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The Influence of Political Connections, Capital Intensity, and Inventory Intensity on Tax Aggressivenes

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ABSTRACT
This study aims to analyze the effect of Political Connection, Capital Intensity, and Inventory Intensity on Tax Aggressiveness in Consumer Non-Cyclicals Sector companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023. The sampling method used in this study uses purposive sampling method, with quantitative research type. The data used is secondary data, the company's annual financial report. The number of samples used in this study were 24 companies in the in Consumer Non-Cyclicals Sector with observations for 5 (five) years, there are 120 observation objects were selected. The analysis technique used is path analysis to test the effect of intervening variable and uses the panel data regression method with the EViews version 13 application tool. The results showed that: 1) Political Connection has no affects Tax Aggressiveness, 2) Capital Intensity has affects Tax Aggressiveness, 3) Inventory Intensity has no affects Tax Aggressiveness, 4) Political Connections, Capital Intensity and Inventory Intensity have a positive and significant effect simultaneously on Tax Aggressiveness.

Keywords: Tax Aggressiveness; Political Connection; Capital intensity; Inventory Intensity.

1. INTRODUCTION

Taxes are a crucial element of state revenue, used to finance various programs and public services such as infrastructure, education, healthcare, defense, and social services. According to Law No. 28 of 2007 on General Provisions and Tax Procedures (UU KUP), taxes are a mandatory contribution that is coercive in nature and without direct compensation, yet aimed at maximizing public welfare. Each year, tax revenue is expected to increase to support the state budget (APBN). However, corporate tax aggressiveness often hinders the optimal realization of tax revenue, prompting the government to continuously set higher revenue targets to balance the country's growing financial needs.

In 2019, PT Bentoel Internasional Investama Tbk, a subsidiary of British American Tobacco (BAT) in Indonesia, was suspected of evading taxes of up to US$14 million per year. According to the Tax Justice Network and Tax Justice Network reports, tax avoidance is carried out by diverting income abroad through intra-company loans and royalty payments to the UK. The aim is to reduce the tax burden and increase net profit, while the government wants optimal tax revenue (Lestari et al., 2024).

Based on the above phenomenon, the relationship between executive character and tax avoidance is that PT Bentoel

Internasional Investama has committed tax avoidance, but the Director of Legal

and External Affairs of Bentoel Internasional Investama Mercy

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Fransisca Hutahaean denies reports of tax avoidance. According to him, BAT and its subsidiaries always carry out their business activities in accordance with applicable laws and regulations (Lestari et al., 2024).

There is Many previous studies on tax aggressiveness have yielded varying results, such as the study by Efrinal & Chandra (2020) titled "The Influence of Capital Intensity and Inventory Intensity on Tax Aggressiveness." I aim to develop this research further by adding one additional variable: political connections.

2. LITERATURE REVIEW

Teory agensi

Agency Theory is a relevant framework in understanding tax aggressiveness in the corporate context. This theory was first put forward by Jensen and Meckling (1976) to describe the relationship between the party giving the power, called the principal, and the party giving the power, called the agent. When managers receive more information than they receive, the balance of information gathering is lost between the principal and the agent. This imbalance leads to the economic interests of each party. In agency theory, there is an agreement between the resource owner (principal) and the manager (agent) to run the business and obtain maximum profits as the main goal of the company, so that managers apply various methods to achieve company goals through legal and illegal methods which can harm many parties (Yahya et al., 2022).

Agency theory also highlights the importance of monitoring mechanisms in reducing agency conflicts. One way that management might take to reduce this conflict is to take advantage of loopholes in tax regulations. However, this can contribute to corporate tax aggressiveness. Thus, agency theory has strong relevance in understanding the dynamics between management, owners and institutional shareholders in the context of corporate tax aggressiveness in Indonesia. This is due to the importance of understanding how agency conflicts can influence tax practices and their impact on company performance.

Tax aggressiveness

According to Ramdhani et al. (2022) tax aggressiveness is a tax planning activity carried out by companies by exploiting loopholes in tax regulations with the aim of reducing taxable income either by legal means, namely tax avoidance, or illegally by tax evasion. It can be said that companies carry out tax aggressiveness to minimize the tax burden by making it legal, illegal or both. Factors that influence tax aggressiveness in companies according to Yahya et al. (2022) includes:

a. High tax rates
b. Inaccuracy of the law,
c. Punishment that does not deter,
d. Real injustice.

Political connection

Political connection is a condition where a relationship exists between certain parties and parties who have an interest in politics which is used to achieve certain things that benefit both parties. A company that has political connections if the company concerned has a special relationship with the Government. The special relationship between company owners and the government is that they are prominent political figures who are board members in both central and regional governments or as members of political parties (Riswandari & Bagaskara, 2020).

Political connections can include various forms of relationships, including collaboration, political influence, or

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cooperation that influences decisions and policies relevant to the company within the framework of the political environment. Political costs claim that companies that generate high profits tend to transfer their profits through legally valid procedures but aim to avoid political costs that may arise from the large profits obtained. Companies with intense political ties have greater opportunities to navigate the formation of tax regulations that are favorable to them, as well as reduce pressure from the government in the context of bold tax avoidance practices. The nature of the relationship between political relations and tax aggressiveness can vary, depending on the political framework and the rules and regulations applied in a country. This concept is reflected in the political connection variable (Handayani & Utomo, 2023).

Capital Intensity

Capital intensity refers to a company's investment in fixed assets, which are essential for production and generating profit. Investing in fixed assets leads to depreciation expenses associated with the assets acquired. According to Law No. 36 of 2008, Article 6, Paragraph 1 (b) on Income Tax, depreciation of costs incurred for acquiring tangible assets, as well as the amortization of expenses related to acquiring rights and other costs with a useful life exceeding one year, are deductible from gross income. (Prasetyo & Sartika Wulandari, 2021).

Inventory intensity

Inventory intensity, also referred to as inventory intensity, is a key component of asset composition. It is measured by comparing a company's total inventory to its total assets (Ramdhani et al., 2022). According to Efrinal & Chandra (2020), inventory consists of tangible assets owned by a company, either for resale or for use in the production process. As a crucial asset, inventory plays a significant role in resource investment, holding substantial value and greatly influencing the company's operational activities.

3. RESEARCH METHOD

3.1 Data Collection Techniques

This research employs a quantitative approach, which focuses on measuring the extent of influence or relationships between variables using numerical data. Data is collected as a supporting factor to assess the impact of these variables and is then analyzed using appropriate analytical tools. According to Sugiyono (2010), "quantitative methods can be defined as research methods based on the philosophy of positivism, used to study specific populations and samples, collect data through research instruments that utilize quantitative / statistical analysis, and aim to test predetermined hypotheses.".

This research will test the relationship between the independent variables, namely Political Connection, Capital Intensity and Inventory Intensity, on the dependent variable, namely Tax Aggressiveness. To obtain empirical evidence related to research data, researchers used financial report data from Consumer Non-Cyclical companies listed on the Indonesia Stock Exchange for the 2019-2023 period.

3.2 Operational Definitions of Variables

Tax aggressiveness

Tax aggressiveness is an act of reducing taxable income through tax planning measures, either by using legal methods such as tax avoidance or illegal methods such as tax evasion. The following is a measurement of tax

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aggressiveness using the effective tax rate (ETR):

$$ETR = \frac{\text{Total Income Tax Expense}}{\text{Profit Before Tax}}$$

Political connection

Political connection refers to a company that is owned or led by a member of parliament, a minister, or an individual closely related to a high-ranking politician or political party. This means the company has a close relationship with the government and is therefore considered to have political connections :

This variable is proxied using a dummy variable, where a value of 1 indicates the presence of a political connection, and a value of 0 indicates its absence.

Capital Intensity

Capital intensity measures the size of a company's assets. According to PSAK 16 (revised 2015), fixed assets refer to assets owned by a company, such as machinery, goods, land, buildings, company equipment, and other assets that can be used for operational activities to generate profit.

$$Capital\ Intensity = \frac{\text{Total Fixed Assets}}{\text{Total Assets}}$$

Inventory intensity

Inventory Intensity refers to the investment activities undertaken by a company in its inventory, intended for long-term operational activities. A high level of inventory can lead to high costs.

$$Inventory\ Intensity = \frac{\text{Inventory}}{\text{Total Asset}}$$

3.3. Sample Collection Techniques

According to Sugiyono (2010), a population refers to a general area comprising objects or subjects that possess specific quantities and characteristics determined by researchers for study, leading to the formulation of conclusions. In this research, the population consists of companies in the Consumer Non-Cyclicals sector listed on the Indonesia Stock Exchange (BEI) from 2019 to 2023.

The population in this study consists of 126 companies, with the sample determined using the purposive sampling method, resulting in a total sample of 36 companies that meet the specified criteria. The data processing was conducted using Microsoft Excel 2016 and EViews version 13.

The sampling method employed in this research was purposive sampling. This technique involves selecting samples based on specific criteria (Sugiyono, 2010). The criteria for selecting the samples are as follows:

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Tabel 1 Sample Selection Results

No	*Criteria*	*Does Not Meet the Criteria*	*Meets the Criteria*
1.	Consumer Non-Cyclicals sector companies listed on the IDX during the research period (2019-2023)		126
2.	Consumer Non-Cyclicals sector companies that IPO on the IDX during the research period (2019-2023).	(47)	79
3.	Consumer Non-Cyclicals sector companies listed during the research period (2019-2023).	(4)	75
4.	Consumer Non-Cyclicals sector companies that report financial statements in Rupiah (IDR).	(2)	73
5.	Consumer Non-Cyclicals companies that generated profits during the research period (2019–2023).	(37)	36
	Number of companies meeting the sample criteria	**36**	
	Outliers	**12**	
	Number of years of study	**5**	
	Total samples used in the study (24 x 5 years)	**120**	

3.4 Data Analysis Techniques

This research uses the multiple linear regression equation analysis method. The data was processed using Microsoft Office Excel 2016 and Eviews 13 Statistical Software to see the independent variables that significantly influence Tax Aggressiveness, namely the Political

Connection, Capital Intensity, Inventory Intensity variables. This research also first carries out panel data regression analysis with descriptive statistics and then a classical assumption test can be carried out to determine whether the data is independent of multicollinearity, heteroscedasticity, autocorrelation and normal data distribution using the normality test. Further hypothesis tests that can be carried out include the simultaneous significance parameter test (F test), the individual parameter significance test (R-Square) and the partial significance parameter test (t).

4. RESULTS AND DISCUSSION

4.1 Result

Descriptive statistics provide an overview of the sample data used in this research, so that it can show the minimum value, maximum value, average value (mean) and standard deviation of each variable. The following are the results of descriptive statistical analysis in this research :

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Tabel 2 Descriptive Statistics Results

	Y_ETR	X1_KP	X2_CAP	X3_INV
Mean	0.225781	0.500000	0.328393	0.185087
Median	0.222930	0.500000	0.315721	0.166192
Maximum	**0.325356**	**1.000000**	**0.803655**	**0.544804**
Minimum	**0.147255**	**0.000000**	**0.022497**	**0.004432**
Std. Dev.	**0.029126**	**0.502096**	**0.165050**	**0.117522**
Skewness	0.298774	0.000000	0.475918	0.941996
Kurtosis	3.762836	1.000000	3.084100	3.919772
Jarque-Bera	4.694913	20.00000	4.565330	21.97704
Probability	0.095612	0.000045	0.102012	0.000017
Sum	27.09376	60.00000	39.40719	22.21041
Sum Sq. Dev.	0.100949	30.00000	3.241720	1.643564
Observations	**120**	**120**	**120**	**120**

The descriptive statistical test for the tax aggressiveness variable (Y_ETR) indicates that the lowest value, 0.147255, was recorded by PT. Midi Utama Indonesia Tbk. in 2021, while the highest value, 0.325356, was observed in PT. Indofood Sukses Makmur Tbk. in 2019. The mean tax aggressiveness is 0.225781, with a standard deviation of 0.029126. This suggests that the data distribution is relatively varied, as the standard deviation exceeds the mean.

The descriptive statistical test for the Political Connection variable (X1_KP) indicates that company value ranges from a minimum of 0.000000, observed in 12 companies between 2019 and 2023, to a maximum of 1.000000, also recorded in 12 companies during the same period. The average (mean) Political Connection value is 0.555556, with a standard deviation of 0.498290. These results suggest a relatively stable data distribution, as the standard deviation is lower than the mean, indicating a well-balanced dataset.

The descriptive statistical test for the Capital Intensity variable (X2_CAP) indicates that the lowest company value, 0.022497, was recorded by PT. Tigaraksa Satria Tbk. in 2020, while the highest value, 0.803655, was observed in PT. Sariguna Primatirta Tbk. in 2021. The average (mean) Capital Intensity value is 0.328393, with a standard deviation of 0.165050. These results suggest a relatively good distribution, as the standard deviation is smaller than the mean, indicating that the data is well-distributed.

The descriptive statistical test for the Inventory Intensity variable (X3_INV) indicates that the lowest company value is 0.004432, recorded by PT Indofood CBP Sukses Makmur Tbk. in 2020, while the highest value of 0.544804 was observed in PT Gudang Garam Tbk. in 2019. The average (mean) Inventory Intensity is 0.185087, with a standard deviation of 0.117522. These results

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suggest a relatively well-distributed dataset, as the standard deviation is smaller than the mean, indicating a stable data distribution.

4.2 Discussion

Tabel 3 Results of Multiple Linear Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.152489	0.022214	6.864472	0.0000
X1_KP*X3_INV	-0.044513	0.149983	-0.296790	**0.7673**
X2_CAP	0.216178	0.052866	4.089157	**0.0001**
X3_INV	0.029487	0.092939	0.317277	**0.7517**

R-squared	0.534937	Mean dependent var	0.225781
Adjusted R-squared	**0.404919**	S.D.. dependent var	0.029126
S.E. of regression	0.022468	Akaike info criterion	-4.558331
Sum squared resid	0.046948	Schwarz criterion	-3.931145
Log likelihood	300.4999	Hannan-Quinn criter.	-4.303628
F-statistic	**4.114336**	Durbin-Watson stat	2.229549
Prob(F-statistic)	**0.000000**		

F-Test (Simultaneous Test)

In Table 3, it can be seen that the Prob(F-statistic) value is 0.0000 < 0.05, and the calculated F-value is 4.114336 > the F-table value of 2.68. Therefore, it can be concluded that Political Connections, Capital Intensity, and Inventory Intensity simultaneously influence Tax Aggressiveness.

Coefficient of Determination Test (R^2)

Table 3 shows an Adjusted R^2 value of 0.404919 (40%), indicating that Political Connection, Capital Intensity, and Inventory Intensity account for 40% of the variation in Tax Aggressiveness. The remaining 60% is influenced by other factors not included in this model.

Partial Results (t-Test)

The Political Connection variable has a probability value of 0.7673, which is greater than 0.05, and a t-statistic of -0.296790, which is lower than the t-table value of 1.65798. Therefore, it can be concluded that the Political Connection variable does not have a partial effect on Tax Aggressivenes.

The Capital Intensity variable has a probability value of 0.0001 < 0.05 and a t-statistic of 4.089157 > t-table value of 1.65798. Therefore, it can be concluded that the Capital Intensity variable partially affects Tax Aggressiveness.

The Inventory Intensity variable has a probability value of 0.7517 (> 0.05) and a t-statistic value of -0.317277 (< t-table 1.65798). Therefore, it can be concluded that Inventory Intensity does not have a partial effect on Tax Aggressiveness

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5. CONCLUSION

Based on the results and discussion presented, the conclusions of this study are as follows:

Political connections have no impact on tax aggressiveness; therefore, the first hypothesis is rejected. Capital intensity influences tax aggressiveness; thus, the second hypothesis is accepted. Inventory intensity has no effect on tax aggressiveness; therefore, the third hypothesis is rejected. However, political connections, capital intensity, and inventory intensity collectively influence tax aggressiveness; thus, the fourth hypothesis is accepted..

Based on the limitations of this study, the following recommendations are suggested for future research:

Future research should include additional independent variables, Future research should consider using a different sector than the one used in this study, Future research should extend the study period by including additional years.

Research Limitations

During the research process, several limitations were encountered, including:

1. Limited research variables – This study only examines three factors influencing tax aggressiveness: political connections, capital intensity, and inventory intensity. However, there are many other factors that could also impact tax aggressiveness.
2. The results of the coefficient of determination analysis show that the independent variables—political connections, capital intensity, and inventory intensity—account for 40% of the variation in tax aggressiveness. The remaining 60% is influenced by other factors not included in this research model, such as sales growth, earnings management, current ratio, corporate social responsibility, and company size.

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