

TAX AVOIDANCE IN INDONESIAN COMMERCIAL BANKS: POLITICAL CONNECTIONS AND BOARD OF COMMISSIONERS

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ABSTRACT

The purpose of this study was to examine tax avoidance by considering the effect of political connections, as well as board of commissioners' tenure and board of commissioners' compensation as moderating variables. The population used in this study are commercial banks registered with the Financial Services Authority (OJK) with a sample of 205 out of a total of 41 banking sector companies in 2017-2021. This study uses panel data regression model analysis. The analytical techniques used in this study were descriptive statistical tests, preliminary tests (Breusch-Pagan, likelihood test, Hausman test), diagnostic tests (heteroscedasticity test and autocorrelation test), and hypothesis testing. In determining the panel data regression model, this study uses a random effect model to test the relationship between variables in model 1 and model 2 to test the hypothesis. The results of this study indicate that political connections have a negative effect on tax avoidance, meaning that the board of commissioners who have political connections does not change the nature of their relationship, especially with the government, to always pay taxes according to the proper tax rate. The tenure variable of the board of commissioners has a positive effect on tax avoidance, this indicates that the length of term of office of members of the board of commissioners triggers more aggressive characteristics to take tax avoidance actions regardless of risk takers for the company. The board of commissioners compensation variable has a positive effect on tax avoidance, this shows that giving compensation to members of the board of commissioners will reduce the level of profit after tax due to burdens or costs borne by the company. So what happens is the lower the taxable profit, the lower the effective tax charged. Meanwhile, this study can prove the role of the board of commissioners term variable in strengthening the relationship between political connections and tax avoidance. In addition, proving the role of the board of commissioners compensation variable does not affect the relationship between political connections and tax avoidance.

Keywords: Political Connection, Tax Avoidance, Tenure of the Board of Commissioners, Compensation of the Board of Commissioners

ABSTRAK

Tujuan penelitian ini adalah untuk menguji penghindaran pajak dengan mempertimbangkan pengaruh koneksi politik, serta masa kerja dewan komisaris dan kompensasi dewan komisaris sebagai variabel moderasi. Populasi yang digunakan dalam penelitian ini adalah bank umum yang terdaftar di Otoritas Jasa Keuangan (OJK) dengan sampel sebanyak 205 dari total 41 perusahaan sektor perbankan tahun 2017-2021. Penelitian ini menggunakan analisis model regresi data panel. Teknik analisis yang digunakan dalam penelitian ini adalah uji statistik deskriptif, uji pendahuluan (Breusch-Pagan, uji kemungkinan, uji Hausman), uji diagnostik (uji heteroskedastisitas dan uji autokorelasi), dan uji hipotesis. Dalam menentukan model

regresi data panel, penelitian ini menggunakan model random effect untuk menguji hubungan antar variabel pada model 1 dan model 2 untuk menguji hipotesis. Hasil penelitian ini menunjukkan bahwa koneksi politik berpengaruh negatif terhadap penghindaran pajak, artinya dewan komisaris yang memiliki koneksi politik tidak merubah sifat hubungannya terutama dengan pemerintah untuk selalu membayar pajak sesuai dengan kepatutan pajak. kecepatan. Variabel masa jabatan dewan komisaris berpengaruh positif terhadap penghindaran pajak, hal ini menunjukkan bahwa lamanya masa jabatan anggota dewan komisaris memicu karakteristik yang lebih agresif untuk melakukan tindakan penghindaran pajak terlepas dari risk takers bagi perusahaan. Variabel kompensasi dewan komisaris berpengaruh positif terhadap penghindaran pajak, hal ini menunjukkan pemberian kompensasi kepada anggota dewan komisaris akan mengurangi tingkat keuntungan setelah pajak akibat beban atau biaya yang ditanggung perusahaan. Sehingga yang terjadi adalah semakin rendah laba kena pajak maka semakin rendah pajak efektif yang dibebankan. Sementara itu, penelitian ini dapat membuktikan peran variabel istilah dewan komisaris dalam memperkuat hubungan koneksi politik dengan penghindaran pajak. Selain itu membuktikan peran variabel kompensasi dewan komisaris tidak mempengaruhi hubungan koneksi politik dengan penghindaran pajak.

Kata kunci: Koneksi Politik, Penghindaran Pajak, Masa Jabatan Dewan Komisaris, Kompensasi Dewan Komisaris

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I. INTRODUCTION

Tax is one of the biggest sources of revenue for the state treasury. Tax is the pulse of the development of a country's economy (Pranoto & Widagdo, 2016). In the 2020-2021 decade, Indonesia is faced with a very downturned economic situation, especially with the impact of the co-19 pandemic. With the contribution of tax revenue from Indonesian citizens, the realization of state taxes can be used to help efforts to reduce or filter the chain of the spread of the coronavirus or Covid-19 by providing health care focused on vaccination. In addition, taxes are also used for other purposes or programs from the Indonesian government to increase economic growth, such as infrastructure development, public facilities, strengthening MSME businesses, structural health improvements to handle the pandemic situation, as well as the share of public assets that are part of the growth

program. economy by the Indonesian government. Tax revenue has a very effective role and can contribute greatly to state revenue (Kusufiyah & Anggraini, 2019).

The Indonesian government continues to make various efforts to optimize or maximize state treasury revenue from the tax sector. Evaluating and improving the tax law, as well as targeting tax revenue so that the state can maintain momentum when companies collect taxes. From the data obtained from the 2019-2021 State Budget (APBN) report, the Indonesian government continues to increase estimates or targets for tax collection every year. However, the effectiveness of the target of tax collection in Indonesia has not been achieved from the target of the APBN period. Table 1 provides information on APBN reports regarding the realization of tax collection from 2019-2021.

Table 1. Realization of Tax Collection in Indonesia

Year	Target (Trillion Rupiah)	Realization (Trillion Rupiah)	Effectiveness of Tax Collection
2019	1577.56	1136,17	72.02%
2020	1,786.38	1312.37	73.47%
2021	1229.58	1.082,56	88.04%

Based on table 1, it is known that there are tax collection targets that have not been met even though the percentages show an increase in the effectiveness of tax revenues every year. The realization of tax revenue in 2019 was 72.02%, in 2020 it was 73.47%, and in 2021 it was 88.04% of the estimated target set for the 2019-2021 period. The tax target was not achieved due to the management of the tax burden by the company. One of the management of tax expense management that can be realized without violating tax laws is using *tax avoidance*.

Tax avoidance is a tax burden management strategy by companies or taxpayers where this is done because it is still in a legal and safe context and does not conflict with tax provisions in Indonesia (Tandean & Winnie, 2016). *Tax avoidance* is indeed very interesting global financial information in Indonesia. The tax issue that is being discussed in the world is about global financial transactions which are widely used by taxpayers to avoid taxes (Aprilina, 2020). One of the issues that are currently growing rapidly is the BEPS (*Base Erosion and Profit Shifting*) action. Bank OCBC NISP Tbk has been anticipating BEPS implementation since 2017 (Putri, 2019). An overview of the BEPS action, namely that taxpayers use profit transfer methods intending to avoid paying high taxes by carrying out tax avoidance practices (Aprilina, 2020).

Tax avoidance is a standard deviation or there is a deviation between tax plans and realization (Putri, 2019). Indonesia is a country, which has political networks or connections that generally recommend the

identities of people who have close ties to the government or regional autonomy into the corporate bureaucracy, whether it's recommendations to become members of the board of commissioners or members of the board of directors (Putri, 2019). This is because Indonesia is a country with a highly democratic governance system so politics becomes an integral part of people's way of life, including the issue of political connections to public companies in Indonesia. (Anggraini & Widarjo, 2020)

The business world is very closely related to politics, this is because the success of a business cannot be separated from political influence (Maidina & Wati, 2020). Political connections are the main attraction for a case of tax evasion (Kim & Lee, 2021). This happens because, political connections are a valuable investment for the company (Leuz & Oberholzergee, 2006). A valuable investment that can be taken advantage of by the company is the acquisition of privileges granted by the tax authorities in the tax audit action on the company (Kim & Zhang, 2013). This argument is also in line with Kim & Zhang (2016) that with political connections, companies receive preferential treatment from the government such as easy access to obtaining capital, lower pressure from the capital market to carry out transparency, and low risk of tax audits.

Research discussing the effect of political connections on *tax avoidance* has been discussed research (Christensen et al., 2014) supported by (Butje & Tjondro, 2014), (Munawaroh & Ramdany, 2019),

(Kim & Lee, 2021) as well (Francis et al., 2016) states that political connections have a positive effect on *tax avoidance*. Meanwhile (Iswari et al., 2019), (Nurrahmi & Rahayu, 2020), and (Putra & Suhardianto, 2020) found that political connections have a negative effect on tax avoidance. Then, according to (Anggraini & Widarjo, 2020), (Annisa, 2015), (Harsono & Gitasari, 2021), (Purwanti & Sugiyarti, 2017), and also supported by (Sari & Somoprawiro, 2020) and (Solikin & Slamet, 2022) states the results of the study corporate political connections do not effect on *tax avoidance*.

The inconsistent results of several studies on the relationship between political connections and *tax avoidance* have triggered an urgency to examine agency interests that occur in companies in Indonesia that have adopted a *two-tier board system* since 1995 (Darmadi, 2011). Agencies within the company are related to the existence of interests between internal control parties and the company's operational management. Agency theory explains that there is a connection between the political connections of the board of commissioners in the company's organizational structure in carrying out agency interests to achieve mere profit (Putri, 2019). The interests of these political connections can be utilized to manage company profits with a strategy of reducing the tax burden or the effective tax charged (Ulfa et al., 2021). This happens because the board of commissioners is a part that functions as a total supervisor in the company and provides facilities and advice regarding company decision-making from the policies provided by the directors (Darmadi, 2011). So that the use of the function of giving the board of commissioners a stronger voice and more aggressiveness in making decisions without regard to company risks that will occur in the future (Hambrick, 2007). Therefore, this study will add the moderating role of the board of

commissioners seen from two perspectives, namely term of office or *tenure* and compensation of the board of commissioners in influencing the relationship between political connections to *tax avoidance*.

Tenure (*tenure*) is the service period for the board of commissioners while working or serving in the company (Goldman et al., 2017). According to Supriyati & Hapsari (2021), the board of commissioners with a long tenure has good experience in supervision. The quality and performance of the board of commissioners are getting better in understanding the company's internal conditions and formulating the company's external strategy appropriately, including supervising the company's *tax avoidance efforts*. At the beginning of his tenure as the company's supervisory board, the board of commissioners tried to show professional supervisory characteristics to maintain its reputation by increasing company profits (Noviawan & Utamie, 2020). This condition is different when the experience goes hand in hand with a long tenure, the opportunistic characteristics in supervision increase the strategy to take advantage of the space or loopholes to take *tax avoidance actions* while still considering the company's profit as a measure of this action to maintain its reputation. (Li et al., 2018). This happens because the more companies make efforts to minimize the tax burden (*tax planning*), the more the company can increase the company's profit by high. This company advantage has a large positive effect on the sustainability of the reputation of board members during their tenure in the company (Noviawan & Utamie, 2020).

Some studies explain the effect of *tenure* management on *tax avoidance*. Among them are researchers from Ulfa et al (2021) who produced research that board *tenure* has a positive effect on *tax avoidance*. The link between the board of commissioners' tenure and *tax avoidance*

actions has been discussed in several studies (Noviawan & Utamie, 2020) which resulted in research that CEO tenure does not affect *tax avoidance*. Research Kim & Lee (2021) perspective of personal motivation and power, on the other hand, when managers extend their tenure, they will have less incentive to take the risks associated with aggressive tax reductions. During the early years in the position, most managers will need to prove qualifications and gain support from company stakeholders and may try to leverage political connections to minimize tax payments. Then the length of the service period will be better able to make strategic decisions regarding *tax avoidance* (Kim & Lee, 2021).

The Board of commissioner's compensation is also suspected to be one of the triggers for a *tax avoidance case*. Compensation is the provision of incentives by organizations in the form of salaries or wages for the responsibility for services provided by employees (Darma, 2021). Agency theory explains that *tax avoidance actions* occur due to the desire of the board of commissioners to want additional bonuses and incentives (Zulma, 2016). This desire arose because his reputation while serving on the board of commissioners or the company's internal supervisory board provided a gap in experience in managing earnings by minimizing the effective tax charged by the company (Azizah & Kusmuriyanto, 2016). The action of minimizing taxes is of concern to the owners because this action is considered to damage the company's reputation in the capital market investment business competition. Thus, the owner provides an alternative solution in responding to the actions taken by the board of commissioners by providing some incentives or bonuses to the board to give them awareness to have good professional responsibility and avoid opportunistic actions in minimizing the effective taxes imposed on the company.

Zulma, 2016). This has been regulated in the GCG guidelines issued by the National Committee on Governance Policy (KNKG) regarding good implementation of corporate governance in terms of determining appropriate compensation for members of the board of commissioners on the basis of the provisions of the nomination and remuneration committee appointed at the company's GMS at the order of the shareholder's shares or company owners (Darmadi, 2011) .

Management compensation research on *tax avoidance* has a view of research results that are different from the others. Among them are Meilia & Adnan (2017), Nugraha & Mulyani (2019), and Amri (2017) explaining that management compensation has a positive effect on tax evasion. Then the research by Hudha & Utomo (2021), Zulma (2016), and Budiadnyani (2020) produces opposite or different opinions, namely that compensation for the board of commissioners has a negative effect on *tax avoidance*. In addition, Lisowsky et.al (2012) produced the opinion that compensation does not affect *tax avoidance*.

This study examines the effect of political connections on *tax avoidance* with *the tenure* of the board of commissioners and compensation of the board of commissioners as moderating variables. This study develops research conducted by Kim & Zhang (2016) which examines Corporate Political Connections and *Tax Avoidance*. The development carried out is to change the proxy for political connections on the board of directors with the proxy for political connections to the board of commissioners, as well as adding board *tenure and compensation to the board of commissioners as independent variables*. As well as adding novelty by examining the role of the board of commissioners' *tenure variables* and board of commissioners' compensation in

moderating the relationship between political connections and *tax avoidance*. The period in this study is from 2017 to 2021. The objects in this study are commercial banks registered with the Financial Services Authority (OJK).

Agency Theory

Agency theory describes the existence of a contractual relationship of interest between the company owner (*principal*) and company management (*agent*) (Jensen & Meckling, 1976). *An agency relationship arises when the principal* (shareholder or company owner) delegates the *agent* (management) to employ one thing for his services and delegates the *principal* to provide a decision contract to his *agent* (Amri, 2017). This will lead to agency conflicts because they have different interests. The difference in interests relates to *tax avoidance measures*. (Nugraha & Mulyani, 2019) Nugraha & Mulyani (2019) explained that differences in interests occur as a result of company managers trying to show their performance to achieve the targets desired by company owners, namely profit gains and good company cash flow. This happened because the results of the good achievements made by the company's management had an impact on the reputation of their positions and they could even be promoted to other banking companies (Goldman et al., 2017).

Budiadnyani (2020) argues that this difference in interests also occurs due to political connections owned by company management, actors of this interest arise between company managers and tax authorities, where the company is the agent while the tax authorities are the principal. Fiskus has an interest in increasing state revenue, especially from tax revenues and companies have an interest in increasing corporate profits. The higher the net profit generated, the higher the tax burden that must be paid. So that the company's willingness or the company's desire to take *tax avoidance*

actions appears so that the company's net profit remains high. Then these political connections can open gray areas that can provide concessions to tax regulatory loopholes for conducting business transactions in banking which can minimize the effective taxes charged by companies (Ferdiawan & Firmansyah, 2017)

In addition, differences in interests also occur because of the hope that the company's board will get a bonus or compensation when the company can reduce the tax burden (Sakanti, 2017). This can be linked to the interests of the board concerning its political connections with the government in the motive for the goal of mutual benefit and can contribute to the company in providing low effective taxes (Purwanti & Sugiyarti, 2017). Then this conflict of interest arises as well as the role of the length of the board's term of office which can increase knowledge beyond professional capabilities or educational experience so that this *agency* appears opportunistically in making aggressive decisions on the company's earnings management in terms of minimizing the effective tax charged (Kim et al., 2014). It happens, the more someone knowledge in managing and supervising management in the company increases the aggressive interest in making decisions because they already have gaps that can reduce the risk of aggressiveness being carried out (Hillman & Dalziel, 2003). In addition, several agency conflict motives emerged, such as *agency costs* in the form of providing additional compensation to support tenure or *tenure* so that the interests of company managers can be properly responsible according to orders from the *principal*. This is by *agency costs* according to (Jensen & Meckling, 1976).

Upper-echelon Theory

According to Hambrick (2007), *Upper-echelon Theory* is a theory that assumes

that the development of a company's organization is caused by strategic decisions made by leaders or boards who have power in the company's operational oversight structure (Hambrick, 2007). Meanwhile, risky strategic decisions for companies arise due to a background of political connections between top management (board of commissioners and directors) and governance politics in a *tax avoidance action* taken (Asadanie & Venusita, 2020). Political connections are generally attached to SOE member parties who place their internal positions as members of the company's board of commissioners. Therefore, this position provides interest motivation with a position utilization strategy to take strategic action on weak regulations related to banking business transactions on tax recognition, so that this opportunity has the potential to increase corporate profits (Francis et al., 2016).

The board of commissioners has the desire that the reputation of the term of office is maintained and that the compensation provided by the company can be fulfilled according to the work performance carried out (Azizah & Kusmuriyanto, 2016). However, it is different when the reputation, term of office, and compensation was given are not following the totality of the work performed at the company. This will lead to an increase in interest motivation in action to minimize the effective tax charged by the company without taking into account *the risk-taker* on the reputation of his position in the company. This shows that the theory of *upper-echelon theory* can occur due to the emergence of reputational interests of the board of commissioners' tenure and compensation (Budiadnyani, 2020).

The Effect of Political Connection on Tax Avoidance

Agency theory explains that *tax avoidance* is motivated by a cooperative relationship

between the interests of the board of commissioners (*agent*) and the company owner (*principal*). The interests of each *agent* and *principal* have different strategic goals, the principal wants the company's profits to be able to compete in business substance in banking, but the agent is trying to achieve the target desired by the principal (Jensen & Meckling, 1976). Agency theory explains that the board of commissioners as an agent entrusted with the mandate to monitor company operations has a strategy to achieve stable and high profits by utilizing their political connections. (Purwanti & Sugiyarti, 2017) . This is explained in *the upper-echelon theory* in research (Asadanie & Venusita, 2020) that social background in the form of political connections owned by top management (commissioners and directors) influences performance characteristics to take advantage of the *gray area* found in administrative government affairs or tax collectors, this utilization is carried out to obtain low effective tax recognition so that the target desired by the *principal*, namely in the form of company profits, can have an increasing effect.

Butje & Tjondro (2014) explain that the use of political connections in companies affects the lack of tax audits carried out by tax authorities on corporate taxpayers, thus triggering the company's aggressive ability to implement *tax avoidance* with low tax *output*. Even the risk of this company can be supported by tax officials or authorities in the form of negotiating penalties after *tax avoidance actions* in minimizing effective taxes are revealed for violating tax regulations. (Ferdiawan & Firmansyah, 2017) . Kim & Lee (2021) add that political connections in a democratic country are described as a closed circle in social and humanitarian affairs so that the interests of political connections provide safety for parties who are interconnected.

From previous studies, political connections have positive and negative effects on *tax avoidance*. According to (Asadanie & Venusita, 2020), (Butje & Tjondro, 2014), (Ferdiawan & Firmansyah, 2017), (Kim & Lee, 2021), (Maidina & Wati, 2020), (Wicaksono, 2017), (Solikin & Slamet, 2022), (Wahab et al., 2016), and (Munawaroh & Ramdany, 2019) that political connections have a positive effect on *tax avoidance*. Then according to (Iswari et al., 2019), (Nurrahmi & Rahayu, 2020), and (Putra & Suhardianto, 2020) suggest that political connections have a negative effect on *tax avoidance*. As for those who argue that political connections do not have a significant effect on *tax avoidance* (Annisa, 2015), (Anggraini & Widarjo, 2020), (Harsono & Gitasari, 2021), (Sari & Somoprawiro, 2020), (Purwanti & Sugiyarti, 2017).

H₁ Political connection has a positive effect on tax avoidance

The Influence of the Board of Commissioners' Tenure on Tax Avoidance

Tenure is the term of office of the board of commissioners while in office (Supriyati & Hapsari, 2021). Kim & Lee's research (2021) discusses the perspective of personal motivation and power when the board of commissioners extends their term of office. During their early years in office, most boards of commissioners need to prove performance for the reputation of their position (Noviawan & Utamie, 2020). Even at the beginning of his term of office, the board of commissioners or the management role tries to increase the company's profit or cash flow to attract market share or *market* by the target desired by the company (Ali & Zhang, 2014). Meanwhile, with a longer term of office for the board of commissioners in the company, the level of aggressiveness towards taxes will be higher (Juliawaty & Astuti, 2019). This happens because the longer the term of office of the board of

commissioners, the characteristics of the *risk-taker* grow and encourage their loyalty in the interest of minimizing taxes. (Swingly & Sukartha, 2015). The long tenure of the board of commissioners provides an understanding of the company's condition so that the targets given by the principal regarding company profits can be calculated through the achievement strategy (Goldman et al., 2017). The strategy that can be carried out by the board of commissioners from their experience while serving in the company can of course be carried out by employing *tax avoidance* as a result of taking advantage of the absence of clear rules regarding schemes or business transactions in banking (Ratnawati et al., 2019).

The relationship between board *tenure* and *tax avoidance* can be explained in the research results (Noviawan & Utamie, 2020) that *tenure* management has a positive effect on *tax avoidance*. The research results of the positive influence of *tenure* management on *tax avoidance* are also supported in this study (Goldman et al., 2017), (Ulfa et al., 2021), and (Doho & Santoso, 2020). However, several researchers get the result that *tenure* management harms *tax avoidance* (Kim & Lee, 2021) and (Kim et al., 2014). There are even those who argue that *tenure* management does not have a significant effect on *tax avoidance* (Juliawaty & Astuti, 2019), (Noviawan et al., 2020), and (Supriyati & Hapsari, 2021).

H₂: Board of commissioners tenure has a positive effect on tax avoidance

Effect of the Board of Commissioners' Compensation on Tax Avoidance

Compensation for the board of commissioners is an agency contract in the form of salary, wages, or bonus incentives to be motivated to improve performance in achieving targets provided by the company (Tandean & Winnie, 2016). Compensation given to members of the board of commissioners is the result of the decision

of shareholders or company owners at the company's general meeting (Darmadi, 2011). Therefore, the company's goal in deciding on compensation is solely to motivate the performance of members of the board of commissioners and to maintain a reputation for performance that lasts longer in the company's operations.

In agency theory, providing compensation to members of the board of commissioners is the right solution to reduce opportunistic actions in minimizing the effective tax given or commonly known as *tax avoidance* (Tandean & Winnie, 2016). This happens because the provision of compensation can increase the enthusiasm of the board of commissioners oversight of the rate of banking business transactions, one of which is the company's effectiveness in paying taxes (Halioui et al., 2015). However, providing optimal compensation to the board of commissioners is precisely a strategy in the interests of taking *tax avoidance actions*. Azizah & Kusmuriyanto (2016) explained that compensation for the board of commissioners can provide a difference in expenses or costs which can reduce the level of profit after tax so that the company's taxable profit rate will be lower which will have an impact on the burden of paying taxes by the company. This is in line with Nugraha & Mulyani's research (2019) that compensation has a positive effect on tax avoidance. Then Halioui et al, (2016) that compensation has a positive effect on tax avoidance by using measurements using total management compensation, both directors and commissioners.

H₃: Compensation for the board of commissioners has a positive effect on tax avoidance

The Influence of the Board of Commissioners' Tenure on the Relationship between Political Connections and Tax Avoidance

The term of office (*tenure*) is the service period for the board of commissioners to work/hold in the company. According to Supriyati and Hapsari (2021), the board of commissioners with a long term of office will have better quality performance in understanding the company's internal conditions and it will be easy to formulate the company's external strategy precisely. Improved performance quality motivates the board of commissioners to take advantage of their political connections to carry out a *profit-shifting* action or an action to minimize the tax burden borne by the company. This refers to the theory of the *upper-echelon perspective* that a long term of office for the board of commissioners in a company will show a social background and more aggressive characteristics in making *risk-taker decisions* because it is driven by political connections. (Asadanie & Venusita, 2020) . Because basically, a politically connected board of commissioners provides a level of confidence in making aggressive decisions in the company's external affairs, so political connections are positive for aggressive tax planning activities (Kim & Lee, 2021). Thus it can be correlated that the use of political connections to carry out *tax avoidance actions* is certainly inseparable from the experience of the board of commissioners as measured by the length of tenure in the company. Based on the description it can be stated that:

H₄: Tenure of the board of commissioners strengthens the positive relationship between political connections to tax avoidance

Effect of Board of Commissioners' Compensation on the Relationship between Political Connections and Tax Avoidance

Darma (2021) explains that compensation is the provision of remuneration for the board of commissioners (share incentives and short-term incentives in the form of salaries and wages) provided by the

company as a result of services that have been performed during the time and their responsibilities as the board of commissioners apply to the company. Optimal and high compensation given to members of the board of commissioners is expected to provide long-term performance activities that benefit the company's value (Amri, 2017). In addition, from the point of view of the board of commissioners, optimal and high compensation can provide additional motivation or awareness to maintain its reputation for performance within the company, so that the company's targets regarding profit and cash flow can be well controlled. However, this condition will be different when the compensation for the board of commissioners provided by the company is unstable and not optimal, this will trigger agency conflicts where members of the board of commissioners as *agents* have the desire to get bonuses for appreciation for good work performance. While the company as *principal* measures the provision of long-term and short-term incentives, it is measured by the profit generated so that the large or small compensation given to members of the board of commissioners is expected to continue to increase their performance motivation and be able to maintain their commitment (Darma, 2021).

Thus, the agency conflict that occurs can trigger an *upper-echelon perspective* on the board of commissioners. Where the expected incentives or bonuses for good work performance can encourage the board of commissioners to take advantage of opportunities for political connections to take *tax avoidance actions* (Anggraini & Widarjo, 2020). Budiadnyani (2020) states that the board of commissioners as *agents* wants additional incentives or compensation that will trigger a tendency or pressure to take *tax avoidance actions*. Because basically the political connections that the board of commissioners has will provide benefits to the company through

the recognition of a low effective tax rate (Asadanie & Venusita, 2020) as well as lowering the principle of company transparency in financial reporting due to the lack of tax audits due to political connections (Butje & Tjondro, 2014). Based on the description it can be stated that:

H_s: Board of commissioners compensation strengthens the positive relationship between political connections to tax avoidance

II. RESEARCH METHOD

Population and Sample

The population used in this study are companies registered with the OJK. While the sample used is a bank company registered with the OJK in 2017-2021. This study uses panel data regression model analysis. The analysis techniques used in this study were descriptive statistical tests, preliminary tests (*Breusch-Pagan, chow tests, hausman tests*), diagnostic tests (heteroscedasticity tests and autocorrelation tests), and hypothesis testing. Based on the results of the three preliminary tests in determining the panel data regression model, this study uses the *random effect* model in models 1 and 2 to examine the relationship between variables. The criteria used are 1) Banking companies registered on www.ojk.go.id in 2017-2021, 2) Bank companies that issue annual financial reports, and 3) Companies that provide the required and complete information related to the variables in this research. Based on the sample criteria that have been selected in this study, the research samples obtained were 205 out of a total of 41 companies in the 2017-2021 period.

Research variable

Tax Avoidance

Tax avoidance proxy used in this study is the *effective taxes rate* (ETR). The effective tax rate (ETR) is the total percentage of the company's effective tax

burden divided by the company's total profit before tax. This measurement is used because there is an estimation relationship that indicates an opportunistic action in minimizing the effective tax charged by the company (Dewinta & Setiawan, 2016). The higher the ETR percentage level, which is close to the

corporate income tax rate of 25%, indicates the lower the company's *tax avoidance level*, conversely, the lower the ETR percentage level indicates the higher the company's tax avoidance level. (Dewinta & Setiawan, 2016) .

The following is the ETR formula according to (Lanis & Richardson, 2011) ;

$$ETR = \frac{\text{Beban Pajak Penghasilan}}{\text{Laba Sebelum Pajak}} \times 100\%$$

Information:

ETR : *Effective Tax Rate*; Effective tax rates

Political Connections

Referring to research (Faccio, 2002) and (Kim & Zhang, 2016) states that a politically connected board of commissioners is a board of commissioners that has a binding relationship with politicians or state government officials, or former government officials either central or regional government, as well as members of parliament, ministers, or even, has ties to political parties. Then Pranoto & Widagdo (2016) added that political

connections in Indonesia are generally carried out by BUMN people or who have close ties to the government and are part of the company's organizational structure. In addition, according to Darmadi (2011), capital market regulations require that a listed company has members of the board of commissioners who are affiliated with outside the company at least 30 percent of the total number of members of the board of commissioners. The following is a measurement tool according to (Iswari et al., 2019) ;

$$KP = \frac{\text{Jumlah dewan komisaris yang berafiliasi sebagai politisi}}{\text{Jumlah keseluruhan anggota dewan komisaris}} \times 100\%$$

Information:

KP : Political connections

Tenure of the Board of Commissioners

The proxy used in measuring the board of commissioners *tenure variable is the proxy used in research* (Allen, 1981) with the variable being measured being *tenure*. *Tenure* is the average number of years of service held by the board of commissioners disclosed in the company's annual report during the research period (Allen, 1981). The longer the board of commissioners is in the company, the more it significantly influences the company's performance, especially in matters of *principal interest* employing

managing company earnings. According to POJK No. 33/POJK.04/2014 concerning Directors and Board of Commissioners of Issuers or Public Companies in article 3 which states that one term of office is a maximum of 5 years. Research provides a proxy symbol for this variable with *tenure*. The following is a measurement tool (Allen, 1981) that describes the average CEO tenure, as well as according to Kim et al. (2014) which describes the average tenure of the board of directors. Then it was developed by proxy according to Goldman et al, (2017);

$$\text{Tenure} = \frac{\text{Rata - rata tahun masa jabatan dewan komisaris}}{\text{Jumlah dewan komisaris}}$$

Information:

Tenure : The term of office of the board of commissioners

Board of Commissioners Compensation

The proxy used in measuring this variable is symbolized by LNCOMP (Sheikh et al., 2017). LNCOMP is a record or comparison measure between the total compensation received by the board of commissioners and the company's *revenue*. This was also conveyed by Zhong et al. (2021) that the total compensation for the board of commissioners is obtained from other components such as company sales. Compensation is the provision of remuneration by the company to its employees in the form of basic salary, bonus, benefits, post-employment benefits, and in-kind (Sheikh et al., 2017). Amri (2017) explains that the provision of high

and optimal compensation given to the board of commissioners influences the low effective tax value of the company because compensation can affect the value of after-tax profit which decreases so that what happens is the company's taxable profit is getting lower. According to Azizah and Kusmuriyanto (2016) the categories of compensation are classified as follows, namely very high categories (30 or 37 percent), high (19 or 24 percent), medium (23 or 28 percent), low (5 or 6 percent) while very low (4 or 5 percent) The following is a proxy for compensation for the board of commissioners according to Richardson & Lanis (2007):

$$COMP = \frac{\text{Total kompensasi dewan komisaris}}{\text{Revenue Perusahaan}} \times 100\%$$

Information:

COMP : Board of commissioners compensation logarithm

Analysis Techniques

This study uses panel data regression model analysis. Panel data analysis is used to determine the relationship between political connections to *tax avoidance* with the board of commissioners' *tenure* and board of commissioners' compensation as moderating variables. Panel data analysis consists of *the ordinary least square regression model, the fixed effect model, and the random effect model*. In this study, the Breusch and Pagan Lagrangian Multiplier tests were used to test the *ordinary least square regression model* versus the *random effect regression model*. Meanwhile, the Chow test was used to test the *fixed effect model* versus the *ordinary*

least squares model and the Hausman test was used to find the most suitable panel data regression model between the *fixed effect model* and the *random effect model*.

In this study, an equation model is used to evaluate the assumptions. This study uses model (1) to investigate the effect of political connections, board of commissioners' *tenure*, and commissioners' compensation on *tax avoidance*. In addition, it also uses model (2) to examine the effect of the moderating board of commissioners' *tenure* and board of commissioners' compensation on the relationship between political connections and *tax avoidance*.

$$ETR = \alpha + \beta_1 KP1 + \beta_2 Tenure2 + \beta_3 COMP3 + e \tag{1}$$

$$ETR = \alpha + \beta_1 KP1 + \beta_2 Tenure2 + \beta_3 COMP3 + \beta_4 KP1 * Tenure2 + \beta_5 KP1 * COMP3 + e \tag{2}$$

Information:

α : Constant

$\beta_1 \beta_2 \beta_3 \beta_4 \beta_5$: Regression coefficient

ETR : *Tax avoidance*
 KP : Political Connection of the Board of Commissioners
 Tenure : Term of Office of the Board of Commissioners
 COMP : Compensation for the board of commissioners

III. RESULTS AND DISCUSSIONS

Descriptive statistics

Descriptive statistics provide an overview or description of data seen from the average value (mean), standard deviation,

variance, maximum, and minimum Ghozali (2016). Descriptive statistics for each variable used in this study are shown in Table 2.

Table 2. Descriptive Statistics Results

Variable	Means	Std. Dev	Min	Max
ETR	0.2389657	0.1870017	-0.4464974	0.8423815
KP	0.2991708	0.2505671	0	1
Tenure	4.788954	3.478917	0	15.5
comp	0.655974	0.1645629	0	1.144464

Tax avoidance variable has an average (mean) value of 0.2389657 with a standard deviation of 0.1870017. This means that the level of *tax avoidance* proxied by ETR is lower, as evidenced by the relatively high average ETR percentage rate of 23.9 percent of the income tax rate at Conventional Commercial Banks listed on the IDX for 2017-2021. The political connection variable has an average (mean) value of 0.2991708, meaning that members of the board of commissioners who are politically connected are small at 30 percent compared to the number of commissioners who are not politically connected at 70 percent. The *tenure* variable for the Board of Commissioners

has an average value (mean) of 4.788954, meaning that the average board of commissioners has served at a Conventional Commercial Bank for a long period of 4.8 years. This is following the Compensation Variable the Board of Commissioners has an average value (mean) of 0.655974 which means that the compensation obtained by the board of commissioners in Conventional Commercial Bank companies is low at 6.55 percent of the company's total revenue.

Preliminary Test (Breusch and Pagan Lagrangian Multiplier Test, Chow Test, and Hausman Test)

Table 3. Breusch and Pagan Lagrangian Multiplier Test Results

	Model 1	Model 2
Chibar2(01)	26.73	17.49
Prob > chibar2	0.0000	0.0000

First, the *Breusch and Pagan Lagrangian Multiplier test* is used to test the *ordinary least squares regression model* versus the *random effects regression model*. The hypothesis assumptions are as follows:

Null hypothesis: the *ordinary least square model* is more suitable ($p > 0.05$).

Alternative hypothesis: *the random effect* is more suitable ($p < 0.05$).

Based on table 3, the test value of the *Breusch and Pagan Lagrangian Multiplier test* in model 1 is 26.73 with a probability value of 0.0000 and in model 2 it is 17.49 with a probability value of 0.0000. These results show significance ($p < 0.05$). Consequently, the null hypothesis is rejected at the 5% significance level. The results showed that the *ordinary least squares model* was not suitable for testing

the effect of the main independent variables, namely political connections, board of commissioners *tenure*, board of commissioners compensation, and moderating variables of the board of commissioners *tenure* and board of commissioners compensation for *tax avoidance*. These results indicate that the *random effects model* is more appropriate.

Table 4. Chow test results

	Model 1	Model 2
F	2.74	2.39
Prob > F	0.0000	0.0001

Second, the *chow* test is used to test the *Fixed Effect model* versus the *Ordinary Least Square model*. The hypothesis assumptions are as follows:

Null hypothesis: the *ordinary least square model* is more suitable ($p > 0.05$)

Alternative hypothesis: the *fixed effect model* is more suitable ($p < 0.05$)

Based on table 4, the value of the *chow* test in the *chi-square* statistic in model 1 is 2.74 with a probability value of 0.0000 and in model 2 it is 2.39 with a probability value of 0.0001. These results show significance ($p < 0.05$). The results showed

that the *ordinary least squares model* was not suitable for testing the effect of the main independent variables, namely political connections, board of commissioners *tenure*, board of commissioners compensation, and moderating variables of the board of commissioners *tenure* and board of commissioners compensation for *tax avoidance*. These results show that the model *fixed effect is more* suitable, and can be used to measure model 1 and model 2 accordingly.

Table 5. Hausman Test Results

	Model 1	Model 2
Chibar2(3)	0.25	3.35
Prob > chibar2	0.9689	0.6469

Third, the *Hausman* test was conducted to check the suitability of model selection to choose the best model between the *fixed effect model* and the *random effect model*. The hypothesis assumptions are as follows:

Null hypothesis: *random effect model* more appropriate ($p > 0.05$)

Alternative hypothesis: *fixed effect model* more appropriate ($p < 0.05$)

Table 5 shows that the *Hausman value* of model 1 is 0.25 with a probability value of 0.9689 and model 2 of 3.35 with a probability value of 0.6469. This result shows significance ($p > 0.05$). Therefore, the null hypothesis is accepted at the 5% significance level. The *Hausman* test results determine that the model *random effect* is more appropriate to use in this study. Based on the three tests above, this study will use a *random effect model* in

model 1 to examine the relationship between political connection variables, board of commissioners' *tenure*, and board of commissioners' compensation for *tax avoidance*. And using the *random effect* model in model 2 to examine the relationship between political connection variables, board of commissioners' *tenure*, and board of commissioners' compensation for *tax avoidance* with the board of commissioners' *tenure* and board of commissioners' compensation as moderating variables.

Heteroscedasticity Diagnostic Test and Serial Correlation

According to Baltagi (2011) and Gujarati & Porter (2009) Diagnostic tests that need to be considered first in testing using the panel data regression model are the heteroscedasticity test and the autocorrelation test. Heteroscedasticity and autocorrelation testing need to be done so that when conducting tests using the STATA software, you can adjust the commands in the software so that the right commands are needed to deal with heteroscedasticity or autocorrelation problems, or both, therefore the standard

error in the model will not be disturbed by this problem (Hoechle, 2007; Sanchez, 2012; Torres-Reyna, 2007). In addition, because *collinearity* has been detected automatically and the STATA software will immediately eliminate collinearity-affected variables, *collinearity* testing is not needed.

The results of this study used the *random effect model* to test the diagnostic heteroscedasticity and autocorrelation in model 1 and the *random effect* model in model 2. The results of the heteroscedasticity test in model 1 had a Prob > Chi2 value of 0.0000. This means that the model has symptoms of heteroscedasticity and the results of the heteroscedasticity test in model 2 have a Prob value > Chi2 0.0000, meaning that the model has heteroscedasticity. The results of the autocorrelation test in model 1 have a Prob > F value of 0.2187. This means that in this model there are symptoms of autocorrelation and the results of the autocorrelation test in model 2 have a Prob > F value of 0.2696. This means that in model 2 there is autocorrelation.

Table 6. Heteroscedasticity and Serial Correlation Test Results

	Model 1	Model 2
Full Sample		
Heteroscedasticity		
Chi2	233 .70	219.68
Prob > Chi2	0.0000	0.000 0
Serial Correlation		
F	1,561	1.253 _
Prob > F	0.2187	0.2696

Table 6 shows the results of the heteroscedasticity test and the serial correlation test for models 1 and 2. Based on the table above it is known that there are heteroscedasticity and autocorrelation problems so the regression model used in

models 1 and 2 uses a *random effect regression model* with a *clustered sandwich standard error* so that the standard error of the model resistant to heteroscedasticity and serial correlation.

Hypothesis Test Results

Table 7. Results of the Hypothesis Test of Model 1

Independent Variable	Dependent Variable			
	TAX AVOIDANCE			
	Coeff.	std. Err.	Q	P>t
const	0.2209346 _	0.0311144	7.10	0.000
KP	0.2549286	0.0760856 _	3.35	0.001 *
TENURE	- 0.00703	0.004045 _	-1.74	0.082 **
comp	- 0.3745559 _	0.0692932 _	-5.41	0.000 *
R-square within	0.0 958 _			
F	49,83			
Prob>F	0.0000 * _			
No. observation	205			
*5% significance **10% significance				

Table 8. Results of the Hypothesis Test of Model 2

Independent Variable	Dependent Variable			
	TAX AVOIDANCE			
	Coeff.	std. Err.	Q	P>t
const	0.1587 386 _	0.0353009	4.50	0.000
KP	0.452697	0, 0.911482	4.97	0.000
TENURE	0.0075597	0.004212 _	1.79	0.073
comp	- 0.3488165	0.1682902	-2.07	0.038
KP_TNR	-0.514929	0.0110238	-4.67	0.000 *
KP_COMP	-0.371269	0.4866853	-0.08	0.939
R-square within	0.1196			
F	57,82			
Prob>F	0.0000 * _			
No. observation	205			
*5% significance **10% significance				

Hypothesis Test Results 1

Testing hypothesis 1 is intended to test the positive influence of political connections against *tax avoidance*. As shown in table 7, testing hypothesis 1 shows that there is a significant positive relationship between political connections on the *effective taxes rate* with a coefficient of 0.2549286 at a significance level of 5%. The proxy value of the highly *effective taxes rate* indicates the lower level of *tax avoidance* that occurs. Therefore, the results of this test indicate that the greater the proportion of political connections or boards of commissioners affiliated with government institutions in Indonesia, the lower the level of *tax avoidance* that occurs. Therefore hypothesis 1 which states that

there is a negative influence of political connections on *tax avoidance* is not supported.

This shows that the political connections owned by the board of commissioners do not have an impact on the use of their political connections to carry out *tax avoidance actions* which can damage the company's future image in terms of business substance (Iswari et al., 2019). This is evidenced by the small average value (*mean*) of political connections of 30 percent which indicates that the board of commissioners has not been able to provide a low effective tax value. In addition, the operational control of the company is not only carried out by the board of commissioners, but the

existence of political connections owned by the board of commissioners encourages the government to evaluate, especially the contribution of tax payments to the state treasury (Li et al., 2018). Butje & Tjondro (2014) added the reason that the political connections of the board of commissioners succeeded in getting the difference in the effective tax rate charged to individual taxpayers in a company so that the impact on tax treatment in the form of *net income* and business turnover will affect a smaller tax rate. It is this lower tax rate that gives incentives for companies to always pay taxes (Nurrahmi & Rahayu, 2020). Consistency in paying taxes to the state also has an impact on the reputation of the board of commissioners in companies and can even promote the board of commissioners to larger companies and increases political legitimacy (Pranoto & Widagdo, 2016).

The results of this hypothesis are contrary to several previous studies, namely (Munawaroh & Ramdany, 2019), (Butje & Tjondro, 2014), and (Sudibyoy & Jianfu, 2017) state that conglomerate companies where the majority of their members have interests in government have the potential to commit *tax avoidance*.

Hypothesis Test Results 2

Testing hypothesis 2 aims to test the positive effect of *tenure* on the board of commissioners against *tax avoidance*. As shown in table 7, testing hypothesis 2 shows that there is a significant negative relationship between *the tenure* of the board of commissioners to the *effective taxes rate* with a coefficient of -0.00703 at a significance level of 10%. The proxy value of the low *effective taxes rate* indicates the higher level of *tax avoidance* that occurs. The test results show that the effect of the long tenure of the board of commissioners in a company influences its performance ability to take advantage of tax law loopholes to take *tax avoidance actions*. Therefore hypothesis 2 which

states that there is a positive influence of board of commissioner's *tenure on tax avoidance*, is supported at a coefficient level of 10%.

This indicates that the term of office gives the board of commissioners the ability to take *tax avoidance actions* without taking into account the company's risks (*risk-takers*) that will occur in the future (Goldman et al., 2017). This study shows that the average tenure of the board of commissioners in conventional banking is 4.8 years. This shows that the length of the term of office of the board of commissioners affects the level of *tax avoidance*. This argument is supported by research by Ulfa et al (2021) that the length of tenure on the board of commissioners encourages the urgency to take *tax avoidance measures* to increase the company's cash flow and company profits. Agency theory explains that the *tax avoidance* planned by the board of commissioners is solely aimed at showing good performance conditions and wanting the reputation of tenure as a board of commissioners to be maintained (Doho & Santoso, 2020). The success factor of this *tax avoidance* occurs due to the length of the term of office of the board of commissioners providing experience with conditions of tax regulations that are not yet specific regarding schemes or transactions in the substance of the banking business so that this opportunity can open up opportunities to take effective tax minimization actions without violating applicable tax regulations.

The results of this hypothesis support several studies from (Ulfa et al., 2021), (Goldman et al., 2017), and (Doho & Santoso, 2020) that the tenure of the board of commissioners lasts if the supervisory performance and the company's profit-generating ability are high, *Tax avoidance* is an alternative for the board of commissioners to maintain its reputation by the company because it sees the best performance conditions.

Hypothesis Test Results 3

Hypothesis 3 testing aims to test the positive effect of compensation board of Commissioners against *tax avoidance*. As shown in table 7, testing hypothesis 3 shows that there is a significant negative relationship between the board of commissioner's compensation on the *effective taxes rate* with a coefficient of -0.3745559 at a significance level of 5%. The proxy value of the low *effective taxes rate* indicates the higher level of *tax avoidance* that occurs. Therefore, the results of this test indicate that commissioner compensation triggers an action to minimize the company's effective tax. Therefore, hypothesis 3 which states that there is a positive effect of commissioners' compensation on *tax avoidance*, is supported by a significance level of 5%.

Providing compensation for the board of commissioners aims to improve the work ethic of the board of commissioners for performance while in office able to oversee company operations properly and fulfill targets on company profits (Tandean & Winnie, 2016). Giving optimal board of commissioners compensation can provide low effective tax treatment as a result of providing compensation can reduce the level of profit after tax so that taxable profit is lower (Armstrong et al., 2015). Low effective tax treatment can be indicated that the occurrence of an act of *tax avoidance* in the company, as evidenced by the coefficient level of -0.3745559 and the average (mean) level of compensation for the board of commissioners given is low at 6.5 percent of the company's total revenue. In addition, Nugraha & Mulyani (2019) added that providing compensation to the board of commissioners will increase the company's funding needs, thus affecting the company's increasing obligations or debt. The *tax avoidance strategy* at high debt levels has been explained in research

(Azizah & Kusmuriyanto, 2016) that debt affects the company's effective tax deductions due to interest expenses borne by the company.

The results of this hypothesis are in contrast to several studies from (Williams et al., 2005), (Amri, 2017), (Budiadnyani, 2020), and (Zulma, 2016) which prove that commissioner compensation harms tax avoidance. This research is in line with research (Minnick & Noga, 2010) that board of commissioners compensation has a positive effect on *tax avoidance*. This means that compensation in the form of incentives in the long term will provide encouragement or support in carrying out *tax avoidance*.

Hypothesis Test Results 4

Table 8 describes the findings of this study's overall hypothesis testing. Testing hypothesis 4 proves that the board of commissioners' *tenure variable* strengthens the positive relationship between political connections and *tax avoidance*, with a coefficient of -0.514929 at a significance level of 5% indicating that the board of commissioners' *tenure moderating variable affects the level of the effective taxes* lower. Therefore, hypothesis 4 which states that board *tenure strengthens the positive relationship between political connections and tax avoidance*, is supported by a significance level of 5%.

The results of the hypothesis 4 test prove that the existence of a high political connection in a company causes *risk-taker actions* in terms of tax avoidance. The existence of a long-term office for the board of commissioners in a company can motivate the behavior of the board of commissioners towards risky actions in the substance of the banking business, namely *tax avoidance*. This happened because the length of the term of office affected his experience of knowledge of tax regulation conditions that were not yet specific about schemes or transactions in the substance of

the banking business. In addition, experience with the condition of a company provides an opportunity to take advantage of political connections or political connections owned by the board of commissioners to negotiate with tax collectors so that *tax avoidance actions* taken do not blame tax regulations (Ferdiawan & Firmansyah, 2017). Doho & Santoso (2020) state that *tax avoidance* can contribute to the company in the form of increasing company profits and cash flow so that the performance appraisal of the board of commissioners in the eyes of company shareholders is increasing even the political connections that the board of commissioners has can legitimize their status in other banking companies getting better.

The results of this hypothesis contradict a study (Kim & Lee, 2021) that the length of the term of office weakens the relationship between political connections and *tax avoidance*. This is a reminder that the effect of corporate profits from efforts to minimize the company's effective tax has a good impact on the reputation of the performance of the board of commissioners in banking.

Hypothesis Test Results 5

Testing hypothesis 5 aims to test whether compensation for the board of commissioners strengthens the positive relationship between political connections to *tax avoidance* at commercial banks registered with the OJK. Table 8 describes the findings of this study's overall hypothesis testing. Testing hypothesis 5 proves that compensation to the board of commissioners does not strengthen the positive relationship between political connections and *tax avoidance*, with a coefficient of -0.371269 at a significance level of 0.939. Therefore hypothesis 5 which states that compensation to the board of commissioners strengthens the positive relationship between political

connections and *tax avoidance* is not supported.

The results of hypothesis testing 5 prove that the existence of a high political connection in a company causes an increase in *tax avoidance* due to several reasons, one of which is closeness to the government so that *tax planning* against a background of the existence of an internal *agency* in a company is given openness and time leeway in tax audits. (Kim & Zhang, 2016) . Optimal and high compensation to the board of commissioners does not provide for the execution of the existence of political connections of members of the board of commissioners in a company to maximize planning or opportunistic activities in matters of *tax avoidance*. Instead, optimal compensation solely provides enthusiasm for work and performance appreciation for its reputation during its term of office and minimizes the existence of internal *agencies* that can harm the company's future or risk the substance of the business, in this case, one of which is taking *tax avoidance actions* (Amri, 2017).

The results of the hypothesis are not in line with research (Minnick & Noga, 2010) that board of commissioners' compensation has a positive effect on *tax avoidance*. This means that compensation in the form of incentives in the long term will provide enthusiasm or support in carrying out *tax avoidance* or *tax management*.

IV. CONCLUSION AND RECOMMENDATION

The influence of political connections on *tax avoidance* at commercial banks registered with OJK is discussed in this study. The results of the analysis prove that political connections have a positive effect on *tax avoidance*. This shows that there are members of the board of commissioners who are politically connected and can carry out *tax avoidance* because these connections can open a *gray*

area in the effective tax treatment imposed by the company.

This study examines the effect of the board of commissioners' *tenure* on *tax avoidance*. The results of the analysis prove that the *tenure* of the board of commissioners harms *tax avoidance* in commercial banks. This shows that the longer the board of commissioners has served, the more their performance capabilities will be enhanced so that the risks to the reputation of their positions are maintained. So risks that can destroy his reputation are increasingly avoided as is the case with tax evasion.

The results of the analysis prove that compensation to the board of commissioners harms *tax avoidance*. This indicates that the greater compensation given by the company increases the supervisory performance of the board of commissioners on the condition of the company's internal management more effectively.

This study also discusses the moderating role of the board of commissioners' *tenure with political connections to tax avoidance*. The results of the analysis show that the *tenure* of the board of commissioners weakens the positive influence of political connections on *tax avoidance*. This is because the longer the board of commissioners has served, the more professional its performance characteristics regardless of its political connections to take *tax avoidance actions*.

Then the role of moderating the compensation board of commissioners with political connections to *tax avoidance*. The results of the analysis show that compensation for the board of commissioners neither strengthens nor weakens the positive influence of political connections on *tax avoidance*. This is because the higher the value of the compensation given to the board of commissioners, the higher and tighter the performance in the company's internal

control. This has resulted in the compensation being provided which does not provide opportunities for the utilization of political connections that are owned to carry out tax evasion actions.

After conducting this research, the advice that can be given is to tax collectors, the results of this study are expected to contribute as material to see the causes of the less-than-optimal tax collection in Indonesia due to the existence of several modes of *tax avoidance actions* carried out by conventional commercial bank companies in Indonesia. For the company, it is hoped that it can be used as a reference for making company policies related to political connections, *tenure*, and compensation for the board of commissioners to reduce any risky actions to the company's future in carrying out tax avoidance, but instead provide awareness to comply with effective tax collection. charged. For further research, it is suggested to examine the moderating effect of other commissioners in strengthening indicators of political connections to *tax avoidance*. Researchers hope that the discussion on this matter can be useful for companies in realizing the importance of paying taxes.

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