JRAK
Jurnal Riset Akuntansi Kontemporer

POLITICAL CONNECTION AND TAX AVOIDANCE: EVIDENCE FROM TWO-TIER BOARD SYSTEM IN INDONESIA

https://journal.unpas.ac.id/index.php/jrak/index

Nola Setia Diningrum[1], Estetika Mutiaranisa Kurniawati ✉[2]
[1,2]Accounting Study Program, Faculty of Economics and Business, Universitas Sebelas Maret, Indonesia
Corresponding Author: emutiaranisak@gmail.com ✉[2]
Jl. Ir. Sutami No.36, Kentigan, Surakarta, Central Java, Indonesia

Article Info

History of Article
Received: 26/7/2024
Revised: 2/10/2024
Accepted: 18/10/2024
Available Online: 30/10/2024

Jurnal Riset Akuntansi Kontemporer
Volume 16, No. 2, October 2024,
Page 327-336
ISSN 2088-5091 (Print)
ISSN 2597-6826 (Online)

https://doi.org/10.23969/jrak.v16i2.17362

Keywords: tax avoidance; political connection; board of commisioners; directors; two tier board system; upper echelon theory

Abstract
Tax avoidance remains an ongoing issue on a global scale, especially in developing countries. This study aimed to examine the relationship between political connections on the board of commissioners and directors and tax avoidance. This study analyzed manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2022, selected through a purposive sampling method to produce 289 observations. To enhance the analysis, this study used BTD and CETR to measure tax avoidance. Overall, the results showed that political connections of the board of commissioners had a negative influence on tax avoidance. However, the political connections of the directors did not influence tax avoidance. The board of commissioners can prevent actions that could damage the corporation's reputation by monitoring and advising the directors on tax strategies. This study contributes to the upper echelon theory by demonstrating that the political experience of the board of commissioners suppresses tax avoidance.

INTRODUCTION

The success of a country in national development and the realization of social welfare is supported by income obtained by the government. Meanwhile, state income is obtained from tax, non-tax state revenue, and grants (Subekan, 2022). Tax has the largest contribution to state revenue, reaching 75% (Putra, 2022). Based on data from the Ministry of Finance, tax received reached IDR 1,523.7 trillion in October 2023 (Masitoh, 2023). Even though IDR 1,718 trillion (88.89%) of the target set was achieved, this figure is still relatively low. This is based on the Darussalam Tax Expert's statement regarding Indonesian tax revenue in 2022 amounting to IDR 1,716.8 trillion, reflecting 60% of the total potential tax received. The low tax revenue is also proven by the ratio of 10.4% compared to the world average of 13.5% (CNN Indonesia, 2023). Covid-19 pandemic, which has adversely affected nearly all real sectors, resulting in substantial losses in productivity, employment, and trade. Consequently, companies are inclined to concentrate on leveraging their internal resources by evading taxes to conserve additional funds for financing ongoing operations and prospective investments. Based on these arguments, the recent economic slowdown due to the Covid-19 pandemic likely affects tax avoidance.

Tax avoidance leads to a decrease in the amount of tax income collected by the government (Kadir, 2018). Tax avoidance refers to the use of tactics and plans to reduce current tax liabilities within the confines of the current legal frameworks (Slemrod and Gillitzer, 2014; Zhu et al., 2023; Chen et al., 2023). Due to the requirement for firms to comply with legal regulations, tax avoidance remains an ongoing issue on a global scale (Islam and Hashim, 2023; Bird and Davis-Nozemack, 2018). There are several suspected cases of tax avoidance practices in Indonesia. PT Adaro Energy Tbk is suspected of engaging in tax avoidance from 2009 to 2017. The corporation engaged in tax avoidance by utilizing transfer pricing, which enabled them to reduce their tax liability to a total of US$ 125 million. In addition, in 2019, PT Bentoel Internasional Investama Tbk., a subsidiary of British American Tobacco (BAT) in Indonesia, was accused of participating in tax avoidance. According to the research by the Tax Justice Network, PT Bentoel Internasional Investama Tbk. utilized tax avoidance strategies that resulted in annual losses of up to US$14 million for the government. The methods adopted included compensations for technological improvements, expenses related to information, and fees for intellectual property. The tax avoidance was achieved by the transfer of transactions with subsidiaries of British American Tobacco to countries that have tax agreement with Indonesia. These several examples emphasize the importance of spotting signs of business tax avoidance, especially in countries like Indonesia where taxes play a crucial role in government finance (Tandean, 2016).

Tax payments constitute a substantial portion of the operational expenses of businesses. Reducing tax burdens and increasing profitability can be achieved through financial accounting profits (Scholes M. et al., 2009). Three broad institutional factors, namely the function of tax authorities and taxation policies, corporate governance mechanisms, and financial issues, motivate corporate taxpayers to evade tax (Hossain et al., 2024). Corporate governance mechanisms encompass a variety of factors, such as ownership pattern (Alkurdi and Mardini, 2020; Jiang et al., 2021; Khan et al., 2017; Bradshaw et al., 2019; Liu and Lee, 2019; Mafrolla, 2019; Gaaya et al., 2017), board components (Alkurdi and Mardini, 2020; Jarboui et al., 2020; Cho and Yoon, 2020; Lanis et al., 2018; Hoseini et al., 2019), audit quality (Deslandes et al., 2019; Gaaya et al., 2017; Hsu et al., 2018), and executive compensation (Huang et al., 2018; Sudirjo, 2019). Financial concerns encompass social networks (Whait et al., 2018) and social costs (Razen and Kupfer, 2023). The function of tax authorities and taxation policies is comprised of government ownership, political connections, and loopholes in tax legislation (Ftouhi and Ghardallou, 2020). CSR practice (Mao and Wu, 2019; Gulzar et al., 2018; Zeng, 2019; Alsaadi, 2020), firm characteristic (Hamilah, 2020; Salman, 2018; Kismanah et al., 2018), and political connection (Sucahyo et al., 2020; Wahab et al., 2017) are additional factors that influence tax avoidance.

This study investigated the impact of political affiliations on the practice of tax avoidance. Faccio et al. (2016) determined that Indonesia has one of the most elevated levels of politically affiliated businesses. In the realm of taxation, a political affiliation might grant corporations the advantage of acquiring more accurate and up-to-date knowledge regarding potential changes in tax regulations (Milyo et al., 2017). The objective of corporate political activity (CPA) connected to taxation is to influence tax legislation and advocate for the creation and preservation of new and current tax advantages (Barrick and Brown, 2019). Research suggests that American companies engage in activities such as lobbying, campaign contributions, and political action committees to exert influence on tax rules and enforcement, including audit intensity, audit outcomes, and preferential tax treatment (Chen et al., 2018). Chinese enterprises primarily engage in tax-related political activities by employing directors and CEOs who possess connections (Shen et al., 2019). In addition, they participate in consumption bribery (Tang, 2020).

Companies frequently mitigate their tax liabilities by participating in political lobbying initiatives and engaging in tax-related CPA (Richter et al., 2009). Building upon the research conducted by Hanlon and Heitzman (2010) and Dyreng et al. (2010), the objective of this study is to investigate the influence of political connections between the board of commissioners and directors on tax avoidance in Indonesia. Senior executives, commissioners, and directors have the authority to guide the organization in terms of its movement, creation, and selection of strategies that are adopted to ensure long-term sustainability. Furthermore, the presence of political affiliations generates and attains economic advantages stemming from the benefits of these ties. These advantages encompass acquiring fresh business prospects and surmounting challenges by use of advantageous government treatment or programs (Hadani and Schuler, 2013).

Management experience in politics can influence corporate strategy, including tax avoidance. Political experience can direct management to make decisions that support the government, reducing the tendency to engage in aggressive tax avoidance (Putra and Suhardianto, 2020). Widarjo et al. (2021) and Firmansyah et al. (2022) showed that political connections could influence the actions of the firm's decision-makers. Research on corporate political connections have also been conducted by Kim and Lee (2021), Wellalage et al. (2022), Wang and You (2022), Wang et al. (2022), Tee et al. (2022), and Rocca et al. (2022). According to Tee et al. (2022), the efficacy of political connections is strongly influenced by government ownership in firm with a higher relationship to tax avoidance. Kim and Lee (2021) reported that the interaction between political connections and tenure had a positive influence on the tendency to avoid tax. Different results were obtained by Wang et al. (2022) where there was a negative relationship between sinful corporate status and tax avoidance. The variability in the findings of the studies may be influenced by several factors, including differences in the variables observed, time periods and variations in regulations across countries, and the measurement of specific variables such as political connection and tax avoidance.

This study seeks to enhance the literature on political connections and tax avoidance, driven by the previously mentioned concerns. Most previous researchers used a nominal scale (dummy variable) to evaluate the political connection variable. This study quantifies political connection by comparing the ratio of commissioners or directors of companies with political affiliations. This study utilized upper echelon theory to analyze the phenomenon of political connections from multiple perspectives. The Upper Echelon Theory asserts that leaders' values and cognition shape their strategic decisions, drawing on insights and experiences from their previous careers.

The responsibilities of senior executives in nations with a one-tier board system will differ from those in Indonesia, which follows a two-tier structure. Indonesia's leadership culture is characterized by collaboration, team orientation, reputation awareness, and participatory practices (Northouse, 2013). POJK Number 33 / POJK.04/2014 has regulated a two-tier board system which explains the differences in duties between the board of commissioners and directors. In a two-tier system, the board of commissioners carries out the function of monitoring and balancing the firm's strategic policies. Meanwhile, the directors has a full role and responsibility for managing the body. In Indonesia, political affiliation is typically exerted in state-owned firms through the appointment of individuals with close ties to the government to key positions inside the company, such as the directors or board of commissioners (Pranoto and Widagdo, 2016).

The upper echelon theory is rooted in the idea that executive decision-making is a reflection of the leaders' personal values, experiences, cognitive biases, and social contexts. Experience in military and political spheres linked to state interests influences loyalty to the state. Companies that have political connections will prioritize safeguarding their reputation as being compliant. The research by Putra and Suhardianto (2020) reveals that companies will be more cautious and strive to comply with the applicable tax regulations in their activities. Lestari and Putri (2017) conducted another study supporting this argument, stating that companies with political connections are likely to protect their image as compliant taxpayers and safeguard the image of politicians within their management structure, leading to cautious decision-making and adherence to tax regulations. Iswari P. et al. (2019) also state that management with political connections acts as a government agent in managing and overseeing corporate governance, including taxation. Therefore, the hypothesis in this research is formulated as follows: (H1) The board of commissioners' political connection have a negative impact on tax avoidance. (H2) The directors' political connection have a negative impact on tax avoidance.

The conceptual framework is shown in Figure 1.

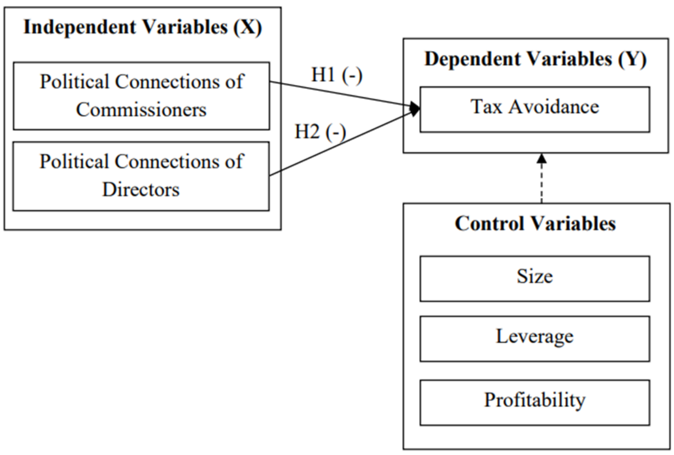

Figure 1. Conceptual Framework

METHODS

This research focuses on manufacturing companies listed on the Indonesia Stock Exchange (ISE) from 2020 to 2022 This period was chosen due to the COVID-19 pandemic in Indonesia. The COVID-19 pandemic was officially declared to have spread in Indonesia on March 2, 2020, pursuant to Presidential Decree Number 11 of 2020. The tax avoidance and financial data are obtained from company annual report, while political connection data are hand collected from annual report, website, and news.

Table 1. Research Sample

Description	Sample Type
Manufacturing sector firm listed on the Indonesia Stock Exchange (BEI) in 2020-2022.	495
Manufacturing sector firm that does not report complete data in 2020-2022.	(5)
Firm with total profits below 0 or experiencing losses between 2020-2022.	(116)
Firm in a state of delisting during 2020-2022	(21)
Outlier data	(64)
Firm that meets the criteria.	289

Source: Research Data

The dependent variable in this research is tax avoidance and BTD proxy used is strengthened by the Cash Effective Tax Rate (CETR) through a robustness test. BTD can describe the difference between accounting profit and taxable income on the total assets. This variable influence future profits and opens up opportunities to conduct earnings management related to tax avoidance (Rusydi, 2013; Tang and Firth, 2011). BTD calculation refers to research conducted by Desai and Dharmapala (2006) as follows:

$$BTD_{it} = \frac{\text{Pretax Income-Taxable Income}}{\text{Total Assets}_{it}} \quad \text{...(1)}$$

Tax avoidance is measured through CETR which describes the cash tax payments on income before tax (Xian et al., 2015; Pulungan et al., 2023). There is an inverse relationship between the concept of tax avoidance and cash effective tax rate. This variable will be negative when there is no tax avoidance. Therefore, CETR needs to be multiplied by -1 to obtain the tax avoidance value. CETR can be calculated using the formula:

$$CETR = \frac{\text{Tax payments in cash}}{\text{Income before tax}} \quad \text{..(2)}$$

The independent variable is political connections of the board of commissioners and directors. Information regarding political connections is obtained from the annual report in the Indonesian Stock Exchange database. The criteria for the existence of political connections refer to those of Harymawan et al. (2019) and Kim & Lee (2021). Previous research by Harymawan et al. (2019) measured political connections through the board of commissioners and directors who have been or are heads of state, members of the DPR (people's representatives), ministers, or close ties to prominent politicians or parties.

According to Kim & Lee (2021), political connections are measured through an individual on the firm's directors or board of commissioners who has status as a state official at the central or regional level, member of parliament, chairman of political party, or administrators. These criteria serve as a reference to measure political connections of the board of commissioners and directors. The variable is measured by the proportion of commissioners and directors with political connections using the following formula:

Board of Commissioners' Political Connection Proportion.

$$PC\_COM = \frac{\text{Total political connections of the Board of Commissioners}}{\text{Total Board of Commissioners}} \quad \text{......................(3)}$$

Directors' Political Connection Proportion

$$PC\_DIR = \frac{\text{Total political connections on the Board of Directors}}{\text{Total Board of Directors}} \quad \text{...................................(4)}$$

The control variables include firm size, leverage, and profitability. The variable firm size is used to control the impact of economies of scale (Firmansyah et al., 2022). The measurement uses the natural logarithm of total assets to avoid data fluctuations without changing the proportion of actual value (Wardani and Khoiriyah, 2018; Zia et al., 2018).

$$SIZE = Ln\ (\text{Total Asset}) \quad \text{..(5)}$$

Leverage shows the effectiveness in meeting short and long-term debt. In this research, the variable is calculated through the Debt to Asset Ratio (DAR) which describes the amount of assets financed by debt. The large value of the ratio shows the high level of funding from debt (Wang et al., 2022).

$$LEV = \frac{\text{Total Liabilities}}{\text{Total Assets}} \quad \text{...(6)}$$

The control variable is Return On Assets (ROA) which is a profitability ratio. The ROA ratio shows that the firm can manage assets. Good profitability describes the ability to make a profit in a certain period based on the level of sales, assets, and share capital. Firm with high profitability can also earn high profits and ROA is calculated by Tee et al. (2022).

$$ROA = \frac{\text{Net Profit}}{\text{Total Assets}} \quad \text{..(7)}$$

The method for analyzing data is through regression analysis, starting with a series of testing steps. The initial stage includes selecting the optimal regression model through the Chow, Hausman, and Lagrange Multiplier Tests to determine the most appropriate regression model between the Common, Fixed, or Random Effect Model. Subsequently, the classical assumption test was carried out using the Multicollinearity Test. The final stage was evaluating the hypothesis by carrying out the Coefficient of Determination, Simultaneous Significance, and Partial Regression tests. The following is the regression equation to test the first and second hypotheses:

$$BTD_{it} = \alpha + \beta_1 PC\_COM + \beta_2 PC\_DIR + \beta_3 SIZE + \beta_4 LEV + \beta_5 ROA + \varepsilon \text{ ....(8)}$$

RESULTS

The descriptive statistics results describe information on variable characteristics. Descriptive statistics provide a general overview and describe a set of data serving as the object of the research.

Table 2. Descriptive Statistics

Variable	Obs	Min	Max	Mean	Std. Dev.
BTD	289	-0,0791	0,1519	-0,0020	0,0247
CETR	289	0,0000	1,4131	0,2574	0,2073
PC_COM	289	0,0000	1,0000	0,1048	0,2061
PC_DIR	289	0,0000	0,2500	0,0065	0,0352
SIZE	289	25,0790	33,6552	28,7259	1,6651
LEV	289	0,0025	1,1619	0,4004	0,1969
ROA	289	0,0004	0,2939	0,0664	0,0560

Source: Eviews data processing, 2024

The descriptive statistical data presented in Table 2 indicates that the average BTD value for manufacturing sector firms from 2020 to 2022 was -0.0020. A higher BTD value correlates with an increased likelihood of tax avoidance by the firm. The mean CETR value for the period from 2020 to 2022 was 0.2574. Conversely, a high CETR value signifies minimal tax avoidance practices compared to BTD. From 2020 to 2022, PC_COM (board of commissioners' political connection) had an average value of 0.1048. Consequently, merely 10.48% of the board of commissioners possessed political connections. The mean value of PC_DIR (directors' political connection) from 2020 to 2022 was 0.0065, which is lower than the political connections within the board of commissioners. Tax avoidance practices in manufacturing sector companies are comparatively minimal, as indicated by the average BTD. The higher the BTD value, the greater the likelihood of the company engaging in tax avoidance practices. Nevertheless, certain companies continue to participate in tax avoidance practices, necessitating research on firms within the manufacturing sector.

Table 3. Multicollinearity Test Results

	Variable	(1)	(2)	(3)	(4)	(5)
(1)	PC_COM	1.000000				
(2)	PC_DIR	0.491658	1.000000			
(3)	SIZE	0.288493	0.125116	1.000000		
(4)	LEV	0.126447	0.067800	0.078359	1.000000	
(5)	ROA	0.062808	0.108696	0.051340	-0.307938	1.000000

Source: Eviews data processing, 2024

The multicollinearity test is carried out to determine the correlation between independent variables with each other (Ghozali, 2021). The multicollinearity test in Table 3 provides information that the correlation coefficient value between independent variables is less than 0.9. Therefore, there are no symptoms of multicollinearity in the data.

This research uses the Fixed Effect Model after carrying out several estimation tests to support the results. FEM is appropriate for the use of panel data due to several periods. The method shows a more significant F-test regression analysis and better coefficient values than CEM. Therefore, FEM is considered more appropriate to the objective of determining the individual influence of independent variables.

Table 4. Hypothesis Test Results

Variable	Coef.	T-Stat.	Prob.
A	0.0662	0.3009	0.7638
PC_COM	-0.0370	-2.1917	0.0298**
PC_DIR	0.0422	0.6269	0.5316
SIZE	-0.0021	-0.2805	0.7794
LEV	-0.0207	-0.9893	0.3240
ROA	0.0977	2.1159	0.0359**
R-squared	0.811726		
Adjusted R-squared	0.663212		
F-statistic	5.465647		
Prob (F-statistic)	0.00000		
Description: significant at ***p<0.01, **p<0.05, *p<0.1			

Source: Eviews data processing, 2024

The regression coefficient -0.037081 with a significance level of 0.0298 demonstrated that political connections on the board of commissioners have a substantial negative impact on tax avoidance, as indicated by the test results in Table 4. In contrast, a high BTD value suggests tax avoidance, and political connections on the board of commissioners have a detrimental effect. Higher political connections result in fewer tax avoidance activities. Consequently, H1 is accepted, as indicated by the negative impact of the board of commissioners' political connections on tax avoidance. This demonstrates that the board of commissioners' supervisory authority is effective. The political connections of the directors do not have a significant influence on tax avoidance, as indicated by the regression analysis testing. The coefficient value of 0.042291, which is supported by a significance level of 0.5316, corroborates this conclusion. Consequently, H2 is rejected, as the political connections of the directors have a detrimental impact on tax avoidance. The tax avoidance of manufacturing firms is not significantly influenced by the political connections of the directors.

Table 5. Robustness Test

Variable	Coef.	T-Stat.	Prob.
A	-0.9150	-0.3388	0.7357
PC_COM	0.6342	3.0483	0.0027***
PC_DIR	0.9871	1.1900	0.2358
SIZE	0.0470	0.4908	0.6242
LEV	-0.2158	-0.8381	0.4032
ROA	-2.5055	-4.4097	0.0000***
R-squared	0.593516		
Adjusted R-squared	0.272873		
F-statistic	1.851017		
Prob (F-statistic)	0.000115		
Description: significant at ***p<0.01, **p<0.05, *p<0.1			

Source: Eviews data processing, 2024

The results were substantiated by the implementation of various proxies in this test. CETR is employed to quantify the dependent variable. The results are consistent with the previous regression test, which utilized BTD as a proxy for the dependent variable, as indicated by the robustness test in Table 5. The findings indicate that tax avoidance is significantly influenced by political connections on the board of commissioners, with a level of 0.0027 and a coefficient of 0.6342.

DISCUSSION

The board of commissioner’s political connection has a negative association with tax avoidance. The negative correlation between a commissioner's political connections and tax avoidance suggests that the attributes of politicians on the board of commissioners affect firms' decisions to remit higher taxes. The presence of politicians on the board of commissioners can influence the policies and strategic decisions taken related to tax. Board of commissioner in Indonesian manufacturing companies dominated by person from military background and high-ranking ministry official. Experience from the world of politics and the military can influence management decisions in determining tax strategies. Political or military experience related to state interest shapes loyalty. The characteristics of leaders with political connections tend to be loyal to the government and pay higher tax for profitability (Putra & Suhardianto, 2020).

This result supports the study of Putra & Suhardianto (2020); Pranoto & Widagdo (2016); Iswari P. et al. (2019); and Rahayu et al. (2023). The board of commissioners with political connection has the effective authority of overseeing and offering recommendations to the directors to mitigate detrimental actions for the corporation, such as avoiding taxation that could ruin its reputation (Iswari P. et al., 2019). Companies with political connections will be less inclined to engage in risky corporate activities such as tax avoidance as a result of increased scrutiny from multiple parties.

This result also supports the Upper Echelon theory, which posits that experience in military and political spheres can impact management's decisions regarding tax strategy formulation. The military or political experience linked to state interests influences loyalty to the state; consequently, associations with retired military officers or former officials will diminish tax avoidance activities. Companies that have political connections will prioritize safeguarding their reputation as being compliant (Putra & Suhardianto, 2020). Operational control influenced by political connections enables the government to carry out evaluations regarding tax payment contributions (Li et al., 2018). In conclusion, companies that are politically related are owned by the government and directed or monitored by parties that are connected to the government. These companies will work toward the same objective, which is to increase the amount of money collected in taxes.

The directors' political connections have an insignificant impact, as evidenced by the relatively low percentage of political connections and the average value of only 0.6%. This low level suggests that directors do not possess a strong political network. The low political connection of directors is a result of the Indonesia Stock Exchange's elimination of the independent director position in companies listed on the exchange through BEI Regulation Number I-A in 2018. The discovery in the Indonesian context during the observation period does not support the Upper Echelon Theory due to the low level of political connections among the directors.

This discovery is in stark contrast to the research conducted by Iswari P. et al. (2019), which investigates the influence of political connections on the directors and board of commissioners from 2012 to 2016. The political connections of directors have a substantial adverse impact on tax aggressiveness (Iswari P. et al., 2019). This divergent result is due to the Indonesia Stock Exchange's 2018 regulation. However, the results are in accordance with Lestari & Putri (2017), who discovered that tax avoidance is not influenced by political connections because firms tend to maintain a positive image.

The concept of tax avoidance has an inverse relationship with the cash effective tax rate. In this context, the political connections of the board of commissioners have a negative impact on tax avoidance when CETR measurements are used as the dependent variable. Nevertheless, tax avoidance is not significantly influenced by the political connections of directors. Consequently, it is possible to draw the conclusion that the BTD and CETR models produce consistent results when examining the influence of political connections in the board of commissioners and directors on tax avoidance.

CONCLUSIONS

The aim of this study is to analyze the effect of political connections in the board of commissioners and directors on tax avoidance in Indonesia's manufacturing industry. The results indicate that the board of commissioners' political connections negatively impact tax avoidance. This means that a board of commissioners with political connections suppresses tax avoidance practices. The board of commissioners can prevent negative activity for the corporation, such as avoiding taxation that could ruin its reputation, by supervising and providing suggestions for the directors. In contrast, political connections on directors did not influence the level of tax avoidance practice due to the low level of directors' political connections.

This research adds to the literature on political connection and tax avoidance that remains scarce specifically in the developing countries. By applying Upper Echelon Theory to the political connection-tax avoidance nexus within Indonesia's unique corporate governance framework, this research makes several theoretical contributions: 1) it demonstrates how personal characteristics (e.g., political ties) of commissioners and directors shape corporate tax strategies; 2) it shows that board structure (two-tier system) may enhance the influence of politically connected individuals; and 3) it provides a cross-cultural perspective, showing how Indonesia's distinctive regulatory environment and institutional context interacts with personal and political factors in shaping corporate behavior. Practically, this research proposes that the Indonesian government, particularly the Directorate General of Taxes (DJP), augment its capacity to combat tax avoidance strategies and enhance overall tax compliance. The results may serve as a guide for the company as it selects members of the board of commissioners and directors. Board members with political connections may ensure compliance with tax regulations.

This research has limitations and leaves room for future research agendas. First, the tax avoidance calculation only analyzed BTD and CETR comparisons without considering the relationship between the two calculations. Second, the research only focused on the period 2020-2022, which was affected by Covid-19 until the transition. Third, details regarding the political affiliation derived from the annual report and online release. As a recommendation, further analyses must compare and analyze the relationship between different proxies for calculating tax avoidance, such as ETR and permanent differences. The research year period should also be extended to better describe the influence of political connections on tax avoidance. To verify the accuracy and reliability of the data, further research needs to gather political connection information through interviews with the firm management.

REFERENCES

Alkurdi, A., & Mardini, G. H. 2020. The Impact Of Ownership Structure And The Board Of Directors' Composition On Tax Avoidance Strategies: Empirical Evidence from Jordan. Journal of Financial Reporting and Accounting, 18(4), 795–812. https://doi.org/10.1108/JFRA-01-2020-0001.

Alsaadi, A. 2020. Financial-Tax Reporting Conformity, Tax Avoidance And Corporate Social Responsibility. Journal of Financial Reporting and Accounting, 18(3), 639–659. https://doi.org/10.1108/JFRA-10-2019-0133.

Barrick, J. A., & Brown, J. L. 2019. Tax-Related Corporate Political Activity Research: A Literature Review. The Journal of the American Taxation Association, 41(1), 59–89. https://doi.org/10.2308/atax-52026.

Bird, R., & Davis-Nozemack, K. 2018. Tax Avoidance as a Sustainability Problem. Journal of Business Ethic, 151, 1009–1025.

Bradshaw, M., Liao, G., & Ma, M. (Shuai). 2019. Agency Costs And Tax Planning When The Government Is A Major Shareholder. Journal of Accounting and Economics, 67(2–3), 255–277. https://doi.org/10.1016/j.jacceco.2018.10.002.

Chen, C.W., Hepfer, B. F., Quinn, P. J., & Wilson, R. J. 2018. The Effect Of Tax-Motivated Income Shifting On Information Asymmetry. Review of Accounting Studies, 23, 958–1004.

Chen, H. (Amy), Francis, B. B., Wu, Q., & Zhao, Y. 2023. Strategic Reaction And Tax Avoidance: Evidence From The Effect Of Large IPOs on peers. The British Accounting Review, 55(3), 101187. https://doi.org/10.1016/j.bar.2023.101187.

CNN Indonesia. 2023. *Kepala Bappenas Sebut Rasio Perpajakan RI Masih Terendah di Asia*. CNN Indonesia.

Desai, M., & Dharmapala, D. 2006. Corporate tax avoidance and high-powered incentives. Journal of Financial Economics, 79(1), 145–179.

Dyreng, S. D., Hanlon, M., & Maydew, E. L. 2010. The Effects of Executives on Corporate Tax Avoidance. The Accounting Review, 85(4), 1163–1189. https://doi.org/10.2308/accr.2010.85.4.1163.

Faccio, M., Marchica, M.-T., & Mura, R. 2016. CEO Gender, Corporate Risk-Taking, And The Efficiency Of Capital Allocation. Journal of Corporate Finance, 39, 193–209. https://doi.org/10.1016/j.jcorpfin.2016.02.008.

Firmansyah, A., Arham, A., Qadri, R. A., Wibowo, P., Irawan, F., Kustiani, N. A., Wijaya, S., Andriani, A. F., Arfiansyah, Z., Kurniawati, L., Mabrur, A., Dinarjito, A., Kusumawati, R., & Mahrus, M. L. 2022. Political Connections, Investment Opportunity Sets, Tax Avoidance: Does Corporate Social Responsibility Disclosure In Indonesia Have A Role? Heliyon, (Vol. 8, Issue 8). Elsevier Ltd. https://doi.org/10.1016/j.heliyon.2022.e10155.

Ftouhi, K., & Ghardallou, W. 2020. International Tax Planning Techniques: A Review Of The Literature. Journal of Applied Accounting Research, 21(2), 329–343. https://doi.org/10.1108/JAAR-05-2019-0080.

Gaaya, S., Lakhal, N., & Lakhal, F. 2017. Does Family Ownership Reduce Corporate Tax Avoidance? The Moderating Effect Of Audit Quality. Managerial Auditing Journal, 32(7), 731–744. https://doi.org/10.1108/MAJ-02-2017-1530.

Ghozali, I. 2021. *Aplikasi Analisis Multivariate Dengan Program IBM SPSS 26 Edisi 10.* Badan Penerbit Universitas Diponegoro.

Gulzar, M. A., Cherian, J., Sial, M. S., Badulescu, A., Thu, P. A., Badulescu, D., & Khuong, N. V. 2018. Does Corporate Social Responsibility Influence Corporate Tax Avoidance of Chinese Listed Companies? Sustainability, 10(12), 4549. https://doi.org/10.3390/su10124549.

Hadani, M., & Schuler, D. A. 2013. In search of El Dorado: The Elusive Financial Returns On Corporate Political Investments. Strategic Management Journal, 34(2), 165–181. https://doi.org/10.1002/smj.2006.

Hamilah. 2020. The Effect of Commissioners, Profitability, Leverage, and Size of the Company to Submission Timeliness of the Financial Statements Tax Avoidance as an Intervening Variable. Systematic Review Pharmacy, 11(1), 349–357.

Hanlon, M., & Heitzman, S. 2010. A Review Of Tax Research. Journal of Accounting and Economics, 50(2–3), 127–178.

Harymawan, I., Nasih, M., Madyan, M., & Sucahyati, D. 2019. The Role of Political Connections on Family Firms' Performance: Evidence from Indonesia. International Journal of Financial Studies, 7(4), 55. https://doi.org/10.3390/ijfs7040055.

Hossain, M. S., Ali, Md. S., Ling, C. C., & Fung, C. Y. 2024. Tax Avoidance And Tax Evasion: Current Insights And Future Research Directions From An Emerging Economy. Asian Journal of Accounting Research, 9(3), 275–292. https://doi.org/10.1108/AJAR-09-2023-0305.

Hsu, P., Moore, J. A., & Neubaum, D. O. 2018. Tax Avoidance, Financial Experts On The Audit Committee, And Business Strategy. Journal of Business Finance & Accounting, 45(9–10), 1293–1321. https://doi.org/10.1111/jbfa.12352.

Huang, W., Ying, T., & Shen, Y. 2018. Executive Cash Compensation And Tax Aggressiveness of Chinese firms. Review of Quantitative Finance and Accounting, 51, 1151–1180.

Islam, M. N., & Hashim, F. 2023. Audit Committee Attributes And Corporate Tax Avoidance: The Moderating Role Of Audit Committee Independence. International Journal of Advanced Research in Economics and Finance.

Iswari P., Sudaryono E.A., & Widarjo W. 2019. Political Connection and Tax Aggresiveness: A Study on the State Owned Enterprise Registered in Indonesia Stock Exchange. Journal of International Studies, 12(1), 79–92.

Jiang, Y., Zheng, H., & Wang, R. 2021. The Effect Of Institutional Ownership On Listed Companies' Tax Avoidance Strategies. Applied Economics, 53(8), 880–896. https://doi.org/10.1080/00036846.2020.1817308.

Kadir, O. A. 2018. The Impact of Corporate Governance Mechanisms on Corporate Tax Avoidance in Nigerian Listed Manufacturing Companies. Global Journal of Contemporary Research in Accounting, Auditing & Business Ethics, 4(1).

Khan, M., Srinivasan, S., & Tan, L. 2017. Institutional Ownership and Corporate Tax Avoidance: New Evidence. The Accounting Review, 92(2), 101–122. https://doi.org/10.2308/accr-51529.

Kim, J. H., & Lee, J. H. 2021. How Ceo Political Connections Induce Corporate Social Irresponsibility: An Empirical Study Of Tax Avoidance In South Korea. Sustainability (Switzerland), 13(14). https://doi.org/10.3390/su13147739.

Kismanah, L., Masitoh, S., & Kismen. 2018. Profitability, Leverage, Size Of Company Towards Tax Avoidance. Jurnal Ilmiah Akuntansi Fakultas Ekonomi (JIAFE), 4(1), 29–36.

Lestari, G. A. W., & Putri, I. G. A. M. A. D. 2017. *Pengaruh Corporate Governance, Koneksi Politik, dan Leverage Terhadap Penghindaran Pajak.* E-Jurnal Akuntansi Universitas Udayana, 18(3), 2028.

Li, N., Shevlin, T. J., & Zhang, W. 2018. Managerial Career Concerns and Corporate Tax Avoidance: Evidence from the Inevitable Disclosure Doctrine. SSRN Electronic Journal, 1(1), 1–53. https://doi.org/10.2139/ssrn.3273200.

Liu, H., & Lee, H.A. 2019. The Effect Of Corporate Social Responsibility On Earnings Management And Tax Avoidance In Chinese Listed Companies. International Journal of Accounting & Information Management, 27(4), 632–652. https://doi.org/10.1108/IJAIM-08-2018-0095.

Mafrolla, E. 2019. Tax Avoidance In Government-Owned Firms: Evidence from Italy. Public Money & Management, 39(3), 186–192. https://doi.org/10.1080/09540962.2018.1516955.

Mao, C.W., & Wu, W.C. 2019. Moderated Mediation Effects Of Corporate Social Responsibility Performance On Tax Avoidance: Evidence from China. Asia-Pacific Journal of Accounting & Economics, 26(1–2), 90–107. https://doi.org/10.1080/16081625.2019.1546157.

Masitoh, S. 2023. *Realisasi Penerimaan Pajak Mencapai Rp 1.523,7 Triliun Pada Oktober 2023*. Kontan.

Milyo, J., Primo, D., & Groseclose, T. 2017. Corporate PAC Campaign Contributions in Perspective. Business and Politics, 2(1), 75–88.

Northouse, P. G. 2013. Leadership Theory and Practice. Sage Publication.

Peraturan Otoritas Jasa Keuangan Nomor 33 /POJK.04/2014 Tentang Direksi Dan Dewan Komisaris Emiten Atau Perusahaan Publik.

Pranoto, B. A., & Widagdo, A. K. 2016. *Pengaruh Koneksi Politik dan* Corporate Governance *Terhadap Tax* Aggressiveness. Paper Presented at the Seminar Nasional Dan The 3rd Call for Syariah Paper.

Pulungan, A. H., Fernando, K., Safa, E. M., & Mahardika, A. A. 2023. Do Business Characteristics And Economic Factors Affect Effective Tax Rate? An Evidence From Southeast Asia. Jurnal Riset Akuntansi Kontemporer, 15(1), 1–11. https://doi.org/10.23969/jrak.v15i1.5452.

Putra, T. S. A. 2022. *Pajak untuk Pembangunan Nasional.* Kementerian Keuangan Republik Indonesia.

Putra, Z. K. P., & Suhardianto, N. 2020. The Influence of Political Connection on Tax Avoidance. Jurnal Akuntansi Dan Keuangan, 22(2), 82–90. https://doi.org/10.9744/jak.22.2.82-90.

Rahayu, F. L., Cinintya Pratama, B., Fitriati, A., Eko, S., & Santoso, B. 2023. Tax Avoidance in Indonesia Commercial Banks: Political Connections and Board of Commissioners. Derivatif : Jurnal Manajemen, 17(1).

Razen, M., & Kupfer, A. 2023. The Effect Of Tax Transparency On Consumer And Firm Behavior: Experimental Evidence. Journal of Behavioral and Experimental Economics, 104, 101990. https://doi.org/10.1016/j.socec.2023.101990.

Richter, B. K., Samphantharak, K., & Timmons, J. F. 2009. Lobbying and Taxes. American Journal of Political Science, 53(4), 893–909. https://doi.org/10.1111/j.1540-5907.2009.00407.x

Rocca, M. La, Fasano, F., Cappa, F., & Neha, N. 2022. The Relationship Between Political Connections And Firm Performance: An Empirical Analysis in Europe. Finance Research Letters, 49. https://doi.org/10.1016/j.frl.2022.103157.

Rusydi, M. K. 2013. *Pengaruh Ukuran Perusahaan Terhadap Aggressive Tax Avoidance di Indonesia*. Jurnal Akuntansi Multiparadigma, 4(2), 165–329.

Salman, K. R. 2018. The Tax Aggressiveness Behavior in the Companies Complying with the Sharia Cover Image The Tax Aggressiveness Behavior in the Companies Complying with the Sharia. Journal of Applied Economic Sciences, 13(62), 2493–2501.

Scholes M., Wolfson M., Erickson M., Maydew E., & Shelvin T. 2009. Taxes and Business Strategy: A Planning Approach. Pearson Prentice-Hall: Upper Saddle River.

Shen, Y., Gao, D., Bu, D., Yan, L., & Chen, P. 2019. CEO Hometown Ties And Tax Avoidance-Evidence From China's Listed Firms. Accounting & Finance, 58(5), 1549–1580. https://doi.org/10.1111/acfi.12442.

Slemrod, J., & Gillitzer, C. 2014. Insights from a Tax-systems Perspective. CESifo Economic Studies, 60(1), 1–31. https://doi.org/10.1093/cesifo/ift015.

Subekan, A. 2022. *Perbedaan Pajak, PNBP, dan Hibah dalam APBN.* Direktorat Jenderal Perbendaharaan.

Sucahyo, U. S., Damayanti, T. W., Prabowo, R., & Supramono, S. 2020. Tax Aggressiveness Of Family Firms In Emerging Countries: How Does Resource-Based View Explain It? Cover Image Tax Aggressiveness Of Family Firms In Emerging Countries: How Does Resource-Based View Explain It? Entrepreneurial Business and Economics Review, 8(3), 101–115.

Sudirjo, F. 2019. Management Compensation, Gender Diversification, and Executive Preferences on Tax Avoidance of IDX Manufacturing Companies. International Journal of Financial Research, 11(1), 373. https://doi.org/10.5430/ijfr.v11n1p373.

Tandean, W. V. A. 2016. The Effect of Good Corporate Governance on Tax Avoidance: An Empirical Study on Manufacturing Companies Listed in IDX period 2010-2013. Asian Journal of Accounting Research, 1(1).

Tang, T., & Firth, M. 2011. Can Book–Tax Differences Capture Earnings Management And Tax Management? Empirical evidence from China. The International Journal of Accounting, 46(2), 175–204.

Tang, T. Y. H. 2020. A Review Of Tax Avoidance in China. China Journal of Accounting Research, 13(4), 327–338. https://doi.org/10.1016/j.cjar.2020.10.001.

Tee, C. M., Teoh, T. T. M., & Hooy, C. W. 2022. Political Connection Types and Corporate Tax Avoidance: Evidence from Malaysia. Malaysian Journal of Economic Studies, 59(2), 199–220. https://doi.org/10.22452/MJES.vol59no2.2.

Wahab, E. A. A., Ariff, A. M., Madah Marzuki, M., & Mohd Sanusi, Z. 2017. Political Connections, Corporate Governance, And Tax Aggressiveness in Malaysia. Asian Review of Accounting, 25(3), 424–451. https://doi.org/10.1108/ARA-05-2016-0053.

Wang, C., Wilson, R. J., Zhang, S., & Zou, H. 2022. Political Costs And Corporate Tax Avoidance: Evidence From Sin Firms. Journal of Accounting and Public Policy, 41(1). https://doi.org/10.1016/j.jaccpubpol.2021.106861.

Wang, L., & You, K. 2022. The Impact Of Political Connections On Corporate Tax Burden: Evidence From The Chinese Market. Finance Research Letters, 47. https://doi.org/10.1016/j.frl.2022.102944.

Wardani, D. K., & Khoiriyah, D. 2018. *Pengaruh Strategi Bisnis Dan Karakteristik Perusahaan Terhadap Penghindaran Pajak.* Akuntansi Dewantara, 2(1), 25–36.

Wellalage, N. H., Thrikawala, S., & Ghardallou, W. 2022. Political Connections, Family Ownership And Access To Bank Credit. Finance Research Letters, 50. https://doi.org/10.1016/j.frl.2022.103347.

Whait, R. B., Christ, K. L., Ortas, E., & Burritt, R. L. 2018. What Do We Know About Tax Aggressiveness And Corporate Social Responsibility? An Integrative Review. Journal of Cleaner Production, 204, 542–552. https://doi.org/10.1016/j.jclepro.2018.08.334.

Widarjo, W., Sudaryono, E. A., Sutopo, B., Syafiqurrahman, M., & Juliati, J. 2021. The Moderating Role of Corporate Governance on the Relationship between Political Connections and Tax Avoidance. JDA Jurnal Dinamika Akuntansi, 2(1), 62–71. https://doi.org/10.15294/jda.v13i1.26359.

Xian, C., Sun, F., & Zhang, Y. 2015. Book-tax differences: are they affected by equity-based compensation? Accounting Research Journal, 28(3), 300–318. https://doi.org/10.1108/ARJ-12-2013-0088.

Zeng, T. 2019. Relationship between corporate social responsibility and tax avoidance: international evidence. Social Responsibility Journal, 15(2), 244–257. https://doi.org/10.1108/SRJ-03-2018-0056.

Zhu, G. P., Gui, H. F., Peng, T., & Jiang, C. H. 2023. Corporate tax avoidance and corporate financialization: The moderating effect of managerial myopia. Managerial and Decision Economics, 44(1), 459–472. https://doi.org/10.1002/mde.3693

Zia, I. K., Pratomo, D., & Kurnia, K. 2018. Kepemilikan Institusional Dan Multinationality Dengan Firm Size Dan Leverage Sebagai Variabel Kontrol Terhadap Tax Avoidance. Jurnal Riset Akuntansi Kontemporer, 10(2), 67–73. https://doi.org/10.23969/jrak.v10i2.1369