The Influence of Political Connections on Tax Avoidance with Institutional Ownership Structure as a Moderation

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ABSTRACT
This study aims to evaluate the role of ownership structure as moderating factor in the relationship between political connection and tax avoidance. Political connections are inseparable in their practices to generate business benefits for the company, especially when the company's ownership has strong political connections with the government. The acquisition of data is based on observations of the annual reports of companies listed on the LQ 45 Indonesia Stock Exchange during 2020-2024 with SPSS as the analytical instrument. The results showed that political connections have a positive effect on tax avoidance and can be strengthened by the institutional ownership structure.
Keywords: Institutional Ownership Structure; Political connection; Tax avoidance

INTRODUCTION

Indonesia Emas 2045 is an ambitious vision for the Republic of Indonesia. The 8th President of the Republic of Indonesia, Prabowo Subianto, along with his Vice President, Gibran Rakabuming, are the initiators and guardians of this vision. The government's ambitious goals under President Prabowo's administration, aimed at achieving the Indonesia Emas 2045 vision, have sparked significant debate among the public. One of the key priorities is to improve the quality of job opportunities, promote entrepreneurship, develop the creative industry, and continue infrastructure development. This, of course, requires numerous regulations and policies to implement these objectives. Additionally, support from the private sector is crucial in helping the government achieve the Indonesia Emas 2045 vision.

The society will certainly benefits from an employment enhancement program, which can increase individual income and significantly impact Indonesia's GDP. This would not be possible if companies are unable to accommodate or pay the salaries of new employees, which they must recruit in large numbers at once. The government must intervene to mitigate this issue so that the desired outcome can be attained. If left unresolved, government revenue in the form of taxes will not be able to meet the set targets. Political maneuvers by the government and sound fiscal policies can be implemented to accelerate the realization of the goals that have been set in alignment with the timeline.

Indonesia's tax revenue data has fluctuated from 2020 to 2024. The tax revenue target for 2020 was 1,198.8 trillion, but the actual revenue was 1,070 trillion (83.9%). The 2021 tax revenue target was 1,229.6 trillion, with an actual collection of 1,231.9 trillion (100.2%). The 2022 tax revenue target was 1,485.1 trillion, with an actual collection of 1,716.8 trillion (115.6%). The tax revenue target for 2023 is 1,818.3 trillion, with an actual collection of 1,869.2 trillion (102.8%). The tax revenue target for 2024 is 1,988.9 trillion, but the actual collection is 1,932.4 trillion (97.2%). It can be seen that in 2021 and 2022, the realization improved compared to 2020, although in 2023 the realization exceeded the target but in percentage terms it decreased compared to 2022. It can be seen that in 2024 there was a significant decrease compared to 2023 and the realization did not meet the predetermined target. This phenomenon could cause further concern, as Indonesia should be able to collect more taxes than it currently does.

Agency theory can explain that the different interests of companies and the government cause companies to attempt tax avoidance (Maulidya, 2020). Tax avoidance is an act of resistance to non-compliance with tax regulations. Resistance to taxation can be divided into active and passive forms. Issues related to economic structure and difficulties in tax collection are referred to as passive resistance. All planning and implementation of actual tax avoidance schemes are referred to as active resistance. This drives companies to engage in tax avoidance due to differences in interests with the government.

According to Manihuruk, et. al. (2025), companies with political connections enjoy various advantages, especially in relation to taxation. One of the advantages is a low level of tax audits, which allows companies to carry out tax planning activities. Political connections help companies look good in their annual reports, which have been adjusted to pay lower taxes than they should. Previous studies supporting this include Umaimah (2022); Nurdin (2022); Prasetyo (2020); Maidina (2020); and

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Munawaroh (2019), who noted that companies utilize their political connections with the government to obtain tax relief measures that they would otherwise not be entitled to.

The amount of shares owned in a company can coordinate all of the company's activities, especially in terms of taxation. According to Jiang (2020), majority investors who make short-term investments will certainly create incentives for companies to engage in tax avoidance. When people own shares in large companies, they have the ability to strengthen the relationship between politics and tax avoidance. Investors with the highest level of share ownership can direct management with political connections to use their proximity to the government to reduce the amount of tax liability (Jiang, 2020). Therefore, company management will always receive guidance from majority investors to maximize their political connections with the government to decrease the company's tax burden.

LITERATUR REVIEW

The Influence of Political Connections on Tax Avoidance

The agency theory explains the relationship between political connections and tax avoidance, which begins with pressure from the principal on the agent to establish a relationship with the government. An establishment of political connections is an advantage that is beneficial in meeting the interests of shareholders. Low levels of tax audits are one of the tax-related benefits provided to companies by government officials due to their hesitation to enforce tax laws out of concern for their careers. Previous studies by Manihuruk et al. (2025); Umaimah (2022); Nurdin (2022); Prasetyo (2020); Maidina (2020); and Munawaroh (2019) mention that political connections have a positive effect on tax avoidance, with companies using their political connections with the government to obtain leniency in tax payments.

H1: Political connections have a positive effect on tax avoidance

The Influence of Political Connections on Tax Avoidance with Institutional Ownership Structure as a Moderator

Agency theory explains that the interests of managers and shareholders are in conflict. The objectives set by managers are believed to be in line with the interests of shareholders, but in many cases the opposite is true. The resulting risks will put pressure on shareholders, so they must be anticipated through political connections. In addition to political connections, a high level of institutional ownership can effectively regulate and direct managers to avoid taxes. Higher institutional ownership can improve corporate governance, where investors effectively use their power in corporate decision-making and to enhance their tax avoidance capabilities (Jiang, 2020). As a result, majority investors demand that management with political connections use their proximity to the government to reduce the company's tax burden.

H2: Institutional Ownership Structure strengthens the relationship between Political Connections and Tax Avoidance

RESEARCH METHOD

The research objective is to elaborate and examine theories and hypotheses on how political connection variables are related to tax avoidance and can be reinforced by institutional ownership structure variables. Data sources were obtained from the LQ45-indexed IDX during the period of 2020-2024. Sampling was conducted using purposive sampling with the following criteria: 1) Companies consistently listed on the LQ45 index from 2020 to 2024; 2) Company annual reports are fully available on the IDX and company websites; and 3) Companies did not incur consecutive pre-tax losses from 2020 to 2024.

Table 1. Classification of Moderation Types

Criteria		**Types of Variables**
β2 in Regression Model	**β3 in Regression Model**	
β2 ≠ 0 (Significant)	β3 = 0 (No Significant)	*Intervening, Exogen, Antesedent, Prediktor*
β2 = 0 (No Signifikan)	β3 = 0 (No Significant)	*Homologizer Moderasi*
β2 ≠ 0 (Significant)	β3 ≠ 0 (Significant)	*Quasi Moderasi*

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β2 = 0 (No Significant)	β3 ≠ 0 (Significant)	*Pure Moderasi*

Source: Solimun *et. al* (2017:86)

RESULTS AND DISCUSSION

This research uses annual reports from companies listed consistently on the LQ45 index from 2020 to 2024 that did not experience pre-tax losses. Companies that were not listed consistently or experienced losses were excluded from the research sample due to incomplete data. The following is a breakdown of the number of companies:

Table 2. Description of Research Object

Description	
Companies listed on the LQ45 index for 2020-2024	45
Companies not consistently listed on the LQ45 index from 2020 to 2024	(-15)
Companies that suffered losses before tax	(-5)
Number of Companies	25
Amount of Research Samples (25 x 5)	**125**

Source: Data compiled by the author

Table 3. Descriptive Statistics

	N	Min	Max	Mean	Std. Dev
Institutional Ownership	125	0,370	0,940	0,637	0,145
Tax Avoidance	125	0,060	3,880	0,630	0,608
Company Size	125	20,670	34,950	31,655	2,288
Leverage	125	0,130	0,910	0,559	0,215
Profitability	125	0,000	0,460	0,821	0,085
Political Connections	125	80 companies (64%) are politically connected; 45 companies (36%) are not politically connected.			

Source: Data compiled by the author

The results of the descriptive statistical test above show that the research data consists of 125 cases. According to the calculation of the dependent variable, Tax Avoidance is proxied by CETR, with a minimum value of 6%, meaning that a CETR value below 25% indicates tax avoidance, and a maximum value of 388% in 2020, meaning that a CETR value above 25% indicates no tax avoidance. The average value of CETR is 0.630 and the standard deviation is 0.608. According to the calculation of the independent variable, namely Political Connections, it is divided into two categories using a dummy variable, namely a value of 1 for those with political connections and a value of 0 for those without political connections. There are 80 companies (64%) with political connections, while 45 companies (36%) do not have political connections, meaning that the number of politically connected companies listed on the IDX is greater.

According to the calculation of the moderating variable, namely Institutional Ownership, the minimum value is 37% and the maximum value is 94%. The average value is 0.637 and the standard deviation is 0.145. The control variables in this study are company size, leverage, and profitability. The company size variable has a minimum value of 20.670 and a maximum value of 34.95. The average value is 31.655 and the standard deviation is 2.288. The leverage variable has a minimum value of 0.130 and a maximum value of 0.910. The mean value is 0.559 and the standard deviation is 0.215. The profitability variable has a minimum value of 0.000 and a maximum value of 0.460. The mean value is 0.821 and the standard deviation is 0.085.

Table 4. Coefficient of Determination (*Adjusted* R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,746[a]	0,683	0,621	0,1315542

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Source: Data compiled by the author

The table above shows that all independent variables in this model are able to explain 62.1% of the variation in the dependent variable. The remaining 37.9% is explained by independent variables outside this model.

Table 5. Hypothetical Testing

Variabel	Coefficient	Std. Error	t-stat	Prob
Constants	0,068	0,624	0,357	0,960
Political Connection	0,765	0,296	1,978	0,036
Institutional Ownership	-0,004	0,485	-0,038	0,894
Political Connection * Institutional Ownership	2,035	0,731	3,912	0,000

Source: Data processed

The hypothesis test table shows that the coefficient value is 0.765 with a probability value of 0.036 < 0.05. This indicates that political connections can increase tax avoidance practices by management taking advantage of their proximity to the government. Therefore, it can be said that hypothesis 1, namely that political connections have a positive effect on tax avoidance, is accepted. These test results align with the theoretical framework used, namely Agency Theory. According to the theory, companies utilize their political connections when shareholders demand high dividend payments during periods of high corporate profits, even though the company should also bear a high tax burden. The low probability of detection during tax audits becomes an advantage for companies with political connections (Aynda, 2020). These results are supported by previous researchers, including Maidina (2020); Prasetyo (2020); Maulidya (2020); and Aynda (2020), who found that political connections have a significant positive effect on tax avoidance.

The hypothesis test table shows the coefficient values from the interaction test using Moderated Regression Analysis (MRA) of the institutional ownership variable and its interaction with political connections, which are -0.004 and 2.035, respectively, with a significance level of 0.894 > 0.005 for the institutional ownership variable and a significance level of 0.000 < 0.005 for the interaction between the political connection variable and the institutional ownership variable. This indicates that institutional ownership can moderate the relationship between political connections and tax avoidance in a pure moderation manner, where it cannot function as a variable that directly influences tax avoidance. Therefore, it can be said that hypothesis 2, which states that institutional ownership structure can strengthen the relationship between political connections and tax avoidance, is accepted. Agency Theory explains that shareholders want managers to do their best for them, but many managers set their personal interests as the basis for the company's objectives. Therefore, institutional majority investors are able to direct politically affiliated management to use their proximity to the government to reduce the company's tax burden.

CONCLUCION

This research proves all of the hypotheses in line with agency theory, whereas shareholders put pressure on managers to form connections with the government that will be used to satisfy the shareholders' wishes. Political connections have a positive influence and can be strengthened by institutional ownership structures for tax avoidance.

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