

Thin Capitalization, Tax Haven Utilization, and Political Connections: Their Collective Impact on Corporate Tax Aggressiveness

Rahmahilah Yuliasari¹

Dinda Fali Rifan²

Mia Selvina³

^{1,2,3}Faculty of Islamic Economics and Business, Raden Intan State Islamic University, Lampung

*Correspondences: rahmahilah67@gmail.com

ABSTRACT

This study examines the impact of thin capitalization, tax haven utilization, and political connections on corporate tax aggressiveness. The research focuses on manufacturing firms within the consumer goods sector listed on the Indonesian Sharia Stock Index (ISSI) from 2019 to 2023. The study employs a quantitative approach using secondary data. A non-probability sampling method, specifically purposive sampling, is applied, resulting in a final sample of 12 companies with a total of 60 firm-year observations. To analyze the data, multiple linear regression is conducted using SPSS software. The findings indicate that thin capitalization and tax haven utilization do not significantly influence tax aggressiveness. However, political connections exhibit a positive and significant relationship with tax aggressiveness, suggesting that politically connected firms are more likely to engage in aggressive tax planning strategies.

Keywords: Thin Capitalization; Tax Haven Country Utilization; Political Connection; Tax Aggressiveness

Pengaruh Thin Capitalization, Tax Haven Country Utilization, dan Political Connection terhadap Agresivitas Pajak

ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh thin capitalization, tax haven country utilization, dan political connection terhadap agresivitas pajak. Penelitian ini dilakukan pada perusahaan manufaktur sektor industri barang konsumsi yang terdaftar di Indeks Saham Syariah Indonesia (ISSI) periode 2019-2023 dengan menggunakan data berupa data sekunder. Pemilihan sampel menggunakan metode nonprobability sampling dengan teknik purposive sampling, sehingga diperoleh 12 perusahaan dengan 60 amatan. Analisis data menggunakan analisis regresi linier berganda dengan software SPSS. Hasil penelitian ini menunjukkan bahwa thin capitalization dan tax haven country utilization tidak berpengaruh terhadap agresivitas pajak, sedangkan political connection berpengaruh positif terhadap agresivitas pajak.

Kata Kunci: Thin Capitalization; Tax Haven Country Utilization; Political Connection; Agresivitas Pajak

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INTRODUCTION

According to Law No. 28 of 2007, Article 1, Paragraph 1 of the Republic of Indonesia, "Taxes are mandatory contributions to the state, imposed on individuals or entities by law, without direct compensation, and utilized for the collective welfare of the people." Since taxation is both compulsory and coercive, individuals and corporations are legally obligated to comply for the greater good. However, differing perspectives between taxpayers and the government often lead to tension. Taxpayers generally perceive taxes as a financial burden, prompting many to seek ways to minimize their tax liabilities. Conversely, the government remains committed to optimizing tax revenue collection in Indonesia.

One common corporate strategy for reducing tax obligations is tax aggressiveness (Lestari & Syofyan, 2023). Tax aggressiveness encompasses various tax planning activities, both legal (tax avoidance) and illegal (tax evasion), aimed at minimizing tax liabilities (Frank & Rego, 2009). While tax aggressiveness is often viewed as unethical from a normative and ethical standpoint, it remains legally permissible if conducted within the bounds of tax law. This is possible due to ambiguities in tax regulations, commonly referred to as the "gray area" (Utami et al., 2020). The gray area arises from regulatory gaps or differing interpretations of tax laws, allowing firms to exploit these loopholes for aggressive tax planning.

One widely used approach to reducing tax burdens is corporate financing through debt, as interest expenses are tax-deductible (Nainggolan & Sari, 2019). Modigliani & Miller (1963) argue that debt can function as a tax shield, potentially increasing firm value. When a company relies heavily on debt relative to equity, it is said to engage in thin capitalization (OECD, 2012). The principle of thin capitalization is derived from Indonesia's Law No. 36 of 2008, Articles 6 and 9, which stipulate that financing through debt generates interest expenses that reduce taxable income (deductible expenses), whereas financing through equity results in dividends that are non-deductible. This distinction incentivizes firms to prioritize debt financing as a means of reducing their tax liabilities.

Tax rate policies vary across countries, creating opportunities for international tax avoidance and aggressive tax planning. Certain jurisdictions – commonly referred to as tax havens – offer minimal or no tax rates, lack transparency in tax collection, and have limited regulations regarding information exchange and substantive business activities (Rifan, 2020). The use of tax havens is a key factor contributing to tax aggressiveness, as companies strategically establish subsidiaries or conduct business operations in these jurisdictions to minimize tax obligations (Slemrod & Wilson, 2009). Corporations from high-tax countries frequently take advantage of tax havens to shift profits, benefiting from regulatory arbitrage and reduced tax rates (Richardson & Taylor, 2015). This practice often involves the formation of trust entities or shell companies, which typically have no substantial business operations and serve primarily as vehicles for profit shifting (Jalan & Vaidyanathan, 2017). A well-documented example of tax aggressiveness involving tax haven utilization is the Panama Papers scandal. The Panama Papers refers to a massive data leak in 2016, revealing financial documents, passport records, and banking transactions that exposed the widespread use of shell companies for tax avoidance purposes (Mariati et al., 2019).

Tax aggressiveness can also be influenced by political connections. Research by Imanuella & Damayanti (2022) indicates that the degree of political connection within a company significantly affects tax avoidance behavior, with firms exhibiting stronger political ties being more inclined to engage in tax avoidance. Politically connected firms, which maintain close relationships with government entities, often receive various advantages, such as easier access to financing and reduced scrutiny in tax audits, thereby encouraging tax-aggressive practices (Kim & Zhang, 2016). According to Faccio et al. (2006), a company is considered politically connected if its major shareholders or key executives hold government positions or maintain affiliations with political figures or parties. Political connections are particularly prevalent in developing economies, where firms strategically integrate individuals with governmental ties into their organizational structure to gain regulatory and financial benefits (Faccio et al., 2006).

Beyond these key determinants, numerous prior studies have explored tax aggressiveness, examining both similar and alternative influencing factors. Thin capitalization is frequently regarded as a tax avoidance strategy employed by multinational corporations. Fasita et al. (2022) assert that thin capitalization positively correlates with tax aggressiveness, whereas Nainggolan & Sari (2019) found no significant relationship between the two. Similarly, Kurniasih et al. (2022) report that companies with affiliates in tax haven jurisdictions exhibit higher levels of tax avoidance. In contrast, Damayanti & Prastiwi (2017) conclude that the use of tax haven jurisdictions does not necessarily contribute to tax aggressiveness, suggesting that firms operating in these regions may not always seek to evade taxes. Furthermore, Kim & Zhang (2016) argue that politically connected firms engage in more aggressive tax planning due to governmental protection, which subsequently diminishes financial transparency. However, Ardillah & Vanesa (2022) contend that politically affiliated company commissioners do not exert a significant influence on corporate tax aggressiveness.

This study extends the existing literature by offering a novel perspective through an empirical investigation of manufacturing firms in the consumer goods sector listed on the Indonesian Sharia Stock Index (ISSI) for the period 2019–2023. A key distinction of this research is its approach to measuring thin capitalization, which incorporates specific calculations applicable to firms listed on ISSI. Companies listed on Islamic stock indices, such as ISSI and JII, adhere to stricter limitations on interest-bearing debt compared to conventional firms. This distinction is based on the Financial Services Authority Regulation (POJK) No. 35/POJK.04/2017 concerning "Criteria and Issuance of the Sharia Securities List," which mandates that firms listed on Islamic indices maintain an interest-bearing debt-to-total-assets ratio not exceeding 45%. In contrast, non-Islamic firms operate under a more lenient threshold, permitting interest-bearing debt up to 80% of total assets, as stipulated by Minister of Finance Regulation (PMK) No. 169/PMK.010/2015. To quantify thin capitalization, this study employs the Maximum Allowable Debt (MAD) Ratio formula, which accounts for these regulatory differences.

The selection of manufacturing firms as the research sample is justified by their significant contribution to national tax revenue, surpassing other industry

sectors. Moreover, the manufacturing sector – particularly consumer goods – serves as a cornerstone of Indonesia’s economic development, playing a crucial role in supporting national growth (Hariani, 2023). Companies listed on ISSI are expected to adhere to sharia principles, which promote ethical business conduct and equitable tax compliance.

Despite extensive prior research, inconsistencies in findings necessitate further empirical investigation. This study is particularly relevant given the prevalence of tax evasion cases in Indonesia. According to a report published by the Tax Justice Network (The State of Tax Justice 2020), Indonesia incurred an estimated tax revenue loss of approximately IDR 68.7 trillion due to corporate and individual tax evasion (Sukmana, 2020). These persistent tax avoidance practices underscore the need for a deeper understanding of tax aggressiveness and its determinants.

From a theoretical perspective, agency theory explains the underlying motivations behind corporate tax strategies. This theory describes the principal-agent relationship, wherein company owners (principals) delegate decision-making authority to managers (agents). However, agency conflicts arise when managers prioritize their own interests over those of shareholders, particularly in risk-related decisions (Jensen & Meckling, 1976). One such decision involves the firm’s capital structure, specifically the choice between debt and equity financing, which is often influenced by managerial discretion (Falbo & Firmansyah, 2018). Empirical research by Dyreng *et al.* (2008) suggests that tax-avoiding firms tend to rely more heavily on debt financing than firms that do not engage in tax avoidance. Thin capitalization, characterized by an excessive debt-to-equity ratio, is therefore hypothesized to contribute to tax aggressiveness. Several studies, including those by Amni *et al.* (2023), Yoshida (2023), Kurniawati & Mukti (2023), and Fasita *et al.* (2022), provide empirical support for this relationship, demonstrating that firms with high leverage ratios exhibit greater tendencies toward tax avoidance.

Based on this theoretical and empirical foundation, the first hypothesis of this study is formulated as follows:

H₁: Thin capitalization has a positive effect on tax aggressiveness.

The relationship between tax haven utilization and tax aggressiveness can be explained through the lens of agency theory. Company owners delegate authority to management to maximize corporate earnings and fulfill their fiduciary responsibilities (Jalan & Vaidyanathan, 2017). However, higher profits also lead to increased tax liabilities, particularly for firms operating in high-tax jurisdictions. To mitigate these obligations, companies may engage in tax aggressiveness strategies. Kurniasih *et al.* (2022) assert that multinational corporations with affiliates in tax havens exploit these relationships to shift profits and reduce taxable income. Empirical evidence further suggests that firms with tax haven affiliations engage in more aggressive tax avoidance than those without such ties (Kurniasih *et al.*, 2023). Consistent findings by Granda (2020), Mukundhan *et al.* (2020), and Nerudová *et al.* (2020) reinforce the argument that tax haven utilization contributes to tax aggressiveness.

Based on this theoretical and empirical foundation, the second hypothesis of this study is formulated as follows:

H₂: Tax haven country utilization has a positive effect on tax aggressiveness.

Indonesia follows a two-tier board system, as stipulated in Law No. 47 of 2007 on Limited Liability Companies, which divides governance authority between directors and commissioners. The board of directors is responsible for corporate management and decision-making to achieve the firm's strategic goals, with profitability serving as a key performance benchmark. Higher profits directly benefit directors; however, increased earnings also lead to a greater tax burden. Consequently, management is incentivized to implement strategies that minimize tax liabilities (Anggraini & Widarjo, 2020). This dynamic gives rise to agency conflicts, wherein managerial decision-making does not always align with shareholders' interests – one of the core implications of agency theory.

Political connections further influence corporate tax behavior. Prior research by Putri Malinda et al. (2022), Kim & Zhang (2016), and Peyer & Vermaelen (2016) demonstrates a positive relationship between political connections and tax aggressiveness. Anggraini & Widarjo (2020) similarly report that firms with politically connected directors exhibit higher levels of tax aggressiveness. Moreover, politically affiliated firms tend to incur lower tax burdens compared to their non-connected counterparts (Sudibyo & Jianfu, 2016). This suggests that political connections provide firms with regulatory advantages, reduced scrutiny, or preferential treatment in tax administration.

Thus, the third hypothesis of this study is formulated as follows:

H₃: Political connection has a positive effect on tax aggressiveness.

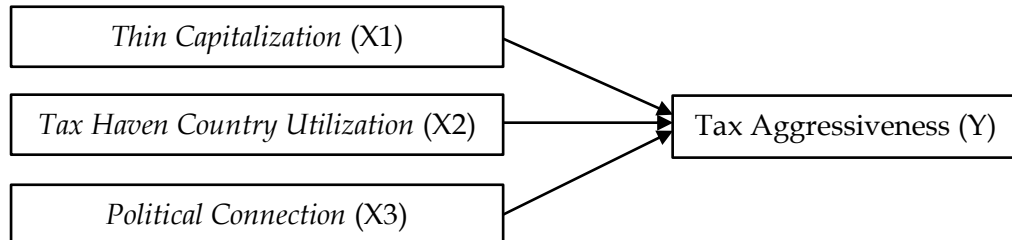


Figure 1. frame of mind

Source: Research Data, 2024

RESEARCH METHODS

This study employs secondary data sourced from financial statements and annual reports of manufacturing firms in the consumer goods industry sector listed on the Indonesian Sharia Stock Index (ISSI). The data is obtained from the official website of the Indonesia Stock Exchange (IDX) (www.idx.co.id), corporate websites, and other relevant sources.

The study utilizes a nonprobability sampling method with a purposive sampling technique. The selected sample includes manufacturing firms in the consumer goods industry sector that were continuously listed on ISSI during the 2019–2023 period. Firms are included if they consistently published complete annual reports and financial statements, maintained a positive profit balance, and reported a Cash Effective Tax Rate (CETR) greater than zero but less than one. Additionally, firms must provide complete data for all variables under

investigation. Based on these criteria, the final sample consists of 12 firms, resulting in 60 firm-year observations.

Tax aggressiveness involves strategic manipulation of taxable income through tax planning mechanisms, both legally (tax avoidance) and illegally (tax evasion) (Frank & Rego, 2009). In this study, tax aggressiveness is measured using the Cash Effective Tax Rate (CETR), a widely recognized metric introduced by Dyreng et al. (2008) and employed in several studies, including Ruknan et al. (2024) and Utami et al. (2020). CETR is calculated as the ratio of cash tax paid to pretax income, where a lower CETR indicates higher tax aggressiveness:

$$CETR = \frac{\text{Cash tax paid}}{\text{Pretax income}} \dots\dots\dots(1)$$

Thin capitalization refers to a corporate financing structure where a firm relies predominantly on debt rather than equity (OECD, 2012). This study measures thin capitalization using the Maximum Allowable Debt (MAD) Ratio, which assesses whether a company's debt level remains within reasonable limits. A higher MAD ratio indicates greater reliance on debt financing, leading to higher interest expenses, which in turn reduce taxable income and suggest a greater likelihood of thin capitalization (Taylor & Richardson, 2012). The MAD ratio has been widely used in previous studies, including those by Ruknan et al. (2024), Utami et al. (2020), and research Ismi & Linda (2016).

To compute thin capitalization, the first step is to determine the Safe Harbor Debt Amount (SHDA), which represents the threshold for acceptable debt levels. According to Taylor & Richardson (2012), SHDA is calculated by subtracting non-interest-bearing liabilities from average total assets and multiplying the result by 75%. However, in previous domestic studies, this multiplier has been modified to 80% in accordance with Minister of Finance Regulation (PMK) No. 169/PMK.010/2015, which sets a maximum debt-to-equity ratio of 4:1 (or 80%) (Falbo & Firmansyah, 2018).

Since this study focuses on firms listed on ISSI, an additional adjustment is required. Companies listed on ISSI are subject to stricter limitations on interest-based debt, as mandated by Financial Services Authority Regulation (POJK) No. 35/POJK.04/2017 concerning the "Criteria and Issuance of the Sharia Securities List". This regulation, in conjunction with Fatwa No. 135/DSN-MUI/2020, stipulates that interest-bearing debt cannot exceed 45% of total assets, while non-halal income must not exceed 10% of total revenue.

To align with ISSI requirements and Islamic financial principles, the SHDA calculation in this study incorporates the 45% threshold for interest-bearing debt. The revised SHDA formula is as follows:

$$SHDA = (\text{Average total assets} - \text{non IBL}) \times 45\% \dots\dots\dots(2)$$

Then calculate the Maximum Allowable Debt (MAD) Ratio, with the formula:

$$MAD\ Ratio = \frac{\text{Average Interest Bearing Debt}}{SHDA} \dots\dots\dots(3)$$

Where:

45% = The requirement for the ratio of interest-based debt to total assets allowed for companies listed on the Sharia Stock Index based on POJK No. 35/POJK.04/2017.

AIBD = Average total debt with interest (IBL).

Non IBL = Accounts Payable + Income Tax Payable + Accrued expenses + Other current liabilities + Deferred income tax + Other long-term liabilities.

Tax Haven Country Utilization refers to the practice of companies establishing business operations in jurisdictions that provide favorable tax treatment (Slemrod & Wilson, 2009). A tax haven country is characterized by low or zero tax rates, lack of transparency in tax collection, limited information exchange, and no substantial activity requirements for companies (OECD, 1998).

Based on research conducted by Desai et al. (2006), this study employs a dummy variable to measure tax haven utilization. Companies with at least one subsidiary or affiliated company in a tax haven country are assigned a value of 1, while those without such affiliations are assigned a value of 0. The classification of tax haven countries follows the list provided by the World Population Review, as referenced in Ruknan et al. (2024).

Political connection refers to the relationship between an entity and individuals who hold or have held positions of political influence (Imanuella & Damayanti, 2022). This study measures political connections using a dummy variable, where a value of 1 is assigned to firms with political connections and 0 to those without. The criteria for political connections include the presence of commissioners, directors, or shareholders holding at least 10% of shares who are current or former government officials, including heads of state, members of parliament, executive cabinet officials, government agency officials, military personnel, or individuals with ties to prominent politicians or political parties (Faccio et al., 2006).

In addition to these criteria, this study incorporates classifications of Politically Exposed Persons (PEPs), as defined by Bank Indonesia Regulation No. 12/3/PBI/2010. PEPs include heads of state or government, deputy heads of state or government, ministerial-level officials, senior executives of state-owned enterprises (SOEs), directors of SOEs, executives and chairpersons of political parties, senior military or police officers, high-ranking officials in the Supreme Court and the Attorney General's Office, and officials appointed by presidential decree. The classification also extends to immediate family members, including spouses, parents, siblings, children, in-laws, and grandchildren of the aforementioned individuals. Furthermore, it includes public figures with significant societal influence, such as those with celebrity status or substantial economic and political power, who may pose a financial risk to institutions (Bank Indonesia, 2010).

This study employs multiple linear regression analysis to examine the effect of the independent variables (X) on the dependent variable (Y). To test the hypothesis, the following multiple linear regression equation is applied:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \dots\dots\dots(4)$$

Where:

- Y = Tax Aggressiveness
- α = Intercept or Constant
- β = Regression Coefficient
- X1 = *Thin Capitalization*

- X2 = *Tax Haven Country Utilization*
 X3 = *Political Connection*
 e = *Error*

RESULTS AND DISCUSSION

Descriptive analysis method is a method used to provide an overview of quantitative data into descriptive form (Sugiyono, 2018). Descriptive analysis is used to see a description of the research sample before testing the hypothesis is carried out. The results of descriptive statistical analysis in this study are presented in table 1.

Table 1. Descriptive Statistics Results

Variables	N	Minimum	Maximum	Mean	Std. Deviation
X1	60	0.001	0.321	0.116	0.081
X2	60	0	1	0.670	0.475
X3	60	0	1	0.580	0.497
Y	60	0.066	0.332	0.211	0.057

Source: Research Data, 2024

Table 1 presents the descriptive statistics for the study variables. In 2023, PT Akasha Wira International Tbk. recorded the lowest thin capitalization value (X1) at 0.001. The highest thin capitalization value, 0.321, was observed in 2020 for PT Indofood CBP Sukses Makmur Tbk. On average, the thin capitalization variable stands at 0.116, with a standard deviation of 0.081.

The tax haven country utilization variable (X2) exhibits a maximum value of 1 and a minimum of 0, with a mean of 0.670 and a standard deviation of 0.475. Similarly, the political connection variable (X3) ranges from 0 to 1, with an average value of 0.670 and a standard deviation of 0.475.

Regarding tax aggressiveness (Y), PT Budi Starch & Sweetener Tbk. recorded the lowest value of 0.066 in 2020, while PT Ultrajaya Milk Industry & Trading Company Tbk. exhibited the highest value of 0.332. The average tax aggressiveness value is 0.211, with a standard deviation of 0.057.

The normality test assesses whether the residuals in a regression model follow a normal distribution, ensuring the validity of statistical inferences (Hidayat, 2017). One of the most widely used techniques for this assessment is the Kolmogorov-Smirnov test, which determines normality based on significance levels. If the significance value (sig.) is greater than 0.05, the data is considered normally distributed; conversely, a significance value below 0.05 indicates a non-normal distribution.

Table 2. Normality Test Results

		Unstandardized Residual
N		60
Normal Parameters	Mean	0.000
	Std. Deviation	0.050
Most Extreme Differences	Absolute	0.059
	Positive	0.059
	Negative	-0.051
Test Statistic		0.059
Asymp. Sig. (2-tailed)		0.200

Source: Research Data, 2024

Table 2 indicates that the data follows a normal distribution, as evidenced by the Asymptotic Significance (2-tailed) value of 0.200, which exceeds the threshold alpha value of 0.05 (sig. = 0.200 > 0.05). This result confirms that the residuals meet the assumption of normality, ensuring the validity of subsequent statistical analyses.

The multicollinearity test assesses whether there is a high correlation among independent variables in the regression model. A model is considered free from multicollinearity if the tolerance value exceeds 0.1 or the Variance Inflation Factor (VIF) is below 10 (Ghazali, 2018). Ensuring the absence of multicollinearity is crucial, as it enhances the reliability of the estimated regression coefficients and improves the interpretability of the model.

Table 3. Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	X1	0.918	1.089
	X2	0.925	1.081
	X3	0.971	1.030

Source: Research Data, 2024

Table 3 presents the results of the multicollinearity test, indicating that all independent variables – thin capitalization, tax haven country utilization, and political connection – exhibit Variance Inflation Factor (VIF) values below 10 and tolerance values above 0.10. These findings confirm the absence of multicollinearity, ensuring the stability and reliability of the regression model.

The autocorrelation test assesses whether there is a correlation between the residuals of the regression model across different time periods, specifically between period t and the preceding period $t-1$ (Ghazali, 2018). In this study, the Durbin-Watson (DW) statistic is employed to detect the presence of autocorrelation, which is critical for validating the assumptions of linear regression and ensuring the robustness of the model's estimates.

Table 4. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.481	0.232	0.191	0.051	1.734

Source: Research Data, 2024

Table 4 reports a Durbin-Watson (DW) test value of 1.734. According to the decision-making criteria outlined by Santoso (2010), a DW value falling within the range of -2 to +2 indicates the absence of autocorrelation in the regression model. Given that the obtained value is 1.734, it can be concluded that autocorrelation is not present, ensuring the validity of the regression assumptions.

The heteroscedasticity test examines whether the variance of residuals remains constant across observations. The presence of heteroscedasticity may indicate that the model's error terms are not evenly distributed, potentially leading to inefficient and biased estimations. Conducting this test is crucial to verifying the reliability and accuracy of the regression model's results.

Table 5. Heteroscedasticity Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	0.047	0.009		5.400	<0.001
X1	0.042	0.051	0.112	0.827	0.412
X2	-0.012	0.009	-0.184	-1.368	0.177
X3	-0.009	0.008	-0.145	-1.101	0.276

Source: Research Data, 2024

The results of the heteroscedasticity test presented in Table 5 indicate that the significance values for all independent variables exceed 0.05. This suggests that the residuals exhibit constant variance across observations, confirming the absence of heteroscedasticity in the dataset. Consequently, the regression model meets the assumption of homoscedasticity, ensuring the reliability of the estimated coefficients.

Multiple linear regression analysis is employed to examine the relationship between multiple independent variables and a dependent variable. In this study, multiple linear regression is utilized to assess the impact of thin capitalization, tax haven country utilization, and political connection on tax aggressiveness among manufacturing firms in the consumer goods industry sector listed on the Indonesian Sharia Stock Index (ISSI) from 2019 to 2023. This analysis provides empirical insights into how these factors influence corporate tax behavior within the specified sector.

Table 6. Multiple Linear Regression Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	0.170	0.015		11.510	<0.001
X1	0.028	0.086	0.040	0.329	0.744
X2	0.011	0.014	0.096	0.788	0.434
X3	0.051	0.014	0.451	3.793	<0.001

Source: Research Data, 2024

The multiple linear equations used in this study based on the results of multiple linear regression tests in table 6 are as follows:

$$TA = 0.170 + 0.028 X1 + 0.011 X2 + 0.051 X3 + e$$

The multiple linear regression analysis results indicate that the constant value (a) is 0.170. This suggests that when all independent variables—thin capitalization, tax haven country utilization, and political connection—are held constant at zero, tax aggressiveness, as measured by the Cash Effective Tax Rate (CETR), is 0.170.

The regression coefficient for thin capitalization ($X1$) is 0.028, implying that for every unit increase in $X1$, tax aggressiveness rises by 0.028. Similarly, the regression coefficient for tax haven country utilization ($X2$) is 0.011, indicating that a one-unit increase in $X2$ leads to a 0.011 increase in tax aggressiveness. Finally, the regression coefficient for political connection ($X3$) is 0.051, suggesting that each additional unit of $X3$ increases tax aggressiveness by 0.051.

The t-test evaluates the individual impact of each independent variable—thin capitalization, tax haven country utilization, and political connection—on tax

aggressiveness. The hypothesis is accepted if the significance value is less than 0.05.

Table 6 presents the t-test results, showing that the significance value for thin capitalization (X_1) is 0.744, which exceeds 0.05. Consequently, thin capitalization does not significantly influence tax aggressiveness, leading to the rejection of the first hypothesis. This finding contradicts previous studies by Amni et al. (2023), Yoshida (2023), Kurniawati & Mukti (2023), and Fasita et al. (2022), which assert that thin capitalization affects tax aggressiveness. The discrepancy may arise due to the relatively small sample size of 60 observations, which may not sufficiently capture the impact of thin capitalization on tax aggressiveness.

The findings further suggest that agency theory does not hold for thin capitalization in this context. Tax planning strategies that prioritize debt over equity may lead to financial distress, as excessive debt accumulation can hinder a company's ability to meet its obligations. This argument is supported by Nainggolan & Sari (2019), who highlight that Indonesian firms primarily rely on equity as their primary funding source. This is evidenced by PT Indofood CBP Sukses Makmur Tbk., which recorded the highest thin capitalization value of 32.05% in 2020—far below the 80% debt-to-equity threshold set by PMK No. 169/PMK.010/2015. Additionally, the findings align with regulatory restrictions set by the Capital Market Supervisory Agency (BAPEPAM) and Financial Institutions (LK) under KEP-208/BL/2012, which imposes a 45% debt-to-asset ratio limit on firms listed on the Indonesian Sharia Stock Index (ISSI). As a result, thin capitalization—when constrained by regulatory limits—does not contribute to tax aggressiveness, corroborating studies by Ismi & Linda (2016) and Khomsatun & Martani (2015). These studies found that thin capitalization in ISSI-listed companies weakens the link between debt financing and tax avoidance due to stringent debt restrictions.

The significance value for tax haven country utilization (X_2) is 0.434, exceeding 0.05, indicating that tax haven country utilization does not significantly influence tax aggressiveness. Thus, the second hypothesis is also rejected. This finding contradicts previous research by Kurniasih et al. (2023), Kurniasih et al. (2022), Granda (2020), Mukundhan et al. (2020), and Nerudová et al. (2020), which found a positive relationship between tax haven country utilization and tax aggressiveness. Despite 67% of sampled firms having subsidiaries or affiliates in tax havens, the results do not support the claim that tax haven utilization influences tax aggressiveness. These findings align with Damayanti & Prastiwi (2017), who argue that many tax havens identified by the OECD function as financial centers rather than as hubs for aggressive tax avoidance. For instance, in this study, Singapore—categorized as a tax haven—was the most frequently associated jurisdiction with sample firms. However, firms expanding into tax havens often do so for market expansion rather than tax avoidance, as researched by Aryotama & Firmansyah (2019). This contradicts agency theory, which assumes that management prioritizes maximizing shareholder wealth through aggressive tax planning. Instead, firms may prioritize long-term business sustainability over short-term tax minimization.

Conversely, the political connection variable (X_3) has a significance value of 0.001, which is below 0.05. This indicates a significant positive relationship

between political connections and tax aggressiveness, supporting the third hypothesis. These findings are consistent with prior research by Putri Malinda et al. (2022), Kim & Zhang (2016), Anggraini & Widarjo (2020), Sudibyo & Jianfu (2016), and Peyer & Vermaelen (2016). Anggraini & Widarjo's (2020) found that firms with strong political ties tend to exhibit higher tax aggressiveness. Similarly, Sudibyo & Jianfu's (2016) reported that politically connected firms pay lower taxes than their non-connected counterparts. Political connections provide firms with privileged access to tax-related information, lower scrutiny from tax authorities, and reduced tax audit risks, all of which incentivize aggressive tax planning. These findings align with agency theory, which posits that politically connected firms leverage their influence to optimize tax outcomes. However, such strategies may not always align with the interests of shareholders, who may perceive tax aggressiveness as a reputational or legal risk.

The model feasibility test (F-test) assesses the overall suitability of the regression model. A regression model is deemed statistically valid if the significance level is below 0.05, indicating that the independent variables collectively explain variations in tax aggressiveness.

Table 7. Model Feasibility Test Results (F Test)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	0.044	3	0.015	5.632	0.002
	Residual	0.145	56	0.003		
	Total	0.189	59			

Source: Research Data, 2024

From the F test results shown in table 7, the F value is 5.632 with a significance value (sig.) of 0.002 less than 0.05 ($0.002 < 0.05$). This shows that the regression model is feasible to use in this study.

The coefficient of determination (R^2) is used to measure how far the variation in the dependent variable is explained based on the capabilities of the model.

Table 8. Test Results of the Coefficient of Determination (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.481	0.232	0.191	0.051

Source: Research Data, 2024

The Adjusted R Square value in this study is 0.191. This shows that the independent variable can influence or explain 19.1% of the dependent variable. While the remaining 80.9% is influenced by other variables that cannot be explained by this study.

CONCLUSION

The findings of this study indicate that thin capitalization does not significantly influence tax aggressiveness. This suggests that corporate tax aggressiveness is not determined by the Maximum Allowable Debt (MAD) ratio, implying that firms do not necessarily engage in tax-aggressive practices based on their debt structure. Similarly, tax haven country utilization has no significant effect on tax aggressiveness, indicating that the presence or absence of subsidiaries or affiliated entities in tax haven jurisdictions does not directly impact a company's tax planning behavior. Conversely, political connections exhibit a significant positive

effect on tax aggressiveness. This finding highlights that companies with politically connected commissioners and directors—whether through prior government service or active political affiliations—are more likely to engage in tax-aggressive practices, leveraging the benefits derived from their political relationships, such as reduced regulatory scrutiny and privileged access to tax-related information.

Despite these findings, the study's adjusted R^2 value remains relatively low, suggesting that other factors beyond thin capitalization, tax haven country utilization, and political connections may also influence tax aggressiveness. Future research should consider incorporating additional independent variables, such as transfer pricing strategies, earnings management practices, and corporate governance mechanisms, to enhance explanatory power and provide a more comprehensive understanding of corporate tax aggressiveness.

This study also faces limitations regarding access to personal information on company commissioners and directors, particularly concerning their political affiliations and connections with high-profile politicians. Since these factors are critical in measuring political connections, future research is encouraged to adopt more in-depth and indirect investigative approaches. This may include analyzing publicly available records, digital footprints, or conducting interviews with corporate executives to obtain more accurate and comprehensive data.

Additionally, the study's scope is limited to the consumer goods industry sector. Expanding future research to encompass a broader range of industries, such as the entire manufacturing sector or other relevant sectors, would provide a more generalizable perspective on corporate tax aggressiveness. By incorporating a more diverse sample, future studies can offer deeper insights into industry-specific tax strategies and regulatory implications.

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