

Determinants of Tax Avoidance in Family Firms: The Influence of Next-Generation Ownership and Audit Committee Quality

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ABSTRACT

Purpose: This study examines whether next-generation ownership involvement and audit committee quality (ACQ) are associated with tax avoidance in Indonesian family firms, and whether ACQ moderates the effect of generational ownership. Methods: A balanced panel of 34 listed family firms over 2019–2023 (170 firm-year observations) is analyzed. Tax avoidance is proxied inversely by the effective tax rate (ETR). Pooled OLS, Random Effects (GLS), and time fixed-effects models are estimated with firm-clustered standard errors, and the Breusch-Pagan Lagrange Multiplier test favors Random Effects. Results: Next-generation ownership is negatively associated with ETR ($\beta = -0.0295$, $p = 0.003$), consistent with greater tax avoidance, and the sign is stable across all three specifications. ACQ is positively but only marginally associated with ETR in the Random Effects model ($\beta = 0.0005$, $p = 0.089$), while its coefficient is negative and insignificant in the other two models, so this result is not robust. The NextGen $\times$ ACQ interaction is not significant ($p = 0.467$). Implications: Generational transition, rather than family control alone, may be a useful risk signal for tax authorities, boards, and nomination committees, whereas formal audit committee attributes alone appear insufficient to constrain tax avoidance. Conclusion: Generational heterogeneity matters for family-firm tax behavior; evidence for audit committee oversight is weak, and the findings are associations rather than causal effects.

Keywords: Tax avoidance, Family firm, Next-generation ownership, Audit committee quality, Effective tax rate, Panel data regression



INTRODUCTION

Family firms constitute a substantial share of publicly listed companies in emerging markets, including Indonesia, where family-controlled business groups have historically dominated sectors such as consumer goods, manufacturing, and property (Wibowo & Hartanto, 2021; Salim & Andayani, 2022). As founders hand ownership and management to later generations, the strategic orientation and risk preferences of the firm are reshaped (Kusuma & Wijayanti, 2023). This creates a practical problem for tax authorities and capital-market regulators: corporate tax avoidance, defined as legal strategies that reduce a firm's effective tax burden (Hanlon & Heitzman, 2010), raises after-tax earnings and distributable cash, but it also carries reputational and regulatory risk that is especially salient when the firm's identity is tied to the family name (Setyowati & Nugraha, 2022; Amalia & Kurniawan, 2023). It also creates a theoretical problem. Agency theory and the socioemotional wealth (SEW) perspective suggest that founding-generation owners protect family reputation and legacy, which restrains aggressive tax planning, whereas next-generation members who did not found the firm may weigh these non-financial goals less and financial performance more (Gómez-Mejía et al., 2007; Firmansyah & Triyono, 2022; Wardhana & Puspita, 2023). Generational transition may also intensify conflicts between family factions and minority shareholders (Rahman & Setiadi, 2021; Oktaviani & Handoko, 2024), so the net effect of generational change on tax avoidance is an empirical question.

Recent studies have examined family ownership and tax behavior from several angles. Early evidence indicates that family firms are, on average, less tax aggressive than non-family firms (Chen et al., 2010), while studies of emerging markets link generational transition and successors' orientation toward financial performance to more aggressive financial and tax strategies (Amalia & Kurniawan, 2023; Chen & Chu, 2023; Yulianti & Prakoso, 2022). A parallel stream treats the audit committee as a governance mechanism, arguing that committees with greater financial expertise, meeting frequency, and independence can scrutinize management's tax positions (Kurniawati & Susanto, 2021; Ardiyanto & Fitriani, 2022). These studies have three limitations. Most treat family ownership as a single, homogeneous construct, so founder-generation control and next-generation involvement are not separated (Kusuma & Wijayanti, 2023). Evidence on audit committees rests mainly on formal structural attributes and rarely asks whether they constrain tax avoidance once family control passes to a new generation. And panel-based evidence from Indonesian listed firms with rigorous model specification testing is scarce relative to single-year cross-sectional work (Salim & Andayani, 2022).

These limitations define the gap this study addresses. First, prior work has not distinguished founder-generation control from next-generation involvement, although agency theory and SEW imply different tax-planning incentives across generations. Second, the moderating role of audit committee quality in the link between generational transition and tax avoidance has rarely been tested, leaving open whether governance can offset the incentives created by generational change. Third, panel evidence from Indonesian listed family firms remains limited. By separating generational involvement from ownership concentration, this study challenges the implicit assumption that family ownership is generation-invariant, and it extends the audit committee literature by asking whether a mechanism theorized to constrain tax avoidance also does so when family control changes hands.

Accordingly, this study addresses three research questions, each tied to a hypothesis developed below. RQ1 (H1): is next-generation ownership involvement associated with a lower effective tax rate, i.e., greater tax avoidance, in family firms? RQ2 (H2): is audit committee quality associated with a higher effective tax rate, i.e., less tax avoidance? RQ3 (H3): does audit committee quality moderate the relationship between next-generation ownership and the effective tax rate? The objectives are to estimate these three relationships using panel data on 34 Indonesian listed family firms over 2019–

2023 and to assess how robust they are across estimators. The novel contribution is twofold: (i) distinguishing generational ownership from ownership concentration within the same model, and (ii) testing audit committee quality as a moderator of the generational effect on tax avoidance, using Indonesian panel data estimated with Pooled OLS, Random Effects, and time fixed-effects models.

1. Hypothesis Development

Building on agency theory and the socioemotional wealth perspective, next-generation family members who assume managerial or board positions are theorized to place relatively greater weight on measurable financial performance and relatively less weight on legacy-oriented, reputation-preserving considerations that typically restrain founding-generation owners from aggressive tax planning (Yulianti & Prakoso, 2022; Wardhana & Puspita, 2023). Prior studies in other emerging markets similarly report that generational transitions are associated with more aggressive financial and tax strategies as professionalizing successors seek to establish their own performance track record (Chen & Chu, 2023; Amalia & Kurniawan, 2023). Based on this reasoning, the following hypothesis is proposed:

H1: Next-generation ownership involvement is negatively associated with the Effective Tax Rate (i.e., positively associated with tax avoidance) in family firms.

Audit committees serve as a key internal governance mechanism responsible for overseeing financial reporting quality and tax risk management. Committees characterized by greater financial expertise, more frequent meetings, and stronger independence are better positioned to identify and challenge aggressive tax positions proposed by management, thereby constraining tax avoidance (Kurniawati & Susanto, 2021; Ardiyanto & Fitriani, 2022). Based on this reasoning, the following hypothesis is proposed:

H2: Audit committee quality is positively associated with the Effective Tax Rate (i.e., negatively associated with tax avoidance) in family firms.

Given that next-generation ownership is theorized to increase tax avoidance incentives while audit committee quality is theorized to constrain them, it is plausible that strong audit committee oversight moderates, or partially offsets, the tax avoidance incentives introduced by generational transition. Effective governance structures may substitute for the weakened socioemotional restraint associated with generational change (Rahman & Setiadi, 2021; Oktaviani & Handoko, 2024). Based on this reasoning, the following hypothesis is proposed:

H3: Audit committee quality positively moderates the relationship between next-generation ownership and the Effective Tax Rate, weakening the negative effect of next-generation ownership on ETR.

2. Conceptual Framework

Figure 1 presents the conceptual framework derived from the three hypotheses. Next-generation ownership involvement (NextGen) is expected to lower the effective tax rate, that is, to raise tax avoidance (H1). Audit committee quality (ACQ) is expected to raise the effective tax rate (H2) and to weaken the negative NextGen–ETR relationship (H3). Family ownership concentration, firm size, leverage, profitability, capital intensity, and the proportion of independent commissioners enter as control variables.

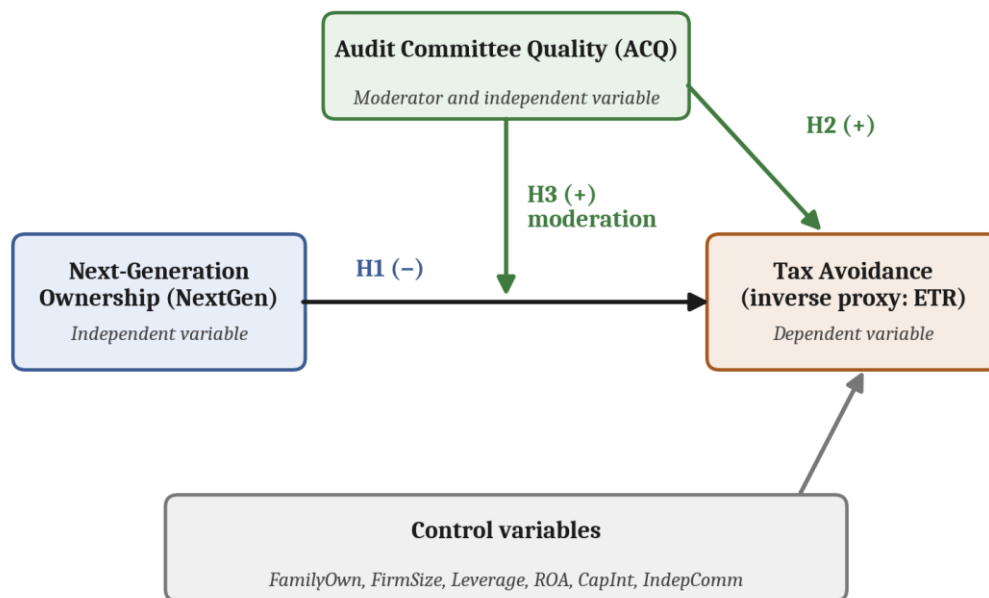


Figure 1. Conceptual Framework

Note: H1 (-): NextGen is expected to lower ETR (raise tax avoidance). H2 (+): ACQ is expected to raise ETR. H3 (+): ACQ is expected to weaken the negative NextGen–ETR relationship. ETR is an inverse proxy for tax avoidance.

Source: Authors' conceptual framework, based on agency theory and the socioemotional wealth perspective.

METHODS

1. Research Design and Sample

This study employs a quantitative, explanatory research design using panel data regression. The population consists of publicly listed family firms on the Indonesia Stock Exchange, defined as firms in which the founding family collectively holds at least 20% of outstanding shares and/or occupies key management or board positions, consistent with common family firm identification criteria used in prior Indonesian studies (Wibowo & Hartanto, 2021; Salim & Andayani, 2022). A purposive sampling technique is applied with the following criteria: (1) the firm is classified as a family firm and is listed and actively traded throughout the 2019-2023 observation period; (2) the firm publishes complete annual reports containing financial statements and corporate governance disclosures; (3) the firm did not report a pre-tax loss in any observation year, since ETR is not meaningful for loss-making firm-years; (4) complete data are available for all study variables during the observation period. Applying these criteria yields a final sample of 34 firms observed over five years (2019-2023), producing a balanced panel of 170 firm-year observations across five industry sectors: consumer goods, manufacturing, property, trade and services, and basic industry.

2. Variable Measurement

The dependent variable, independent variables, and control variables employed in this study, along with their operational definitions and measurement approaches, are summarized in Table 1. Consistent with standard practice in the tax avoidance literature, the Effective Tax Rate (ETR) is used as

an inverse proxy for tax avoidance, such that a lower ETR indicates a greater degree of tax avoidance (Hanlon & Heitzman, 2010; Prastiwi & Ramadhan, 2021; Setyowati & Nugraha, 2022).

Table 1. Variable Operationalization

Variable	Operational Definition	Measurement
Tax Avoidance (ETR)	Degree to which a firm reduces its effective tax burden through legal tax planning strategies (inverse proxy)	Effective Tax Rate = Income Tax Expense / Pre-Tax Income
Next-Generation Ownership (NextGen)	Active involvement of second-generation or later family members in firm management or board positions	Binary indicator: 1 = next-generation family member holds CEO/board position; 0 = founder-generation only
Audit Committee Quality (ACQ)	Capacity of the audit committee to provide effective oversight of financial reporting and tax risk	Composite index (0-100) covering financial expertise, meeting frequency, and independence ratio
Family Ownership (FamilyOwn)	Proportion of shares controlled by the founding family	Percentage of shares held by family members and family-controlled entities
Firm Size	Scale of firm operation	Natural logarithm of total assets
Leverage	Proportion of debt financing in the capital structure	Total Liabilities / Total Assets
Profitability (ROA)	Efficiency of asset utilization in generating profit	Net Income / Total Assets
Capital Intensity (CapInt)	Proportion of firm assets invested in fixed assets, which affects depreciation-based tax shields	Net Fixed Assets / Total Assets
Independent Commissioners (IndepComm)	Board independence, reflecting broader monitoring capacity	Percentage of independent commissioners on the board of commissioners

Source: Authors' compilation. Data are taken from the sample firms' financial statements (ETR, FirmSize, Leverage, ROA, CapInt), annual reports (FamilyOwn), annual reports and company profiles (NextGen), and annual reports and corporate governance reports (ACQ, IndepComm), 2019–2023.

3. Data Analysis Technique

Data are analyzed using panel data regression with the following general model:

$$ETR_{it} = \beta_0 + \beta_1 NextGen_i + \beta_2 ACQ_{it} + \beta_3 FamilyOwn_{it} + \beta_4 FirmSize_{it} + \beta_5 Leverage_{it} + \beta_6 ROA_{it} + \beta_7 CapInt_{it} + \beta_8 IndepComm_{it} + \varepsilon_{it}$$

where subscript *i* denotes the firm and *t* denotes the year of observation. An extended model additionally includes the interaction term *NextGen* × *ACQ* to test the moderating role of audit committee quality (H3). Because next-generation ownership status is conceptualized as a firm-level characteristic that changes rarely, if at all, within the five-year observation window, this variable is effectively time-invariant for the large majority of sample firms. Consequently, an entity fixed-effects specification



cannot separately identify the coefficient on NextGen, as it is fully absorbed by the entity effects. This methodological constraint is common in studies of time-invariant or slow-changing firm characteristics such as generational ownership (Kusuma & Wijayanti, 2023). Accordingly, this study estimates Pooled Ordinary Least Squares (Pooled OLS) and the Random Effects (GLS) model, with model selection guided by the Breusch-Pagan Lagrange Multiplier (LM) test, which evaluates whether firm-level random effects significantly improve upon Pooled OLS. A supplementary time fixed-effects model (without entity effects) is also estimated to assess the robustness of the coefficient estimates to unobserved year-specific shocks such as tax policy changes. Prior to interpreting the regression results, classical assumption tests are performed, comprising the Jarque-Bera test for residual normality, the Variance Inflation Factor (VIF) for multicollinearity, the Breusch-Pagan test for heteroskedasticity, and the Durbin-Watson statistic for autocorrelation. Standard errors are clustered at the firm level to account for potential within-firm serial correlation. All statistical procedures are performed using Python (statsmodels and linearmodels libraries).

RESULTS

1. Descriptive Statistics

Table 2 presents the descriptive statistics for all study variables across the 170 firm-year observations. The mean ETR is 0.313 (SD = 0.043), above Indonesia's statutory corporate income tax rate (25% in 2019 and 22% from 2020 onward), with a range from 0.199 to 0.425, indicating meaningful cross-firm variation in tax burden. Because the average ETR exceeds the statutory rate, ETR is interpreted here as a relative measure of tax burden across firms rather than as evidence that the average sample firm avoids tax. Approximately 52.9% of firm-year observations involve next-generation family ownership involvement (NextGen = 1). The mean Audit Committee Quality Index is 54.95 (SD = 8.49) on a 0-100 scale, and mean family ownership concentration is 54.27% (SD = 9.56%). Skewness values for all variables fall within the acceptable range of -1 to 1, indicating approximately symmetric distributions suitable for regression analysis.

Table 2. Descriptive Statistics (N = 170 firm-year observations)

Variable	Mean	Std. Dev.	Min	Max	Skewness
ETR	0.3131	0.0430	0.1985	0.4253	-0.171
NextGen (0/1)	0.529	0.501	0	1	-0.119
ACQ (0-100)	54.950	8.494	31.79	81.24	0.093
FamilyOwn (%)	54.266	9.563	29.91	79.14	-0.098
FirmSize (ln TA)	27.937	1.443	25.189	31.141	0.274
Leverage	0.412	0.155	0.050	0.895	-0.009
ROA	0.0717	0.0492	-0.050	0.2392	0.147
CapInt	0.333	0.144	0.050	0.828	0.302
IndepComm (%)	37.785	8.049	15.42	58.09	-0.222

Source: Authors' data processing (Python: statsmodels and linearmodels), based on the annual reports and financial statements of the sample firms, 2019–2023.

2. Correlation Analysis

Table 3 presents the Pearson correlation matrix among ETR, NextGen, ACQ, FamilyOwn, and FirmSize. NextGen is negatively correlated with ETR ($r = -0.212$), the direction hypothesized in H1. ACQ is also negatively correlated with ETR ($r = -0.231$), which is the opposite of the direction hypothesized in H2; the bivariate evidence therefore does not support H2, and it differs from the positive ACQ

coefficient in the Random Effects model (Section 3.4), a discrepancy taken up in Section 4. NextGen and ACQ are positively correlated ($r = 0.512$), suggesting that next-generation-led family firms also tend to invest more in formal governance structures such as audit committees, a pattern consistent with the professionalization narrative in the family business literature (Kusuma & Wijayanti, 2023). All reported correlations are below the conventional threshold of 0.80. The correlations are also internally consistent: the matrix in Table 3 is positive semi-definite (smallest eigenvalue = 0.381), and the VIFs implied by its four predictors (NextGen 1.549, ACQ 1.415, FamilyOwn 1.141, FirmSize 1.020) do not exceed the VIFs in Table 4, which are computed with four additional regressors.

Table 3. Pearson Correlation Matrix (selected variables)

Variable	ETR	NextGen	ACQ	FamilyOwn	FirmSize
ETR	1.000	-0.212	-0.231	-0.124	0.371
NextGen		1.000	0.512	-0.319	0.000
ACQ			1.000	-0.038	-0.121
FamilyOwn				1.000	-0.034
FirmSize					1.000

Source: Authors' data processing (Python: statsmodels and linearmodels), based on the annual reports and financial statements of the sample firms, 2019–2023.

3. Classical Assumption Tests and Model Selection

Table 4 reports the Variance Inflation Factor (VIF) for each independent variable. The highest VIF value (1.572, for NextGen) is well below the commonly used threshold of 10, indicating the absence of problematic multicollinearity among the independent variables (Gujarati & Porter, 2022; Ramadhan et al., 2023).

Table 4. Variance Inflation Factor (VIF)

Variable	VIF
NextGen	1.572
ACQ	1.421
FamilyOwn	1.166
FirmSize	1.030
Leverage	1.020
ROA	1.017
CapInt	1.016
IndepComm	1.023

Source: Authors' data processing (Python: statsmodels and linearmodels), based on the annual reports and financial statements of the sample firms, 2019–2023.

Because next-generation ownership status (NextGen) is a firm-level characteristic that is effectively time-invariant across the five-year observation window for the large majority of sample firms, an entity fixed-effects model cannot separately identify its coefficient, as confirmed in preliminary estimation where the model returned an absorbing-effect error for all covariates. Consequently, model selection in this study is based on a comparison between Pooled OLS and the Random Effects (GLS) model using the Breusch-Pagan Lagrange Multiplier (LM) test, which is the appropriate diagnostic when entity fixed effects are infeasible due to time-invariant regressors of interest (Ramadhan et al., 2023). As shown in Table 5, the Breusch-Pagan LM test yields a statistically significant result ($LM = 48.337$, $p = 0.000$), rejecting the null hypothesis of no firm-level random effects and indicating that the Random



Effects model is preferred over Pooled OLS. The remaining diagnostic tests reported in Table 5 indicate that the Jarque-Bera statistic (5.423, $p = 0.066$) does not reject normality of the residuals at the 5% level, the Breusch-Pagan heteroskedasticity test (3.945, $p = 0.862$) indicates the absence of significant heteroskedasticity, and the Durbin-Watson statistic (1.775), being close to the benchmark value of 2, indicates no significant autocorrelation in the residuals. Collectively, these results indicate that the classical linear regression assumptions are reasonably satisfied, supporting the validity of the Random Effects estimates used for hypothesis testing.

Table 5. Classical Assumption and Model Selection Test Results

Test	Statistic	p-value	Conclusion
Jarque-Bera (normality)	5.423	0.066	Residuals approximately normal
Breusch-Pagan (heteroskedasticity)	3.945	0.862	Homoskedastic (no heteroskedasticity)
Durbin-Watson (autocorrelation)	1.775	-	No significant autocorrelation
Max VIF (multicollinearity)	1.572	-	No multicollinearity problem
Breusch-Pagan LM (Pooled vs. RE)	48.337	0.000	Random Effects preferred over Pooled OLS

Source: Authors' data processing (Python: statsmodels and linearmodels), based on the annual reports and financial statements of the sample firms, 2019–2023.

4. Panel Regression Results

Table 6 presents the estimation results for the Pooled OLS, Random Effects, and supplementary Time Fixed Effects models. Standard errors, shown in parentheses, are clustered at the firm level. Consistent with the model selection test reported in Section 3.3, the Random Effects model is adopted as the primary model for hypothesis testing, while Pooled OLS and Time Fixed Effects results are reported for comparative and robustness purposes.

Table 6. Panel Regression Results (Dependent Variable: ETR)

Variable	Pooled OLS	Random Effects	Time Fixed Effects
Constant	0.0457 (0.0789)	-0.0154 (0.0859)	0.0496 (0.0840)
NextGen	-0.0215** (0.0106)	-0.0295*** (0.0097)	-0.0211* (0.0111)
ACQ	-0.0003 (0.0005)	0.0005* (0.0003)	-0.0004 (0.0005)
FamilyOwn	-0.0008** (0.0003)	-0.0009*** (0.0002)	-0.0008** (0.0003)
FirmSize	0.0117*** (0.0027)	0.0124*** (0.0031)	0.0116*** (0.0028)
Leverage	-0.0619*** (0.0151)	-0.0466*** (0.0117)	-0.0622*** (0.0152)
ROA	0.2379*** (0.0503)	0.1731*** (0.0449)	0.2388*** (0.0513)
CapInt	-0.0303 (0.0217)	-0.0325* (0.0172)	-0.0313 (0.0217)
IndepComm	0.0009*** (0.0003)	0.0009*** (0.0002)	0.0009*** (0.0003)
R-squared	0.375	0.304 (overall 0.345)	0.374
F-statistic	13.729***	11.015***	11.770***
N	170	170	170

Note: Standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.

Source: Authors' data processing (Python: statsmodels and linearmodels), based on the annual reports and financial statements of the sample firms, 2019–2023.

In the Random Effects model, the coefficient on NextGen is negative and highly significant ($\beta = -0.0295$, $p = 0.003$), indicating that family firms with next-generation ownership involvement exhibit significantly lower ETR, consistent with greater tax avoidance. The coefficient on ACQ is positive and marginally significant ($\beta = 0.0005$, $p = 0.089$), indicating that higher audit committee quality is associated with a higher ETR, consistent with reduced tax avoidance, although the effect falls short of conventional significance thresholds at the 5% level. In the Pooled OLS and time fixed-effects models, by contrast, the ACQ coefficient is negative and statistically insignificant (-0.0003 and -0.0004), so both the sign and the significance of the ACQ estimate depend on the estimator. Family ownership concentration (FamilyOwn) is negatively and significantly associated with ETR ($\beta = -0.0009$, $p = 0.0001$), suggesting that more concentrated family control is itself independently associated with greater tax avoidance, beyond the specific effect of generational transition. Among control variables, FirmSize ($\beta = 0.0124$, $p = 0.0001$) and ROA ($\beta = 0.1731$, $p = 0.0002$) are positively and significantly associated with ETR, while Leverage ($\beta = -0.0466$, $p = 0.0001$) is negatively and significantly associated with ETR, consistent with the use of debt-related tax shields. CapInt is negatively associated with ETR at the 10% level ($\beta = -0.0325$, $p = 0.061$), consistent with the depreciation tax shield hypothesis. IndepComm is positively and significantly associated with ETR ($\beta = 0.0009$, $p = 0.0003$), suggesting that greater board independence is associated with reduced tax avoidance.

5. Moderation Test: Audit Committee Quality $\times$ Next-Generation Ownership

Table 7 presents the results of the Random Effects model extended with an interaction term between NextGen and ACQ to test H3.

Table 7. Random Effects Model with NextGen $\times$ ACQ Interaction (Dependent Variable: ETR)

Variable	Coefficient	Std. Error (p-value)
Constant	0.0081	0.0923 (0.930)
NextGen	-0.0552	0.0368 (0.136)
ACQ	0.0002	0.0006 (0.672)
NextGen $\times$ ACQ	0.0005	0.0007 (0.467)
FamilyOwn	-0.0009***	0.0002 (0.000)
FirmSize	0.0120***	0.0031 (0.000)
Leverage	-0.0464***	0.0118 (0.000)
ROA	0.1762***	0.0450 (0.000)
CapInt	-0.0319*	0.0174 (0.068)
IndepComm	0.0009***	0.0002 (0.000)
R-squared (overall)	0.353	-
N	170	-

Source: Authors' data processing (Python: statsmodels and linearmodels), based on the annual reports and financial statements of the sample firms, 2019–2023.

The interaction term NextGen $\times$ ACQ is positive in direction ($\beta = 0.0005$), consistent with the hypothesized moderating role of audit committee quality in weakening the negative effect of next-generation ownership on ETR. However, the coefficient is not statistically significant ($p = 0.467$), indicating that, based on the present sample, audit committee quality does not significantly moderate

the relationship between next-generation ownership and tax avoidance. The NextGen coefficient in Table 7 (-0.0552 , $p = 0.136$) is the effect at $ACQ = 0$, a value outside the observed range of 31.79 – 81.24 because ACQ is not mean-centered, so it is not directly comparable with the -0.0295 in Table 6. Evaluated at the sample mean ACQ of 54.95 , the implied NextGen effect is approximately $-0.0552 + 0.0005 \times 54.95 \approx -0.028$, close to the Random Effects estimate; the loss of significance therefore mainly reflects the uncentered specification rather than a change in the underlying association.

6. Hypothesis Testing Summary

Table 8. Hypothesis Testing Summary

Hyp.	Statement	Coefficient	p-value	Decision
H1	NextGen $\rightarrow$ ETR (negative)	-0.0295	0.003	Supported at $\alpha = 0.01$; sign stable across all three models
H2	ACQ $\rightarrow$ ETR (positive)	0.0005	0.089	Weakly supported (Random Effects only, $p < 0.10$; sign reverses in other models)
H3	NextGen $\times$ ACQ $\rightarrow$ ETR (positive moderation)	0.0005	0.467	Not supported

Source: Authors' summary of the estimation results in Tables 6 and 7.

7. Graphical Analysis

Figure 2 illustrates the annual trend of mean ETR separately for founder-generation and next-generation family firms over the 2019–2023 period. Next-generation firms consistently exhibit lower mean ETR than founder-generation firms across all five years, providing visual support for H1.

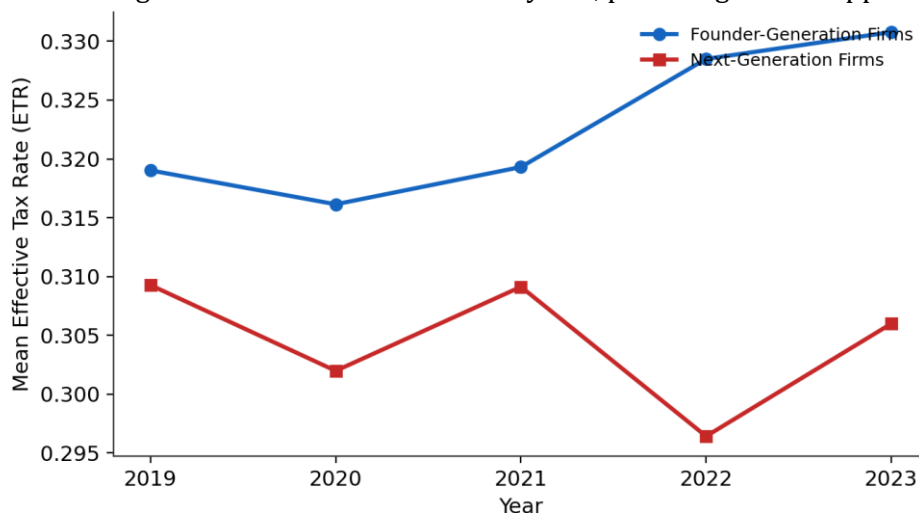


Figure 2. Trend of Mean Effective Tax Rate by Generational Ownership (2019–2023)

Figure 3 presents a scatter plot with a fitted linear trend line for the bivariate relationship between Audit Committee Quality (ACQ) and ETR. The fitted line slopes downward, consistent with the negative correlation in Table 3 ($r = -0.231$) and opposite to the positive ACQ coefficient in the Random Effects model. The figure thus shows that the sign of the ACQ – ETR association differs between the unconditional relationship and the Random Effects estimate, a discrepancy discussed in Section 4.

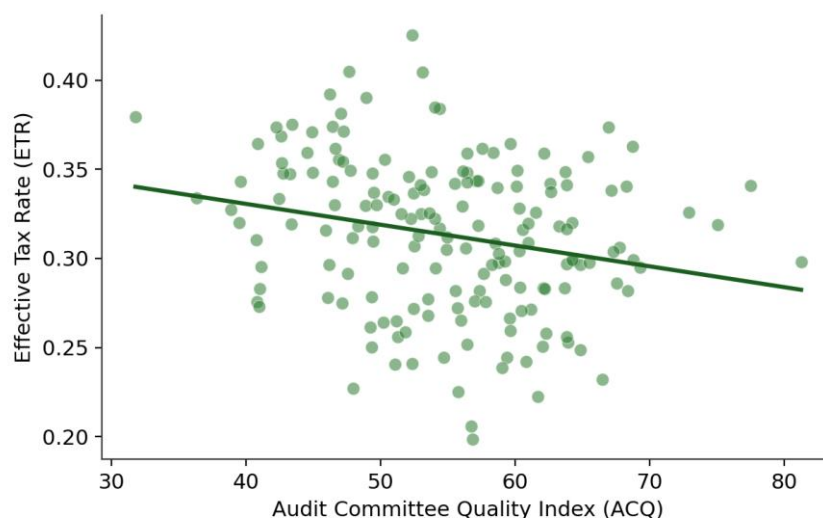


Figure 3. Relationship between Audit Committee Quality Index and Effective Tax Rate

Figure 4 presents a box plot comparing the distribution of ETR between founder-generation and next-generation family firms. The median ETR for next-generation firms is visibly lower than for founder-generation firms, and next-generation firms exhibit a wider lower tail, consistent with a subset of next-generation-led firms pursuing more aggressive tax planning strategies.

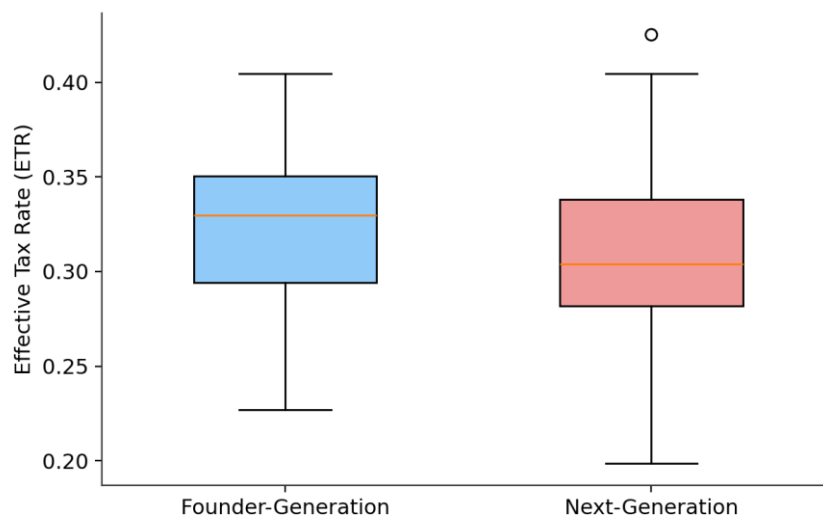


Figure 4. Distribution of Effective Tax Rate by Generational Ownership Status

Figure 5 compares mean ETR across the five industry sectors represented in the sample. Capital-intensive sectors such as basic industry and manufacturing exhibit somewhat lower mean ETR, plausibly reflecting greater availability of depreciation-based tax shields, consistent with the negative CapInt coefficient reported in Table 6.

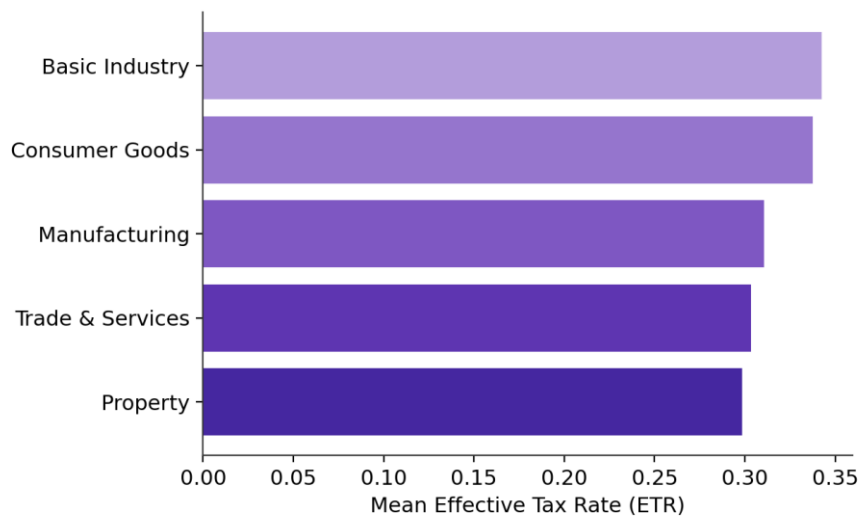


Figure 5. Mean Effective Tax Rate by Industry Sector

DISCUSSION

H1 is supported, and it is the only hypothesized relationship that is significant in all three specifications ($\beta = -0.0215$, $p < 0.05$ in Pooled OLS; $\beta = -0.0295$, $p < 0.01$ in Random Effects; $\beta = -0.0211$, $p < 0.10$ in the time fixed-effects model). The finding is consistent with the socioemotional wealth attenuation argument, whereby successors who did not personally found the firm attach less non-financial value to the firm's reputation and are more willing to pursue financial performance-enhancing strategies, including tax avoidance (Yulianti & Prakoso, 2022; Wardhana & Puspita, 2023), and with the professionalization narrative in which next-generation leaders adopt more assertive tax planning than founding-generation owners (Chen & Chu, 2023; Kusuma & Wijayanti, 2023). Two qualifications apply. First, robustness here means stability of the sign and approximate magnitude; the significance level varies with the estimator. Second, because NextGen is effectively time-invariant, its coefficient is identified from differences between firms rather than from changes within firms, so unobserved firm characteristics correlated with generational status cannot be ruled out. The result should be read as an association, not as evidence that generational transition causes lower ETR.

This result adds to evidence that generational heterogeneity has material consequences for corporate tax behavior, and it challenges the practice of treating family ownership as a generation-invariant construct (Amalia & Kurniawan, 2023). The additional finding that family ownership concentration (FamilyOwn) is independently and negatively associated with ETR suggests that generational involvement and ownership concentration are related but distinct channels through which family control shapes tax avoidance incentives.

Evidence on audit committee quality is weak and not robust. In the Random Effects model, ACQ is positively but only marginally associated with ETR ($\beta = 0.0005$, $p = 0.089$), the direction predicted by H2. However, the bivariate correlation between ACQ and ETR is negative ($r = -0.231$; Table 3; Figure 3), and the ACQ coefficient is negative and insignificant in both Pooled OLS (-0.0003) and the time fixed-effects model (-0.0004). The sign of the ACQ effect therefore reverses with the estimator. Two observations help interpret this. First, the reversal is not explained by the correlation between ACQ and NextGen or by the control variables: the partial correlation between ACQ and ETR implied by Table 3, holding NextGen, FamilyOwn, and FirmSize constant, is still negative (about -0.07), and Pooled OLS with the same eight regressors also yields a negative coefficient. The reversal arises only when moving to the

Random Effects estimator, which combines between-firm and within-firm variation in ACQ, and it suggests that the within-firm association of ACQ with ETR may differ from its cross-sectional association. Second, the positive Random Effects coefficient is significant only at the 10% level and is not replicated elsewhere. H2 is therefore treated as weakly supported at best, and the Random Effects estimate is not interpreted as evidence that stronger audit committees reduce tax avoidance. Separating between-firm from within-firm effects of ACQ, for example with a correlated random-effects (Mundlak) specification, is a natural next step.

One possible reading of these weak results is that formal audit committee attributes do not translate into substantive oversight in family-controlled firms. Qualitative research on emerging-market family companies reports that audit committees can be adopted to signal compliance while leaving the control of owning families largely undisturbed (Ahmed & Uddin, 2023). The present study cannot test this interpretation: ACQ is a composite of formal attributes (financial expertise, meeting frequency, and independence ratio), and there is no measure of committee members' actual independence from the family, of family or business ties between members and owners, or of how committee recommendations are treated. The symbolic-governance account is therefore offered only as a hypothesis for future work, not as a finding of this study. Its testable implications are that ACQ should matter less, and the NextGen $\times$ ACQ interaction should be weaker, where committee members have ties to the controlling family; future studies could collect such data or use text-based measures of committee activity.

H3 is not supported. The interaction between NextGen and ACQ is positive in direction, as hypothesized, but not statistically significant ($\beta = 0.0005$, $p = 0.467$), indicating that audit committee quality does not significantly moderate the relationship between next-generation ownership and tax avoidance in the present sample. Given the weak and unstable main effect of ACQ, this null result is not surprising: a mechanism without a robust direct association is unlikely to condition another relationship. With only 34 firms and a nearly time-invariant NextGen, the moderation test also has limited power, so the results cannot distinguish the absence of moderation from a moderating effect too small to detect.

The NextGen coefficient in the interaction model (-0.0552 ; Table 7) should not be compared directly with the Random Effects estimate in Table 6, because it is evaluated at $ACQ = 0$, outside the observed range. At the sample mean of ACQ, the implied NextGen effect is approximately -0.028 (Section 3.5), close to the Random Effects estimate, so the interaction model does not overturn the H1 finding. Future studies should mean-center ACQ, use larger samples, or estimate the relationship separately by NextGen subgroup to obtain sharper tests of moderation.

The positive and significant coefficient on FirmSize is consistent with the political visibility hypothesis in some contexts, where larger firms face greater scrutiny and therefore engage in relatively less aggressive tax avoidance, although this finding contrasts with studies reporting the opposite relationship in jurisdictions where larger firms possess greater tax planning resources (Setyowati & Nugraha, 2022). The negative and significant coefficient on Leverage is consistent with the debt tax shield hypothesis, whereby firms with higher leverage rely on interest expense deductions to reduce taxable income, thereby lowering ETR through means distinct from more aggressive tax avoidance strategies (Prastiwi & Ramadhan, 2021). The positive and significant coefficient on ROA suggests that more profitable firms report proportionally higher ETR, potentially reflecting reduced reliance on loss carryforwards and other tax-reducing mechanisms associated with weaker profitability. The positive and significant coefficient on IndepComm suggests that board-level independence is associated with higher ETR, in contrast to the weak and non-robust evidence for audit committee quality (Ardiyanto &



Fitriani, 2022); because the ACQ index itself includes an independence ratio, the two measures overlap and this contrast should be interpreted cautiously.

Theoretically, this study contributes to the family firm tax avoidance literature by separating the effect of generational involvement from that of ownership concentration within the same model, an important refinement given that prior studies have often conflated these two dimensions of family influence. The results are consistent with the socioemotional wealth attenuation thesis, although the design does not observe SEW mechanisms directly. Evidence for the agency-theoretic monitoring role of audit committees is weak and not robust, so the study extends agency theory to generational succession only in part.

Practically, the findings suggest that tax authorities and capital market regulators may treat generational leadership transitions in family firms as one indicator when assessing tax compliance risk, bearing in mind that the evidence is associational. For corporate boards and nomination committees, succession planning could explicitly address tax governance expectations for incoming next-generation leaders. Because audit committee quality, as measured by formal attributes, shows no robust association with tax avoidance and no moderating effect, the findings do not support relying on formal composition requirements alone; boards may wish to assess whether audit committee members are substantively independent of the controlling family.

CONCLUSIONS

This study examines the determinants of tax avoidance in family firms, with particular attention to the roles of next-generation ownership involvement and audit committee quality, using a balanced panel dataset of 34 publicly listed Indonesian family firms over the 2019-2023 period (170 firm-year observations). Employing the Random Effects model, selected on the basis of the Breusch-Pagan Lagrange Multiplier test given the time-invariant nature of the generational ownership variable, the results indicate that next-generation ownership involvement is significantly associated with lower ETR, consistent with greater tax avoidance. Audit committee quality is positively but only marginally significantly associated with ETR in the Random Effects model, with a negative and insignificant coefficient in the other two specifications, and it does not significantly moderate the relationship between next-generation ownership and tax avoidance. Family ownership concentration, firm size, leverage, profitability, capital intensity, and board independence are all significantly associated with ETR in directions largely consistent with prior literature.

This study is subject to several limitations. First, the sample is limited to 34 firms over five years, which, while adequate for panel regression, may limit the generalizability of findings to the broader population of family firms, particularly unlisted family firms that are not subject to the same disclosure and governance requirements. Second, the NextGen variable is measured as a binary indicator and does not capture the intensity or specific nature of next-generation involvement, such as the number of next-generation family members in management, their specific roles, or their educational and professional backgrounds. Third, the audit committee quality index, while grounded in established governance dimensions, is a composite measure that may not fully capture the substantive, as opposed to formal, independence of audit committees from family influence. Fourth, because NextGen is effectively time-invariant, its coefficient is identified from differences between firms rather than from changes within firms, so unobserved firm-level characteristics cannot be ruled out and all findings are associations rather than causal effects. Fifth, the interpretation that weak audit committee results reflect symbolic rather than substantive governance is not tested in this study.

Future research is encouraged to extend this study by incorporating more granular measures of generational involvement, such as the specific number and characteristics of next-generation family members in management and governance roles, and by employing dynamic panel estimators or correlated random-effects (Mundlak) specifications to address potential endogeneity and to separate between-firm from within-firm effects of governance quality on tax avoidance. Qualitative case studies of family firms undergoing generational transition may also usefully complement the quantitative findings of this study by illuminating the specific mechanisms through which generational change influences tax planning decisions. Finally, comparative studies across other emerging markets with distinct family business cultures and regulatory environments would help assess the generalizability of the socioemotional wealth attenuation mechanism identified in this study. Studies that measure the substantive independence of audit committee members from the controlling family would also allow the symbolic-governance interpretation to be tested directly.

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