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The Influence of CEO Demography Characteristics, Profitability and the Quality of External Auditors on Tax Aggressiveness of Family Firm's

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Abstract:- This study aims to determine the effect of CEO demographic characteristics, profitability, and quality of external auditors on tax aggressiveness. The dependent variable in this study is tax aggressiveness and the independent variables in this study are characteristics of demographic CEO, profitability, and External Auditor Quality (KAE). This research is a quantitative study using secondary data and has a sample of 66 manufacturing companies published by the Indonesia Stock Exchange during 2016-2020 with documentation techniques.

The data used are obtained from financial reports and annual reports listed on the Indonesia Stock Exchange. Data analysis was carried out by classical assumption test and hypothesis testing using STATA multiple regression method as a statistical analysis tool. The results of this study prove that CEO Demographic Characteristics and External Auditor Quality have an insignificant positive effect on Tax Aggressiveness, while Profitability has a significant negative effect on Tax Aggressiveness.

Keywords:- *CEO Demography Characteristics, Profitability, External Auditor Quality, Tax Aggressiveness.*

I. INTRODUCTION

Through legal (tax avoidance) and illegal (tax evasion) tax planning, tax aggression decreases taxable income. High taxes lower a company's profits. Aggressive tax enforcement may begin with both compliant and noncompliant taxpayers. Firms are more aggressive, even if they don't break the law, the more they use regulatory loopholes to save money on taxes(Kamila, 2014).

To minimize their tax burdens as much as possible, businesses around the globe have become increasingly tax-aggressive(Richardson et al., 2013). To maximize profits, businesses will want to decrease their tax burden as much as feasible. Management becomes tax aggressive because of efforts to reduce taxes. According to (Frank et al., 2009), proactive tax planning is the manipulation of taxable income or the reduction of fiscal profit.

Between 2010 and 2017, Indonesia's tax percentage never topped 15%, peaking at 14% in 2012(DirektoratJenderalPajak, 2018). In 2017, Indonesia's tax ratio was 11.5%, which was lower than the OECD average of 34.2% as well as the LAC and Africa norms of 22% and 18%, respectively(Anthony, 2019). This is the lowest tax rate in Asia-Pacific. Between 2007 and 2017, Indonesia's tax percentage declined from 12.2% to 11.5%.

Non-compliance by taxpayers with the tax collection policies stated in the Taxation Regulations is one reason revenue targets are not fulfilled. Because taxpayers can calculate their own taxes, the Self-Assessment Method tax system in Indonesia can lead to active tax avoidance (Mardiasmo, 2016). To cut state tax bills, proactive taxpayers may strive to deposit as little tax as feasible.

There is a correlation between tax aggression and CEO demography, profitability, and external auditor quality. Regarding the state of(Aburajab et al., 2019), a board with more outsiders reduces tax aggression. It was discoveredthat CEOs with degrees in finance, accounting, and taxation would reduce aggressive tax measures. This study shows that CEOs with more education will care more about taxes and won't refuse to pay them(Astutik&Venusita, 2020).

Upper Echelons Theoryasserts that managers' style and ability can influence organizational ideals(Hambrick, 2018). This hypothesis suggests that the more complex a decision, such as a strategy measure, the greater the importance of the decision maker's personality attributes (Aliani, 2014). According to this theory, the backgrounds of managers can predict business outcomes, strategic decisions, and performance levels. This suggests that managers' decisions, particularly those of the CEO, impact the company's strategy. The characteristics of the CEO will impact the company's tax planning strategy. Tax aggressiveness is influenced by CEO characteristics.

Profitability could influence tax aversion. Various research studies have studied the relationship between profitability and tax aggression. According to research, profitability impacts tax aggressiveness (Riswandari & Bagaskara, 2020). Companies will seek to reduce the tax impact on difficult-to-track items. Profitability based on return on assets drives tax aggression in many industries(Syntia&Yuliansyah, 2020). Profitability decreases tax hostility. Profitable businesses are aggressive taxpayers. Even though taxes aren't too bad, the company's success depends on its depreciation strategy, which brings in a lot of money.

External auditors of high caliber also contribute to tax evasion. The firm'smanagement must inform stakeholders of the firm's activities, including its financial reporting. However, accounting standards allow management to mislead investors even though companies must provide reliable financial reporting. The release of financial accounts that have been checked by an outside auditor is related to tax avoidance, which is a type of tax management.

According to(Richardson et al., 2013), both Big Four and non-Big Four external auditors are utilized by businesses. According to this analysis, the Big Four accounting firms can reduce tax aggression. According to reports, tax aggression is affected by the quality of the Big Four external auditor(Boussaidi& Hamed-Sidhom, 2021).

To establish a competitive edge and compete with rivals, businesses need cost leadership (Porter, 1980). To manage expenses, the company must be efficient with operations and tax expenses. Since taxes are an expense, they are always reflected as such on financial accounts. Businesses should reduce their taxes. Tax regulations describe tax-reduction strategies as either legal or illegal. Tax-reduction initiatives will be enhanced if the controlling owner is connected to top management.

Family-owned businesses will limit government expenditures (Fernández-Rodríguez & Martínez-Arias, 2012). Most Indonesian businesses are family-owned (PWC, 2014). A report reveals that 60% of listed Southeast Asian companies are family-owned. The survey found that over 95% of Indonesian enterprises are family-owned. According to (Shanker & Astrachan, 1996), a family business is characterized by its ownership percentage, voting rights, strategic direction, generational participation, and active family management.

From tax prespective, family businesses frequently avoid taxes. Agency theory says that telling more people about a family business's lower taxes than other businesses does puts the family's wealth and reputation at risk.

This "family versus non-family" comparison study, which evaluates large family businesses, demonstrates the tax aggressiveness of family businesses only by measuring family ownership risk. Family-owned businesses worry more about tax penalties and losses because they have more stocks and invest for a longer period of time(Chen et al., 2010).

Majority-owned, non-public firms and families influence the tax aggressiveness of a corporation. The formation of a majority-owned company generates an agency conflict between the majority and minority shareholders. Disputes between agencies could escalate tax aggression (Sari, 2010). Work and supervision are imperfect when ownership and management are separated, showing tax aggression.

According to the study(Flamini et al., 2021), family ownership influences tax aggressiveness. Family participation and tax aggressiveness are associated.

Based on the preceding descriptions, the topic of this study is the tax aggressiveness of family businesses as affected by CEO demographic characteristics, profitability, and the quality of the external auditor.

II. LITERATURE REVIEW

A. Agency Theory

Several models of game theory must be considered to completely comprehendmanagement's interests in financial reporting (game theory). Game theory is a mathematical approach to the formulation of competitive situations and rivalries (Scott, 2009). This theory was created to evaluate the decision-making process in various competitive settings involving two or more competing interests. Agency theory describes the separation of tasks between management as an agent and shareholders or firm owners as the principal. Agency theory is a contract between a principal and a third party, called an agent, in which the principal gives the agent a job to do.

The agency connection may result in a conflict of interest between the principal and the manager(Ross et al., 2015). The core of agency theory is the connection between two actors with divergent interests, namely the agent and the principle. This hypothesis also explains the gap between management and stockholders. This separation is intended to achieve effectiveness and efficiency in corporate management by using the most qualified management agents. There is a chance that the agent will prioritize his own interests over those of the principal, but on the other hand, the principal desires a high rate of return on the invested resources.

B. Tax Aggressiveness

Tax aggressiveness is a company's endeavor to minimize its tax liability through tax planning, which may or may not be fraudulent tax evasion (Frank et al., 2009). Tax aggressiveness is a way to plan your taxes to lower your effective tax rate and avoid the effects of taxes you don't want to pay.

According to (Novita, 2016), firms will engage in tax planning to decrease their tax burden. Tax aggressiveness reduces taxable revenue legitimately and unlawfully to lower taxes. High-tax businesses have lower profits. Studying tax avoidance and evasion is common.

This is consistent with the research (Hlaing, 2012) that defines tax aggressiveness as companies' efforts to minimize their effective tax rate. Companies often use excessive company debt and tax losses to lower their taxable income(Richardson et al., 2013).

Tax aggressiveness has pros and downsides(Hidayanti, 2013). (1) Tax savings paid by the corporation to the state boost cash flow for the company's owners or shareholders. (2) Tax-aggressive managers earn pay or bonuses from owners or shareholders.

Tax aggressiveness refers to a company's aggressive tax preparation and tax evasion. Tax aggressiveness allows firms to save on tax expenses, generating greater income for company investments. Weigh the marginal benefit of being tax aggressive against the marginal cost(Chen et al., 2010).

Tax aggression's drawbacks include: (1) Tax authority sanctions or fines. (2) Tax audits damaged the company's reputation, lowering the stock price. This aggressive tax action requires company decision-makers to weigh the pros and cons. If management actions result in losses, owners, shareholders, and managers may quarrel. As the agency problem escalates, the company suffers (Hidayanti, 2013).

ETR (Effective Tax Rate) was once used to measure tax aggression. The lower a corporation's ETR, the more tax-aggressive it is, and the lower the income tax burden relative to pretax income. ETR is used to show the fixed difference between book profit and fiscal profit(Richardson et al., 2013).

In contrast to the prior study, (Mashayekhi&Seyyedi, 2015)developed a tax aggressiveness calculation pattern to maximize the measurement analysis's outcomes. In accordance with this, (Jamei, 2017) employs the same calculation pattern because the aggressiveness of tax planning will result in gray-area activities, hence creating the potential for unlawful tax evasion. This study usesthe difference between the Effective Tax Rate (ETR) and the Statutory Tax Rate (STR) as a measure of tax aggression (ATP). Following is the formula:

$$ATP = Statutory\ Rate\ of\ Tax - Effective\ Tax\ Rate$$

C. CEO Demography Characteristic

Tax preparation is one way the organization boosts profits and value. All firm components must support this strategy to succeed. CEOs make strategy selection decisions. CEOs have several tasks, including decision-making. As decision-makers, CEOs demonstrate risk aversion, risk-taking, and risk neutrality. This affects the CEO's approach (Aliani, 2014).

The CEO or Board of Directors is a group within a corporation that must show leadership in steering the company toward its goals and following a strategic plan, which may include tax deductions. They contribute to corporate resource allocation, shareholder wealth, and company performance. Effective tax management lets board members focus on the company's bottom line by lowering taxes and making the bottom line better(Minnick &Noga, 2010).

Unpredictability in tax planning might lead to managerial opportunism. According to agency theory(Jensen &Meckling, 1976), shareholders may have to pay fees like monitoring fees because managers act in a way that benefits them.

Internal corporate governance measures include company ownership or stake as a performance incentive. In corporate governance issues, board members' share ownership has become an intriguing topic since it could lead to opportunistic financial statement manipulation. The board limits managers' opportunistic behavior (Hooghiemstra et al., 2019).

Any incentive or interest granted to managers should connect their interests with shareholders. Directors' ownership can increase earnings quality (Vafeas, 2005) and reduce earnings management (Alves, 2012). Earnings manipulation is linked to low managerial ownership. In China, family-owned businesses paid more taxes, indicating less tax dodging (Zeng, 2011).

Several studies show that gender diversity on the board of directors is crucial, and its governance and monitoring are ongoing. Women are vital for legal compliance, especially in tax issues (Novita, 2016). Male CEOs are more willing to risk tax avoidance than female leaders. Certain board qualities affect a company's capacity to fulfill its duties (Godard &Schatt, 2004).

Another study found that CEO tenure(Kim & Lee, 2021), education level, and expertise influence tax planning. According to this study, the CEO's degree, service years, and gender affect tax aggression.

Research (Aliani, 2014) found that CEOs with a finance and accounting education can better understand financial problems and corporate taxation. This helps CEOs make financial decisions. CEOs can design the best tax strategy by studying finance and taxation in school. On the other hand,(Sebhat&Assfaw, 2019) found that education affects taxpayer compliance. Contrary to earlier studies, higher education increases tax compliance and decreases tax aggression.

D. Profitability

Profitability is a comparison between a company's profit and the assets or capital that generate that profit (Munawir, 2014). The goal of the profitability ratio is to measure and calculate the profit made during a certain time, compare the company's profit position from the previous year to the current year, look at how profits have changed over time, and figure out how well the company's money is being used.

One indicator of a company's performance is the level of profitability ratios it possesses. These ratios reveal the company's ability to create profits during the period in question. Investors will be increasingly interested in investing in profitable businesses. In computing corporate income tax, however, the company's profitability, or net profit, serves as the basis for establishing the amount of corporate income tax that must be paid(Fernández-Rodríguez & Martínez-Arias, 2012).

The profitability ratio assesses the effectiveness of management as a whole by comparing the level of profit made to sales and investments. The higher the profitability ratio, the more accurately it reflects the company's ability to generate high profits.

Return on Assets (ROA) is a ratio that reflects the return on a company's total assets. This metric is frequently used to determine a company's profitability. Companies with significant profits have a tendency to locate regulatory loopholes that minimize their tax burden. Companies conduct tax-aggressive measures to lower the high tax burden by analyzing costs. Return on investment demonstrates the effectiveness of all firm resources. Here is the formula for ROA:

$$ROA = \frac{Earning\ After\ Interest\ and\ Tax}{Total\ Assets}$$

E. The Quality of External Auditor

The objective of an audit is to increase the confidence of the intended users of financial statements in those statements. This goal is met when the auditor says whether or not the financial statements are made in accordance with the right financial reporting framework in all important ways(Tuanakotta, 2013).

The auditor is required to plan and carry out an audit with professional skepticism since there are situations that could lead to financial statements that are significantly wrong.

Moreover, auditors examine the risk of substantial misstatement (inherent andcontrol risk) at the level of financial statements and assertions (Tuanakotta, 2013). The objective of audit procedures is to decrease audit risk to a tolerable level. So, when analyzing business risks, you should always think about whether the situation creates opportunities for fraud risk.

Audit quality is determined by the caliber of audit work. According to (Nyoman et al., 2014), audit quality encompasses all possible outcomes when an auditor audits the financial statements of a client and discovers breaches or errors, and reflects them in the audited financial statements.

In addition, according to(DeAngelo, 1981), the size of the KAP conducting the audit indicates the quality of audits conducted by public accountants. The quality of the financial statements audited by the Big Four KAPs is superior to that of the smaller KAPs (non-Big Four KAPs). This is because major KAPs have more resources and clients, so they are not dependent on one or a few clients, as well as a high public reputation, which causes them to audit more thoroughly.

Authorization from the principal to the agent increases the importance of the auditing profession (Jensen &Meckling, 1976). To eliminate information asymmetry, independent auditors are able to serve as a bridge between agents and information consumers. A quality audit (audit quality) is an audit undertaken by a qualified and impartial individual (Tandiontong, 2015). The size of the firm is indicative of audit quality (auditor independence) because no single client is significant to a large firm, and auditors have a greater reputation for losing (their entire client group) if they report incorrectly. (DeAngelo, 1981; DeFond&Jiambalvo, 1991). Investors will be more receptive to accounting material that has been subjected to a rigorous audit. Alternatively, if the tax value to be paid by the corporation is seen as excessively high, the company will attempt to avoid paying taxes(Cai & Liu, 2009), resulting in a more aggressive stance against taxes. But if an increasingly qualified auditor looks over the company's financial statements, it is expected that the company will not change its earnings for tax purposes.

III. FRAMEWORK AND HYPOTHESIS

A. The Influence of CEO Demographic Characteristics on Tax Aggresiveness

Studies on company governance and tax aggressiveness show that a board's success depends on its independence. Independent directors reduce managerial opportunism by controlling firm management techniques (Ibrahim & Hanefah, 2016).

A strong share of independent directors on the board of directors reduced the tax aggressiveness of listed Australian firms (Richardson et al., 2013). Ownership structure affects tax aggressiveness (Ejeh&Salaudeen, 2018).

Men and women have different leadership styles, according to research. Communication, caution, and decision-making are different. Most research shows that having more women on boards reduces restatements, fraud, and tax evasion. Women are more likely to evaluate a problem's alternatives before deciding.

Gender diversity can provide more information, new ideas, and fresh views to improve issue resolution, maximize corporate strategy, and gain new knowledge (Nekhili&Gatfaoui, 2013). The percentage of female board members measures gender diversity (Boussaidi& Hamed-Sidhom, 2021). Women on a company's board can reduce tax evasion (Gul et al., 2011).

Ageaffects CEO traits. Age can affect a worker's effectiveness, which can affect financial results. Board members are often middle-aged or retired. Age affects traits, insights, and worldviews. Senior board members have more experience and can make wiser decisions. So, elder board members can attend more meetings.

The research by (Sánchez-Marín et al., 2016) shows that education and profitability affect tax aggression. Study links board dualism and tax aggression (Aburajab et al., 2019). More of say, (Astutik&Venusita, 2020) say education and profitability affect tax aggressiveness.

Education involves gathering information and facts, according to(Hirst & Peters, 2011). Due to the development of an educated and well-balanced human, education also fosters creativity, autonomy, and critical thinking. Education is a social activity that exists outside of classrooms. Benjamin S. Bloom's educational goals can be divided into three categories, according to (Anwar, 2015): cognitive abilities, which relate to knowledge and intellectual abilities and skills; affective abilities, which explain changes in interests, behaviors, and values; and psychomotor abilities, which include manipulation and supervision skills.

Education develops executive managers' values, knowledge, abilities, and cognitive preferences (Hambrick & Mason, 1984). Education influences decision-making, especially scientific expertise. CEOs with finance and accounting degrees may be better able to understand the financial position and corporate taxation(Aliani, 2014). This helps the CEO make financial judgments. With the new information, you can make decisions and choose the best tax plan.

H_1: CEO Demographic Characteristics has a significant effect on Tax Aggressiveness

B. The Influence of Profitability on Tax Aggressiveness

To maintain a high share price, corporations emphasize substantial profits, yet for tax purposes, they prefer a low-profit value (Francis et al., 2014). This helps shareholders optimize their company's value by reducing tax payments (Hanlon &Slemrod, 2009). The company's profit determines its tax burden. High-profitability companies may attempt to maintain profitability to preserve stock values. Businesses will minimize their tax burden aggressively.

Profitability influences tax aggressiveness (Jaffar et al., 2021). Profitable companies manage their resources to pay less tax. The business can use tax incentives and solid tax planning to reduce its tax liability.

The profitability ratio determines a firm's ability to create profits through conventional business activities (Hery, 2015), while the tax base is based on the company's net profit at that time, suggesting a company's profit potential. Aggressive taxation

Profitability doesinfluence tax aggression. According to(Prasista& Setiawan, 2016), a company's ability to produce profits increases tax liability. Businesses seek tax-cutting strategies.

H_2: Profitabilityhas a significant effect on Tax Aggressiveness

C. The Influence The Quality of External Auditor on Tax Aggressiveness

Auditor quality influences tax aggression, according to studies. KAP’s Big Four quality auditors. The Big Four auditors are known for their audit quality (Christa & Adi, 2020; Kanagaretnam et al., 2016; MadahMarzuki& Muhammad Al-Amin, 2021; Sri et al., n.d.), financial reporting credibility (Khurana & Raman, 2004), earnings quality(Christiani&Nugrahanti, 2014; Khurana & Raman, 2004), and value relevance (Christiani&Nugrahanti, 2014; Lee & Lee, 2013; Srinidhi & Gul, 2006).

The Big Four KAPs have greater resources and clientele, allowing them to be autonomous. Due to their good reputation, they'll conduct audits carefully (Christiani & Nugrahanti, 2014). tax aggression can be reduced by making sure audits are done well(Kanagaretnam et al., 2016; Nyoman et al., 2014).

KAP size affects the quality of public accountants' audits(DeAngelo, 1981). The Big Four KAPs are considered higher quality. The Big Four KAPs for recruiting and assigning auditors are better organized, coordinated, and managed via the KAP Management System, KAP Training Level, KAP Background, Audit Experience, etc.

The Big Four are four global accounting firms. PwC, Deloitte, Ernst & Young, and Klynveld Peat Marwick Goerdeler are auditing firms (KPMG). They're a CPA firm that audits most US public companies. The Big Four are professional service networks, not enterprises. Each of the Big Four consists of individual firms. Members agree to use the Big Four's name, standards, and brand.

A firm functioning under one of the four main companies usually operates in only one nation and is governed by local laws. KPMG's London office sells only to British companies. Size of KAP (Big4 vs. non-Big4), KAP industry expertise, Audit tenure, KAP economic interests, and the Audit Opinion Going Concern demonstrate external auditor quality. The Big Four KAP's public reputation encourages them to conduct audits carefully.

The Big 4 auditors are more likely to detect financial statement fraud and improve monitoring. The Big Four auditors have outstanding expertise, judgment, client pressure tolerance, and reputation. They also have more resources and a more sophisticated auditing method.

The Big Four auditors can reduce their clients' tax aggression. The Big Four auditors' credibility and reputation are in danger if they do other work. Depending on a country's institutional environment, auditors' impact on tax aggressiveness may differ. This is worse in countries with stronger investor protection, more auditor litigation risk, a better audit environment, and larger capital market pressures(Kanagaretnam et al., 2016).

Big Four auditors are more qualified and professional than other auditors and can spot and change false financial statements. This means that companies audited by the Big Four don't get out of paying taxes.

In this study, a novel audit quality measurement was used by combining scores from different audit quality measurements validated in past research. AQMS measures competence and independence. This study examined five parameters, including KAP size (Big4 versus non-Big4), industry specialization, audit tenure, KAP economic interests, and opinion going concern audit.

H_3: The Quality of External Auditor has a significant effect on Tax Aggressiveness.

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IV. METHODOLOGY

A. *Research Design*

This quantitative study investigates the impact of CEO demographic characteristics, profitability, and auditor quality on the tax aggressiveness of family businesses. The quantitative data used in this study are derived from secondary sources. Utilizing documentation methods, data collection for research was conducted.

B. *Definition of Variable Operationalization and Variable Measurement*

Variable	Construc	Dimension	Indicator	Scale
CEO Demographic Characteristic (X1)	Average of accumulated Dummy representative CEO Demographic	Gender (Novita, 2016; Godard dan Schatt, 2004)	CEO gender measurement proxy that uses a dummy where the value of 1 for male CEOs, and 0 for female CEOs	Ratio
		Age (Halioui et al., 2016)	1 if there is a CEO under 50 years old, 0 otherwise	
		CEO's Educational Background (Aliani, 2014)	CEOs whose educational background comes from finance, accounting, and tax with an S2 education level are symbolized by a value of 1, while CEOs whose educational background is other are denoted by a value of 0.	
Profitability (X2)	Comparison between profit with assets.	Return on Assets (Munawir, 2004)	Earning After Interest and Tax divided by Total Asset	Ratio
External Auditor Quality (X3)	Accumulated Dummy Audit Quality Matrix Score (AQMS)	Big four	1 if the corporation employs one of the "big four" external auditors; 0 otherwise.	Ratio
		KAP industry specialization (SPCL)	1 if over 20% of clients are manufacturers; 0 otherwise.	
		Audit Tenure (TNUR)	1 if the KAP assignment is between 3 and 9 years long, 0 otherwise.	
		Client Important	1 if no client dependencies exist, 0 else	
		Going Concern Opinion (RQA)	1 if one of the Going Concern conditions is met, 0 if the other is not.	
Tax Aggressiveness (Y)	The difference from the Tax Rate in accordance with the Effective Tax Rate (Jamei, 2017)	STR - ETR	0,25 - (Tax Expenses:Profit Before Tax)	Ratio

Teble 1: Definition of Variable Operationalization

C. *Population and Samples*

This study's population consists of family businesses that went public between 2016 and 2020. A public company is referred to as a "family firm" if the founder or acquirer controls 25% of the company's rights through investment, at least one representative or family member is involved in the company's management, and family members are reported as "ultimate ownership." This analysis uses a sample of family businesses listed on the IDX between 2016 and 2020. The identification of family businesses begins with data on Indonesian conglomerates provided on the Forbes website on March 9, 2021. In addition, information on each company is manually reconstructed to identify the entities that comprise the group. A conglomerate-owned corporation listed on IDX.

The unit of analysis for this study is a family business that went public between 2016 and 2020.

No	Criterion	Sum
1	Manufacturing companies listed on the IDX during the period 2016-2020	196
2	The company is listed or listed on the IDX from the beginning of the observation period and is not delisted until the end of the observation period	(53)
3	Manufacturing companies listed on the IDX that have audited and published financial statements so that the availability and ease of obtaining data can be met.	143
4	Companies that publish full and consecutive annual reports during the year of observation	(17)
5	Companies that do not have family ownership data in 2016 – 2020	(60)
	of Company Samples	66
	Number of research observation units (66 x 5 years)	330

Table 2: Population and Samples

D. Data Collection Technique

The data used in this research is a type of quantitative data sourced from secondary sources. Data collection for research was conducted using documentation techniques. The data in the study came from annual reports and financial statements of family companies that went public in 2016–2020, which can be downloaded at www.idx.co.id.

E. Data Analysis Method

The analysis of data in this study was aided using STATA software. STATA software is easy to use for data management and statistical analysis because it lets you type programs that other software doesn't have.

This research employs a model of panel data regression analysis for its data analysis. Utilizing the chow/likelihood test, the Haustman test, and the multiple lagrange test, the panel data estimation model between the common effect model, the fixed effect model, and the random effect model is determined. The classical assumption test is done after testing the estimated model. It looks at multicollinearity, heteroscedasticity, and autocorrelation.

ATP= α+β1X1+β2X2+β3X3+e

Information:
ATP = Tax Aggressiveness
α = Constant
β1 = Regression Coefficient of CEO Demographic Characteristics
β2 = Profitability Regression Coefficient
β3 = External Auditor Quality Regression Coefficient
X1 = CEO Demographic Characteristic
X2 = Profitability
X3 = External Auditor Quality
e = error

V. RESULT AND DISCUSSION

A. Research Result

The purpose of this research is to prove the influence of CEO demographic characteristics, profitability, and external audit quality on tax aggressiveness. The object of research is the family firm that has gone public with the research period of 2016–2020. Data collection for research conducted using documentation techniques consisted of 66 samples with 316 sample units. The research data for 316 is the number of sample units.

The results of the statistical description show an average value of ATP of 0.4081 and a standard deviation of 1.0529. The largest value of ATP is 8.2817 and the smallest value is -9.9214. CEO Demographic Characteristics is a dummy variable, so the highest value for these variables is 3 and the lowest is 0.

ROA, which is a proxy for profitability, has an average value of 0.1809 with a standard deviation of 0.7706. The biggest value is 8.4293 and the smallest value is -0.2474. External Auditor Quality is a dummy variable that is replaced by the accumulated dummy Audit Quality Matrix Score (AQMS). This means that the highest value for these variables is 5, and the lowest value is 0.

Based on the Chow Test (likelihood test) and the Lagrange multiplier test, it can be concluded that in the research conducted, the common effect model is the best model for estimating the regression model. In the common effect model, choosing one of the three types of estimation methods that are appropriate can be done by looking at the structure of the variance-covariance. Based on the results of the multicollinearity, heteroscedasticity, and autocorrelation tests, there is no multicollinearity, heteroscedasticity, or cross-section correlation in the residual variance-covariance structure.

The ordinary least square (OLS) method is used to estimate the impact of the explanatory variable on the dependent variable based on the results of the model appropriateness test performed on the research data, specifically the Common Effect Model (CEM).Based on testing the regression equation hypothesis that can be formulated, namely:

ATP = 0.0281 + 0,0592X1 - 0,2174X2 + 0,0294X3 + e

Based on hypothesis testing, the R-squared value is 0.0352, or 3,52%. These results show that the demographics of the CEO, the profitability of the company, and the quality of the external auditor can explain the dependent variable, which is tax aggressiveness, to a degree of 3.52%, while other variables outside the study can explain 96.48%.

The constant value obtained is 0.0281. This model predicts that if the independent variables (CEO Demographic Characteristics, Profitability, and Quality of External Auditors) are equal to zero (0), there will be a 0.0281 rise in the degree of tax aggression, assuming that the other independent factors remain the same.

The coefficient of regression for the variable CEO Demographic Characteristics (X1) is 0.0592. This indicates that for every one-unit increase in CEO Demographic Characteristics (CEO), aggression (ATP) will increase by 0.0592 per unit. A positive coefficient indicates a unidirectional association between CEO demographic characteristics and tax aggression. Assuming that all other factors don't change, the value of tax aggressiveness goes up as the value of CEO demographic characteristics goes up, and vice versa.

The profitability variable regression coefficient value (X2) is -0.2174. This number indicates that the profitability (ROA) and tax aggression factors have an inverse relationship. Therefore, if the profitability variable has improved by 1%, the tax aggressiveness variable will fall by 0.2174. assuming that the other variables are held constant.

The coefficient of regression for the External Auditor Quality (KAE) variable is 0.0294. This indicates that for every 1 unit rise in external auditor quality (KAE), tax aggression (ATP) will increase by 0.0294. The coefficient is positive, indicating that the relationship between the quality of external auditors and tax aggression is unidirectional. If all independent variables are held constant, the value of tax aggressiveness increases as the value of the quality of the external auditor increases, and vice versa.

This research discovered that CEO demography and the quality of external auditors have a moderately beneficial effect on tax aggression, while profitability has a significant negative effect.

VI. DISCUSSION

A. The Influence of CEO DemographyCharacteristics on Tax Aggressiveness

The findings of hypothesis 1 testing show a Prob t-stat value of 0.494, indicating that CEO Demographic Characteristics have no significant effect on Tax Aggressiveness, and hence H_1 is rejected. The influence of the CEO's demographic features, as proxied by the accumulated dummy average, has no significant effect on tax aggression. Although not significantly, dummy accumulation of gender representation, average age, and educational background of the CEO was able to limit the potential of tax aggressiveness.

CEOs as decision makers frequently bring their own biases and cognitive values that influence vision, perception, and interpretation. This cognitive foundation influences decision makers to foresee future occurrences, analyze alternatives, and weigh the implications(Nilmawati et al., 2021). Demographic factors will determine CEO risk preferences, which will influence decision making(Zhao et al., 2022).

Because the CEO's demographic features as a decision maker influence the firm's strategic decisions, the company is a reflection of top management. Executives manage the entire organization, thus the traits of the CEO, what the CEO does, and how he does it will have a significant impact on company decisions(Hambrick & Mason, 1984). The wording of the above sentence is a little different than the wording of the original. Finally, the CEO will be held accountable to the principal for revealing income on behalf of the company.

The preceding is congruent with agency theory, which focuses on the interaction of two individuals with opposing agendas, namely agents and principals. This approach also explains the distinction between shareholders and management. This separation is meant to improve company management effectiveness and efficiency by utilizing the most qualified agents for company management. The agent may prioritize his own interests over the interests of the principle, whereas the principal, on the other hand, desires a high rate of return on the resources invested.

B. The Influence of Profitability on Tax Aggressiveness

The results of hypothesis 2 testing show a Prob t-stat value of 0.005, which means that Profitability has a substantial effect on Tax Aggressiveness, hence H_2 is accepted. Based on the findings of the studies that have been carried out, the results demonstrate that the profitability variable as measured by Return on Assets (ROA) has a considerable negative effect on tax aggression. This means that each rise in profitability has the potential to reduce tax aggression since companies with substantial earnings and easy profit management may afford to pay taxes in accordance with legislation. As a result, the concept that profitability influences tax aggressiveness is recognized.

Profitability is a company's capacity to generate a profit relative to its sales, assets, and own capital(Syntia&Yuliansyah, 2020). Return on Asset (ROA) measures a company's ability to generate profits based on its own assets. The company's tax burden will increase proportionally to its profitability. Due to the higher tax burden on corporations, they can act in a tax-aggressive way because they see taxes as costs that will cut into their profits. This study's findings are consistent with those of(Jaffar et al., 2021), (Dinar et al., 2020), and (Firmansyah et al., 2021), which indicate that profitability influences tax aggressiveness. The higher the ROA, the greater the company's profit derived from the management of its assets. In proportion to the rise in profit, the amount of income tax will increase, so the corporation will likely engage in tax avoidance to avoid an increase in the tax burden.

C. The Influence of External Audit Quality on Tax Aggressiveness

The results of hypothesis 3 testing The Prob t-stat value of 0.628 indicates that the CEO's Demographic Characteristics have no significant effect on Tax Aggressiveness, hence hypothesis 3 is rejected. The Audit Quality Metric Score (AQMS) includes five indicators, namely KAP size (Big4/non Big4), industry specialization KAP, tenure audit, KAP Economic Interests, and Going Concern Audit Opinion, has no significant effect and is good. This suggests that audit quality can reduce corporate tax evasion.

In this study, in order to get more reliable audit quality results, new audit quality measurements were employed in the form of scores derived from a number of audit quality metrics that had been evaluated in prior research. The Audit Quality Metric Score (AQMS) is a multidimensional measurement that represents the qualities of competence and independence. The higher the AQMS score, the higher the audit's quality.

It is anticipated that superior audit quality will lessen the disparity between principals and agents. Weak control from third parties, or what is commonly referred to as auditors, can result in information asymmetry, allowing companies to engage in tax aggressiveness. Balanced financial statement information between agents and principals discourages agents from engaging in tax aggressiveness due to the fear that it will erode trust and reduce the capital obtained by the company in the future. The findings of this study are consistent with those of previous studies(Klassen et al., 2016; MadahMarzuki& Muhammad Al-Amin, 2021; Sri et al., n.d.).

VII. CONCLUSION

A. Conclusion

The average of the aggregated dummy's demographic traits of CEOs had a non-significant beneficial effect on tax aggression practices. CEOs as decision makers frequently bring their own biases and cognitive values that influence vision, perception, and interpretation. These foundations can have an impact on judgments to foresee future events, analyze alternatives, and assess associated implications. Finally, the CEO will be held accountable to the principal for revealing income on behalf of the company. This is consistent with agency theory, which focuses on the interaction of two actors with opposing interests, called agents and principals. This theory also discusses the distinction between management and shareholders. The purpose of this separation is to create effectiveness and efficiency in corporate management by using the best agents

Profitability as defined by Return on Assets (ROA) has a considerable detrimental impact on the company's tax aggression policies. The higher the ROA, the bigger the profit generated by asset management. When profit increases, the amount of income tax increases in proportion to the increase in profit, so the corporation is likely to engage in tax evasion to avoid increasing the tax burden.

The Audit Quality Metric Score (AQMS) includes five indications, namely KAP size (Big4/non-Big4), KAP industry specialization, audit tenure, economic interests of the cap, and going concern audit opinion, have minimal beneficial effect on a company's tax aggression. Superior audit quality is intended to eliminate discrepancies between principals and agents. Weak oversight from third parties, sometimes known as auditors, can result in information asymmetry, allowing corporations to engage in tax evasion. Balanced financial statement information shared between agents and principals makes agents hesitant to engage in tax evasion for fear of undermining trust and lowering the company's capital in the future.

B. Suggestion

Other metrics or proxies are anticipated to be considered in future studies as a means of quantifying tax aggression. Using the temporal book tax difference, the tax shelter score, the Effective Tax Rate (ETR) approach, the Cash Effective Tax Rate (CETR) method, etc. There may be variations in the study's findings if various metrics are used.

- In addition to gender, age, and education, it is anticipated that future studies will investigate the addition of other demographic characteristics of CEOs, such as tenure and the number of foreign directors.
- Due to the predominance of men as corporate CEOs in Indonesia, items are used in nations where the gender of the company's CEO is balanced between men and women.

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