

THE ROLE OF TAXES IN FAMILY FIRM INVESTMENT AND FINANCING DECISIONS

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Abstract

This study aims to analyze the role of tax in influencing investment and financing decisions in family businesses. Tax is an important component in the business environment that is often the main consideration in making strategic decisions. Using a qualitative approach with a case study method, this study involved five family businesses engaged in the food, distribution, and service sectors in Medan City. Data were collected through in-depth interviews and internal company documentation, then analyzed thematically. The results of the study indicate that most family businesses prefer internal funding to external funding due to tax considerations and the desire to maintain control of the business. However, low tax literacy results in minimal effective fiscal planning, so that investment decisions are often fiscal and suboptimal. In addition, the level of utilization of tax incentives is still low due to procedures that are considered complex and lack of socialization from the tax authorities. This study recommends the need to improve tax education, support fiscal consultation, and simplify access to tax incentives so that family businesses can be more adaptive in developing investment and financing strategies sustainably.

Keywords: Tax, Family Business, Investment, Financing

1. INTRODUCTION

Family businesses are the backbone of the economy in many countries, including Indonesia. This type of company not only dominates the MSME sector, but also develops into a large corporation that has a significant contribution to Gross Domestic Product (GDP) and job creation. The uniqueness of the structure and values held firmly in family businesses makes their decision-making process different from public or non-family companies. In the strategic decision-making process, investment and financing are two crucial aspects that determine the direction and desires of the business. Investment decisions include the selection of assets or projects that can increase the value of the company in the future, while financing decisions relate to how to obtain sources of funds, both from within and outside the company. The second decision is not only influenced by market conditions and the company's internal, but also by external factors such as fiscal policy and the tax system. Funding is also greatly influenced by tax considerations. In practice, family businesses tend to choose to use internal funds rather than external funds. This is done not only for reasons of control and security, but also because of the different tax implications. Interest on loans, for example, can be deducted from the tax burden, making debt financing an attractive fiscal strategy. However, using external funds is not always the main choice for family businesses because they tend to avoid third-party involvement in the ownership structure. Taxes on dividends, passive income, and wealth can also be a barrier to making funding decisions, especially if the company intends to involve new investors or conduct stock transactions.

Another study by De Massis et al. (2018) found that family businesses tend to develop more aggressive tax strategies to minimize fiscal burdens and increase profitability. However, this strategy

must also be balanced with regulatory compliance so as not to create legal risks in the future. In Indonesia, there are not many studies that specifically discuss the relationship between tax and family business strategy decisions, especially those that focus on investment and financing aspects. In fact, with the dominance of family businesses in the national economy, understanding this is very important for formulating more inclusive policies that support long-term growth.

Changes in tax regulations in Indonesia, such as the Law on Harmonization of Tax Regulations (UU HPP), have created new dynamics that affect the way family businesses adjust their business strategies. Provisions regarding income tax rates, incentives for certain sectors, and asset reporting are important aspects to consider in preparing investment and financing plans. In addition, the tax burden arising from intergenerational inheritance or ownership is of particular concern. Many family businesses start planning for success early on to avoid conflict and minimize fiscal costs. In this context, funding decisions can also be changed to keep the ownership structure safe and sustainable. By understanding the role of tax more comprehensively, it is hoped that the results of this study can provide input for business actors, fiscal consultants, and the government in formulating policies that better support the sustainability and growth of family businesses. This study is also expected to enrich the academic literature on the relationship between tax and strategic decisions in the family business sector in Indonesia.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The basic concept of corporate investment is explained by Brealey, Myers, and Allen (2016) who state that investment decisions are closely related to how companies allocate capital to generate long-term value. This decision is greatly influenced by expectations of returns and risks, including fiscal impacts such as tax burdens. Corporate financing, according to Brigham and Ehrhardt (2013), involves choosing between internal and external financing, considering the cost of capital, risk, and control flexibility. Taxes play an important role in the financing structure because they affect the cost of debt and equity.

Modigliani and Miller (1963) in their capital structure theory state that in imperfect market conditions, including the existence of taxes, the financing structure can affect the value of the company. The existence of corporate income tax provides an advantage to the use of debt because interest on debt is tax deductible. In the context of taxation, research by Graham (2003) revealed that companies pay close attention to tax savings in their financial decisions. Tax avoidance strategies and fiscal optimization are important elements in capital planning.

Taxes act as economic distortions, as explained by Gentry and Hubbard (2004), because they can change the behavior of companies in taking investment risks. High tax burdens often cause companies to postpone or cancel investments. According to Scholes et al. (2015), tax management strategy is an integral part of corporate financial management. Companies will structure their business, investment locations, and financing methods that consider overall tax efficiency.

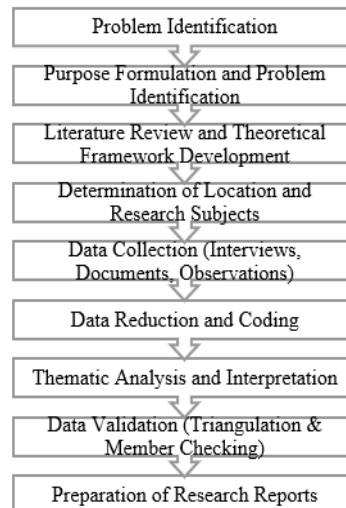
Family ownership is often associated with financial conservatism. Anderson and Reeb (2003) show that family companies tend to have lower debt levels and are more careful in making major investment decisions. Several studies also state that the ownership structure concentrated in the family makes tax a primary consideration in allocating funds. Morck and Yeung (2004) highlight that in developing countries, tax is often a major obstacle to family business expansion.

According to Norton (2011), corporate decisions regarding financing instruments such as leasing, bank loans, or equity are heavily influenced by local tax regulations. Therefore, adjusting strategies to tax policies is a must in long-term planning. Amid the trend of digital tax reform and global minimum tax, family companies are faced with new challenges in designing optimal business structures. This is reviewed in the OECD report (2021) which emphasizes the need for family business readiness in facing

global fiscal transparency. By reviewing the various literatures, it can be concluded that the relationship between tax, investment, and financing in family businesses is a complex and dynamic topic. Therefore, deeper empirical research is needed to understand how family businesses in Indonesia respond to tax factors in their strategic decisions.

3. RESEARCH METHODOLOGY

This study uses a qualitative approach with a case study method. This approach was chosen because it allows researchers to understand in depth how family businesses interpret and respond to tax policies in making investment and financing decisions. Qualitative studies are very suitable for exploring complex, contextual phenomena that involve subjective perceptions of business actors, as explained by Creswell (2014). This type of research is exploratory, with the main objective of exploring the relationship between tax variables and strategic decisions in family businesses. By exploring the real experiences of family business actors, this study is expected to be able to reveal dynamics, challenges, and strategies that are not covered by quantitative methods that rely solely on numerical data. Yin (2018) states that case studies are very appropriate when researchers want to answer the questions "how" and "why".



Data collection techniques were conducted through in-depth interviews with owners and managers of family businesses in the food and distribution sector in Medan City and its surroundings. Interviews were conducted in a semi-structured manner, allowing flexibility in exploring richer information according to the context of each informant. According to Patton (2002), semi-structured interviews are effective in exploring participants' perceptions and direct experiences. In addition to interviews, this study also collected data from internal company documents such as financial reports, tax reports, and investment plans. Secondary data from government publications, business associations, and economic media were also reviewed as complementary materials to enrich understanding of the context. This is in line with Merriam's opinion (2009) which emphasizes the importance of triangulation of data sources to increase the validity of qualitative research. The selection of informants was carried out purposively, namely based on certain criteria such as status as an active owner or manager, involvement in investment and financing decision-making, and experience in dealing with tax regulations. The researcher set a target of at least five family businesses that have been operating for more than five years and have a cross-generational ownership structure. Data analysis was conducted through the stages of data reduction, data presentation, and drawing conclusions as developed by Miles, Huberman, and Saldaña (2014). Interview data were transcribed, coded, and grouped into main themes such as: perceptions of tax, tax planning strategies, the impact of tax on investment, and internal or external funding preferences.

To maintain the validity of the data, this study used triangulation techniques of methods and sources, member checking, and audit trails of the data collection and analysis process. This technique is intended to ensure that the research results truly reflect the original conditions and views of the participants, in accordance with the principles of validity in qualitative research (Lincoln & Guba, 1985). This study has limitations in terms of generalization because it focuses on the local context and the limited number of informants. However, as stated by Stake (1995), the strength of case studies lies in the depth of understanding of a particular case that can provide meaningful theoretical and practical insights.

Research ethics are maintained by providing information to participants regarding the purpose and use of research results, as well as guaranteeing the confidentiality of their identities. The researcher also requested written informed consent before the interview was conducted and gave the participants the right to withdraw at any time during the process. By using qualitative methods and case studies, this study is expected to contribute to the development of knowledge in the field of taxation and financial management in the context of family businesses, as well as provide input for more accommodating fiscal policies for cross-generational business sustainability.

4. RESULTS AND DISCUSSIONS

The results of this study were obtained through in-depth interviews with five family businesses in Medan City and its surroundings, which are engaged in the food, consumer goods distribution, and services sectors. The information collected shows that tax is an important factor in the company's strategic decision-making, especially in terms of investment and financing. Most respondents admitted that changes in tax policy, such as adjustments to income tax rates and fiscal incentives, directly affect decisions to add fixed assets or expand their business. In some cases, investment was postponed due to uncertainty over the new tax rules that would be implemented. Four out of five companies interviewed preferred to use internal funding rather than borrowing from outside parties. The main reasons were tax avoidance on dividends and the desire to maintain full control over business ownership. This is consistent with the conservative tendencies of family businesses. The data also shows that only two companies have a long-term tax planning strategy. The rest are more reactive to changes in fiscal policy, which can cause losses due to unpreparedness in responding to these changes.

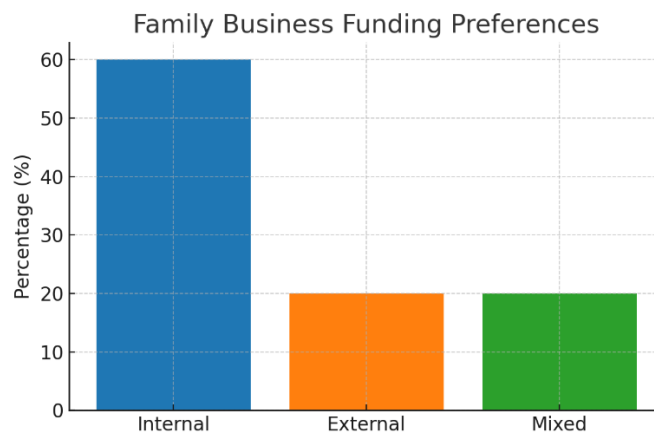


Figure 1

Table 1. Summary of Informant Profiles and Attitudes towards Taxes

Informant Code	Business Sector	Business Age	Dominant Funding	Tax Strategy	Planned Succession
PK01	Food	12 years old	Internal	Yes	Yes
PK02	Distribution	7 years old	Internal	No	No
PK03	Sevice	10 years old	Internal	Yes	No
PK04	Food	6 years old	Mixture	No	No
PK05	Ritail	14 years old	Internal	Yes	No

Several respondents stated that the lack of tax literacy is an obstacle to making optimal decisions. Not all managers understand the benefits or tax burdens of various investment and funding schemes, so decisions are based more on intuition and experience, rather than on mature tax calculations. Two companies use tax incentives in the form of final income tax reductions for MSMEs. However, they said that the procedure for accessing these incentives is still considered complicated and time-consuming. Regarding succession planning, only one in five companies actively considers tax aspects in their inheritance plan. In fact, the potential fiscal burden when transferring assets or shares can be quite large if not planned properly. Several respondents considered that information from tax authorities still does not reach small and medium-sized business actors managed by families. This results in their low participation in ongoing tax incentive or reform programs.

Based on the research results, it can be concluded that taxes play an important role in the formation of family business funding preferences. This finding is in line with the study by Schulze et al. (2001), which states that family businesses tend to avoid external funding due to concerns about fiscal burdens and loss of control. The preference for internal funding is not only based on reasons of efficiency, but also because managers often do not understand the tax structure of external funding such as loan interest and dividends. This strengthens the argument of Nieman and Niewoudt (2019), who found that fiscal literacy plays an important role in determining the capital structure of small businesses.

Tax Incentive Utilization Rate by Family Businesses

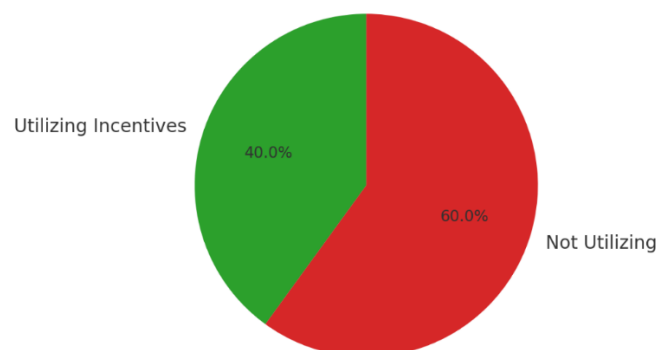


Figure 1

The lack of tax planning in family businesses has an impact on investment inefficiency. When decisions do not take into account incentives or tax burdens comprehensively, the result can be a waste

of resources or a delay in potential investments. This is in line with the view of Chen et al. (2017) on the importance of integrating fiscal strategies into financial planning. It was also found that complicated bureaucratic procedures are an obstacle for companies to take advantage of tax incentives. This emphasizes the criticism of the accessibility of fiscal policy for MSMEs, as also discussed by Tambunan (2020) in his study of fiscal incentive policies for the informal sector.

Most family businesses tend to be passive in the face of changes in tax regulations. They only adjust if there is a risk of fines or audits. In fact, this reactive attitude can be risky for business sustainability, especially in the face of digital tax reform and increasing transparency. Interestingly, one company that actively uses tax planning proved to be more stable and able to adjust investments without significant obstacles. This strengthens the opinion of Blouin et al. (2010) that companies with strategic tax management are more adaptive in making long-term decisions.

Aspect	Positive Impact	Negative Impact
Tax Incentives	Encourage investment in certain sectors	Difficult to access due to bureaucracy
Debt Tax	Reduces tax burden through interest	Limits lending flexibility
Dividend Tax	Discourages profit sharing	Encourages internal fund accumulation
Inheritance Tax	Accelerates succession planning	Risk of large fiscal burden during asset transition

Regarding the succession aspect, the lack of attention to the implications of inheritance tax or share transfer indicates a high potential for fiscal risk in the future. In fact, as stated by Miller (2003), the sustainability of family businesses is highly dependent on the readiness of tax-efficient inter-generational transitions. The lack of professional involvement such as tax consultants causes decision-making to be intuitive and immeasurable. This is contrary to the principle of good governance which should be the foundation of long-term business, especially in the face of increasingly complex fiscal pressures.

Information issues are also a concern, as access to tax understanding is considered limited, especially for small-scale companies. This indicates the need for an educational and communicative approach from the tax authorities to reach the family business community more intensively. This study also shows that the relationship between tax and strategic decisions is not linear, but is influenced by perception, past experience, and internal readiness of the company. This supports the behavioral approach model in micro fiscal policy.

From this discussion, it can be concluded that tax can be a driving or inhibiting factor, depending on how family businesses respond to and manage the fiscal issue. Therefore, successful adaptation to tax policies is a key indicator of the resilience and growth of family businesses. Overall, these findings emphasize the importance of building awareness, knowledge, and strategic readiness in dealing with tax aspects as an integral part of investment and financing decisions. This is important not only for profitability, but also for the sustainability and professionalization of family businesses in the future.

5. CONCLUSION

The results of the study show that taxes play an important role in determining the direction of investment decisions and funding sources in family businesses. Many family business actors tend to avoid external financing due to concerns about additional tax burdens and the potential loss of control over the company. Most respondents prefer internal funding as a conservative strategy that is considered safer and more efficient in the long term. Lack of understanding and adequate tax planning is a

significant obstacle in strategic decision making. Although the government has provided various tax incentives, the level of utilization is still relatively low due to minimal socialization, procedures that are considered complicated, and limited access to information. This indicates the need to increase tax literacy and professional assistance for family business actors in order to optimize available fiscal policies. By strengthening tax planning capabilities and improving understanding of tax regulations, family businesses can be more adaptive in facing economic dynamics and fiscal policies. In the future, synergy between business actors, the government, and tax consultants is needed to create a healthy investment climate and support cross-generational business sustainability.

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