Jurnal Penelitian Ekonomi Dan Akuntansi
JPENSI
UNIVERSITAS ISLAM LAMONGAN

Journal of Economic and Accounting Research (JPENSI)
http://jurnal Ekonomi.unisla.ac.id/index.php/jpensi
e-ISSN 2621-3168
p-ISSN 2502 – 3764

Tax aggressiveness and Corporate Political Connectedness

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Article Info

Received Jan 14, 2024

Revised Jan 25, 2024

Published Feb 10, 2024

Keywords : *Tax aggressiveness , companies with political connections, Indonesia*

Abstract

The focus of this research is corporate tax aggressiveness with political relations. We observe 625 companies every year and find that companies with political connections and listed on the IDX are more aggressive in taxation. However, an independent t test shows that there is no significant distinction among corporates that have political connections and corporates that do not. Additionally, these findings suggest that businesses with political connections are more profitable than businesses without political connections. Companies with political connections have lower leverage compared to profitability. This researcrch has practical and theoretical consequences, also these are discussed thoroughly.

INTRODUCTION

One component of tax planning and the term tax aggressiveness is often used to refer to this is the meaning of tax avoidance. Wealth is transferred by tax aggression to corporate shareholders from the state by maximizing value [1]. Many experts have provided definitions of tax aggressiveness . For example [2] gives us an understanding of tax planning actions in the form of tax aggressiveness which is at the more aggressive end of the spectrum. Management decisions are solely aimed at reducing company taxes through aggressive tax activities [3]. However, aggressive implementation of corporate taxes will bring significant losses and benefits to society, managers and shareholders. The main advantage of an active tax system is that corporate shares become more interesting and are viewed positively in the capital market.

Nevertheless, the report adds that the disadvantages of aggressive taxation include potential tax penalties and fines, costs of implementation, costs of reputation, also costs of political [4] . Aggressive corporate taxation can give rise to agency problems because the interests of managers and shareholders are misaligned regarding tax risks. Additionally, shareholders expect managers and directors to take actions that advantage them. One way to achieve this is to focus on reducing tax debt and maximizing profits.

We investigate correlation among rates tax effective and connection politics in developing countries (Malaysia), and found if company that owns connection political pay tax with tariff tax far more effective more low (aggressiveness tax more high) compared another company , me conclude [5] . Furthermore, research on tax aggressiveness among non-family and family businesses shows that family businesses are less aggressive towards taxes stack up to non-family businesses [6]. Next they investigated the reaction of stock prices to news about aggressive corporate taxation also concluded that a corporate's stock price would fall if there was tidings of complicity in a tax haven. [4] . Next, we examine the link among politically connected corporates and tax aggressiveness using United States firms to show that politically unconnected corporates are no more tax aggressive than politically connected corporates [7]. Therefore, examined the correlation among company social responsibility also company tax aggressiveness using 408 listed corporates in Australia also find if companies that are more socially liable tend to have less tax aggressiveness .

Additionally, We examined Australian companies for the influence of women on boards of directors on tax proactiveness and find that having women on boards of directors tends to reduce tax proactiveness [8]. We conclude that tax aggressiveness in family ownership also family corporates affect tax aggressiveness in another ways. Wahab [9] investigated the relation among politically connected corporates also tax aggressiveness in Malaysia also concluded that politically connected corporates are more tax aggressive. Eventually, we examine tax aggressiveness under the new corporate tax law also find that the 2008 company tax reform reduced corporate tax aggressiveness [10].

Based on the previous research above, research investigating tax aggressiveness in companies with political connections is still limited. In Malaysia, especially in politically connected companies, there is little evidence regarding the level of tax aggressiveness. The 3 (three) research were held in Anglo Saxon countries (America and Malaysia). Because of that, there is still very little similar research held in Continental European countries such as Indonesia. Although there are little research investigating politically connected corporates in Indonesia, those research focus on late audit reports also loan interest rates [11] . Additionally, studies on tax aggressiveness were carried out using data from Indonesia [12] However, this regulation does not classify corporations into politically connected and politically unconnected corporations. Because of that, this research uses Indonesian corporates to investigate aggressive taxation among politically connected and politically unconnected corporations.

Because of that, this research enriches the literature on aggressive tax policies and politically connected corporates, because this research was held in a unique business surroundings. Indonesia's business surroundings is described by a two-tier governance system, making it the 16th largest in the world also the largest economy in Southeast Asia [13] . Indonesia is also considered weak in terms of external corporate governance mechanisms, including a lack of investor protection. The aim of this research is to identify differences in aggressive tax policies and corporate characteristics among politically unconnected and politically connected corporates. In addition, this research also tests whether corporates with political connections are more likely to take aggressive tax actions. This study is organized as follows. The first sessions will explain the research background. Theoretical aspects are discussed in the second session and the methodology is continued in the third sessions. The fourth sessions discusses the results and discussion, and finally the fifth session contains conclusions and recommendations.

METHODS

For test this hypothesis, this research uses manufacturing corporates listed on the IDX (BEI). Sample of the final for this observation includes 125 corporates, or 625 companies for each year of observation. Data was obtained from financial reports collected via the BEI website. Corporates that have political ties can be identified by the name "Persero" followed by the company name. Tax aggressiveness is measured by cash ETR . It is interpreted as cash taxes paid divided by pre-tax profits before special items. Apart from that, profitability and leverage are also used in this study. ROA (Return on assets) is used to measure profitability. The level of leverage indicates that the agency has problems with monitoring costs and the way the company finances its operations. Additionally, the ratio of total debt to total assets (DAR) is used to measure leverage. We use independent t-tests to test whether there are differences in means among politically unconnected and politically connected companies.

RESULTS AND DISCUSSION

As previously mentioned, this research aims to test whether corporates that have political connections are more aggressive towards taxes than companies that do not have political connections. Using 625 firm-year observations, Standard deviation, average, maximum and minimum values are in Table 1. The average value of aggressive taxation is 0.23 lower than the results [15] . This means that Indonesian companies collect taxes more aggressively. Measured from a company's ability to generate profits (profitability), 5.52% is the average value of a company's profitability, with a minimum also maximum value of -55% and 260% respectively. Meanwhile, 52.77% is the average value of leverage. or in other words, it means if the value is 0.5277 or 52.77% of assets are financed by debt and the remainder by equity.

Table 1 Descriptive Statistics of Research Variables

	Method	Std	Minim um al	Max
Panel A. TA Company				
Tax aggressiveness	0.23	0.71	-7.68	5.8
Panel B. Company Characteristics				
Profitability	5.52	15.21	-55	260
Benefit	52.77	46.36	-56	506

Table 2 shows the differences in mean scores among politically connected and politically unconnected companies. The average value of aggressive taxation is lower for corporates that have political connections (0.21) than for corporates that do not have political connections (0.23). This finding shows that corporates that have political connections are more willing to invest tax money than corporates that do not have political connections. These results support previous research [5] . This leads to the conclusion that politically connected corporates collect taxes more aggressively. Nevertheless, the average difference is not too big, namely 5%.

Table 2: Differences in Polcon vs Unconnected Ways and Means.

	Polkon	Non-Polkon	Meaning the difference
Panel A. TA Company			
Tax aggressiveness	0.21	0.23	-0.02(-0.13)
Panel B. Company Characteristics			
Profitability	6.27	5.48	0.01(0.52)
Benefit	38.79	53.35	-0.15(-1.54)

In addition, the average profitability is more high in corporates that have political connections (6.27%) than companies that do not have political connections (5.48%). There is a possible explanation that companies with political connections also have higher profitability. Politically connected corporates tend to be better informed about tax regulations also have lower political costs, enforcement, and experience less capital market pressure for transparency [7] . All the above advantages create a profitable position. For example, better information can lower tax costs, increase net profits, and ultimately produce a higher return on investment. But the difference is not important. In addition, companies that have political connections (38.79%) have lower debt than companies that do not have political connections (53.35%). This result can be explained by the fact that politically connected firms have limited expansion opportunities [9] . Politically connected corporates in Indonesia fail to use debt as a primary way to finance their assets in this context. Better economic conditions during the research period (2018–2022) were characterized by lower interest rates, including lower biometrics.

CONCLUSION

Recently, academics and practitioners have noticed tax aggression among politically affiliated businesses. Politically connected corporates are usually more aggressive in imposing taxes in the United States and Malaysia, but it is not known how aggressive these corporates are in Indonesia. Additionally, it is expected that corporates with political connections in Indonesia will be more aggressive in taxation. Manufacturing corporates listed on the IDX show that corporates that have political connections are more aggressive towards taxes than companies that do not. Nevertheless, the average difference is small, only 5%, and the research also shows that businesses with political connections make more money. However, companies with political connections have lower leverage.

This research has practical and theoretical consequences. Theoretically, this research contributes to the discipline of political economy due to the fact that wealth is transferred from the state to shareholders intentionally. Due to aggressive tax planning and better information, relationship-based economics allows politically connected corporates to lower their tax liabilities. Because political relationships are only temporary, politically connected firms are not allowed to gain competitive advantage through relationship-based economics. There are several limitations to consider. First, this research is descriptive. Second, the article discusses one industry manufacturing. Lastly, in this article only 3 (three) variables are used. Therefore, further study is needed on the following topics. First, examining the influence of politically connected corporates on tax aggressiveness can advance this observation. Second, research could be emphasized by including more sectors, such as leading sectors or services and trade. Finally, additional variables can be analyzed, such as ideas about company management.

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