EDUCORETAX
Volume 5 No.2, 2025

THE INFLUENCE OF POLITICAL CONNECTIONS, CORPORATE GOVERNANCE, AND FINANCIAL DISTRESS ON TAX AGGRESSIVENESS

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Abstract
Tax aggressiveness is a common practice among companies aiming to minimize their tax burdens through various tax planning strategies. This study investigates the influence of political connections, corporate governance, and financial distress on tax aggressiveness. The research focuses on consumer goods manufacturing companies listed on the Indonesia Stock Exchange (IDX) as the sample. Political connections are measured using a dummy variable, corporate governance is measured using the Global Reporting Initiative (GRI) Standards Content Index 2021, while financial distress is measured using the Altman Z-Score (non-banking). Tax aggressiveness is proxied by the effective tax rate (ETR). The findings indicate that political connections have a negative and significant effect on tax aggressiveness. This suggests that companies with political ties tend to engage less in aggressive tax planning, possibly due to higher scrutiny from regulators or reputational concerns. In contrast, corporate governance is found to have a positive and significant impact on tax aggressiveness. Meanwhile, financial distress does not show a significant effect on tax aggressiveness. This study contributes to the literature on tax aggressiveness by providing empirical evidence on the role of political connections, corporate governance, and financial distress in shaping corporate tax behaviour.
Keywords: Corporate Governance, Financial Distress, Political Connections, Tax Aggressiveness

INTRODUCTION

In 2024, there was an increase in the national revenue target in accordance with the 2024 State Budget Plan (RAPBN) amounting to IDR 2,781.3 trillion, with the tax revenue target for 2024 set at IDR 1,986 trillion, reflecting a 9.3% growth from the 2023 outlook. In response to this increase, the Minister of Finance, Sri Mulyani, instructed the Directorate General of Taxes to implement improvements to achieve this target (Warta Ekonomi, 2024). The World Bank, in its latest report, stated that one in four Indonesian companies is involved in tax avoidance. This indicates Indonesia's low tax revenue due to weak compliance, particularly related to tax avoidance practices commonly carried out by formal companies (Bisnis.com, 2024).

This phenomenon reflects that despite the government's continuous efforts to increase tax revenue, aggressive tax practices remain a significant obstacle to optimizing state income. Tax avoidance activities, particularly among large corporations, remain a significant concern for the government as they can reduce the tax base and adversely impact state revenue, especially in developing countries such as Indonesia. In response to this challenge, the Directorate General of Taxes (DJP) has implemented various strategic measures, including tax intensification and extensification, as well as stricter law enforcement. These efforts are expected to minimize aggressive tax practices while simultaneously promoting greater taxpayer compliance.

Tax aggressiveness is one of a critical issue in the world of taxation. Many companies do tax planning to minimize their tax abilities (Sugeng et al., 2020). Taxes represent a significant cost to the firm and shareholders, and it is generally expected that shareholders prefer tax aggressiveness. According to Aris et al. (2023), tax aggressiveness is a managerial strategy employed by companies to reduce the tax burden to an amount lower than what should be paid. This practice arises due to conflicting interests between business entities as taxpayers and the government, which is responsible for collecting taxes for the benefit of the state. Meanwhile, according to Hanum & Faradila (2023), tax aggressiveness refers to an action

aimed at minimizing a company's taxable income through tax planning, either by means of tax avoidance (legal) or tax evasion (illegal).

One of the factors frequently associated with tax aggressiveness is political connections. Companies with ties to government officials, political parties, or incumbent legislators often gain privileged access to information, policies, or strategic decisions that can be leveraged to reduce tax burdens. Political connections refer to networks or relationships established between individuals or groups and influential entities within the bureaucratic, regulatory, and legal domains (Primasari et al., 2024). Previous research has yielded mixed results. Studies conducted by Ardillah & Vanesa (2022) found that political connections do not influence tax aggressiveness. However, research by Rustiarini & Sudiartana (2021) and Anggraini & Widarjo (2020) revealed that political connections have a positive and significant impact on tax aggressiveness.

In addition to political connections, corporate governance plays a crucial role in determining the degree of tax aggressiveness. Firms with poor governance tend to be more aggressive in their tax strategies due to weak oversight and internal control mechanisms. Corporate governance refers to a system designed to direct and regulate business activities to ensure the effective and efficient use of resources. Good governance considers shareholder interests through internal mechanisms while addressing stakeholder concerns through external mechanisms (Firmansyah & Estutik, 2020). Research by Rennath & Trisnawati (2023) indicates that corporate governance disclosure significantly influences tax aggressiveness.

Another factor influencing tax aggressiveness is financial distress. Companies experiencing financial distress are more inclined to minimize their tax burdens to sustain business continuity. Financial distress is defined as a condition in which a company's operational cash flow is insufficient to meet its financial obligations upon maturity, even if its operational activities continue (Aris et al., 2023). Research by Aris et al. (2023) found that financial distress significantly affects tax aggressiveness. However, a different finding was presented by Sipayung et al. (2023), who argued that financial distress has no impact on tax aggressiveness.

This study aims to analyze the effects of political connections, corporate governance, and financial distress on tax aggressiveness. A quantitative approach employing multiple regression analysis is used to examine the relationships between the variables under investigation. Specifically, this study seeks to assess how political connections influence tax aggressiveness, analyze the role of corporate governance in shaping corporate tax strategies, and evaluate the impact of financial distress on tax aggressiveness. Furthermore, this study explores the interaction among these three factors in determining corporate tax aggressiveness levels.

LITERATURE REVIEW

Agency Theory

Agency theory, as explained by Jensen & Meckling (1976), describes a contractual relationship in which one or more parties (principals) appoint another party (agent) to perform services on their behalf, including delegating decision-making authority. In the relationship between owners (principals) and managers (agents) within a company, conflicts of interest often arise when managers make decisions that benefit themselves rather than the owners. This divergence of interests creates an agency problem, where managers may prioritize short-term financial performance or personal incentives over the long-term value of the company.

In the context of tax aggressiveness, managers may engage in tax avoidance practices to increase company profits, which can indirectly enhance their compensation. Tax aggressiveness, which includes various tax planning strategies to minimize tax liabilities, can

be seen as a double-edged sword within agency theory. On one hand, reducing tax expenses can enhance shareholders' wealth by increasing net income. On the other hand, aggressive tax planning may expose the company to reputational risks, legal scrutiny, and potential penalties, which can harm shareholders in the long run.

Trade Off Theory

The Trade-Off Theory developed by Brigham & Houston (2019) explains that in determining capital structure, firms must balance the benefits of debt utilization, such as tax savings from interest expenses (tax shield), with the associated risks, including bankruptcy costs and agency costs. In the context of tax aggressiveness, this theory is particularly relevant as firms weigh the advantages of tax avoidance strategies, including capital structure optimization, against potential risks such as tax penalties, increased regulatory scrutiny, and negative impacts on reputation and stakeholder relationships. While aggressive tax strategies can enhance cash flow by reducing tax liabilities, excessive implementation may lead to financial uncertainty and conflicts with regulators. Therefore, in accordance with the principles of Trade-Off Theory, firms must identify an optimal balance between tax savings and potential risks to ensure financial stability and long-term business sustainability.

Political Connections

According to Faccio (2006), companies with political connections to officials or government institutions tend to gain advantages, such as easier access to government contracts, financing opportunities, or more lenient regulatory treatment. Political connections enable firms to leverage these relationships to reduce tax burdens through privileged access to beneficial information and policies, as well as potential protection from strict tax oversight. Emphasizing that the relationship between firms and political actors can create a mutually beneficial symbiosis (Hillman et al., 2009).

Political Cost Theory

The Political Cost Theory, which is part of the Positive Accounting Theory developed by Brigham & Houston (2019), posits that large firms are more vulnerable to political pressure. Consequently, these firms tend to engage in earnings management to avoid high taxes or stringent regulations. This theory also argues that companies under strict government oversight or with high political exposure are more likely to adopt accounting policies that reduce reported earnings. The primary objective is to mitigate the risk of government intervention, minimize tax burdens, and avoid negative attention from the public and regulators.

Stakeholder Theory

Stakeholder Theory, developed by Freeman et al. (2018), asserts that companies are not only accountable to shareholders but also to various stakeholders, including employees, customers, the government, and the broader society. This theory serves as a foundation for corporate decision-making, including tax strategy. According to Hanlon & Heitzman (2010), tax aggressiveness—reflecting a company's efforts to minimize tax burdens—is influenced by pressure from multiple stakeholders. Regulators and society, who have a vested interest in business sustainability, tend to encourage companies to adopt more transparent and responsible tax policies (Lanis & Richardson, 2013). Conversely, shareholders often prioritize profitability, thereby driving more aggressive tax strategies. Consequently, companies face the challenge of balancing the interests of various stakeholders to ensure that tax aggressiveness strategies remain aligned with ethical principles and sustainability considerations.

Corporate Governance

Shleifer & Vishny (1997) state that corporate governance relates to mechanisms that ensure management acts in the best interests of shareholders. Komite Nasional Kebijakan Governansi (2021) defines corporate governance as the structures and processes used to direct and manage a company to achieve sustainable growth and corporate accountability while

considering the interests of all stakeholders. Effective corporate governance involves rigorous oversight through independent boards of commissioners, audit committees, and financial transparency. Consequently, good corporate governance is expected to minimize tax aggressiveness practices.

Financial Distress

Financial distress occurs when a company struggles to meet its short-term obligations and faces the potential risk of bankruptcy. Altman (1968) developed the Z-score model to predict bankruptcy risk based on financial ratios such as liquidity, profitability, and leverage. Companies with low Z-scores are considered to be in a financially risky condition. In such situations, firms tend to seek ways to reduce costs, including tax burdens, as part of their efforts to sustain operations amid financial pressures.

Political Connections and Tax Aggressiveness

Kim & Zhang (2016) revealed that firms with strong political connections are more likely to engage in tax avoidance due to the assurance of political protection, which can reduce the risk of scrutiny from tax authorities. Research on political connections and tax aggressiveness has yielded mixed results. Ardillah & Vanesa (2022) found that political connections do not influence tax aggressiveness. In contrast, studies conducted by Rustiarini & Sudiartana (2021) and Anggraini & Widarjo (2020) indicate a significant positive effect of political connections on tax aggressiveness.

Firms with political connections generally have easier access to policies and information that can be leveraged to minimize tax burdens. Based on previous findings and variations in research results, this study formulates the following hypothesis:

H_1*: Political connections have a positive effect on corporate tax aggressiveness.*

Corporate Governance and Tax Aggressiveness

A study conducted by Rennath & Trisnawati (2023) found that corporate governance disclosure significantly influences tax aggressiveness. Companies with strong corporate governance typically have effective oversight mechanisms, such as the presence of an independent board of commissioners, an audit committee, and financial reporting transparency. These mechanisms can reduce management's potential engagement in aggressive tax practices due to stricter supervision of managerial decisions and actions. Another study by Dyah et al. (2023) found that corporate governance has no impact on tax avoidance. This finding indicates that measuring corporate governance using the Governance Disclosure Score is still ineffective in minimizing tax avoidance practices.

Based on this discussion, this study formulates the following hypothesis:

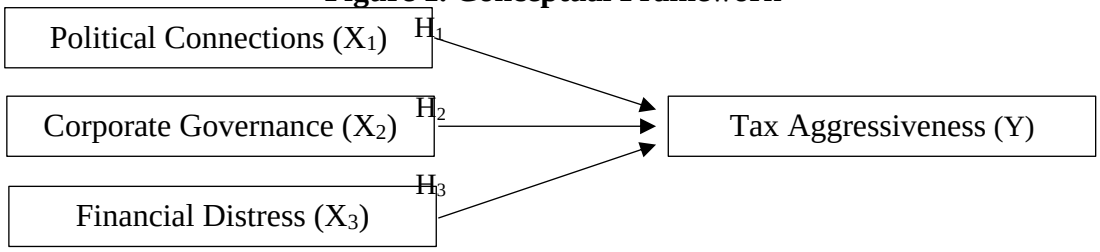
H_2*: Good corporate governance has a negative effect on tax aggressiveness.*

Financial Distress and Tax Aggressiveness

Research by (Aris et al., 2023) suggests that financial distress influences tax aggressiveness. Companies under financial pressure often seek ways to reduce their tax burden to maintain business sustainability. However, contrasting findings were reported by Sipayung et al. (2023), who found that financial distress does not significantly impact tax aggressiveness. These inconsistencies may stem from differences in firm characteristics or financial conditions analyzed. Based on these findings, this study proposes the following hypothesis:

H_3*: Financial distress has a positive effect on corporate tax aggressiveness.*

Figure 1. Conceptual Framework



METHODS

Research Design

This study aims to examine the relationship between independent variables—namely political connections, corporate governance, and financial distress—and the dependent variable, tax aggressiveness. The data used in this study consists of secondary data obtained from the annual reports of manufacturing companies in the Consumer Goods Industry sector listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period.

Variables and Measurement

Tax aggressiveness refers to a company's tendency to minimize its tax burden through both legal strategies and other tax avoidance methods. In this study, tax aggressiveness is measured using the Effective Tax Rate (ETR), which is the ratio of tax expenses to pre-tax income. A lower ETR value indicates a more aggressive tax avoidance strategy adopted by the company. The ETR is calculated using the following formula:

$$ETR = \frac{Tax\ Expense}{Pre - Tax\ Income}$$

Political connections refer to the relationship between a company and individuals who currently hold or have previously held political positions, either directly or indirectly, with the potential to influence policies in favor of the company. In this study, political connections are measured based on the presence of active or former politicians in the company's management structure, such as the board of directors or board of commissioners. Political connections are measured using a dummy variable, where a value of 1 is assigned to companies with political connections and 0 to those without.

Corporate governance is a system comprising rules, practices, and processes used to direct and control a company to ensure that the interests of shareholders and other stakeholders are fairly accommodated. In this study, corporate governance is measured using the Global Reporting Initiative (GRI) Standards Content Index 2021, as applied by Martiningsih et al. (2025). This measurement is represented by the corporate governance disclosure ratio, which is calculated based on 89 indicators listed in the GRI Content Index 2021. The assessment of corporate social responsibility (CSR) disclosure is conducted by comparing the items in the GRI Content Index 2021 checklist with the information disclosed by companies in their sustainability reports. The Corporate Govenrance is calculated using the following formula:

$$CG\ D_i = \frac{\sum xi}{n}$$

Note:

$CG\ D_i$ = Corporate Governance Disclosure
$\sum xi$ = The number of items valued 1 for company i
n = Total number of items in the GRI (n=89)

Financial distress refers to a condition in which a company faces difficulties in meeting its financial obligations, such as debt payments or operational costs, which may lead to bankruptcy risk. In this study, financial distress is measured using the Altman Z-Score (non-banking), which evaluates the company's financial condition based on five financial ratios

reflecting aspects of liquidity, profitability, leverage, and solvency. The formula for measuring financial distress is as follows:

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$$

Note:
Z = Altman Z-Score
X_1 = Working Capital (Current Assets-Current Liabilities) / Total Assets
X_2 = Retained Earnings / Total Assets
X_3 = Earnings Before Interest and Taxes (EBIT) / Total Assets
X_4 = Market Value of Equity (Total share x Price per share) / Book Value of Total Liabilities
X_5 = Sales / Total Assets

Data Analysis

The data analysis method in this study employs multiple regression analysis to examine the influence of political connections, corporate governance, and financial distress on tax aggressiveness. Additionally, it assesses whether corporate governance moderates the relationship between financial distress and tax aggressiveness. The preparation process includes collecting secondary data from the annual reports of consumer goods manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2018–2022 period, conducting data cleaning—such as handling missing values, addressing outliers, and ensuring data consistency.

Descriptive statistics are conducted to describe the characteristics of each variable, including the mean, median, standard deviation, minimum, and maximum values. To ensure the validity and unbiasedness of the multiple regression results, several classical assumption tests are performed, such as normality tests, multicollinearity tests, heteroscedasticity tests, and autocorrelation tests. Multiple regression analysis is utilized to examine the effect of independent variables (political connections, corporate governance, and financial distress) on the dependent variable (tax aggressiveness). The model used is as follows:

$$ETR = \alpha + \beta_1\, Political\ Connection + \beta_2\, Corporate\ Governance + \beta_3\, Financial\ Distress + \epsilon$$

Note:

ETR	=	Tax Aggressiveness (Effective Tax Rate)
Political Connection	=	Dummy variable (1 if the company has political connections, 0 otherwise)
Corporate Governance	=	Corporate Governance Index
Financial Distress	=	Altman Z-Score
α	=	Constant
$\beta_1, \beta_2, \beta_3$	=	Regression coefficients for each independent variable
ϵ	=	Error term

The hypothesis testing in this study was conducted using regression analysis by examining the significance of the coefficient values. A hypothesis is accepted if the p-value of each independent variable is less than 0.05, indicating a significant effect. The regression coefficient (β) is used to assess the direction of the relationship, where a positive coefficient indicates a positive relationship, while a negative coefficient indicates a negative relationship.

Furthermore, an F-test was performed to assess the overall significance of the regression model. If the p-value of the F-test is less than 0.05, the regression model is considered significant in explaining the dependent variable.

The testing process continued with the Coefficient of Determination (R^2) test, which aims to measure the proportion of variation in the dependent variable (tax aggressiveness) that can be explained by the independent variables in the model. A higher R^2 value indicates a better model in explaining the variation in the dependent variable.

Finally, a t-test was conducted to examine the effect of each independent variable on the dependent variable individually. The effect is considered statistically significant if the p-value of the regression coefficient is less than 0.05.

Population and Sample

The population in this study comprises manufacturing companies in the Consumer Goods Industry sector listed on the Indonesia Stock Exchange (IDX) during the 2018–2022 period. The research sample was selected using the purposive sampling method based on the following criteria: (1) non-financial companies that are not subject to special tax regulations, (2) companies with complete financial reports throughout the study period, and (3) companies that provide information regarding political connections, corporate governance, and financial conditions.

Data Sources

This study utilizes secondary data obtained from various reliable sources. The primary data is derived from annual reports of companies, which are available on the official website of the Indonesia Stock Exchange (IDX) or the respective companies' official websites. These reports contain information on financial conditions, tax payments, and other relevant components. Additionally, political connections are identified through share ownership by politicians or political affiliates, as recorded in the board of directors' structure.

RESULTS AND DISCUSSION

Characteristics of Data/Sample

This study utilizes a population of companies listed on the Indonesia Stock Exchange (IDX) with an observation period from 2019 to 2023. The sample was selected using a purposive sampling method based on predetermined criteria. Following the selection and data collection process, a total of 54 companies were identified as the research sample. Given the five-year study period (2019–2023), the total number of observations used in this analysis amounts to 270. The data selection process in this study is outlined as follows:

Table 1. Sample Criteria

No	Description	Total
1	The number of Consumer Staples sector companies in the Food & Beverage subsector listed on the Indonesia Stock Exchange during the 2019–2023 period	98
2	Companies that did not consistently publish their annual reports or had incomplete data	5
3	Companies newly listed between 2019 and 2023	40
4	Companies that experienced losses during the 2019–2023 period	25
5	Companies that published financial statements in a currency other than the Indonesian Rupiah	2
6	The number of companies examined in the study	26
7	The number of years covered in the study	5
8	The total number of data observations	130

Descriptive Statistics

Descriptive statistics are used to provide a general overview of research data, including measures such as the mean, standard deviation, variance, mode, and other characteristics. According to Sugiyono (2004:169), descriptive analysis is a statistical method used to analyze data by describing the collected data as it is, without making generalizations or drawing conclusions that apply universally.

In this study, there is one dependent variable and three independent variables. Before conducting further analysis, descriptive statistical testing was performed to understand the patterns and distribution of the data. The results of the descriptive statistical analysis for each variable are presented in Table 2 below.

Table 2. Descriptive Analysis Results

	ETR	Political Connection	Corporate Governance	Financial Distress
Mean	6.890524	0.323077	0.287108	39.31284
Median	4.446814	0.000000	0.179775	10.01460
Maximum	288.7756	2.000000	1.312500	394.6652
Minimum	-19.43081	0.000000	0.000000	0.578640
Std. Dev.	25.57306	0.559836	0.332701	73.76060
Observations	130	130	130	130

Sample period: 2019-2023

The average Effective Tax Rate (ETR) of 6.89 indicates that the overall corporate tax burden is relatively low, meaning that, on average, companies pay a small amount of tax relative to their pre-tax profits. However, the maximum value of 288.78 and the negative minimum value of -19.43 reflect a substantial variation in the data. A high maximum value may indicate the presence of companies with exceptionally high tax burdens, while the negative minimum value suggests the possibility of companies receiving tax incentives or implementing tax avoidance strategies. The standard deviation of 25.57 further reinforces the indication of significant differences in tax burdens among companies.

The political connection variable in this research sample has an average value of 0.32 with a median of 0.00, indicating that most companies do not have political connections. The maximum value of 2.00 suggests the presence of firms with higher levels of political involvement, which may be associated with the presence of government officials or relationships with governmental entities. The standard deviation of 0.56 demonstrates a relatively substantial variation in the existence of political connections among the sampled firms.

Corporate governance in this study has an average value of 0.29 with a median of 0.18. The maximum value of 1.31 indicates the presence of companies with excellent corporate governance practices, while the minimum value of 0.00 suggests that some companies have not yet optimally implemented governance principles. A standard deviation of 0.33 indicates a relatively high variation in corporate governance quality across companies.

The financial distress in the research sample has an average of 39.31 with a median of 10.01. The significant difference between the mean and the median indicates an uneven data distribution, with some firms experiencing extremely high levels of financial distress. This is evident from the maximum value of 394.67, which reflects firms in highly vulnerable financial conditions. Conversely, the minimum value of 0.58 indicates the presence of firms with very stable financial conditions. The standard deviation of 73.76 further supports the finding of substantial variation in financial distress levels among the sampled firms.

Selection of the Best Model

Chow Likelihood Ratio Test (Pooled/Common VS Fixed)

The Chow Likelihood Ratio Test is conducted to compare the Common/Pooled Effects model with the Fixed Effects model. This test is performed by formulating the following hypotheses:

H_0 : The Common/Pooled Effects model is superior to the Fixed Effects model

H_1 : The Fixed Effects model is superior to the Common/Pooled Effects model

The test is conducted at a significance level of α. The test statistic used is as follows:

$$F_{obs} = \frac{(R^2_{UR} - R^2_R)/(N-1)}{(1 - R^2_{UR})/(NT-k)}$$

The decision rule for this test is to reject H_0 jika $F_{obs} > F_{\alpha;(N-1),(NT-k)}$ or if the $P-$ value $\leq \alpha$ (indicating that the Fixed Effects model is better). If either of these conditions is met, the Fixed Effects model is considered superior to the Common Effects model.

Table 3. Redundant Fixed Effects Tests

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.303524	(25,101)	0.1786
Cross-section Chi-square	36.353290	25	0.0664

Equation: PANEL
Test cross-section fixed effects

Based on the test results (Table 3), the obtained probability value is 0.0664, which is greater than the significance level of 0.05 (prob. = 0.0664 > α (0.05)). Therefore, the decision made is not to reject H_0. Since H_0 is not rejected, the Common/Pooled Effects model is considered more suitable than the Fixed Effects model in this study.

LM test/BP Test (Pooled/Common VS Random)

The Lagrange Multiplier (LM) test is conducted to compare the Common/Pooled Effects model with the Random Effects model. The hypotheses tested in this procedure are as follows:

$H_0 : \sigma_\varepsilon^2 = 0$ (the intercept is not random or stochastic)
The Common/Pooled Effects model is preferable to the Random Effects model
$H_1 : \sigma_\varepsilon^2 \neq 0$ (the intercept is random or stochastic)

The Random Effects model is preferable to the Common/Pooled Effects model. The test is conducted at a significance level of α. The test statistic used in this analysis is given by:

$$\text{LM} = \frac{NT}{2(T-1)}\left[\frac{\sum_{i=1}^{N}(\sum_{t=1}^{T} e_{it})^2}{\sum_{i=1}^{N}\sum_{t=1}^{T} e_{it}^2} - 1\right]^2$$

The decision rule for this test is to reject H_0 jika $\text{LM} > \chi^2_{\alpha;1}$ or if the $\text{P} - \text{value} \leq \alpha$ indicating that the Random Effects model is preferred.

Table 4. Lagrange Multiplier Tests for Random Effects

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	0.777210	0.486392	1.263602
	(0.3780)	(0.4855)	(0.2610)

Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

Based on the test results (Table 4), the obtained probability value is 0.2610, which is greater than the significance level of 0.05 (prob. = 0.2610 > α (0.05)). Therefore, the decision made is not to reject H_0. Since H_0 is not rejected, the Common/Pooled Effects model is considered superior to the Random Effects model in this study.

Hausman Test (Random vs Fixed)

The Hausman Test is conducted to determine whether the Random Effects or Fixed Effects model is more appropriate for use in this study. The hypotheses tested in this analysis are as follows:

H_0 : The Random Effects model is preferable to the Fixed Effects model
H_1 : The Fixed Effects model is preferable to the Random Effects model
This test is performed at a significance level of α. The test statistic used is:

$$\chi^2_{\text{obs}} = (\hat{\beta} - \hat{\beta}_{\text{GLS}})' \hat{\psi}^{-1} (\hat{\beta} - \hat{\beta}_{\text{GLS}})$$

The decision rule is to reject H_0 jika $\chi^2_{obs} > \chi^2_{\alpha;p}$ or if the *P-value* $\leq \alpha$ indicating that the Fixed Effects model is superior.

Table 5. Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.028025	3	0.9988

Equation: PANEL

Test cross-section random effects

Based on the test results (Table 5), a probability value of 0.9988 was obtained, which is significantly greater than the significance level of 0.05 (prob. = 0.9988 > α (0.05)). Therefore, the decision made is not to reject H_0. Since H_0 is not rejected, the Random Effects model is deemed superior to the Fixed Effects model in this study.

Selection of the Best Model

Based on the results of the three tests conducted, the Common Effects Model (CEM) was selected as the best model from a statistical perspective. However, this model cannot be directly interpreted without undergoing classical assumption tests. These tests aim to ensure that the model meets the necessary statistical requirements. If all classical assumptions are satisfied, the results can be interpreted directly. Conversely, if any assumption violations are detected, model transformation is required before proceeding with the final interpretation.

Classical Assumption Test

Normality / Long-run Normality Test

The residual normality test is conducted to ensure that the residuals in the regression model follow a normal distribution. The hypotheses tested in this procedure are as follows:

H_0 : $\varepsilon_i \sim N(0;\sigma^2)$ or ε_i the residuals are normally distributed

H_1 : $\varepsilon_i \nsim N(0;\sigma^2)$ or ε_i the residuals are not normally distributed

The decision criterion is based on the p-value reject H_0 p-value $\leq \alpha$. If the p-value is greater than α, the residuals can be considered normally distributed.

Table 6. Long-run Normality Test

	Statistic	Prob.
Skewness	1.034206	0.150520
Kurtosis	1.092669	0.137270
Normality	1.115306	0.572551

Sample: 1 130
Included observations: 130

Based on the test results presented in Table 6, the obtained probability value is 0.572551, which exceeds the significance level of 0.05 (0.572 > 0.05). Consequently, the decision made is not to reject H_0. This indicates that the residuals in the model follow a normal distribution. This result is consistent with the Central Limit Theorem and the Law of Large Numbers, which state that if the sample size exceeds 30, the data distribution tends to approximate a normal distribution.

Testing the Assumption of Homoskedasticity Using the Glejser Test

Homoskedasticity testing is conducted to ensure that the error variance in the regression model remains constant across all observations. The purpose of this test is to detect potential heteroskedasticity, which may lead to inefficient model estimation and less accurate analytical results. The hypotheses tested in this study are as follows:

H_0 : $E(\varepsilon_i, \varepsilon_j) = \sigma^2 \quad i = j$; or $var(\varepsilon_i^2) = \sigma^2$; indicating homoskedastic data

H_1 : $E(\varepsilon_i, \varepsilon_j) \neq \sigma^2 \quad i = j$; or $var(\varepsilon_i^2) \neq \sigma_i^2$; indicating heteroskedastic data

The decision criterion is to reject H_0 p-value $\leq \alpha$. If the p-value is greater than α, the data is considered free from heteroskedasticity. In this test, the White test is used by regressing the squared residuals on the independent variables. If no significant variables are found, it can be concluded that heteroskedasticity is not present.

Table 7. Heteroskedasticity Test: Glejser

Statistics	Value	Probability
F-statistic	3.837212	0.0114
Obs*R-squared	10.88281	0.0124
Scaled explained SS	27.04252	0.0000

Based on the test results (Table 7), the probability value obtained in the ObsR-squared* test is 0.0124, which is lower than the significance level of 0.05 (prob. = 0.0124 < α (0.05)). Consequently, the decision is to reject H_0. Since H_0 is rejected, it can be concluded that the model is not free from heteroskedasticity issues. Therefore, the selected Common Effects Model (CEM) will be adjusted using the Generalized Least Squares (GLS) method with White cross-section to produce more accurate and robust estimates against heteroskedasticity.

Testing the Assumption of No Autocorrelation Using the LM Serial Correlation Test

The assumption of no autocorrelation is tested to ensure that the residuals of the regression model are not correlated across time periods. The presence of autocorrelation can lead to inefficient parameter estimation and biased statistical test results. Therefore, the following hypothesis test is conducted:

$H_0 : \rho = 0$; or $E(\varepsilon_i, \varepsilon_j) = 0$; No correlation (No Autocorrelation)

$H_0 : \rho \neq 0$; or $E(\varepsilon_i, \varepsilon_j) \neq 0$; Correlation exists, either positive or negative (Autocorrelation)

Decision Rule: Reject H_0 if the probability value of the LM Serial Correlation test is less than 0.05.

Table 8. Durbin-Watson Statistic: 2.112419

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	1.127440	Prob. F(2,124)	0.3272
Obs*R-squared	2.321767	Prob. Chi-Square(2)	0.3132

Based on the test results presented in Table 8, the obtained probability value is 0.3132, which exceeds the significance level of 0.05. Therefore, H_0 is not rejected, indicating that the model does not exhibit autocorrelation issues. This finding suggests that the Common Effects Model (CEM) used in the analysis is reliable and robust against autocorrelation, ensuring that the estimation results are credible.

Testing the Linearity Assumption Using the Ramsey RESET Test

The linearity assumption test is conducted to ensure that the relationship between independent and dependent variables in the regression model follows a linear pattern. Linearity is crucial to maintaining the accuracy and reliability of estimation results. If the relationship between variables is not linear, the regression estimates may become biased and misleading in drawing conclusions. The hypotheses tested in the linearity test are as follows:

H_0 : The model follows a linear pattern

H_1 : The model does not follow a linear pattern

α = 0.05

Decision Rule: Reject H_0 if the probability value of the test is less than 0.05.

Table 9. Ramsey RESET Test

	Value	df	Probability
F-statistic	1.174098	(3, 123)	0.3225
Likelihood ratio	3.670443	3	0.2993

Equation: OLS
Specification: ETR, C, Political Connections, Corporate Governance, Financial Distress
Omitted Variables: Powers of fitted values from 2 to 4

Based on the test results (Table 9), the probability value obtained is 0.2993, which exceeds the significance level of 0.05. Therefore, H_0 is not rejected, indicating that the model follows a linear relationship pattern. This result confirms that the Common Effects Model (CEM) satisfies the linearity assumption and is suitable for further analysis.

Multicollinearity Test/Variance Inflation Factor (VIF)

The multicollinearity test using the Variance Inflation Factor (VIF) aims to detect the presence of high correlations among independent variables in a regression model. This test is

essential to ensure that each independent variable provides a unique contribution in explaining the dependent variable. The hypotheses tested in the multicollinearity test are as follows:

$H_0 : \rho_{ij} = 0$ for $i \neq j$ (no multicollinearity among independent variables)

$H_0 : \rho_{ij} \neq 0$ for $i \neq j$ (multicollinearity exists among independent variables)

Significance level $\alpha = 0.05$

The null hypothesis (H_0) is rejected if the VIF value exceeds 10, indicating that the independent variables exhibit multicollinearity.

Table 10. Multicollinearity Test Results/VIF

Variable	VIF
Political Connection	1.009693
Corporate Governance	1.004610
Financial Distress	1.008355

Based on these results, the decision is not to reject H_0, indicating that the model is free from multicollinearity issues. However, violations of the heteroscedasticity assumption were detected. Consequently, the selected **Common Effects Model (CEM)** was transformed using the **Generalized Least Squares (GLS)** method with a **White cross-section** approach as a corrective measure. After the transformation, the model estimation results, including regression coefficients and hypothesis testing outcomes, are presented as follows:

Table 11. Estimated Panel EGLS Model Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.477294	0.145574	30.75604	0.0000
Political Connection	-0.448114	0.120304	-3.724835	0.0003
Corporate Governance	0.696303	0.276419	2.519010	0.0130
Financial Distress	0.000487	0.000792	0.614278	0.5401
Weighted Statistics				
R-squared	0.031127	Mean dependent var		40.86108
Adjusted R-squared	0.008059	S.D. dependent var		49.72879
S.E. of regression	11.70605	Sum squared resid		17265.99
F-statistic	1.349349	Durbin-Watson stat		1.782976
Prob(F-statistic)	0.026145			

Dependent Variable: ETR
Method: Panel EGLS (Cross-section weights)
Sample: 2019-2023
Periods included: 5
Cross-sections included: 26
Total panel (balanced) observations: 130
Linear estimation after one-step weighting matrix
White period standard errors & covariance (d.f. corrected)

The statistical analysis results indicate that the R-squared value is 0.031127, while the adjusted R-squared value is 0.008059. The Durbin-Watson statistic of 1.782976 suggests no presence of autocorrelation in the model. Furthermore, the F-statistic of 1.349349 with a probability of 0.026145 indicates that the model is overall significant at a 95% confidence level.

Based on these findings, it can be concluded that the model does not suffer from multicollinearity issues. However, heteroscedasticity was detected and subsequently corrected using the GLS White Cross-Section method. Additionally, the test results reveal that political connections and corporate governance have a significant influence on tax aggressiveness, whereas financial distress does not exhibit a significant effect.

Goodness of Fit Test (Model Suitability)

Determination Coefficient Test (Adjusted R-Square Test)

The determination coefficient (Adjusted R-Square) is used to measure the extent to which independent variables can explain variations in the dependent variable. The test conducted using the EVIEWS software produced the following results.

Table 12. Determination Coefficient Results

Statistic	Value
R-squared	0.031127
Adjusted R-squared	0.008059

The Adjusted R-Square value of 0.0080 indicates that the independent variables in this study can only explain 0.8% of the variation in the dependent variable, namely the Effective Tax Rate (ETR). Meanwhile, 99.2% of the variation in ETR is influenced by other factors outside this research model. These results suggest that the effect of independent variables on ETR is relatively small, highlighting the need to consider other external factors that may have an impact.

Overall Hypothesis Significance Test (F-Test) / Simultaneous Test

The significance testing of the independent variables' effect on the dependent variable is conducted using the F-test. This test aims to evaluate whether the independent variables, collectively, have a significant effect on the dependent variable within the research model. The hypotheses tested are as follows:

$H_0: \beta_1 = \beta_2 = \beta_3 = 0$ (None of the independent variables have an effect / the model is not fit)

$H_1:$ At least one $\beta_j \neq 0$ (At least one independent variable has an effect / the model is fit)

The decision rule for this test is to reject H_0 if the F-statistic exceeds the critical value from the F-table or if the probability (p-value) is smaller than the significance level (α) of 0.05. Based on the test results obtained using the EVIEWS software, the following findings were recorded.

Table 13. F-Test Results

Statistic	Value
F-statistic	1.349349
Prob(F-statistic)	0.026145

Since the probability value of 0.026145 is smaller than the significance level (α) of 0.05, H_0 is rejected. Consequently, the research model is deemed fit at a 95% confidence level. These results indicate that the independent variables, collectively, have a significant and linear effect on the dependent variable, which is firm value.

Partial Hypothesis Significance Test (T-Test)

The researcher conducted a partial hypothesis significance test using the t-test. This test aims to analyze the individual influence of each independent variable on the dependent variable. The hypotheses tested are as follows.

$H_0: \beta_j = 0$ (The j-th variable has no effect on dividends)

$H_1: \beta_j \neq 0$ (The j-th variable has an effect on dividends)

The decision rule for the t-test is to reject H_0 if the t-statistic > t-table (1.96) or if $p - value/2 \leq \alpha$ (0.05). Based on the regression results, the obtained regression equation is as follows:

$$ETR = 4.477294 - 0.448114\ (Political\ Connections) + 0.696303\ (Corporate\ Governance) + 0.000487\ (Financial\ Distress)$$

Tabel 14. Hasil Regresi

Variable	Coefficient	t-Statistic	Probability	Conclusion
C	4.477294	30.75604	0.0000	
Political Connections	-0.448114	-3.724835	0.0003	Negative effect
Corporate Governance	0.696303	2.519010	0.0130	Positive effect
Financial Distress	0.000487	0.614278	0.5401	No effect

Political Connections and Tax Aggressiveness

The partial test results indicate that the Political Connections variable has a coefficient of -0.448114, which has a significant negative effect on the Effective Tax Rate (ETR). This is

evidenced by a t-statistic value of -3.724835, which in absolute terms is greater than the t-table value of 1.96, and a probability value of 0.0003, which is lower than the significance level (α) of 0.05. These findings suggest a significant difference in ETR between firms with political connections and those without. This study aligns with Ardillah & Vanesa (2022), Alfiyah et al. (2022), Rustiarini & Sudiartana (2021), and Fasita et al. (2022). This Study does not align withSugeng et al. (2020) and Anggraini & Widarjo (2020).

Corporate Governance and Tax Aggressiveness

Furthermore, the Corporate Governance variable has a coefficient of 0.696303, indicating a significant positive effect on ETR. This is supported by a t-statistic value of 2.519010, which exceeds the t-table value of 1.96, and a probability value of 0.0130, which is lower than the significance level (α) of 0.05. Consequently, it can be concluded that an improvement in corporate governance tends to increase ETR, assuming other variables remain constant. This study aligns with Ardillah & Vanesa (2022), Rennath & Trisnawati (2023), and Subaida & Pramitasari (2021). This study does not align with Dyah et al. (2023).

Financial Distress and Tax Aggressiveness

The Financial Distress variable has a coefficient value of 0.000487, which is not significantly positive in relation to ETR. This insignificance is supported by a t-statistic value of 0.614278, which is smaller than the t-table value of 1.96, and a probability value of 0.5401, which exceeds the significance threshold of $\alpha = 0.05$. Therefore, an increase in financial distress does not have a significant effect on ETR, assuming other variables remain constant. This study aligns with Sipayung et al. (2023) but does not align with Aris et al. (2023).

CONCLUSION

Based on the research findings regarding the influence of political connections, corporate governance, and financial distress on tax aggressiveness, the following conclusions can be drawn: First, political connections have a negative and significant impact on tax aggressiveness. This indicates that companies with political connections tend to exhibit a higher level of tax aggressiveness compared to those without such connections. Second, corporate governance has been proven to have a positive and significant effect on tax aggressiveness, suggesting that the better the corporate governance, the lower the tendency of firms to engage in tax aggressiveness. Third, financial distress does not have a significant effect on tax aggressiveness, implying that a company's financial condition is not the primary factor in determining tax aggressiveness strategies.

Implications

The findings of this study make a significant contribution to theoretical, practical, and policy domains. Theoretically, this research reinforces agency theory by demonstrating that corporate governance plays a crucial role in controlling tax aggressiveness. This aligns with the argument that stronger internal monitoring mechanisms can mitigate managerial opportunistic behavior in tax strategies. Practically, the study provides recommendations for companies to strengthen governance mechanisms, such as enhancing board independence and improving audit quality, to reduce tax aggressiveness and ensure compliance with regulations. Companies are also encouraged to increase transparency in tax reporting to minimize the risk of sanctions and the potential negative impact on their business reputation. From a policy perspective, this study offers implications for tax regulators in strengthening oversight of politically connected firms to prevent preferential treatment that could undermine the overall tax system. Furthermore, the government is expected to enhance transparency and accountability in tax policies and develop more effective regulations to prevent unhealthy tax avoidance practices.

Limitations

This study has several limitations that should be considered for future research. First, it only utilizes corporate data from the period 2019 to 2023, making the findings inapplicable to longer time frames. Second, this study focuses solely on three independent variables—political connections, corporate governance, and financial distress—without considering other factors that may influence tax aggressiveness. Third, the study employs panel data methods using the Common Effect Model (CEM) and heteroscedasticity correction with Generalized Least Squares (GLS) White Cross-Section, which may yield different results if other estimation methods or models are applied. Therefore, future research is encouraged to extend the observation period, incorporate additional independent variables, and employ different estimation methods to enrich the findings on tax aggressiveness in Indonesia.

Suggestions for Future Research

Based on the research findings and identified limitations, several suggestions for future studies are proposed. First, future research should extend the observation period to gain a more comprehensive understanding of long-term tax aggressiveness trends. Second, additional relevant independent variables, such as profitability, firm size, or ownership structure, should be included to broaden the understanding of factors influencing tax aggressiveness. Third, different analytical methods, such as the Generalized Method of Moments (GMM) or other dynamic models, should be utilized to test the consistency of research findings with various estimation approaches. Consequently, future research is expected to provide a deeper contribution to the understanding of tax aggressiveness in Indonesia.

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