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Political Connections, Board Gender Diversity, and Institutional Ownership on Tax Avoidance

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Abstrak

Tujuan - *Penelitian ini bertujuan untuk menganalisis pengaruh Political Connections, Board Gender Diversity, Institutional Ownership terhadap Tax Avoidance.*
Desain/metodologi/pendekatan - *Metode penelitian yaitu kuantitatif dengan menggunakan data sekunder. Populasi yang digunakan yaitu perusahaan sektor Properti dan Real Estate yang terdaftar di BEI (Bursa Efek Indonesia) periode 2018-2022. Teknik pengambilan sampel menggunakan purposive sampling, diperoleh 70 data observasi. Teknik analisis data menggunakan analisis regresi linier berganda, koefisien korelasi, koefisien determinasi, uji t,dan uji f menggunakan software SPSS 26.*
Temuan - *Berdasarkan hasil penelitian dan diskusi menunjukkan bahwa Koneksi Politik, Keragaman Gender Dewan, Kepemilikan Institusional memiliki pengaruh signifikan parsial dan simultan terhadap Penghindaran Pajak.*
Keterbatasan/implikasi penelitian - *Keterbatasan penelitian yang pertama, sektor yang digunakan dalam penelitian ini hanyalah salah satu sektor yang terdaftar di BEI, sementara masih banyak sektor yang tidak digunakan. Kedua, periode penelitian yang terbatas hanya lima tahun. Ketiga, banyak variabel lain yang dapat mempengaruhi penghindaran pajak yang tidak diteliti dalam penelitian ini.*

Kata Kunci: ***Political Connections, Board Gender Diversity, Institutional Ownership, Tax Avoidance***

Abstract

Purpose - This study aims to analyze the influence of Political Connections, Board Gender Diversity, Institutional Ownership on Tax Avoidance.
Design/methodology/approach - The research method is quantitative using secondary data. The population used is the Property and Real Estate sector companies listed on the IDX (Indonesia Stock Exchange) for 2018-2022 period. Sampling technique used purposive sampling, obtained 70 observation data. Data analysis techniques using multiple linear regression analysis, correlation coefficient, coefficient of determination, t test, f test using SPSS 26 software.
Findings - Based on the results of research and discussion, it shows that Political Connections, Board Gender Diversity, Institutional Ownership have a significant partial and simultaneous effect on Tax Avoidance.
Research limitations/implications - The first research limitation, the sector used in this study is just one of those that is listed on the IDX, while there are still many sectors that are not used. Second, the study period is limited to five years. Third, many other variables that can affect tax avoidance are not examined in this study.

Keywords: Political Connections, Board Gender Diversity, Institutional Ownership, Tax Avoidance

Introduction

The largest source of state revenue comes from taxes. The World Bank states that a tax-to-GDP ratio of 15 percent or more is thought to ensure long-term economic growth and decrease of poverty (Varela & Haven, 2018).

Table 1
Indonesia Tax Ratio Development 2018-2022 Period

Year	Tax Ratio
2018	10,24%
2019	9,76%
2020	8,33%
2021	9,11%
2022	10,38%

Source: Data liputan6.com (processed in 2024)

Based on table 1, shows that between 2018 and 2020, Indonesia's tax ratio dropped. Indonesia's tax percentage rose to 10.38% in 2022.

Although the tax ratio in Indonesia increased in 2021–2022, it is still far from optimal. As of right now, Indonesia has the lowest tax ratio in ASEAN and is below the average tax ratio across Southeast Asia (Theodora, 2023).

In this case, according to Sri Mulyani, some of the causes of low tax ratios are relatively easy tax avoidance practices in Indonesia (Kurniati, 2020).

Tax avoidance cases are a common phenomenon that still often occurs among companies, quoted from online media in 2020, Kompas.com stated that the TJN (Tax Justice Network) predicted that Indonesia lose up around IDR 68.7 trillion when using the rupiah exchange rate due to tax avoidance (Sukmana, 2020).

Then in 2021 the TJN estimates that Indonesia's tax losses due to avoidance by multinational companies will reach around 32 trillion rupiah (Suryana, 2021).

According to a report published by the Indonesian Ministry of Finance, the only sectors that experienced contraction in 2022 were the construction and real estate sectors. This sector experienced a growth in negative tax revenue realization of around -13.5% in 2022. This has led to a decrease in its contribution to tax revenue realization in 2022 to 4.1% (Kementerian Keuangan Republik Indonesia, 2023).

Factors that can trigger tax avoidance in a company are political connections, Ajili & Khlif (2020) proving that the political connections that the board has in the company cause a low tax burden paid, because they have accurate information about tax regulations. However, it is stated by Alfiyah et al. (2022) ; Yudawirawan et al. (2022) that political connections have no bearing on tax avoidance.

Second factor that influences tax avoidance is board gender diversity (Kurniasari & Setiawati, 2024). According to Gracelia & Tjaraka (2020) the more of women on board director, the less tax avoidance decisions, that caused higher level of compliance and risk aversion of women than men, and uphold ethical values, while according to Cortellese (2020) found no connection between tax avoidance and board gender diversity.

Furthermore, institutional ownership can also trigger tax avoidance, power can be leveraged by institutional ownership to assist management or the other way around, and increase supervision to be more optimal on management performance (Hutami & Adi, 2023), while according to Farizky & Setiawati (2023); Septanta (2023) states that institutional ownership doesn't impact tax avoidance.

As may be observed from the descriptions above that there is still a gap between ideal conditions and actual conditions regarding taxation in Indonesia, as well as differences in results related to background explanations and previous research that cause their contribution to the theory has not been objective and general. Of course, with tax avoidance carried out by companies, it can be said to be a problem if it continues to happen, the government will find it difficult to optimize tax revenue to increase the tax ratio.

This study focuses on knowing how the conditions of political connections, board gender diversity as indicated by the presence of women on the composition of the board of directors, and ownership by an institution in the company have an impact on increasing or avoiding the tax avoidance actions of a company, which focuses on property and real estate sector companies listed on the Indonesia Stock Exchange, with a time span of 2018 - 2022.

Drawing on the above synopsis and preliminary findings of earlier studies, the problem identification is determined by the partial and simultaneous influence of political connections, board gender diversity, institutional ownership on tax avoidance.

So, following the problem identification above, the goal of this study is to examine how partially and simultaneously political connections, board gender diversity, institutional ownership influence tax avoidance in the Property and Real Estate sector listed on the IDX for the period 2018-2022.

Literature Review and Hypothesis

Literature Review

Agency Theory

Agency theory stated by Jensen & Meckling (1976) is defined as a set of contracts between principals and agents who handle operations and control of resources within the company. Whenever a principal hires an agent to operate the company and delegate responsibility over the company's decisions, it is referred to as an agency relationship. Agency theory states that an agent will act in a way that will advance its interests, unless appropriate corporate governance mechanisms are in place to prevent such actions. The agency problems that arise are expected to be reduced if there is an alignment of interests between agents and principals.

According to agency theory, tax avoidance actions taken by companies are a form of effort by the board or company manager with political connections to maximize their interests in terms of measuring their performance and realizing the interest of shareholders, by maximizing corporate profits through tax avoidance, so that it can be said to be successful in carrying out its performance (Farizky & Setiawati, 2023).

In agency theory, Jensen & Meckling (1976) also explains that ownership by institution is among the systems of corporate governance that’s considered capable of maximizing control and supervision of management performance as entity managers by reviewing and observing every decision taken.

Upper Echelon Theory

Upper echelon theory explains that decisions taken by top management are influenced by various factors, such as experience, gender, values, characteristics, and personalities of managers. This theory suggests that upper management is an individual who has an important role in making policies that are important to the company and have a direct impact on company performance (Hambrick & Mason, 1984).

According to upper-echelon theory, gender differences that produce character differences can lead to disparities in decision-making processes, one of which is tax avoidance (Gracelia & Tjaraka, 2020). It can be concluded gender diversity of the board leads to variances in the decision-making process for tax avoidance actions.

Political Connections

A political connection is a state that indicates the existence of a political relationship between a department or head of a company and external stakeholders, which benefits both parties involved in the political relationship (Rustiarini & Sudiartana, 2021).

Board Gender Diversity

Differences in a person's psychological traits and leadership styles are greatly impacted by gender differences, men and women have different characteristics, so it will provide more diverse input (Gracelia & Tjaraka, 2020). One form of diversity in companies is the presence of women in board membership (Aurellia & Sambuaga, 2022).

In this context, it presents a framework that compared to male directors, female directors provide unique abilities and expertise (Budiana & Kusuma, 2022).

Institutional Ownership

Jensen & Meckling (1976) mentioned that ownership by institution is among the systems of corporate governance that’s considered capable of maximizing control and supervision of management performance as entity managers by reviewing and observing every decision taken.

Tax Avoidance

Pohan (2013) concluded that tax avoidance is one legal practice that is done, not contrary to legislation or taxation. The technique used is to utilize the weaknesses contained therein, in an effort to lower the total amount of taxes paid.

Hypothesis Development

Political Connections on Tax Avoidance

Tax avoidance actions taken by companies are a form of effort by the board or company manager with political connections to maximize their interests in terms of measuring their performance and realizing the interest of shareholders, by maximizing corporate profits through tax avoidance, so that it can be said to be successful in carrying out its performance (Farizky & Setiawati, 2023). Presence of political connections, they must be good at utilizing these special relationships in order to get the opportunity to practice tax avoidance (Amalia & Ferdiansyah, 2019).

Political connections provide an advantage in obtaining better information about tax policy, to investigate time-series changes in tax or tax enforcement by employing complicated tax methods (Balakrishnan et al., 2019). Those evidenced in the study (Ajili & Khlif, 2020) stated that the political connections that the board has in the company cause a low tax burden paid, because they have accurate information about tax regulations. Similarly Rustiarini & Sudiartana (2021) concluding that political connections have a beneficial effect on tax avoidance, increased political connection can increase tax avoidance practices, and the political connections that boards have within companies can reduce corporate tax burdens. On the other hand, according to Pham (2019) that political connections help companies reduce asymmetric information. Politically connected companies tend to reduce tax avoidance, due to the common views between boards that have political connections in terms of taxation, namely reducing tax burden reduction measures (Iswari et al., 2019).

In accordance with the description above, political connections affect tax avoidance, the statement is reinforced in Amara & Khlif (2020); Farizky & Setiawati (2023); Nashir et al. (2023); Safitri & Widarjo (2023); Tjahyadi & Carolina (2024).

H_1: Political Connection affects tax avoidance.

Board Gender Diversity on Tax Avoidance

Upper echelon theory explains that any decision taken by top management can be influenced by the manager's experience, gender, values, characteristics, and personality (Hambrick & Mason, 1984).

According to Gracelia & Tjaraka (2020) the more women on board directors, the lower tax avoidance decisions, the higher the level of compliance and risk aversion of women than men, and uphold ethical values. Jarboui et al. (2020) also showed that women on board directors can help prevent tax avoidance.

However, the higher percentage of female directors, Zulfa et al. (2023) states that increases tax avoidance since these individuals are more likely to look for methods of avoiding paying taxes, it is believed that women are more rigorous, adaptable, and skilled negotiators, thus causing companies to take risks to legally reduce tax payments.

Razali et al. (2023) conclude that higher female representation on boards of directors is associated with increased tax planning in corporations.

In accordance with the description above, the gender diversity board affects tax avoidance. The statement is reinforced in (Kurniasari & Setiawati, 2024).

H_2: Board gender diversity affects tax avoidance.

Institutional Ownership on Tax Avoidance

In agency theory, Jensen & Meckling (1976) mentioned that ownership by institution is among the systems of corporate governance that’s considered capable of maximizing control and supervision of management performance as entity managers by reviewing and observing every decision taken.

The higher percentage of institutional ownership, the greater rights and votes that can influence corporate decision making, institutional ownership is more concerned about the company's short-term profits, thus encouraging an increase in tax avoidance (Jiang et al., 2020). Similarly, according to Alkurdi & Mardini (2020) institutional ownership negatively affects ETR, meaning institutional ownership increases tax avoidance.

Ownership by an institution acts with two directions; it has an opportunity and authority to make companies more profitable by increasing tax avoidance, and limiting tax avoidance to a degree where the benefits generated outweigh the risks (Kovermann & Velte, 2019).

According to Sonia & Suparmun (2019) increasing institutional ownership can reduce tax avoidance, institutional ownership will reduce agency conflicts and encourage more optimal supervision of managers and review every decision taken by the company, so as to reduce tax avoidance.

According to the description above, institutional ownership has an impact on tax avoidance. The statement is reinforced in Alkurdi & Mardini (2020); Dewi & Fatchan (2021).

H_3: Institutional ownership affects tax avoidance.

H_4: Political connections, board gender diversity, institutional ownership simultaneously affects tax avoidance.

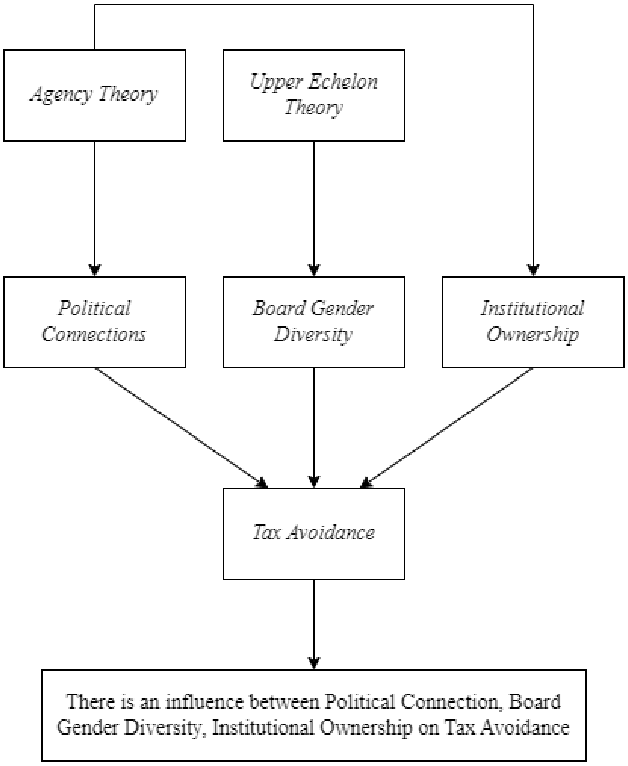

Figure 1
Theoretical Framework
Source: Data Proceed (2024)

Research Method

The research uses secondary data, which is collected through literature study and documentation. The classical assumption test was used to analyze the data, which was then followed by multiple linear regression analysis, coefficient of determination analysis, and correlation coefficient analysis. The T test is used to test the hypothesis partially and the F test to test the hypothesis simultaneously. The population used was 85 companies in the property and real estate sector listed on the IDX in the 2018-2022 period based on IDX-IC. The purposive sampling method was used, with the criteria listed in the following table:

Table 2
Research Sample Selection

No	Description	Sum
1	Companies in the property and real estate sectors listed on the IDX.	85
2	Companies in the property and real estate sectors that IPO on the IDX between the period 2018-2022.	-32
3	Companies in the property and real estate sectors that experienced suspension between the period 2018-2022.	-10
4	Companies in the property and real estate sectors that suffered losses between 2018-2022 period.	-29
Total		**14**

Source: Data Proceed (2024)

Variable Operational Definition
The independent variables consist of Political Connections (X1), Board Gender Diversity (X2), Institutional Ownership (X3), and the dependent variable namely Tax Avoidance (Y1).

Political Connections
The criteria used refer to the criteria used by (Wati, 2017). As stated by Lin et al. (2018) political connections it can be measured using the following formula:

$$\frac{\textit{Board with political connections}}{\textit{Total board of directors and commissioners}}$$

Board Gender Diversity
According to Wasiuzzaman & Mohammad (2020) board gender diversity can be measured by the following formula:

$$\frac{\textit{Number of women on board of directors}}{\textit{Number of board of directors}}$$

Institutional Ownership
According to Alkurdi & Mardini (2020) Institutional ownership can be measured by the following formula:

$$\frac{\textit{Number of shares owned by institutions}}{\textit{Number of shares outstanding}} x100\%$$

Tax Avoidance
ETR is one indicator of tax avoidance according to (Hanlon & Heitzman, 2010). Tax avoidance is measured by the following formula (Ibrahim et al., 2021):

$$\frac{\textit{Current tax expense}}{\textit{Profit before tax}}$$

Results and Discussion

Table 3
Results of Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
X1	70	.00	.29	.1122	.08352
X2	70	.00	.60	.1708	.16558
X3	70	.10	.97	.6620	.22303
Y1	70	.00	.40	.0275	.06152
Valid N (listwise)	70				

Source: Data Proceed (2024)

Table 3 shows that the dependent and independent variables have standard deviations, average values, maximum values, and minimum values. Institutional ownership (X3), one of the three independent variables in this research, had the highest value, at 0.97. However, the dependent variable's maximum value is 0.40.

Table 4
Results of Normality Test

One-Sample Kolmogorov-Smirnov Test	
	Unstandardized Residual
Asymp. Sig. (2-tailed)	.200[c,d]

Source: Data Proceed (2024)

Table 4 shows the value of Asymp. Sig. (2-tailed) or normality test results are 0.200 > α (0.05). Therefore, it can be said that the data are distributed normally.

Table 5
Results of Multicollinearity Test

Coefficients[a]			
Type		Collinearity Statistics	
		Tolerance	VIF
1	X1	.849	1.177
	X2	.672	1.488
	X3	.611	1.635

Source: Data Proceed (2024)

Based on table 5, it can be concluded that the tolerance and VIF values do not indicate that the three independent variables are multicollinear.

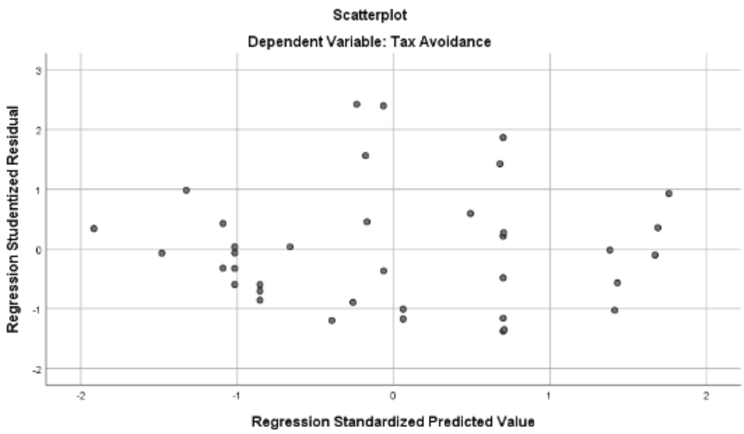

Figure 2
Results of Heteroscedasticity Test
Source: Data Proceed, 2024

Figure 2, exhibits the data points dispersed and lacking a discernible pattern, that means does not demonstrate a circumstance in which the regression model has heteroscedasticity.

Table 6
Results of Autocorrelation Test

Model Summary[b]	
Type	Durbin-Watson
1	1.879

Source: Data Proceed (2024)

Table 6, shows a Durbin-Watson value of 1.879. The resulting DW values of 1.6550 < 1.8790 < 2.3450, this means there is no either negative or positive autocorrelation with the choice not rejected, so this study has been free from autocorrelation symptoms.

Table 7
Results of Multiple Linear Regression Analysis

Coefficients[a]			
Type		Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	.052	.008
	X1	-.069	.028
	X2	-.057	.013
	X3	-.030	.010

Source: Data Proceed (2024)

Table 7 provides the equations of multiple linear regression, as follows:

$$\mathbf{Y = 0.052 - 0.069X1 - 0.057X2 - 0.030X3 + \varepsilon}$$

The equation above can be explained as:

1. The constant 0.052 indicates that if the value of Political Connections, Board Gender Diversity, Institutional Ownership is 0, then ETR is 0.052.
2. Regression coefficient X1 -0.069, Political Connections negatively affect. If Political Connections increase by 1, then ETR decreases by 0.069.
3. Regression coefficient X2 -0.057, Board Gender Diversity negatively affects ETR. If Board Gender Diversity increases by 1, then ETR decreases by 0.057.
4. Regression coefficient X3 -0.030, Institutional Ownership negatively affects ETR. If Institutional Ownership increases by 1, then ETR decreases by 0.030.

Table 8
Results of Correlation Coefficient Analysis

Correlations					
		X1	X2	X3	Y1
X1	Pearson Correlation	1	.045	.303	-.485**
	Sig. (2-tailed)		.793	.068	.002
X2	Pearson Correlation	.045	1	-.531**	-.420**
	Sig. (2-tailed)	.793		.001	.010
X3	Pearson Correlation	.303	-.531**	1	-.200
	Sig. (2-tailed)	.068	.001		.235
Y1	Pearson Correlation	-.485**	-.420**	-.200	1
	Sig. (2-tailed)	.002	.010	.235	

Source: Data Proceed (2024)

Table 9
Interpretation of the Correlation Coefficient Test

Independent Variables	Correlation Coefficient	Coefficient Interval	Relationship Level
X1	0,485	0,40-0,599	Moderate
X2	0,420	0,40-0,599	Moderate
X3	0,200	0,20-0,399	Low

Source: Data Proceed (2024)

Based on table 9, political connections have a moderate level of relationship, negative numbers indicate that each increase in political connections decreases the ETR value. Board gender diversity has a moderate level of relationship, negative numbers indicate that every increase in board gender diversity decreases the ETR value. Institutional ownership has a moderate level of relationship, negative numbers indicate that any increase in institutional ownership decreases the value of ETR.

Table 10
Results of Coefficient Determination Analysis

Model Summary[b]				
Type	R	R Square	Adj R Square	Std. Error
1	.717[a]	.515	.470	.00826

Source: Data Proceed (2024)

Based on table 10, This indicates that 47% of tax avoidance is influenced by political connection, board gender diversity and institutional ownership, 53% is affected by variables outside the scope of this research.

Table 11
T Test Results

Coefficients[a]			
Type		t	Sig.
1	(Constant)	6.506	.000
	X1	-2.451	.020
	X2	-4.331	.000
	X3	-2.853	.007

Source: Data Proceed (2024)

According to table 11, discussion of the above result is as follows:

Political Connections on Tax Avoidance

The t_{count} 2.451 > 2.0345 and Sig. (0.020) < α (0.05), this means that political connections significantly affect in a negative direction. The proxy of tax avoidance is ETR, because the interpretation of ETR is inversely proportional to tax avoidance, the negative sign means that political connections negatively impact ETR or increase tax avoidance. The findings of this study are consistent with agency theory, which states that political connections encourage tax avoidance. Company board members with political connections aim to maximize their interests in terms of measuring their performance and realizing shareholder wishes by maximizing company profits through tax avoidance, so that the board or company managers can be considered successful in carrying out their duties. Political connections provide an advantage in gaining better information about tax policy; by leveraging information about tax regulations, businesses can pay less tax.

The board political connections within the corporation lead to increased tax avoidance (Rustiarini & Sudiartana, 2021), they have accurate information regarding tax regulations thus causing a low tax burden paid (Ajili & Khlif, 2020).

This study supports research by Farizky & Setiawati (2023); Nashir et al. (2023).

Board Gender Diversity on Tax Avoidance

The t_{count} 4.331 > 2.0345 and Sig. (0.000) < α (0.05), this means board gender diversity significantly effects in a negative direction on ETR. Board gender diversity increases tax avoidance, the findings are in line with upper-echelon theory, which explains that gender differences produce character differences that can lead to disparities in decision-making processes, one of which is tax avoidance (Gracelia & Tjaraka, 2020). One form of diversity in companies is the presence of women in board membership (Aurellia & Sambuaga, 2022).

The existence of females increases tax avoidance since these individuals are more likely to look for methods of avoiding paying taxes, it is believed that women are more rigorous, adaptable, and skilled negotiators, thus causing companies to take risks to legally reduce tax payments (Zulfa et al., 2023). The findings support Kurniasari & Setiawati (2024) which concluded that tax avoidance significantly influenced by board gender diversity.

Institutional Ownership on Tax Avoidance

The t_{count} 2.853 > 2.0345 and Sig. (0.007) < α = (0.05), this means institutional ownership significantly impacts in a negative direction on ETR or institutional ownership encourages tax avoidance. According to agency theory by Jensen & Meckling (1976), institutional ownership is a corporate governance structure capable of maximizing control over management performance as entity managers by examining and witnessing every action made. Institutional ownership offers a source of power that can be utilized to support or oppose management, as well as to boost supervision in order to improve management performance.

The higher institutional ownership in a company, greater their rights and votes will influence decision making, institutional ownership is more concerned about the company's short-term profits, thus encouraging increased tax avoidance. Share ownership by institutional parties has an impact on tax avoidance because active tax avoidance strategies at the management level of the company show high after-tax earnings management capabilities (Jiang et al., 2020). The finding is consistent with research by Alkurdi & Mardini (2020).

Table 12
F Test Results

ANOVA[a]						
Type		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.002	3	.001	11.657	.000[b]
	Residuals	.002	33	.000		
	Total	.005	36			

Source: Data Proceed (2024)

Based on table 12, the F_{count} 11.657 > 2.8916 and Sig. (0.000) < (0.05), this means that political connections, board gender diversity, and institutional ownership simultaneously affect tax avoidance.

Conclusion and Recommendation

Conclusion

Results and discussion previously explained that political connections, board gender diversity, and institutional ownership have a significant impact on tax avoidance partially and simultaneously. This research also has implications, including that this research can be used as insight and knowledge to detect further research that is more in-depth. This research can also provide information for companies regarding the effect of Political Connections, Board Gender Diversity on Tax Avoidance, to evaluate and improve compliance with applicable tax rules or regulations, and can provide additional information for the government and can be used as a consideration for making taxation policies in the future.

This research had some limitations. First, the sector used in this study is just one of those that are listed on the IDX, while there are still many sectors that are not used. Second, the study period is limited to five years. Third, many other variables that can affect tax avoidance are not examined in this study.

Suggestion

Some suggestions that can be given to future researchers is as follows:

1. Additional research is suggesting that they get samples from other sectors on the IDX, as this study only includes corporations in the property and real estate sectors.

2. The research time should be extended in order to provide more reliable research results for future studies, as this study only covers five years of research.
3. It is advised for future research to include additional variables outside of this study that have a bigger influence on tax avoidance because the independent variable influences the dependent variable by 47% and other variables influence the remaining 53%.

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