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# The Influence of Capital Intensity, Leverage, and Political Connection on Tax Aggressiveness (Empirical Study of Mining Companies were Listed on the Indonesian Stock Exchange (IDX) from 2017 to 2021)

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ABSTRACT

Tax aggressiveness is an action to engineer taxable income, whether legal (tax avoidance) or illegal (tax evasion). Companies conduct aggressive taxation because taxes are considered to reduce costs and increase company profits. The main goal of this research is to investigate the affect of capital intensity, leverage, and political connections on tax aggressiveness in mining sector companies were listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021, both simultaneously and partially. The data analysis method used in this research is panel data regression using E-views software. The method used in this research is quantitative technique using secondary data. The population used in this research is mining sector companies were listed on the Indonesia Stock Exchange (IDX), and the sampling technique used in this research is purposive sampling with the acquisition of 10 companies in a 5-year period so that there are 50 samples that will be processed by researchers. According to the findings of the reserch, capital intensity, leverage, and political connections all have an impact on tax aggression. While partially affecting capital intensity, leverage and political connections have no significant effect on tax aggressiveness

## INTRODUCTION

Tax aggression is a strategy for increasing taxable revenue by legal action (tax avoidance) or illegal action (tax evasion) means (Anggadinata and Cahyaningsih 2020). Taxes are important for a country because they are the largest contributor to its revenue, so taxes are very important. Direktorat jendaral pajak (DJP) is an institution under Ministry of Finance. In carrying out its functions, Direktorat Jendral Pajak (DJP) experiences many obstacles in reaching its target. One of the drivers of aggressive tax avoidance in Indonesia is tax collection, one of which is self-assessment. Self-assessment is a tax collection system where taxpayers calculate and assess the fulfillment of tax obligations independently. It requires voluntary compliance from taxpayers, but this also creates a great opportunity for taxpayers to commit fraud and tax sensing actions, manipulate the calculation of the amount of tax, and embezzle the amount of tax that should be paid (Rahayu 2020). Agency theory is a relationship between agents and principals who have different interests (Jensen and Meckling 1976). In this case, the relationship between the government, namely the Direktorat Jendral Pajak (DJP), and the company as a taxpayer is described through agency theory, where there is divergence of interests between the institution of government as a principal and the firm as an agent. The institution of government, as a principal, wants the company to fulfill its obligation to pay taxes in accordance with the regulations that exist in Indonesia, while the firm, as an agent, seeks maximum profit while paying the least amount of tax. The phenomenon of aggressiveness in Indonesia occurred when PT Adaro Energy Tbk conducted tax avoidance with a transfer pricing scheme through one of its subsidiaries in Singapore, Coaltrade Services International, where the company allegedly transferred its income and profits to a company located in Singapore from 2009 to 2017. Global Witness found that the total value of sales commissions received by Coaltrade in low-tax countries such as Singapore increased from an annual average of US$4 million equivalent to Rp56.14 billion before 2009 to US$55 million equivalent to Rp771.9 billion from 2009 to 2017, and more than 70% of the coal sold came from Adaro's subsidiaries in Indonesia (CNBC.id 2019). Based on the above phenomenon, there is a mining industry sector utilizing tax aggressiveness to decrease the tax burden. Several factors influence tax aggressiveness, including capital intensity, leverage, and political connections.

### Tax Aggressiveness

Tax aggressiveness is a strategy for increasing taxable revenue by legal action (tax avoidance) or illegal action (tax evasion) means (Anggadinata and Cahyaningsih 2020). The calculation of tax aggressiveness using the (ETR) because it is expected to be capable of detecting the aggressiveness of tax planning that utilizied use fixed differences and unfixed differences(Hanlon and Heitzman 2010).

$$\text{ETR} = \frac{Income\ tax\ expense}{Earnings\ before\ tax}$$

### Capital Intensity

Capital intensity is the action of company managers, namely investing in fixed assets, which aims to increase company profits. Capital Intensity is the company's action in carrying out asset investment

Activities where fixed assets will experience depreciation so as to create a depreciation expense that will reduce pre-tax profits so that the tax burden is reduced (Utomo and Fitria 2021). The capital intensity ratio may demonstrate a company's efficiency in generating sales by utilizing its assets.(Mustika, Ratnawati, and Silfi 2017), which can be formulated as follows:

$$\text{CAPIN} = \frac{Total\ fixed\ asset}{Total\ assets}$$

Fixed assets undergo depreciation, which creates a depreciation expense. The expense of depreciation is a component that can decrease the firm's tax burden because the more fixed assets the company has, the greater the depreciation expense. This will result in a decreasing company profit, so the income tax burden will also decrease. If the company's profit decreases, it will have a low ETR value. A low ETR number suggests a higher level of tax evasion.

**Leverage**

Leverage is ratio that arises when there is a use of funds or capital that incurs cost payments in the form of interest (Sari and Rahayu 2020). According to Herlinda and Rahmawati (2021), Leverage refers to borrowed cash in the form of debt levels held by businesses that incur interest costs. The (DAR) is a debt ratio calculated by comparing total debt to total assets (Kasmir 2018). which can be formulated as follows:

$$\text{DAR} = \frac{Total\ debt}{Total\ assets}$$

When the amount of corporate debt is high, it will result in high interest expense, which results in reduced company income. This affects the lower tax burden, resulting in low corporate tax debt payments. The company uses interest expense to reduce taxable income, which will affect the company's payable tax payments, so the larger the leverage ratio, the more likely the company is to engage in tax aggressiveness.

**Political Connections**

Political connection is a state that emerges when specific parties and parties with a priority in politics work together to achieve particular goals that benefit both parties. (Purwanti and Sugiyarti 2017). The ease of access provided by the government, special protection from the government, and low risk of tax audits are the impacts if the company has political connections (Ferdiawan and Firmansyah 2017). According to Ferdiawan and Firmansyah (2017), political connections can be measured using dummy variables If a company has a political affiliation, it receives the code 1 (one), otherwise it is received the code 0 (zero).

When a company has political connections, it creates privileges owned by the company, such as ease of tax audits. With the political connections that the company has, it tries to decrease its corporate tax burden. The low risk of corporate tax audits motivates companies to take aggressive tax actions. The privileges obtained by the company cause the company to have political connections; As a result, corporations with political links are more likely to have more potential to take aggressive tax actions.

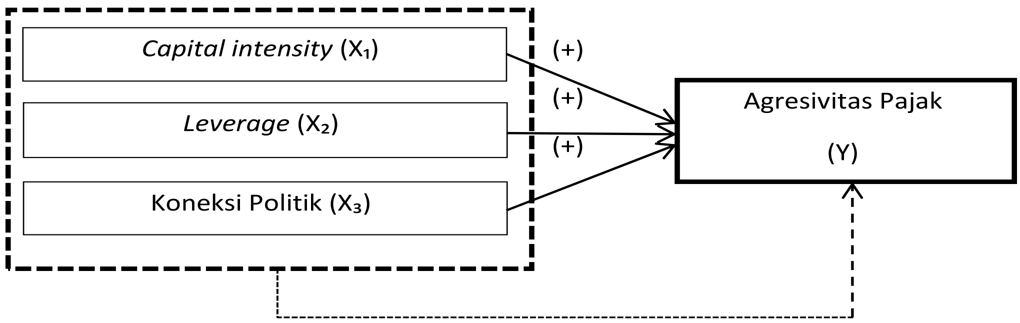


Figure 1. Conceptual Framework

## METHODS

This research utilizes a quantitative method and panel data regression analysis to test the impact to the capital intensity, leverage, and political connections on tax aggressiveness simultaneously and partially. The population used in this research are mining sector companies listed on the Indonesia Stock Exchange (IDX) on the period 2017–2021. The number of samples in this research consisted of 13 companies over 5 years. Purposive sampling was utilized to select the data collection method. In the observation data that has been collected, there is outlier data as much as 3 observation data points, which means the test results cannot be utilized to make decisions, so they are eliminated from the research observation data. The final results obtained was 50 observations from 10 mining companies were listed on the IDX from 2017 to 2021

**Analysis of Panel Data Regression**

According to the findings of the panel data regression model testing, specifically the Chow, Husman, and Lagrange multiplier tests, it is established that the model utilized is a random test. Following are the results using the random test effect model.

Table 1. Analysis of Panel Data Regression

Dependent Variable: AGR
Method: Panel EGLS (Cross-section random effects)
Date: 06/15/23 Time: 01:17
Sample: 2017 2021
Periods included: 5
Cross-sections included: 10
Total panel (balanced) observations: 50
Swamy and Arora estimator of component variances

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.158816 | 0.049827 | 3.187339 | 0.0026 |
| CI | 0.207454 | 0.143408 | 1.446595 | 0.1548 |
| LEV | 0.203712 | 0.090734 | 2.245145 | 0.0296 |
| KOPOL | -0.010227 | 0.040084 | -0.255135 | 0.7998 |

| Effects Specification | | | S.D. | Rho |
|---|---|---|---|---|
| Cross-section random | | | 0.041173 | 0.3579 |
| Idiosyncratic random | | | 0.055151 | 0.6421 |

| Weighted Statistics | | | |
|---|---|---|---|
| R-squared | 0.170273 | Mean dependent var | 0.138236 |
| Adjusted R-squared | 0.116160 | S.D. dependent var | 0.057947 |
| S.E. of regression | 0.054477 | Sum squared resid | 0.136518 |
| F-statistic | 3.146643 | Durbin-Watson stat | 1.923859 |
| Prob(F-statistic) | 0.033903 | | |

| Unweighted Statistics | | | |
|---|---|---|---|
| R-squared | 0.332363 | Mean dependent var | 0.269000 |
| Sum squared resid | 0.195384 | Durbin-Watson stat | 1.344232 |

**Simultaneous Effect**

According to the regression results, it is able to view the prob (F-Statistic) is 0,0332363 <0,05, which means that the variables of capital intensity, leverage, and political affiliations impact tax aggressiveness simultaneously in mining sector companies were listed on the IDX from 2017 to 2021.

**Coefision Determination**

According to the regression test, the coefficient of determination test was utilized, and the adapted R-square value was 0,116160, which equaled 11.62%. This explains why the independent variables, specifically capital intensity, leverage, and political affiliation, only impact tax aggressiveness by 11.62%, while non-research variables impact the remaining 88.38%.

**Partial Effect**

The following conclusions can be drawn from partial test results (t-test):

1. According to the data processing, the prob (t-statistic) of capital intensity is 0.1548> 0.05, implying that H01 allowed and Ha1 denied, implying that the capital intensity variable has insignificant impact to the tax aggression.
2. According to the data processing, the prob (t-statistic) of leverage is 0.02960.05, implying that Ha2 allowed and H02 denied, implying that the leverage variable has a negative impact to the tax aggression.
3. According to the data, the prob (t-statistic) of political connection is 0.7998> 0.05, implying that H01 accepted and Ha1 denied, implying that the

political connection variable has insignificant impact on tax aggression.

## RESULTS AND DISCUSSION

### The Effect of Leverage on Tax Aggressiveness

Capital intensity has no factor on tax aggressiveness. According to the research, the capital intensity variable has a probability value of 0,1548. The probability value surpasses the significant value of 0,05, it could be defined that H01 has allowed and Ha1 has denied, which means the capital intensity variable has insignificant impact on tax aggressiveness. According to the comparison of CAPIN and ETR data, the leading firm is not shown to conduct tax aggression above or below the average capital intensity. The company invests in fixed assets to support and improve the company's operating activities. Mining land is a fixed asset dominated by mining companies, with land mines experiencing depletion rather than depreciation. The land's depletion value is defined by its use. This demonstrates that, despite the fact that mining industry enterprises have huge fixed assets due to the dominance of mining land, the occurrence of tax aggression is unaffected.

### The Effect of Leverage on Tax Aggressiveness

Leverage is not a major factor in determining tax aggressiveness. This is supported by Partial test results show that the probability value of leverage is 0,0296 and the leverage coefficient value is 0,0203713. The probability value is lower than the significant value of 0,05, it could be defined that H2 has allowed while H02 has denied, which means that These outcomes are reinforced by the comparison of DAR and ETR data, which provide that companies with above-average leverage that are not indicated to be involved in tax aggression are more dominant. The company invests in fixed assets in order to support and improve the company's operating activities. Mining land is a fixed asset dominated by mining enterprises, where land mines do not depreciate but deplete. The land depletion value is determined by the land use. This demonstrates that, despite the fact that mining businesses have huge fixed assets due to the dominance of mining area, the occurrence of tax aggression is unaffected.

### The Impact of Political Connections to the Tax Aggressiveness

The probability value of a political connection is 0,7998, and the coefficient value of a political connection is -0,010227. The probability value surpasses the significant value of 0.05, it could be defined that H03 has allowed and Ha3 has denied, which means that political connections have no significant impact on tax aggressiveness. Although companies with political connections have the privilege to obtain more information, they use them to comply with the rules not to commit tax aggression. The ownership of shares by a government or a leader with a position in the government does not give the company privileges.

## CONCLUSION

The main goal of this research is to investigate the impact of capital intensity, leverage, and political connections to the tax aggressiveness in mining sector companies were listed on the Indonesia Stock Exchange from 2017 to 2021. The sample used in this research was 65 observations, but 15 outliers were found, so the data in this research became 50 observations. Based on the test results, it shows that capital intensity, leverage, and political connections have a simultaneous effect.

Political connections simultaneously affect tax aggressiveness. Partially, capital intensity and political connections have no effect on tax aggressiveness, even though leverage has negative effect on tax aggressiveness. Based on the results of this research, it is hoped that they can be taken into consideration by the Dirktorat jendral pajak in determining tax policies regarding tax aggressiveness so that the state can avoid losses caused by companies that do not comply with regulations. This research is also able to be a consideration for mining companies who are heavily in debt. They are able to improve the company's operations with the aim of increasing company profits and must also remain compliant with tax regulations.

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