

THE EFFECT OF POLITICAL CONNECTIONS, TRANSFER PRICING, AND FIRM SIZE ON TAX AVOIDANCE PRACTICES

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Abstract

This empirical study aims to examine the influence of political connections, transfer pricing, and company size on tax avoidance. Tax avoidance is part of earnings management and is a strategy employed by companies to minimize their tax payments without violating existing laws and regulations. This research is significant due to the phenomenon where several companies are detected making efforts to avoid taxes. The research employs a quantitative method and uses secondary data. The population in this study consists of mining companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2021. Using purposive sampling, 113 samples were meticulously chosen to represent the population, resulting in 93 observation data points. The analysis methods used include descriptive statistical analysis and multiple linear regression analysis. In this study, tax avoidance is quantified through Cash ETR (Effective Tax Rate). The objective is to empirically elucidate the impact of political affiliations, transfer pricing, and company size on tax avoidance among mining firms listed on the IDX from 2018 to 2021. Utilizing multiple linear regression analysis, the research revealed that transfer pricing significantly influences tax avoidance practices, while political connections and company size do not demonstrate such an effect.

Keywords: Political Connection, Transfer Pricing, Company Size, Tax Avoidance

PENGARUH KONEKSI POLITIK, *TRANSFER PRICING*, DAN UKURAN PERUSAHAAN TERHADAP PRAKTIK PENGHINDARAN PAJAK

Abstrak

Penelitian ini merupakan studi empiris yang bertujuan untuk menguji pengaruh koneksi politik, *transfer pricing*, dan ukuran perusahaan terhadap penghindaran pajak. Penghindaran pajak merupakan bagian dari manajemen laba. Penghindaran pajak merupakan strategi yang dilakukan perusahaan dan bertujuan untuk meminimalkan pembayaran pajaknya tanpa melanggar peraturan perundang-undangan yang berlaku. Penelitian ini penting untuk dilakukan karena adanya fenomena dimana beberapa perusahaan terdeteksi melakukan upaya penghindaran pajak. Metode penelitian yang digunakan dalam penelitian ini adalah metode kuantitatif dan data yang digunakan adalah data sekunder. Populasi dalam penelitian ini adalah perusahaan pertambangan yang terdaftar di Bursa Efek Indonesia (BEI) periode tahun 2018 – 2021. Dengan menggunakan metode *purposive sampling* didapatkan sebanyak 93 data observasi. Metode analisis yang digunakan adalah analisis statistik deskriptif dan analisis regresi linear berganda. Dalam penelitian ini, penghindaran pajak diukur melalui Cash ETR (Effective Tax Rate). Hasil penelitian ini mengungkapkan bahwa transfer pricing berpengaruh signifikan terhadap praktik penghindaran pajak, akan tetapi koneksi politik dan ukuran perusahaan tidak berpengaruh terhadap penghindaran pajak.

Kata Kunci : Koneksi Politik, Transfer Pricing, Ukuran Perusahaan, Penghindaran Pajak

INTRODUCTION

Taxation stands as a pivotal pillar in fueling a nation's progress. Virtually every country, Indonesia included, relies significantly on tax-generated state income. As highlighted by Indarto & Widarjo (2021), the 2019 State Budget (APBN) attributed 82.5% of state revenue to the taxation domain. Abdani (2020) underscores the stability of tax revenue when shielded from global economic shifts. This realization has spurred the Indonesian government to proactively boost tax earnings, its primary fiscal source, manifesting a heightened commitment to fortify the tax landscape. Such endeavors signal the nation's pursuit of refining its tax system, hinting at potential shortcomings in tax revenue due to instances of tax avoidance.

Tax avoidance represents a legally permissible approach adopted by taxpayers, aligning with established tax regulations without conflict. It's essentially a clear-cut tax reduction method facilitated through strategic tax planning. The variance in perspectives between the government and taxpayers contributes to this practice, with the government perceiving taxes as obligatory state contributions while some taxpayers strategically decrease their income to evade tax liabilities. While not inherently illegal, tax avoidance remains ethically dubious, breaching moral standards. This behavior significantly diminishes state revenues, as noted by (Irawan et al., 2020).

Tax avoidance, influenced by diverse factors, is the focal point of this study, particularly examining specific variables: political connections, transfer pricing, and company size. Political connections offer companies advantages, potentially leading to preferential treatment from the government. Indarto & Widarjo (2021) highlight that companies with political ties enjoy easier access to governmental protection, reduced tax scrutiny, fostering a more aggressive tax planning approach. Such connections also enable companies to swiftly secure government funds amid financial crises.

Transfer pricing contributes significantly to tax avoidance practices, representing a company policy governing transaction pricing between interconnected entities. Essentially, it involves altering prices or profits within a corporate group, often exploited to minimize taxes and maximize overall profits. Company size, gauged by total assets owned, correlates with the complexity of transactions, allowing larger entities to engage in tax reduction strategies, leveraging tax avoidance practices for lower tax rates.

Per data sourced from the Ministry of Finance's APBN for 2014-2018, while tax revenue effectiveness showed improvement, the actual revenue fell short of predetermined targets consistently. The realized tax revenues in these years—92.1% in 2014, 81.5% in both 2015 and 2016, 90.1% in 2017, and 92.3% in 2018—underscore this discrepancy. This variance may stem from several factors, including tax management strategies involving corporate tax avoidance practices.

One specific instance involved PT Adaro Energy Tbk and its subsidiary in Singapore, Coaltrade Services International, engaging in a transfer pricing scheme from 2009 to 2017. This strategy was allegedly orchestrated to underpay taxes in Indonesia by an estimated 1.75 trillion, as documented by (Laila et al., 2021).

This study uses a sample of mining companies listed on the IDX from 2018-2021. This population was chosen because according to the Corruption Eradication Commission (KPK), the mining sector is a sector that is quite vulnerable to tax avoidance practices. KPK records

related to tax shortages in the mining sector in the forest area are IDR 15.9 trillion per year. Until 2017, non-tax state revenue (PNBP) arrears in the mineral and coal sector reached IDR 25.5 trillion. This shows the high amount of potential state revenue that is lost each year.

Previous studies on tax avoidance reveal conflicting findings. For political connections, Indarto & Widarjo (2021) found a negative effect, while Abdani (2020) and Nurrahmi & Rahayu (2020) reported a positive effect. Transfer pricing studies also show mixed results: Laila (2021) and Irawan (2020) indicated a negative effect, whereas Nurrahmi & Rahayu (2020) and Lutfia & Pratomo (2018) found a positive effect. On company size, Aulia & Mahpudin (2020) and Putri & Putra (2017) noted a positive impact, but Primasari Nora (2019) observed a negative impact.

Based on the phenomenon of tax avoidance practices that occur and the differences in results from various previous researchers in factors that affect tax avoidance practices, researcher is motivated to examine "The Effect of Political Connections, Transfer Pricing, and Company Size on Tax Avoidance Practices" in the mining company sector listed on the IDX in 2018-2021.

LITERATURE REVIEW

Agency Theory

Jensen & Meckling (1976) Agency Theory delineates the implications arising from the separation of roles between principals and agents within a company, often leading to agency predicaments. This conceptual framework addresses the indirect management of businesses by owners, entrusting managerial tasks and interests to appointed agents. Agency Theory explicates the dynamic between company management, acting as agents, and shareholders, functioning as principals. Primarily employed to scrutinize relationships between multiple principals and agents, it aims to mitigate conflicts of interest costs (Indarto & Widarjo, 2021).

In this context, principals represent shareholders or company proprietors, while agents denote management entities entrusted with overseeing the principals' assets. As managers of these assets, agents bear the responsibility to operate the company in alignment with the principals' directives, seeking to augment the principals' wealth. Reciprocally, the principals compensate agents through salaries, bonuses, and assorted work incentives. Within this dynamic, agents are empowered by the principals to make decisions conducive to the best interests of the governing principal.

Misalignment in objectives and deviations in the conduct of agents and principals from the initial agreement to satisfy personal objectives invariably lead to conflicts of interest between these parties. Principals, seeking substantial returns in a short period for their investments, evaluate managerial performance based on the generated company profits. Conversely, managers, incentivized by personal gain and aiming to optimize operational activities, strive to maximize profits for principals to secure desired incentives.

Political Cost Hypothesis

Positive accounting theory itself has three hypotheses, namely the bonus programme hypothesis, the debt hypothesis and the political cost hypothesis. In this section, the researcher used the political cost hypothesis because it is stated that a company often avoids public attention because it will be more burdensome in terms of finance and reputation. A company

tends to avoid government attention if it gets a large amount of profit or profit, otherwise the company will become a large tax target. Large firms reduce periodic earnings more often than small firms because firm size can be characterised as a part of the political process. The political process is not much different from the market process, managers have an incentive to earn as much profit as possible in a political process.

Positive accounting theory comprises three primary hypotheses: the bonus program hypothesis, the debt hypothesis, and the political cost hypothesis. This results in companies tending to take an opportunistic action for the selection of accounting policies used to reduce taxable income. This practice is perceived as an endeavor to minimize corporate tax liabilities through strategic tax planning, considered a legal measure as it abides by existing laws and regulations.

Tax Avoidance

Tax avoidance represents a strategic maneuver undertaken by both corporate entities and individual taxpayers to minimize their tax burdens by leveraging ambiguities present within a country's tax laws and regulations. It commonly manifests in cross-border commercial dealings, particularly among interconnected companies. The practice involves the deliberate crafting of strategies and methodologies to lawfully sidestep tax obligations, while ensuring compliance with pertinent tax provisions. This often involves identifying and capitalizing on loopholes and deficiencies within tax regulations and statutes.

Tax avoidance is often referred to and equated with tax planning where here, there are actions that have the aim that the company can avoid unwanted high tax costs. Tax avoidance here can indeed be declared not illegal and safe to do, but in practice, it can be said that morally this tax avoidance practice is considered completely unethical for the government because tax avoidance practices can reduce state treasury revenues. This often causes the government to be confused and encounter a dilemma situation in dealing with this tax avoidance practice (Prebble and Prebble, J., 2010).

Political Connections

Political connections entail the interplay between a company and governmental spheres, often manifested through a government official's affiliations with a company or their ownership stake within it. Companies actively cultivate and sustain favorable ties and associations with political entities within the government, aiming to secure various governmental safeguards, including reduced risk of tax audits. Such advantages can drive certain companies toward a more assertive stance in tax planning, potentially impacting financial transparency (Indarto & Widarjo, 2021).

These affiliations hold substantial utility, allowing companies to potentially diminish their tax liabilities while also facilitating direct engagement with the central government (Kim & Zhang, 2016). In nations like Indonesia, numerous companies are identified as having affiliations and robust connections within the government. For instance, some companies integrate government officials into their stakeholder structure, occasionally positioning these officials in specific roles within the company.

Transfer Pricing

Transfer pricing involves the exchange of goods or services among different segments within a corporate group at levels of pricing deemed unjustifiable. These discrepancies often

manifest as efforts to artificially inflate or deflate prices. Referred to as intercorporate pricing, intracompany pricing, internal pricing, or interdivisional pricing, it encompasses pricing strategies recalibrated to facilitate management objectives, specifically overseeing the transfer of goods and services among corporate entities.

Typically employed by multinational corporations or entities operating across multiple jurisdictions under a centralized directive, transfer pricing transactions occur among parties possessing a particular relationship, often categorized as a special relationship. This specialized association, as defined in the Statement of Financial Accounting Standards (PSAK) No. 7 of 2010, pertains to the ability to exert control or wield substantial influence over other involved parties in decision-making processes.

Company Size

The size of a company is determined through an assessment of various factors, including total assets, stock market valuation, average sales, and overall sales figures. A company exhibiting substantial total assets often signifies promising long-term prospects and reflects stability, indicating its capability to yield profits.

Moreover, larger companies tend to access capital markets more effortlessly, offering increased accessibility to investors seeking comprehensive information for making informed decisions regarding share investments. Consequently, investors often perceive such companies as having favorable prospects, positioning them as viable considerations for investment choices.

HYPOTHESIS DEVELOPMENT

Political Connection to Tax Avoidance Practices

As per the political cost hypothesis, companies exhibit a preference for specific accounting policies to mitigate the impact of income tax, deeming income tax itself as a political expense. This inclination prompts companies to adopt opportunistic measures in selecting accounting policies aimed at reducing taxable income. Such actions represent endeavors to curtail corporate tax liabilities through tax planning, a maneuver perceived as legally permissible given its adherence to existing laws. In line with this hypothesis, companies may seek to alleviate political costs, including tax burdens, leveraging their political connections with officials either within the company's hierarchy or among governmental positions.

Abdani (2020) asserts that political connections, observed through share ownership and the composition of the board of commissioners and directors, significantly influence tax avoidance behaviors. This suggests that companies perceiving themselves as beneficiaries of favorable affiliations are more inclined to engage in tax avoidance practices, presuming protection from detailed scrutiny by tax authorities. Based on these findings, the researcher proposes the following hypothesis:

H1: Political connections have a positive effect on tax avoidance practices

Transfer Pricing on Tax Avoidance Practices

According to Pratiwi & Pramita (2021), transfer pricing involves setting transaction prices between related parties, often by intentionally inflating or deflating prices. This method is frequently utilized as a reasonable approach in tax avoidance strategies, allowing companies to adjust reported profits to minimize tax liabilities.

Aligned with the political cost hypothesis, government taxation policies necessitate companies to pay taxes commensurate with their profits. This creates pressure on companies, potentially reducing their profits due to consistent tax obligations to the state. Consequently, companies may seek to shift their tax burdens to jurisdictions with lower tax rates by adjusting product prices downward when transferring tax responsibilities to entities in other countries. Based on this scenario, the following hypothesis can be formulated:

H2: Transfer pricing has a positive effect on tax avoidance practices

Company Size on Tax Avoidance Practices

The research conducted by Dewinta & Setiawan (2016) revealed a positive correlation between company size and tax avoidance practices. Larger companies, possessing substantial assets, demonstrate enhanced capacity to generate consistent profits. Consequently, they face heightened tax burdens, incentivizing them to engage in tax avoidance strategies. Aulia & Mahpudin (2020) study similarly asserts that company size influences tax avoidance behaviors, emphasizing that larger corporations adeptly manage their tax affairs through meticulous planning, aiming for optimal tax savings.

According to the agency theory, agents use company resources to maximize their performance to receive more compensation by reducing the company's tax costs while also utilizing various tax avoidance strategies. Based on these findings, the proposed hypothesis is as follows:

H3: Company size has a positive effect on tax avoidance practices.

METHODS

Research Design

This study aims to empirically examine the influence of political connections, transfer pricing, and company size as independent variables on tax avoidance as the dependent variable. The research is designed with a causal research design, which will explain and demonstrate the cause-and-effect relationships between variables. This will be achieved by testing various hypotheses based on preformulated theories. The data collected will be calculated and analyzed using a quantitative approach. This quantitative approach involves the collection, interpretation, and analysis of data using numerical methods.

Population and Sample

The study's population comprises mining companies listed on the Indonesia Stock Exchange from 2018 to 2021. The sampling method employed is purposive sampling, driven by predetermined criteria. These criteria are outlined as follows:

1. Mining companies that maintained their listing status without delisting between 2018 and 2021.
2. Mining companies that were not classified as State-Owned Enterprises (SOEs) throughout the 2018-2021 period.
3. Mining companies that fulfilled tax payment obligations within the 2018-2021 timeframe.
4. Mining companies that reported a positive nominal value for profit before tax between 2018 and 2021.
5. Mining companies providing complete datasets relevant to this study during the specified period.

OPERATIONAL DEFINITION OF VARIABLES

Dependent Variable

Tax Avoidance

Tax avoidance is the strategic reduction of tax liabilities through lawful means in compliance with established regulations. In this context, the measurement of tax avoidance relies on the Cash Effective Tax Rate (CETR), calculated by dividing cash spent on tax costs by the profit before tax (Kurniati & Apriani, 2021). CETR serves as an accurate representation of actual tax payments made by a company, unaffected by estimation costs such as tax shelters or valuation allowances.

CETR serves as an indicator for assessing tax avoidance levels; a higher percentage, surpassing the corporate income tax rate of 25%, signifies reduced tax avoidance. Conversely, a lower CETR, falling below the corporate income tax rate, indicates heightened tax avoidance. A company aiming for tax avoidance endeavors to lower its taxable income while maintaining financial accounting profits. Consequently, a low CETR reflects an income tax expense smaller than the pre-tax income. According to Nurrahmi & Rahayu (2020), CETR is calculated as the tax cash spent on payments divided by the total profit before tax:

Indicator: $CETR = (\text{Tax Payment}) / (\text{Profit Before Tax})$

Independent Variable

Political Connections

Political connection is a company's strategy to validate and maintain a positive relationship with several politicians through various contributions or involvement and the handover of a position on the board of directors to politicians (Indarto & Widarjo, 2021). The political connection variable is explained by a dummy variable which will be coded 1 (one) if the company has political connections and 0 (zero) otherwise. The criteria utilized by the researcher to ascertain the presence of political connections draw from the studies of Fajri (2020) and Nurrahmi & Rahayu (2020), encompassing:

1. A company is deemed politically connected if any of its directors or commissioners hold positions within the executive cabinet, the House of Representatives, governmental roles (including the military), or affiliations with a political party.
2. The company is identified as having political ties if any directors or commissioners previously held positions in the House of Representatives, the executive cabinet, or governmental institutions, including the military.
3. Political connections are recognized if any directors or commissioners have close familial ties (father, mother, child, sibling) to members of the House of Representatives, former executive cabinet members, or former officials within government institutions, including the military.
4. A company is considered politically connected if an owner/shareholder holds at least 25% ownership and holds positions within the executive cabinet, the House of Representatives, governmental roles (including the military), or is affiliated with a political party.

Transfer Pricing

Transfer pricing involves establishing transactional prices between entities holding a special relationship. It encompasses transactions among affiliated companies defining policies

for pricing goods or services in these transactions. Companies commonly employ transfer pricing tactics to shift profits to affiliated entities situated in different countries with lower tax rates. To achieve this, companies may engage in unconventional transactional schemes, such as decreasing purchase prices or inflating sales prices, aiming to diminish taxable profits. These irregular transactional maneuvers are categorized as tax avoidance practices through transfer pricing schemes. The transfer pricing calculation indicator is measured by the accounts receivable of related parties divided by the company's total receivables (Fitri & Pratiwi, 2021).

Indicator: $TP = (\text{Accounts Receivable from Related Parties}) / (\text{Total Receivables})$

Company Size

The size of a company is often gauged by its total asset value, assessed through logarithmic calculations. Larger companies, typically possessing extensive total assets, often yield higher profits due to the complexity of their transactions. This complexity occasionally provides leeway for exploiting existing loopholes, allowing for acts of tax avoidance in individual transactions (Barli, 2018). Company size, determined by total assets, serves as an indicator of a company's maturity and long-term viability; greater asset holdings generally signify promising prospects for sustained operations. Comparatively, companies categorized as large in size exhibit enhanced capacity and operational stability, resulting in more robust profit generation compared to those with smaller asset holdings.

According to Aulia & Mahpudin (2020), increased profitability within a company correlates with heightened tax liabilities. The resulting tax burden compels companies to consider tax avoidance practices as a means to mitigate these obligations. In this context, the proxy utilized to measure company size involves computing the natural logarithm of a company's total assets.

Indicator: $\text{Firm Size} = \text{LN}(\text{Total Assets})$

Hypothesis Testing

This study employs multiple regression analysis to examine the relationship between independent and dependent variables. Multiple regression involves using more than one independent variable to predict the outcome of the dependent variable. The multiple regression equation is represented by the following formula:

$$\text{CETR} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Description:

CETR= Tax Avoidance α = Constant

β = Regression coefficient

X_1 = Political Connection

X_2 = Transfer Pricing

X_3 = Company Size

RESULTS AND DISCUSSION

Population and Sample

Based on the criteria that have been determined in accordance with the purposive sampling technique, the details of the sample used are as follows:

Table 1. Sampling Breakdown

No.	Sample Selection Criteria	2018	2019	2020	2021
1	Mining companies listed on the IDX during 2018-2021	45	45	47	72
2	Companies that disclosed their financial statements during the period 2018-2021	-2	-2	-3	-5
3	Exclusion of state-owned enterprises (SOEs) within the 2018-2021 timeframe	-3	-3	-3	-2
4	Companies that fulfilled their tax payments during the period 2018-2021	-2	-1	0	-2
5	Companies without receivables from related entities/parties within the 2018-2021 period	-6	-7	-4	-11
6	Companies that have negative pre-tax profit during the period 2018-2021	-10	-9	-19	-20
7	<i>Outlier</i> data	-1	-1	0	0
8	Total	21	22	18	32
Total sample size in the study period				93	

Source: Secondary data processing results, 2023

Descriptive Statistics

The descriptive statistical analysis serves the purpose of delineating the fundamental characteristics exhibited by the sample utilized within this study. Subsequently, Table 2 illustrates the outcomes derived from the descriptive statistical analysis:

Table 2. Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
CETR	93	.009	3.243	.40223	.410536
PC	93	.000	1.000	.62366	.487094
TP	93	.000	1.000	.29130	.321363
Log_FS	93	24.20	32.34	29.4442	1.60873
Valid N (listwise)	93				

Sumber : Hasil olah data sekunder, 2023

Table 2 presents key statistics regarding the research sample, comprising 93 companies. For the dependent variable, tax avoidance, statistics reveal a range from a minimum of 0.009 to a maximum of 3.243. The mean value is calculated at 0.40223, with a standard deviation of 0.410536.

Regarding the first independent variable, political connections, the data indicate 57 instances coded as 1, signifying political connections, while 36 instances are coded as 0,

indicating the absence of political connections. Moving to the second independent variable, transfer pricing, observations vary from a minimum value of 0.0000 to a maximum of 1. The mean value stands at 0.29130, with a standard deviation of 0.321363. Finally, the third independent variable, firm size (FS), exhibits a range from a minimum of 24.20 to a maximum of 32.34. The mean value is calculated at 29.442, with a standard deviation of 1.60873.

Normality Testing

The normality test is conducted to assess whether both the regression model and the residual variable adhere to a normal distribution. The decision-making criterion relies on the probability value, where a probability > 0.05 signifies a normal distribution for the regression model. Conversely, if the probability value is < 0.05, it indicates a deviation from normality. The normality testing procedure is outlined as follows:

Table 3. Normality Testing Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		93
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.37948922
Most Extreme Differences	Absolute	.115
	Positive	.115
	Negative	-.103
Kolmogorov-Smirnov Z		1.110
Asymp. Sig. (2-tailed)		.170

a. Test distribution is Normal.

b. Calculated from data.

Source: Secondary data processing results, 2023

Table 3 displays the outcomes of the Kolmogorov-Smirnov test, indicating normal distribution within the data. This inference is drawn from the significance probability value of the residuals, which registers at 0.170. Typically, data is deemed to exhibit a normal distribution when the probability value exceeds 0.05.

Classical Assumption Testing

The classic assumption test is employed to evaluate the assumptions inherent in the multiple linear regression model. Rahmawati et al. (2018) assert that a robust regression model must adhere to the BLUE criteria (Best, Linear, Unbiased, and Estimated). Consequently, this study will subject the regression model to tests for multicollinearity, heteroscedasticity, and autocorrelation to ensure its alignment with these criteria.

Tabel 4. Multicollinearity Testing Results

Model		Coefficients ^a	
		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	PC	.907	1.102
	TP	.742	1.348
	LN_FS	.723	1.384

a. Dependent Variable: CETR

Sumber : Hasil olah data sekunder, 2023

Table 4 exhibits the outcomes of the Multicollinearity test, revealing Variance Inflation Factor (VIF) values for political connections, transfer pricing, and company size as 1.102, 1.348, and 1.384, respectively. As all VIF values are < 10 and the tolerance values are < 1, it can be inferred that no multicollinearity exists among the variables.

Table 5. Autocorrelation Test Results

Runs Test	
Test Value ^a	Unstandardized Residual
Cases < Test Value	46
Cases >= Test Value	47
Total Cases	93
Number of Runs	43
Z	-.937
Asymp. Sig. (2-tailed)	.349

Source: Secondary data processing results, 2023

In Table 5, the results of the autocorrelation test using the Run Test exhibit an Asymp. Sig (2-tailed) value of 0.349. Given that this value surpasses the significance level of 0.05, it can be inferred that no autocorrelation is present within the data.

Table 6. Heteroscedasticity Test Results

Model		Coefficients ^a			t	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	-.888	.648		-1.371	.174
	PC	.059	.064	.100	.924	.358
	TP	.152	.108	.168	1.408	.163
	LN_FS	.036	.022	.198	1.638	.105

a. Dependent Variable: ABS_RES

Source: Secondary data processing results, 2023

Table 6 presents the outcomes of the Glejser Test conducted, indicating the significance values for the political connection, transfer pricing, and company size variables as 0.358, 0.163, and 0.105, respectively. Given that all three values surpass the significance threshold of 0.05, it can be inferred that the regression model shows no signs of heteroscedasticity.

Multiple Regression Analysis Testing

The researcher employed multiple regression analysis to examine the impact of independent variables, namely political connections, transfer pricing, and company size, on tax avoidance practices. This analysis was conducted at a significance level of 0.05, as referenced in Ghozali (2018), to ascertain the influence these variables exert on the dependent variable.

Table 7. Multiple Regression Testing Results

Model	Coefficients ^a				
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-1.779	.875		-2.034	.045
PC	.150	.087	.178	1.733	.087
TP	.372	.145	.292	2.563	.012
LN_FS	.067	.029	.263	2.285	.025

a. Dependent Variable: CETR

Source: Secondary data processing results, 2023

Table 7 shows the regression coefficient of the constant and each independent variable so that the regression model in this study can be taken, namely:

$$\text{CETR} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

$$\text{CETR} = -1,779 + 0,150 \text{ PC} + 0,372 \text{ TP} + 0,067 \text{ FS}$$

Description:

CETR= Tax Avoidance

α = Constant

β = Regression coefficient

X1= Political Connection

X2= Transfer Pricing

X3= Company Size

ε = Error

Hypothesis Testing

The examination of hypotheses in this study involves the utilization of multiple linear regression models. This analysis incorporates the assessment of various statistical metrics including the coefficient of determination (R^2 test), the simultaneous significance test (F test), and the partial significance test (t test). These metrics collectively contribute to comprehensively evaluate the hypotheses under consideration.

Table 8. Test Results of the Coefficient of Determination (R²)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.381 ^a	0.146	0.117	0.385832

a. Predictors: (Constant), LN_FS, PC, TP

Source: Secondary data processing results, 2023

Table 8 elucidates that the adjusted R-square value stands at 0.117, equivalent to 11.7%. This value signifies that the independent variables collectively possess an explanatory capacity of 11.7% toward the dependent variable.

Table 9. Simultaneous Significance Test Results (F Test)

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.257	3	.752	5.053	.003 ^a
	Residual	13.249	89	.149		
	Total	15.506	92			

a. Predictors: (Constant), Log_FS, PC, TP

b. Dependent Variable: CETR

Source: Secondary data processing results, 2023

Table 9 illustrates a significance probability value of 0.003, which is smaller than the significance threshold of 0.05. This suggests that the regression model aptly fits the data, indicating the feasibility of employing the regression model. This inference suggests that the independent variables collectively exert a simultaneous impact on the dependent variable.

Table 10. Partial Significance Test Results (t Test)

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-1.779	.875		-2.034	.045
	PC	.150	.087	.178	1.733	.087
	TP	.372	.145	.292	2.563	.012
	LN_FS	.067	.029	.263	2.285	.025

a. Dependent Variable: CETR

Source: Secondary data processing results, 2023

Table 10 indicates that when the significance probability value is smaller than 0.05, the independent variable is deemed to have an influence on the dependent variable. Conversely, a significance probability value greater than 0.05 suggests the independent variable lacks

influence on the dependent variable. The results of the hypothesis testing via the t test are as follows:

1. First Hypothesis Test (H1):

The political connection variable yields a sig. value of 0.087, thus not supporting the first hypothesis.

2. Second Hypothesis Test (H2):

The transfer pricing variable records a sig. value of 0.012, hence supporting the second hypothesis.

3. Third Hypothesis Test (H3):

The company size variable registers a sig. value of 0.025, consequently supporting the third hypothesis.

DISCUSSIONS

The Effect of Political Connection on Tax Avoidance Practices

In Table 10, the findings indicate that political connections do not exert any discernible impact on tax avoidance. This suggests that companies, despite possessing political connections, refrain from leveraging their political influence to evade taxes.

These conclusions challenge the correlation between agency theory and tax avoidance through political connections. Typically, agency conflicts arise when one of the involved parties holds political ties that instigate conflicts. Additionally, these results contradict the political cost hypothesis, which posits that larger companies tend to manipulate profit reporting compared to smaller ones.

Aligned with the research by Pratiwi & Pramita (2021), this study affirms that companies, despite political affiliations, maintain tax compliance by making substantial contributions to the nation through tax payments. Consequently, the hypothesis confirms that heightened political connections within a company do not correlate with increased tax avoidance practices.

The Effect of Transfer Pricing on Tax Avoidance Practices

In Table 10, the findings affirm the influence of transfer pricing on tax avoidance. These results align with the hypothesis testing, suggesting a correlation between agency theory and transfer pricing. The disparity in ownership between principals (shareholders) and agents (managers) creates an agency problem, as shareholders, desiring increased profits, resort to transfer pricing tactics to facilitate tax avoidance and augment corporate earnings.

These outcomes resonate with the research by Pratiwi & Pramita (2021), which underscores that companies utilize transfer pricing maneuvers to manipulate earned profits, thereby minimizing incurred tax costs. Leveraging the vagueness in tax provisions, companies shift income or assets to subsidiaries in countries with notably lower tax rates, often termed as tax haven countries.

Conclusively, stemming from the second hypothesis, it's evident that heightened transfer pricing activities correspond to increased levels of tax avoidance. Heightened asset or receivable transfers to related entities lead to diminished company profits, subsequently reducing the tax liabilities of the company.

The Effect of Company Size on Tax Avoidance Practices

In Table 10, the findings underscore the significant impact of company size on tax avoidance. These results elucidate that larger companies tend to engage in tax avoidance strategies to mitigate the substantial tax liabilities they face.

The conclusions drawn from the hypothesis testing establish a correlation between agency theory, tax avoidance practices, and company size. Agents within organizations often utilize company resources to optimize their performance compensation by minimizing tax costs through various tax avoidance methods.

This research corroborates findings by Aulia & Mahpudin (2020), affirming that larger companies, endowed with more substantial assets and income, face heightened tax burdens. Consequently, these companies resort to intricate tax planning strategies to execute tax avoidance practices, aiming for optimal tax savings.

Conclusively, based on the third hypothesis, it's evident that both high and low company sizes influence the level of tax avoidance practices within an organization.

CONCLUSION

Based on the research results, the following conclusions can be drawn: Political connections have no effect on tax avoidance practices. Transfer pricing affects tax avoidance practices. Company Size affects tax avoidance practices. The limitation in this study is that the independent variables studied in this study, namely political connections, transfer pricing, and company size, are less able to explain tax avoidance because the adjusted R squares value is only 11,7%. For future researchers, it is hoped that they can add a research period in order to obtain clearer and more accurate results and add several variables in subsequent studies that are expected to affect the level of tax avoidance practices. For company management, it is hoped that it can confirm and improve policies within the company in order to prevent tax avoidance actions and practices.

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