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The Effect of Thin Capitalization, Political Connections, and Inventory Intensity on Tax Aggressiveness

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ABSTRACT

This study intends to assess how thin capitalization, political affiliations, and inventory levels affect tax aggressiveness among mining firms during the years 2020 to 2024. A quantitative methodology was employed for this research, utilizing secondary information in the shape of annual and financial reports sourced from the official website of the Indonesia Stock Exchange (IDX) and the respective companies' official pages. The sample for this research included 30 firms with a cumulative total of 114 observations. The analysis of data was performed using panel regression techniques and individual statistical tests (t-test) facilitated by STATA 17 software and Microsoft Excel. The findings indicate that: (1) Thin capitalization exerts a negative and substantial impact on tax aggressiveness, (2) Political connections do not significantly influence tax aggressiveness, and (3) Inventory intensity similarly does not demonstrate a significant effect on tax aggressiveness.

Keywords: *Inventory Intensity; Political Connection; Tax Aggressiveness; Thin Capitalization;*

1. INTRODUCTION

Taxes serve as a primary fiscal instrument supporting a nation's ongoing development. In Indonesia, taxes account for over 70% of total state revenue. This figure demonstrates that the stability of national development relies heavily on the effectiveness of the tax revenue system (Hidayah et al., 2025). However, actual realization has not yet fully reflected Indonesia's tax revenue potential. The 2024 Funding Indonesia's Vision report indicates that Indonesia's tax ratio stands at only 10.2% of GDP. The OECD (2024), notes that Indonesia's tax revenue ratio remains among the lowest in the ASEAN region. One factor explaining this suboptimal tax revenue is the practice of tax aggressiveness employed by companies to reduce their tax burdens. Tax aggressiveness is defined as corporate actions aimed at minimizing tax liabilities through strategies ranging from legal practices and the exploitation of regulatory gray areas to illegal activities (Ardillah & Vanesa, 2022).

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This phenomenon is reflected in various empirical findings at both national and international levels. Indonesia's shadow economy is estimated to account for 23.8% of its GDP. Aggressive tax practices whether legal or illegal have become a common phenomenon in Indonesia. A study by the Tax Justice Network ranks Indonesia fourth among countries with tax avoidance issues, amounting to approximately IDR 69.1 trillion annually (Wildan, 2020). That phenomenon indicates that tax aggressiveness remains an important issue because it can reduce the government's ability to finance public services and development.

A real-world corporate case in Indonesia involves a mining sector company, PT Adaro Energy Indonesia Tbk, which engaged in profit shifting through its Singapore-based subsidiary, Coaltrade Services International Pte. Ltd. According to a 2019 Global Witness report, PT Adaro allegedly sold coal to its affiliate at below-market prices, only for the affiliate to resell it to third parties at higher prices. Consequently, a larger share of actual profits was recorded in Singapore, a jurisdiction with lower tax rates. This tactic resulted in a reduction of Indonesia's tax revenue by approximately US$125 million. Political connections were also identified within PT Adaro Energy Indonesia Tbk thru several figures who have held or are currently holding strategic positions in companies or government (CNBC Indonesia, 2022). This case shows that company characteristics, including funding structure and proximity to political actors, have the potential to influence tax aggressiveness behavior.

This study aims to identify the factors influencing tax aggressiveness. Three independent variables serve as the focus of this research: thin capitalization, political connections, and inventory intensity. Thin capitalization refers to a situation where a company relies more heavily on debt than equity; theoretically, this can drive tax aggressiveness because higher debt levels result in larger interest expenses that can be deducted from taxable income (Utami & Irawan, 2022). While the Indonesian government has implemented various regulatory measures to curb tax avoidance. One such measure is the issuance of Minister of Finance Regulation (PMK) No. 169/PMK.010/2015, which establishes a maximum debt-to-equity ratio (DER) of 4:1 for tax purposes (Asmara & Helmy, 2023). Previous research by Suntari & Mulyani (2020), found a significant positive relationship between thin capitalization and tax aggressiveness.

Political connections may also affect corporate tax behavior. They refer to formal or informal relationships between companies or their executives and current or former government officials, politicians, or political organizations (Vidiarto & Cahyani, 2024). Such relationships may provide access to information, regulatory advantages, or weaker scrutiny, thereby increasing opportunities for aggressive tax planning. This factor is especially relevant in mining because business activities depend heavily on licenses, concessions, and government policies. From a social perspective, this issue is linked to public perception of politicians. The 2024 Ipsos Global Trustworthiness Index survey reveals that politicians rank as the least trusted profession, with 58% of respondents expressing a lack of trust (Ipsos, 2024). Research supporting this argument includes studies by Wijiatin et al. (2024) and Sugeng et al. (2020), both of which found a positive relationship between political connections and tax aggressiveness.

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Inventory intensity represents the proportion of company assets invested in inventory. High inventory levels generate storage, maintenance, and impairment costs that may reduce accounting and taxable income. Flexibility in inventory recognition and valuation may also provide management with opportunities to influence reported earnings and tax liabilities. This variable is relevant to mining companies because their operations may involve substantial stocks of extracted commodities, production materials, and operational supplies. Research by Maulana et al. (2023), demonstrates a significant positive relationship between inventory intensity and tax aggressiveness.

Previous studies have reported inconsistent findings regarding the determinants of tax aggressiveness. Suntari and Mulyani (2020) found that thin capitalization positively affects tax aggressiveness, whereas Pradana et al. (2024) reported a negative effect and Ruknan et al. (2024) found no significant effect. Political connections were found to have a positive effect by Wijiatin et al. (2024) and Sugeng et al. (2020), while Solikin and Slamet (2022) reported no significant effect. Likewise, Maulana et al. (2023) found that inventory intensity positively affects tax aggressiveness, whereas Setiawati and Sunarmi (2024) found no significant effect. These mixed findings indicate the need for further investigation. Moreover, most previous studies focused on manufacturing firms or included all mining companies without distinguishing mining contractors from mining license holders. Therefore, this study excludes mining contractors to obtain a more homogeneous sample and provide more relevant evidence on the effects of thin capitalization, political connections, and inventory intensity on tax aggressiveness in the Indonesian mining sector.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

Agency Theory

Agency theory, introduced by Jensen & Meckling (1976), explains the contractual relationship between the principal as the resource owner and the agent as the party authorized to manage those resources. Divergent interests and information asymmetry create opportunities for the agent to act opportunistically to maximize their own interests, potentially leading to an agency problem. This conflict gives rise to agency costs, comprising monitoring costs, bonding costs, and residual loss resulting from agent actions that do not fully align with the principal's interests. In a taxation context, an agency relationship can exist between the government (as the principal) and the company (as the agent), wherein the government seeks to maximize tax revenue while the company attempts to minimize its tax burden. This divergence of interests drives companies to engage in tax aggressiveness as a form of opportunistic behavior. Agents may employ practices such as thin capitalization, the leveraging of political connections, and accounting flexibility regarding inventory to reduce taxable income by exploiting regulatory loopholes and information asymmetry consequently, agency theory serves as the conceptual framework for explaining corporate tax aggressiveness.

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Possitive Accounting Theory

Positive accounting theory, introduced by Watts & Zimmerman (1986), aims to explain and predict the accounting policy choices made by firms, rather than prescribing how accounting should be practiced. The theory is grounded in the assumption that all parties within a firm such as managers, shareholders, creditors, and the government act rationally to maximize their respective interests. Consequently, accounting policies are viewed as strategic responses to economic incentives, management selects accounting methods that yield the greatest net benefit weighing costs against gains including efforts to minimize tax burdens. Positive accounting theory posits three primary hypotheses: the bonus plan hypothesis, the debt covenant hypothesis, and the political cost hypothesis. The debt covenant hypothesis explains that firms with high debt levels tend to select specific accounting policies to maintain compliance with debt agreements a concept relevant to thin capitalization practices. Meanwhile, the political cost hypothesis explains the tendency of firms to suppress reported earnings in order to mitigate political and regulatory pressure, a strategy that can be implemented through accounting flexibility regarding inventory. Thus, positive accounting theory provides a conceptual basis for understanding how management can utilize accounting policies including those related to financing structures and inventory management as tools for aggressive tax planning.

Hypothesis Development

Thin capitalization is a capital structure management strategy used by companies to reduce tax burdens by increasing debt-based financing compared to equity (Nainggolan & Sari, 2020). In the perspective of agency theory, managers as agents strive to maximize their interests by utilizing interest expenses on debt as a deductible expense to reduce taxable income (Debora Laurensia, 2022). Although the Indonesian government has set a debt-to-equity ratio limit of 4:1 thru PMK 169, this practice remains relevant considering that corporate financing in Indonesia tends to rely on debt (OECD, 2024). The thinner capitalization practices a company uses, the more it depends on borrowed funds to support operational activities. This happens because debt will generate interest, which in turn can be treated as a legitimate expense to reduce taxable income (Utami & Irawan, 2022). Thus, the practice of thin capitalization, which is often utilized to reduce the tax burden, will also impact the decrease in tax revenue for the state.

Empirical findings from previous research support the association between thin capitalization and tax aggressiveness. Hasanudin et al. (2022), concluded that increasing leverage encourages firms to undertake greater tax avoidance, while firm size also plays a role found to reinforce the effect of thin capitalization on tax aggressiveness, as large-scale companies have a greater capacity to aggressively utilize debt-based financing structures. In line with these findings, Imaniah & Kurnia (2023) also show that thin capitalization encourages tax aggressiveness thru interest expense on debt, which provides a fiscal incentive to reduce taxable income.
H1: Thin capitalization has a positive effect on tax aggressiveness

Political connections refer to the relationships of individuals or groups with political actors or government networks that are utilized to gain certain advantages

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(Diafitri & Helmy, 2023). In the context of companies, political ties may offer several benefits, including improved access to policies, protection from scrutiny, and opportunities to obtain fiscal facilities (Fitiasari & Suwandi, 2020). Based on agency theory, this relationship has the potential to influence managerial decision-making, including tax strategies. Companies that have special relationships with political actors tend to be bolder in tax aggressiveness because they feel protected from political and legal risks. OECD (2024), highlights the weak regulation of lobbying and influence peddling in Indonesia, which opens up space for companies to exploit regulatory uncertainty in designing aggressive tax strategies. This condition is exacerbated by the low level of public trust in politicians, making political connections a means for companies to engage in improper tax practices (Ipsos, 2024).

Previous research indicates that political affiliations positively affect tax aggressiveness. Sugeng et al. (2020) and Setyastrini et al. (2021) found firms maintaining political affiliations generally undertake more aggressive tax planning due to superior access to regulatory knowledge, reduced audit exposure, and broader policy discretion, encouraging more aggressive tax strategies practices.
H2: Political connections have a positive effect on tax aggressiveness.

Inventory intensity is a part of capital intensity that represents the scale of a company's investment in the form of inventory (Fahrani et al., 2018). Inventory itself is an asset that is held for sale or used in the production process in the normal operational activities of the company (DSAK, 2022). Based on agency theory, inventory intensity has the potential to affect tax aggressiveness because high inventory levels lead to increased storage, maintenance, and control costs, which are accounted for as operating expenses, thereby reducing taxable income (Wulandari et al., 2023). Additionally, the flexibility in inventory accounting treatment and the significant costs of stock management provide greater leeway for companies to undertake tax avoidance activities, thereby decreasing the company's tax liability (Puspita, 2024).

Empirical findings from previous research indicate that inventory intensity significantly affects tax aggressiveness. Maulana et al. (2023) and Arizoni & Ratnawati (2020) reported that firms possessing high inventory levels tend to incur higher storage and maintenance costs, thereby reducing profits and ultimately lowering the tax burden.
H3: Inventory intensity has a positive effect on tax aggressiveness

3. RESEARCH METHOD

This study uses tax aggressiveness as the dependent variable. Then, it uses thin capitalization, political connection, and inventory intensity as the independent variables to be tested. This research uses data from research objects on businesses listed on the Indonesia Stock Exchange (IDX) that fall within the mining sector for the period from 2020 to 2024. The basis for the researchers to choose the mining sector is because mining companies have capital-intensive characteristics.

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Additionally, there are several cases of tax aggressiveness found in mining sector companies that have strong political connections within their board of directors. The sample selection used by the researcher employs a purposive sampling approach based on specific criteria established by the researcher. The criteria established include mining sector companies from 2020 to 2024, mining companies whose business activities are not as mining contractors, and companies that do not incur fiscal losses. The following are the sample selection criteria that have been established in this study.

Data Collection Techniques

This study employs a quantitative methodology that incorporates secondary data. The secondary data utilized in this analysis is derived from the financial reports of multiple mining firms listed on the Indonesia Stock Exchange during the period from 2020 to 2024. The research relies on unbalanced data because each company has a different number of observations each year. The sample selection criteria and determination process are presented in Table 2 the final sample consisted of 30 mining companies, yielding 114 firm-year observations. Prior to hypothesis testing, the data were assessed using a skewness-based normality test, followed by multicollinearity, heteroscedasticity, and autocorrelation tests. All statistical analyses were conducted using STATA.

Operational Definitions of Variables

Table 1 Operational Definitions of Variables

No	Variable	Operational Definition	Measurement
1.	Tax Aggressiveness	Tax aggressiveness is a company's behaviour to reduce taxable income by implementing tax management strategies thru legal practices, utilizing gray areas of regulations (Richardson et al., 2014).	$\text{BTD} = \frac{\textit{Pre Tax Book Income} - \textit{Taxable Income}}{\textit{Total Assets}}$ comparing the differences in profit based on accounting standards for financial reporting purposes with profit based on fiscal regulations (Pang & Wang, 2021).
2.	Thin Capitalization	Thin capitalization is a condition when a business finances its operations with a higher ratio of debt compared to equity (Darma, 2019).	$\text{SHDA} = (\textit{Average Total Assest} - \textit{Non IBL})\ \text{X}\ 80\%$ The calculation of the Safe Harbor Debt Amount (SHDA) is carried out, followed by the calculation of the Maximum Amount Debt (MAD) (Taylor & Richardson, 2012).
3.	Political Connection	Political connections are defined as companies that have affiliations with individuals or organizations that hold political power, such as political parties or government officials (Kesaulya et al., 2023).	Dummy: 1 = Has political connections 0 = Does not have political connections

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4.	Inventory Intensity	Inventory intensity describes the extent to which a company allocates its assets to inventory (Pandia & Wailan' An, 2022).	$\text{INV} = \frac{Total\ Persediaan}{Total\ Aset}$ Comparison of total inventory to total assets of the Company.

Source: Data processed by the researcher

Sample Collection Techniques

According to Amin et al. (2023), a sample is a part or representative form that reflects the research population. To obtain data that meets the established criteria, the researchers applied purposive sampling technique. The sample criteria in this study are arranged as follows:

1. Energy sector companies in the mining sub-sector listed on the Indonesia Stock Exchange from 2020 - 2024.
2. Energy sector companies in the mining sub-sector that are not mining contractor service companies.
3. Energy sector companies in the mining sub-sector that present their financial and annual reports for the years 2020-2024.
4. Energy sector companies in the mining sub-sector that did not experience fiscal losses during the period 2020-2024.

Table 2 Sample Determination

No	Sample Selection Criteria	Number of Companies	Number of Sample Observations
1.	Energy sector companies in the mining sub-sector listed on the Indonesia Stock Exchange from 2020-2024.	65	269
2.	Energy sector company in the mining sub-sector that is a mining contractor service company.		(105)
3.	Energy sector companies in the mining sub-sector that do not present financial and annual reports for the years 2020-2024.		(16)
4.	Energy sector companies in the mining sub-sector that experienced fiscal losses during the 2020-2024 period.		(34)
	Total sample observations	**30**	**114**

Source: Data processed by the researcher

The research population consists of 65 companies in the mining sector listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. These companies were subsequently screened based on the predetermined sample selection criteria, resulting in 30 companies that met the requirements to be included as research samples. The final sample generated 114 firm-year observations over the five-year observation period. The study employs unbalanced panel data, as the number of observations varies across companies and years due to differences in data availability and compliance with the established sample selection criteria. The sample selection process and the determination of the final

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sample are presented in Table 2.

Data Analysis Techniques

The research employs a panel data regression analysis method utilizing the STATA software application. It starts with descriptive statistics, which offer a summary of the features of the research dataset. Subsequently, classical assumption evaluations are performed, comprising tests for normality, multicollinearity, heteroscedasticity, and autocorrelation, ensuring that the regression framework aligns with the required assumptions. Following this, the selection of the appropriate panel data regression model is executed using the Chow Test, Hausman Test, and Lagrange Multiplier Test to identify the most fitting model, which could be the Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM). The subsequent phase involves executing a multiple linear regression analysis on the panel data to analyze how the independent variables influence the dependent variable. In conclusion, hypothesis testing is conducted through the coefficient of determination analysis (R^2), the simultaneous test (F test), and the partial test (t-test) to evaluate the model's efficacy in explaining the dependent variable and to assess the impact of each independent variable, both as a group and individually.

Thus, in this study, the multiple linear regression equation is stated as follows:

$$\mathrm{BTDit} = \alpha + \beta 1\mathrm{TCit} + \beta 2\mathrm{PCit} + \beta 3\mathrm{INVit} + \varepsilon$$

Explanation:
BTD = Book Tax Differences
α = Constant
TC = Thin Capitalization
PC = Political Connection
INV = Inventory Intensity
ε =Error

4. DATA ANALYSIS AND DISCUSSION

Data Analysis

Descriptive statistics are employed to provide a comprehensive overview of the observed variables being studied. The information presented consists of average figures, dispersion measures, together with the lowest and highest observations of each variable analysed, namely tax aggressiveness (BTD), thin capitalization (TC), political connection (PC), and inventory intensity (INV).

Tax aggressiveness measured using the Book-Tax Difference (BTD) has an average value of −0.0190096. The negative average value indicates that, in general, the tax aggressiveness level of the sampled companies is relatively low. The comparison between the average value and a standard deviation of 0.0965781 demonstrates that the average value is below the dispersion measure, suggesting that distribution of BTD data is heterogeneous.

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This condition reflects a significant difference between companies in their tax aggressiveness practices. A BTD minimum of −0.4358157 suggests that the firm refrains from aggressive tax planning because accounting income before tax is lower than taxable income. Conversely, the maximum BTD value of 0.2599733 indicates more aggressive tax avoidance practices, characterized by a pre-tax book income larger than the taxable income.

The thin capitalization variable measured using the MAD Ratio shows an average value of 0.6426855. The comparison between the average value and the calculated dispersion value of 0.3377980 indicates that the data distribution is relatively homogeneous, so there are no significant differences among companies in implementing thin capitalization practices. The maximum MAD Ratio value of 1.691114 indicates indicating greater dependence on borrowing to support business operations. This is reflected in the company's financial structure, where total liabilities reach 551 million USD, while total equity is only 71 million USD. Meanwhile, the minimum MAD Ratio value of 0.0939205 indicates that the company does not heavily rely on debt-based financing, as reflected in total liabilities of 322 billion rupiah and total equity of 7.6 trillion rupiah.

Political connections indicate that the majority of the sampled companies have ties with political actors within the board of directors and the board of commissioners. This is reflected in 70 observations or 61.40% that have a political connection value, while 44 observations or 38.60% do not have a political connection. The dominance of companies with political connections indicates that the interconnection with political entities is a prominent condition in the mining industry, whether thru the presence of former public officials, political party members, or individuals who have held government positions.

The inventory intensity, measured by comparing total inventory to total assets, has an average value of 0.0688074. The comparison between the average value and the standard deviation of 0.0956278 indicates that the distribution of this variable's data is heterogeneous, resulting in significant differences between companies in inventory management. The maximum inventory intensity value of 0.9027657 shows that the proportion of the company's investment in inventory is relatively large compared to its total assets, making the firm's business operations highly dependent on inventory management. Conversely, the minimum value of 0.0042078 suggests that the firm rarely allocate its assets in the form of inventory, so its business model does not rely on inventory

Table 3. Results of Descriptive Statistical Analysis

Variable	Obs	Mean	Std. Dev	Min	Max
BTD	114	-0.0190096	0.0965781	-0.4358157	0.2599733
TC	114	0.6426855	0.3377980	0.0939205	1.691114
PC	114	0.6140351	0.4889717	0	1
INV	114	0.0688074	0.0956278	0.0042078	0.9027657

Source: Processed data (2025), Stata v.17

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Table 4. Results of Dummy Variable Tabulation for Political Connection

PC	Freq.	Percent	Cum
0	44	38.60	38.60
1	70	61.40	100.00
Total	114	100.00	

Source: Processed data (2025), Stata v.17

Based on the results of the descriptive statistical data processing above, it shows that the number of data studied was 114 samples during the period from 2020 to 2024.

Panel Data Regression

Table 5. Model Selection and Data Diagnostics

Assessment	Result	Decision
Hausman test	p = 0.1782	REM selected
Winsorizing skewness	-1.181 to 1.740	Within skewness < 3
Winsorizing kurtosis	1.219 to 7.093	Within kurtosis < 10
Final Estimator	Random Effect GLS	Used for hypothesis testing

Source: Processed data (2025), Stata v.17

Table 5 summarizes the model-selection and diagnostic information rather than reproducing the raw statistical output. The Hausman test produced a probability value of 0.1782, which is greater than the 5% significance level; accordingly, the random-effects model (REM) was selected instead of the fixed-effects model. To reduce the influence of extreme observations, the continuous variables were winsorized at the 1% level. After winsorization, the skewness values ranged from -1.181 to 1.740 and the kurtosis values ranged from 1.219 to 7.093, both within the criteria adopted in this study. The final model was therefore estimated using random-effects generalized least squares (GLS).

Hypothesis Test Results

Table 6 combines the overall model test, coefficient of determination, and individual coefficient tests in a single table. The Wald test has a probability value of 0.0017, indicating that TC, PC, and INV are jointly associated with BTD. The overall R-squared of 0.2147 means that the model explains 21.47% of the variation in tax aggressiveness, while the remaining variation is associated with factors outside the model.

Individually, TC has a negative and statistically significant coefficient (coefficient = -0.1271; $p < 0.001$). Because H1 predicted a positive effect, H1 is rejected. PC and INV have probability values of 0.189 and 0.811, respectively, so neither variable shows a statistically detectable effect on tax aggressiveness at the 5% level; consequently, H2 and H3 are also rejected.

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Table 6. Results of Multiple Linear Regression Test

Random Effect Model	Coefficient	Z	P>|z|	Prediction Hypothesis	Conclusion
TC	-0.1271024	-3.66	0.000	H1 : +	Rejected
PC	-0.0308943	-1.31	0.189	H2 : +	Rejected
INV	-0.0359228	-0.24	0.811	H3 : +	Rejected
_cons	0.0877642	2.84	0.005		
Model summary: N = 114; Overall R-squared = 0.2147; Wald test Prob > chi-square = 0.0017.					

Source: Processed data (2025), Stata v.17

Discussion

The Influence of Thin Capitalization on Tax Aggressiveness

Based on the results of the hypothesis testing that has been conducted, it can be interpreted that thin capitalization has a negative effect on tax aggressiveness, thus the first hypothesis (H1) in this study is stated to be rejected. These findings indicate that an increase in the proportion of debt financing does not encourage companies to engage in aggressive tax avoidance practices. This result is inconsistent with the initial assumption of the study, which suggested that companies with high levels of debt would be more aggressive in managing their tax burden thru the utilization of interest expenses.

Theoretically, thin capitalization is often associated with companies' efforts to reduce tax burdens because interest expenses on debt can be used as a deduction from taxable income. However, the results of this study indicate that such practices do not always occur. Companies with high levels of debt tend to be more cautious because excessive use of debt increases financial risk, liquidity pressure, and the potential for default. Additionally, companies with high debt ratios are generally under closer scrutiny from tax authorities and creditors, making the room for tax aggressiveness more limited.

The context of the mining sector as an object of research further strengthens the results. The mining industry is a capital-intensive sector, so the use of debt is more driven by the need for operational funding and long-term investments rather than tax avoidance strategies. In addition, the existence of tax regulations that limit the debt-to-equity ratio, particularly as stipulated in Article 18 paragraph (1) of the Income Tax Law, restricts the recognition of interest expenses as tax deductions. Thus, the increase in thin capitalization in this sector more reflects the need for funding and financial discipline rather than serving as a means to enhance tax aggressiveness.

The findings of this study are in line with Ruknan et al. (2024) and Rini et al. (2022), which show that thin capitalization does not affect tax aggressiveness. Meanwhile, Pradana et al. (2024), found a negative and significant impact of thin capitalization on tax aggressiveness, indicating that the higher the DER ratio, the lower the level of tax aggressiveness tends to be. This indicates that the use of debt is more directed toward operational needs and expansion, and is limited by regulations that restrict the use of debt as a tax planning scheme.

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The Influence of Political Connections on Tax Aggressiveness

The initial hypothesis of this research states that the presence of political connections within the board of directors or commissioners encourages companies to act more aggressively in tax planning. However, the results of the empirical testing show that the political connection variable does not have a significant effect on tax aggressiveness, thus the second hypothesis (H2) is stated to be unproven. These findings indicate that the presence of political actors in the corporate governance structure does not automatically create opportunities for companies to engage in tax evasion, as there are still mechanisms of oversight and transparency that limit such opportunistic behavior.

From the perspective of agency theory, although political connections can theoretically be exploited to weaken government oversight, the results of this study indicate that this assumption does not fully apply in the context of companies in Indonesia. Companies with political connections tend to be under stricter scrutiny from the public and regulators, making them more cautious in their tax practices. Moreover, companies with political connections generally enjoy various forms of certain advantages, such as ease in obtaining permits or regulatory protection, thus not requiring aggressive strategies to reduce their tax burden. Political connections in this case play a more significant role as a means of obtaining business stability and legitimacy rather than as an instrument for tax evasion.

The findings of this study are in line with Solikin & Slamet (2022) and Sipatuhar & Asalam (2023), which show that political connection does not affect tax aggressiveness. Lestari et al. (2019), further strengthen this result by explaining that this insignificance is influenced by the role of independent commissioners in the corporate governance structure, who perform oversight functions, including tax planning, thereby limiting the potential use of political connections for tax evasion practices.

The Influence of Inventory Intensity on Tax Aggressiveness

The primary assumption of this research suggests that the level of inventory has a beneficial impact on tax aggressiveness, positing that a rise in inventory investment motivates firms to implement more assertive tax avoidance tactics. Nevertheless, the results from empirical analysis reveal that inventory intensity does not influence tax aggressiveness, leading to the dismissal of the third hypothesis (H3). These results demonstrate that the volume of inventory is not the key factor influencing the behavior of corporate tax aggressiveness.

In the context of taxation in Indonesia, inventory only affects the tax burden when it is realized as the cost of goods sold, so the value of inventory still recorded on the balance sheet cannot be used as a tax deduction. Additionally, inventory management is more driven by operational needs and sales strategies and is under strict audit supervision, leaving little room for managers to use it as a means of tax avoidance. This condition shows that accounting and tax regulations limit the

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potential for opportunistic behavior related to inventory, so the intensity of inventory does not prove to affect the company's tax aggressiveness.

The results of this study are in line with Setiawati & Sunarmi (2024), Sugeng et al. (2020), and Hazanah & Huda (2024), which state that inventory intensity does not affect tax aggressiveness. Rinaldi et al. (2020), explain that companies are more focused on accelerating inventory sales to generate revenue, as inventory hoarding actually increases storage costs, reduces product quality, and hinders cash flow, thus not being used as a tax avoidance strategy.

5. CONCLUSION & SUGGESTION

Conclusion

This research intends to assess how thin capitalization, political ties, and inventory intensity affect the behavior of corporate tax aggressiveness. Tax aggressiveness serves as the dependent variable and is quantified through the Book Tax Difference (BTD) in mining industry firms listed on the IDX from 2020 to 2024.

According to the results derived from panel data evaluation through the random effect approach, the outcomes of the study reveal that the initial hypothesis is not supported. Thin capitalization demonstrates a negative correlation with tax aggressiveness. Specifically, as the level of debt financing rises, companies' inclination to partake in aggressive tax strategies diminishes. This occurs because while utilizing debt can lead to advantages like tax reductions, it simultaneously heightens the probability of financial difficulties and default, meaning that the risks associated with interest on debt and liquidity strains can outweigh the tax advantages gained.

Then, for the political connection variable, it has been proven to have no influence on the level of tax aggressiveness. Thus, the presence of figures with political connections among the board of commissioners or directors cannot be a determining factor in encouraging or restraining companies from taking aggressive tax actions. Politically connected companies tend to be non-aggressive in taxation because they receive public scrutiny, maintain the image of politicians, and have already gained various benefits without taking tax risks.

Next, the results of the panel data estimation using the random effect approach indicate that the third hypothesis cannot be accepted. The recorded inventory intensity variable does not have an impact on the company's tax aggressiveness level. This means that the high or low level of investment made by the company in the inventory account does not affect tax aggressiveness practices. The company prefers to maximize sales rather than stockpiling inventory because long-term storage risks reducing quality and increasing costs.

This research has been conducted according to the established methods. However, the author realizes that during the research process, there were several limitations. First, not all companies publish complete financial reports, which affects the number of observation samples that can be used in the research. Second, this study only focuses on companies in the mining sector, so the research results may not necessarily be generalized to companies in other industrial sectors.

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Suggestion

Referring to the research findings, several recommendations can be made. For future research, it is recommended to add other variables such as the level of internationalization of the company, managerial ownership, company size, and to consider the use of intervening or moderating variables to enrich and strengthen the research results. For the government, it is expected that there will be updates and reaffirmations of tax policies and regulations to minimize tax aggressiveness practices that exploit regulatory loopholes. Meanwhile, for companies, management is expected to comply with all applicable tax regulations to avoid legal risks that could potentially harm the company's operations and reputation.

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