. When the number of independent variables in the model and the sample size are considered, the adjusted R-squared value of 0.126 gives a more accurate picture of the model's capacity to explain the variation in tax avoidance. Additionally, as Table 3 demonstrates, institutional ownership and fiscal loss compensation jointly impact corporate tax avoidance, with significant values below 0.05 based on the simultaneous test (F-test) findings. This suggests that the regression model can provide a meaningful explanation for the variance in corporate tax avoidance.

The partial test results indicate that institutional ownership significantly affects tax avoidance, as seen from the significance value of 0.003. This supports the first hypothesis that institutional ownership influences tax avoidance, whereby institutional ownership as part of corporate governance mechanisms can minimize agency problems (Moeljadi et al., 2022). The involvement of institutional investors in the supervision and strategic decision-making of companies can encourage management not to engage in tax avoidance. However, there is a view that institutional ownership may only focus on achieving short-term profits, thereby neglecting long-term investments that could lead to tax avoidance because such investments could increase the company's value in the future (Athira & Lukose, 2023).

A negative coefficient and a significance value of 0.001 suggested that fiscal loss compensation also substantially impacted tax avoidance. This lends credence to the second hypothesis, which holds that tax avoidance is impacted by fiscal loss compensation. This is because fiscal loss compensation shows that a business has had financial difficulties and enables it to lower its future tax liability. Fiscal loss compensation allows companies to offset current losses with past or future profits, which inherently reduces taxable income and, as a result, encourages further tax minimization (Damahendra & Kristanto, 2021).

5. Discussion

The first hypothesis's positive coefficient suggests that, since ETR is used as a proxy for tax avoidance, a rise in the percentage of institutional ownership marginally lowers tax avoidance techniques in businesses. Additionally, the effect is confirmed to be statistically significant at a significance level of 0.003, below the 0.05 threshold, supporting this hypothesis. This phenomenon can be explained by the claim that corporations can and should push management to use aggressive tax planning to enhance shareholder returns and company value because they are significant shareholders. The effect of institutional ownership on tax avoidance is minimal, though, and may be impacted by other factors, including company governance and tax laws, as evidenced by the comparatively tiny effect as the coefficient becomes closer to zero.

The results of this study indicate that institutional ownership influences tax avoidance. Additionally, other findings note that tax avoidance practices are effectively moderated by institutional ownership in firms where institutional investors actively oversee management activities and specific tax avoidance strategies (Dakhli, 2022). Increasing institutional ownership is believed to improve corporate governance, resulting in greater disclosure of company activities and subsequently increasing stakeholder confidence, trust, and value (Darlis et al., 2024). With considerable ownership control, institutional investors possess incredible power to promote higher tax transparency and responsiveness regarding their firms. On the other hand, due to focusing on short-term financial results, some engage in profit-maximizing behavior, resulting in tax avoidance.

The gap connecting institutional ownership and tax avoidance can be accounted for based on the reasoning that, compared to individual investors, institutional investors are significantly more sophisticated and well-informed (Jiang et al., 2021). The former has the means and knowledge to daunt the deep waters of intricate tax policies directly influencing company valuation. A sophisticated stakeholder's ability to gauge the advantages of tax evasion and the rewards that come with it may encourage them to support the initiative, especially if they have a confident assumption that it will eventually aid the beneficiaries. On the other hand, agency theory argues that institutional investors may not put as much effort into maximizing the value of companies they fund, as most might have different goals geared towards exploiting the firms' assets (Bebchuk et al., 2017).

The second hypothesis is that the impact of fiscal loss compensation on tax avoidance practices is very significant. This implies that as a company's fiscal loss compensation increases, its propensity to avoid taxes decreases. This is likely the case because fiscal loss compensation allows businesses to defer losses for a maximum of five years, which is a legitimate method of reducing tax obligations. Under these circumstances, businesses that have suffered financial losses do not have to turn to aggressive tax avoidance tactics because they have been significantly alleviated by lower tax obligations (Payne & Raiborn, 2018). This indicates that companies implementing strategic compensation policies for losses typically exhibit reduced tax avoidance behavior (Mappadang, 2021).

The study's findings suggest that tax avoidance is significantly impacted by fiscal loss compensation. According to empirical data analysis, businesses that use fiscal loss compensation frequently manipulate expense recognition or shift income to avoid taxes and reduce their taxable income. These results support the claim that the availability of loss compensation incentivizes businesses to pursue aggressive tax planning (Asalam & Pratomo, 2020). Lestari & Solikhah (2019) assert that from the standpoint of agency theory, management is also motivated to take advantage of every fiscal loophole to optimize post-tax profits, including loss compensation. However, the findings of this study run counter to previous findings that discovered that tax avoidance is unaffected by fiscal loss compensation (Kurnia et al., 2020; Putri et al., 2019). Differences in sample characteristics, regulatory context, or tax avoidance measurement techniques may explain this disparity. These results thus demonstrate that the correlation between tax avoidance and fiscal loss compensation is not constant but depends on several variables, including corporate governance and regulatory frameworks.

Compensation for fiscal losses enables businesses to balance ongoing losses with anticipated gains, thereby undermining taxable income and incentivizing further reduction of taxes to be paid (Damahendra & Kristanto, 2021). Moreover, firms applying for loss relief might face greater examination from tax officials, restricting the use of tax avoidance methods that could lead to gaps. Competing concerns of governments and firms intensify the cuts to corporate profits. On the other hand, firms doing aggressive tax avoidance strategies will be less likely to apply their profit loss compensation and instead use a strategy that takes advantage of tax minimization techniques.

6. Limitations and suggestions for the future

This study's findings apply to several stakeholders, including policymakers, corporate executives, and institutional shareholders, highlighting the intricate dynamics of institutional ownership, the use of fiscal loss offset, and tax avoidance mechanisms. For the policymakers, this analysis provides evidence of the gap in corporate governance, which has led to aggressive tax avoidance, especially in firms with high institutional ownership (Mappadang, 2021). Firms need to manage the impact that institutional ownership and fiscal loss carryforward claim utilization have on reputational and financial effects due to tax avoidance on stakeholder value from an extended view (Darlis et al., 2024). Institutional shareholders must advocate for better tax governance by analyzing corporate tax policies and reporting to ensure less non-transparent information is disclosed..

Every study comes with its own set of insights and limitations, and this one is no different. This is especially important given that our approach to defining tax avoidance and institutional ownership through specific measurements might underestimate the issue's complexity since corporate tax planning is not an ownership strategy (Ftouhi & Ghardallou, 2020). Building on this, other measurements of tax evasion, such as effective tax rates or the use of tax havens, as well as passports for institutional investors who switch between active and passive roles in the short or long term, could provide more precise cuts in differentiating classifications of tax-evasion (Darlis et al., 2024). This study is also limited in scope due to the collection and validity of data, specifically about taxes. It should be noted that institutional ownership, tax sheltering, and fiscal loss accumulation give rise to endogeneity, which, after disentangling the firm's attributes and chosen governance, results in firm-specific tax management, suggesting a firm-specific nature.

Subsequent research may expand upon this study by examining additional corporate governance mechanisms, including board structure, executive compensation, and audit functions, to evaluate their influence on the relationship between institutional ownership and tax avoidance. The independence of the board of directors and the presence of a robust audit committee can mitigate aggressive tax avoidance practices, particularly in contexts of high institutional ownership (Sutarmin & Andesto, 2022). Furthermore, performance-based compensation for executives is associated with heightened incentives for tax avoidance, necessitating further exploration of its interaction with institutional ownership (Hilmi et al., 2022; Hermi & Petrawati, 2023). Third, audit quality may diminish the positive relationship between institutional ownership and tax avoidance, as external auditors serve as an additional oversight mechanism (Qawqzeh, 2023; Rudiatun & Anggorowati, 2024). Some studies employ longitudinal methods to evaluate the evolution of the relationship between institutional ownership and tax avoidance over time, especially regarding changes in tax policies. A comparative analysis of various countries may demonstrate the impact of country-specific institutions and legal frameworks on the relationship between institutional ownership and tax avoidance. Moreover, studies focusing on tax avoidance and how such strategies affect a firm's valuation and investment strategies would offer more profound insight into firms' tax policies.

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