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Political connection and tax aggressiveness: A study on the state-owned enterprises registered in Indonesia stock exchange

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Abstract. This study aims to analyze the effect of political connection in the board of directors and board of commissioners on tax aggressiveness in the State-Owned Enterprises listed in Indonesia Stock Exchange. The analysis results show that the political connection between the board of directors and the board of commissioners negatively affects tax aggressiveness. It indicates that state-owned enterprises tend to avert tax aggressiveness. The state-owned enterprises which have political connection incline toward the compliance with the prevailing taxation regulation to enhance their image as obedient taxpayers. Although there is a political connection established with the government and parliament, the board of directors and board of commissioners do not take it into their own advantages regarding taxation. That indicates how state-owned enterprises tend to uphold government's work plan in relation with tax revenue. Furthermore, the finding of this research signals the effectiveness of monitoring by the independent commissioner in order to synchronize the interest of the board of directors and the board of commissioner in terms of taxation for the long-term objectives of the company.

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1. INTRODUCTION

Tax is one of the important elements of the state revenue. In Indonesia, tax contributes 70%-80% of the state revenue in the last five years. Tax is used to fund governmental activities and the national development for the people wellbeing. Therefore, every citizen must fulfill their tax obligation under the regulation in force.

The Government of Indonesia maintains their effort in maximizing the state revenue in the tax sector by conducting more comprehensive policy reformation and tax administration. However, companies as taxpayers always attempt to pay tax as minimum as possible (Midiastuty, Eddy, Madani, & Rahmi, 2016). Companies assume tax as an expense that reduces net profit or wealth transfer to the company owner. In other words, the higher the income a company receives, the higher the tax imposed. Consequently, the companies always make attempts to pay tax as minimum as possible to gain maximum net profit. One means to minimize tax is by tax aggressiveness (Hanlon & Slemrod, 2009).

Tax aggressiveness, tax avoidance, tax management, and tax sheltering are interchangeable terms (Richardson, Taylor, & Lanis, 2013). Different from tax evasion which is illegal as it violates tax regulation in force, tax aggressiveness is a legal act of tax avoidance (Hanlon & Heitzman, 2010). This endeavor is carried out by looking for a gap in a taxation regulation. The company may utilize deduction and permitted exclusion, hence no regulation is violated (Mangoting, 2004). Although hurting the state because the state income is decreasing, the government cannot forbid the practice of tax aggressiveness (Hardianti, 2014).

Li, Wang, Wu, & Xiao (2016) state that tax aggressiveness may be affected by the political connection. According to Faccio (2010), a company is assumed to have a political connection if the controlling shareholder or the president director serves as a parliamentary or governmental member, a king or a president of a state, or a leader or member of political parties. In Indonesia, the political connection is generally exercised in state-owned enterprises, carried out by placing people who have a close relationship with the government into a company organization structure, either board of directors or board of commissioners (Pranoto & Widagdo, 2016). For example, an expert staff of Minister of State-Owned Enterprises (2013-2014), Achiran Pandu Djajanto, was appointed the director of PT Jasa Marga Tbk (Sulistiyono, 2015). As another instance, Pataniari Siahaan, a member of study center of the People's Consultative Assembly of Republic of Indonesia (MPR-RI) in the period of 2015-2019 and a cadre of a government's coalition party was designated the commissioner of PT Bank Negara Indonesia Tbk (Sanusi, 2015).

Numerous previous researches reveal that political connection owned by the board of commissioners and the board of directors affects tax aggressiveness positively (Leuz & Oberholzer-Gee, 2006; Agarwal, Duchin, & Sosyura, 2012; Balakrishnan, Blouin, & Guay, 2012; Wu, Wu, Zhou, & Wu, 2012; Hill, Kubick, Lockhart, & Wan, 2013; Brown, Drake, & Wellman, 2015; Houston, Jiang, Lin, & Ma, 2014; Butje & Tjondro, 2015; Francis, Hasan, Sun, & Wu, 2016; Kim & Zhang, 2016; Milyo, Primo, & Groseclose, 2017). Companies make use of the political connection to obtain advantages for their business (Brown, Drake, & Wellman, 2015; Francis, Hasan, Sun, & Wu, 2016). Within a taxation context, a political connection may provide access for companies to obtain better information about taxation regulation changes in the future (Milyo, Primo, & Groseclose, 2017). Such information is exercised by the companies to conduct tax avoidance more aggressively. Moreover, the risk of inspection faced by the company is relatively low since politically connected-companies receive protection from the government (Leuz &

Oberholzer-Gee, 2006; Hill, Kubick, Lockhart, & Wan, 2013). Hence, a pressure to perform transparent financial statement is low as well (Balakrishnan, Blouin, & Guay, 2012). This condition affects the company negatively because it reflects a less satisfactory company performance towards the investors. However, the company pays less attention to this matter as the emerging negative consequences can be reduced or even avoided through political connection (Butje and Tjondro, 2015). Moreover, companies that establish political connection gain easier access to obtain a capital loan with extended credit limit when the investor funds are unavailable (Houston, Jiang, Lin, & Ma, 2014). This is possible since the lender obtains a warranty for a bridging fund from the government connected to that company in the event of a financial crisis (Argawal, Duchin, & Sosyura, 2012). Consequently, with their privilege, companies with political connection tend to possess a higher level of tax aggressiveness (Kim & Zhang, 2016).

Different from the previous researches, Pranoto & Widagdo (2016) find that political connection negatively affects the tax aggressiveness. State-owned companies tend to avoid the practice of tax aggressiveness (Zhang, Li, & Jian, 2012). By political connection, such companies are relatively more careful in making a decision, particularly those related to the taxation regulation. It is done to enhance the companies image as an obedient taxpayer (Lestari & Putri, 2017). Furthermore, in accordance with the regulation of the Minister of Finance No. 71/PMK.03/2010, companies with central and/or local government as the controlling shareholder is categorized as low-risk taxpayers. That regulation indicates that the government places a trust in the companies, presuming they will not carry out tax aggressiveness (Mulyani, 2014).

The inconsistency in the studies results may be affected by some factors, such as different regulation between countries and between the period of the studies, different observed variables, and measurement of the variables used (particularly the variables of political connection and tax aggressiveness). Most of the previous researchers applied nominal scale (dummy variable) to measure the variable of political connection. Whereas, in this research, the political connection is measured by using the proportion between the number of the board of commissioners or board of directors of the companies having a political connection with the government, political parties, and parliament members, and a total number of the board of directors or board of commissioners of the corresponding companies. Furthermore, in most of the previous studies, tax aggressiveness was measured by using Effective Tax Rate (ETR), GAAP ETR, and Cash ETR. Whereas, in this research, tax aggressiveness is measured by using Abnormal Book-Tax Differences (ABTD), obtained from the residual value of the regression of Book-Tax Differences estimation model (Tang & Firth, 2012). ABTD is considered more accurate in measuring tax aggressiveness as it has information that may disclose the difference in book value between accounting profit and fiscal profit managed by the company management. In other words, the larger the difference emerging between the accounting profit and the fiscal profit, the higher the value of ABTD. It indicates that the company is more aggressive in performing tax avoidance. Based on the mentioned practical and empirical phenomena, the researchers were motivated to analyze the relationship between a political connection and tax aggressiveness in the state-owned enterprises listed in Indonesia Stock Exchange. The subsequent section explains about the theoretical framework and the hypotheses, and the discussion regarding the research methodology. The result of the study and the conclusion are discussed in the latter part of this paper.

2. LITERATURE REVIEW

2.1. Theoretical background

The relevant theories used to describe the relationship between variables in this study are the agency theory and grabbing hand theory. Agency theory explains the contract between one or more individuals who have an interest (generally called the principle) with other individuals who assume the responsibility to implement that interest (normally called the agent). The implementation of this contract will lead to what is usually named as the agency cost. Agency cost is a cost paid by a principle to ensure that the agent acts in accordance with the principle's interest. However, in the agency theory, there is an assumption that every individual, either the principal or the agent, has a motivation to prosper themselves, establishing a conflict of interest between them (Jensen & Meckling, 1976).

Grabbing Hand Theory explains that bureaucrats occupy their governmental function to gain advantages to improve their personal well-being. This theory states that bureaucrats are controlled by the politically connected-companies since they gain advantages from those companies. Consequently, the bureaucrats whose duties are supposed to ensure the compliance of the regulation in force, lose their power to maintain such order (Shleifer & Vishny, 2002). The relationship between variables in this research may also be explained by the grabbing hand theory, where a government is controlled by companies with a political connection. In order to increase personal well-being, some of the government officers are proven accepting gratification from the company. As a result, the government provides protection and other facilitations for such company to perform tax aggressiveness.

A company is considered having a political connection if at least one of the chairs of the company (CEO, COB, president, vice president, or the secretary) or the majority shareholder (anyone who owns at least 10% of the company voting rights) is the head of a state (president, king, prime minister), minister, or a member of a parliament (Faccio, Masulis, & McConnell, 2006). Moreover, other research discovers that a company is deemed having a political connection if its controlling shareholder or president director assumes a position in the parliament or government, serves as a king or president of a state, leader of a political party, or a member of a political party (Faccio, 2010). Whereas in a research conducted by Wu, Wu, Zhou, & Wu (2012), a company has a political connection if the CEO of such company is an incumbent official or once served in either central or local government, or in the military.

Frank, Lynch, & Rego (2009) define tax aggressiveness as manipulation of taxable income by tax planning, either legally or illegally. Illegal tax planning is called tax evasion (Frank, Lynch, & Rego, 2009). Other scholars state that tax aggressiveness is a scheme or a plan which aims at avoiding tax (Lanis & Richardson, 2011). In line with the definitions above, Hanlon & Heitzman (2010) specify that tax aggressiveness is a conduct to reduce tax. Such effort is legal as it is performed by exploiting the gap within the regulation on taxation. Consequently, tax aggressiveness may be used interchangeably with tax avoidance, tax management, and tax sheltering (Richardson, Taylor, & Lanis, 2013).

2.2. Hypotheses Development

2.2.1. The effect of directors political connection on tax aggressiveness

Kim & Zhang (2016) argue that tax aggressiveness may be affected by a political connection. Being privileged, companies with the political connection are proven to possess a higher level of tax aggressiveness (Kim & Zhang, 2016). In Indonesia, the political connection is commonly enjoyed by State-Owned Enterprises, exercised by designating people who people who have a close relationship with the government into a company organization structure, either board of directors or board of commissioners (Pranoto & Widagdo, 2016).

In accordance with the Law No. 47 of 2007 on Limited Liability Company, Indonesia is a country exercising a two-tier system that divides authority between the management and the supervision of a company. Board of directors is authorized to manage a company whose activities are supervised by the board of commissioners, thus requiring their performance to be appraised as excellent. Satisfactory performance of the board of directors can be observed from the net income generated by a company. By high net income, the board of directors will receive incentives in the form of bonus and remuneration. On the other hand, the high net income of a company also leads to a huge amount of tax imposed on the company. Consequently, the board of directors seeks attempts to minimize the amount of tax payable. As the company organizer, the board of directors retains more information for they are directly involved in the company activities. That information is organized to scheme an aggressive tax avoidance for personal advantages. Based on that descriptions, the hypothesis in this study is formulated as follow:

H_1: The political connection in the board of directors positively affects tax aggressiveness in State-Owned Enterprises.

2.2.2. The Effect of Political Connection in the Board of Commissioners on Tax Aggressiveness

The board of commissioners is responsible for supervising and guiding the boards of directors. The board of commissioners will ensure that the company is well-managed and prevents actions which potentially harm the company. It is confirmed by a study by Meilinda and Cahyonowati (2013) clarifying that a company becomes more careful and attempts to adhere to the taxation regulation in force in carrying out its activities. Accordingly, the board of commissioners may prevent tax aggressiveness to take place. That finding is also validated by Pranoto and Widagdo (2016) who prove that there is a negative correlation between political connection and tax aggressiveness. Grounded on the descriptions above, another hypothesis in this study is formulated as follow:

H_2: The political connection in the board of commissioners negatively affects the tax aggressiveness in State-Owned Enterprises.

3. METHODOLOGY

The data of this study were collected by documenting the secondary data obtained from Indonesia Stock Exchange website, State-owned Enterprise website, and other websites related to the research variables. The purposive sampling method was applied in this research. The criteria used in was the BUMN Companies listed in Indonesia Stock Exchange and published complete annual reports from 2012 until 2016. The dependent variable of this research is tax aggressiveness. Referring to the research of Tang and Firth (2012), the variable of tax aggressiveness was measured by using Abnormal Book-Tax Differences (ABTD) obtained from the residual value of regression of Book-Tax Differences (BTD) estimation model. The following is the measurement method to generate the value of ABTD:

$$\boldsymbol{BTD_{it} = \beta_0 + \beta_1 \Delta INV_{it} + \beta_2 \Delta REV_{it} + \beta_3 NOL_{it} + \beta_4 TLU_{it} + \beta_5 BTD_{it-1} + \varepsilon_{it}}$$

Description	:	
BTD_{it}	:	The difference in profit before tax and the company *i*'s taxable income, in year *t*
ΔINV_{it}	:	The change of company *i*'s a gross fixed asset in year *t-1* until year *t*' divided by the total assets in year *t*
ΔREV_{it}	:	The change of company *i*'s income in year *t-1* until year *t* divided by the total assets in year *t*

NOL_{it} : The change of the compensation value of loss used by company *i* in year *t-1* until year *t* divided by the total assets in year *t*

TLU_{it} : The compensated loss values which used by company *i* in year *t* divided by the total assets in year *t*

BTD_{it-1} : Book-Tax Differences of company *i* in year *t-1* divided by the total assets in year *t*

ε_{it} : Abnormal Book-Tax Differences (ABTD) of company *i*.

The independent variable in this research is political connections in the board of directors and the board of commissioners. In reference to the researches of Faccio, Masulis, & McConnell (2006); Faccio, (2010); Wu, Wu, Zhou, & Wu (2012); Kim & Zhang (2016), the board of directors and board of commissioners are deemed having political connection if at least one member of the boards serves as a government official, either in central or local government (or a former state official), a parliament member, a leader of a political party, or a political party official. The data of political connection was acquired by observing the biography of the member of those boards in the annual report and websites of Indonesian Ministries, local administrations, and political parties. Different from several previous studies applying nominal scale, the following proportion (scale ratio) was employed to measure the variable of political connection.

The proportion of the Board of Directors

$$PC\_DIR = \frac{The\ Number\ of\ Political\ Connection\ of\ the\ Board\ of\ Directors}{Total\ Board\ of\ Directors}$$

The proportion of Board of Commissioners

$$PC\_COM = \frac{The\ Number\ of\ Political\ Connection\ of\ The\ Board\ of\ Commissioners}{Total\ Board\ of\ Commissioners}$$

The controlling variables in this research are return on assets, leverage, and company size. Return of asset is a ratio used to display a company's ability in generating profit based on the owned assets. Consistent with Kim and Zhang (2016), the return of asset was calculated by dividing the net profit by the total assets. Leverage is a ratio used to measure the size of the leveraged assets. The value of leverage was calculated by dividing the total debts by the total assets (Kim & Zhang, 2016). Company size is the size classification of a company based on the company's total assets. Therefore, the company size was measured by the value of total assets.

In this research, the hypotheses were tested by using panel regression analysis. Prior to the analysis, the researchers performed classic assumption tests, comprising of normality, multicollinearity, autocorrelation, and heteroscedasticity tests. The following is the research model used to test the hypotheses.

$$\boldsymbol{ABTD_{it} = \alpha_0 + \alpha_1 PC\_DIR_{it} + \alpha_2 PC\_COM_{it} + \alpha_3 ROA + \alpha_4 LEV_{it} + \alpha_5 SIZE_{it} + \varepsilon_{it}}$$

Description :

$ABTD_{it}$: Abnormal Book-Tax Differences (a proxy of tax aggressiveness) of company *i* in year *t*

PC_DIR_{it} : Political connection in company *i*'s board of directors in year *t*

PC_COM_{it} : Political connection in company *i*'s board of commissioners in year *t*

ROA_{it} : Return on Assets of company *i* in year *t*

LEV_{it}	:	Leverage of company *i* in year *t*
$SIZE_{it}$	:	The company size of company *i* in year *t*
ε_{it}	:	Error term

The robustness test in this research was conducted in three stages. Firstly, we compared two sampling groups, namely State-Owned Enterprises and Non-State-Owned Enterprises. Secondly, we specified the proportion of the board of commissioners by focusing on the board of independent commissioners. The proportion was calculated by dividing the number of the board of independent commissioners having a political connection with the total number of board of commissioners. Thirdly, we conducted model testing by using measurement alternative of Effective Tax Rate (ETR) to measure the variable of tax aggressiveness, with the consideration that such means was frequently used by previous researchers (see Adhikari et al., 2006; Chen, Chen, Cheng, & Shevlin, 2010; Minnick & Noga, 2010; Christopher et al., 2012; Sandy & Lukviarman, 2015).

4. EMPIRICAL RESULTS AND DISCUSSION

The sample of the research is State-Owned Enterprises listed in BEI from 2012 until 2016. After the sampling and preliminary analysis of the data (skewness and kurtosis analysis), eighty-five observations were obtained and analyzed further. The following are the data description and the analysis of inter-variable correlation.

Table 1

Descriptive statistic

	ABTD	PC_DIR	PC_COM	ROA	LEV	SIZE
Minimum	-0.130	0.000	0.000	-0.120	0.350	10.630
Maximum	0.070	0.250	0.740	0.240	0.660	16.730
Mean	0.003	0.016	0.430	0.022	0.286	14.711
SD	0.030	0.073	0.150	0.056	0.175	1.342
ABTD	1.000					
PC_DIR	-0.173	1.000				
PC_COM	-0.272	0.004	1.000			
ROA	0.229	0.057	0.015	1.000		
LEV	0.105	0.175	0.039	-0.210	1.000	
SIZE	-0.157	0.017	-0.212	-0.105	0.284	1.000

Source: Authors own.

Notes: ABTD=Abnormal Book-Tax Differences; PC_DIR=Political Connection in the Board of Directors; PC_COM=Political Connection in the Board of Commissioners; ROA=Return on Assets; LEV=Leverage; SIZE=Company Size.

The result of the descriptive statistic in Table 1 shows that the standard deviation score of ABTD is 0.030, with the minimum score of -0.130, a maximum score of 0.070, and mean of 0.003. These data indicate that in general, State-Owned Enterprises do not perform tax aggressiveness. This is in conformity with the study conducted by Tang and Firth (2012) which reveals that the ABTD score is directly proportional to the level of tax aggressiveness performed by a company. PC_DIR standard deviation score is 0.073, with the minimum score of 0.000, a maximum score of 0.250, and mean score of 0.016. It implies that 1.60% of the board of directors have a political connection, while the remaining 98.40% do not possess such political connection. The standard deviation score of PC_COM is 0.150, with the minimum score of 0,000, a maximum score of 0.740, and mean of 0.430. It suggests that 43.00% of the board of commissioners possess political connection, whereas the other 57.00% is at the opposite. Therefore, the board of commissioners have far more political connection rather than the board of directors. The descriptive analysis of the controlling variable results the mean score of ROA is 0.022. In other words, the companies repeatedly suffer loss. The minimum score of LEV variable is 0.350, with the maximum score of 0.660, and mean of 0.286. Conclusively, it is safe to say that the companies tend to use shareholder loan for funding.

Furthermore, the correlational test result in Table 1 shows that all score of the coefficient of correlation is less than 0.90. It can be concluded that there is no multicollinearity problem between the variables. Moreover, based on the classic assumption test, there is no normality, autocorrelation, and heteroscedasticity problems found (see appendix). Prior to panel regression analysis, the estimation model was selected using Chow test and Hausman test. The analysis results in the F cross-section's p-value of 0.109 and the random cross-section's p-value of 0.903. Therefore, it may be inferred that random effect is the appropriate model.

Table 2

Regression result

Variable	Coefficients	t-value	p-value
Constant)	0.017	0.514	0.609
PC_DIR	-0.094	-2.513	0.014**
PC_COM	-0.046	-2.510	0.014**
ROA	0.145	2.988	0.004***
LEV	-0.040	-2.411	0.018**
SIZE	-0.003	-1.487	0.140
Adj R^2	0.153		
F-*value*	5.350		
Sig.	0.000		

Source: Authors own.

Notes: Statistical significant at the 10%, 5%, 1% level is indicated by *, **, *** respectively. PC_DIR=Political Connection in the Board of Directors; PC_COM= Political Connection in the Board of Commissioners; ROA=Return on Assets; LEV=Leverage; SIZE=Company Size.

The analysis results in Table 2 points out the significant negative effect of political connection in the board of directors on tax aggressiveness by the variable coefficient of regression of -2.513. Therefore, the first hypothesis of this research is not supported. Board of Director is a company organ with the authority of managing a company, under the supervision of the board of commissioners. The result of this study clarifies the effective supervision of the board of directors by the board of commissioners, preventing tax aggressiveness to take place. In addition, the finding indicates that the board of directors carries out conservative conduct in dealing with taxation due to more rigorous tax regulation in Indonesia as the impact of tax reform by the Ministry of Finance, specifically the Directorate General of Taxation. In other words, the risk borne by the company management in the event of a situation or violation of tax law is greater than the benefit or advantage received from tax avoidance.

The next analysis result demonstrates that the board of commissioners' political connection bears a negative effect on tax aggressiveness by the coefficient of regression of -2.510. Consequently, the second hypothesis of the research is supported. The board of commissioners is responsible for supervising and providing suggestions for the board of directors, ensuring the company is properly managed. Moreover, the board of commissioners may prevent conducts potentially harmful for the company, including tax aggressiveness which may damage the company image. Thus, it is indubitable that political connection, either on the board of directors or on the board of commissioners, negatively affects the tax aggressiveness. This result is in contrast to the studies of Wu, Wu, Zhou, & Wu (2012); Hill, Kubick, Lockhart, & Wan (2013); Brown, Drake, & Wellman (2015); Francis, Houston, Jiang, Lin, & Ma (2014); Butje & Tjondro (2015); Francis, Hasan, Sun, & Wu (2016); Kim & Zhang (2016) which find that political connection positively affects tax aggressiveness. However, this result supports the study of Pranoto and Widagdo (2016) which demonstrates that political connection negatively affects tax aggressiveness. This condition occurs due to non-performance of tax aggressiveness by state-owned enterprises (Zhang, Li, & Jian, 2012). By having a political connection, State-Owned Enterprises shall act with prudence in making a decision and complying with the taxation regulation in force. This manner is performed in order to enhance the company image as an obedient taxpayer (Lestari & Putri, 2017). Furthermore, in accordance with the regulation of the Minister of Finance No. 71/PMK.03/2010, companies whose majority of shares is directly held by the central government and/or local government is determined as low-risk taxpayers (Mulyani, 2014).

The controlling variable of this research, namely the return on asset, positively affects tax aggressiveness. This result validates the researches of Dyreng, Hanlon, & Maydew (2008); Richardson, Taylor, & Lanis (2013); Kim & Zhang (2016), discovering that return of asset positively affects tax aggressiveness. High return on assets likewise leads to high profits obtained by a company. High profit generates the increase of tax payable by a company, thus the company tends to perform tax aggressiveness. The next result reveals that leverage negatively affects tax aggressiveness. Leverage holds the level of significance of 0.018 with the coefficient of the regression variable of -2.411. This result is different from that of Pranoto & Widagdo (2016); Richardson, Taylor, & Lanis (2013); Kim & Zhang (2016) which find that leverage positively affects tax aggressiveness. However, this result supports the study conducted by Dyreng, Hanlon, & Maydew (2008) which indicates that leverage negatively affects tax aggressiveness. It has something to do with the fact that the company may tend to use shareholder loan as the source of funding, so the interest expense that emerges is no longer valid to be a deduction for the taxable income. In accordance with Law No. 36 of 2008 on Income Tax, interest expense that can be used as the deduction for taxable income is the interest expense arising from the loan acquired from the third party that has no relationship with the company (Alviyani & Surya, 2016). The variable of company size in this research insignificantly affects tax aggressiveness. Relatively equal size of the sampling companies likely serves as the underlying cause for that. Therefore, the data variability of the company size variable significantly affects tax aggressiveness.

Table 3 presents a consistent result between State-Owned Enterprises and non State-Owned Enterprises. The two variables of political connection, either that in the board of directors or that in the board of commissioners, negatively affects the tax aggressiveness of State-Owned Enterprises and non State-Owned Enterprises. The result of the proportion specification of the board of commissioners over the board of independent commissioners in Table 4 reveals that political connection in the board of independent commissioners negatively affects tax aggressiveness. The board of independent commissioners may increase the effectiveness of the board of directors' performance (Meilinda & Cahyonowati, 2013). Independent commissioners are members of the board of commissioners from outside the company and do not have any relationship with the chair of the company and the shareholders. Pursuant to Law No.47 of 2007 on Limited Liability Company, the board of independent commissioners has a role in carrying out the function of supervision on the management performance and acts only on behalf of the company's interests. Accordingly, tax aggressiveness can be prevented since the management will act in a careful manner in regard to decision making concerning company taxation policy.

Table 3

The result of robustness test 1

Variable	State-owned Enterprises			Non-State-owned Enterprises		
	Coefficients	t-value	p-value	Coefficients	t-value	p-value
(Constant)	0.017	0.514	0.609	-0.074	-4.839	0.000***
PC_DIR	-0.094	-2.513	0.014**	-0.024	-2.217	0.027**
PC_COM	-0.046	-2.510	0.014**	-0.028	-3.560	0.000***
ROA	0.145	2.988	0.004***	0.158	9.287	0.000***
LEV	-0.040	-2.411	0.018**	-0.014	-2.185	0.029**
SIZE	-0.003	-1.487	0.140	0.005	6.266	0.000***
Adj R^2	0.153			0.165		
F-*value*	5.350			7.906		
Sig.	0.000			0.000		

Source: Authors own.

Notes: Statistical significant at the 10%, 5%, 1% level is indicated by *, **, *** respectively. ABTD=Abnormal Book-Tax Differences; PC_DIR=Political Connection in the Board of Directors; PC_COM=Political Connection in the Board of Commissioners; ROA=Return on Assets; LEV=Leverage; SIZE=Company Size.

Table 4

The result of robustness test 2

Variable	Coefficients	t-value	p-value
(Constant)	0.143	2.860	0.005***
PC_DIR	-0.040	-3.184	0.002***
PC_COM	-0.032	-2.555	0.003***
PC_INCOM	-0.005	-2.936	0.004***
ROA	0.223	5.206	0.000***
LEV	0.046	3.260	0.002***
SIZE	0.016	0.727	0.470
Adj R^2	0.298		
F-*value*	6.929		
Sig.	0.000		

Source: Authors own.

Notes: Statistical significant at the 10%, 5%, 1% level is indicated by *, **, *** respectively. PC_DIR=Political connection in the Board of Directors; PC_COM=Political connection in the Board of Commissioners; ROA=Return on Assets; LEV=Leverage; SIZE=Company Size.

Table 5

The Result of Robustness Test 3

Variable	ABTD			ETR		
	Coefficients	t-value	p-value	Coefficients	t-value	p-value
(Constant)	0.017	0.514	0.609	-0.035	-0.068	0.946
PC_DIR	-0.094	-2.513	0.014**	0.439	2.990	0.005***
PC_COM	-0.046	-2.510	0.014**	0.290	2.622	0.013**
ROA	0.145	2.988	0.004***	-0.371	-0.884	0.383
LEV	-0.040	-2.411	0.018**	-0.066	-0.495	0.623
SIZE	-0.003	-1.487	0.140	-0.002	-0.102	0.919
Adj R^2	0.153			0.272		
F-*value*	5.350			3.909		
Sig.	0.000			0.007		

Source: Authors own.

Notes: Statistical significant at the 10%, 5%, 1% level is indicated by *, **, *** respectively. ABTD=Abnormal Book-Tax Differences; PC_DIR=Political Connection in the Board of Directors; PC_COM=Political Connection in the Board of Commissioners; ROA=Return on Assets; LEV=Leverage; SIZE=Company Size.

Table 5 shows different result between ABTD model and ETR model. In the ETR model, the political connection in either the board of directors or board of commissioners negatively affects tax aggressiveness. It reflects that the ETR score proportionally follows the significance level of the political connection in a company. Low ETR indicates the company's enormous capability for tax avoidance, and vice versa (Dyreng, Hanlon, & Maydew, 2008). Therefore, it can be concluded that, either in ABTD or ETR model, the analysis on the effect of political connection in the board of directors and the board of commissioners on tax aggressiveness exhibits consistent result.

5. CONCLUSION

The purpose of this study is to analyze the effect of political connection in the board of directors and the board of commissioners on tax aggressiveness in the State-Owned Enterprises listed in Indonesia Stock Exchange. The result suggests that political connection, either on the board of directors or on the board of commissioners, negatively affects tax aggressiveness. State-owned enterprises tend to avoid the practice of tax aggressiveness (Zhang, Li, & Jian, 2012). This research contributes to the literature on taxation, specifically in the developing countries. The finding suggests the similar view of the board of directors and the board of commissioners in regards with taxation, i.e. the avoidance of tax aggressiveness. Those boards within the state-owned enterprises serve as the government agents in managing and supervising corporate governance, including on taxation. Both parties demonstrate their support in government's programs, including the improvement of state tax revenue. The finding also portrays that independent commissioners having political connection may conduct monitoring activity effectively and synchronize the interest of those boards to repress agency conflict. Thus, the company may make a more conservative policy that emphasizes on the aspects of legitimation and company image building (Lestari & Putri, 2017). There is a practical implication of this research for the government and parliament, specifically the Ministry of State-owned Enterprises and the Commission VI of the House of Representatives as the associate of the ministry in conducting its function. The findings may effectively serve as a reference in appointing members of the board of directors and the board of commissioners. Related to taxation, the board members with political connection may work in synergy with the government in raising state revenue. Therefore, the government and parliament are required to consider designating more board members having political connection in the boards within State-owned Enterprises to promote tax compliance.

This research faces limitations since it only occupies information about the political connection from the annual report and internet publication. This is due to the fact that there aren't any official institutions in Indonesia publishing data on the political connection. Moreover, this research was conducted without considering the role of the audit committee as the constituent of corporate governance mechanism in reducing tax aggressiveness. Therefore, the future research is expected to seek political connection information by conducting interviews with the company management to obtain more valid information. In addition, the subsequent research needs to consider the effectiveness of the audit committee in reducing companies' tax aggressiveness.

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APPENDIX

The result of classic assumption test

Asymp. Sig (2-tailed)	0.200
Durbin-Watson Statistic	2.134
Variance Inflation Factor	<10
Tolerance	>0.10