

THE EFFECT OF POLITICAL CONNECTIONS, FINANCIAL STABILITY, SUPERVISORY EFFECTIVENESS AND AUDITOR TURNOVER ON TAX AGGRESSIVENESS

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Abstract

This research aims to provide empirical evidence about the relationship between political connection, financial stability, effective monitoring, and change in auditor on tax aggressiveness. Using purposive sampling, this research selects manufacturing companies that are listed in the Indonesian Stock Exchange (IDX) in the period 2018-2020 as samples. Selected company data amounted to 86, so the total observations in this research are 258 firm-years. The data examination in this research uses multiple regression with the dated panel. The results of this research indicate that political connection and effective monitoring have a significant negative effect on tax aggressiveness. Meanwhile, financial stability has a significant positive effect on tax aggressiveness. Change in auditor has no significant effect on tax aggressiveness. These results mean that the change in auditor conducted by the company can not detect tax aggressiveness.

Keywords: *Change in Auditor; Effective Monitoring; Financial Stability; Political connection; Tax Aggressiveness*

Abstract

This study aims to provide empirical evidence regarding the relationship between political connections, financial stability, supervisory effectiveness, and auditor turnover on tax aggressiveness. Using the purposive sampling method, this study selected manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the 2018-2020 period as samples. The selected company data totaled 82, so the total observations in this study were 258 companies. The test method in this study uses multiple regression analysis with panel data. The results of this study indicate that political connections and supervisory effectiveness have a significant negative impact on tax aggressiveness. Meanwhile, financial stability has a significant positive impact on tax aggressiveness. Auditor turnover has no significant effect on tax aggressiveness. These results indicate that the auditor changes made by the company cannot detect tax aggressiveness by the company.

Keywords: *Political Connection, Financial Stability, Supervisory Effectiveness, Auditor Turnover, Tax Aggressiveness*

JEL Classification: M41, M42*Submission date: 08-03-2023**Accepted date: 19-09-2023***INTRODUCTION**

Countries generally rely on the taxation sector as the main state revenue, and Indonesia is no exception. Taxes have the largest contribution to the State Budget (APBN) to support the implementation of national development and public welfare. (Marfirah & Syam, 2016). The government noted that the realization has reached Rp. 1,716.8 trillion in 2022 or equivalent to 115.6% of the target stated in Perpres 98/2022 worth Rp. 1,485 Trillion. Growth of 34.3%. The revenue has shown positive performance. Of all types of taxes, Corporate Income Tax (PPh) revenue contracted by 54.44 percent and decreased by 29.32 percent. (Santoso & Mahadi, 2021). Tax revenue from year to year has never reached its target even though the percentage of achievements has increased.

The decline in tax revenue is partly due to differences in interests between the government and corporate taxpayers. Taxes are a source of revenue in financing the administration of the government, but for companies, it is a burden that can reduce net income so companies always try to minimize their tax burden. (Firda Aulia, 2022). Therefore, taxpayers carry out accurate tax planning or *tax planning* to pay taxes appropriately and efficiently. Efforts that can be made by taxpayers are to carry out tax aggressiveness (Wira, 2022).

Andi Solikin (2022) said that the factor that can influence tax aggressiveness is political connection. Politically connected companies are companies that have close ties to the government and political entanglements (Dharma & Ardiana, 2016). (Dharma & Ardiana, 2016). Companies are considered to have political connections when *stakeholders* have a large number of shares and company officials are state officials. Political connections can lead to benefits that can be felt by the company, namely getting help from the government when experiencing financial constraints, allowing for reduced sanctions and tax audits, and protection against regulations (Ferdiawan & Firmansyah, 2016). (Ferdiawan & Firmansyah, 2017). This makes management try to improve its relationship with state officials so that these benefits can be obtained. (Ayu, Lestari, & Putri, 2017).. Companies that have strong political connections are mostly found in developing countries such as Indonesia. Political connections that occur with the government become the basis for companies to practice tax aggressiveness (Anggraeni, 2018). (Anggraeni, 2018). The existence of political connections often tends to potentially reduce the quality of financial statements due to the benefits obtained by the company so that it can increase tax aggressiveness (Anggraeni, 2018). (Sabrina, Midiastuty, & Suranta, 2020)..

Research on tax aggressiveness has previously been conducted by Sugiyarti (2017) which uses political connection variables to see the level of tax aggressiveness carried out by manufacturing companies during the 2012-2016 period. The result is that political connections have a positive effect on tax aggressiveness. Ferdiawan & Firmansyah (2017) also examines tax aggressiveness using political connection variables carried out by manufacturing companies during the 2014-2018 period which shows that political connections have a positive effect on tax aggressiveness. However, in contrast

to the results of research conducted by Ayu et al. (2017); Dharma & Ardiana (2016); Anggraeni (2018) found that political connections have a negative influence on tax aggressiveness practices.

Taxes have an unidirectional relationship, where there is one party who must pay, but on the other hand (the government) does not have any obligation to provide reciprocity to the payer. This causes taxpayers to look for ways to reduce their tax burden. The way that can be taken by taxpayers is by doing tax aggressiveness. The actions of tax aggressiveness are *tax avoidance* and *tax evasion*. (Susanto, Yanti, & Viriany, 2018).. Although it has the same purpose, there is a difference, namely *tax avoidance* is an action that does not violate applicable regulations, while *tax evasion* is an *illegal* action that violates regulations. The application of *tax avoidance* is difficult for taxpayers to do because it requires insight knowledge and competence regarding tax regulations, allowing taxpayers to carry out tax evasion. (Ardyaksa & Kiswanto, 2014).. Khlif & Achek (2015) said that *tax avoidance* refers to a violation of tax law when taxpayers do not report income that should be taxed. Taxpayers will try to hide taxable profits by utilizing loopholes from applicable tax regulations. In other words, the practice of *tax avoidance* is the falsification of tax-relevant information such as pricing inter-company goods transactions and increasing debt.

The theory of fiscal psychology was developed by Schmolders (1959) who argues about the motivation and reactions of taxpayers in a more in-depth and systematic manner. Fiscal psychology is closely related to economic and psychological factors that influence the behavioral response of taxpayers to the tax system. (Olsen, Kang, & Kirchler, 2018). Fiscal psychology emphasizes that the absence of tangible benefits from the benefits of paying taxes is the cause of the loss of taxpayer motivation to pay taxes (Hasseldine & Bebbing, 2018). (Hasseldine & Bebbington, 1991).. Taxpayer motivation in making tax payments can be seen from their financial stability. When taxpayers have stable finances, the motivation to carry out tax aggressiveness will decrease, but when it is unstable, the taxpayer's motivation will increase in carrying out tax aggressiveness. (Hafizah, Respati, & Chairina, 2017). Furthermore, when taxpayers carry out acts of tax aggressiveness and no one is watching them, the urge to do this increases so effective supervision is needed to be carried out. (Suyanto & Supramono, 2012).. In addition, audits conducted by certain parties such as auditors can find out the tax aggressiveness actions taken by taxpayers. Therefore, taxpayers when they know that their actions have been detected by the auditor will tend to change the auditors in the company to eliminate their traces (Darmayanti, Setiawan, & Supramono, 2012). (Darmayanti, Setiawan, & Ethika, 2019)

Based on previous research, it is found that financial stability hurts fraud so the more stable the company's finances, the lower the pressure to commit fraud. (Martantya & Daljono, 2013). Furthermore, the effectiveness of supervision hurts fraud so the more effective supervision is, the lower the opportunity to commit fraud. (Utomo, 2018). Auditor turnover has a positive effect on fraud so the more often the company changes auditors, the greater the indication of fraud committed by the company. (Wahyuni & Budiwitjaksono, 2017)..

This study combines political connection variables, financial stability, supervisory effectiveness, and auditor turnover to tax aggressiveness more comprehensively. Previous studies used dummy variables to measure political connections in the company. Measurement of political connections using *dummy variables* is considered less relevant in explaining the impact of political connections

because it only measures the presence or absence of a politically connected board and ignores the high and low levels of political connections of the company so that it does not explain the influence between political connections on tax aggressiveness. (Munawaro & Ramdany, 2020; Ayu et al., 2017). This study uses the number of politically connected boards, both the Board of Commissioners and the Board of Directors.

The purpose of this study is to examine the effect of political connections, financial stability, supervisory effectiveness, and auditor turnover on tax aggressiveness. The results of this study are useful for the development of theory in adding empirical evidence. In addition, this research is useful for the government in making regulations related to the practice of tax aggressiveness by companies.

LITERATURE REVIEW AND HYPOTHESES

Agency Theory

According to Jensen & Meckling (1976), an Agency relationship is a relationship that exists between the *agent* and the *principal* in performing several services with the delegation of authority in decision-making. The *principal* is the company's shareholders represented by the board of commissioners while the *agent* is the company's management represented by the board of directors. The emergence of this agency relationship between the *agent* and the *principal* results in an *agency problem*. This arises because of the existence of asymmetric information and uncertainty conditions. In a company, shareholders want a high return on their investment, while managers have an interest in getting more compensation or results from their performance. With this, there is a conflict that arises between the *agent* and the *principal*. Kurniawansyah (2018) mentioned that this conflict can lead to several problems, including the *principal* not being able to supervise the *agent* optimally in doing his job honestly or not, as well as the risks that arise when the *principal* and *agent* have different behaviors when facing risks.

In this study, *agency theory* relates to the variables of political connections and tax aggressiveness. Political connections can exacerbate agency conflicts between shareholders and managers. The existence of political connections is utilized by managers in carrying out tax aggressiveness without thinking about the impact on the company. In this agency conflict, managers will take tax aggressiveness because of the benefits they feel when politically connected such as protection of the company, weak supervision, and relationships with other parties. In addition, although shareholders are politically connected, they do not take advantage of existing political connections because shareholders are supervisors of manager behavior in terms of complying with applicable regulations and shareholders maintain a good image of the company in the eyes of third parties.

Political Connections

With the end of Soeharto's presidency in Indonesia, many entrepreneurs entered politics and participated in political parties that were previously only controlled by the bureaucratic *elite*. In 2004-2014, many businessmen switched professions to become politicians in parliament. During Soeharto's presidency, the Indonesian National Army (TNI) had a dual duty of ensuring security and socio-political stability. This made members of the military have access to policies set by the central and local governments, including policies in the business sector. Although this duty is no longer valid, there are still positions given to TNI members in the company. (Nugrahanti, Sutrisno, Rahman, &

Mardiati, 2020)..

Faccio (2006) Faccio (2006) states that a company is politically connected if at least one major shareholder, i.e. a person with 10 percent of the voting rights based on the number of shares owned or the chairman (president director, vice president director, or secretary) is a member of parliament, minister, or has a close relationship with a political figure or party. There are several reasons for companies to have political connections, namely when the market does not function well in supporting the company's business such as excessive regulations and tax burdens, so companies rely on political connections to prevent this. Furthermore, the government is known to control almost all resources in the country, so it has the power to approve projects funded by the state. (Habib, Muhammadi, & Jiang, 2017)..

Companies with political connections often practice tax aggressiveness, this is done to have a lower risk of detection because politicians protect companies connected to them. In addition, companies get faster information about changes in tax regulations that can occur in the future. (Wicaksono, 2017).

Financial Stability

Financial stability is a situation that describes the company's unstable financial condition (Skousen, Smith, & Wright, 2011). (Skousen, Smith, & Wright, 2011).. Based on SAS No. 99, a manager will face pressure if his financial stability is threatened by the state of the operating company, the state of the industry, or the economy. The pressure obtained by management to show a high level of profit will motivate managers to commit fraud in their financial statements (Tiffani, 2009). (Tiffani, 2009). Management is also often under pressure to minimize the amount of tax paid to maintain its financial stability, so it will tend to manipulate financial statements such as making transactions with an amount that is not true with the aim of reducing the tax burden to be paid. This indicator is proxied by changes in company assets.

Effectiveness of Supervision

Effective supervision is one of the ways that can be taken to minimize fraud. Today, supervision is no longer done manually but has been neatly organized with the existing system. However, if the system is deemed insufficient, the existence of an independent board of commissioners is one of the components of effective supervision. The more the number of independent commissioners, the more likely fraud can be suppressed. (Suyanto & Supramono, 2012). Therefore, the effective supervision variable indicator will be proxied by the percentage of independent commissioners in the company by comparing the number of independent commissioners with the total number of commissioners. Research Oktaviani (2017) states that effective supervision will hurt the occurrence of tax aggressiveness.

Rationalization

Rationalization is a justification for the actions taken. (Mintara & Hapsari, 2021). Rationalization is proxied by the change in the level of external auditors. If a company never changes the independent auditor when embezzlement occurs or vice versa only changes the independent auditor when embezzlement occurs, it will strengthen management's rationalization for embezzlement. This is because audit quality may decrease and independence may begin to be compromised. If this happens, the analysis can predict the occurrence of tax evasion.

Tax Aggressiveness

Tax aggressiveness is usually defined as an action that aims to engineer the company's taxable profit through tax planning using either legal or illegal means. (Suyanto & Supramono, 2012). Fulfillment of tax obligations by the company is a payment from the company to the government in a large amount so for the company it is a high burden. This causes companies to often take tax aggressiveness actions to minimize the company's tax burden. Tax aggressiveness is carried out through policies taken by company leaders. Efforts to minimize the tax burden can be taken by companies through tax management, but the practice of tax aggressiveness is the wrong decision or action. (Marfirah & Syam, 2016).

Various ways can be done in tax aggressiveness, namely moving the tax subject or tax object to a country that has special tax treatment or tax relief (*Tax Haven Country*), maintaining the economic substance of the transaction through formal selection that provides a low tax burden, and transactions that have no business substance. In the Regulation of the Directorate General of Taxes Number PER- 32/PJ/2011, there are government efforts to prevent tax avoidance, namely *transfer pricing* which is the application of the principle of business reasonableness in taxpayer transactions with parties that have a special relationship. (Sugiyarti, 2017).

The Effect of Political Connection on Tax Aggressiveness

The literature on political connections shows that they add value to the company. Faccio (2007) found that political connections influence the tax aspects of the company. The existence of preferences in supervision and weak enforcement of tax sanctions causes politically connected companies to be untouchable due to government interference in the company (Dharma & Ardiana, 2016). (Dharma & Ardiana, 2016). Politically connected companies will find it easier to carry out *tax planning* because they get various benefits when the company is politically connected such as protection from tax sanctions and low inspection carried out on the company (Butje & Tjondro, 2016). (Butje & Tjondro, 2014).. With government intervention, companies will be bolder in carrying out tax aggressiveness.

In taxation, the tax imposed on the company is a burden that must be paid by the company. The existence of a tax burden for the company can lead to *agency conflict* between shareholders and management. A politically connected board of directors can encourage tax aggressiveness because of the benefits that can be obtained by the company. The board of commissioners as the supervisor of the board of directors in the company, although politically connected, cannot always supervise the actions of the board of directors so that the board of directors has the opportunity to take tax aggressiveness so that the tax aggressiveness carried out by the company will be higher. This is in line with research from Aminah *et al.* (2017); Kim & Zhang (2016); Francis *et al.* (2012) which states that companies that are proven to be politically connected have a higher level of tax aggressiveness compared to companies that are not politically connected. The higher the number of politically connected boards, the higher the level of tax aggressiveness. Based on this description, the following hypothesis can be formed:

H₁: Political connections have a positive effect on tax aggressiveness

The Effect of Financial Stability on Tax Aggressiveness

Financial stability is a situation when the company describes its financial condition in a stable condition. Company finances are said to be stable when the company can meet current and future needs so when the company is in a stable financial condition, the pressure that arises for management is lower. According to SAS No. 99 AICPA (2002) reveals that management is faced with pressure to commit financial statement fraud when financial stability is threatened by industry, economic conditions, and unexpected situations. When the company is in a stable condition, the company's value will increase in the eyes of creditors, investors, and the public.

Financial stability is proxied using changes in assets (*ACHANGE*). Assets are wealth owned by the company so that it can show a reflection of the company. The more assets owned, the company is said to have good financial stability. This means fraud can be minimized. Conversely, if the assets owned by the company are getting less, then this indicates that the financial condition of the company is unstable. (Martantya & Daljono, 2013). Company management is often under pressure to minimize the company's tax burden to maintain financial stability, so they tend to manipulate financial statements such as manipulating the number of assets to make them look lower so that the tax burden paid is also low (Oktaviani, 2017). (Oktaviani, 2017).

Based on previous research from Suprpti (2017) stated that when the company's financial stability is unstable, management will try to keep the company's finances stable. At times, companies in a state of below-average industry growth management will commit fraud in terms of tax aggressiveness. When the lower the asset change ratio, the company will try to increase profits through tax reduction. The more stable the company's finances, the practice of tax aggressiveness will decrease. Based on the description above, a hypothesis can be formed:

H₂: Financial stability hurts tax aggressiveness

Effect of Supervisory Effectiveness on Tax Aggressiveness

Supervisory effectiveness can occur when the company has a supervisory unit that can oversee the actions taken by management in the company. The occurrence of fraud is the result of weak supervision, thus providing opportunities for managers to behave defiantly by carrying out earnings management. (Wahyuni & Budiwitjaksono, 2017). Currently, supervision is not done manually anymore but has used the system. However, if the system used is deemed insufficient in detecting fraud, the existence of a board of commissioners can be a more effective supervisory component. Companies that have weak internal controls can make it difficult for companies to monitor the performance of managers (Utomo, 2018). (Utomo, 2018). The existence of an independent board of commissioners can minimize fraud in the tax reporting process reported by management to increase the integrity of the financial statements presented. (Sihombing & Rahardjo, 2014).. According to Law Article 108 paragraph 1 explains that the function of the Board of Commissioners is to supervise company policy, and the course of management and advise the Board of Directors and it is also stated that the Board of Commissioners consists of one or more members.

Research conducted by Martantya & Daljono (2013) stated that the effectiveness of supervision hurts fraud. In this study, the proxy used is the ratio of the independent board of commissioners. With an independent board of commissioners, it is hoped that company supervision will be more effective so that fraud, in this case tax aggressiveness,

can be minimized. An independent board of commissioners that has no relationship with directors' management or other internal parties can supervise more independently. Based on the description above, a hypothesis can be formed:

H3: Supervisory effectiveness has a negative effect on tax aggressiveness

The Effect of Rationalization on Tax Aggressiveness

Based on the contents of the Auditor's Standard Statement (PSA) No.70, states that there is a tension that occurs in the relationship between management and auditors as an indication of fraud committed by the company. Wahyuni & Budiwitjaksono (2017) said that companies can change auditors to reduce the detection of fraud committed. Rationalization is proxied by auditor switching because the company changes auditors or public accounting firms intending to erase traces of corporate fraud that the previous auditor has known. (Mintara & Hapsari, 2021).

Auditors are important supervisors in financial reports. Information related to companies that commit fraud can usually be detected by auditors. The act of tax aggressiveness carried out by the company can also be known by the auditor because when the auditor audits the financial statements, he will look at the transactions that occur in the company so that the auditor can see whether the company pays taxes following what has been charged from the transactions that appear in the company. Rationalization is often associated with attitudes or assumptions that justify an unethical action according to society. When the auditor fails to detect fraud committed by the company, this attitude or assumption will increase.

The results of research conducted by Muthohiroh (2016) state that if the company changes auditors, it allows the company to practice tax aggressiveness. The more often the company changes auditors, the higher the level of tax aggressiveness. Based on the description above, a hypothesis can be formed:

H4: Rationalization has a positive effect on tax aggressiveness

RESEARCH METHODS

Population and Sample

The population used in this study are manufacturing companies listed on the Indonesia Stock Exchange (BEI) starting from the 2018-2020 period. The consideration in choosing manufacturing companies as the object of research is because manufacturing companies are relatively large companies when compared to other companies so comparisons can be made and have a great opportunity to continue to grow and develop. Manufacturing companies have shares that are resistant to the economic crisis and the products produced are still needed so that the profits generated are high which causes the tax burden to be high as well (Oktaviani, 2017). (Oktaviani, 2017). This study uses the *purposive sampling method*, namely the sampling method by considering that the sample selected based on predetermined criteria consists of 1). Manufacturing companies that publish annual financial reports on the IDX for the 2018-2020 period. 2). Companies that experienced losses during the 2018-2020 period. 3). Companies that present annual financial reports using the rupiah currency.

Data Type and Data Source

This type of research is quantitative research. The data used in the research is secondary data. The secondary data used is the annual report of all manufacturing

fraudulent acts in this case tax aggressiveness is minimized. The higher the independent companies listed on the Indonesia Stock Exchange (IDX) which is accessed through the IDX official *website*, namely www.idx.co.id. The data needed in this study are the company's tax burden, the president director, and politically connected secretary sourced from the company's financial statements, total company assets, and data on auditors who have audited the company.

Variable and Variable Measurement

Dependent Variable

This study uses tax aggressiveness as the dependent variable calculated through *CASH ETR (Cash Effective Tax Rate)*. *CASH ETR* is the ratio of tax expense to company profit before income tax is used to pay tax expenses. The measurement uses *ETR* because it does not affect changes in estimates such as tax protection. The higher the percentage of *CASH ETR* indicates that the lower the level of tax aggressiveness, conversely the lower the percentage of *CASH ETR*, the higher the level of tax aggressiveness. (Sugiyarti, 2017).

$$CASH\ ETR = \frac{Beban\ pajak}{Laba\ sebelum\ pajak} \times 100\%$$

Independent Variable

Independent variables are variables that explain or influence other variables. In this study, the variables used consist of political connections, financial stability, supervisory ineffectiveness, and rationalization.

Political Connections

When the largest shareholder or company leader (president director, vice president director, secretary) is a member of parliament, minister, or head of local government or has a close relationship with state officials and members of the TNI / POLRI, then the company is said to be politically connected. (Habib et al., 2017). The political connection variable is calculated by the number of board commissioners, both shareholders, *CEOs*, president directors, heads of departments, and secretaries who concurrently serve as members of the DPR, ministers or deputy ministers, politicians, and prominent members of political parties. (Puspitasari & Nugrahanti, 2013)..

Financial Stability

Financial stability is a condition that reflects that the company's financial condition is stable. The company's financial condition can be seen from the state of its assets, where the company's assets can describe the wealth owned by the company. The higher the ratio of changes in the company's total assets, the more stable financial stability. Therefore, the financial stability variable is measured using the ratio of changes in total assets (*ACHANGE*) (Oktaviani, 2017).

$$ACHANGE = \frac{(Total\ aset_t - Total\ aset_{t-1})}{Total\ aset_t}$$

Effectiveness of Supervision

Supervisory effectiveness is a situation when the company has supervision in monitoring company performance. The existence of an independent board of commissioners in the company can assist in overseeing each manager's performance of board of commissioners, the greater the ETR so that tax aggressiveness decreases. Therefore, Muthohiroh (2016) supervisory ineffectiveness is proxied by the ratio of the number of independent commissioners (BDOUT) with the following formula:

$$BDOUT = \text{Jumlah dewan komisaris independen} / \text{Jumlah total dewan komisaris}$$

Rationalization

Rationalization is proxied by auditor switching. The change of auditors was carried out by the company as a way to eliminate traces and reduce the detection of fraud found by the previous auditor. The more often the company changes auditors, the greater the indication of tax aggressiveness practices carried out by the company. In this study, a *dummy* variable to see the auditor changes made by the company. when the company changes auditors, a value of 1 is given, while companies that do not change auditors are given a value of 0. (Oktaviani, 2017)

Control Variables

This study uses control variables that consistently affect tax aggressiveness and are often used in previous studies, namely *leverage*, share capital, and pandemic years. *Leverage* is the level of debt used by the company in financing to cause the interest expense that must be paid by the company. The higher the *leverage* ratio, the higher the debt funding used by the company, and the higher the interest expense arising from the debt. The higher interest expense will affect the reduced corporate tax burden. Sutomo & Djaddang (2017) found that companies that have a high *leverage* value will reduce the ETR value so that the level of tax aggressiveness is higher. This study uses *Debt to Equity Ratio (DER)* in formulating Leverage (Ayu et al., 2017). (Ayu et al., 2017).

$$\text{Leverage} = \frac{\text{Total Asset}}{\text{Total Liabilitas}} \times 100\%$$

Furthermore, the control variable used is share capital. According to Income Tax Law number 36 of 2008, it states that corporate taxpayers with at least 40% of the total shares paid up on the Indonesian stock exchange and meeting certain other requirements can get a lower rate of 5%. Share capital is seen from the number of shares contained in the company's financial statements. In this study using *dummy* variables, when shares are less than 40% will be given a value of 0, while for shares more than 40% will be given a value of 1. In addition, this study uses a pandemic year, when the company's annual financial statements begin in the 2018 and 2019 periods will be given a value of 0, while for the company's annual financial statements for the 2020 period will be given a value of 1.

Data Analysis Technique

The data used in this study is panel data. Panel data is a combination of *time series data* with *cross-section* data used in hypothesis testing, before testing the hypothesis, descriptive statistical tests and classical assumption tests will be carried out. Descriptive statistical tests are used to test data by classifying it through average, maximum, minimum, and standard deviation values. The classical assumption test is divided into

several tests, namely the normality test, autocorrelation test, multicollinearity test, and heteroscedasticity test. The advantage of using panel data is that it can reduce the bias produced by individual aggregation because the number of observations provided by panel data regression is greater. There are several techniques used in panel data regression models, namely the *Ordinary Least Square (OLS)* method, *Fixed Effect Model (FE)*, and *Random Effect Model (RE)*. (Puspitasari & Nugrahanti, 2013).

The program used in hypothesis testing is *Eviews* using panel data regression analysis techniques. In determining the appropriate technique for panel data regression, several tests are used which consist of: 1). F Test (*Chow Test*) is used to see which model is better between *OLS* and *Fixed Effect*. If the p value > 0.05 then the model chosen is *OLS*, and vice versa if the p value < 0.05 then the model chosen is *Fixed Effect*. 2.) The *Hausman Test* is used to see which model is better between *Fixed Effect* and *Random Effect*. If the p value > 0.05 the model chosen is a *Random Effect*, and vice versa if the p value < 0.05 then the model chosen is a *Fixed Effect*. 3). *Breusch and Pagan Lagrange Multiplier (LM)* is used when the test results of the *Fixed Effect* and *Random Effect* models are inconsistent. If the p-value > 0.05 then the model chosen is *OLS*, if the p-value < 0.05 then the model chosen is *Random Effect*. *LM* testing is also carried out if there is a *Random Effect* or not in the study, if the p-value > 0.05 then the model chosen is a *Fixed Effect*, if the p-value < 0.05 then the model chosen is a *Random Effect*. (Putri & Supatmi, 2020)

Based on the research model above, the regression equation in hypothesis testing is as follows:

$$AP_{it} = \alpha + \beta_1 KNPL + \beta_{it2} SK + \beta_{it3} EP + \beta_{it4} RSNL + \beta_{it5} LV_{it} + \beta_6 MS + \beta CVD \varepsilon_{it6} it$$

Description:

AP: Tax Aggressiveness

α : Constant

β : Regression coefficient

KNPL: Political Connection

SK: Financial Stability

EP: Effectiveness of supervision

RSNL: Rationalization

LV: Leverage

MS: Share Capital

D: Dummy variable (0= annual financial statements 2019-2020), (1= annual financial statements 2020)

ε : Error

Hypothesis acceptance uses a 5% significance level where if the regression coefficient value is positive and the probability value is < 0.05, the hypothesis is accepted, otherwise, if the regression coefficient value is negative and the probability value is > 0.05, the hypothesis is rejected.

H₁ is accepted when β_1 is negative. The higher the number of politically connected commissioners in the company, the higher the level of tax aggressiveness carried out by the company, as indicated by the low *ETR* value. H₂ is accepted when β_2 is positive. The greater the ratio of changes in total assets of the company, the company's financial stability is said to be so that the level of tax aggressiveness is lower, which is indicated by a high *ETR*. H₃ is accepted when β_3 is positive. The higher the ratio of the independent board of commissioners owned by the company, the supervision carried out

is effective so that the level of tax aggressiveness is lower, which is indicated by a high *ETR*. H_4 is accepted when β_4 is negative. The more often the company changes auditors, the higher the level of tax aggressiveness carried out by the company, which is indicated by a low *ETR*.

RESULTS AND DISCUSSION

Research Sample Determination

The research sample used in this study is manufacturing companies listed on the IDX for the 2018-2020 period. The sample selection process is based on the sample criteria that have been determined in the table as follows:

Table 1.
Research Sample Determination

Sample Criteria	2018	2019	2020
Manufacturing companies listed on the IDX for the 2018-2020 period	175	179	182
Annual reports are not accessible during the period 2018-2020	(39)	(39)	(39)
Manufacturing companies that experienced losses during the 2018-2020 period	(19)	(23)	(26)
Manufacturing companies that do not use the value of Rupiah during the 2018-2020 period	(31)	(31)	(31)
Number of research samples	86	86	86

Source: Data processed (2022)

Descriptive Statistical Analysis

The description of the research variables provides information related to the characteristics of the research variables consisting of the number of observations, minimum value, maximum value, average value, and standard deviation. Table 2 shows the results of descriptive statistical tests as follows:

Table 2.
Descriptive Statistics Results

Variables	Obs	Min	Max	Mean	Std.Dev
AP	258	0.000	0.962	0.313	0.292
KNPL	258	0.000	0.500	0.066	0.106
SK	258	-0.445	0.626	0.073	0.131
EP	258	0.286	0.833	0.416	0.105
RSNL	258	0	1	0.000	0.279
LV	258	0.067	0.845	0.390	0.180
MS	258	0	1	0.000	0.380
CVD	258	0	1	0.000	0.472

Source: Data processed (2022)

Based on the table above, shows that the tax aggressiveness (AP) variable proxied by *ETR* in manufacturing companies listed on the IDX for the 2018-2020 period averages 0.313 with a standard deviation of 0.292. Companies that have the greatest tax

aggressiveness with the same value are PT Alakasa Industrindo (ALKA) and PT Panca Budi Idaman (PBID) in 2018 amounting to 0.000. The company that has the lowest aggressiveness is PT Chitose Internasional in 2020 amounting to 0.962.

The Political Connection Variable (KNPL) has an average value of 0.066 with a standard deviation of 0.106. The company with the highest number of politically connected members of the board of directors and board of commissioners is PT Semen Indonesia, totaling six people during 2018-2020.

The table above shows that the financial condition of the sample of manufacturing companies for the 2018-2020 period is stable because it is seen from the positive average value of 0.073, which means that the company's asset growth from year to year is in good condition and the standard deviation value is 0.131. The company with the highest financial stability is PT Indofood CBP Sukses Makmur (ICBP) of 0.626 in 2020. The company with the lowest financial stability is PT. Alakasa Industrindo (ALKA) of -0.445 in 2020.

The Supervisory Effectiveness (KEP) variable proxied by the ratio of the number of independent commissioners (BDOUT) shows that the sample of manufacturing companies for the 2018-2020 period has effective supervision with the presence of independent commissioners in the company because it is seen from the company's average value of 0.416 with a standard deviation of 0.105. This means that manufacturing companies comply with the Financial Services Authority (OJK) regulation Number 57 / POJK.04 / 2017 Article 19 which states that the percentage of the number of independent commissioners must be at least 30% of the total number of members of the board of commissioners. The company that has the largest BDOUT ratio is PT Selamat Sempurna (0.833), while the company with the lowest BDOUT ratio is PT SMGR (0.286) during the 2018-2020 period.

The Rationalization variable (RSNL) proxied by the auditor change *dummy*

variable has a standard deviation value of 0.279. This shows that the proportion of companies that have never changed auditors is greater than companies that have changed auditors, which means that during the 2018-2020 period, the average company did not carry out tax aggressiveness because auditor changes indicate fraudulent practices in finance, in this case, tax avoidance.

This study uses *leverage*, share capital, and pandemic *dummy* as control variables. *Leverage* (LV) has an average value of 0.390 from the entire sample of companies. This means that 39% of the company's assets are financed by debt while the rest is from the company's equity. The highest *leverage* ratio of 0.845 was owned by PT Alakasa Industrindo (ALKA) in 2018, while the lowest ratio of 0.067 was owned by PT Multi Prima Sejahtera (LPIN) in 2019. Furthermore, the share capital variable seen from the total number of shares traded on the IDX, namely public ownership, has an average value of 0.174 with a standard deviation of 0.380. This variable is used to see companies that get a lower tax rate if the total shares traded on the stock exchange are more than 40%. To see companies that get lower rates, this study uses a *dummy*, where companies that trade all shares on the stock exchange less than 40% are marked with 0, while companies that trade all shares on the stock exchange more than 40% are marked with 1. Furthermore, the use of *Covid-19 dummies* is the use of 2020 annual reports where the pandemic began to s

Table 3.
Distribution of The Number of Companies

Research Variables	Total	Proportion
Political Connections		
Connected	38	44,19%
Not Connected	48	55,81%
Rationalization		
There was a Change of Auditor	17	19,77%
No auditor changes	69	80,23%
Share Capital		
Public Ownership >40%	16	19,51%
Public Ownership <40%		80,49%

Source: Data Processed (2022)

Based on Table 3, out of 86 observations of manufacturing companies that have political connections, only 38 companies, or 46.34%, while the remaining 48 companies, or 55.81% do not have political connections. Political connections in these 38 companies do not all occur for 3 consecutive periods, in 3 periods there is at least 1 period of the company having political connections. Furthermore, the rationalization variable proxied by auditor switching, 17 companies have changed auditors while the remaining 69 companies have never changed auditors. The share capital variable, shows 70 companies with public ownership below 40% do not get a reduction in tax rates with a percentage of 80.49% while companies with public ownership above 40% have a proportion of 19.51%. This means that 16 samples of manufacturing companies tested did not get a tax rate reduction while the rest received a tax rate reduction.

Determination of Research Model and Classical Assumptions

Based on the test results of determining the panel data regression model estimation technique using the F Test (Chow Test), Hausman Test, and Breusch-Pagan Lagrange Multiplier (LM) Test, it shows that the *Random Effect Model* (REM) is an appropriate panel data regression model estimation technique for all research hypothesis testing. The classic assumption test using REM indicates that the research data does not meet the normality test. According to Gujarati & Porter (2009) if the appropriate panel data regression model estimation technique is the *Random Effect Model*, then the fulfillment of the classical assumption test is not absolute because the *Generalized Least Square* (GLS) estimator in the *Random Effect Model* already meets BLUE. GLS is an *Ordinary Least Square* (OLS) for variables that are changed to meet the standard assumptions of *Standard Least Square* so that the GLS estimator already meets BLUE. In this case, it means that the panel data regression model with the *Random Effect Model* is said to have met the classical assumptions. Furthermore, although the data meets the autocorrelation, multicollinearity, and heteroscedasticity tests but does not meet the normality test, hypothesis testing in this study can proceed.

Hypothesis Testing

The results of hypothesis testing using REM are shown in Table 4.

Table 4.
Hypothesis Testing Results

Variables	Tax Aggressiveness			
	Model 1			
	Coefficient	t-statistic	Prob.	Conclusion
KNPL	0.098469	2.367.992	0.0186	Hypothesis Rejected
SK	-0.103793	5.217.086	0.0000	Hypothesis Rejected
EP	0.079363	2.624394	0.0092	Hypothesis Rejected
RSNL	-0.016094	1.667813	0.0966	Hypothesis Rejected
LV	0.057363	2.382267	0.0179	
MS	-0.036892	3.183651	0.0016	
CVD	0.025257	3.183651	0.0046	
Adjusted R- Squared	0.133907	2.859611		
F-statistic	10.93368		0.0000	

Source: Data Processed (2022)

The regression coefficient of political connection (KNPL) on tax aggressiveness shows a positive direction of 0.098 with a significance level below 0.05 and the ETR proxy shows a positive value. This means that hypothesis 1 which states that political connections have a positive effect on tax aggressiveness is rejected. The higher the political connection, the lower the tax aggressiveness as indicated by the high ETR. Furthermore, the regression coefficient of financial stability (SK) shows a negative direction of 0.103 with a significance level below 0.05 and ETR shows a negative value. Thus, hypothesis 2 which states that financial stability has a negative effect on tax aggressiveness is also rejected. Furthermore, the regression coefficient of supervisory effectiveness shows a positive direction of 0.079 with a significance level below 0.05 and ETR shows a positive value. This shows that hypothesis 3 which states that supervisory effectiveness has a negative effect on tax aggressiveness is accepted. After that, the regression coefficient of rationalization (RSNL) shows a negative direction of 0.016 with a significance level above 0.05 and ETR has a positive value. Thus, hypothesis 4 which states that rationalization has a positive effect on tax aggressiveness is also rejected. In addition, *leverage* level is found to have a significant positive effect on tax aggressiveness. Furthermore, share capital is found to have a significant negative effect on tax aggressiveness and finally, the pandemic year is found to have a significant positive effect on tax aggressiveness.

Discussion

Political Connections and Tax Aggressiveness

The first hypothesis developed in this study is that political connections have a positive effect on tax aggressiveness, the higher the political connections, the higher the tax aggressiveness of the company. The test results in this study show that the higher the political connection, the lower the tax aggressiveness shown by the high ETR. This means that political connections have a negative effect on tax aggressiveness so the first hypothesis developed in this study is rejected.

The company always maintains the image and good name of the company in the eyes of stakeholders such as investors, government, and society. Companies that are politically connected, in this case, the board of commissioners and the board of directors, are companies that are considered to comply with tax regulations. (Sugiyarti, 2017). Politically connected companies are classified as low-risk taxpayers following Minister of Finance Regulation Number 71 / PMK.03 / 2010. This determination indicates that the DGT trusts the company as a taxpayer who will not carry out tax aggressiveness. In addition, the tax authorities also trust companies that have political connections by making SOEs as tax collectors. (Mulyani, Darminto, & Endang, 2012).. This means that politically connected companies are companies that are obedient in making tax payments. The results of this study are in line with research conducted by Mulyani et al (2012) which states that political connections have a negative and significant effect on tax aggressiveness. The higher the political connection, the lower the tax aggressiveness of the company.

Financial Stability and Tax Aggressiveness

The second hypothesis developed in this study is that financial stability has a negative effect on tax aggressiveness, the more stable the company's finances, the lower the company's tax aggressiveness. The test results in this study indicate that the more stable the company's finances, the higher the tax aggressiveness indicated by the low ETR. This means that financial stability has a positive effect on tax aggressiveness so the first hypothesis developed in this study is rejected.

Companies that have small or large assets but also large cash outflows are indicated to have the opportunity to manipulate so that their financial stability looks good. When companies try to achieve financial targets, companies will use accounting methods that can increase or decrease the value of the company's assets such as asset capitalization and *fair* value mechanisms. (Sihombing & Rahardjo, 2014).. The company's total assets that were previously small can motivate the company to increase its total assets. However, in achieving this goal, companies often face pressure so that management manipulates financial statements to show good performance through increased assets. Thus, when the company commits fraud through manipulation of financial statements, especially specifically total assets, the company is also indicated to carry out tax aggressiveness because the tax burden to be paid by the company can be seen through the assets owned. The results of this test are in line with research conducted by Oktaviani (2017); (Muthohiroh, 2016) which found that financial stability has a significant negative effect on tax aggressiveness. The lower the company's financial stability, the more tax aggressiveness will increase.

Monitoring Effectiveness and Tax Aggressiveness

The third hypothesis developed in this study is that the effectiveness of supervision has a negative effect on tax aggressiveness, the higher the ratio of the independent board of commissioners, the lower the tax aggressiveness carried out by the company. The test results in this study indicate that the higher the ratio of the independent board of commissioners, the lower the tax aggressiveness indicated by the high ETR. This means that the effectiveness of supervision has a negative effect on tax aggressiveness so the first hypothesis developed in this study is accepted.

The results of this study indicate that the number of independent commissioners in the company can minimize agency conflicts that arise. According to the regulation, the independent board of commissioners is in charge and responsible for overseeing policies and implementing governance. According to Suyanto & Supramono (2012), companies that have an independent board of commissioners will certainly obey paying taxes according to the proper amount because there is effective supervision so that managers reduce the possibility of tax aggressiveness in the company.

The results of this study are in line with research conducted by Suyanto & Supramono (2012) who found that the greater the number of independent commissioners in the company, the greater the supervision carried out on management performance. With greater supervision, management will be more careful in running the company to minimize tax aggressiveness.

Rationalization and Tax Aggressiveness

The fourth hypothesis developed in this study is that rationalization has a positive effect on tax aggressiveness, the higher the auditor turnover, the higher the tax aggressiveness carried out by the company. The test results in this study indicate that

rationalization proxied by auditor turnover does not affect tax aggressiveness. This means that the fourth hypothesis is rejected.

This result may be due to the sample companies changing external auditors not to commit fraud on financial statements whereby understating profits so that there is a practice of tax aggressiveness, but companies that change external auditors can be caused by company compliance factors with the Regulation of the Minister of Finance of the Republic of Indonesia Number 17 / PMK.01 / 2008 concerning "Public Accountant Services" article 3 paragraph 1 which reads that the provision of general audit services to the financial statements of a company can be carried out for 6 consecutive financial years from the same KAP and 3 consecutive years from the same auditor to the same client. The results of this study are in line with research conducted by Tiffani and Marfuah (2015) which found that rationalization proxied by the change of external auditors does not affect fraudulent financial statements in this case understating the amount of company profits so that the practice of tax aggressiveness is carried out.

CONCLUSIONS, LIMITATIONS AND SUGGESTIONS

Conclusions

Based on the test results and discussion in this study with objects in manufacturing companies listed on the IDX for the 2018-2020 period, it can be concluded that the political connection variable has a negative and significant effect on tax aggressiveness. Political connections can reduce tax aggressiveness by companies. With political

connections, companies do not necessarily carry out tax aggressiveness because companies want to always maintain a good image and be a good example for the public in terms of paying taxes companies that have political connections are low-risk taxpayers and are trusted by the DGT as one of the tax collecting parties.

Furthermore, the financial stability variable proxied by changes in total company assets has a positive and significant effect on tax aggressiveness. company financial stability can increase tax aggressiveness. The company's small total assets trigger motivation from company management to increase the company's total assets. However, to achieve this goal, company management often faces pressure, allowing management to manipulate financial reports through assets owned so that performance looks good. This means that corporate tax aggressiveness increases due to the manipulation of financial statements through total assets because the tax burden that the company will pay depends on the assets owned.

The supervisory effectiveness variable proxied by the number of independent commissioners has a positive and significant effect on tax aggressiveness. The independent board of commissioners can reduce corporate tax aggressiveness. This shows that the presence of an independent board of commissioners in the company can help supervise and direct the performance of managers to act by predetermined regulations so that the financial statements presented by management are of good quality.

The rationalization variable proxied by auditor turnover does not affect tax aggressiveness. Companies that make auditor changes are not necessarily to avoid auditors who have known the fraud that has occurred in terms of presenting financial statements, but companies likely make auditor changes to comply with applicable laws and regulations.

Limitations

The limitations of this study are that it does not explain the period or length of office of the politically connected board to measure the level of political connection. Furthermore, this study still uses agency theory in seeing the relationship between related variables, and the test results show that agency theory has not explained the relationship between variables in this study.

Advice

Based on the limitations of this study, the suggestion for further research is that the determination of the level of political connection in the company can be more widely studied. Apart from looking at the number of politically connected boards, it can be investigated from the length of office held by politically connected boards. When the board that holds a position in the government is getting longer, the relationships that are established may be also getting wider. Future research can use the theory of fiscal psychology to underlie future research in seeing the relationship between psychological or economic variables related to tax aggressiveness.

Implications

The findings of this study provide practical implications for companies, which are useful for regulating board composition by considering a larger number of independent commissioners. Based on the results of this study, shows that the independent board of commissioners can reduce fraud committed by managers and follow tax regulations by paying taxes as they should and not taking tax aggressiveness.

Companies can also consider the number of politically connected boards in the company because the results of this study indicate that politically connected boards can encourage companies to comply with regulations set by the government.

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