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Political Connection Moderate Effect of Tax Haven Utilization and Corporate Governance on Tax Aggressiveness

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Abstract

Introduction/Main Objectives: *This research was very relevant to the scope of tax policy, corporate governance, and accountability, and it had a central role in encouraging improvements in tax practices.* ***Background Problems:*** *This research examines the influence of tax haven utilization and corporate governance on tax aggressiveness by mediating political connections in manufacturing companies listed on the Indonesia Stock Exchange.* ***Research Methods:*** *This research used quantitative data, and the type of data researchers use was secondary data. The population in this research was 168 manufacturing companies registered on the IDX during the 2019-2022 period. Sampling was done using purposive sampling, and a sample of 144 companies was obtained. Data management in this research uses the Structural Equation Model (SEM) through the smart PLS computer program or application.* ***Finding/Results:*** *The empirical findings show that tax haven utilization does not affect political connections and tax aggressiveness, while corporate governance directly influences tax aggressiveness and political connections.* ***Conclusion:*** *Political connections mediate the relationship between corporate governance and tax aggressiveness.*

Keywords: *corporate governance; political connections; tax aggressiveness; tax haven utilization*

JEL Classification: M40, M41

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INTRODUCTION

The manufacturing sector's contribution to the national GDP from 2019 to 2022 was as follows. In 2019, the manufacturing sector contributed 19.85% to the national GDP. In 2020, there was a decrease in the contribution of the manufacturing sector to 19.17% of the national GDP due to the COVID-19 pandemic, which has affected the performance of the industrial sector in Indonesia. In 2021, it is estimated that the manufacturing sector's contribution to national GDP this year will be 19.62%, an increase from the previous year due to economic recovery efforts. In 2022, the estimated national contribution of the manufacturing sector to GDP this year was 19.98%, showing the potential for growth in the industrial sector in Indonesia. According to the DPR-RI's Budget Review and APBN Implementation Agency, several modes of tax avoidance in the manufacturing sector include transfer pricing, loan interest payments, non-deductible costs, depreciation, etc. (Laila et al., 2021). The influence of the use of tax havens on political connections was a phenomenon that illustrates the complex interactions between the business and political sectors in the global world.

Using tax havens by companies or individuals with access to political connections can have several significant impacts. Political connections can be used to gain easier access to information and influence tax policy changes. Companies or individuals with close ties to politicians or government officials can leverage these connections to influence tax decisions that were more favourable to them; political connections can also facilitate a more effective political lobbying process. Companies that use tax havens may implement lobbying strategies supported by their political connections to design tax regulations that suit their interests. In addition, political connections can help avoid or reduce the impact of strict regulatory efforts regarding the use of tax havens. Following political cost theory, the hypothesis explains why companies choose accounting policies to minimize income tax burdens. Following this theory, companies can minimize political costs in the form of tax burdens through the company's political connections, seeing that the presence of state officials or party politicians in the company will create profitable relationships (Gomez, 2009). Companies with strong political connections can access tax havens more efficiently and use aggressive tax schemes to reduce their tax burden. In addition, companies that have strong political connections can also influence tax policy making and obtain special favourable treatment from the government. Fan et al. (2011) showed that companies with strong political connections tent to have higher levels of tax aggressiveness than companies that do not have political connections. The advantages of companies with these connections include ease in obtaining capital loans, obtaining project contracts from the government (Butje & Tjondro, 2014), low possibility of inspection and reduction of tax sanctions (Li et al., 2008), and increasing company involvement in activities—tax avoidance (Zhang, 2016). So, the hypothesis can be formulated, namely.

H_1: It is suspected that there is a positive influence of tax haven utilization on political connections

The influence of corporate governance on political connections is crucial in understanding the interaction between the business and political sectors. Wulandari (2018) stated that Good corporate governance can significantly impact how companies manage and utilize political connections. Robin et al. (2021) First, strong corporate governance can reduce the potential to misuse political connections for personal or detrimental purposes. With a transparent and accountable governance structure, decisions regarding the use of political connections must be based more on the company's interests as a whole, ensuring that there was no abuse of power for personal or limited group gain. In addition, good governance practices can also help prevent conflicts of interest between employees or shareholders with political connections, thus maintaining the company's operational integrity. Second, effective corporate governance can form political connections that were more responsible and based on ethical principles. Companies with solid governance structures tend to be more careful in establishing and using political connections, ensuring that these relationships align with the company's values and goals and broader stakeholder interests. Jensen & Meckling (1976), in Wulandari's (2018), agency theory, recognize the potential for conflicts of interest between company owners and management. In terms of political connections, company management with political connections could utilize this power to seek personal or group benefits, which may only sometimes be in line with the owner's interests. Good corporate governance, which includes transparency, accountability, and appropriate disclosure of information, could help minimize the potential for abuse of political connections and encourage the dissemination of accurate information regarding a company's interactions with political entities. In line with Wulandari (2018), a politically connected board of commissioners contributes positively to the company despite its position as an independent board of commissioners. So, the hypothesis could be formulated, namely;

H_2: It is suspected that corporate governance positively influences political connections.

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According to Nurhidayati & Fuadilah (2018), using tax havens was a company strategy to utilize countries with low or no tax rates to reduce the tax burden that must be paid. Based on agency theory, managers were incentivized to increase company profits and obtain higher rewards through bonuses or other compensation. One way that managers could increase company profits was by reducing the tax burden that must be paid. However, this action could create a conflict of interest between managers and shareholders because it could harm the company's long-term interests. Using tax havens could be one of the strategies companies use to reduce the tax burden. Hanlon & Heitzman (2010). Companies tend to take aggressive action to reduce their tax burden, including using tax haven strategies. However, these actions could indicate tax aggressiveness and create a risk of conflict of interest between managers and shareholders. Therefore, the hypothesis that there was a positive influence between the use of tax havens and tax aggressiveness was relevant. This was confirmed by research by Hanlon & Heitzman (2010). Companies that use tax havens tend to have a higher level of tax aggressiveness than those that do not. This was supported by research by Utami (2020), which states that tax haven utilization positively affects tax aggressiveness. So, the higher the tax haven utilization, the greater the tendency to carry out tax aggressiveness. So, the hypothesis could be formulated, namely;
H_3: It is suspected that there is a positive influence of Tax Haven Utilization on Tax Aggressiveness

A company's strategic decisions were strongly influenced by corporate governance to avoid the company's tax burden (Ardillah & Halim, 2022). Hanlon and Heitzman (2010) show that companies with good corporate governance have lower tax aggressiveness than companies with poor governance. Researchers use the independent commissioner proxy for good corporate governance because it has a role in corporate tax planning, where tax aggressiveness was part of tax planning activities. Agency theory states that the greater the number of independent commissioners, the better they were at monitoring and controlling the actions of executive directors regarding their opportunistic behaviour (Jensen & Meckling, 1976). Based on agency theory, conflicts of interest between managers and shareholders could lead to aggressive actions in managing corporate taxes. Therefore, with good governance, managers should be more responsible in managing company taxes and pay more attention to the long-term interests of shareholders so that tax aggressiveness could be reduced (Dhaliwal et al. (2004). An independent board of commissioners will supervise the performance of the board commissioners and directors in supervising the management of the company's operational activities. Tighter supervision could encourage management to comply with applicable tax regulations in preparing quality financial reports and make financial reports more objective, which could be applied to prevent tax aggressiveness. Research conducted by Diantari & Ulupui (2016), Lutfia & Pratomo (2018), Mappadang (2021), and Gunawan et al. (2021) shows that independent commissioners hurt tax avoidance. So, a hypothesis could be formulated, namely;
H4: It is suspected that there is a positive influence of Corporate Governance on Tax Aggressiveness

In addition, political connections could also influence how companies approach tax planning to optimize corporate structure, business location, or income streams to reduce legal or illegal tax liabilities (Ying et al., 2017). Therefore, the influence of political connections on tax aggressiveness could form complex dynamics in the relationship between business and politics and raise issues related to justice and equality in the tax system. Tahrir et al. (2021), In accordance with the political cost hypothesis theory, explain why companies choose accounting policies to minimize income tax burdens. Following this theory, companies could minimize political costs in the form of tax burdens through the company's political connections, seeing that the presence of state officials or party politicians in the company will create profitable relationships (Gomez, 2009). Fan et al. (2011) show that companies with strong political connections tend to have higher levels of tax aggressiveness than companies that do not have political connections. In line with research by Butje & Tjondro (2014), Ying et al. (2017), Sugeng et al. (2020), and Sahrir et al. (2021), the results of this study show that political connections have a significant effect on tax aggressiveness. So, the hypothesis could be formulated, namely;

H5: It is suspected that political connections positively influence tax aggressiveness.

Utami (2020) stated that tax haven utilization positively affects tax aggressiveness. Nurhidayati & Fuadilah (2018) defined tax havens as a company's strategy to utilize countries with low or no tax rates to reduce the tax burden that must be paid. Based on agency theory, managers were incentivized to increase company profits and obtain higher rewards through bonuses or other compensation. One way that managers increase company profits was by reducing the tax burden that must be paid. However, this action could create a conflict of interest between managers and shareholders because it could harm the company's long-term interests. Apart from that, companies with political connections were top executives or significant shareholders who were directly involved in politics or have friendships with heads of state, ministers or members of parliament, relationships with officials who have served as heads of state or prime ministers in previous periods (Faccio, 2006). Political connections will be more visible in countries with high levels of corruption. Although bribery hurts the economy and the growing class, the same could not be said for political connections that many companies consider valuable (Faccio, 2010). This could cause companies with government officials as independent commissioners to commit tax violations (Anggraini & Widarjo, 2020). Wulandari (2018) stated that a politically connected board of commissioners contributes positively to the company despite their position as an independent board of commissioners. Research conducted by Diantari & Ulupui (2016), Lutfia & Pratomo (2018), Mappadang (2021), and Gunawan et al. (2021) shows that independent commissioners harm tax avoidance. Related research also proves that political connections have a significantly high level of tax avoidance when compared to similar companies that do not have political connections (Zhang, 2016), Ferdiawan & Firmansyah (2017) (Wicaksono, 2017). So, the hypothesis could be formulated, namely;

H6: It is suspected that political connections mediate the effect of Tax Haven Utilization on Tax Aggressiveness

H7: It is suspected that political connections mediate the influence of Corporate Governance on Tax Aggressiveness

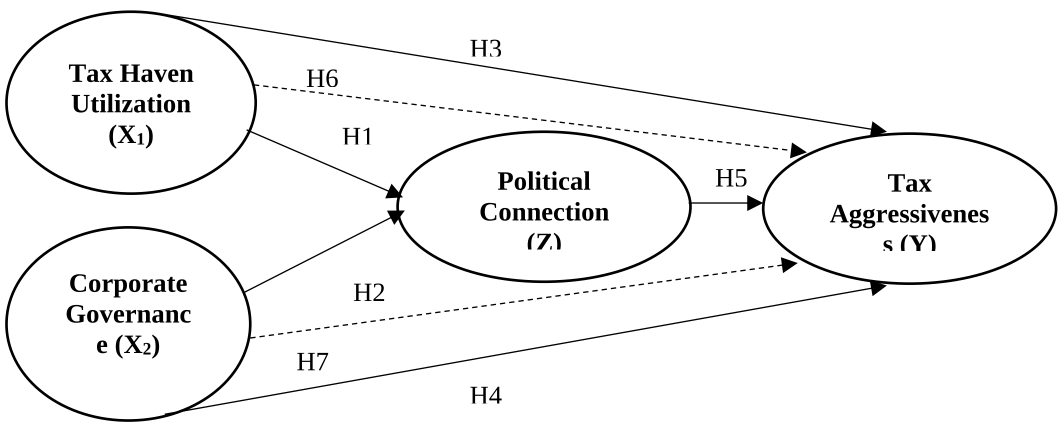

Figure 1. Research Conceptual Framework

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RESEARCH METHODS

This research was designed as an explanatory research model to explain the influence of tax haven utilization and corporate governance on tax aggressiveness with the mediation of political connections. The analytical tool used to test the hypothesis was Smart Partial Least Square (SmartPLS) software version 3.0. The research data used in the calculation process was quantitative, namely data that comes from secondary data. Namely the financial reports of manufacturing companies for 2016-2022. The measurement model (outer model) was used to assess the validity and reliability of the model, and (inner model) the structural model was evaluated using R-square for the dependent construct, Stone-Geisser Q-square test for predictive relevance and t-test and the significance of the structural path parameter coefficients.

This study's population consists of all manufacturing industrial companies listed on the Indonesia Stock Exchange from 2016 to 2022. The sampling technique was random using the proportional cluster sampling technique. Based on the Levy & Lemeshow (1997) formula, this research sample consisted of 145 companies.

Table 1. Number of Companies and Sample Companies in the Manufacturing Sub-Industry

No	Manufacturing Sub Industry	Number of companies	Number of samples
1	Food and Drink	39	30
2	Tobacco/Cigarette Products	5	4
3	Clothing and other textile products	15	11
4	Paper and supporting products	9	7
5	Chemicals and supporting products	18	14
6	Plastic products and packaging	14	11
7	Cement	8	6
8	Metal products	16	12
9	Machines and heavy equipment	9	7
10	Cable	7	4
11	Electronic	4	3
12	Automotive and components	14	11
13	Drugs	11	8
14	Household appliances	8	6
15	Other manufacturing	12	11
	Number of companies	190	145

Source: Researcher's Data, 2023

Variable measurement

The Dependent Variable is Tax Aggressiveness (Y)

Frank et al. (2009) define tax aggressiveness as an act of manipulating taxable income through tax planning both legally (avoidance) and breaking the law (evasion). According to Ardillah & Vanessa (2022), Taxes for companies were considered an additional cost burden that could reduce profits. Therefore, the company will try to minimize this additional cost burden. In this research, corporate tax aggressiveness is measured using CETR. CETR was calculated using the following formula (Utami et al., 2020):

The mediating variable is Political Connection (Z)

Political Connection: A company was defined as having a political connection if one of the company owners, board of directors or board of commissioners had served or was currently a government official, military official or member of parliament during the research period. The political connection criteria in this research include:

1. The board of directors and commissioners hold concurrent positions as politicians affiliated with a political party.
2. The board of directors and commissioners hold concurrent positions as government officials.
3. The board of directors and commissioners hold concurrent positions as military officials.
4. The board of directors and board of commissioners were former government officials or former military officials.
5. Company owners or shareholders were politicians/government officials/military officials/former government officials/former military officials.

Political Connection was measured as a dummy variable, with a value of 1 if the company meets one of the five criteria above and a value of 0 if not.

The Independent Variable is Tax Haven Utilization (X1)

Tax havens or tax havens in the Indonesian regulatory system were regulated in Income Tax in Law No. 36 of 2008. Tax haven in Article 18 paragraph (3c) means "a country that provides tax protection". Desai & Hines (2002) show that companies that were members of tax havens could shift income from high-tax jurisdictions to low-tax jurisdictions through transfer pricing, inter-company debt and the transfer of intangible assets. Tax haven utilization previously researched by Damayanti & Prastiwi (2017) was measured using a dummy variable, giving a value of 1 if the company has an affiliation with a company operating in a tax haven area and a value of 0 if the company has no affiliation with a company operating in a tax haven area.

The Independent Variable is Corporate Governance (X2)

" According to the Forum for Corporate Governance in Indonesia (FCGI, 2001), Good corporate governance was a set of regulations that regulate the relationship between shareholders, company management, creditors, government, employees and other internal and external stakeholders relating to rights. -their rights and obligations, or in other words, a system that regulates and controls the company. Corporate governance, or good corporate governance, according to Firmansyah (2022), was a system that includes relationships between managers, shareholders, the board of commissioners and other stakeholders. Good corporate governance was essential for companies because parties related to the company have different interests from one another. Apart from the variable concentrated ownership, a proxy for good corporate governance, namely the proportion of independent commissioners, researchers used other factors to identify the relationship with tax aggressiveness.

RESULTS AND DISCUSSION

The results of descriptive statistical testing in this research were presented in Table 2, which displays information about descriptive statistics for each variable.

Table 2. Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
Tax Haven Utilization	1015	.00	1.00	.2404	.42753
Corporate Governance	1015	-2.16	.89	.0482	.16563
Political connections	1015	.00	1.00	.0690	.25352
Tax Aggressiveness	1015	-7.00	16.00	-.0266	.83576
Valid N (listwise)	1015				

Source: Smart PLS Processing Data, 2023

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The results of research model hypothesis testing using Smart PLS could be explained as follows:

Table 3. Statistical t-test results and p-value

No	Information	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
1	Corporate Governance -> Political Connection	0.485	0.487	0.053	9,230	0,000
2	Tax Heaven Utilization -> Political Connection	0.047	0.048	0.030	1,563	0.119
3	Corporate Governance -> Tax Aggressiveness	-0.059	-0.061	0.016	3,760	0,000
4	Tax Heaven Utilization -> Tax Aggressiveness	-0.006	-0.006	0.004	1,460	0.145
5	Political Connection -> Tax Aggressiveness	-0.122	-0.126	0.030	4,007	0,000
6	Corporate Governance -> Political Connection -> Tax Aggressiveness	-0.059	-0.061	0.016	3,760	0,000
7	Tax Heaven Utilization -> Political Connection -> Tax Aggressiveness	-0.006	-0.006	0.004	1,460	0.145

Source: Smart PLS Processing Data, 2023

Partial testing with the t-test to determine the effect of the Tax Haven variable on political connections obtained a significance value (sig) of a t value of 1.563. This value was smaller than the t table (1.960), and the p-value was 0.119, which was greater than 0.05 (P>0.05), so **the first hypothesis was rejected.** Damayanti (2017) Based on agency theory, the use of Tax Haven by manufacturing companies in Indonesia may not be too influenced by political connections, mainly due to the phenomenon of different objective entities. This theory emphasizes efforts to minimize conflicts of interest between company owners and management who act as agents. However, these results do not match Fan et al. (2011) show that companies with strong political connections tend to have higher levels of tax aggressiveness than companies that do not have political connections. The advantages of companies with these connections include ease in obtaining capital loans, obtaining project contracts from the government (Butje & Tjondro, 2014), low possibility of inspection and reduction of tax sanctions (Li et al., 2008), and increasing company involvement in activities—tax avoidance (Zhang, 2016).

Partial testing with the t-test to determine the effect of the Tax Haven variable on tax aggressiveness obtained a significance value (sig) of a t value of 1.460. This value was smaller than the t table (1.960), and the p-value is 0.1145, which was greater than 0.05 (P>0.05), so **the third hypothesis is rejected.** The use of Tax Haven in the tax practices of manufacturing companies in Indonesia may not significantly influence tax aggressiveness, especially considering the phenomenon of low taxes abroad. When companies utilize Tax Havens, the goal was to maximize fiscal efficiency and legally reduce tax burdens by choosing jurisdictions with lower tax rates. Nurhidayati & Fuadilah (2018) defined the use of tax havens as a company's strategy to utilize countries with low or no tax rates to reduce the tax burden that must be paid. Companies' decisions to utilize Tax Haven tend to be driven by economic and financial considerations, without being too influenced by political factors or the composition of company commissioners involved in political parties. Low taxes abroad provide an additional incentive for companies to use Tax

Havens as part of their tax strategy, which was ultimately less influenced by internal corporate political factors. In Indonesia, companies rarely take action using Tax Haven. Damayanti (2017) states that several factors could cause this. First, tax policy in Indonesia may have suppressed incentives to seek tax alternatives abroad. Second, the process and costs associated with establishing or maintaining an entity in a Tax Haven could also be a barrier. Third, companies may prefer to focus on tax strategies that comply with tax regulations and norms in Indonesia to minimize risks and build a good reputation at the domestic level. Thus, this phenomenon may reflect that companies in Indonesia prefer a tax approach that was more conservative and follows their domestic legal and tax environment. This was following research by Damayanti (2017). The research results show that using tax haven countries does not affect tax aggressiveness.

Partial testing with the t-test to determine the effect of the Tax Haven variable on tax aggressiveness with the mediation of political connections obtained a significance value (sig) of t value of 1.460. This value was smaller than the t table (1.960), and the p-value was 0.145, which was greater than 0.05 (P>0.05), so **the sixth hypothesis is rejected.** However, Fan et al. (2011) show that companies with strong political connections tend to have higher levels of tax aggressiveness than companies that do not have political connections. The advantages of companies with these connections include ease in obtaining capital loans, obtaining project contracts from the government (Butje & Tjondro, 2014), low possibility of inspection and reduction of tax sanctions (Li et al., 2008), and increasing company involvement in activities—tax avoidance (Zhang, 2016). In Damayanti (2017), agency theory could be an essential factor in understanding why the use of Tax Haven does not significantly affect the tax aggressiveness of manufacturing companies in Indonesia in the context of the minimal involvement of company commissioners in political parties. Agency theory emphasizes the importance of minimizing conflicts of interest between shareholders (principals) and agents or company management responsible for daily operations. In this context, if company commissioners have low political involvement, then decisions regarding tax practices tend to be more focused on maximizing company value and minimizing legal or reputation risks following the interests of shareholders. The use of a Tax Haven, in this case, may be considered a strategy to optimize the company structure by legally minimizing the tax burden, and this decision was based more on economic considerations and shareholder interests than internal political considerations. This was following research by Damayanti (2017). The research results show that using tax haven countries does not affect tax aggressiveness. Several things cause these different results. First, this research sample has relatively few affiliates in tax haven countries, only around 18% of the total research sample. In this research, the list of tax haven countries used was only a publication from the OECD. This was less representative because most companies in the research sample do not utilize tax haven countries. The company utilizes countries that were included in the other financial centre category according to the OECD, such as Singapore and Sweden.

Partial testing with the t-test to determine the effect of the political connection variable on tax aggressiveness obtained a significance value (sig) of a t value of 4.007. This value was greater than the t table (1.960), and the p-value was 0.000, which was smaller than 0.05 (P<0.05), so **the fifth hypothesis is accepted.** In addition, political connections could also influence how companies approach tax planning to optimize corporate structure, business location, or income streams to reduce legal or illegal tax liabilities (Ying et al., 2017). Therefore, the influence of

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political connections on tax aggressiveness could form complex dynamics in the relationship between business and politics and raise issues related to justice and equality in the tax system. Tahrir et al. (2021), Following the political cost hypothesis theory, explain why companies choose accounting policies to minimize income tax burdens. Following this theory, companies could minimize political costs in the form of tax burdens through the company's political connections, seeing that the presence of state officials or party politicians in the company will create profitable relationships (Gomez, 2009). Fan et al. (2011) show that companies with strong political connections tend to have higher levels of tax aggressiveness than companies that do not have political connections. In line with research by Butje & Tjondro (2014), Ying et al. (2017), Sugeng et al. (2020), and Sahrir et al. (2021), the results of this study show that political connections have a significant effect on tax aggressiveness.

Partial testing with the t-test to determine the effect of corporate governance variables on tax aggressiveness obtained a significance value (sig) of a t value of 3.760. This value was greater than the t table (1.960), and the p-value was 0.000, which was smaller than 0.05 ($P<0.05$), so **the second hypothesis is accepted.** Corporate governance was one of the mechanisms used to control and monitor the level of company compliance (Robin et al., 2021). A company's strategic decisions were strongly influenced by corporate governance to avoid the company's tax burden (Ardillah & Halim, 2022). Hanlon & Heitzman (2010) show that companies with good corporate governance have lower tax aggressiveness than companies with poor governance. Researchers use the independent commissioner proxy for good corporate governance because it has a role in corporate tax planning, where tax aggressiveness was part of tax planning activities. Agency theory states that the greater the number of independent commissioners, the better they were at monitoring and controlling the actions of executive directors regarding their opportunistic behaviour (Jensen & Meckling, 1976). Based on agency theory, conflicts of interest between managers and shareholders could lead to aggressive actions in managing corporate taxes. Therefore, with good governance, managers should be more responsible in managing company taxes and pay more attention to the long-term interests of shareholders so that tax aggressiveness could be reduced (Dhaliwal et al. (2004). An independent board of commissioners will supervise the performance of the board commissioners and directors in supervising the management of the company's operational activities. Tighter supervision could encourage management to comply with applicable tax regulations in preparing quality financial reports and make financial reports more objective, which could be applied to prevent tax aggressiveness. Research conducted by Diantari & Ulupui (2016), Lutfia & Pratomo (2018), Mappadang (2021), and Gunawan et al. (2021) shows that independent commissioners harm tax avoidance.

Partial testing with the t-test to determine the influence of corporate governance variables on political connections obtained a significance value (sig) of a t value of 9.230. This value was greater than the t table (1.960), and the p-value was 0.000, which was smaller than 0.05 ($P<0.05$), so **the fourth hypothesis is accepted.** The influence of corporate governance on political connections was a crucial aspect of understanding the interaction between the business and political sectors. Wulandari (2018) states that good corporate governance could significantly impact how companies manage and utilize political connections. Robin et al. (2021), first, strong corporate governance could reduce the potential to misuse political connections for personal or detrimental purposes. With a transparent and accountable governance structure, decisions regarding the use of political connections must be based more on the company's interests as a whole, ensuring that there was no abuse of power for personal or limited group gain. In addition, good governance practices could also help prevent conflicts of interest between employees or shareholders with political connections, thereby maintaining the company's operational integrity. Second, effective corporate governance could form political connections that were more responsible and follow ethical principles. Companies with solid governance structures tend to be more careful in establishing and utilizing political connections, ensuring that these relationships align with the company's values and goals and broader stakeholder interests. Jensen & Meckling (1976), in Wulandari's (2018) Agency theory, recognize the potential for conflicts of interest between company owners and management. In terms of political connections, company management with political connections could utilize this power to seek personal or group benefits, which may only sometimes be in line with the owner's interests. Good corporate governance, which includes transparency, accountability, and appropriate disclosure of information, could help minimize the potential for abuse of political connections and encourage the dissemination of accurate information regarding a company's interactions with political entities. In line with Wulandari (2018), a politically connected board of commissioners contributes positively to the company despite its position as an independent board of commissioners.

Partial testing with the t-test to determine the effect of corporate governance variables on tax aggressiveness with the mediation of political connections obtained a significance value (sig) of a t value of 3.760. This value was greater than the t table (1.960), and the p-value was 0.000, which was smaller than 0.05 ($P<0.05$), so **the seventh hypothesis is accepted.** Companies with political connections were top executives or significant shareholders who were directly involved in politics or have friendships with heads of state, ministers or members of parliament and relationships with officials who have served as heads of state or prime ministers in previous periods (Faccio, 2006). Political connections will be more visible in countries with high levels of corruption. Although bribery harms the economy and the growing class, the same could not be said for political connections that many companies consider valuable (Faccio, 2010). This could cause companies with government officials as independent commissioners to commit tax violations (Anggraini & Widarjo, 2020). Faccio (2006) explains that a company was considered to have political connections if at least one of the large shareholders or one of the leaders of the company, be it the CEO, president, vice president or secretary, was a member of parliament, minister or someone related to a politician or political party. The advantages of companies with these connections include ease in obtaining capital loans, obtaining project contracts from the government (Butje & Tjondro, 2014), low possibility of inspection and reduction of tax sanctions (Li et al., 2008), and increasing company involvement in activities—tax avoidance (Zhang, 2016). In political cost theory, the hypothesis explains why companies choose accounting policies to minimize income tax burdens. Following this theory, companies could minimize political costs in the form of tax burdens through the company's political connections, seeing that the presence of state officials or party politicians in the company will create beneficial relationships (Gomez, 2009). Wulandari (2018) states that a politically connected board of commissioners contributes positively to the company despite his position as an independent board of commissioners. Research conducted by Diantari & Ulupui (2016), Lutfia & Pratomo (2018), Mappadang (2021), and Gunawan et al. (2021) shows that independent commissioners harm tax avoidance. Related research also proves

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that political connections have a significantly high level of tax avoidance when compared to similar companies that do not have political connections (Zhang, 2016), Ferdiawan & Firmansyah (2017) (Wicaksono, 2017).

CONCLUSION

The findings from this research were that tax haven utilization does not affect tax aggressiveness and political connections. However, corporate governance was proven to affect tax aggressiveness and political connections. Political connections mediate the influence of corporate governance on tax aggressiveness but do not mediate the influence of tax haven utilization on tax aggressiveness. With these results, it was hoped that the gap in theory and the need for research could be fulfilled so that it could provide both theoretical and practical benefits.

AUTHORSHIP CONTRIBUTION STATEMENT

The article's writers shared responsibilities for research, writing, and analyzing data.

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