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IS TAX AVOIDANCE CAUSED BY POLITICAL CONNECTION AND EXECUTIVE CHARACTERISTICS?

Nur Alfiyah*, Bambang Subroto, Abdul Ghofar

Universitas Brawijaya, Jl. MT. Haryono 165, Malang 65145

Surel: alfiyahnur24@gmail.com

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Abstrak - Apakah Penghindaran Pajak Disebabkan oleh Koneksi Politik dan Karakteristik Eksekutif?
Tujuan utama – Penelitian ini bertujuan untuk mengkaji peran koneksi politik dan karakteristik eksekutid faktor dalam penghindaran pajak.
Metode - Analisis regresi linear berganda dan moderasi digunakan sebagai metode analisis. Perusahaan manufaktur yang tercatat dalam Bursa Indonesia selama periode 2017 hingga 2019 merupakan sampel pada penelitian ini.
Temuan utama - Hasil penelitian ini mengungkapkan bahwa karakteristik eksekutif merupakan faktor pendorong perusahaan untuk lebih berani melakukan penghindaran pajak. Tindakan penghindaran pajak semakin meningkat apabila eksekutif bersifat risk taker. Sebaliknya, koneksi politik bukan faktor penyebab penghindaran pajak.
Implikasi Teori dan Kebijakan - Buruknya kontrol dan pengawasan dari prinsipal selaku pemilik perusahaan membuat agen cenderung melakukan tindakan berisiko. Prinsipal dan pemerintah harus memberikan pengawasan yang lebih optimal dan transparansi yang tinggi dengan mengaplikasikan tata kelola perusahaan yang baik.
Kebaruan Penelitian – Penelitian ini menawarkan solusi tata kelola perusahaan yang baik untuk mengurangi kecurangan akuntansi (khususnya pada aspek penghindaran pajak) yang dilakukan pihak eksekutif perusahaan.

Abstract - Is Tax Avoidance Caused by Political Connections and Executive Characteristics?
Main Purpose – *This study examines the role of political connections and executive characteristics of factors in tax avoidance.*
Method - *Multiple linear regression and moderation analysis was used as the method. Manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2019 are the sample.*
Main Findings - *The results of this study reveal that executive characteristics motivate companies to be more daring to do tax avoidance. Tax avoidance measures increase if the executive is a risk-taker. On the other hand, political connections are not a factor in tax avoidance.*
Theory and Practical Implications - *Poor control and supervision from the principal as the company owner makes agents tend to take risky actions. Principals and the government must provide more optimal leadership and high transparency by applying good corporate governance.*
Novelty – *This study offers an excellent corporate governance solution to reduce accounting fraud (especially in the aspect of tax avoidance) by corporate executives.*

Tax accounting is a prevalent issue in today's world, and it's a fascinating subject to research because the contribution of taxes toward the state is becoming essential. Taxes are the primary source of state income used to fund public services such as education sectors, health centers, and infrastructure (Mangoting et al., 2021; Prastiwi et al., 2019). However, the government's reliance on tax income has not been entirely supported by the citizens as taxpayers. Companies, as corporate taxpayers, consider that tax a burden (Ma & Thomas, 2020). Tax avoidance refers to a company's effort to minimize tax expenses. Tax avoidance is the act of reducing the tax expense of taxpayers that is lawful and does not abuse the law. Meanwhile, the government does not desire tax avoidance, leading to decreased state incomes (Gavana et al., 2013). Tax avoidance has far-reaching implications for the state and society. From an economic perspective, the impact of tax avoidance creates costs for management, shareholders, and culture (Jiang et al., 2018). The effect of tax avoidance also causes the current state of Indonesia's tax ratio to be the lowest among Asian countries (Muflihani et al., 2021). This phenomenon suggests that Indonesia has not been able to collect the optimum amount of tax, indicating that there is still a lot of tax potential to be explored to increase state income.

Tax avoidance is closely related to agency theory. Agency theory assumes that tax avoidance is affected by information asymmetry and conflicts of interest between the principal and the agent that arise when each side attempts to reach or defend their respective levels of prosperity (Ge & Zhang, 2017). Corporate tax avoidance activities can be affected by several factors, particularly political connections. A political connection is a link between a firm and the government. Political connections are essential resources for companies in developing and developed countries and are prominent structures that determine strategic decisions (Kaplanoglou et al., 2016). According to agency theory, politicians within the composition of the company's board can influence the company's executives in making decisions and tends to create conflicts of interest (Ling et al., 2016). Kim & Zhang (2015) argue that companies with political connections can implement much more aggressively tax planning because of government protection, which impacts decreasing financial statement transparency. In Malaysia, Kweh et al. (2021) discovered that politically connected companies spend substantially less on taxes than non-politically related firms.

The decision on tax avoidance also depends on the characteristics of the company's executives. Rudy (2021) expressed that individual corporate leaders (executives) have a significant role in the level of corporate tax avoidance. The company's executives as decision-makers can be risk-taker or risk-averse. Tax avoidance is risky; the more executive committee as the risk-taker, the more tax avoidance can increase (Mohammed & Sanusi, 2020). One of the mechanisms to control agency conflicts is implementing good corporate governance. Corporate governance is critical in limiting the repercussions of agency problems in tax avoidance schemes (Armstrong, 2015). Corporate governance can mitigate companies' potential to avoid paying taxes (Chan et al., 2013). Implementation of corporate governance is expected to change the course and greatness of the impact between tax avoidance factors and corporate tax avoidance.

Earlier research has focused on the impact of political connections and executives' characteristics on tax avoidance (Kim & Zhang, 2015; Mohammed & Sanusi, 2020; Oktavia, 2020; Wardani & Susilowati, 2020). Each discovered that political connections and executive characteristics substantially impact tax avoidance. This study includes a moderating variable, corporate governance, as a determining factor for tax avoidance. The impact of corporate governance on tax avoidance has previously been investigated by Amstrong (2015), Bischoff & Krabel (2017), Chan et al. (2013), and Ferraresi et al. (2019). Several of these studies utilize conventional measures to evaluate corporate governance. Corporate governance in this study is measured by using measurements following the aspects, principles, and recommendations of corporate governance. In addition, the conventional governance mechanisms cannot resolve agency issues (Brown et al., 2015).

This research aims to investigate and analyze the variables that lead to tax avoidance, such as political connections, executive characteristics, and the impact of corporate governance implementation as a moderating variable. This research can enhance the tax accounting literature, particularly by presenting empirical evidence to support the basic theory of agency, which is the focus of this research. According to agency theory, tax avoidance is caused by information asymmetry and conflict of interest between the principal and the agent. This conflict can be minimized by implementing good corporate governance, increasing transparency, and providing more optimal supervision to create added value for stakeholders.

METHOD

Manufacturing enterprises listed on the Indonesia Stock Exchange from 2017 to 2019 comprise the study's population. The samples were chosen using a purposive sampling strategy utilizing sample criteria. Table 1 shows the total number of samples collected and the criteria used to select them. Secondary data from the annual report was used in this investigation.

The conceptual design of the study is presented in Figure 1. Based on Figure 1, there are 3 equation models. These are:

$$ETR = \alpha + \beta_1 PC + \beta_2 RISK + \beta_3 SIZE + \beta_4 ROA + \beta_5 PPE + e \quad \text{(i)}$$

Table 1. The Procedures for Selecting the Sample

Criteria	Total
Manufacturing enterprises were placed on the Indonesia Stock Exchange in sequential order from 2017 to 2019.	191
Companies that do not publish annual reports regularly from 2017 to 2019	-14
Companies that have been delisted from 2017 through 2019	-6
Companies that came out publicly (IPO) in 2018-2019	-28
Companies that are incurring losses	-51
The Effective Tax Rate (ETR) value > 1	-2
The number of companies that were employed as study samples	**90**
The number of observations over three years (2017-2019)	**270**

$$ETR = \alpha + \beta_1 PC + \beta_2 RISK + \beta_3 CG + \beta_4 SIZE + \beta_5 ROA + \beta_6 PPE + e \quad \text{(ii)}$$

$$ETR = \alpha + \beta 1PC + \beta 2RISK + \beta 3CG + \beta 4CG{*}KP + \beta 5CG{*}KE + \beta 6SIZE + \beta 7ROA + \beta 8PPE + e \quad \text{(iii)}$$

The dependent variable is tax avoidance, as determined by the Effective Tax Rate (ETR), precisely, the tax expense to pre-tax income ratio (Amara & Khlif, 2020; Deng et al., 2020). Companies with high ETR values indicate that the company does not avoid tax. Measurement of tax avoidance using ETR because the ETR measurement may illustrate tax planning aggressively through permanent differences between commercial and fiscal profits.

Political connections (PC) and executive characteristics (RISK) are the study's independent variables. Political connections are measured by analyzing the index of political connections claimed by the company. According to Shukla et al. (2020)'s research, the political connection index is obtained by performing the natural logarithm of the number of political connection scores claimed by the company. According to the structural hierarchy of government roles and the status of civil servants in Indonesia, every politically connected firm employee will be awarded a score. The political connections of those who were in office during the research period and those who are no longer in office will be recognized in the scoring. This computation considers the progression of the political connection index and the existence of companies without a political connection (Tao et al., 2017).

Executive characteristics are measured by calculating the company's risk using the EBITDA standard deviation equation (earnings before income tax, depreciation, and amortization) divided by the company's total assets (Alabede, 2018; Ravenda et al., 2015). The scale of the company's risk indicates whether the company's executives are risk-takers or risk-averse. The higher the company's risk indicates that the company's executives are risk-takers. Conversely, the lower the company's risk indicates that the company's executives are risk-averse.

Corporate governance (CG) as a moderating variable is determined by dividing the number of recommendations that have been applied by the company, including a total of recommendations based on the Financial Services Authority's Circular Letter's recommendations, Number

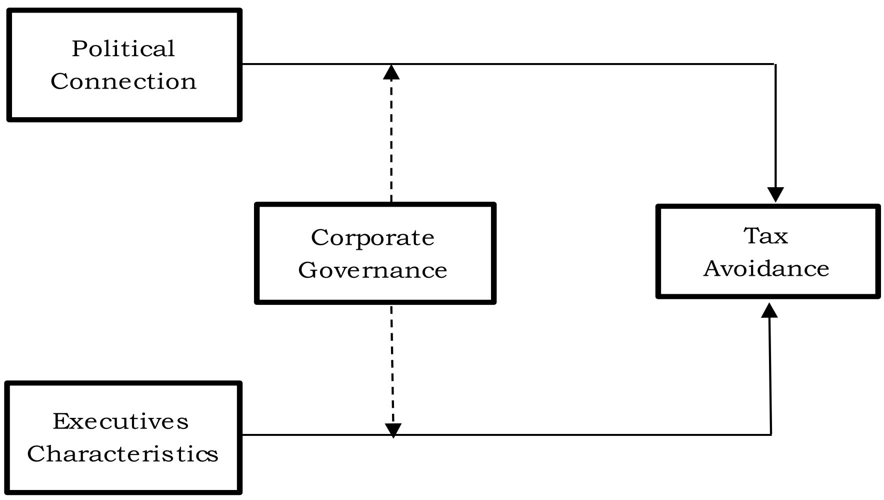

Figure 1. Conceptual Design

Tabel 3. Regression Test Results

Equation	Variables	B	T	Significantly
i	(Constant)	-0,049	-0,583	0,28
	PC	-0,003	-0,821	0,206
	RISK	-0,021	-2,073	0,019
	SIZE	0,01	3,169	0,001
	ROA	0,092	1,597	0,055
	PPE	0,087	3,429	0
ii	(Constant)	-0,051	-0,611	0,271
	PC	-0,003	-0,821	0,206
	RISK	-0,02	-1,997	0,023
	SIZE	0,009	3,055	0,001
	ROA	0,091	1,578	0,058
	PPE	0,089	3,467	0
	CG	0,012	0,678	0,249
iii	(Constant)	-0,067	-0,772	0,22
	PC	-0,005	-1,18	0,119
	RISK	-0,015	-1,393	0,082
	SIZE	0,01	3,16	0,001
	ROA	0,118	1,988	0,024
	PPE	0,084	3,251	0
	CG	0,011	0,64	0,261
	PC*CG	0,003	0,196	0,422
	RISK*CG	0,072	2,037	0,021

32/SEOJK.04/2015, relating to Public Company Governance Guidelines. The Open Corporate Governance Guidelines contain five aspects, eight principles, and 25 recommendations. The measurement refers to the this letter because it has been guided by international practice, taking into account the sector and industry of the company as well as the size and complexity of a public company.

Company size (SIZE/LN of total assets), profitability (ROA/profit after taxes divided by total assets), and fixed assets of the company (PPE/net fixed asset value divided by total assets) are the study's control variables. The control variable was included in this research to ensure that the analysis results were not biased. Because the control variable is thought to affect the independent variable, the control variable is utilized to control the impact between the independent and dependent variables.

Multiple linear regression and moderated regression analysis (MRA) were utilized to analyze the data in this study. Multiple linear regression analysis is used because this method is simple and easy to understand but still produces powerful insights. The strength of the impact of the independent variables on the dependent variable can be determined using regression analysis. This method can be used to predict future values and can perform parallel calculations, which makes the analysis process shorter. Meanwhile, moderated regression analysis is used because the regression equation in this study contains elements of multiple interactions that can be used to multiply two or more variables. The study conducted a classical assumption test before completing the regression analysis to ensure that the regression equation was unbiased and consistent in its estimation.

RESULTS AND DISCUSSION

Multiple linear regression analysis and moderated regression analysis were used to analyze ion. The regression outcomes in this research are presented in Table 3.

Based on Table 3, there are 3 equations result. The intention of equation (i) is to investigate the impact of political connections and executive characteristics on tax avoidance (ETR). The effect of moderating variables such as corporate governance on political connections and executive characteristics on tax avoidance is investigated using equations (ii) and (iii). The equation model formed regarding the data in table 3 consists of the following equations:

ETR = -0,049 - 0,003KP - 0,021RISK + 0.010SIZE + 0,092ROA + 0,087PPE + e (i)

ETR = -0,051 - 0,003KP - 0,020RISK + 0,012CG + 0,009SIZE + 0,091ROA + 0,089PPE + e (ii)

ETR = -0,067 - 0,005KP - 0,015RISK + 0,011CG + 0,003CG*KP + 0,072CG*KE + 0,010SIZE + 0,118 ROA + 0,084PPE + e (iii)

It can be shown from the regression equation formed by the equations (i), (ii), and (iii) that each variable influences corporate tax avoidance in a distinct way. Political connections and executives characteristics indicate a negative impact with effective tax rate, whereas corporate governance, firm size, profitability, and fixed assets have a positive impact. The coefficient with a negative sign on the effective tax rate means that it increases tax avoidance. At the same time, the coefficient with a positive sign means that it decreases tax avoidance.

The effect of political connection on tax avoidance. Table 3 shows the significance value for the political connection variable. This indicates that the political connection has no bearing on tax avoidance. Previous research suggests that political connections positively impact tax avoidance, implying that politically connected companies are more tax aggressive than unconnected companies (Kim & Zhang, 2015; Oktavia, 2020; Wu et al., 2012). Furthermore, Ding et al. (2021), explained that politically connected companies are more tax aggressive because those that encounter a lower risk of detection, faceless capital market pressure for transparency, experience lower political costs associated with aggressive tax planning, have impact from organizational features in tax regulation or enforcement and have higher risk-taking tendencies. In contrast to prior research, the present findings indicate that political connections have no bearing on tax avoidance. This study is similar to a study conducted by Selivanovskaya et al. (2015), which discovered that the more political connections a firm maintains, the less it exploits those connections to commit tax avoidance. Companies with government ownership are regarded as companies that conform to established regulations and will not use considerable power to avoid taxes, thus degrading the reputation of government institutions.

Even though political connections provide multiple benefits, as described by Ding et al. (2021) and Kim & Zhang (2015), the findings of this study are somewhat dissimilar. Companies with political connections are believed to get adequate control from the government. As a result, companies are attempting to reduce tax avoidance. According to Reimsbach et al. (2018), various rules, including tax obligations, have been adopted to regulate firms' sustainability. A political connection is a special relationship that a firm has with the government or a political party that is the subject of scrutiny and supervision from various sources (Assidi & Omri, 2017).

The presence of political connections in the firm cannot affect the company's decision on positively impacting the degree of scrutiny from various parties and the existence of rules that control taxes related to companies with a special relationship. This is supported by Sudibyo & Jianfu (2016), who argues that politically connected companies are subjected to strict government supervision and evaluation, including contributions in tax payments, encouraging companies to follow the government's various regulations. Similarly, Deng et al. (2020) stated that the government's engagement in the company should lead to tighter oversight by regulators, the press, and the general public. Companies with political connections will become more restrained due to increased scrutiny from multiple parties and will be less inclined to participate in risky corporate activities like tax avoidance.

As a result, the research findings contradict with Ling et al. (2016)'s statement that companies are more likely to have conflicts of interest regarding political connections. The composition of the company's board does not affect the character of the company's executives in the making, even though it contains conflicts of interest as described by agency theory. The government's engagement in a company causes the compansomewhate more cautious in making business decisions and consider the long-sequences on its reputation and good name. However, this study provides empirical evidence that political connections are not a determining factor in corporate tax avoidance. In addition, researchers suspfirms' sustainabilityming more compliant due to the high level of transparency of information that is openly available to the government and the public.

The effect of executive characteristics on tax avoidance. Table 3 shows the the executive characteristic variable has a significance value with a negative coefficient. This indicates that the executive characteristic variable hurts the effective tax rate. The coefficient with a negative sign on the ETR means that it increases tax avoidance, or in other words, has a positive effect on tax avoidance. These findings lead to the conclusion that executive characteristics have a positive impact on tax avoidance. The results of this study are consistent with those of other earlier investigations (Platikanova, 2017; Wardani & Susilowati, 2020) which declares the executive character with corporate risk proxy has a positive impact on tax avoidance. The more executive committee as risk-taker, tax avoidance can be highly increased. Company executives are more likely to be opportunistic and make risky decisions due to a lack of control from the principal.

The findings of this study can be related to the theory of agency, which is the study's basic foundation. This theory explains that tax avoidance is one of the risky actions companies take, which is not determined by company executives' policies. Risk-taking executives are more inclined to make high-risk decisions to maximize corporate value and thus are more likely to advocate for tax avoidance. This is backed by Zhang et al. (2021), who claim that executives with risk-taking characteristics are primarily concerned with increasing corporate value. Additionally, Prastiwi & Ratnasari (2019) states that hiring company executives cannot only provide value to the company but also encourage tax avoidance. As a result, firm executives' decisions are influenced by conflicts of interest and information asymmetry. Conflicts of interest and information asymmetry are increasing because company owners supervise the activities of company executives daily to guarantee that they are complying with shareholders' intentions. This causes the decisions made by the executives to be adjusted to their interests and behave with the most significant amount of risk to maximize profit while ignoring the consequences that the company's owner will have to bear (Amara & Khlif, 2020).

Executives with a risk-taking preference are expected to have higher cash flows due to their bravery in deciding on high-risk decisions (Hidayah & Rahmawati, 2019). This is made to balance the risks that come with decision-making courage. Tax avoidance will reduce the amount of tax that the company will have to pay. The mall tax expense that the company must pay has the impact of increasing the company's cash flow. Wardani & Susilowati (2020) research supports that idea, suggesting that executives' daring creates the high value of corporate risk to take risks (risk takers) to increase company profits through tax avoidance. The findings of this research add to the empirical evidence for the scientific field of accounting that high-risk executives might increase a company's penchant for tax avoidance.

The effect of corporate governance political connections and tax avoidance. Table 3 shows that the moderating variable, corporate governance, does have a significant value on the impact of political relationships on tax avoidance. This demonstrates that corporate governance is powerless to prevent the effects of political connections on tax avoidance. According to previous research, corporate governance hurts tax avoidance (Amstrong et al., 2015; Bischoff & Krabel, 2017; Chan et al.,2013; Ferraresi et al., 2019). Corporate governance can mitigate the potential of avoiding paying taxes. In contrast to prior research, this research showed that corporate governance does not affect tax avoidance. This indicates that corporate tax avoidance linked to politics is unaffected by corporate governance implementation. This study is consistent with Wahab et al. (2017)'s argument that there is little indication that corporate governance reduces the impact of political connections in facilitating tax avoidance. Furthermore, Wahab & Holland (2012) also found that corporate governance could not mitigate the potential implications of information asymmetry between principals and agents related to taxes.

The conclusions of this study differ from those of earlier research in that the previous explanation stated that companies with political connections receive optimal evaluation and supervision from the government and tend to maintain an excellent corporate image, thus avoiding conflicts of interest and not being aggressive towards taxes (Assidi & Omri, 2017; Selivanovskaya et al., 2015; Sudibyo & Jianfu, 2016). The presence of corporate governance as a moderating variable does not affect the politically connected company's decision to take tax avoidance actions because the political connection does not encourage information asymmetry and conflicts of interest that trigger companies' involvement in tax avoidance actions as described in the agency theory.

Politically connected companies apply corporate governance to companies, not as a solution to minimize tax avoidance. The application of corporate governance is allegedly only intended to fill the regulations from the Financial Services Authority. Pratiwi & Siregar (2019) backs this viewpoint, stating that well-structured corporate governance does not always imply an effective corporate governance system for resolving agency problems. This is because the corporate governance process exists solely to ensure that regulations are followed and that the government's requirements are met. The engagement of the board of commissioners as company supervisors is one of the components of corporate governance. Lassoued & Attia (2014)'s research discovered that the existence of an independent panel of commissioners is frequently simply to meet regulatory demands and serve affiliate interests. An increase in independent commissioners can obstruct coordination in monitoring, particularly oversight of tax avoidance methods, resulting in some aspects of corporate governance being focused entirely on regulatory compliance. Although the findings do not support the study's theoretical background, namely agency theory, this result may provide additional empirical evidence that corporate governance is not a determining factor in tax avoidance among politically connected firms.

The effect of corporate governance on executive characteristics and tax avoidance. Table 3 shows that corporate governance on the influence of executive characteristics on tax avoidance has a significance value with a positive signal coefficient. When the value of the regression coefficient is positive, it implies that any increase in the variable's value will increase ETR or decrease tax avoidance in the presence of a moderating variable. This shows that corporate governance can weaken the effect of executive characteristics on tax avoidance. This study's outcomes are consistent with those of earlier research (Amstrong et al., 2015; Bischoff & Krabel, 2017; Chan et al., 2013; Ferraresi et al., 2019), which found that tax avoidance can be reduced by implementing corporate governance and weakening the influence of executive characteristics on tax avoidance (Pearl, 2016; Rijkers et al., 2017; Noviari, 2019). This suggests that using corporate governance as a moderating variable can reduce the probability of company executives taking risks.

One of the riskier acts committed by company executives is tax avoidance, which reflects the amount of the tax burden disclosed in the financial statements (Gashenko et al., 2017). Tax avoidance is accomplished by failing to record or disclose in a manner that is inconsistent with the actual situation of income that can be taxed on financial statements (Chang et al., 2020). The presence of good corporate governance can reduce the likelihood of tax avoidance due to financial statement information disclosure. Furthermore, according to Noviari (2019), high transparency can help balance the quantity of information possessed by management, owners, and other stakeholders with a stake in the company. The balance of information within the company can lessen internal agency conflicts, such as financial statement fraud that leads to aggressive tax proceedings. Applying corporate governance will control agents to ensure they are not aggressive in tax management. Good corporate governance can encourage agents to comply with existing regulations constantly, thus minimizing actions that could hurt companies and can help to reduce self-serving executive behavior as company managers (Amstrong, 2015).

Differences in risk preferences and poor control of the principal can affect the character of executives as company managers tend to take risky decisions and actions (risk takers). In addition to providing high transparency, optimal supervision from various parties will prevent the company's executives from taking dangerous activities such as tax avoidance. Corporate governance is believed to improve monitoring from multiple sources, including internal and external stakeholders and the government (Faccio, 2016). The more stringent supervision and tracking are executed, the more it will hinder and influence the decision of the executive to engage in tax avoidance (Puspita et al., 2021). The decision-making process will be more effective with good corporate governance, resulting in fewer risky decisions, increased efficiency, and better work culture. Good corporate governance can help reduce instances of management abuse of power (Zhang et al., 2016). The implementation of good corporate governance, particularly in the accounting field, will improve the quality of the company's financial statements. Management will avoid manipulating financial statements due to the necessity to follow various applicable accounting laws and principles and the transparent presentation of information. According to Kaawaase et al. (2021)'s findings, implementing corporate governance can improve the quality of financial statements.

Furthermore, according to Zhang et al. (2016), incorporating corporate governance principles such as transparency and accountability can result in developing an accounting system based on accounting standards and best practices that ensure the quality of financial reports and disclosures. Openness and honesty are essential in accounting because users and the market rely on them to ensure that accountants (as financial statement preparers) and auditors (as financial statement testers or examiners) have published accurate information that has been prepared with diligence and care, as well as that all of the company's financial information is presented relatively (Scharfenkamp, 2016). In conclusion, the findings add to the corpus of knowledge in the field of tax accounting by implying that good corporate governance minimizes the likelihood of firm executives engaging in dangerous acts such as accounting fraud that lead to aggressive tax enforcement.

The effect of control variables on tax avoidance. Table 3 shows that the size of a company hurt tax avoidance (the positive coefficient on ETR). These results support the research conducted by Chen et al. (2021) and Khlif & Amara (2019). Large-scale companies tend to become the main focus of attention by the government and encourage the management to guarantee their compliance in managing their taxes (Hidayah & Rahmawati, 2019). The company does not want to take the chance of going through an investigation procedure that may result in a negative perception of the company's long-term. Furthermore, according to Darcy (2017), companies that are organized into large sizes can prevent tax avoidance activities because large companies have more resources and thus are better able to pay taxes. Francis et al. (2016) backed up this claim by stating that those with a larger size are thought to be able to achieve higher profits, leading to a higher tax liability than companies with a smaller scope.

Variable fixed assets also hurt tax avoidance (the positive coefficient on ETR). These findings follow those Chen et al. (2021) conducted, which state that companies with fixed assets will pay the depreciation expense, reducing company profits. Smaller profits indicate that the tax liability born by the company is also getting smaller. Therefore, the company does not avoid taxes because the tax rate imposed is already low due to depreciation on fixed assets, which can decrease the company's tax expense. The findings of this research contradict the agency theory. The agent and the principal may not have a conflict of interest because of the firm's size and fixed assets. Thus, the company is not taxed evading. However, this study provides empirical evidence that firm size and fixed assets are not leading factors for tax avoidance.

CONCLUSION

According to the conclusions of this investigation, political connections are not a causative factor for avoidance actions because companies with political connections are believed to be subject to government scrutiny and supervision, as well as the existence of rules that control taxes related to companies with unique relationships. However, companies are more aggressive in tax avoidance because of executive characteristics. Tax avoidance can be significantly increased with the executive committee as the risk-taker. This backs up the agency theory, which claims that information asymmetry and a conflict of interest between the principal and the agent create tax avoidance. Since the executives, have the firm's manager, has more information about the company, the tends to maximize his interests while ignoring the interests of the company's owner. Executives could be prone to taking risky actions caused by a lack of control and monitoring from the principal.

Furthermore, corporate governance is not a determining factor in tax avoidance among politically connected firms because politically connected firms apply corporate governance ostensibly to comply with applicable regulations rather than to minimize tax avoidance. Conversely, good corporate governance might reduce the incentive for company executives to engage in risky activities such as falsified financial statements that lead to tax avoidance. Corporate governance is an internal control system in a corporation whose essential aim is to minimize the company's business risks and accounting fraud by implementing optimal supervision and high transparency through good corporate governance, which is thought to be capable of decreasing tax avoidance acts executed by company executives and can create added value for stakeholders.

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