

Income Tax cut and Firm Tax Avoidance

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ABSTRACT

This study aims to examine the impact of Indonesian corporate income tax rate reduction on public companies' tax avoidance. This study utilizes a quasi-experimental design with the difference-in-differences (DID) method to isolate the effect of corporate income tax rates changes on corporate tax avoidance behavior. Firms' ownership structure is used to separate firms that are more likely to be affected by the tax law changes, thus representing the treatment group in the DID setting. Utilizing a sample of public companies listed on the Indonesia Stock Exchange in the 2019 and 2020 periods, this study finds that in the year preceding the tax rate reduction, firms with greater institutional ownership exercise higher tax avoidance compared to other firms. The differences, however, are not statistically significant, which may be caused by the short timespan between the policy announcement and tax filing period, limiting the time available for firms to adjust their tax avoidance behavior.

Kata Kunci: Pemotongan Tarif Pajak; Penghindaran Pajak; Investor Institusi

Pemotongan Pajak Penghasilan dan Penghindaran Pajak Perusahaan

ABSTRAK

Penelitian ini bertujuan untuk menguji dampak penurunan tarif pajak penghasilan badan di Indonesia terhadap penghindaran pajak perusahaan publik. Penelitian ini menggunakan desain quasi eksperimen dengan metode Difference-in-Differences (DID) untuk mengisolasi pengaruh perubahan tarif pajak penghasilan badan terhadap perilaku penghindaran pajak perusahaan. Struktur kepemilikan perusahaan digunakan untuk memisahkan perusahaan-perusahaan yang lebih mungkin terkena dampak perubahan undang-undang perpajakan, sehingga mewakili kelompok perlakuan dalam pengaturan DID. Dengan menggunakan sampel perusahaan publik yang terdaftar di Bursa Efek Indonesia pada periode 2019 dan 2020, penelitian ini menemukan bahwa pada tahun sebelum penurunan tarif pajak, perusahaan dengan kepemilikan institusional lebih besar melakukan penghindaran pajak lebih tinggi dibandingkan perusahaan lain. Namun perbedaan tersebut tidak signifikan secara statistik, hal ini mungkin disebabkan oleh pendeknya rentang waktu antara pengumuman kebijakan dan periode pelaporan pajak, sehingga membatasi waktu yang tersedia bagi perusahaan untuk menyesuaikan perilaku penghindaran pajaknya.

Keywords: Tax Cut; Tax Avoidance; Institutional Investor

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INTRODUCTION

The policy of reducing income tax rates continues to be popular in various countries, including Indonesia (De Mooij & Saito, 2014; Dewan Perwakilan Rakyat RI, 2021). The Indonesian government adopted the corporate income tax reduction policy in 2020, long after the previous tax cut in 2008 (Republik Indonesia, 2008). At the end of March 2020, the Indonesian government issued Government Regulation in Lieu of Law Number 1 of 2020 on State Financial Policy and Financial System Stability for Handling the Corona Virus Disease (Covid-19) Pandemic and/or In Facing Threats That Endanger the National Economy and/or or Financial System Stability (Republik Indonesia, 2020), which one of the important provisions in the new law regulates the reduction of Corporate Income Tax rates starting year 2020.

The law stated that the corporate income tax rate, which was originally 25%, was lowered to 22% in 2020 and 2021, and to 20% in 2022 and beyond. The tariff reduction in 2022 and beyond was then canceled with the issuance of the Law on Harmonization of Tax Regulations or *Undang-Undang HPP* (Republik Indonesia, 2021) on the end of October 2021 (UU HPP). Therefore, the income tax rate in 2022 will be 22%, the same as it was in 2020 and 2021. UU HPP changes several tax regulations and combines them into one law. UU HPP has nine chapters and governs six different things: including general tax provisions and procedures, income tax, value-added tax, the voluntary disclosure program (PPS), the carbon tax, and excise.

The intention of the corporate income tax reduction policy is to increase investment that leads to an increase in tax revenue in the future. As found by Dobbins & Jacob (2016) in Germany, the reduction in corporate income tax rates increased the real investment of domestic companies.

However, in the short term, the income tax rate reduction policy may result in a decrease in corporate income tax payments (Dewan Perwakilan Rakyat RI, 2021). In addition to causing potential losses in the short term, the policy of reducing corporate income tax rates may also create incentives for income shifting. Businesses seek the greatest profit to increase shareholder wealth (Asiri et al., 2020). Managers will choose policies that minimize the tax expenses so that the company's profit increases. Thus, to benefit from the tax rate reduction, firms will try to shift taxable income to the year when the rate is lower (Le & Moore, 2022).

Prior studies by Lin, Mills, & Zhang (2014) and Andries, Cools, & Van Uytbergen (2017) find that corporate conservatism leads to additional tax savings due to a decrease in the corporate income tax rate. These studies find a shift in profit from the year with a higher corporate income tax rate to the year with a lower corporate income tax rate. Similarly, Henry & Sansing (2020) examine the relationship between tax preferences (tax avoidance) of companies before and after the Tax Cuts and Jobs Act of 2017 (TCJA) in the United States and find that larger corporate tax avoidance schemes tend to be disadvantaged after TCJA (less tax favored after the TCJA). However, prior studies also suggest that the relationship between tax avoidance activities and changes in tax rate is uncertain (Dalamagas, 2011; Gahramanov, 2009; Yaniv, 2013). The uncertainty of this relationship indicates the economic behavior of taxpayers in general (Sandmo, 2005).

Some prior studies have also analyzed the impact of corporate tax rate changes in Indonesia. Putra & Qibthiyah (2019) use the data from the Directorate General of Taxes and show a decrease in the indication of tax evasion due to changes in the corporate income tax rate from a progressive rate to a single rate in 2009. The results are in line with the results of other study by Paulus & Peichl (2009).

There has been limited evidence on the impact of Indonesian' income tax rate changes in 2020. There were also some significant differences between the 2009's policy changes and the 2020's. First, the 2020 policy reduces the corporate income tax rate by 3% (from 25% to 22%), lower than the previous tax rate reduction. Second, although the law has been discussed in 2009, the government just announced the new policy at the beginning of 2020. And lastly, the regulation was issued during the pandemic and was issued as an anticipation of the economic impact of the Covid-19 pandemic (Septina Muslimah, 2020).

This research is intended to fill the gap of previous research by examining the behavior of Indonesian corporate taxpayers in anticipating a reduction in the corporate income tax rate in 2020. This study applies a difference-in-differences (DID) method that is commonly used in policy studies to measure causation (St. Clair & Cook, 2015). The use of the DID method is expected to provide a better interpretation of the impact of a policy compared to the usual panel data research design (St. Clair & Cook, 2015).

In setting up the analysis, this study uses firms' ownership structure to separate firms that have greater incentives to conduct tax avoidance to others. Based on Khan et al. (2017) and Jiang et al. (2021), this study proposes that the significant presence of institutional investors in companies is associated with increased corporate tax avoidance. Institutional investors carry out stricter supervision of managers than individual investors (Agustina & Tarigan, 2017). With this tight supervision, the manager will be more motivated in meeting the owner's demands for increasing the company's performance (profit). Additionally, increasing tax avoidance is one strategy to boost business profitability (Jiang et al., 2021; Khan et al., 2017). Therefore, this study postulates that firms with significant amount of institutional investors have greater incentives to exercise tax avoidance in the periods before tax rate reduction, shifting the profits the periods with lower tax rate.

This research is expected to contribute to the literature focusing on the impact of lowering corporate income tax rates on the level of tax avoidance. Most previous studies using developed countries context, such as the United States (Henry & Sansing, 2020) and Germany (Dobbins & Jacob, 2016). There has been limited evidence on the developing countries, especially Indonesia as one country with low tax ratio and high corruption rate. Whether and to what extent the income tax reduction policy impacts Indonesian taxpayers thus are of interest to academics and policy makers.

According to Shapiro (2005), conflicts arise with the presence of majority and minority shareholders in the company. The cause of the conflict is that the majority shareholder has the power to change the decisions taken by management, including decisions in making tax avoidance strategies. The intervention carried out by the majority shareholder may be detrimental to the minority shareholder

Sutton et al. (2018). The conflict between majority and minority shareholders is called type 2 agency theory (Shapiro, 2005). In this research, type 2 agency theory is used as the main theory.

According to Khan et al. (2017) and Jiang et al. (2021) the presence of institutional investors in a company has a positive relationship with the level of tax avoidance. This is in line with the choice of managers who are selfish and meet the demands of the owners to increase company profits by avoiding tax Arieftiara et al. (2020). Agustina & Tarigan (2017) state that institutional ownership will increase supervision of managers to avoid fraudulent behavior from managers.

With institutional ownership in the company, it is estimated that companies that are majority owned by institutional investors will have a higher level of tax avoidance than companies that are not majority owned by institutional investors. It could be that the quite aggressive tax avoidance policy of the institutional investor harms the interests of other minority shareholders (Sutton et al., 2018).

The five categories of institutional investors are pension funds, foundations & endowments, insurance (life and non-life), banks, and investment intermediaries (Frensidy, 2021). Meanwhile, Corporations, mutual funds, securities firms, insurance, pension funds, financial institutions, and foundations are the seven categories into which KSEI (PT Kustodian Sentral Efek Indonesia) classifies institutional investors.

Besides being influenced by the presence of institutional investors, conflict between agents and managers is another factor that affects the level of tax avoidance. As stated by Wilde & Wilson (2018) in their theoretical framework as shown in Figure 1, the link between three expenses – agency costs, implementation costs, and output costs – will impact how an agent makes tax planning decisions.

Finding out whether tax planning violates the law or not is a challenge that is quite tough, if not an impossibility, in the realm of research (Hanlon & Heitzman, 2010). Wang et al. (2020) stated that tax evasion can range from reducing the tax burden of companies exploiting legal tax loopholes to violations. Because tax avoidance has such a broad definition, this study does not make a distinction between tax avoidance that does and does not break the law.

Minimizing tax costs in order to fulfill the wishes of the owner (increasing company wealth/profit) will always be pursued by managers in various ways Armstrong et al. (2015). The results of research from Asiri et al. (2020) states that the value/wealth of the company will increase along with the increase in company profits. Arieftiara et al. (2020) states that tax avoidance is used by managers to meet owner expectations and maximize personal utility, which is in line with agency theory.

In the framework of Wilde & Wilson (2018) as shown in Figure 1, each manager is described as considering all costs incurred in optimizing his tax avoidance strategy. So it can be concluded that managers will try to maximize their level of tax avoidance by changing their policies following changes in policies related to corporate taxation. As stated by previous research, to optimize the level of tax avoidance when dealing with regulations that affect tax avoidance strategies, companies must develop other strategies (Kim et al., 2019)

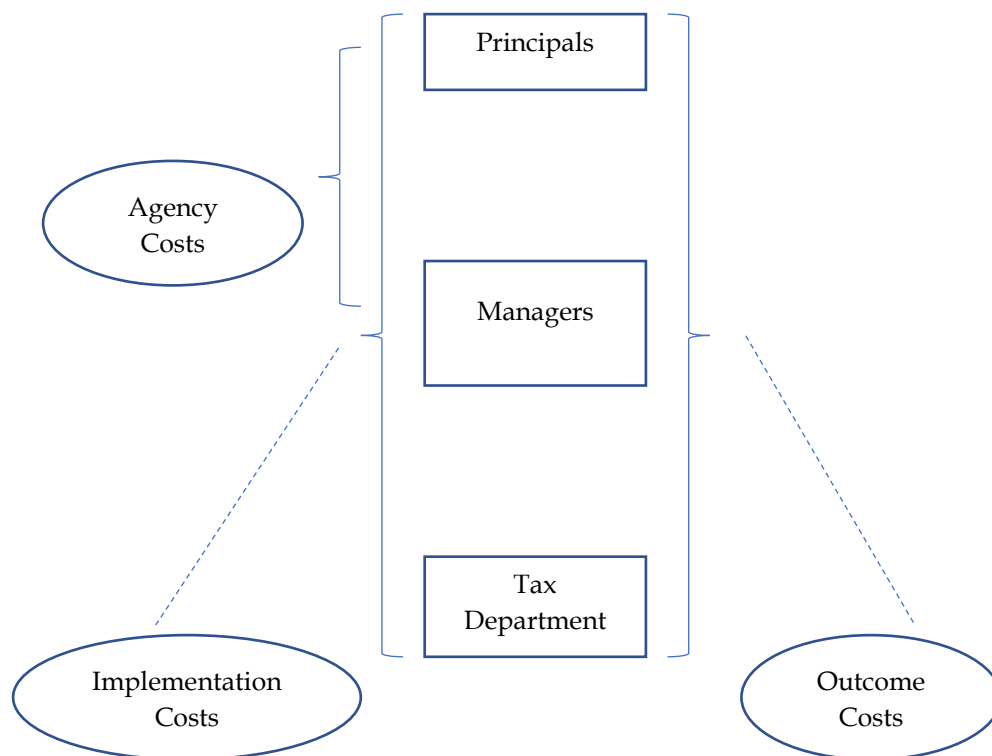


Figure 1

Source: Agency Theory-Tax Avoidance Framework (Wilde & Wilson, 2018)

Companies may engage in or intensify tax avoidance as a result of reduced corporate income tax rates (Le & Moore, 2022). And shifting profits to years with lower corporate income tax rates is one of the tax avoidance strategies (Le & Moore, 2022). In addition, several previous studies have proven that corporate conservatism leads to additional tax savings due to a decrease in corporate income tax rates (Andries et al., 2017; Lin et al., 2014). In the research of Song et al. (2020), companies in the People's Republic of China significantly increased Research & Development (R&D) costs because there was an incentive in the form of a 50% reduction in Corporate Income Tax if the taxpayer could increase the cost by 10% or more compared to the previous year.

Several factors can also trigger or increase the level of corporate tax avoidance in the year prior to the implementation of a lower Corporate Income Tax rate (in 2019). First, the government has been discussing the plan to reduce the corporate income tax rate since 2019 (Asmara, 2019). The existence of this discussion certainly becomes information for companies in planning their tax return or tax avoidance. Second, there is a time lag between the issuance of PERPU Number 1 of 2020 and the deadline for reporting the 2019 corporate annual tax return. With this long lag time (it could be up to 3 months if the taxpayer submits an extension of the reporting of the annual tax return), an announcement effect is expected to occur (Huesecken et al., 2018).

Following research from Le & Moore (2022), it is estimated that the rate of tax evasion in 2019 is higher than in 2020. Le & Moore (2022) state that accounting conservatism requires a higher level of verification to recognize gains than losses.

This asymmetric recognition provides an opportunity for managers to transfer taxable income to a future tax year while also delaying tax payments. Delay in paying taxes certainly benefits the company because the value of money will decrease in the future. The benefits are magnified when the manager is aware of future cuts in the Corporate Income Tax rate. By knowing the plan to cut the corporate income tax rate in the near future, the company will increase accounting conservatism to shift taxable income to the next year, the first year of cutting tax rates.

Several other studies have stated that the level of accounting conservatism will increase savings in income tax payments as a result of cutting tax rates (Andries et al., 2017; Lin et al., 2014). In the year prior to the cut in the Corporate Income Tax rate, managers increased the application of accounting conservatism to save on tax payments. The response of accounting conservatism to the reduction in tax rates is more pronounced in companies that are not State Owned Enterprises (SOE) compared to SOE (Le & Moore, 2022).

Apart from changes in the corporate income tax rate, the level of tax avoidance of a company is also influenced by the ownership structure/shareholder structure. One of them is the presence of institutional investors in the company. As an entity that manages other party's funds (public funds or company funds), institutional investors carry out stricter supervision of managers than individual investors (Agustina & Tarigan, 2017). With strict supervision, the level of manager fraud will be reduced and managers will as much as possible meet the demands of the owners (including institutional investors). With this increase in supervision, management also has the initiative to improve company performance (profit) by increasing tax avoidance (Jiang et al., 2021; Khan et al., 2017). So the hypothesis proposed is as follows:

Hypothesis: In the period prior to the decline in the corporate income tax rate, the level of tax avoidance of companies whose shares were dominantly owned by institutional investors was higher than that of other companies.

RESEARCH METHOD

This research sample was taken from the Refinitiv Application in the form of company data listed on the Indonesian Stock Exchange from 2019 to 2020. 1518 firm-year samples were selected using several criteria as shown in table 1 so that the final sample totaled 450 firm-years.

The Difference-in-Differences (DID) approach is one of the most popular research techniques for evaluating the effectiveness of a policy (St. Clair & Cook, 2015). For the purposes of this study's goals, this method will be applied as a research design. The suggested framework for the study is as follows:

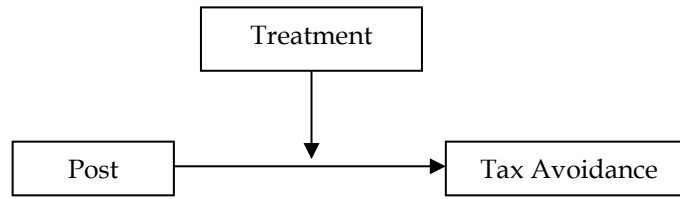


Figure 2

Source: Research Data, 2022

The sample was split into two groups, treatment and control, much like earlier quasi-experimental analysis. The treated sample is a company that will be more affected by the tax reduction policy, which in this case is a company with an institutional share ownership of more than 50%. While the control sample is a company whose ownership of institutional shareholders (institutional investors) is less or equal to 50%.

Following the research of Henry & Sansing (2020) with some adjustments, this research model will be used to test the proposed hypothesis:

$$Tax\ Avoidance_{i,t} = \beta_0 + \beta_1POST + \beta_2TREATED + \beta_3POST*TREATED + \beta_4EBIT_{i,t} + \beta_5LEV_{i,t} + \beta_6CAPEX_{i,t} + \beta_7PPE_{i,t} + \beta_8ADMIN_{i,t} + \epsilon_{i,t}$$

The hypothesis is accepted if $\beta_3 > 0$, which means that the level of tax avoidance of companies whose shares are dominantly owned by institutional investors is lower than other companies in the year the lower Corporate Income Tax rate applies (in 2020).

Table 1. Purposive Sampling

Criteria	Total
All Firm-Year Observation	1518
Elimination Criteria:	
Real Estate	158
Finance (Banks, Capital Markets, Consumer Finance, Diversified Financial Services, Insurance)	212
Incomplete Institutional Ownership Data	198
Companies that have a negative ETR and NA	308
Outlier*	192
Total Firm-Year Observation	450

*Outlier: Negative EBIT (178 firms); Negative ADMIN (2 firms); Negative Income Before Taxes (12 firms)

Source: Research Data, 2022

The level of tax avoidance is measured by the Effective Tax Rate (ETR). As stated by (Hanlon & Heitzman, 2010), ETR is generated by dividing tax expense by earnings before taxes (pretax income). This ETR formula shows how much of the total tax expense of one part of the company's commercial profit. The more taxes paid, the higher the ETR value. So, it can be concluded that the higher the ETR value, the lower the level of corporate tax avoidance and vice versa.

The independent variables that become the main variables in this study are all binary variables (dummy variables). POST is a binary variable consisting of two categories, namely 1 and 0. The year 2020 is set as 1 because it is the year when the

new Corporate Income Tax rate begins, while 0 is the other year (2019). The constant value in this variable indicates the level of tax avoidance in 2020. The expectation of this variable sign is positive (less tax avoidance compared to the previous year). Second independent variable is TREATED. This variable is a binary variable, 1 for the treated sample, namely the sample whose share ownership of institutional investors exceeds 50% and 0 for the other. Then independent variable POST*TREATED is a binary variable resulting from the interaction of POST and TREATED. This is the main variable in the DID or the main research variable.

Control variables follow research from (Henry & Sansing, 2020) with several adjustments related to data availability in the Refinitiv. According to research by Taylor & Richardson (2013) and Henry & Sansing (2020), all control variables are expected to be correlated with the degree of tax avoidance in the same way. It can be interpreted that an increase in the value of the control variable is associated with an increase in the level of tax avoidance. Meanwhile, there are 5 control variables as shown in table 2. EBIT is Earning Before Interests and Taxes divided by Total Assets, LEV is Long Term Liabilities divided by Total Assets, CAPEX is Capital Expenditures divided by Total Assets, PPE is Property Plant and Equipment (PPE) divided by Total Assets, then ADMIN is Administrative Expenses divided by Total Assets.

RESULT AND DISCUSSION

To keep the bias or deviation from being too large between the data, some of the test data were adjusted. First adjustment regarding the change in the Corporate Income Tax rate from 25% to 22%, the ETR for 2019 is adjusted to the 2020 tax rate, which is 22%. The adjustment is by means of the 2019 ETR multiplied by a factor of 22/25. Second adjustment by dividing all control variable with total assets.

Table 2. Descriptive Statistics of Dependent Variable and Control Variable

<i>Variable</i> (1)	<i>Obs.</i> (2)	<i>Mean</i> (3)	<i>Std Dev.</i> (4)	<i>Min</i> (5)	<i>Max</i> (6)
ETR	450	0.318	0.328	0.002	3.656
EBIT	450	0.093	0.068	0.006	0.568
LEV	450	0.104	0.126	0	0.674
CAPEX	450	0.048	0.056	0	0.52
PPE	450	0.383	0.233	0	0.954
ADMIN	450	0.113	0.112	0	0.671

Source: Research Data, 2022

Table 3. Independent Variable Descriptive Statistics

<i>Var</i>	<i>Obs</i>	<i>Mean</i>	<i>Std Dev</i>	"1"	"0"
TREATED	450	0.85	0.35	85.78%	14.22%
POST	450	0.5	0.5	50.00%	50.00%

Source: Research Data, 2022

Descriptions:

TREATED = takes the value of 1 if institutional investor ownership exceeds 50% and 0 otherwise.

POST = takes the value of 1 if the sample is in 2020 and 0 otherwise.

Table 2 shows that the ETR of the sample tested is quite high, namely 31.84% or more than the statutory tax rate used in this study, which is 22%. In addition, the maximum value of ETR of 3.6559 or 365.59% is also quite high. Related to this, a sensitivity test will be carried out by removing samples that have an ETR value of more than 1. This sensitivity test is carried out to determine whether the test results will change by removing samples that have an ETR of more than 1.

Table 3 shows the descriptive statistics of the independent variables. Because it is a binary variable that is different from the dependent variable, the items displayed are different from table 4.1. It can be seen that the distribution for the TREATED variable is centered on the value 1 of 85.78% or it can be interpreted that the majority of institutional ownership in the sample is above 50%. This is also one of the justifications related to the determination of the 50% limit to distinguish the TREATED sample which gets a value of 1 and 0. Meanwhile, the distribution of data for the POST variable is balanced because it is a variable that divides the sample years. This study only includes two years of testing, namely 2019 and 2020, so it is in line with expectations that the POST variable data is balanced.

The random effect model (REM) was selected based on the Hausman test. The Prob>chi2 value of the Hausman test is 0.8637 so the correct model is REM. Furthermore, the classical assumption test was carried out, namely the multicollinearity test and the heteroscedasticity test. Based on the VIF test, there is no multicollinearity in the model or independent variables.

As shown in table 4.6, the R-squared value is 9.18%. This value is relatively small and is common in social science research. Research in the field of social sciences has complex characteristics due to the many factors that influence the dependent variable, so it is difficult to find a research model that is able to explain changes in the dependent variable (Mukherjee et al., 2018).

In this study, the hypothesis testing is measured using the interaction between the value of Institutional Ownership (TREATED) and a period when corporate income tax rates are lower or other period (POST). The expected sign of the relationship between the variable and the ETR variable is positive. The positive value of the POST*TREATED variable indicates that after the tax rate reduction, the ETR or the taxes paid by companies with significant amount of institutional owners are higher. Or, in other words, a positive POST*TREATED indicate that firms with significant amount of institutional investors pay lower taxes in the periods preceding tax rate changes.

The findings in Table 4 indicate that TREATED*POST has a positive sign, meaning the taxes paid after the income tax rate reduction is higher. In detail, the results can be interpreted as follows: during the period of decreasing corporate income tax rates (in 2020), companies that are dominantly owned by institutional investors (treatment) have a 6.8% higher ETR than other companies. Or in other words, the level of tax avoidance of companies whose shares are dominantly owned by institutional investors is lower than that of other companies during the period of decreasing corporate income tax rates. Simply said, in the period prior to the decline in the Corporate Income Tax rate (in 2019), companies that were dominantly owned by institutional investors (treatment) had a smaller ETR than

other companies, or a higher level of tax avoidance than other companies in the period before the decline rates.

Table 4. Regression Result

<i>Var</i>	<i>Predict Sign</i>	<i>Coef</i>	<i>Significance</i>
TREATED	-	-0.031	0.611
POST	+	0.042	0.564
TREATED*POST	+	0.068	0.385
EBIT	-	-1.179	0.000
LEV	-	0.093	0.501
CAPEX	-	-0.073	0.802
PPE	-	0.021	0.780
ADMIN	-	0.258	0.099
N		450	
Prob > chi2		0.0000	
R-Squared		0.0918	

Source: Research Data, 2022

Descriptions Significance:

- * signifikan pada level $\alpha = 1\%$
- ** signifikan pada level $\alpha = 5\%$
- *** signifikan pada level $\alpha = 10\%$

The findings of this research support earlier findings. In theory, when managing a business, managers will meet the owner's expectations and want to gain the most for themselves (Arieftiara et al., 2020; Armstrong et al., 2015; Asiri et al., 2020). Avoiding taxes is one method management can accomplish this. According to Kim et al. (2019), when faced with new legislation, management must come up with new tactics to maximize their level of tax avoidance. Regarding institutional investors, Khan et al. (2017) and Jiang et al. (2021) claim that the existence of institutional investors in a company is positively correlated with the degree of tax avoidance. However, this study fails to show a significant difference in corporate tax avoidance behavior between companies that were dominantly owned by institutional investors and other firms after the tax rate reduction. The possible explanation for this finding is the time lag between the policy announcement and the tax reporting period is short, causing limited time for companies to adjust their policies. This also implies that tax avoidance policies are more of a long-term strategy instead of a short-term policy. Additionally, Wilde & Wilson (2018) argues that managers consider three costs, namely agency cost, implementation cost, and outcome cost, to determine their tax avoidance strategy. The result of this study implies that focusing only the agency cost may not capture firms' entire tax avoidance drivers.

To verify the reliability of the findings, this study conducts several sensitivity tests. First, year 2020 might be impacted by the pandemic. The pandemic has a significant impact on company's financial performance (Davis et al., 2020). This study thus separate firms that are less impacted by the pandemic (Davis et al., 2020), the results are consistent with the primary findings.

The second sensitivity analysis involves using Current ETR (CETR) as a measure of tax avoidance and the third sensitivity analysis excludes firms with

ETR that is greater than one. The results for both tests are consistent with the primary findings.

CONCLUSION

This study aims to examine the impact of the policy of Indonesian corporate income tax rate reduction, as stated in Government Regulation in Lieu of Law Number 1 of 2020 (PERPU Number 1 of 2020), on companies' tax avoidance. By using the DID method, this study shows that companies that are more dominantly owned by institutional investors do not have a higher level of tax avoidance than other companies in the period before the tax rate reduction. The findings of this study are corroborated by the results of the sensitivity test. In their research, Wilde & Wilson (2018) show that managers consider three costs (agency cost, implementation cost, and outcome cost) to determine their tax avoidance strategy. When viewed from the theoretical framework developed by Wilde & Wilson (2018), the three costs considered by the manager have a more dominant influence on the agent's decision in determining his tax avoidance strategy than the presence of institutional investors in the company.

This research has several limitations that leads to future studies. First, this study only examines the impact of regulatory changes in Indonesia. Cross-country research can be carried out if the policy of changing the corporate income tax rate occurs simultaneously, for example, Indonesia and several countries in ASEAN (Asian Southeast Nations) reduce the corporate income tax rate at almost the same time. Second, the use of a positive ETR as a measure of the level of tax avoidance reduces the number of observations significantly. Future research can use a tax avoidance proxy that is able to incorporate loss firms. Third, because of the tax rate reduction occurred just recently, this study can only use two years of data (2019 and 2020). As a result, parallel trends that are an important assumption in DID are difficult to measure. Future research will benefit from additional years of data to measure parallel trends as well as long-term behavior of firms. Lastly, the impact of institutional ownership cannot only be seen from the level of ownership, but the characteristics of institutional investor ownership also play an important role. According to Rebecca & Siregar (2012), the difference in the influence of institutional ownership on the cost of equity and the cost of debt is caused by the existence of family ownership in Indonesia (family ownership). The ability of family ownership's voting rights to alter corporate policies is supported by a number of additional research (Claessens et al., 2000) (De Massis et al., 2018). Therefore, it is hoped that future research will be able to compare businesses that are owned by the family and those that are not in order to determine the extent of tax avoidance as a result of changes in corporate income tax rates.

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