

Does Corporate Governance and Political Connections Matter on Tax Avoidance?

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Abstract:

This study aims to assess the impact of political connections and good corporate governance on tax avoidance. We used 31 companies covering a five-year period. We found that political connections positively influence tax avoidance. This indicates that companies linked to the government will exhibit greater audacity in participating in tax avoidance. The quantity of audit committees adversely affects tax avoidance, indicating that the audit committee, tasked with supervising financial reports and internal controls plays a role in mitigating tax avoidance. Regarding audit quality, the number of board of commissioners and institutional ownership do not influence tax avoidance.

Keywords: political connections; effective corporate governance; tax avoidance

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1. Introduction

Taxes have role crucial and strategic in finance a country. In Indonesia, taxes have a very important role in state life, especially in implementation development scale national. In 2022 the acceptance tax reach Rp1.717 trillion or 65.37% of the total realization country income.

Tax is one of the source state incomes but the average tax ratio not yet can hit the target. Based on data from the Ministry of Finance, the ratio tax in Indonesia Indonesia's tax ratio performance is still classified as low that is move no more from 10 percent. In 2018 the tax ratio reached 10.24%, then in 2019 the tax ratio performance fell to 9.76 percent, during the 2020 pandemic the tax ratio fell again to 8.33 percent. The tax ratio figure then moving up in 2021 with achievement of 9.11 percent, while in 2022 the tax ratio returned to the double-digit level of 10.98 %. Indonesia's tax ratio figure is around 10 percent still classified as low.

A company founded with purpose and objectives main for maximize profit or profit. Company objectives can realize with a management good corporate governance. In the corporate governance mechanism, there has been set up applications that must be implemented carried out by the company so that the company can keep going develop However no violate rule government, including in matter payment tax. When the principle corporate governance that is fairness, transparency, accountability, responsibility and independence run with supervision carried out such that appearance good in a company then, the company the can it is said have governance good company including one of them in matter fulfil obligation the tax. However, when dynamics corporate governance done with no in accordance namely the governance and principles that should be applied n run as well as no existence adequate supervision, then company they can just minimize burden taxes that must be paid, so that can encourage tax avoidance.

The role of Good Corporate Governance (GCG) can push obedience company as must tax for operate tax obligation. GCG will be proxied with institutional ownership (IO), percentage of independent commissioner board (IC),

audit quality (AQ) and number of audit committee (AC). IO can upgrade more optimal supervision in industry considered can supervise as well as control each decision as well as policies taken by the manager. Company that has large IO will more aggressive in minimize reporting its taxation so that IO have negative influence to tax avoidance (Ataullah et al., 2022; Davis, 2002; Sayyidah & Saifi, 2017; Wang et al., 2023).

Independent commissioners who sit in ranks the company's management has role for give advice and do supervision to the company (Istighfarin & Fidiana, 2018; Khasanah & Khafid, 2020; Kusumawati & Hermawan, 2013). With amount commissioner increasingly independent lots so supervision carried out to management will strict, so can minimize tax avoidance.

Financial reports audited by the big four auditors according to several references are believed to be of higher quality (Beau & Jerman, 2024; Francis & Yu, 2009; Rose et al., 2020) so they display higher value the actual company, therefore it is suspected that the company audited by the Big Four have lower fraud rates compared to other companies audited by non-Big Four. If linked with avoidance tax, manager companies audited by The Big Four will more difficult manipulate profit shown for interest taxation. The audit committee has the authority to avoid any deviant attitudes related to with financial reporting, and the greater the presence of the audit committee in the company, the will reduce the possibility of tax avoidance activities occurring, the audit committee has a negative influence on tax avoidance (He et al., 2017; Pomeroy & Thornton, 2008).

In addition to GCG, political connections also have influence to tax avoidance. Politics connection can give benefit for companies, including protection by the ruling regime, ease of access to obtain loans, as well as low risk moment inspection tax (Alford et al., 2005; Ang et al., 2013; Kim & Zhang, 2016a; Maulinda & Fidiana, 2019; Nys et al., 2014). Connected companies' politics that do avoidance tax own risk low inspection because they get protection from politicians because of the possibility checked small make company tend do avoidance tax.

Based on background behind the problem that has been revealed previously, then formulation the problem that will be under review in study. This is whether IO, IC, AQ, AC, and CP will impact tax avoidance on multinational

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companies listed on the Indonesia Stock Exchange (IDX).

2. Literature Review

Scott (2006) said that agency theory is the development of a theory that studies how to design a work agreement so that it can motivate agents to work according to principal's wishes. Agency theory also implies the existence of information asymmetry between manager as agent and owner as principal.

Position, function, situation, purpose, interests and background behind different principals and agents and each other depart behind the will cause opposition with each other pull interesting conflict of interest and influence between one each other (Jensen & Meckling, 1976; Makmun, 2009). Problem agency where there are differences of interest for agents and principals triggers the emergence of behaviour aggressive tax avoidance. This is because in one management side wants improvement compensation through high profits while the other side other shareholders want to reduce tax costs through low profits.

Effective corporate governance is a framework work that controls and guides the way a business as well as regulations that govern rights and obligations of stakeholders (Jamaluddin et al., 2020; Widigdo, 2013). There are several main components required in GCG, namely transparency, accountability, responsibility, independence and fairness. GCG has five objectives, namely: protecting the rights and interests of shareholders; protecting the rights and interests of non-shareholder stakeholder members; increasing the value of the company and its shareholders; increasing the efficiency and effectiveness of the work of the board of directors and company management; and improving the quality of the relationship between the board of directors and senior management of the company (Fuenzalida et al., 2013; Noviasatika et al., 2016).

Tax avoidance is an effort what the taxpayer did was successful or not to reduce or eliminate altogether write off tax debts, which do not violate provisions of laws and regulations taxation (Istighfarin & Fidiana, 2018; Maulinda & Fidiana, 2019). While other scholar stated that tax avoidance is a way to reduce taxes that are still in limits of statutory provisions taxation and can be justified, especially through tax planning (Christie & Holzner, 2006; Edlund & Aberg, 2002; Nerré, 2008; Pramaiswari & Fidiana, 2023).

The AC's responsibilities in the field corporate governance are to ensure that the company has been run in accordance with applicable laws and regulations, implementing his efforts ethically, carrying out its effective supervision of the collision interests and fraud committed by company employees. With the formation of the committee audits make auditor performance better independent due to collusive practices between management with auditors becomes more difficult to conducted (Watts & Zimmerman, 1986). The audit committee has the authority to avoid any deviant attitudes related to with financial reporting (Gunawan & Fidiana, 2021), and the greater the presence of the audit committee in the company, the will reduce the possibility of tax avoidance activities, the audit committee has a negative influence on tax avoidance (Gerayli et al., 2021; Kasper & Rablen, 2023).

H₁ Audit committee have negative influent to tax avoidance

IC is a person who does not own connection in all matter with holder share controller, no own connection affiliation with the board of commissioners, directors, and not become director at a company related with company owner, according to regulations issued by the IDX. Board of commissioners in carry out function as supervision, can influence party management company for make report quality finance (Saaydah, 2020). IC within operate the monitoring function is to support management company with good and make report finance become more objective.

Amount commissioner increasingly independent lots so supervision carried out to management will the tighter and will make management for act more Be careful in the decide a decision in carry out activity company so that can minimize tax avoidance. Independent board have negative influence to avoidance tax (Parker et al., 2005; Prasetyo & Pramuka, 2018).

H₂ Independent Commissioner have negative influent to tax avoidance

IO is shares by insurance companies, banks, investment companies, and institutions or agencies others, as well as ownership of other institutions (Bhuiyan & D'Costa, 2020; Lozano et al., 2016). Supervision to management stronger when IO are increasingly high. IO, with position those who have amount significant shares, capable of ensure management implements its actions in accordance with the objectives of shareholders, thereby maintaining their prosperity (Trafalgar &

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Africa, 2019). Company that has ownership large institutional so will the more aggressive in minimize reporting taxation. Ownership institutional can upgrade more optimal supervision in industry because considered can supervise as well as control each decision as well as policies taken by managers. Ownership institutional own influence negative to avoidance tax (Eksandy, 2017; Maulinda & Fidiana, 2019).

H₃ Institutional ownership have negative influent to tax avoidance

Audit quality can be interpreted as whether or not an audit has been conducted by the auditor. An audit conducted by an auditor is said to be of high quality if it meets the Public Accountant Professional Standards (PAPS) auditing provisions or standards includes professional quality, independent auditors, judgment used in the implementation of audits and the preparation of audit reports. AQ is an audit carried out by a competent person and an independent person. A competent auditor is an auditor who has ability technology, understand and use method correct sampling. Financial reports audited by the Big Four auditors according to several references are believed to be of higher quality (Francis & Yu, 2009; Syakura & Baridwan, 2014) so they display higher value the actual company, therefore it is suspected that the company audited by the Big Four have lower fraud rates compared to other companies audited by non-Big Four. Audit quality has an effect negative to tax avoidance (Kanagaretnam et al., 2016; Qawqzeh, 2023). The findings of this study mean that the high or low tax avoidance variation is determined by audit quality.

H₄ Audit quality has a negative effect on tax avoidance

Political connections will provide various benefits for the company. The benefits that companies get with political connections are easy access to loans. Low tax audits are also one of the advantages of a company's political connections, so that companies do not need to worry about planned taxation, thus making the company's financial statements unclear. Previous research revealed that political connections have a significant positive effect on tax avoidance (Jin et al., 2024; Kim & Zhang, 2016b; Ma et al., 2025). Companies use political connections to reduce tax payments through lobbying activities (Arifin & Kabir, 2025; Bauweraerts et al., 2024). This is used by companies to further avoid taxes.

H₅ Political connection have positive influent to tax avoidance

3. Method

We used quantitative study. It can be interpreted as method research based on philosophy positivism, used for research on population or sample specific, data collection uses instrument research, data analysis is quantitative or statistics, with objective for test hypothesis that has been determined (Sugiyono, 2017). We used all multinational companies sector manufacturing listed on the Stock Exchange Indonesia in the period 2019-2023.

We use purposive sampling; as a technique determination sample with consideration certain. As for the considerations that are determined for determine sample explained among others, (1) Multinational companies sector manufacturing listed on the Indonesia Stock Exchange during 2019-2023, (2) companies multinational sector manufactures that publish report finance and reports annual in a way Keep going continuously in the Indonesia Stock Exchange during 2019-2023, (3) companies multinational sector manufacturing that is not experience loss during 2019-2023, due to loss will causing CETR to become negative, (4) using rupiah currency during 2019-2023. Types of data used in study is secondary data, because obtained from sources that have been there is, then collected by researchers from the IDX www.idx.co.id

Tab. 1 Operational Variable

Variable	Definition	Measurement
Cash Effective Tax Rates, CETR	Payment tax in cash against profit company before tax income	$CETR = \frac{TAX\ PAID}{PROFIT\ BEFORE\ TAX}$
Audit committee	Number of audit committee	$AC = \sum \text{number Audit Committee}$
Independent Commissioners Board	Number of Independent Commissioners Board	$IC = \frac{\text{Number of IC Board}}{\text{Total of Commissioners Board}}$
Audit Quality	Auditor performance is classified as in the Big Four KAP.	Dummy, 1 = Big 4 PA; and 0 = non-big 4 PA
Institutional ownership	comparison amount share institution with total shares available	$IO = \frac{\text{Number of Institutional Shares}}{\text{Number of Shares}}$
Political connection	dummy variable	Dummy, 1 = indicating political connection; and 0 = non-political

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connection

Source: simplification by author (2025)

Descriptive statistics consist of calculating the mean, median, standard deviation, maximum, and minimum. This analysis is intended to provide an overview of the distribution and behaviour of data (Ghozali, 2018). Descriptive statistics to find out the description of the standard deviation, average value, minimum, maximum, skewness, kurtosis of each variable to be studied.

Normality test aiming for test whether in the regression model, the variables the bully or residual has normal distribution (Ghozali, 2018). Normally distributed data will test using One Sample Kolmogorov-Smirnov. The data is said to be normally distributed if significance variable dependent own mark significance more from 5%. Good research data is distributed normally.

The multicollinearity test aims to test whether the problems that often arise in regression analysis occur, namely where there is a high correlation between two or more independent variables (Ghozali, 2018). Multicollinearity in regression models can proof from tolerance and Variance Inflation Factor (VIF): (1) if mark tolerance above 0.1 and VIF value below 10, then no multicollinearity, meaning the regression model the good, (2) If the value tolerance is below 0.1 and the VIF value is above 10, then no multicollinearity, meaning the regression model is good.

Analysis Multiple Linear Regression. Avoidance tax as variable dependent use Cash ETR as proxy measurement. There are four variable independent that is Audit Quality (AQ), Audit Committee (AC), Independent Commissioner (IC), Institutional Ownership (IO) and Politics Connections (PC).

Testing accuracy estimate (R^2 test) aims for know how much Far ability model in to explain variation independent variable. Level accuracy regression stated in compound determinant coefficient (R^2) whose value is between 0 and with 1. Values close to 1 mean independent variable provide almost all information needed for predict variation independent variable. If in a model there is more from two independent variables, then more good use mark adjusted R^2 .

Goodness of Fit Test. It is testing conducted for know whether independent variables have a significant influence to dependent variable. T-test in study use

level significance 5%. According to Ghozali (2018) the purpose of the feasibility test model is for test accuracy function regression sample in estimate mark actual. Testing done with level significance of 0.05 ($\alpha=5\%$). The provisions reception or research model rejection is (a) If the value goodness of fit statistic > 0.05 then H_0 is accepted which means There is difference significant between the model and mark his observations so that the estimated research model Not yet worthy used. (b) If the value goodness of fit statistic < 0.05 then H_0 is rejected which means the model is able to predict mark his observations so that the estimated research model worthy used.

Hypothesis Test (t-Test). It is testing conducted for know whether independent variables have a significant influence to dependent variable. T-test in study use level 5% significance. The independent variable is said to be influential significant to dependent variable if value sig (p- Value) below 5%.

4. Results and Discussion

This section presents and discusses the main findings of the study:

Tab. 2 Classical test assumption

Assumption	Parameters	Value	Conclusion
Normality	Kolmogorov smirnov	0.830	Asymp.Sig. (2-tailed): 0.830 > from 0.05. Conclusion matter This show that the regression model fulfils assumption normality and can be continued to testing furthermore
Multicollinearity	AC	0.535	Multicollinearity Test show that tolerance value of each variable in study this is above 0.1 all VIF value < 10 for all variable predictor / independent, so that can concluded No happen case multicollinearity between variable predictor / independent
	IC	0.730	
1. Tolerance	AQ	0.716	
2. VIF	IO	0.880	
	PC	0.672	
	AC	1.868	
	IC	1.370	
	AQ	1.396	
	IO	1.136	
	PC	1.489	
Heterocedasticity	Chi-square	0.2163	there is no heteroscedasticity in the regression model
Autocorrelation	DW	1.814	there is no autocorrelation (between -2 and +2)

Source: author own computation

Tab. 3 t-test

Variable	Sign	Coefficient	Sig.
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Variable	Sign	Coefficient	Sig.
AC	+	0,031	0,237
IC	-	-0,612	0,021
AQ	+	0,017	0,877
IO	+	0,083	0,069
PC	+	0,110	0,000
Constanta		8,975	
RSquare	0.317		
Adjusted RSquare	0.277		
Prob. F	0.000		
N			

Source: author own computation (2025).

Based on the results of the determination coefficient test, the adjusted R-squared has 0.317. It can be interpreted that GCG variables (AQ, AC, IC, IO, and PC) is able to explain tax avoidance by 31.70%, while the remaining 68.30% is explained by other variables not included in the study. Further it can be seen that the p-value obtained is smaller than alpha 5%, so it can be concluded that all predictor has a significant effect simultaneously on the response/dependent variable so that the model is worthy of being analysed.

The influence of audit quality on tax avoidance. Based on the test results in the t-Test Results Table, it was found that AQ has a significance value of 0.237. The test results of the significance value of 0.237 are greater than the significance level of 0.05, so it can be concluded that audit quality has no effect on tax avoidance. Audit quality has no effect on tax avoidance due to an increase in the audit quality of non-Big Four as an implication of the increasingly stringent regulations issued by the Ministry of Finance through Regulation of the Minister of Finance of the Republic of Indonesia Number 186/PMK.01/2021 concerning the Development and Supervision of Public Accountants. This regulation was issued to increase the independence, objectivity, and professionalism of accountants so that it can indirectly improve the audit quality, including non-Big Four.

It was revealed that there is no significant difference between companies

audited by the Big Four and non-Big Four in dealing with tax avoidance (Beau & Jerman, 2024; Francis & Yu, 2009; Rose et al., 2020). This is because when an audit a financial report, it is guided by the audit quality control standards that have been set by the Indonesian Public Accountant Professional Standards Board (DSPAP IAPI) and the public accountant ethics rules set by IAPI so that in its implementation it is based on existing regulations.

The influence of the audit committee on tax avoidance. In the t-test results table, it is found that the AC variable has a significance value of 0.021. The test result of the significance value of 0.021 is smaller than the significance level of 0.05, so it can be concluded that the AC has an effect on tax avoidance. So, the Second Hypothesis which states that the audit committee has a negative effect on tax avoidance is accepted. Based on Financial Services Authority Regulation Number 55/POJK.04/2015 concerning the Establishment and Guidelines for the Implementation of the Audit Committee, Article 10 states that the Audit Committee has the duty and responsibility to review financial information that will be issued by the Issuer or Public Company to the public and/or authorities. Based on these duties and responsibilities, the Audit Committee, which has the task of carrying out supervision in the process of preparing financial reports, will prevent fraudulent actions that will be carried out by management, especially related to tax avoidance. The result in line with previous study that AC have impact on tax avoidance (Ataullah et al., 2022; Davis, 2002; Sayyidah & Saifi, 2017; Wang et al., 2023).

The influence of independent commissioners on tax avoidance. In the t-test results table, it was found that the IC had a significance value of 0.887. The test result of the significance value of 0.887 was greater than the significance level of 0.05. So based on these results, it was concluded that the third hypothesis stating that the number of boards of commissioners has a negative effect on tax avoidance was rejected. The results of the study indicate that with the increasing number of boards of commissioners, especially independent commissioners in the company, it cannot influence or prevent management policies in conducting tax avoidance (Duhoon & Singh, 2023; Khelifi et al., 2025). This is because the function of the board of commissioners is only to carry out monitoring tasks and provide advice to management in decision making. The existence of independent commissioners is only to fulfilled the need for regulatory compliance, in addition, the role of the majority shareholder in the company is still very strong so that the performance of

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the board of commissioners does not increase.

The influence of institutional ownership on tax avoidance. It was found that the IO has a significance value of 0.069. The test results of the significance value of 0.069 are greater than the significance level of 0.05, so it can be concluded that the number of institutional shares does not affect tax avoidance. IO as a party that monitors the company has not been able to provide good control over management actions on their self-interested attitude in carrying out tax avoidance actions (Bhuiyan & D'Costa, 2020; Han et al., 2021; Lozano et al., 2016). The orientation of institutional ownership is how to maximize welfare (profit) that will be obtained at the end of the period. Whether or not the company will carry out tax avoidance is the authority of the company's management.

The influence of political connections on tax avoidance. It was found that the PC has a significance value of 0.000 or below 1%. The test result of the significance value of 0.000 is smaller than the significance level of 0.05. Based on the test results, it can be concluded that the fifth hypothesis which states that political connections have a positive effect on tax avoidance is accepted. Government policies, regulations, and political decision-making, including the influence on changes in tax policy or the creation of new laws, are more easily accessed by companies with strong political connections. Tax relief and other benefits are more easily obtained by companies with political connections (Alford et al., 2005; Ang et al., 2013; Kim & Zhang, 2016a; Nys et al., 2014). Companies with political connections can take advantage of these connections as an effort to carry out tax avoidance activities

5. Conclusion

This study aims to examine the Influence of GCG as indicating by AQ, AC, IC, IO and PC on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange in the period 2019 to 2023. Based on results research that has been done, it is concluded that AC has a significant influence on tax avoidance. Thus, the audit committee tasked with supervising the company's financial statements and internal control has an influence in implementing tax management and strategies in conducting tax avoidance. In addition to the AC, political connections have a significant influence on tax avoidance decisions. Companies that have connections with the government will be more daring to

conduct tax avoidance because of the protection from the government so that the financial statements made by the company become non-transparent.

Audit quality has no effect on tax avoidance due to the increase in audit quality of non-Big Four as an implication of the increasingly stringent regulations issued by the Ministry of Finance. The number of independent commissioners does not significantly affect tax avoidance, this indicates that the IC from outside the company who are part of the company's board of commissioners do not perform their supervisory function properly over management. Institutional ownership does not significantly affect tax avoidance decisions. The task and authority of IO is how to maximize profits, the company will carry out tax avoidance or not, this is the authority of the company's management and institutional ownership will support every policy carried out by the company that can maximize the welfare of institutional shareholders.

Based on results research and conclusions that have been presented, some suggestions are recommend other measurement proxies for tax avoidance such as ETR, Current ETR, or Long-run cash ETR. Further research should measure Measurement using big four or non-big four accountants is no longer relevant due to the existence of the Minister of Finance Regulation Number 186/PMK.01/2021 concerning the Development and Supervision of Public Accountants so that Accounting Firms are required to be professional and accountable

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