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Tax Aggressiveness: President Director Publicity and Political Connection

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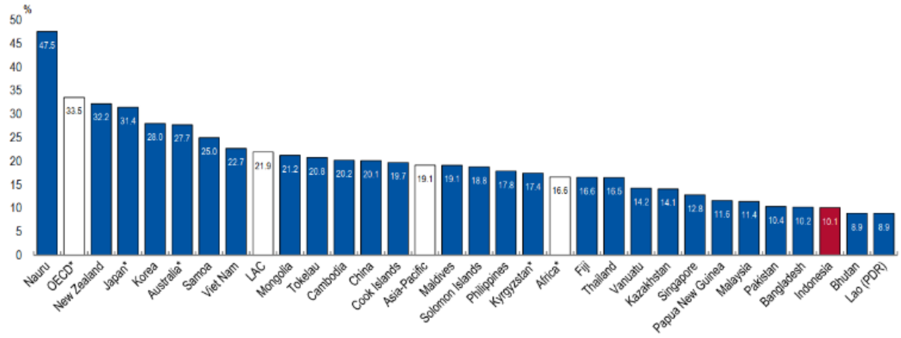
ABSTRACT: Developments regarding taxes in the national and international scope are exciting issues to follow. In carrying out its duties, the government's efforts to optimize tax revenue often conflict with companies. This study looked at 109 companies in the banking sector spread across ASEAN countries to analyze tax aggressiveness. Based on the findings, it can be concluded that the president director of publicity negatively affects tax aggressiveness. However, political connection do not affect tax aggressiveness. Similarly, leverage as a moderation variable in this study has the result of neither strengthening nor weakening the effect of president directors, publicity, or political connection on tax aggressiveness. Ultimately, this research can contribute to tax aggressiveness, which can be affected not only by the company's financial and internal factors but also by external factors, especially the general public, even though they have no interest in the company.

KEYWORDS: Tax Aggressiveness, President Director Publicity, Political Connection, Leverage

I. INTRODUCTION

The government considers tax to be a levy with companies, institutions, or organizations as taxpayers. The government needs tax revenue to finance various government functions and provide public goods such as infrastructure, education, and various other things to improve the welfare of its people (Mankiw, 2021). Government efforts in optimizing tax revenue often conflict with companies, wherein the company's view of tax is one of the factors that require consideration in the company's decision-making process (Amri et al., 2023) because tax is one of the most significant business costs incurred by a company and has an impact on profitability, internal companies, and shareholders.

Developments regarding taxes in the national and international scope are exciting issues to follow. Issues related to agreements, implementation, and problems are increasingly at the center of public attention. Globally, the crisis faced by developing countries today significantly regresses each country; it indirectly impacts state taxation, as happened in Indonesia. The taxation ratio in 2020 in Indonesia was 10.1%, below the Asia Pacific average of 19.1%. Based on empirical evidence on the official website (CNBC, 2020), in 2017 Indonesia, IDR 1,147 trillion or 89.4% of the tax revenue target set by the state budget was realized at IDR 1,283 trillion. In 2018, it was realized at 1,315.9 trillion or 92% of the tax revenue target of Rp 1,424.0 trillion. Meanwhile, in 2019, tax revenue was realized at Rp 1,332.1 trillion, or 84.4% of the tax revenue target set by the state budget of Rp 1,557.6 trillion.



* The 2019 Africa (30) average is shown. The 2020 average for Asia-Pacific (28) and the OECD is calculated using 2019 data for Australia and Japan. For Australia and Japan the 2019 data are shown as 2020 data are not available. Note by the ADB: The ADB recognises "Kyrgyzstan" as the "Kyrgyz Republic".

Figure 1. Asia Pacific Country Tax Ratio in 2020

Source: Organisation for Economic Co-operation and Development

In 2020 (DJPbKemenkeu, 2021), audited Central Government Financial Statement data showed the realization of total tax revenue of IDR 1,285.2 trillion from the stipulated IDR 1,404.5 trillion. Based on these data, the realization of tax revenue is classified as increasing, but in the case of achieving the target set by the APBN, tax revenue is not achieved in the ratio every year. The same thing happened to other developing countries, where the International Monetary Fund estimated global revenue losses to be around USD 600 million (Kurauone et al., 2021). This is also supported by information from (World Bank, 2022), which states that tax revenue in 2020 decreased by 12% globally and by 15% in low and lower-middle-income countries.

Last February 2015, Europe was shocked by a taxation-related case conducted by HSBC Switzerland (Liputan6, 2015), where HSBC Switzerland allegedly aggressively helped its customers default taxes and provided advice on how to avoid tax authorities in each country. As compiled in the International Consortium of Investigative Journal (ICIJ), HSBC Switzerland hosts over USD 100 billion of 106 thousand clients across 203 countries. Not only that, in 2022, there was a case in the banking sector in Indonesia for tax engineering by PT Bank PAN Indonesia (Panin) Tbk, where Mu'min Ali Gunawan as the owner of PT Bank PAN Indonesia (Panin) Tbk was charged by prosecutors with giving bribes to tax officials worth IDR 5 billion out of a total of IDR 25 billion if they could cut Bank Panin's tax obligations to the state by more than IDR 600 billion (Kompas.com, 2022).

Recently, many studies have focused on tax compliance behavior in periods of fiscal depression (Barros & Pádua, 2019; Lois et al., 2019) and how tax compliance behavior can affect government incentive measures because, for developing countries, interactions regarding political connection are more valuable for companies in developing countries than for developed countries (Conyon et al., 2015; Fralich & Fan, 2018). Similarly, the debate about tax aggressiveness, corporate tax compliance behavior, and governance has always attracted the attention of many researchers and practitioners, where it is considered part of corporate social responsibility and how it interacts with the company's stakeholders (Boussaidi & Hamed-Sidhom, 2021).

Several studies (Halioui et al., 2016; Kim & Zhang, 2016; Setyastrini et al., 2022) documented that political connection have the potential to be very good for companies in providing preferential access to finance and governance. First, politicians who provide protection and connect to companies in detecting tax collection risks can lead to a low tax burden expected by tax authorities. Second, previous research has shown that politically connected companies have better access to capital, and if there is fraud, they will see lighter sanctions. Third, political connection can reduce costs due to aggressive taxes. Therefore, politically connected companies can be more aggressive in tax planning because their relationships can reduce concerns about costs and sanctions.

Upper Echelon Theory shows that personality characteristics can affect decisions related to companies and reflect their priorities and executive values. There are several personality characteristics in leadership literature, namely narcissism (Capalbo et al., 2018), reputation (Francis et al., 2008), and characteristics (García-Meca et al., 2021). Research conducted by (Aktas et al., 2016; Capalbo et al., 2018; Ge et al., 2011; Graham et al., 2013) found that top managers who are concerned with their careers and futures tend to exercise more dominant control, develop highly dynamic and excessive strategic initiatives and tend to engage in tax avoidance because they have high self-entitlement, exploitative, and lack of moral sensitivity. This study examines the publicity of president directors as a new perspective of the characteristic part of president directors and its effect on corporate tax avoidance behavior. According to (Chatterjee & Pollock, 2017), one of the main shortcomings in the literature on publicity is the lack of topics that discuss publicity, and researchers tend to focus their attention more on the direct relationship between publicity and the results of companies without analyzing the mechanism that moderates it, so in this study the moderation that will be used as leverage.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

A. Positive Accounting Theory

Positive accounting was first done by William H. Beaver (1968) with the publication of an article entitled "The Information Content of Annual Earnings Announcements." Positive accounting is a widely recognized perspective in academia where the most significant thrust of positive accounting theory is to explain (done according to the suitability of observations to the real world) and forecast the choice of management standards through the analysis of the costs and benefits of certain financial disclosures about various individuals and the allocation of economic resources (Scott, 2015). Positive accounting theory focuses on explaining and understanding accounting phenomena that occur through observing empirical data, and the results will be used to predict accounting practices with further observations of future events (Kim & Zhang, 2016).

In positive accounting theory, it is explained that companies have the freedom to choose alternative accounting policies to minimize contract costs and maximize the company's value. Multinational companies have a more significant opportunity to engage in tax avoidance practices because, in geographical flexibility, multinational companies can utilize income and expenses for state tax rates (Kurauone et al., 2021). Tax evasion and tax avoidance activities are difficult to predict and track in countries worldwide because the complexities and illegalities of tax evasion exist in almost all jurisdictions.

B. Upper Echelon Theory

Upper echelon theory was first introduced by (Hambrick & Mason, 1984), where this theory considers top management as the leading strategic decision maker in the organization. Ideas in decision-making by senior management or echelon (upper echelon) of the company can affect the results and practices carried out by the company because from the characteristics of executives indirectly have overall operational responsibility, then what they do and how they do it will have an impact on the results that the company will obtain.

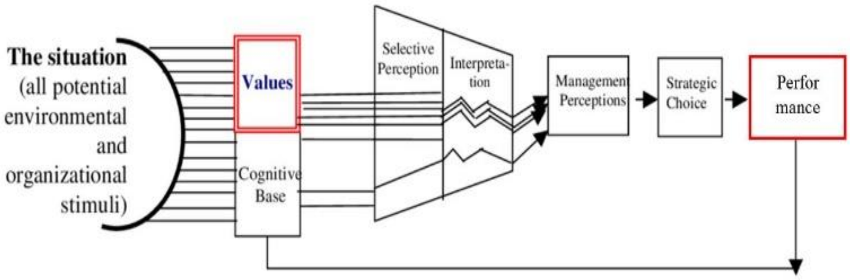


Figure 2. The Perspective Upper Echelon Theory
Source: Hambrick & Mason, 1984

There are several personality characteristics in leadership literature, namely narcissism (Capalbo et al., 2018), reputation (Francis et al., 2008), and characteristics (García-Meca et al., 2021). Figure 2 explains the perspective of Upper Echelon Theory, where company performance is focused on top management values and can be seen from the aspects of age, functional experience, and education that influence good and bad decisions taken for the company.

C. President Director Publicity

Top Management influences tax avoidance that company-level characteristics cannot explain. Top Management, especially the company's president and director, can have high publicity if it can increase market expectations. (Zhu & Chen, 2015) argue that the president director holds responsibility for corporate tax strategy, including determining the level of corporate tax avoidance. When it is challenging to meet investor expectations (Duan et al., 2018), they may use aggressive tax planning strategies to reduce the company's tax burden. The cost of tax deductions made by the company can be an added capital (profit value) for the company that can be used in terms of company operations.

H1a: President director's publicity has a positive effect on tax aggressiveness.

On the other hand, tax avoidance can harm the company and all of its resources. As well as the consequences of tax avoidance, it can result in a high probability of tax audits and will lead to fines and interest by tax authorities (Duan et al., 2018). When tax authorities identify tax avoidance, president directors' publicity will impact credibility and future career opportunities. The president director of a company may suffer from a decline in social status and image in the future.

H2b: President director's publicity has a negative effect on tax aggressiveness.

D. Political Connection

In the business world, political connection have a close relationship, especially in the current era, it is undeniable that some social (economic) activities cannot be separated from political nuances. The political connection that the company has can indicate if the company receives preferential treatment both in terms of investment and taxation. This is inseparable from the issue of the relationship, which intends to facilitate an interest such as ease of access to obtain capital and can minimize the risk of tax audits. In companies, political connection can be measured through analysis of significant shareholders, company leaders, and boards of commissioners who have close ties or involvement either as parliament members, ministers, government officials, including military officers, or have relationships with politicians or political parties (Kim & Zhang, 2016). This political connection is made by placing parties who have close ties with the government so that the government has a connection to the company's organizational structure and can bring unique resources to the company, such as expansion to more market shares (Conyon et al., 2015; Du et al., 2014), more accessible access to capital markets and bank lending (Boubakri et al., 2012; Wu et al., 2012). Because of this, the company will try to maintain resources that can be obtained through political connection.

H2: Political connection have a positive effect on tax aggressiveness.

E. Leverage as Moderation

High leverage indicates the company's high obligations to external parties. Good corporate governance can play a role in controlling debt use policies to pay attention to the risks of debt use. Good governance must be distinct from the role of top managers in controlling and supervising the company. The image built by the top manager, in this case, the president directors in a company, will affect how the company can make loans to external parties. The better the reputation and president directors' publicity in the company in the eyes of the public, the higher the president directors use related services related to borrowing debt from external parties. This will strengthen the company in tax avoidance, where the president director will more readily take liquidity policies to focus on aggressive corporate tax planning. Just like leverage, which is the level of debt used by the company in terms of financing, if the company has a large enough debt (in this case, the company has a capital structure ratio limit of 4:1), then the company will feel worried about the recognition of its debt and will find a way out to minimize the risk.

(Claessens et al., 2008; Li et al., 2008) Their research found that politically connected companies find it easier to get credit from banks or other institutions because the protector or closest person in the political connection helps the company obtain loans. Political connection has a positive and negative effect on a company's economic performance. Thus, leverage can encourage companies to use their connection to the government to avoid tax.

H3: Leverage moderates the relationship between president director's publicity, and tax aggressiveness.

H4: Leverage moderates political connection and tax aggressiveness.

III. RESEARCH METHODS

This research includes quantitative research with secondary data, empirically examining ASEAN member countries (Indonesia, Brunei Darussalam, Malaysia, Thailand, Singapore, Philippines, Vietnam, Laos, Myanmar, and Camboja) regarding tax aggressiveness. This study's independent variables were President directors, publicity, and political connection. This study uses a sample of banking company panel data for 4 years, namely from 2019 to 2022, from the company's annual report, which produces 109 samples of banking companies spread across ASEAN. A purposive sampling method was used in this study to collect secondary data from the company's annual report, which can be downloaded through each country's stock exchange or the company's official website. Furthermore, the sample criteria selected in this study are companies that report annual reports and audited financial statements, companies that have never been delisted or liquidated, and companies that have never made acquisitions, mergers, restructurings, or changes in business groups.

The number of data collected from selected samples that can be observed is 345. This study focuses on a quantitative approach because it assesses the influence of president directors, publicity, and political connection on tax aggressiveness. Table 1 below describes all variables included in the study. Data samples were collected using Microsoft Excel and EViews 12 software, which were then used to perform regression analysis of the panel data collected to produce information. To overcome the outlier effect of research data in estimation models and to estimate normal distributions, all variables are considered significant at a 95% percentile or probability value (p-value) below a score of 0.05 (Chams et al., 2021).

Table 1. Description of Variable Measurement

Variable	Indicator	Proxy	Source
Tax Aggressiveness	Effective Tax Rate	The percentage result of the comparison between the amount of tax expense and profit before tax Comparing ETR results with the statutory tax rate in country *i* and calendar year *t*	(Armstrong et al., 2012; Dyreng et al., 2010)
President Directors Publicity	Search Volume Index	The average SVI score of a president director in the calendar year t by searching for the name of the president director and/or stock ticker of the company on Google Trends	(Duan et al., 2018)
Political Connection	Dummy	Give a value of 1 if the structure of the top manager (one of the directors) has political relations with state officials or former state officials, government officials, or former government officials, and a value of 0 if vice versa.	(Fan & Chen, 2022)

Leverage	Debt to Equity Ratio	The percentage result of the comparison between the amount of liability and equity.	(Paramita et al., 2023)

This study also uses theoretical equations as a model for panel data regression analysis and moderated regression analysis proposed as follows:

Model 1: President director's publicity and political connection on tax aggressiveness without moderation

$$TA = \alpha + \beta_1 PDP + \beta_2 PC + \varepsilon \quad (1)$$

Model 2: President director's publicity and political connection on tax aggressiveness with leverage as moderation

$$TA = \alpha + \beta_1 PDP + \beta_2 PC + \beta_3 LV + \beta_4 BODP^{*}LV + \beta_5 PC^{*}LV + \varepsilon \quad (2)$$

Where: α : constant; β : regression coefficient; TA : tax aggressiveness; PDP : president director's publicity; PC : political connection; LV : leverage

IV. ANALYSIS AND DISCUSSION

A. Descriptive Statistics

Based on Table 2, the average TA in Indonesia is 26% and is above the country's statutory tax rate of 22%; Brunei has a value of 13% for the average TA, which is below the statutory tax rate of 18.5%, the average Myanmar TA is 22% which is equal to the value of the statutory tax rate in the country. Singapore has a value of 13% for the average TA, which is below the value of Singapore's statutory tax rate of 17%. Cambodia has a value of 23%, and the average value of the TA is above the statutory tax rate value of 20%. In comparison, Laos has an average value of TA of 20%, which is equal to the value of the statutory tax rate in the country. The average value of TA in Malaysia is 17% and lower than the statutory tax rate in the country, which is 24%. Thailand has an average value of TA of 16%, below the Thai statutory tax rate of 20%. In comparison, the average value of TA in the Philippines is 20%, below the Philippines' statutory tax rate of 25%. In comparison, Vietnam has an average value of 19%, which shows that Vietnam has an average TA score below the country's statutory tax rate of 20%.

Table 2. Descriptive Statistical Analysis

Country		PDP	PC	LEV	TA
Indonesia (n = 125)	Mean	50.84	0.65	5.36	0.26
	Minimum	8.76	0.00	0.13	0.00
	Maximum	91.34	1.00	16.07	0.91
	Std. Dev.	14.76	0.47	2.98	0.12
Brunei Darusallam (n = 5)	Mean	59.06	0.80	6.79	0.13
	Minimum	47.88	0.00	6.06	0.08
	Maximum	80.90	1.00	6.79	0.13
	Std. Dev.	13.35	0.44	0.70	0.03
Myanmar (n = 19)	Mean	46.68	0.21	9.96	0.22
	Minimum	8.76	0.00	1.36	0.10
	Maximum	86.01	1.00	29.68	0.51
	Std. Dev.	17.01	0.41	8.28	0.08
Singapura (n = 20)	Mean	52.59	0.40	10.32	0.13
	Minimum	21.13	0.00	7.49	0.06
	Maximum	86.01	1.00	13.54	0.20
	Std. Dev.	16.12	0.50	1.76	0.03

Cambodia (n = 28)	Mean	40.70	0.32	5.61	0.23
	Minimum	19.95	0.00	0.01	0.01
	Maximum	65.57	1.00	14.76	0.63
	Std. Dev.	14.49	0.47	3.68	0.11
Laos (n = 12)	Mean	50.30	0.25	15.71	0.20
	Minimum	13.92	0.00	9.58	0.09
	Maximum	66.90	1.00	31.00	0.40
	Std. Dev.	14.83	0.45	6.46	0.07
Malaysia (n = 41)	Mean	48.95	0.48	6.66	0.17
	Minimum	24.36	0.00	0.00	0.00
	Maximum	86.01	1.00	14.13	0.48
	Std. Dev.	10.57	0.50	4.61	0.12
Thailand (n = 38)	Mean	51.82	0.21	7.35	0.16
	Minimum	30.84	0.00	0.31	0.01
	Maximum	66.90	1.00	10.73	0.25
	Std. Dev.	8.64	0.41	2.33	0.05
Philippines (n = 25)	Mean	55.03	0.36	10.24	0.20
	Minimum	21.13	0.00	0.93	0.00
	Maximum	83.17	1.00	18.64	0.53
	Std. Dev.	17.03	0.48	4.90	0.10
Vietnam (n = 32)	Mean	51.81	0.40	13.38	0.19
	Minimum	30.84	0.00	6.98	0.19
	Maximum	70.72	1.00	21.28	0.20
	Std. Dev.	9.25	0.49	4.27	0.00

Source: EViews 12 Data

B. Correlation Results

The results of Table 3 analysis below show the results of panel data regression using Common OLS Model Analysis of all variables proposed in model 1 with the number of observation panels (n) as many as 345. Based on the regression results of Table 3, the p-value (prob.) value is below the score of 0.05 and has a negative coefficient value for the president director of publicity measured by SVI. This means that a one-time increase in the president director publicity score can cause a tax decrease of 0.1% because publicity has an incremental effect on corporate tax avoidance activities (Duan et al., 2018). In the end, a significant negative coefficient is consistent with the assumption that the president director's publicity of a company can have a negative effect on the company and the personal of the president director himself for tax aggressiveness in lowering the effective tax rate. Overall, researchers obtained supportive results for H1b while H1a was rejected, meaning that president directors with higher publicity significantly engage in tax avoidance activities.

Table 3. Common OLS Model Analysis

Variable	Expected Sign	Coefficients	t Value	P Value
Constant	?	0,263	11,588	0,000
PDP	-	-0.001	-2,544	0,014**
PC	+	0,017	1,512	0,131
Sample Size				345
F Value				4,362

Prob F	0,013
R-squared	0,024
Adj R-squared	0,019

Note: *** indicate 1% sig. level; ** indicate 5% sig. level

Meanwhile, the results of Table 3 analysis show that the political connection variable does not influence tax aggressiveness, so the H2 hypothesis is rejected. This means that even if a company with a political connection has an increase in score or not, it will not have any influence on tax planning. Political connection can provide benefits for companies. However, companies need to think about the relationship to the impact that will occur to maintain the principle of going concern. In addition, political connection can give a bad image to the company, resulting in a decrease in the level of stakeholder trust and causing losses. This can illustrate that if the company has political connections, it will not necessarily increase its tax aggressiveness.

The structured supervision system makes management work by the principles of good corporate governance and avoids prioritizing the interests of management. Good supervision can reduce the opportunistic behavior of management so that agency problems can be reduced. Moreover, in Indonesia, the Financial Services Authority (OJK) regulates and supervises financial services activities in the banking sector, and there are also ASEAN Finance Ministers within the scope of ASEAN. Departing from this thinking, the scope of banking is one of the sectors that must be obeyed concerning taxation and is not allowed to carry out practices that violate applicable regulations.

C. Moderated Regression Analysis (MRA) Results

Based on the results of Table 4, below are the results of the Moderated Regression Analysis of all variables proposed in model 2. It can be seen that the LV variability (leverage) as a moderation variable has a sig value. by 0.567 > 0.05. The relationship between leverage as moderation between the president director of publicity and tax aggressiveness has a sig value. 0.379 > 0.05. This means that the large leverage owned by the company will not trigger the president director, whose level of publicity is large in the eyes of the public, to carry out tax aggressiveness. Meanwhile, leverage as a moderation between political connection and tax aggressiveness has a value of 0.534 > 0.05.

Table 4. Moderated Regression Analysis (MRA)

	N	Model 1			Model 2			Model 3		
		B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)		0.264	11.589	0.000	0.267	10.574	0.000	0.246	6.134	0.000
PDP	345	-0.001	-2.545	0.011**	-0.001	-2.551	0.011**	-0.001	-0.777	0.438
PC	345	0.018	1.513	0.131	0.017	1.434	0.152	0.006	0.257	0.797
LV	345				0.000	-0.346	0.730	0.002	0.573	0.567
PDP*LV	345							-6.752	-0.882	0.379
PC*LV	345							0.002	0.622	0.534

Note: *** indicate 1% sig. level; ** indicate 5% sig. level

The results of this study contradict the trade-off theory, which assumes that debt can be used as tax savings by utilizing interest expenses. In contrast, leverage in this study has no effect that can strengthen or weaken the president director's publicity or political connection to tax aggressiveness. Companies with high debt levels do not necessarily use tax incentives such as interest expenses to reduce taxable income. This can also be caused by regulations regarding the financial health status companies must comply with so that managers pay more attention to the company's debt use policies (Deng et al., 2020).

CONCLUSION

In this study, researchers used the search volume index (SVI) of the full name of the president director and/or stock ticker of the company provided by Google Trends to measure the president director's publicity and examine its effect on tax aggressiveness. This study shows that president directors of publicity have a significant negative influence on tax aggressiveness, which supports the researchers' H1b hypothesis that president directors with high publicity tend to use tax aggressiveness to increase profits, which can have a detrimental impact on the company and all resources contained in the company.

Other results show that political connection does not influence tax aggressiveness. Political connection can provide benefits for companies. However, companies need to think about the relationship to the impact that will occur to maintain the principle of going concern. Not only that, but in Indonesia itself, the Financial Services Authority (OJK) regulates and supervises financial services activities in the banking sector, and there are also ASEAN Finance Ministers within the scope of ASEAN. Leverage as a moderation variable in this study obtained results that neither strengthened nor weakened the relationship between the president director of publicity and political connection to tax aggressiveness. Companies with high debt levels do not necessarily use tax incentives such as interest expenses to reduce taxable income. This can also be caused by regulations regarding the financial health status companies must comply with so that managers pay more attention to the company's debt use policies (Deng et al., 2020).

This study has limitations, as the research sample only consists of the banking company sector, which means that the results of this study may not apply to companies in other sectors and not in other regional scopes, considering that this study examines within the scope of ASEAN. Regarding the direction of future research, this study offers several suggestions. First, future research can examine how intervening relationships between variables consider the suggestions of previous researchers (Duan et al., 2018). Research topics on publicity still need to be widely done. Second, future studies could examine how industry or company characteristics influence tax aggressiveness, given that president directors with characteristics that attract more public attention may be more critical in some industries than others.

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