

## The Moderating Role of Corporate Governance on the Relationship between Political Connections and Tax Avoidance

Wahyu Widarjo<sup>1✉</sup>, Eko Arief Sudaryono<sup>2</sup>, Bambang Sutopo<sup>3</sup>,  
Muhammad Syafiqurrahman<sup>4</sup>, and Juliati<sup>5</sup>

<sup>1,2,3,4,5</sup>Accounting Study Program, Faculty of Economics and Business, Universitas Sebelas Maret  
Jl. Ir. Sutami No. 36A, Kentingan, Surakarta, Central Java, Indonesia

DOI: <http://dx.doi.org/10.15294/jda.v13i1.26359>

Submitted: September 25<sup>th</sup>, 2020 Revised: December 28<sup>th</sup>, 2020 Accepted: March 9<sup>th</sup>, 2021 Published: March 31<sup>th</sup>, 2021

---

### Abstract

**Purpose:** The aim of this research is to analyze the influence of political connections on tax avoidance and the moderating role of corporate governance on the relationship between political connections and tax avoidance.

**Method:** The sample of this research is 512 manufacturing companies listed on the Indonesia Stock Exchange from 2014 to 2017. Statistical analysis and research hypothesis testing using panel regression.

**Findings:** The results of panel data regression analysis shows that political connections do not have a significant effect on tax avoidance. Furthermore, the results of the moderated regression analysis show that the effectiveness of corporate governance positively moderates the effect of political connections on tax avoidance. Although the results of this analysis indicate that a moderating effect on the effectiveness of corporate governance, but the direction of the regression coefficient is positive. Therefore, the second hypothesis in this study is rejected. The results of this study indicate that the corporate governance mechanism in the sample companies is still not optimal in reducing the level of tax avoidance.

**Novelty:** This study considers the effectiveness of corporate governance implementation as a factor that moderating the influence of political connections on tax avoidance in developing countries

**Keywords:** *Political Connections, Corporate Governance, Tax Avoidance*

### How to cite (APA 7th Style)

Widarjo, W., Sudaryono, E. A., Sutopo, B., Syafiqurrahman, M., & Juliati, J. (2021). *The Moderating Role of Corporate Governance on the Relationship between Political Connections and Tax Avoidance*. *Jurnal Dinamika Akuntansi*, 13(1), 62–71. <http://dx.doi.org/10.15294/jda.v13i1.26359>

---

## INTRODUCTION

Tax is an important element in the national income of a country. The contribution of taxes in Indonesia for the last five years has ranged from 70% - 80% of total state revenue. The Indonesian government continues to strive to maximize the revenue of the state in the sector of tax by carrying out the reformation of tax policy and administration more comprehensively. However, companies that have a role as taxpayers always try to pay as low tax as possible (Midiastuty et al., 2016). Companies consider taxes to be burdens that can reduce net income or transfer wealth to company owners. It means that the higher income which the company gets, there will be higher the taxes that must be paid. Therefore, the company strives to pay the minimum tax to obtain

---

author (✉)

E-mail: [widarjo@staff.uns.ac.id](mailto:widarjo@staff.uns.ac.id)

the net profit maximally. One of the efforts to reduce the tax burden is tax avoidance (Hanlon & Slemrod, 2009).

The argument as mentioned is supported by data that show the prevalence of tax avoidance and tax evasion practices in Indonesia, for example, the case of the Panama papers and the case of the Asian Agri Group. In addition, there are also allegations of tax avoidance cases committed by PT. Djarum and PT. Berau Coal Energy by establishing a Special Purpose Vehicle (SPV) in a tax haven country. The literature suggests tax avoidance can be influenced by political connections (Desai & Dharmapala, 2006; Adhikari et al., 2006; Armstrong et al., 2012; Martinez & Romalho, 2014; Kim & Zhang, 2016); however, the results of previous research are still inconsistent. The inconsistency is presumed that caused by several factors, such as the theoretical perspective that is used, the method of measuring different variables, and different tax regulations between countries. Therefore this study seeks to consider the factors that are presumed to influence the relationship between political connections and tax avoidance.

This study considers the effectiveness of the implementation of corporate governance (hereinafter called CG) as one of the factors affecting the relationship between political connections and tax avoidance. The effectiveness of the implementation of CG is expected to reduce the level of corporate tax avoidance. In addition, the effectiveness of the implementation of CG is expected in weakening the influence of political connections on tax avoidance. It is important to be considered because it can be seen that the role of CG in influencing corporate taxation activities and policies. Furthermore, this study also considers the variability of a company's political connections by measuring the level of a company's political connections. Thus, it can be seen the influence level of political connection variable in influencing the tax avoidance practices. We consider that this technique to be more appropriate when compared to only categorizing companies that have political connections and companies that do not have political connections like some previous studies.

Kim & Zhang (2016) reveal tax aggressiveness that can be influenced by political connections. With preferential treatments, companies that have political connections are proven that the level of tax aggressiveness is higher (Kim & Zhang, 2016). Generally, political connections in Indonesia that occur in State-Owned Enterprises (SOEs) or called BUMN, that placing people who are close to the government into the company's organizational structure, both directors and commissioners (Pranoto & Widagdo, 2016).

Based on Law Number 47 the Year 2007 concerning Limited Liability Company, Indonesia is a country with a two-tier system that separates authority between company management and supervision. The board of directors (hereinafter called BoD) has the authority to manage a company whose activities are regulated and supervised by the board of commissioners (hereinafter called BoC). One of the performance indicators of BoD can be seen from the high net profit after tax. Therefore, BoD strives to reduce the tax amount to be paid, so it can increase the net profit after tax. In this context, there is a common interest between the BoD and the BoC. Both of them want the maximum level of welfare. One strategy that can be used is to utilize political networks to secure corporate tax avoidance practices. A company that has strong political connections, so the company management will be more courageous in implementing tax avoidance practices. Companies can do lobbies politically to get tax incentives, for example, reducing administrative and criminal sanctions if tax avoidance practices are known to the tax authorities.

The argument is based on the resource dependence theory, which explains the mutual need between companies with the government and politicians. From a government perspective, government officials need support from companies to achieve political, social, and economic goals (Shleifer and Vishny, 1998), while from a politician's perspective, they need resources to support campaigns or fundraising during the general election for members of the parliament (Miettinen & Poutvaara, 2014). The theoretical study is also supported by some literature that shows opportunistic behavior by companies that are connected politically in the context of taxation (Qian et al., 2011; Habib et al., 2017). Therefore, the first hypothesis in the study is

formulated as follows.

### **H<sub>1</sub>: Political connections have a positive effect on tax avoidance**

Research on the relationship between political connections and tax avoidance has been conducted by researchers from various countries, including Indonesia (Adhikari et al., 2006; Hardianti, 2014; Mulyani et al., 2014; Butje & Tjondro, 2014; Pranoto & Widagdo, 2016; Tehupuring & Rossa, 2016; Kim & Zhang, 2016; Lestari & Putri, 2017; Wicaksono, 2017). However, the results of these studies indicate inconsistencies. Research by Adhikari et al. (2006), Mulyani, Darminto & Endang (2014), Butje & Tjondro (2014), Pranoto & Widagdo (2016), Tehupuring & Rossa (2016) show that political connections have a negative and significant effect on tax avoidance, while the research results of Kim & Zhang (2016), Hardianti (2014) and Wicaksono (2017) show that political connections have a positive effect on tax avoidance. Furthermore, the research results of Hijriani et al., (2014), Lestari & Putri (2017) actually show that there is no significant influence between political connections and tax avoidance. Research results in Indonesia and from various countries indicate problems that may be caused by other factors that have not been considered by researchers. In addition, differences in the method of measuring research variables used by previous researchers may also be the cause of inconsistencies in research results.

Environmental characteristics and regulations between countries are important factors that need to be considered in analyzing the determinants of tax avoidance. This is based on the argument that taxation practices are closely related to laws and their derivatives regulations. In addition, the influence of the political connection variable on tax avoidance practices is closely related to conflicts of interest and opportunistic behavior of company owners and/or management, which usually harm minority shareholders. Therefore, CG is considered relevant in the context of efficient and effective, and sustainable CG. This means that an effective CG mechanism will give confidence to all stakeholders about the company's business practices so that no party is disadvantaged in the company's business practices. In relation to taxation practices, the results of previous research have provided evidence that CG has a negative effect on tax avoidance practices (Lanis & Richardson, 2011; Chan et al., 2013; Richardson et al., 2013; Halioui et al., 2016).

CG aims to create a good, effective, and efficient corporate governance in the organization. Companies that have implemented CG are expected to produce good and efficient performance because CG can provide effective protection for shareholders and stakeholders (Pranoto & Widagdo, 2016). When a company has implemented good corporate governance, it will create effective company performance and it will have an impact on effective decisions in determining the company's strategic policies. Literature has shown a relationship between CG mechanisms and corporate tax avoidance (Bovi, 2005; Desai & Dharmapala, 2006; Erickson et al., 2006; Sartori, 2008; Minnick & Noga, 2010; Samuel & Ranti, 2013; Moghani & Mohammadi, 2016).

The research results of Sudaryono et al. (2016) also provide empirical evidence that CG is a determinant of earnings management practices for tax purposes (including in the category of tax avoidance). In addition, the results of the study also indicate that the composition of the board of commissioners has a significant role in influencing the book-tax difference. Female commissioners play an active role in reducing the book-tax difference, while independent commissioners actually have a positive effect on the book-tax difference. Furthermore, the results of research by Sandy & Lukviarman (2015) also show that there is a negative effect of CG mechanisms on tax aggressiveness. The results of these studies provide an overview of the importance of CG in influencing corporate tax policymaking. Good corporate governance can reduce the arising agency problems so that managers as agents try to follow the prevailing laws and regulations, including taxation regulations, so that it can reduce tax avoidance practices. Therefore it can be assumed that CG can influence the relationship between political connections and tax avoidance. Therefore, the second hypothesis in this study is formulated as follows.

### **H<sub>2</sub>: The effectiveness of corporate governance weakens the influence of political connections on tax avoidance.**

## METHODS

The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange (ISE). The sample of this research is companies listed on the ISE from 2014 to 2017. This period was chosen with the consideration of current data and the existence of several government policies related to taxation that affect the company's business activities, for example, the tax amnesty regulation. The sample of this research is a company that meets the following criteria:

1. Exclude the company which delisted in the IDX during the observation period.
2. Exclude the state and regionally owned companies (BUMN and BUMD).

BUMN and BUMD companies are not used as research samples because they indicate a strong political connection between BoD and BoC. It is feared that it could cause the research sample to be not 'homogeneous because not all companies have political connections, such as State-Owned Enterprises companies. Based on the predetermined criteria, 512 observations were obtained, which were further analyzed to test the research hypothesis.

In this research, tax avoidance is measured by the Abnormal Book Tax Differences (ABTD). In contrast to previous studies that used the Effective Tax Rate (ETR) and/ or Cash Effective Tax Rate (CETR), this study focuses more on discretion made by corporate management in the context of tax avoidance. Based on the Tang and Firth research (2012), the ABTD value is obtained by regressing the following equation (1).

$$BTD_{it} = \beta_0 + \beta_1 \Delta INV_{it} + \beta_2 \Delta REV_{it} + \beta_3 NOL_{it} + \beta_4 TLU_{it} + \beta_5 BTD_{it-1} + e_{it} \dots\dots\dots(1)$$

$BTD_{it}$  : The differences between profit before tax and taxable income of company i in Indonesia in year t divided by total assets in year t,

$\Delta INV_{it}$  : Changes in gross fixed assets at company i in Indonesia from year t-1 to year t divided by total assets in year t,

$\Delta REV_{it}$  : Changes in revenue of company i in Indonesia from year t-1 to year t divided by total assets in year t,

$NOL_{it}$  : Changes in the value of net operating loss carryforward company i in Indonesia in year t to t-1 divided by total assets in t-1,

$TLU$  : The value of compensation for losses used by companies in Indonesia in year t divided by total assets in year t,

$BTD_{it-1}$  : Book-tax differences for companies in Indonesia in year t-1 divided by total assets in year t,

$e_{it}$  : Abnormal book-tax differences of companies i in Indonesia.

Political connection is generally measured by giving a value of 1 to companies that commissioners have political connections with political parties or government agencies and that are give n a value of 0 if they do not meet these criteria. However, in this study, the political connection variable does not use a categorical measurement like previous studies, but it is measured by the proportion of commissioners and directors who have political connections with the number of commissioners and directors in the sample companies. Thus, it can be seen how much the influence of the political connection variable on the tax avoidance variable.

CG in this study is proxied by the implementation of CG as measured by using the ASEAN Corporate Governance Scorecard (ACGS). The use of ACGS refers to the research of Utama et al. (2017). ACGS is formulated by the ASEAN Capital Market Forum (ACMF) based on an instrument developed by the Organization for Economic Co-operation and Development (OECD). ACMF is a capital market regulator forum consisting of 10 ASEAN countries, namely: Indonesia, Brunei Darussalam, Vietnam, Cambodia, Malaysia, Myanmar, Singapore, Philippines, Thailand, and Laos. ACMF focuses on harmonizing and integrating ASEAN capital market regulations.

The ASEAN Corporate Governance Scorecard consists of 2 levels. Level 1 consists of 5 parts, namely: 1) rights of shareholders, 2) voting rights and disclosure of ownership rights, 3) roles of stakeholder, 4) transparency and disclosure, and 5) responsibilities of BoC. Level 2

consists of 2 parts, namely: 1) bonus and 2) penalty. Overall, ACGS consists of 183 items which are divided into 145 items at level 1 and 38 items at level 2.

Furthermore, in order to measure the level of GCG implementation carried out by the company, the researcher conducted an analysis of the annual financial statements of all the sample companies, then carried out a checklist and gave a score for each item that was disclosed in the financial statements. The scoring technique uses an unweighted dichotomy scale with the criteria that if items from the ACGS are listed on the financial statements, so they are given with the number of one, and if they are not, it will be given a zero. The use of an unweighted dichotomy scale aims to avoid different perceptions of the items disclosed in the financial statements. In addition, this method can also reduce the level of subjectivity in giving weight to ACGS items. Based on the score that have been obtained, the next step is to calculate the percentage of CG implementation using the following formula (equation 2).

$$CGS = \frac{\sum_{ij} DItem}{\sum_{ij} ADItem} \dots\dots\dots(2)$$

In which:

- CGS : Score of CG implementation,
- Ditem : The total score of CG on the company's financial statements, and
- ADItem : Total items in ACGS.

This study uses two control variables, namely leverage and growth. Leverage is calculated by dividing total debt by the company's total assets (Noor, 2010). Growth is calculated by dividing the equity market value by the equity book value (Sudaryono et al., 2019).

The data analysis of this study used panel data regression analysis. The panel regression method used is balanced panel regression. Before the panel regression is carried out, first, the model specification test is carried out through the Chow test and the Hausman test. The hypothesis testing formulas in this study are shown by equation 3 and 4

$$TAX\_AVOID = \alpha_0 + \beta_1 POLCON + \beta_2 LEV + \beta_3 GROWTH + e \dots\dots\dots(3)$$

$$TAX\_AVOID = \alpha_0 + \beta_1 POLCON + \beta_4 CG + \beta_4 CG * KON\_POL + e \dots\dots\dots(4)$$

In which:

- TAX\_AVOID : Tax avoidance,
- POLCON : Political connection,
- LEV : Leverage,
- GROWTH : Growth,
- CG : Corporate governance,
- e : Error term.

## RESULTS AND DISCUSSION

The results of research data processing using descriptive statistical test tools in table 1 showed that the average value of the tax avoidance variable is 0.003 with a minimum value of -0.210 and a maximum value of 0.492. This data indicated that, in general, manufacturing companies listed on the ISE during the study period did not practice tax avoidance. However, there were indications that some of these companies practiced tax avoidance during the study period. Companies with the highest negative abnormal book-tax differences (ABTD) was PT. Tjiwi Kimia Tbk Paper Factory, while the company with the highest positive ABTD was PT. Unilever Indonesia Tbk.

The average value of the political connection variable was 0.093, with a minimum value of 0 and a maximum of 0.670. The company with the highest political connections was PT. Arwana Citramulia Tbk. The average value of the political connection variable was 0.098, which indicated that, in general, the level of political connection in manufacturing companies was relatively low. It



**Table 1.** Descriptive Statistics

Variables	Min	Max	Mean	Std. Dev
TAX_AVOID	-0.210	0.492	0.003	0.065
POLCON	0	0.670	0.093	0.175
CG	0.150	0.740	0.549	0.091
LEV	0.020	0.970	0.461	0.209
GROWTH	0.020	940.000	21.445	68.801

Sources: Processed primary data (2020)

was fair because, commonly, the high level of political connections occurs in state and regionally owned companies (BUMN and BUMD), while the sample used in this study is non-state-owned companies.

The company that had the lowest CG value was PT. Sorini Agro Asia Corporindo Tbk amounted to 0.150. The company that had the greatest CG value was Tiga Pilar Sejahtera Food Tbk, which amounted to 0.740. The company that had the smallest company value was PT. Taisho Pharmaceutical Tbk amounted to -0,290. The company that has the greatest corporate value was PT. Unilever Indonesia Tbk amounted to 22.99.

The company that had the lowest leverage was PT. Unggul Indah Cahaya Tbk amounted to 0.020. The company that had the highest leverage value was PT. Century Textile Industry Tbk amounting to 0.970. The average value of the leverage variable was 0.461. The company that had the lowest growth value was Trisula Textile Industries Tbk at 0.020. The company that had the highest growth value was PT. HM Sampoerna Tbk, amounted to 940,000. The average value of the growth variable was 21,445.

The results of the model specification test with the test of Chow and the Hausman show that the most suitable specification of equations 3 and 4 is the random effect. The testing results of the research hypothesis in table 2 show that the regression coefficient of the political connection variable in equation 3 was 0.008, and it has no significant effect. Based on the results of the analysis, the conclusion of the first hypothesis ( $H_1$ ) is rejected. It means that the political connection variable is not an important factor affecting the tax avoidance level of manufacturing companies listed on the ISE.

This insignificant effect may be due to several factors. First, the percentage of political connections in manufacturing companies is relatively low. The average value of the political connection variable in the sample companies is only around 9 percent. This shows that some of the companies that are observed do not have political connections. Second, manufacturing companies that have political connections are classified as companies that have a relatively high

**Table 2.** Testing Results of Hypothesis 1 (Random Effect Model)

Variabel	Koefisien	t-statistik
POLCON	0.0142	1.4903
LEV	- 0.0319	-1.9215 *
GROWTH	0.0001	3.2884 ***
Adj. R <sup>2</sup>	0.0259	
F-Statistik	5.533	
Sig.	0.0009	
N	512	

Sources : Processed primary data (2021)

Note : \*\*\* Significant at the level of 1%, \* Significant at the level of 10%

level of leverage. Due to the low political connections level, it is likely that the management and owners of the company do not have a strong political network so that the company is more careful in taxation practices. It relates to the level of risk that must be borne by the company. There are at least two risks that may arise from tax avoidance practices, namely the risk of litigation and the risk of deteriorating the company's image.

The bureaucratic reforms carried out by the Indonesian government, particularly the Ministry of Finance, have made tighter regulations and an integrated information system so that taxation practices are more transparent and accountable. Several civil and criminal tax cases that are often reported in the mass media are also one of the considerations for companies not to practice tax avoidance. Legal cases or litigation and reporting that is experienced by companies have direct or indirect consequences on financial performance and stock performance (Dash & Raithatha, 2018; Peng et al., 2019).

Related to the high corporate leverage, it indicates that the company has a tendency not to do tax avoidance even though the company has political connections. A high degree of leverage indicates a significant level of interest by creditors or debtors to the company. If a company practices tax aggressiveness, creditors will respond negatively (Hanlon & Slemrod, 2009; Zeng, 2014). The response can be in the form of not approving the loan application or even the company being asked to pay off all its debts. In contrast to the leverage variable, the growth variable affects positively and significantly tax avoidance. The results of this analysis indicate that companies with good equity growth rates tend to practice tax avoidance.

Based on the hypothesis testing results (table 3), it is found that CG is proven to moderate the effect of the political connection on tax avoidance. The effectiveness of the implementation of CG is proven to be able to influence strategic policies taken by company management, including tax policies (Strenger, 2004; Machuga & Teitel, 2009; Wahyudin & Solikhah, 2017; Zaidirina et al., 2017; Sugiyanto & Assagaf, 2017). However, the results of the analysis of this study show the opposite direction from the theory and hypothesis studies that were formulated. This study suspects that the effectiveness of CG mechanisms affect negatively on the tax avoidance level and reduces the positive influence of political connections on tax avoidance, but the result is the opposite.

Companies that have a high effectiveness level of CG are even more aggressive in their tax practices. A more surprising finding is that the more effective of the implementation of CG is, the stronger of the effect of the political connection on tax avoidance will be. This is a big question mark regarding the effectiveness of CG mechanisms in manufacturing companies listed on the ISE. There are indications that the level of effectiveness of the CG mechanism is still not fully optimal and only serves to meet the requirements or minimum standards of applicable regulations.

Table 3. Testing Results of Hypothesis 2 (Random Effect Model)

Variable	Coefficient	t-statistics	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
POLCON	0.0216	0.9450	0.0093	0.402	-0.5327	-3.0136***	-0.6789	-3.8836***
CG			0.1073	2.686***	0.0665	1.6083	-0.0422	1.0329
POLCON*CG					0.9229	3.0905***	1.1596	3.9287***
LEV							-0.0355	-2.1744**
GROWTH							0.0001	3.7629***
R <sup>2</sup>	0.0017							
Adj. R <sup>2</sup>			0.0118		0.0285		0.0631	
F-Statistic	0.8945		4.0765		6.0075		7.8938	
Sig.	0.3446		0.0175		0.0000		0.0000	
N	512		512		512		512	

Sources : Processed primary data (2021)

Note : \*\*\* Significant at the level of 1%, \*\*, \*\* Significant pada level 5

There are several arguments in explaining this. First, the average score for the level of effectiveness of CG is still relatively low. Second, the system of CG mechanisms in Indonesia has not been fully effective and in accordance with the conditions of the business environment in Indonesia. For example, most companies in Indonesia are family companies, and most of their ownership structures are concentrated on certain individuals and/ or companies that have company control rights. It means that the owner of the company has full rights in choosing and determining personnel on the personnel of the board of commissioners, directors, and audit committee.

Financial Services Authority Regulation Number 33 of 2014 concerning the Directors and Board of Commissioners of Issuers or Public Companies has regulated the requirements for BoD and BoC of public companies. However, the regulation only comprehensively regulates the independence of directors and commissioners, particularly independent commissioners. Article 21 paragraph 2 explains that independent commissioners must meet the following requirements: 1) not working for the company, 2) not having shares, either directly or indirectly, 3) not having affiliation relation with the issuer, the BoD, and BoC as well as the main shareholders of the company, and 4) not having a business relationship related to the issuer's business activities. The regulation does not stipulate that the selection of independent commissioners must be made by an independent external company. It is possible that the appointed or elected personnel are not truly independent. It means that they do not really work for the interests of all company stakeholders but only for the benefit of the majority owner. The argument is supported by the results of CLSA and ACHA surveys in 2016 and 2018. Apart from the low level of independence, the level of transparency and responsibility of companies in Indonesia is low when compared to other countries. It causes the overall level of implementation of CG to be lower than in neighboring countries, for example, Thailand and Malaysia.

## CONCLUSION

This study analyzes the influence of political connections on tax avoidance and the moderating role of CG on the relationship between political connections and tax avoidance. The analysis results show that political connections have no significant effect on tax avoidance. Furthermore, the moderation regression analysis results show that the effectiveness of CG positively moderates the effect of the political connection on tax avoidance. Although the results of this analysis indicate that there is a moderating effect on the effectiveness of CG, but the direction of the regression coefficient is positive. These results indicate that the CG mechanism in the sample companies is still not optimal in reducing the level of tax avoidance. Therefore, regulators are expected to be able to strengthen regulations concerning CG mechanisms in companies so that the implementation of CG is more effective and quality. One of the ways that can be done is strengthening the company's monitoring system by a truly independent external party. The existence of independent commissioners, independent directors, and independent audit committees in the company's organizational structure is actually good at carrying out the company's monitoring function. However, in the practices of personnel who fill the positions as independent parties are not necessarily truly independent in carrying out their duties and functions. Often, these independent personnel is chosen because of their personal closeness to the owner or company management. It can cause parties that are supposed to work independently to become not truly independent. Thus, company transparency and accountability are not optimal. This study contributes to the development of the theory and practice of implementing CG in Indonesia, particularly in the context of taxation. This study results indicate that the application of agency theory and implementation of the CG system is not fully applicable to all situations and conditions of the research environment. Regulatory factors and the business environment are likely to influence the implementation of CG theory and systems. Therefore, regulators need to review the effectiveness of the current CG system so that in the future, a CG system that is more appropriate to environmental conditions in Indonesia can be obtained.



This study has several limitations. First, the identification of the political connections of the BoD and the BoC is still limited to the information that available in the company's annual financial reports, particularly information about the biographies of the directors and the board of commissioners. We have not considered information from other sources. Therefore, further research can improve the accuracy of political connection data by adding references from sources other than annual financial reports, for example, company websites, political party websites, and websites in ministries or other state institutions. Second, this study has not conducted a comparative analysis of the results by using different variable measurements. There are several measurements of tax avoidance variables that can be explored by future researchers, such as effective tax rates, cash-effective tax rates, and permanent differences.

## REFERENCES

- Adhikari, A., C. Derashid, and H. Zhang. (2006). Public Policy, Political Connections, and Effective Tax Rates: Longitudinal Evidence from Malaysia. *Journal of Accounting and Public Policy*, 25: 574-595.
- Armstrong, C. S., J. I. Blouin, and D. F. Larcker. (2012). The Incentives for Tax Planning. *Journal of Accounting and Economics*, 53: 391-411.
- Butje, S. and E. Tjondro. 2014. Pengaruh Karakter Eksekutif dan Koneksi Politik Terhadap Tax Avoidance. *Tax & Accounting Review*, 4(2): 1-9.
- Bovi, M. (2005). Book-Tax Gap, An Income Horse Race. Working Paper, No. 61, Desember 2005.
- Chan, K. H., Mo, P. L. L., and Zhou, A. Y. 2013. Government Ownership, Corporate Governance and Tax Aggressiveness: Evidence from China. *Accounting & Finance*, 53(4): 1029-1051.
- Dash, S. and M. Raithatha. (2018). Impact of Disputed Tax Litigation Risk on Firm Performance: Evidence from India. *Accounting Research Journal*, 31(3): 458-478.
- Desai, M. A., and D. Dharmapala. (2006). Corporate Tax Avoidance and High-Powered Incentives. *Journal of Financial Economics*, 79: 145-179.
- Erickson, M., M. Hanlon, and E. L. Maydew. (2006). Is There a Link Between Executive Equity Incentives and Accounting Fraud? *Journal of Accounting Research*, 44: 113-143.
- Habib, A., A. H. Muhammadiyah, and H. Jiang. (2017). Political Connections and Related Party Transactions: Evidence from Indonesia. *The International Journal of Accounting*, 52(1): 45-63.
- Halioui, K., S. Neifar, and F. B. Abdelaziz. 2016. Corporate Governance, CEO Compensation and Tax Aggressiveness: Evidence from American Firms Listed on the NASDAQ 100. *Review of Accounting and Finance*, 15(4): 445-462.
- Hanlon, M., and J. Slemrod (2009). What Does Tax Aggressiveness Signal? Evidence from Stock Price Reactions to News about Tax Shelter Involvement. *Journal of Public Economics*, 93(1): 126-141.
- Hardianti, E. P. 2014. Analisis Tindakan Penghindaran Pajak Pada Perusahaan yang Mempunyai Koneksi Politik (Studi pada Perusahaan BUMN yang terdaftar di Bursa Efek Indonesia periode 2010-2013). *Jurnal Akuntansi AKUNESA*, 3(1): 1-25.
- Hijriani, A. N., S. W. Latifah, and S. Setiawan. 2014. Pengaruh Koneksi Politik, Dewan Komisaris dan Karakteristik Perusahaan terhadap Penghindaran Pajak (Perusahaan BUMN Yang Terdaftar di Bursa Efek Indonesia). *Jurnal Reviu Akuntansi dan Keuangan*, 4(1): 525-534.
- Kim, C., and L. Zhang. (2016). Corporate Political Connections and Tax Aggressiveness. *Contemporary Accounting Research*, 33(1): 78-114.
- Lanis, R., and G. Richardson. 2011. The Effect of Board of Director Composition on Corporate Tax Aggressiveness. *Journal of Accounting and Public Policy*, 30: 50-70.
- Lestari, G. A. W and I. A. D. Putri. 2017. Pengaruh Corporate Governance, Koneksi Politik, an Leverage Terhadap Penghindaran Pajak. *E-Jurnal Akuntansi Universitas Udayana*, 18(3): 2028-2054.
- Machuga, S., and K. Teitel (2009). Board of director characteristics and earnings quality surrounding implementation of a corporate governance code in Mexico. *Journal of International Accounting, Auditing and Taxation*, 18(1), 1-13.
- Martinez, A. L., and G. C. Romalho. (2014). Family Firms and Tax Aggressiveness in Bazil. *International Business Research*, 7(3): 129-136.
- Midiastuty, P. P., S. Eddy, H. Madani, dan A. Rahmi. (2016). Pengaruh Perubahan Tarif Pajak Badan Menurut UU No. 36 Tahun 2008 terhadap Praktik Manajemen Laba Perusahaan Non Manufaktur. *Symposium Nasional Akuntansi*, 18.
- Miettinen, T. and P. Poutvaara. (2014). A Market for Connections. *European Journal of Political Economy*,

33: 37-52.

- Minnick, K., and T. Noga. (2010). Do Corporate Governance Characteristics Influence Tax Management? *Journal of Corporate Finance*, 16: 703-718.
- Moghani, R., and S. Mohammadi. (2016). Relationships between Mechanisms of Corporate Governance and Tax Gap Using SPSS Software: Evidence from Tehran Stock Exchange. *Journal of Multidisciplinary Scientific Research*, 4(3): 9-13.
- Mulyani, S., Darminto, and M. G. Wi Endang. 2014. Pengaruh Karakteristik Perusahaan, Koneksi Politik dan Reformasi Perpajakan Terhadap Penghindaran Pajak (Studi Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Tahun 2008-2012). *Jurnal Mahasiswa Perpajakan*, 2(1): 1-9.
- Noor, F. (2010). *Keuangan Publik: Teori dan Aplikasi*. Jakarta: Lembaga Pengkajian Keuangan Publik dan Akuntansi Pemerintah (LPKPAP).
- Peng, F., Y. G. Shan, W. Wu, and L. Zhang. (2019). Litigation Risk and Firm Performance: A Mediation Effect via Debt Financing. *SSRN Electronic Journal*. doi:10.2139/ssrn.3383915
- Pranoto, B. A., dan A. K. Widagdo. (2016). Pengaruh Koneksi Politik dan Corporate Governance terhadap Tax Aggressiveness. Paper presented at the Seminar Nasional dan The 3rd Call for Syariah Paper.
- Qian, M., H. Pan, and B. Yeung. (2011). Expropriation of Minority Interest Shareholders in Politically-Connected Firms. Working Paper. National University of Singapore Business School.
- Richardson, G., G. Taylor, and R. Lanis. 2013. The Impact of Board of Director Oversight Characteristics on Corporate Tax Aggressiveness: An Empirical Analysis. *Journal of Accounting and Public Policy*, 32(3): 68-88.
- Samuel, F. A., and U. O. Ranti. (2013). Effects of Strategic Tax Behaviors on Corporate Governance, *International Journal of Finance and Accounting*, 2(6): 326-330.
- Sandy, S., dan N. Lukviarman. (2015). Pengaruh Corporate Governance terhadap Tax Avoidance: Studi Empiris Pada Perusahaan Manufaktur. *Jurnal Akuntansi dan Auditing Indonesia*, 19(2): 85-98.
- Sartori, N. (2008). Effects of Strategic Tax Behaviors on Corporate Governance. Tersedia secara online di: <https://ssrn.com/abstract=1358930> or <http://dx.doi.org/10.2139/ssrn.1358930> (Diakses pada 20 Mei 2017).
- Shleifer, A. and R. W. Vishny. (1998). *The Grabbing Hand: Government Pathologies and Their Cures*. Cambridge, MA: Harvard University Press.
- Strenger, C. (2004). The Corporate Governance Scorecard: a tool for the implementation of corporate governance. *Corporate Governance*, 12(1), 11-15.
- Sudaryono, E. A., Djuminah, S. Hartoko, and H. D. Perdana. 2016. Corporate Governance and Earnings Management Around the Implementation UU No. 36/2008. *Scholarly Journal of Science Research and Essay*. November. Tersedia secara on line di: <http://www.scholarity-journals.com/SJSRE> (Diakses pada 20 November 2017).
- Sugiyanto, H., and A. Assagaf. (2017). Factors Affecting the Implementation of Good Corporate Governance in Control of Operation and Finance. *International Journal of Economics and Finance*, 10(1), 32-45
- Tang, T. Y. H., and M. Firth. (2012). Earnings Persistence and Stock Market Reactions to the Different Information in Book-Tax Differences: Evidence from China. *The International Journal of Accounting*, 47(3): 369-397.
- Tehupuring, R. and E. Rossa. 2016. Pengaruh Koneksi Politik dan Kualitas Audit Terhadap Praktik Penghindaran Pajak di Lembaga Perbankan yang Terdaftar di Pasar Modal Indonesia Periode 2012-2014. *Prosiding Seminar Nasional INDOCOMPAC*. Universitas Bakrie, 2-3 Mei, Jakarta.
- Utama, C. A., S. Utama, and F. Amarullah. (2017). Corporate Governance and Ownership Structure: Indonesia Evidence. *Corporate Governance: The International Journal of Business in Society*, 17(2):165-191.
- Wahyudin, A., and B. Solikhah. (2017). Corporate governance implementation rating in Indonesia and its effects on financial performance. *Corporate Governance: The International Journal of Business in Society*, 17(2), 250-265.
- Wicaksono, A. P. N. 2017. Koneksi Politik dan Aggresivitas Pajak: Fenomena di Indonesia. *Akuntabilitas: Jurnal Ilmu Akuntansi*, 10(1): 167-180.
- Zaidirina, N. A., N. A. Lindrianasari, and S. Bangsawan. (2017). Implementation of corporate governance and mandatory disclosure in the Indonesian banking sector: good news or bad news. *International Journal of Monetary Economics and Finance*, 10(3/4), 281-294.
- Zeng, T. (2014). Derivative financial instruments, tax aggressiveness and firm market value. *Journal of Financial Economic Policy*, 6(4), 376-390.