Board Political Connection and Tax Avoidance: Ownership Structure as A Moderating Variable

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1. Introduction
The tax avoidance phenomenon is an issue that is widely discussed in various countries. The condition is marked by the emergence of significant figures in the ‘Panama paper’ case and various global companies, including Apple, Gucci, and Google (Davis et al., 2015). In Indonesia, one of the multinational cigarette companies is suspect’d of tax evasion through PT. Bentoel International Investama (Kontan, 2019). Moreover, tax avoidance practice leads to fraud (corruption) that involves tax officials' bribery (CNN Indonesia.com, 2016). As a result, tax avoidance practices focus on academics (Huseynov et al., 2017; Mahaputra et al., 2018) and invite public and mass media attention (Kanagaretnam et al., 2016). Based on this phenomenon, empirical studies on tax avoidance need to be explored.

This study aims to examine the relationship between political connection and tax avoidance and the role of ownership structure as a moderating variable. Corporate tax avoidance is calculated using effective tax rate (ETR). The research population is manufacturing companies listed on the Indonesian Stock Exchange from 2017 to 2019. Using purposive method this study gathered data from 119 companies or 357 company-year observations. This study revealed that political connection has a negative effect on ETR. This finding indicates that the political connections may lead to nepotism practices with aim to reduce the corporate tax burden. The managerial ownership strengthens the negative relationship between political connection and ETR. However, institutional ownership weakens the negative relationship between political connection and ETR. Contrary to these two results, public ownership cannot moderate the political connection and ETR.

Keywords:
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Kata Kunci:
Kepemilikan manajerial, kepemilikan institusional, kepemilikan publik, penghindaran pajak,
Tax avoidance practice is a complex phenomenon because it involves internal and external parties of the company. The company board determines tax management strategy from an internal perspective, both the board of directors and commissioners (Wahab et al., 2021). Based on an external perspective, tax management involves external parties such as institutional and community shareholders. Thus, politically connected company boards are an essential predictor in the choice of tax management strategies (Barford & Holt, 2013). Meanwhile, the ownership structure plays a role in aligning management and various stakeholders' interests, mainly regarding saving corporate tax payments (Kovermann & Velte, 2019).

This research contributes to filling four research gaps. First, the Directorate General of Taxes reports that the manufacturing industry is the highest income tax payer in Indonesia. It shows the existence of corporate taxpayer compliance (Kemenperin.go.id, 2018). However, several empirical findings indicate tax avoidance practices in public companies. The previous results by Mustika et al. (2018) reveal that the average cash effective tax rate is lower than the statutory tax rate. Other studies also prove that tax payments are lower than the corporate tax rate implemented in Indonesia (Mappadang et al., 2018; Putra et al., 2019; Tanujaya & Valentine, 2020). This finding supports the phenomenon that shows many companies seek to avoid taxes by reporting losses continuously, one of which is the manufacturing industry (Liputan6.com, 2016).

Second, tax avoidance practices cannot be identified only based on company characteristics (Francis et al., 2012). Considering tax avoidance as a politically charged topic (Barford & Holt, 2013), several researchers have linked tax avoidance to corporate executives' political affiliations. Nonetheless, the political connection factor has two contradictory impacts: it can assist or create nepotism (Adhikari et al., 2006; Wahab et al., 2021). However, other studies found that the political connection reduces tax avoidance (Ajili & Khelif, 2020; Putra & Suhardianto, 2020). The empirical study's ambiguity motivates researchers to re-explore the role of the board political connection to tax avoidance practices and add a moderating variable to this relationship.

Third, several literature studies show that the ownership structure (managerial, institutional, and public ownership) influences corporate taxation policies. Nonetheless, other empirical studies present conflicting research results. In managerial ownership context, some studies have proven that managerial ownership increasing tax avoidance (Boussaidi & Hamed, 2015; Multazam & Rahamwaty, 2018), while other studies have found that managerial ownership has a negative effect on tax avoidance (Pramudito & Sari, 2015; Sunarsih & Oktaviani, 2016). Based on the institutional ownership perspective, institutional investors perform a monitoring process to reduces the tendency for aggressive tax behavior (Wahab et al., 2021; Zemzem & Ftouhi, 2013). On the other hand, institutional shareholders want to minimize tax payments to increase tax avoidance practices (Chen et al., 2019; Huseynov et al., 2017; Khan et al., 2016). Other findings explain no relationship between institutional ownership and taxation activities (Jamei, 2017; Sartaji & Hassanazdeh, 2014). This study examines the role of managerial and institutional ownership in the context of tax avoidance.

Fourth, this study also uses public ownership, which has not been widely used in previous empirical studies. Several findings reveal that public shareholders want companies to contribute to development through fair tax payments (Puspita & Harto, 2014; Schwartz & Duhigg, 2013). Thus, there is a negative relationship between public ownership and tax avoidance (Chan et al., 2013). However, other findings indicate that high public ownership increases companies' likelihood of tax avoidance (Alexander, 2019; Bauwhede et al., 2003). Contrary to these two groups of findings, Iqbal et al. (2020)
research failed to prove the relationship between public ownership and tax avoidance. This research can be a starting point for further research on public ownership in public companies' tax evasion practices in Indonesia.

This study aims to prove ownership structures' role, namely managerial, institutional, and public ownership, as moderating variables between political connection and tax avoidance. Corporate tax avoidance practices are calculated using the Effective Tax Rate (ETR) indicator. The lower ETR shows the rate of higher tax avoidance. This study uses 119 manufacturing companies on the Indonesia Stock Exchange for three years of observation. The test results show that the political connection has a negative effect on ETR. In connection with the moderating variable's role, managerial ownership strengthens the negative relationship between political connection and ETR. Meanwhile, institutional ownership weakens the negative relationship between political connection and ETR. Contrary to these two results, public ownership cannot moderate the political connection and ETR relationship.

The results contribute to theory and practice. Theoretically, these findings contribute to corporate tax management literature, mainly political connections in tax management strategies. This study also provides an understanding of the role of ownership structure in tax management. In practice, these findings help manufacturing company management to understand the impact of ownership structure on corporate tax management policies. Ownership structure plays a vital part in positioning the interests of stakeholders and shareholders.

2. Literature review and hypotheses development

Agency theory

Agency theory discusses a contract between agent and principal. This contract aims to regulate the rights and obligations between the two parties (Jensen & Meckling, 1976). Agency conflicts begin to emerge when appears different interests between management and shareholders, such as tax avoidance. From an agency perspective, tax aggressiveness creates agency conflicts between shareholders' interests, management, and possible tax risks. The existence of information asymmetry between principal and agent increases management opportunities to do tax avoidance. In this case, effective corporate governance is needed to monitor management performance. From a tax-avoidance perspective, corporate governance plays a role in aligning stakeholders' interests in optimizing company performance, primarily to streamline corporate tax payments (Kovermann & Velte, 2019).

Political connection and tax avoidance

Tax avoidance is an act of tax planning by taking advantage of existing regulatory weaknesses (Wang et al., 2020). The board of directors has a central role in managing company resources, including selecting an efficient tax management strategy to minimize taxable income (Frank et al., 2009; Wahab et al., 2017). This strategy requires the board of directors to manage taxes or take advantage of tax authorities' affiliations (Kovermann & Velte, 2019).

Five conditions explain that the board of directors with political connections tends to practice more aggressive tax management (Kim & Zhang, 2016). First, companies with political connections are usually protected by politicians to have a lower risk of tax audit detection and avoid future litigation risks (Ajili & Khlif, 2020). Second, the company's ability to access information regarding implementing future tax regulations allows companies to implement tax strategies (Wahab et al., 2017). Third, the market demands little transparency of companies with political affiliations. As a result, it is difficult for regulators to identify its actual financial condition (Christensen et al., 2015). Fourth, companies can reduce political costs to become tax aggressive (Faccio, 2016). Fifth, a
company with political affiliation allows the company to take risks, one of which is related to aggressive tax management.

Some literature reveals that boards of directors of companies with political affiliations tend to engage in higher tax evasion activity. Managers are not burdened with strict regulations and have a higher chance of avoiding tax control (Habib et al., 2017). This condition creates opportunities for companies to minimize tax payments. Political affiliation also reduces the risk of companies being exposed by the media for tax evasion (Christensen et al., 2015). If these actions are detected, politically connected companies are also likely to avoid harsh penalties (Li et al., 2016). Political affiliation causes tax authorities not to enforce tax compliance effectively (Lin et al., 2018). Therefore, companies that are connected politically tend to adopt a more aggressive tax strategy (Kim & Zhang, 2016; Wahab et al., 2017), as well as making tax payments that are much lower than other companies (Adhikari et al., 2006; Taylor & Richardson, 2014). Thus, the following hypothesis is formulated:

$H_1$: Political connection has a negative effect on the ETR.

**Political connection, managerial ownership, and tax avoidance**

Managerial ownership is share ownership by internal company parties who actively make company business decisions, such as the board of commissioners and directors. A literature review shows that managerial ownership plays a role in positioning management and shareholders' interests (Jensen & Meckling, 1976). However, it is the fact that management's interests often dominate, thus creating agency problems. The existence of share ownership by board members, directors, and commissioners encourages them to protect their financial interests (Boussaidi & Hamed, 2015). As a result, management can make decisions that optimize their benefits (Gotti et al., 2012), mainly in tax avoidance practices.

Studies about managerial ownership and tax avoidance still show conflicting findings. The empirical study found that managerial ownership significantly affects corporate tax aggressiveness (Multazam & Rahamwat, 2018). Managerial ownership has also positively correlated with the effective tax rate (Boussaidi & Hamed, 2015). Other findings reveal that managerial ownership decreasing tax avoidance (Pramudito & Sari, 2015). This condition indicates that management's share ownership can increase optimal supervision and influence tax avoidance policies (Sunarsih & Oktaviani, 2016). Contrary to previous studies, other researchers have failed to prove a relationship between managerial ownership and tax avoidance (Jamei, 2017; Tijjani & Peter, 2020). This study assumes that managerial ownership becomes a strong incentive for management to make decisions that maximize the company's wealth, including their wealth. Management has the authority and opportunity to make decisions that benefit themselves (Mustapha & Ahmad, 2011). The hypothesis formulated is:

$H_2$: Managerial ownership strengthens the negative relationship between political connections and ETR.

**Political connection, institutional ownership, and tax avoidance**

Institutional ownership is one of the organizational governance elements that oversee its operational activities (Kovermann & Velte, 2019). The large volume of shareholding motivates institutional investors to monitor management actions. Institutional shareholders are seen to exercise optimal control over management actions, particularly those related to tax avoidance (Ying et al., 2015). Institutional investors also have the power to discipline managers by preventing tax planning activities. Other studies also reveal that institutional ownership significantly reduces the effective tax rate. The greater the institutional ownership, the tax policy is less aggressive (Wahab et al., 2021; Zemzem & Frouhi, 2013). Other studies have failed
to prove a relationship between institutional ownership and tax evasion (Tijjani & Peter, 2020).

This study predicts that institutional ownership reduces the positive effect of political connections on tax avoidance. Institutional shareholders have large shareholdings. This characteristic focuses them on achieving long-term-oriented performance (Khurana & Moser, 2012). Also, shareholders are concerned about the impact of tax avoidance practices on the company's reputation, mainly if detected by the tax authorities (Hanlon & Heitzman, 2010). Tax avoidance detected by tax authorities results in various risks, such as increasing tax obligations, paying fines, and even damaging the company's reputation (Hanlon & Heitzman, 2010). Researchers assume that institutional shareholders as the principal prefer to avoid the risks posed by tax avoidance. Thus, institutional shareholders' involvement in monitoring activities reduce the influence of political connections on tax avoidance: Ha3: Institutional ownership weakens the negative relationship between political connection and ETR.

Political connection, public ownership, and tax avoidance

Public ownership is the shares owned by public investors, both individual and institutional (Michel et al., 2014). In the tax avoidance context, there are two conflicting views regarding the role of public ownership. First, public ownership represents the community's interests as one of its stakeholders. This ownership expects the company to contribute to development by paying taxes. The greater the public ownership, the lower the tax avoidance (Puspita & Harto, 2014). Thus, there is a negative relationship between public ownership and tax avoidance (Chan et al., 2013).

Contrary to this view, another view argues that high public ownership increases companies' tax avoidance (Abdullah et al., 2019). The community has expectations of its future cash flows that increase its market value (Bauwhede et al., 2003; Shevlin et al., 2013). The community may allow companies to implement tax planning strategies without violating legal provisions (Alexander, 2019) and does not damage the company's reputation (Christensen et al., 2015). As a result, public ownership motivates company management to manage revenue opportunistically (Bauwhede et al., 2003).

In the relationship between political connection and tax avoidance, it is predicted that public ownership reduces the influence of political connection on tax avoidance. When a company shares ownership with the public, the company must implement public accountability (Khan et al., 2016). High public ownership increases stakeholder pressure for companies to carry out financial management transparently and accountable, including paying taxes. If companies practice tax avoidance, this action can trigger public anger and assume that it does not contribute to the state (Schwartz & Duhigg, 2013).

Also, tax avoidance practices can increase corporate risk (Scholes et al., 2014). Thus, there is a negative relationship between public ownership and tax avoidance (Chan et al., 2013). This study predicts that public ownership reduces the positive effect of political connection and tax avoidance. Thus, the hypothesis formulated is:

Ha4: Public ownership weakens the negative relationship between political connection and ETR.

The relationship between political connection variables, managerial ownership, institutional ownership, public ownership, and tax avoidance is presented in Figure 1.
3. Research method

Population and sample

The research population is all manufacturing companies on the Indonesian Stock Exchange. This study used a purposive sampling method with the following criteria: a) registered manufacturing companies for 2017-2019; b) the company's annual report is accessible; c) the company has the data needed; d) the data is normally distributed. Based on these criteria, there were 119 company samples or 357 observational data for the three years.

Measurement of research variables

This study uses a political connection as an independent variable. Political connection is a condition that indicates a political relationship between the directors or commissioners and external parties in the company, in which both parties benefit from the political relationship. The criteria used to identify the occurrence of political relations are if the board of directors or board of commissioners is: 1) a member of the people's representative council, member of the executive, or an official in a government institution, member of the military, or a political party; 2) former members of the people's representative assembly, former members of the executive branch, or former officials in government institutions, former members of the military, or former members of political parties (Antonius & Tampubolon, 2019; Supatmi et al., 2019). The measurement uses a dummy variable, namely the board of directors with a political connection, code 1, and code 0 if otherwise.

This study's dependent variable is tax avoidance, which is defined as a company activity aiming to reduce corporate tax payments (Hanlon & Heitzman, 2010). The indicator used the Effective Tax Rate (ETR). ETR is seen as the correct measurement because it can detect indications of tax deductions through loopholes in the applicable legislation and tax shelters (Dyreng et al., 2017). ETR is calculated by dividing the company's income tax expense with profit before tax (Gaaya et al., 2019; Tijjani & Peter, 2020). ETR measurement results have the opposite function of tax avoidance (Gaaya et al., 2019). A higher ETR value indicates lower tax avoidance behavior and vice versa (Frank et al., 2009).

The moderating variable is ownership structure, consisting of managerial ownership, institutional ownership, and public ownership. Managerial ownership is share ownership owned by the company's board of directors or commissioners (Berke-Berga et al., 2017). The measurement of managerial ownership is carried out using dummy variables because of the limited number of companies with this type of ownership. Using the percentage of shares as a measurement indicator will result in many companies not meeting the specified criteria. If the directors and commissioners have share ownership, then the value is given 1, and vice versa. Institutional ownership implies the percentage of shares owned by institutional investors, such as banks, insurance companies, or investment companies. The measurement of this variable uses the percentage of shares owned by institutional investors compared to its total number in circulation (Tijjani & Peter, 2020). Public ownership is share ownership by public investors (society). This variable is measured using the percentage of shares owned by the public compared to its total number of shares in circulation (Michel et al., 2014).

This study uses two control variables, namely company size and leverage. Larger companies tend to be more involved in tax avoidance than smaller companies (Gaaya et al., 2019; Lin et al., 2014; Richardson et al., 2013). However, other empirical studies suggest that large companies have less aggressive tax behavior to maintain their reputation (Gaaya et al., 2019; Richardson et al., 2015). Therefore, this study controls for the role of size in corporate tax avoidance behavior. The firm size variable is measured using the natural logarithm of total assets (Gaaya et al., 2019). The second control variable is leverage. Previous empirical studies revealed a positive relationship between leverage and tax avoidance (Badertscher et al., 2013; Richardson et al., 2015). In this study, the level of
corporate leverage is measured using the debt to equity ratio, as tested in previous studies (Tijjani & Peter, 2020).

**Technical data analysis**

This study examines the ownership structure's role, namely managerial ownership, institutional ownership, and public ownership. The ownership is a moderating variable in the relationship between political connection and tax avoidance. The data analysis tool used to test the research hypothesis is moderated regression analysis. The statistical model is formulated in the following equation:

Equation Model 1:

\[
\text{TA} = \beta_0 + \beta_1 \text{PC} + \beta_2 \text{FirmSize} + \beta_3 \text{Lev} + e \ldots (1)
\]

Equation Model 2:

\[
\text{TA} = \beta_0 + \beta_1 \text{PC} + \beta_2 \text{MO} + \beta_3 \text{IO} + \beta_4 \text{PO} + \beta_5 \text{PC*MO} + \beta_6 \text{PC*IO} + \beta_7 \text{PC*PO} + \beta_8 \text{Firm\_Size} + \beta_8 \text{Lev} + e \ldots (2)
\]

Where:

- \( \beta_0 \) = Constant
- \( \beta_1- \beta_7 \) = Regression coefficient
- PC = Political connection
- MO = Managerial ownership
- IO = Institutional ownership
- PO = Public ownership
- PC* MO = The interaction between political connection and managerial ownership
- PC*IO = The interaction between political connection and institutional ownership
- PC*PO = The interaction between political connections and public ownership
- Firm\_Size = Firm size
- Lev = Leverage
- e = Error

4. **Result and discussion**

**Descriptive statistics**

Table 1 shows that the political connection variable has an average of 0.27. This figure reflects that the board political connection has a low value, which is only 27.00%. Managerial ownership variables also show a low mean value, namely 0.19 (19.00%). Contrary to managerial ownership, the institutional ownership variable has a relatively high mean value of 63.24%. Meanwhile, the average size of public ownership is 24.17%. The tax avoidance variable proxied by ETR has an average value of 0.19 (19.00%).

**Table 1. Descriptive statistics**

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Min.</th>
<th>Max.</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political connection</td>
<td>357</td>
<td>.00</td>
<td>1.00</td>
<td>.27</td>
<td>.44</td>
</tr>
<tr>
<td>Managerial ownership</td>
<td>357</td>
<td>.00</td>
<td>1.00</td>
<td>.19</td>
<td>.40</td>
</tr>
<tr>
<td>Institutional ownership</td>
<td>357</td>
<td>10.41</td>
<td>99.21</td>
<td>63.24</td>
<td>21.69</td>
</tr>
<tr>
<td>Public ownership</td>
<td>357</td>
<td>.79</td>
<td>70.60</td>
<td>24.17</td>
<td>14.34</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>357</td>
<td>-.33</td>
<td>.59</td>
<td>.19</td>
<td>.15</td>
</tr>
<tr>
<td>Firm size</td>
<td>357</td>
<td>11.17</td>
<td>29.11</td>
<td>14.97</td>
<td>4.43</td>
</tr>
<tr>
<td>Leverage</td>
<td>357</td>
<td>-6.58</td>
<td>9.85</td>
<td>2.77</td>
<td>2.21</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>357</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Statistic test output (2021)

Compared to the statutory tax rate in 2017-2019 of 25.00%, corporate tax payments are lower than the corporate tax rate applicable in Indonesia. This figure indicates that there is tax avoidance in manufacturing companies in Indonesia. Meanwhile, firm size and leverage variables have an average of 14.97 and 2.77.

**Hypothesis test results**

This study conducted a classical assumption test, namely normality, multicollinearity, heteroscedasticity, and autocorrelation. This study excluded nine companies that had outlier data. Furthermore, the Kolmogorov-Smirnov test showed that all observed data were normally distributed (\( \alpha > 0.05 \)). Relates to the multicollinearity test, the results show a tolerance value of more than 0.1 and a VIF value of less than 10. Thus, there is no multicollinearity in the regression model. Heteroscedasticity testing was carried out using the Glejser test. The test results show that all independent variables have a significance above 0.05 or no heteroscedasticity. The autocorrelation test results showed that the Durbin-Watson value
was 1,894, with a du value of 1,863 and a 4-du value of 2,137. Thus, there is no autocorrelation. After performing the classical assumption test, the next test is to test Model 1, presented in Table 2.

Table 2 shows that the board political connection has a negative effect on ETR. The political connection indicates the negative coefficient direction with a significance value of 0.000. These results indicate that a board of directors and commissioners with political connections can increase tax avoidance. The lower the ETR value, the higher of company tax avoidance. Thus, the test results accept the first hypothesis.

The next test is to test the moderation effect formulated in Model 2, presented in Table 3.

Table 2. Model 1 test results

<table>
<thead>
<tr>
<th>Variables</th>
<th>Unstandardized coefficients</th>
<th>Standardized coefficients</th>
<th>t</th>
<th>Sig</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beta</td>
<td>Std.Error</td>
<td>Beta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>27.883</td>
<td>2.457</td>
<td>-11.348</td>
<td>.000</td>
<td>Ha1 is supported</td>
</tr>
<tr>
<td>PC</td>
<td>-24.330</td>
<td>1.337</td>
<td>-18.201</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>Firm Size</td>
<td>-.001</td>
<td>.001</td>
<td>-.019</td>
<td>-.482</td>
<td>.630</td>
</tr>
<tr>
<td>Leverage</td>
<td>-.003</td>
<td>.003</td>
<td>-.050</td>
<td>-1.257</td>
<td>.210</td>
</tr>
<tr>
<td>R</td>
<td>.698</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R Square</td>
<td>.487</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>.483</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F significant value</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Variable dependent: ETR
Source: statistics output (2021)

Table 3 presents the interaction test results for the three ownership structure types: managerial ownership, institutional ownership, and public ownership. The statistical test results present an Adjusted R Square value of 51.10%. This figure indicates that the independent and moderating variable influencing the tax evasion variable is 51.10%. Other factors influence the remaining 48.9%. Furthermore, this study identified the types of moderating variables, shown in Table 4. Table 4 shows that the interaction test results for the political connection and managerial ownership variable on ETR have a negative coefficient and a significance value of 0.038.

Table 3 Model 2 test results

<table>
<thead>
<tr>
<th>Variables</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std.Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>30.431</td>
<td>3.936</td>
<td>7.732</td>
<td>.000</td>
</tr>
<tr>
<td>PC</td>
<td>-47.561</td>
<td>9.108</td>
<td>-5.222</td>
<td>.000</td>
</tr>
<tr>
<td>MO</td>
<td>-1.910</td>
<td>2.045</td>
<td>-1.969</td>
<td>.049</td>
</tr>
<tr>
<td>IO</td>
<td>.000</td>
<td>.000</td>
<td>-.674</td>
<td>.501</td>
</tr>
<tr>
<td>PO</td>
<td>-.001</td>
<td>.001</td>
<td>-.934</td>
<td>.351</td>
</tr>
<tr>
<td>PC_MO</td>
<td>-4.269</td>
<td>3.506</td>
<td>-2.148</td>
<td>.038</td>
</tr>
<tr>
<td>PC_IO</td>
<td>.003</td>
<td>.001</td>
<td>2.644</td>
<td>.009</td>
</tr>
<tr>
<td>PC_PO</td>
<td>.003</td>
<td>.001</td>
<td>1.217</td>
<td>.224</td>
</tr>
<tr>
<td>Firm Size</td>
<td>.000</td>
<td>.001</td>
<td>.324</td>
<td>.746</td>
</tr>
<tr>
<td>Leverage</td>
<td>-0.03</td>
<td>.003</td>
<td>-1.080</td>
<td>.281</td>
</tr>
<tr>
<td>R</td>
<td>.724</td>
<td></td>
<td></td>
<td>Adjusted R Square</td>
</tr>
<tr>
<td>R Square</td>
<td>.524</td>
<td></td>
<td></td>
<td>F significant value</td>
</tr>
</tbody>
</table>

Variable dependent: ETR
Source: statistics output (2021)

Where:
ETR = Effective tax rate
PC = Political connection
MO = Managerial ownership
IO = Institutional ownership
PO = Public ownership
Firm_Size = Firm size
Lev = Leverage
The results imply that managerial ownership strengthens the negative relationship between political connection and ETR. Testing the managerial ownership moderation variable shows that this variable can significantly affect the ETR, both alone (\(\alpha = 0.049\)) and interacting with the political connection variable (\(\alpha = 0.038\)). This result implies that this variable has a dual role, namely, an explanatory/predictor variable and a moderating variable. Therefore, managerial ownership is a quasi-moderation variable (Solimun et al., 2017). Thus, the results support the second hypothesis.

Testing the interaction variables of political connection and institutional ownership on ETR has a positive coefficient direction and a significance value of 0.009. This statistical result means that institutional ownership weakens the political connection's negative influence and the ETR. The results also confirm that institutional ownership acts as pure moderation. Therefore, institutional ownership cannot be a predictor or explanatory variable, only as a moderating variable. In this research model, the institutional ownership variable acts as pure moderation (Solimun et al., 2017). Thus, these findings are consistent with the third hypothesis.

The interaction test results between the political connection and public ownership variables on the ETR reveal an insignificant statistical number, which is 0.224. This empirical finding proves that public ownership variables do not affect ETR, both alone (\(\alpha = 0.351\)) and interacting with political connections (\(\alpha = 0.224\)). In this case, the public ownership variable does not act as an predictor variable or moderating variable. Public ownership variables only have the potential as moderating variables, both theoretically and empirically. Therefore, public ownership is a potential moderation or homologous moderation (Solimun et al., 2017). Thus, these statistical results do not support the fourth hypothesis.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Unstandardized coefficients</th>
<th>Standardized coefficients</th>
<th>t</th>
<th>Sig</th>
<th>Remark</th>
<th>Moderation Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>PC → ETR</td>
<td>-47.561</td>
<td>-1.362</td>
<td>-5.222</td>
<td>.000</td>
<td>Ha2 Accepted</td>
<td>Quasi Moderation</td>
</tr>
<tr>
<td>MO → ETR</td>
<td>-1.910</td>
<td>-.049</td>
<td>-1.969</td>
<td>.049</td>
<td>H1 Accepted</td>
<td>Pure Moderation</td>
</tr>
<tr>
<td>PC*MOM → ETR</td>
<td>-4.269</td>
<td>-.073</td>
<td>-2.148</td>
<td>.038</td>
<td>Ha3 Accepted</td>
<td>Pure Moderation</td>
</tr>
<tr>
<td>PC → ETR</td>
<td>-47.561</td>
<td>-1.362</td>
<td>-5.222</td>
<td>.000</td>
<td>Ha2 Accepted</td>
<td>Quasi Moderation</td>
</tr>
<tr>
<td>IO → ETR</td>
<td>.000</td>
<td>-.035</td>
<td>-.674</td>
<td>.501</td>
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<td>Pure Moderation</td>
</tr>
<tr>
<td>PC*IO → ETR</td>
<td>.003</td>
<td>.008</td>
<td>2.644</td>
<td>.009</td>
<td>Ha4 Rejected</td>
<td>Homologiser Moderation</td>
</tr>
<tr>
<td>PC → ETR</td>
<td>-47.561</td>
<td>-1.362</td>
<td>-5.222</td>
<td>.000</td>
<td>Ha4 Rejected</td>
<td>Homologiser Moderation</td>
</tr>
<tr>
<td>PO → ETR</td>
<td>-.001</td>
<td>-.097</td>
<td>-.934</td>
<td>.351</td>
<td>Rejected</td>
<td></td>
</tr>
<tr>
<td>PC*PO → ETR</td>
<td>.003</td>
<td>.278</td>
<td>1.217</td>
<td>.224</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Statistic output (2021)

This study also controls for firm size and leverage factors that are considered to influence tax avoidance practices. The test results in Table 4.3 show that the firm size variable has a significance value greater than 0.05, namely 0.746 and 0.281. Thus, these two variables do not affect corporate tax avoidance.

**Political connection and tax avoidance**

Based on the testing of the first hypothesis result, the political connection board is proven to have a negative effect on ETR. This figure indicates that directors and commissioners with political connections increase tax avoidance practices. The lower ETR value implies that companies tend to do tax avoidance. Companies with political affiliations generally lack transparency in managing the company (Kim & Zhang, 2016). It is not uncommon for these companies to receive guarantees or preferential treatment from the government (Faccio,
The existence of political connections will protect company management from the risk of litigation in the future. Management experience in the political realm also influences its strategy in managing tax payments (Putra & Suhardianto, 2020). Politically connected board members will take advantage of this condition to benefit from tax avoidance (Zhang et al., 2017). Company boards affiliated with tax regulators also have a low risk of tax detection (Kim & Zhang, 2016). Another advantage is that companies have a network to access tax regulations and law enforcement efforts (Ajili & Khlif, 2020). Previous empirical findings prove that companies have higher tax avoidance behavior when politically affiliated with tax regulators (Taylor & Richardson, 2014). Boards of directors with political connections with tax authorities tend to reduce tax compliance enforcement efforts (Lin et al., 2018). As a result, companies with political affiliation have lower tax payment effectiveness than companies without political affiliation (Adhikari et al., 2006; Kim & Zhang, 2016; Wahab et al., 2017).

**Political connection, managerial ownership, and tax avoidance**

The second hypothesis testing results show that managerial ownership strengthens the negative relationship between the political and effective tax rates. These statistics indicate that share ownership by the company's internal parties also determines strategic decisions and company performance (Multazam & Rahamwaty, 2018). Managerial ownership encourages management to save their company's financial interests (Boussaidi & Hamed, 2015). In this case, managerial ownership aligns the interests of principals and agents and the company's interests with themselves. Management's self-interest often dominates in the company. As a result, managers tend to make corporate strategic decisions that optimize their benefits (Gotti et al., 2012), one of which is corporate tax management. The greater the percentage of shares owned by the company board, the greater the board's potential to make decisions that can maximize their wealth as shareholders (Kamardin, 2014).

In the context of taxation, managerial ownership can align the company's interests to make tax savings with the interests of management to improve the company's cash position. This study's results note that the percentage of managerial ownership in the sample companies is relatively small. Chen and Yu's (2012) findings reveal that when management has a minor shareholding in the company, its dysfunctional behavior increases. Management has an incentive to falsify disclosure of financial statements because reported earnings will form the basis for determining the manager's remuneration. It is also the case with corporate tax management policies. Managerial share ownership provides an opportunity for company managerial parties with political connections to make financial decisions that benefit the company and the management itself. The company board considers that tax avoidance measures will save the company's cash, using other operational activities. Thus, managerial ownership strengthens the negative relationship between the board political connection and ETR.

**Political connection, institutional ownership, and tax avoidance**

Testing the third hypothesis proves that institutional ownership weakens the negative relationship between political connection and effective tax rate. Institutional shareholders generally have high share ownership. In this study, the average institutional share ownership is 63.24% which indicates high ownership. In this case, institutional share ownership does not only minimize agency conflicts between principal and agent (Wahab et al., 2021). Institutional investors have a strong incentive to monitor management performance. Institutional shareholders discipline and motivate managers to maximize firm value in the long term by preventing tax planning activities (Tijjani & Peter, 2020).

Institutional ownership also influences the company's management strategy (Minnick & Noga,
Institutional shareholders' presence improves the monitoring function, particularly in fulfilling corporate tax obligations and responsibilities as good citizens (Wahab et al., 2021) conducted by institutional investors will increase as their holdings increase (Ying et al., 2015). Institutional ownership can require politically affiliated companies to properly carry out tax obligations not to lose political benefits or gains (Christensen et al., 2015; Mills et al., 2012). Given that tax avoidance activities increase the company's potential and risk exposure (Scholes et al., 2014), institutional investors tend to avoid tax aggressive behavior (Wahab et al., 2021; Zemzem & Ftouhi, 2013). Shareholders focus more on the impact of tax avoidance practices on company reputation (Hanlon & Heitzman, 2010). High institutional shareholders' presence encourages companies to increase company loyalty to the government through tax payments (Putra & Suhardianto, 2020). The supervision process by institutional ownership intensively can mitigate political connections on tax aggressiveness. Thus, institutional investors can reduce the negative effect of the board political connection on corporate tax aggressive behavior.

**Political connection, public ownership, and tax avoidance**

The fourth hypothesis's statistical testing results show that public ownership variables do not affect the relationship between political connection and effective tax rate. Previous research has found two different views regarding the role of public ownership in tax avoidance. The first view states that public ownership represents the interests of society. Generally, people expect companies to contribute to the state through tax payments (Chan et al., 2013; Puspita & Harto, 2014). However, another view argues that high public ownership increases companies' likelihood of tax avoidance (Abdullah et al., 2019). This condition is motivated by high public expectations of future cash flows to increase its market value (Shevlin et al., 2013). Companies can implement tax planning strategies as long as they do not violate legal provisions (Alexander, 2019).

However, the results contradict the previous result. This study failed to prove that public ownership reduces the negative effect of the board political connection on tax avoidance. This condition is because public ownership does not substantially influence corporate strategic decisions, particularly in the corporate tax management strategy. In this study, the average number of public ownership was 24.17%. This figure indicates that the community has not played a significant role in the supervisory function of management decision-making. Also, communities may not focus on corporate tax management strategies and ignore corporate tax avoidance practices. The public is generally more concerned with the profit that the company receives to increase its shares' market value.

5. **Conclusions**

Tax avoidance practice is a complex phenomenon because it involves corporate boards and shareholders. The presence of company boards with political connections is considered in choosing a tax management strategy. Also, tax management policies must consider the ownership structure to align company management and stakeholders' interests. This study aims to identify ownership structures' role, namely managerial, institutional, and public ownership, as moderating variables in the relationship between board political connection and tax avoidance. Corporate tax avoidance practices are calculated using the ETR indicator. The lower the ETR value, the higher the company tax avoidance. The test results reveal that the political connection lowers the ETR value and indicates high tax avoidance. This finding also confirms that political connections within the company are not merely a provision of assistance but also creates nepotism. Therefore, the process of political lobbying by corporate boards reduce the company's tax burden. The presence of managerial ownership also strengthens the negative influence of political connections on ETR. Thus, managerial ownership is
a quasi-moderation variable. However, institutional ownership weakens the negative influence of political connection on ETR. In this study, the institutional ownership variable acts as pure moderation. Contrary to the two previous moderation tests, public ownership could not moderate the political connection and ETR relationship. Thus, public ownership only has the potential as a moderating variable known as homologous moderation.

Theoretically, this study's results imply that this study's results support Agency Theory, which emphasizes the importance of good governance in reducing the potential for agency conflicts. In this study, ownership structure, mainly external ownership, effectively reduces management's opportunistic behavior in tax avoidance practices. Practically, this finding implies that tax management strategy is determined by the company's board but must consider external parties, such as institutional and public shareholders. These results also underscore that manufacturing companies have a good reputation as Indonesia's most significant tax contributor. Therefore, companies should avoid tax avoidance practices. Concerning increasing tax revenues, tax authorities must have high competence and accurate information to detect the manipulate financial data. Also, the tax authority must strictly monitor the practices of the company's transfer pricing.

This study is inseparable from various limitations. The first limitation is that this study cannot show the average percentage of managerial ownership in the sample companies. In this study, managerial ownership is measured using a dummy variable because only a few sample companies have this type of ownership. If the following research is to test the fundamental managerial ownership role, the researcher can use the percentage to measure managerial ownership. The second limitation is the Adjusted R Square value of 51.10%. This figure indicates that other factors influence 48.9%. Therefore, future research can examine other governance elements, such as the audit committee or the external auditor.

**References**


