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Factors Affecting Indonesian Corporate Risk

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Abstract

Purposes: To investigate how political relations, sustainability performance, and information quality affect company tax risk in Indonesia, as well as how corporate governance influences these three variables moderatingly.

Methods: The research examined a sample of 41 manufacturing companies that were listed on the Indonesia Stock Exchange between 2017 and 2021. Purposive sampling is the approach utilized for data collection, and panel data moderation regression is the analytical tool.

Findings: The results show that sustainability performance and corporate governance have a negative effect on tax risk, while political relations and the quality of internal information have no effect on tax risk. Corporate governance as a moderator is unable to strengthen the negative influence of political relations, sustainability performance, or the quality of internal information on tax risk.

Novelty: There is not much previous research that examines tax risk, while some research has used tax risk as an independent influencing factor. Tax risk is rarely studied due to the lack of previous research and issues that come to the surface.

Keywords*:* Corporate Governance, Internal Information Quality, Political Relation, Sustainability Performance, Tax Risk.

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INTRODUCTION

Risk is the likelihood that something will happen that could affect the accomplishment of organizational objectives. Risks have quite a lot of typologies or groupings, one of which is Decree of the Minister of Finance Number 577/KMK.01/2019, which classifies risks into pure risks, as risks with possible losses but no profit possibilities, and speculative risks, as risks where profit and losses are expected to occur (Ministry of Finance, 2019). Tax risk is currently one of the modern typologies that is seen as a new risk for some companies, because tax issues are often only a concern of corporate "tax experts". Uncertainty over how the tax system will react to the continuing globalization of business and potential future changes in corporate taxes contribute to concerns around tax risk (Deloitte Development LLC, 2004). Businesses incur extra expenses as a result of this uncertainty, including the potential for tax authorities to sanction them, damage to their image, higher external consulting fees, and more difficulty projecting earnings (Chen, 2020).

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Tax issues in Indonesia, commonly known as tax disputes, arise due to differences of opinion or interpretation between the taxpayer and the competent tax authority (in this case, the DGT) (Directorat General of Taxes of the Republic of Indonesia, 2022a). Referring to the 2021 Republic of Indonesia Directorate General of Taxes (DGT) Performance Report data (Directorate General of Taxes of the Republic of Indonesia, 2022b), the DGT has resolved 12,959 tax disputes, of which 3,297 were rejected by the Tax Court or won by the DGT. The percentage of DGT's winnings in the Tax Court has continued to increase in recent years, from the targeted 44% winnings, 43.25% have been achieved in 2021, up 0.15% compared to 2020, and up 2.71% compared to 2019. The more intensive the DGT's efforts in winning cases indicate that the potential for tax risk will continue to increase in line with the large number of losses suffered by taxpayers due to losing in tax disputes. PT Bank Sumitomo Mitsui Indonesia is an example of a taxpayer who has to bear the risk of losing an appeal against an underpaid tax assessment (SKPKB) of Rp.816,316,570 based on Tax Court Decision Number PUT-112173.15/2010/PP/M.XXB of 2020.

Several studies assess that tax risk is related to tax avoidance, because the emergence of risk is the impact of the company's efforts to find loopholes to minimize the amount of tax paid. There are three reasons why tax avoidance can increase corporate tax risk. Tax avoidance causes a high tax burden in the form of sanctions due to future tax audits, the strategy to minimize the tax burden is temporary, and it shows that companies invest in high-risk investments (Choi & Park, 2022). The true risk can be prevented and mitigated if the company applies the right management practices. Tax risk management is an effort by taxpayers, especially entrepreneurs, to reduce risks that may arise when taxpayers are unable to pay or report their taxes to the Directorate General of Taxes (DGT), which can result in administrative sanctions or tax disputes (Directorate General of Taxes of the Republic of Indonesia, 2022). In addition to mitigation, it is also important to know several factors that are thought to influence tax risk. Through these factors, it is expected that tax risk management can be carried out more efficiently and effectively.

There are several other factors that are thought to influence tax risk, one of them is the company's political relationship. Political relations, according to research conducted by Chen (2020) has three effects on corporate tax risk. At first, businesses may receive advance notice of modifications to tax laws. Second, can reduce government intervention and tax management uncertainty. Third, can help companies obtain financing. The next determining factor is thought to come from how the company ensures that its performance is running well and sustainably. The next determining factor is thought to come from how the company ensures that its performance is running well and sustainably. Sustainability Performance refers to the company's long-term performance in carrying out business activities that maintain economic welfare (profit), social welfare (people), and the community environment (planet), better known as the Triple Bottom Line (Tjahjadi et al., 2021). The other variable is the internal information quality which emphasizes the accuracy of a business's information as a foundation for judgment (Vincken, 2017).

Currently, there are not many previous studies that examine tax risk, although there are still some studies that make tax risk an independent influencing factor. Tax risk is rarely studied, apart from the lack of previous research, it is also due to the lack of issues that come to the surface. In Indonesia, tax risk is more widely studied as a factor that influences (independently) several other factors that have problem issues, such as tax risk, which has a positive effect on the cost of debt (Dewi & Ardiyanto, 2020; Kovermann, 2018) and tax risk, which has an influence on the cost of capital (Hasanah & Puspitasari, 2022). Several previous studies have examined the relationship between political relations, sustainability performance, and the quality of internal information on tax risk, although several variables were not examined directly on the dependent factor, namely tax risk. Chen (2020) shows that there is a negative interaction between political relations and tax risk. The negative effect is also generated by the relationship between the quality of internal information and tax risk (Vincken, 2017). There is no research that directly examines the relationship between sustainability performance and tax risk, but one of the indicators is profit performance in the study by Lin et al. (2019) and Melinda and Syafruddin (2021) declared

capable of strengthening the interaction of corporate social responsibility (CSR) with tax risk.

This research is a combination of several previous studies. The independent variables used are based on research Chen (2020), which examines the direct relationship of political relations with tax risk, and research Vincken (2017), which examines the direct relationship between internal information quality and tax risk. The variable of sustainability performance is a research and development by Lin et al. (2019) and Melinda and Syafruddin (2021) which examines the relationship of earnings performance as a moderator between corporate social responsibility (CSR) and tax risk. The moderating variable, namely corporate governance, is based on research Choi and Park (2022) who previously tested the relationship of corporate governance as a moderator between tax avoidance and tax risk. The issue of corporate governance itself has long been an interesting subject for many researchers, considering that it is very important for companies for business success from all perspectives (Tibiletti et al., 2021). Corporate governance can also be used as a benchmark for whether a company has implemented governance management that is qualified, appropriate, and has a positive impact on business sustainability. Companies with good governance will certainly be able to mitigate and find the best strategies to deal with various risks, one of which is tax risk so that they will not incur losses in the future. Research conducted by Choi and Park (2022) proves that corporate governance has a role in controlling corporate tax risk in the future in relation to tax avoidance. Therefore, this research will prove whether corporate governance is also able to control tax risk from other factors, such as political relations, sustainability performance, and the quality of internal information. Against the background of the explanation that has been described, this research was conducted with the aim of examining the effect of political relations, internal information quality, and sustainability performance on tax risk and the moderating effect of corporate governance on the influence of political relations, internal information quality, and sustainability performance on tax risk.

This research relied on some theories including agency, positive accounting, stakeholder, and legitimacy theories. The effect of agency theory, namely agency costs, often arises as a result of wrong managers' decisions or even acting too much based on personal interests and not making the interests of shareholders the main concern (Raimo et al., 2021). Positive accounting theory has three agency relationships, including the bonus plan hypothesis, where business managers who have plans to get bonuses tend to decide to use accounting policies in the form of determining the proportion of profits reported by the company (Hery, 2017). Stakeholder theory is reflected in how management makes decisions that not only involve personal interests but also all related stakeholders (Khaled et al., 2021). Legitimacy theory is a popular theory in the field of social and environmental accounting that describes the attachment between companies as business entities and the surrounding community.

In this research, the dependent variable, which is tax risk, is defined as the possibility of loss due to the implementation of a tax strategy (tax planning) that is considered unprofitable for the company in the future. Several studies have proven that tax strategies, in this case, which lead to tax avoidance, will be able to increase corporate tax risk. This is because tax avoidance will eventually result in a high tax rate, which will offset the low corporate tax burden. The tax plan is essentially a short-term investment that can lower tax expenses, which is another factor, but on the other hand, it is also an investment alternative that contains high risk (Choi & Park, 2022). According to the dependent variable, there are seven hypotheses that can be developed.

Political relations in Indonesia are indicated by the relatively high closeness between companies and the government. Companies are considered to have political ties when at least one of the investors or company leaders is part of parliament, a minister, or someone close to a political leader. Political relations can also be seen through direct ownership by company directors (Pranoto & Widagdo, 2016). Political relations can be established when company leaders or the board of directors are successfully appointed to take on other positions in both the central and regional governments. A government position will usually provide easy access to information, influence, or legitimacy (Xu et al., 2022). Political relations are one of the important factors in

creating close relations between the state (government) and companies. Also, companies are more open to working with the government because it offers many advantages, one of which is the simplicity of attracting foreign investment (Khaksar et al., 2021). In addition, political ties can also help companies enter high-barrier industries, obtain more government subsidies, diversify resources, ease financing constraints, increase contract approval, and avoid illegal penalties (Chen, 2020). Political relations in relation to agency theory arise as a result of conflict between the investor (principal) and the management of the company (agent). In order to increase the chances of pursuing personal gain, shareholders will continue to build political relationships (Hu et al., 2020). Unfortunately, this is a concern for management about the negative image that may arise. The shareholders' efforts to build political relationships are evidence of the application of positive accounting theory about political cost hypothesis. Political costs become a corporate burden that arises along with the many political ties that are entangled.

Research conducted by Chen (2020) stated that in terms of ownership, there is an unwritten connection between businesses and the government, particularly for private businesses that need to actively seek out and build political relationships. Chen (2020) then concludes that there is a negative influence between political relations and tax risk, meaning that the more political relations that exist between companies and government authorities, the lower the possibility of tax risk arising due to the various facilities provided by government authorities. Research conducted by Chen (2020) then supported by research Putra and Suhardianto (2020) and Tsai (2021) which has proven a negative relationship between political relations and tax avoidance, where the higher the practice of tax avoidance that occurs, the higher the tax risk that will be faced in the future (Choi & Park, 2022).

H_1 : Political Relations have a negative effect on Tax Risk.

A measure of a company's performance (firm performance) based on how well it manages and distributes its resources is called sustainability performance. The concept of a company's performance today encompasses more than just financial performance; it also takes into consideration social and environmental factors (Minciullo et al., 2022). Adopting a triple bottom line approach, sustainability performance can be assessed by managing profit, people, and the planet in combination. This approach tackles the idea of sustainable performance. If the profit indicator is used to measure a company's capacity to use its resources efficiently to generate profits, then a company's capacity to employ management techniques to create value by fostering stakeholder loyalty and trust is gauged by the people indicator, while the planet indicator is used to measure the company's impact on natural ecosystems and avoid environmental risks as much as possible (Kouaib et al., 2021). Sustainability performance in relation to agency theory has become one of the key indicators for minimizing the occurrence of agency conflicts within the company. The better the company's sustainability performance, the lower the information asymmetry between principals and agents (Khaled et al., 2021). Also, the company's positive image will increase and stakeholder expectations will be met as the sustainability performance of the company increases. This proves the theory of legitimacy, which states that a company is assessed not only from the financial element but also from the non-financial element.

The majority of research is used to evaluate a company's efficacy primarily in terms of its financial success, but these days, evaluations must take into account all aspects of a company's performance, including non-financial aspects like sustainability performance (Minciullo et al., 2022). Companies with good sustainability performance are considered capable of controlling business profits (profit) and have a higher tendency to spend these resources to "do good by doing good" both for the community (people) and for the environment (planet) around them. It is considered able to improve the company's performance as a whole (Lin et al., 2019). However, there is no previous research that explains the direct relationship between sustainability performance and tax risk. Lin et al. (2019) and Melinda and Syafruddin (2021) stated in their research that one of the company's performance indicators, namely earning performance, can

be a factor strengthening the relationship between Corporate Social Responsibility (CSR) and tax risk, so that it is suspected that the better the sustainability performance carried out by the company will have an impact on reducing the possibility of tax risks that may be suffered in the future. If earnings performance is proven to be able to strengthen the effect of CSR on tax risk, then it is suspected that sustainability performance, which measures company performance in a more complex manner, will also be able to reduce the possibility of corporate tax risk in the future.

H_2 : Sustainability Performance has a negative effect on Tax Risk.

The quality of internal information is simply defined as the good or bad level of internal information contained within the company and used by all components within it, from the lower level management to the upper level, related to its operational activities (Annisa et al., 2020a). Companies with high quality internal information are considered to have access to accurate, relevant, and timely information (McGuire et al., 2018). When associated with tax risk, high-quality internal information is considered capable of facilitating corporate tax planning to be more effective through accounting and non-accounting information that underlies many decisions and day-to-day operational management. Without good information, opportunities and coordination of tax planning will be very difficult, which will have an impact on high tax risk due to an overly aggressive strategy (Vincken, 2017). Internal information quality in relation to agency theory plays a role like sustainability performance, that is able to control information asymmetry caused by conflict between principals and agents. Through quality internal information, the likelihood of having more or better information in the company will be reduced. Information can be said to be of high quality if it is presented in a complete, relevant, reliable, timely, easy-to-understand, and verifiable way. Internal information, which includes all company information as a basis for decision-making, must be of high quality so it dosen't harm the company. The quality of internal information will be assessed through its usefulness, accuracy, and reliability (Annisa et al., 2020a). Reliable, practical, and easily available information gathered and used within the organization can be presented with high-quality internal information. Because a tax avoidance plan is based on pertinent information and aims to minimize risks related to taxes, a higher quality of internal information is linked to tax avoidance (McGuire et al., 2018).

A study by Vincken (2017) shows that there is a negative relationship between the quality of internal information and tax risk, meaning that a higher quality of internal company information will be able to reduce the possibility of corporate tax risk in the future. A Study by Vincken (2017) support research Gallemore and Labro (2014) that has previously proven that a higher quality of internal information will result in a lower effective tax rate (ETR). ETR is used to measure the level of tax avoidance of a company; a low ETR will also provide a low tax risk (Choi & Park, 2022).

H_3 : Internal Information Quality has a negative effect on Tax Risk.

Corporate governance describes a system of professionalism in managing a company. The corporate governance system becomes the rules that create trust between owners and management. In general, there are five principles of corporate governance that must be implemented by companies. The National Committee on Governance Policy (KNKG) states that these include fairness, equality, independence, transparency, accountability, and responsibility (Kelvianto & Ronny, 2018). Good corporate governance mechanisms can limit managers' discretion in pursuing their interests (Minciullo et al., 2022). The corporate governance mechanism also regulates the implementation of what must be done so that the company can continue to grow, while still complying with government regulations (Pranoto & Widagdo, 2016), and also mitigate increased corporate risk due to tax evasion compared to relatively weak corporate governance (Choi & Park, 2022). Corporate governance in relation to agency theory serves as a factor that will be able to control the agency costs in the company (Khaled et al., 2021). Moreover, just as sustainability performance is able to build a positive corporate image in the eyes of stakeholders, good corporate

governance will also have the same effect on the company. The application of good management mechanisms can improve company performance for all stakeholders because it plays a role in reducing conflicts of interest between managers (agents) and stakeholders (principals) (Minciullo et al., 2022).

Research that examines the direct relationship between corporate governance and tax risk is very rare. One of the previous studies only placed corporate governance as a strengthening or weakening factor in the relationship between variables. Choi and Park (2022) prove in their research that corporate governance is able to strengthen the relationship between tax avoidance and tax risk. On this basis, it is suspected that corporate governance will also be able to minimize corporate tax risk through management practices that have a positive impact on the company. This is also supported through research by Praditasari and Setiawan (2017) and Salhi et al. (2019) which has previously proven the negative effect of corporate governance on tax avoidance, which also has a relationship that is directly proportional to the level of corporate tax risk (Choi & Park, 2022).

H_4 : Corporate Governance has a negative effect on Tax Risk.

Strong corporate governance is proven to be able to mitigate increased risks due to tax evasion compared to relatively weak corporate governance. The results of research conducted by Choi and Park (2022) provide an assumption that corporate governance will have an important role in mitigating corporate tax risk in the future. Associating political relations with agency theory, corporate governance will be able to control the conflict between the investor (principal) and the management (agent) as a result of the attempt to establish a political relationship continued by the shareholders, which then becomes a concern for management. Also, the shareholders' efforts to build political relationships are evidence of the application of positive accounting theory about political cost hypothesis. If corporate governance is able to increase manager oversight and control and reduce the impact of tax evasion, then it is suspected that corporate governance will also be able to influence the political relations established by companies in an effort to minimize possible losses due to taxes in the future.

H_5 : Corporate Governance Strengthens the Negative Effect of Political Relations on Tax Risk.

Research conducted by Choi and Park (2022) has proven that corporate governance is able to control the increased risk due to tax evasion. In relation to agency theory, corporate governance and sustainability performance are both factors that can control agency conflict. Agency costs that arise as a result of these conflicts can actually be minimized through good corporate governance practices and company performance that is not only reflected in profit performance but also cares for the environment and society (Sustainability Performance). In addition, stakeholder theory also makes corporate governance and sustainability performance factors that will maintain a company's positive reputation in order to meet stakeholder expectations (Khaled et al., 2021). If corporate governance is proven to be able to reduce the impact of tax avoidance, then it is suspected that corporate governance will also be able to influence the company's sustainability performance in mitigating tax risk in the future.

H_6 : Corporate Governance Strengthens the Negative Effect of Sustainability Performance on Tax Risk.

Corporate governance is stated to be able to strengthen the relationship that occurs in tax avoidance practices with tax risk in research by Choi and Park (2022). Good corporate governance practices are sourced from relevant information and can certainly be used as a basis for decision making. Associating the quality of internal information with agency theory, the information asymmetry resulting from conflict between the principle and the agent can be controlled as the company's internal information becomes more valuable. Also, the quality of internal information becomes important when a company is faced with several choices, both in determining the best

governance practices and the best tax strategy for the company. If corporate governance is proven to be able to minimize the effect of tax avoidance on tax risk, then it is suspected that corporate governance will also be able to strengthen the quality of internal information as the initial foundation for creating any corporate tax policy and will ultimately reduce tax risk in the future.

H_7 : Corporate Governance Strengthens the Negative Effect of Internal Information Quality on Tax Risk.

Besides, this research also uses two controlling variables to control the relationship between variables in order to obtain a complete and better empirical model : company size and related parties. Company size reflects the size of the company as seen from the number of business activities, financial transactions, and the extent of the complexity of the company (Nurwulandari, 2021). The second one is related parties, which have a slightly different definition but have the same meaning when viewed from an accounting and tax perspective. Accounting regulates related parties in Statement of Financial Accounting Standards (PSAK) Number 7 concerning Related Parties. From the viewpoint of taxation, special relations are governed by Law Number 7 of 1983 about Income Tax, which has undergone multiple amendments. The most recent amendment was made by Law Number 7 of 2021 concerning Harmonization of Tax Regulations, specifically Article 18 paragraph (4). Both PSAK and the Income Tax Law require that all transactions carried out by companies with affiliated parties or parties with special relationships must be disclosed in the company's financial statements according to the principles of fairness and customary business (arm's length principle).

METHODS

The unit of analysis in this research is an organization, defined as a corporate entity, and the data are quantitative from secondary data sources on the Indonesia Stock Exchange (https://idx.co.id) for the years 2017–2021. Purposive sampling was used to collect samples from each of the manufacturing companies on the list in order to create the most representative sample possible based on six criteria, such as a) Not in the development and acceleration category; b) Publish audited financial statements and/or annual reports during 2017–2021; c) Present financial statements in Rupiah currency; d) Never lost during 2017–2021; e)Publishing sustainability reports in their own reports or as part of annual reports.

Starting with the model selection test, the data feasibility test (classical assumption test) comprising the multicollinearity, autocorrelation, heteroscedasticity, and normality tests, as well as hypothesis testing comprising the coefficient of determination test (R^2), the simultaneous significance test (F statistical test), and the significance test of each parameter (t statistical test), those samples were examined using panel data moderation regression analysis. Table 1 shows the definition and operationalization of the variables in this research.

Table 1. Operational Variable

Variable	Definition	Formula
Dependent		
Tax Risk	The uncertainty of future corporate tax payments (Chen, 2020).	$$TR = \frac{SD\sqrt{\frac{\sum \text{Tax Expense For 5 Years}}{\sum \text{Earning Before Tax For 5 Years}}}}{\frac{\text{Tax Expense}}{\text{Earning Before Tax}}} \quad (1)$$ (Arfiansyah, 2020; Choi & Park, 2022) ETR is used to determine tax avoidance. The use of the deviation standard is intended to measure the distance of the data spread, in this case, the tax risk, from the average of the corporate tax avoidance. If the standard deviation value is smaller, it means that the risk of tax is closer to the average, referring to the smaller corporate tax avoidance action, and vice versa.

Variable	Definition	Formula
Independent		
Political Relations	Political ties can help firms enter high-barrier industries, obtain more government subsidies and diversify resources, ease financing constraints, increase contract approval, and avoid illegal penalties (Chen, 2020).	$PR_{it} = D/TL_{it} + NGB/BS_{it} + GSH/TSH_{it} + SIZE_{it} + IINE_{it} + LEV_{it} + FORIN_{it} + EMPLOY_{it}$ ....(2) (Khaksar et al., 2021) D/TL : long term debt / total liabilities NGB/BS : board members government affiliation / total board GSH/TSH : governmental shareholders / total shareholders Dummy variable (1 if the value is above the median, and 0 if it is below) SIZE : logarithm of total assets IINE : institutional ownership the number of shares to state-owned / total shares Lev : total liabilities / total assets FORIN : Export, dummy (1 : if export and 0 otherwise) EMPLOY : the number of employees
Sustainability Performance	used to evaluate how well a business can allocate and manage its resources (Minciullo et al., 2022).	$SP = \frac{\sum X\ ij}{nj}$ ....(3) (A. A. Zaid et al., 2019; Haniffa & T.E., 2005) in (Tjahjadi et al., 2021) SP : Sustainability Performance Xij : CSDI (GRI-G4) items disclosed nj : Total CSDI items (≤ 91)
Internal Information Quality	The level of good or bad internal information contained within the company (Annisa et al., 2020a), measured using proxy the Speed of Earning Announcement.	IIQ = Number of AR Publication on IDX/365.........(4) AR : Annual Report (Annisa et al., 2020b; McGuire et al., 2018; Vincken, 2017)
Moderation		
Corporate Governance	A set of rules governing the relationship between stakeholders according to rights and obligations (Laksono & Kusumaningtias, 2021)	CG = f (BC, M, AC, I).........(5) Each indicator is calculated based on the following assessment criteria and weights in Table 2. (Wulandari & Wahidahwati, 2022) based on research by (Klapper & Love, 2003) BC : Board of Commissioners M : Management AC : Audit Committee I : Investor
Controlling		
Size	The size of the company	SZ = Ln (Total Asset).........(6) (Yulia et al., 2019)

Variable	Definition	Formula
Related Parties	People or entities that are interrelated with certain entities	RP = Total Receivables from Related Parties/ Total Receivable..(7) (Marundha et al., 2021)

Source: Data Processed (2023)

Table 2. Corporate Governance Measurement Indicators

Indicator	Assessment criteria	Weight
Board of Commissioners	- Size of the Board of Commissioners - Independent Commissioner - Ownership Percentage Public Accounting Office	45%
Management	- Size of the Board of Directors - Ownership Percentage Affiliate Relations	20%
Audit Committee	- Audit Committee Size - Independent Audit Committee Areas of expertise	20%
Investors	Institutional Ownership	15%

Source: (Wulandari & Wahidahwati, 2022)

RESULTS AND DISCUSSIONS

This research is used to examine whether or not the influence of political relations, sustainability performance, and internal information quality on tax risk is moderated by corporate governance in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. The Indonesia Stock Exchange (IDX) has officially implemented the IDX Industrial Classification (IDX-IC) industry classification in January 2021 to replace the Jakarta Stock Industrial Classification (Jasica) industry classification, which has been implemented since 1996. There are 4 manufacturing company sectors based on the IDX-IC classification : industrials, primary consumer goods (consumer non-cyclicals), non-primary consumer goods (consumer cyclicals), and health (healthcare). Based on this classification, the observation results are shown in Table 3.

Table 3. Sample Observation Results

Sample Observation	Total
Manufacturing companies listed on the IDX 2017-2021 - Basic Materials (96) - Industrials (56) - Consumer Non Cyclical (113) - Consumer Cyclicals (140) - Healthcare (28)	433
Minus : The company is in the development category	(240)
Less : The company is in the acceleration category	(14)
Minus : The company does not issue financial reports and/or an annual report for 2017-2021	(44)
Minus : Financial statements are not presented in Rupiah	(15)
Minus : The company had losses during 2017-2021	(63)
Minus : The company does not disclose sustainability aspects in its Sustainability Report or Annual Report	(16)
The number of companies included in the research sample	41

Sample Observation	Total
Observation Year	5
Number of Observation Samples	205

Source: Data processed Eviews 9 (2023)

Model Selection Test

The Chow test, Hausman test, and Lagrange multiplier (LM) test are the three phases of the model selection test. To select the best model among the fixed effect, random effect, and common effect models, this test is required. The results of the model selection test are shown in Table 4.

Table 4. Model Selection Test

Test	Results	Prob.	Conclusion	Test
Chow test	Chi-square cross-sections	0.0000	Ha accepted	Chow test
Hausman test	Cross-section Random	0.1430	Ha rejected	Hausman test
LM test	Breusch-Pagan	0.0074	Ha accepted	LM test

Source: Data processed Eviews 9 (2023)

Based on the results, the selected model is a random effect (REM). However, the results using REM model cannot generate values and instead raise a warning. In order to estimate the RE innovation variance, REM estimation requires a number of cross sections larger than the number of coefficients between estimators. Gujarati and Porter (2009) explain that if T (amount of time-series data) is large and N (amount of cross-sectional data) is small, there may be a slight difference in the parameter values estimated by FEM and REM. Based on computational convenience, in this condition FEM is the best option.

Table 5 shows the hypothesis testing result of this study. The F test resulted in 0.000001, suggesting that the research model is feasible and that at least one independent variable influences the dependent variable. With an adjusted R-Square (R^2) value of 0.525836, the independent variable's capacity to explain the dependent variable's behavior is 52.58%. Equation (8) shows the first model of this study.

Table 5. Hypothesis Testing

Variable	Direction	Coefficient	Prob.	Prob One Tailed	Conclusion
C		12.87276	0.0009		
PR	(-)	0.0000176	0.1925	0.09625	H1 rejected
SP	(-)	-4.623224	0.0000	0.0000	H2 accepted
IIQ	(-)	2.174078	0.4100	0.2050	H3 rejected
CG	(-)	-6.390306	0.0003	0.00015	H4 accepted
SZ		-1.214916	0.0331		
RP		0.278536	0.3180		
PR_CG	(-)	-0.0000334	0.0511	0.02555	H5 rejected
SP_CG	(-)	9.126965	0.0000	0.0000	H6 rejected
IIQ_CG	(-)	-5.082356	0.4119	0.20595	H7 rejected
Goodness of Fit Test					
Adj R2			0.525836		
Prob F-statistics			0.000001		

Source: Data processed Eviews 9 (2023)

$$TR_{it} = 12.87276 + 0.0000176\ PR_{it} - 4.623224\ SP_{it} + 2.174078\ IIQ_{it} - 6.390306\ CG_{it} - 0.0000334\ PR_{it} * CG_{it} + 9.126965\ SP_{it} * CG_{it} - 5.082356\ IIQ_{it} * CG_{it} - 1.214916\ SZ_{it} + 0.278536\ RP_{it} + e \ldots\ldots\ldots\ldots (8)$$

The Negative Effect of Political Relations on Tax Risk

The coefficient of the political relations variable is 0.0000176, meaning that if political relations increase by 1 unit, then the average tax risk will increase by 0.0000176 units. Next, it is known that the significance or probability value is 0.1925:2, or 0.09625 > 0.05 (alpha 5%). Based on statistical analysis, it may be inferred that there is no significant relationship between political relations and tax risk at a 95% confidence level, so H1 is rejected. The results of the study provide evidence that political relations have no effect on corporate tax risk, meaning that a small or large number of political relations forged by a company will not affect the possible losses that the company will experience due to tax risk in the future. These results are not in line with research conducted by Chen (2020), Putra and Suhardianto (2020), and Tsai (2021), which states that political relations directly and indirectly have a negative effect on corporate tax risk. Research results that are not in line are thought to have occurred because the data on political relations variables used different measurements from previous studies. On the other hand, the results of this research also provide a new view that, in manufacturing sector companies listed on the Indonesia Stock Exchange (IDX), political relations are not the cause of low tax risk. It can also be said that the many political relations that are forged by the company will not be able to reduce the possibility of the company's losses due to taxes in the future.

Linking political relations with agency theory, conflicts between investors (principals) and company management (agents) will arise when shareholders continue to try to build political relations in order to increase opportunities to pursue personal gain (Hu et al., 2020), and this is actually a concern for management about the negative image that might arise. Efforts by shareholders to build political relations are evidence of the application of positive accounting theory in relation to the political cost hypothesis. Political costs will then become a burden on companies because of the many political relationships that are intertwined. However, based on the results of this research, the high political costs incurred will not be able to reduce corporate tax risk.

Negative Effect of Sustainability Performance on Tax Risk

The coefficient of the political relations variable is -4.623224, meaning that if sustainability performance increases by 1 unit, the average tax risk will decrease by 4.623224 units. The significance or probability value is therefore determined to be 0.0000: 2, or 0.0000 < 0.05 (alpha 5%). H2 is acceptable because statistical analysis indicates that there is a negative relationship between tax risk and sustainability performance at the 95% confidence level. The research results prove that sustainability performance has a negative influence on tax risk, meaning that the better the sustainability performance of the company, the lower the possibility of losses that will be experienced by the company due to tax risk. The results of this research complement previous research by Lin et al. (2019) and Melinda and Syafruddin (2021), which only examines the moderating effect of the company's financial performance on the relationship between Corporate Social Responsibility (CSR) and tax risk. The results of this research also prove that sustainability performance, which measures company performance in a more complex manner, in addition to being able to provide a positive image for the company, is also able to reduce the possibility of corporate tax risk in the future.

Linking sustainability performance with agency theory is proven to minimize the occurrence of agency conflicts within the company. Research proves that the better the company's sustainability performance, the lower the information asymmetry that occurs between principals and agents (Khaled et al., 2021). Low information asymmetry will make management decisions, in this case, tax planning decisions, more relevant and help avoid mistakes that impact future risks. This research also proves that sustainability performance through legitimacy theory, which

assesses companies from financial and non-financial elements, is able to become a shield that will protect companies from choosing the wrong tax policies. Tax policies that include environmental and societal aspects, apart from the financial aspect, have been proven to be able to reduce possible tax losses while at the same time fulfilling the expectations of stakeholders who want companies to always provide maximum performance and continue to operate in a sustainable manner.

Negative Influence of Internal Information Quality on Tax Risk

The coefficient of the internal information quality variable is 2.174078, meaning that if the quality of internal information increases by 1 unit, the average tax risk will increase by 2.174078 units. Subsequently, the probability or significance value is determined to be 0.4100: 2, or 0.2050 > 0.05 (alpha 5%). Based on statistical analysis, it can be stated that there is no significant relationship between tax risk and the quality of internal information at a 95% confidence level. Therefore, H3 is rejected. The results of the study prove that the quality of internal information as measured by the speed at which earnings are announced has no effect on tax risk, meaning that whether a company announces profits quickly or not has no impact on the possible losses that will be experienced due to tax risk in the future. The results of this research are not in line with Gallemore and Labro (2014) and Vincken (2017), which have previously proven that a higher quality of internal information will result in a lower effective tax rate (ETR) and lower tax risk. Inconsistent results are thought to have occurred because the average company in the sample announced profits before the tax reporting deadline for that year ended, as well as because of tax regulations in Indonesia that allow companies to extend the period for submitting Annual Income Tax Returns, which was originally 4 (four) months after the tax year ends, for a maximum of 6 (six) months by submitting notification in writing or by other means to the Director General of Taxes (Article 3 paragraph (4) of the Law on General Provisions and Tax Procedures). In addition, measuring quality using the speed of submission or publication of financial reports to the Indonesia Stock Exchange is considered to not reflect the quality of the contents of the financial statements themselves.

Linking the quality of internal information with agency theory, then actually information asymmetry due to conflicts between principals and agents can be controlled along with the quality of internal company information. Through quality internal information, the possibility that there are parties who have more or better information within the company will decrease. However, the results of this research provide evidence that the quality of internal information that assists management in making decisions, in this case, related to corporate tax planning, is not able to reduce the possibility of future tax losses. This shows that it is not enough to involve only internal information in decision-making, other relevant information is needed and is also taken into consideration by the company, such as changes in tax regulations and conditions in the industry of similar companies.

Negative Effect of Corporate Governance on Tax Risks

The average tax risk will drop by 6.390306 units if corporate governance increases by one unit, according to the corporate governance variable's coefficient of -6.390306. Next, it is recognized that the significance or probability value is 0.0003:2, or 0.00015 < 0.05 (alpha 5%). Based on statistical analysis, it can be inferred that there is a negative correlation between tax risk and corporate governance at a 95% confidence level. Therefore, H4 is accepted. Corporate governance in this research is quasi-moderation in nature, before the moderating effect is tested, it is necessary to know whether corporate governance can directly influence tax risk and the results prove to be influential. The results of the study prove that corporate governance has a negative influence on tax risk, meaning that the better the corporate governance mechanism implemented by the company, the lower the possibility of losses due to tax risk. Good corporate governance also reflects the company's compliance with its tax obligations, which has an impact on low tax risk. The results of the research are in line with the research conducted by Choi and Park (2022), which has previously proven that corporate governance can strengthen the relationship between

tax avoidance and tax risk. The results of the research also complement the research of Praditasari and Setiawan (2017) and Salhi et al. (2019), which has proven that corporate governance has a negative effect on tax avoidance, which results in corporate tax risk in the future.

Linking corporate governance with agency theory, then its ability to control agency costs has been proven. Agency costs that will continue to arise along with conflicts of interest between principals and agents can actually be minimized through good corporate governance practices (Khaled et al., 2021). The better the company runs its corporate governance mechanism, the better the decision-making mechanism by management will be, especially with regard to corporate tax planning. Proper corporate tax planning will be able to provide a low tax risk, so that the possibility of future losses will be even smaller. At the same time, it is able to show stakeholders that the company has been managed with reliable management, and as a result, the positive image of the company is increasing.

Corporate Governance is Unable to Reinforce The Negative Effect of Political Relations on Tax Risk

Based on the test results, it is known that the probability or significance value of the moderating effect on political relations and corporate governance (PR_CG) is 0.0511 : 2, namely 0.02555 < 0.5 (alpha 5%), and Ha is accepted. Meanwhile, the probability or significance value of the direct influence (main effect) of political relations and corporate governance is equal to 0.09625+0.00015 > 0.05 (alpha 5%), which Ha rejected. The research results prove that corporate governance is unable to strengthen the negative influence of political relations on tax risk because political relations have no direct effect on tax risk. However, the results of the interaction between corporate governance and political relations have been shown to have a negative effect on tax risk. Political relations, which previously had no influence on tax risk, actually became negatively influential after being interacted with corporate governance. These results indicate that the company's efforts to establish political relations need to be accompanied by the application of good corporate governance mechanisms so as not to give a negative image but to provide convenience and access to information from the government for companies.

Linking political relations with agency theory, then corporate governance has become an amplifier that is able to control conflicts between investors (principals) and company management (agents) as a result of efforts to establish political relations that continue to be carried out by shareholders (Hu et al., 2020), which then becomes a concern for management about the negative image that might arise. Through the mechanism of good corporate governance, management will be able to see the other side of political relations that provide benefits to companies in determining tax planning schemes. In addition, the high political cost based on the political cost hypothesis in positive accounting theory will also be able to reduce corporate tax risk.

Corporate Governance is Unable to Reinforce The Negative Effect of Sustainability Performance on Tax Risk

Based on the test results, it is known that the probability value or significance of the moderating effect of the sustainability and corporate governance performance (SR_CG) is 0.000 : 2 ie 0.0000 < 0.5 (alpha 5%), and Ha is accepted. The same thing happened tothe value of the probability or significance of the direct effect (main effect) of sustainability performance and corporate governance, namely 0.0000+0.00015< 0.05 (alpha 5%), Ha accepted. Then, the coefficient of the moderating effect SR_CG is 9.126965 > - 4.623224 - 6.390306 for the main effect coefficient of sustainability performance and corporate governance. According to Baron and Kenny (1986) if the moderating effect and the main effect are both significant, and the significance level of the β moderating effect is greater than the β main effect, then a partially moderating condition will be achieved. Statistically, it can be concluded that at the 95% confidence level, corporate governance is unable to strengthen the negative effect of sustainability performance on tax risk, so H_6 is rejected.

Not in line with research by Choi and Park (2022), the research results actually prove that corporate governance actually weakens the negative effect of sustainability performance on tax

risk. These results provide a new view that corporate governance should be able to strengthen the negative influence of the relationship between sustainability performance and tax risk, this research actually gives the opposite result, namely weakening the negative effect of the relationship between sustainability performance and tax risk. The influence of corporate governance, which weakens the negative effect of sustainability performance on tax risk, can be caused by measuring corporate governance, which in this research only uses secondary data from the proportion of the board of commissioners, audit committee, management, and shareholders, so that it does not reflect the conditions of true corporate governance.

Corporate Governance is Unable to Reinforce The Negative Influence of Internal Information Quality on Tax Risk

Based on the test results, it is known that the probability value or significance of the moderating effect on the quality of internal information and corporate governance (IIQ_CG) is 0.4119 : 2, namely 0.20595 > 0.5 (alpha 5%), and Ha is rejected. Then, the coefficient of IIQ_CG moderating effects is -5.082356 < 2.174078 - 6.390306 for the main effect coefficient of internal information quality and corporate governance. According to Baron and Kenny (1986), if the level of significance of the β moderating effect is smaller than the β main effect and the moderating effect is not significant, this indicates that both variables (predictor and moderator) both act as direct predictors of the dependent variable, namely tax risk, so that there is not a moderating relationship. Based on statistical analysis, it can be established that corporate governance cannot mitigate the adverse impact of internal information quality on tax risk at a 95% confidence level. Therefore, H_7 is rejected. These results demonstrate that company governance is powerless to counteract the detrimental effect that internal data quality has on tax risk. Each variable acts equally as a direct predictor of the tax risk variable (main effect), so no moderating relationship is found. In other words, although corporate governance is able to have a direct negative effect on tax risk, it is not able to strengthen the effect of the quality of internal information on tax risk. This research is not in line with research Choi and Park (2022) research and at the same time provides a new perspective where the allegation that corporate governance will be able to strengthen the quality of internal information as the initial foundation for the creation of any corporate tax policy and will ultimately reduce corporate tax risk cannot be proven.

Linking the quality of internal information with agency theory, the results of this research provide evidence that the quality of internal information that assists management in making decisions, in this case related to corporate tax planning, is unable to reduce the possibility of future tax losses even if it is accompanied by good governance mechanisms. It also shows that quality internal information is not enough to assist companies in making decisions, other relevant information is needed and is also taken into consideration by companies to determine the best tax planning in order to minimize tax risk in the future.

CONCLUSIONS

Based on the results of the analysis, it can be concluded that political relations have no effect on tax risk, which means the high political costs incurred will not be able to reduce corporate tax risk. Sustainability performance has a negative effect on tax risk, so the tax policies that include environmental and societal aspects, apart from the financial aspect, will be able to reduce possible tax losses. The quality of internal information has no effect on tax risk, means that the quality of internal information that assists management in making decisions (tax planning) is not able to reduce the possibility of future tax losses. Corporate governance has a negative effect on tax risk, according to proper corporate tax planning, the corporate governance mechanism will be able to provide a low tax risk. As a moderating variable, corporate governance is unable to strengthen the negative effects of political relations, sustainability performance, and internal information quality on tax risk.

Since this research has demonstrated that both of these factors can lower corporate tax risk,

regulators should utilize it as the foundation for developing tax policies that support business efforts to demonstrate sustainable performance and sound corporate governance. Through this research, it is hoped that the companies can assist company management in making decisions related to tax planning so as not to cause high tax risks in the future. Good corporate governance standards and the disclosure of sustainability performance are also important for businesses to focus on, as they have been shown to lower the risk of corporation taxation. Also for academics, this research is expected to be able to provide an overview for future researchers so that they can develop research involving data and company information from sectors other than manufacturing, adding other independent variables that are thought to have an effect on tax risk so that the coefficient of determination can be higher than this research which only reached 52.58%, such as transfer pricing variables that are often used by companies to avoid taxes. Future researchers can improve the measurement for political relations using the expenditures of political costs directly or indirectly issued by companies, the quality of internal information using biased forecast analysts that can compare predictions of profit per share expected by management with real profit per stock, and also change the corporate governance variable because it has proven unable to play a moderating role.

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