

# “Financial constraints and corporate governance as moderating variables for the determinants of tax avoidance”

<b>AUTHORS</b>	Dica Lady Silvera  Achmad Hizazi  M. Syurya Hidayat  Sri Rahayu 
<b>ARTICLE INFO</b>	Dica Lady Silvera, Achmad Hizazi, M. Syurya Hidayat and Sri Rahayu (2022). Financial constraints and corporate governance as moderating variables for the determinants of tax avoidance. <i>Investment Management and Financial Innovations</i> , 19(1), 274-286. doi: <a href="https://doi.org/10.21511/imfi.19(1).2022.21">10.21511/imfi.19(1).2022.21</a>
<b>DOI</b>	<a href="http://dx.doi.org/10.21511/imfi.19(1).2022.21">http://dx.doi.org/10.21511/imfi.19(1).2022.21</a>
<b>RELEASED ON</b>	Tuesday, 22 March 2022
<b>RECEIVED ON</b>	Thursday, 10 February 2022
<b>ACCEPTED ON</b>	Sunday, 20 March 2022
<b>LICENSE</b>	 This work is licensed under a <a href="https://creativecommons.org/licenses/by/4.0/">Creative Commons Attribution 4.0 International License</a>
<b>JOURNAL</b>	"Investment Management and Financial Innovations"
<b>ISSN PRINT</b>	1810-4967
<b>ISSN ONLINE</b>	1812-9358
<b>PUBLISHER</b>	LLC “Consulting Publishing Company “Business Perspectives”
<b>FOUNDER</b>	LLC “Consulting Publishing Company “Business Perspectives”



NUMBER OF REFERENCES

90



NUMBER OF FIGURES

0



NUMBER OF TABLES

5

© The author(s) 2022. This publication is an open access article.



## BUSINESS PERSPECTIVES



LLC "CPC "Business Perspectives"  
Hryhorii Skovoroda lane, 10,  
Sumy, 40022, Ukraine  
[www.businessperspectives.org](http://www.businessperspectives.org)

**Received on:** 10<sup>th</sup> of February, 2021

**Accepted on:** 20<sup>th</sup> of March, 2022

**Published on:** 22<sup>nd</sup> of March, 2022

© Dica Lady Silvera, Achmad Hizazi,  
M. Syurya Hidayat, Sri Rahayu, 2022

Dica Lady Silvera, Dr., Doctoral  
Student, Faculty of Economics and  
Business, Accounting Department,  
Universitas Jambi, Indonesia.  
(Corresponding author)

Achmad Hizazi, Dr., Associate  
Professor, Faculty of Economics and  
Business, Accounting Department,  
Universitas Jambi, Indonesia.

M. Syurya Hidayat, Dr., Associate  
Professor, Faculty of Economics and  
Business, Economics Department,  
Universitas Jambi, Indonesia.

Sri Rahayu, Dr., Associate Professor,  
Faculty of Economics and Business,  
Accounting Department, Universitas  
Jambi, Indonesia.



This is an Open Access article,  
distributed under the terms of the  
[Creative Commons Attribution 4.0  
International license](https://creativecommons.org/licenses/by/4.0/), which permits  
unrestricted re-use, distribution, and  
reproduction in any medium, provided  
the original work is properly cited.

### Conflict of interest statement:

Author(s) reported no conflict of interest

Dica Lady Silvera (Indonesia), Achmad Hizazi (Indonesia), M. Syurya Hidayat (Indonesia),  
Sri Rahayu (Indonesia)

# FINANCIAL CONSTRAINTS AND CORPORATE GOVERNANCE AS MODERATING VARIABLES FOR THE DETERMINANTS OF TAX AVOIDANCE

## Abstract

The purpose of this study is to empirically investigate the effect of financial constraints and corporate governance as moderating variables on the determinants of tax avoidance, which includes foreign activity, corporate social responsibility, and political connections. All companies listed on the Indonesia Stock Exchange from 2017 to 2019 are the objects of this study. The panel data regression was used to address the research question. The findings show that foreign activity, corporate social responsibility, and political connections significantly affected tax avoidance with alpha 5%. The results also show that corporate governance can reduce the positive impact of foreign activity, corporate social responsibility, and political connection on tax avoidance with alpha 1%.

Moreover, financial constraints may strengthen the positive impact of corporate social responsibility on tax avoidance with alpha 5%. The findings further provide empirical evidence about one of the strategies businesses use to conduct tax avoidance, notably foreign activity, corporate social responsibility, and political connection. Thus, companies that implement good corporate governance could reduce corporate tax avoidance acts, which can harm the company's image and lead to a decrease in company value. This study discovered a new proxy for measuring financial constraints, as well as developments in the political connection.

## Keywords

tax avoidance, financial constraint, corporate  
governance, foreign activity, corporate social  
responsibility, political connection

## JEL Classification

G30, H26, M41

## INTRODUCTION

Indonesia is currently facing several financial problems, one being the state's financial losses. The Supreme Audit Agency of the Republic of Indonesia (BPK) discovered 14,965 problems in public finances. The loss could amount to Rp 10.35 trillion. This is noted in the examination administered during the 2019 first semester (BPK RI, 2019). Problems of state finances are inextricably related to the sources of state finances. The state derives revenue from various sources, one of which is tax revenue. According to its growth, tax revenue climbed at a negative rate of 3.27% (Kementerian Keuangan Republik Indonesia, 2019). This shows that the tax sector's performance is not yet optimal. Many factors may affect the tax sector's success, one of which is the occurrence of tax avoidance activities conducted by taxpayers in Indonesia. The phenomena of different interests of taxpayers and the government, as well as the average tax ratio falling short of the aim, may suggest a significant amount of tax avoidance activity. Many studies on tax avoidance have been conducted widely (Dyrend et al.,

2010; Wilson, 2009; Hanlon & Heitzman, 2010; Blaylock et al., 2012; Atwood et al., 2012; Chen et al., 2010; Deak, 2009). Similarly, in Indonesia, many research on tax avoidance has been conducted (Brian & Martani, 2014; Fontanella & Martani, 2014; Lestari et al., 2014; Masri & Martani, 2012; Nuritomo & Martani, 2014; Oktavia & Martani, 2013; Prakoso, 2014; Rusydi & Martani, 2014; Sirait & Martani, 2014; Suprianto & Dewi, 2014). Tax avoidance refers to the company's ability to pay the cash-effective tax rate on the company's profit before tax (Dyrenge et al., 2010).

One of Indonesia's accused tax avoidance cases included the Indonesian energy group Adaro. According to Global Witness (n.d.), Adaro avoided or reduced their tax obligations in Indonesia by up to 125 million US dollars. Global Witness investigation prompted the KPK to conduct an examination of these sales data for evidence of transfer pricing errors or tax avoidance. Adaro's tax avoidance practices show one of the foreign activities, with income shifting practices enabled by affiliated companies that multinational companies used to implement tax avoidance mechanisms. Many factors can influence the occurrence of tax avoidance activities, one of which is the company's foreign activity. The escalation of evading taxes will be larger if they engage in foreign activities as multinational companies (MNCs) (Sudibyo & Jianfu, 2016). Companies with foreign activities may use it as a tax avoidance strategy, for example, through transfer pricing (Ariffin, 2013). Leblang (1998) states that MNCs have an excellent opportunity to avoid paying Income Taxes (PPH). Rego (2003) contends that MNCs can reduce their tax burden by placing their operations in countries with low-income tax rates so that MNCs can have a lower tax burden.

Another factor that may affect the likelihood of tax avoidance is the company's commitment to corporate social responsibility. Tax payments in line with applicable tax provisions are a part of a company's corporate social responsibility (CSR) program. This means that the tax paid by a company serves the interests of the government, which manages state finances to finance the development process. Lanis and Richardson (2015) show that the more CSR activities a company engages in, the greater its tax payments or, the lower its level of corporate tax avoidance. However, a company's perception of taxes as a burden results in the company's efforts to avoid paying taxes. Thus, Laguir et al. (2015) demonstrate that CSR activity is one approach for companies to maximize expenses while minimizing taxable profit, resulting in a high after-tax profit. This profit after taxes will be distributed to stakeholders as a sign of prosperity to increase investor loyalty. In addition to serving as a strategic tool to promote the company image, CSR activities serve as a tool for manipulating profits. Therefore, corporate CSR can be used as a strategic tool with a company's tax avoidance efforts. Lanis and Richardson (2015) and Dharma and Noviyari (2017) show that the higher the amount of corporate CSR, the lower the level of tax avoidance in a company. While Hidayat (2020) discovered that CSR impacts tax avoidance, he states that this is because many companies continue to employ CSR activities as a tool to avoid taxes.

Many factors can impact a company's decision to implement corporate social responsibility. One factor that is believed to play a role is political connections. According to Faccio et al. (2006), "political connections exist when shareholders of authority or company officials are members of parliament, ministers, or heads of state, or are otherwise related to state officials and state institutions." Tax avoidance is unethical action since it can jeopardize the government's ability to provide public facilities and infrastructure financed through tax revenues. As an illustration, the DGT mentioned a potential loss of Rp 5.5 trillion in tax revenue because of the Google case. This does not include the loss of the aspect of justice if it is discovered that other large corporations do not pay their taxes. Faccio (2007) identified one factor contributing to tax avoidance, specifically political connections. Companies with political connections frequently pay lower taxes (tax discount). This study uses two moderating variables, which are hypothesized to weaken and strengthen the impact of the independent variable on the dependent variable. The moderating variables used include financial constraints and corporate governance.

The variables researched, the addition of moderating variables, the purpose of this paper, proxies or measuring instruments for research variables, research data, research models, and statistical analysis techniques used all differ from previous studies. The inconsistency of previous conclusions is also worth considering as motivation for performing this investigation. This study aims to empirically investigate the causes of tax avoidance, specifically international activity, corporate social responsibility, and political connection, with financial constraints and corporate governance serving as moderators.

## 1. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

This study framework of thought examines the theories employed and their relationship to variables or research phenomena. The study uses agency theory and positive accounting theory, while the study's middle-range theory is legitimacy theory. Agency theory refers to a cooperative relationship in a contract between an owner (principal) and company management (agent), where the principal delegated authority to the agent to manage a company and make decisions. Anthony and Govindarajan (2009) interpret agency theory of meaning that all individuals will act in their own self-interest, such as human nature, which is always more selfish than others, to promote behavior and act for self-interest. According to Jensen and Meckling (1976), a conflict of interest between the principal and agent results in agency costs such as monitoring, bonding, and residual loss. Separation of authority and conflict of interests between the principal and agent can result in a conflict of interest, causing an information imbalance known as information asymmetry. Agency conflicts can have a negative impact on the company's survival. Conflict of interest is related to management decisions regarding the company's tax payment policies.

Positive accounting theory aims to explain observed accounting phenomena by examining the factors that contributed to an event's occurrence (Watts & Zimmerman, 1990). Positive accounting theory aims to explain and forecast the implications of management choices. Positive accounting theory bases its explanations and predictions on the contract process or agency relationship between managers and other parties such as investors, creditors, auditors, capital market managers, and governmental authorities. Watts and

Zimmerman (1990) also connect positive accounting theory and the phenomenon of opportunistic behavior by proposing three hypotheses to explain manager opportunistic behavior: the Bonus Plan Hypothesis, the Debt (Equity) Hypothesis, and the Political Cost Hypothesis. The final hypothesis, the Political Cost Hypothesis, asserts that corporate leaders frequently violate government regulations, such as tax laws. Suppose certain benefits and advantages can be obtained. In that case, managers will play with profits so that payment obligations are not too high, so that the allocation of profits is the company's will.

Legitimacy theory is critical for organizations, social norms and values stress boundaries, and reactions to these boundaries emphasize the need to study organizational behavior in relation to the environment (Dowling & Pfeffer, 1975). According to Ghozali and Chariri (2007), the basic principle of legitimacy is based on the social contract between the company and the community in which it operates and uses economic resources. According to Deegan (2002), a company's legitimacy will be established if the outcomes match what the community expects from it, i.e., there will be no demands from the community. Corporate social responsibility disclosure will enhance the company's reputation, which will positively affect financial performance, as potential investors will be more interested in investing in companies that care about the environment and corporate sustainability. To gain legitimacy, corporate organizations must communicate environmental activities by disclosing the social environment (Berthelot & Robert, 2011). Environmental disclosure is considered helpful for restoring, enhancing, and maintaining the legitimacy that has been received (Hadjoh & Sukartha, 2013).

Hanlon and Heitzman (2010) state that tax avoidance is "an explicit tax deduction and measures tax avoidance as the difference between the tax

paid and the tax paid by a company.” This reflects how aggressively a company is to do tax avoidance. Managers have the intention of lowering the taxes paid and increasing their income. Lim (2011) defines tax avoidance as tax savings that arise by utilizing tax provisions carried out legally to minimize tax obligations. This tax avoidance practice is carried out by looking at the gaps in tax regulations. Brown (2012) states that tax avoidance practices are carried out through company transactions, where the transaction activities are not regulated in tax regulations. These transactions are like transfer pricing and transactions with related parties.

Foreign activity is represented by multinational companies (MNCs) as companies located in two or more countries that reflect the organizational form of foreign investment (Way et al., 1992). Companies engaged in foreign activity have the opportunity to evade income tax by locating operations overseas at low tax rates; shifting revenue from high tax jurisdictions to low tax jurisdictions; exploiting the differences between the tax rules of various countries; and taking advantage of the tax benefits agreement with the host country (Ariffin, 2013). Dewi and Jati (2014) conducted a study in Indonesia on foreign activity and found that foreign activity had no effect on tax avoidance in manufacturing firms between 2009 and 2012. Hidayah (2015) discovered a different result: foreign activity had a significant positive effect on tax avoidance. As a result, additional research is necessary to determine the effect of foreign activity on tax avoidance. In terms of foreign activities, research in developed countries shows that businesses with foreign activities report significantly lower taxable income. Hines (1999) shows that multinational companies in the United States employ a variety of tax-cutting strategies. According to Rego (2003), companies with foreign activities have the chance to decrease their income tax liability through income shifting to countries with low tax rates.

Tax avoidance is considered unethical action since it impairs the government’s ability to provide public facilities and infrastructure financed through tax revenues. Tax payments in conformity with applicable tax laws are a component of a company’s Corporate Social Responsibility (CSR)

program. This means that the taxes paid by companies serve the government’s interests, which manages the state’s finances to finance development. Lanis and Richardson (2012) show that the more CSR activities a company participates in, the greater its tax payments or the lower its level of corporate tax avoidance. However, a company’s perception of taxes as a burden result in the company’s efforts to avoid paying taxes. Thus, Laguir et al. (2015) demonstrate that CSR activities enable companies to maximize operating expenses while minimizing taxable profit, resulting in a significant after-tax profit. This profit after taxes will be distributed to stakeholders as a signal of prosperity to increase investor loyalty.

Corporate social responsibility is based on the legitimacy theory, which states that companies must offer benefits or create welfare for the community to get recognized in the long-term viability (Chariri & Ghazali, 2007). However, Laguir et al. (2015) argue that tax avoidance can be viewed as opportunistic behavior in which companies incorporate CSR into their activities. Therefore, corporate social responsibility influences tax avoidance, as proven by Lanis and Richardson (2012) and Pradipta and Supriyadi (2015). Based on Muzakki (2015), corporate social responsibility negative tax avoidance. It is different from the results of Hidayati and Fidiana (2017), who showed that CSR has a positive effect on tax avoidance because some CSR items carried out by companies are deductible expenses.

Companies that are aggressive in tax avoidance tend to be more willing to take on risky investments. For instance, Kim et al. (2011) discovered a relation between tax avoidance and the risk of stock price crashes (stock price crash risk). Likewise, Rego and Wilson (2012) found a link between risky decision-making incentives for managers and more aggressive tax avoidance. Therefore, if the investment fails and the firm goes bankrupt, the preference for financial aid from the government via political connections appears to ensure the company’s sustainability. Here, bureaucrats tend to use it by giving entrepreneurs the right to product licenses (Krueger), or tax benefits (Shapiro, 1991; Barton & Collins; Richter et al., 2009). Some literature on a political connection in Indonesia has shown the important role of con-

nections to the economy (Fisman, 2001), the relationship to global financing (Leuz & Oberholzer-Gee, 2006), its influence on import licensing decisions (Mobarak & Purbasari, 2006), and indirect costs to financial difficulties (Wijantini, 2007). Additionally, these results in high leverage values for companies with political connections, making them susceptible to financial difficulties (financial distress). Additionally, the existence of a preference in supervision and lax enforcement of tax sanctions renders political connections, implying a positive relationship between political connection and tax avoidance.

According to Fazzari et al. (1988), financially constrained firms face obstacles to obtaining external funding. Businesses face financial constraints mainly because external financing cannot fully substitute for internal funding. As a result, financially constrained companies have a low dividend payout ratio. There are two reasons for corporations encountering financial restrictions to have a low dividend payout ratio (DPR). First, a company needs funds for investment, but the finance required for these investments exceeds the firm's internal cash flow. Therefore, the company maintains all available low-cost internal funding. Second, the business generates little revenue to distribute to shareholders.

Almeida et al. (2004) stated that increased profitability can be a source of funding in times of severe cash flow constraints. Almeida et al. (2004), in agreement with Ferreira and Vilela (2004), explain that businesses facing financial constraints will typically pursue optimal cash strategies to balance the profitability of present and future investments. Thus, they expect future financing constraints by reinvesting cash from present gains, so companies facing financial constraints will grow their cash holdings to ensure future sustainability, which can be accomplished in part by reducing tax payments.

Dyreg, Hanlon dan Maydew (2010) demonstrate that companies facing financial constraints will reduce their foreign activity. Additionally, Shen and Lin (2015) demonstrate that companies with financial constraints, but a political connection can help those companies lessen their financial constraints. Financial constraints are employed as a moderating variable in this analysis because

they are believed to strengthen or weaken the association between foreign activity, corporate social responsibility, and political connections to tax avoidance. According to Law and Mills (2015), companies under financial constraints will change their tax avoidance strategy. According to the Cadbury Committee, corporate governance is a system that leads and manages a company to create a balance between the company's power and authority required to assure its continued existence and accountability to stakeholders. This refers to the regulatory authority of owners, directors, management, and shareholders. Corporate governance is thought to be capable of creating favorable conditions and a solid foundation for conducting good, efficient, and profitable business operations. According to the findings, corporate governance has an impact on lowering corporate tax avoidance. According to Desai and Dharmapala (2009), the taxation system and company governance (i.e., a weak vs. a strong corporate governance system) are intertwined in determining tax reporting and corporate tax avoidance behavior. Desai and Dharmapala (2009) show that effective corporate governance measures are related to lower tax avoidance.

The purpose of this study is to determine the impact of foreign activity, corporate social responsibility, and political connections on tax avoidance using financial constraints and corporate governance as moderators.

## 2. METHODOLOGY

This paper used secondary data. The data for this study is from annual financial statements, which are publicly available on the Indonesia Stock Exchange website for the 2017–2019 period, with a total sample size of 141 companies (IDX, n.d.). The analysis method used in this study is panel data regression. Econometric Views Software is used to analyze the data collected. The panel data regression equation model is calculated by:

$$\begin{aligned}
 TAX = & \beta_0 + \beta_1 FA_{it} + \beta_2 CSR_{it} + \\
 & + \beta_3 PC_{it} + \beta_4 FC_{it} + \beta_5 FA \cdot FC_{it} + \\
 & + \beta_6 CSR \cdot FC_{it} + \beta_7 PC \cdot FC_{it} + \\
 & + \sum \beta_j Control\ Variables_j + e,
 \end{aligned} \quad (1)$$

$$\begin{aligned}
 TAX = & \beta_0 + \beta_1 FA_{it} + \beta_2 CSR_{it} + \\
 & + \beta_3 PC_{it} + \beta_4 CG_{it} + \beta_5 FA \cdot CG_{it} + \\
 & \beta_6 CSR \cdot CG_{it} + \beta_7 PC \cdot CG_{it} + \\
 & + \sum \beta_j Control\ Variables_j + e,
 \end{aligned} \quad (2)$$

where *TAX* – Tax avoidance; *FA* – Foreign Activity; *CSR* – Corporate Social Responsibility; *PC* – Political Connection; *FC* – Financial Constraint; *CG* – Corporate governance; Control variable: *DER*, *ROA*, *ASSET*. Model 1 is used to examine the impact of foreign activity on tax avoidance, corporate social responsibility on tax avoidance, and political connections on tax avoidance, as well as the effect of financial constraint moderating variables. Model 2 is used to examine the impact of foreign activity on tax avoidance, corporate social responsibility on tax avoidance, and political connections on tax avoidance, as well as the effect of CG moderating variables. Model 3 is used to examine the effect of political connections on CSR. Tax avoidance (TA) was measured using a suitable proxy defined by Kim et al. (2011).

$$BTD = \frac{Book\ Income_{i,t} - Taxable\ Income_{i,t}}{Lagged\ Asset}, \quad (3)$$

where *Book Income<sub>i,t</sub>* – Revenue of company *i* in year *t* according to accounting calculations; *Taxable Income<sub>i,t</sub>* – Taxable income of company *i* in year *t* according to accounting calculations; *Lagged Asset* – Total assets of company *i* in year *t-1*.

Foreign activity (FA) is represented by multinational companies (MNCs) as companies located in two or more countries that reflect the organizational form of foreign investment (Jacob, 1996). To measure foreign activity, the study uses a proxy for the number of rupiah transferred between companies via inter-geographical area transfers for companies scaled by worldwide sales (Jacob, 1996). Corporate Social Responsibility is measured using the Corporate Social Responsibility Disclosure Index (CSRDI), which is derived from content analysis and is based on the 91-item GRI (Global Reporting Initiatives)-G4 indicator. The political connection (PC) variable is described using a dummy variable that is coded 1 (one) when a company has political connections and 0 (zero) when it does not. The criteria used to define political connection are based on Faccio (2007), Adhikari et al. (2006), and Sudibyo and Jianfu (2016), namely:

- if there is a director or commissioner who is also a member of the House of Representatives, a member of the executive cabinet, an official in government agency including the military, or a member of a political party;
- if there is a director or commissioner who is also a former member of House of Representatives, former executive cabinet member, a former official in a government institution including the military;
- if one of the owners/shareholders of over 10% is a member of a political party, has a relationship with a top politician, and/or an official or former government official including the military;
- if there is a family of commissioners/owners/majority shareholders who are involved in politics both in the current and previous periods.

Criterion (d) is a new criterion as a novelty developed by this study.

### 3. RESULTS AND DISCUSSION

Table 1 presents the regression result for Model 1, and Table 2 presents the regression result for Model 2.

**Table 1.** Regression results for Model 1

Variable	Prediction	Coefficient	Probability
<i>FA</i>	+	0.01405	0.0000***
<i>CSR</i>	+	-0.04929	0.1042
<i>PC</i>	+	0.03403	0.0000***
<i>FC</i>	+	-0.00339	0.1542
<i>FA-FC</i>	+	-0.02109	0.0000***
<i>CSR-FC</i>	+	0.06842	0.0118**
<i>PC-FC</i>	+	-0.03037	0.0000***
<i>DER</i>	+	0.00520	0.0000***
<i>ASET</i>	-	-0.00303	0.0000***
<i>ROA</i>	+	0.00085	0.0006***
<i>R-squared</i>		0.24951	
<i>Adj R-squared</i>		0.18066	
<i>F-statistic</i>		3.62390	
<i>Prob (F-statistic)</i>		0.00034	

Note: *FA* – foreign activity; *CSR* – Corporate Social Responsibility; *PC* – political connection; *FC* – financial constraint; *FA-FC*, *CSR-FC*, and *PC-FC* – moderating variable financial constraint; *DER* – debt to equity ratio; *ASET* – total assets; *ROA* – return on assets. Significance at the level: \* – 10%, \*\* – 5%, \*\*\* – 1%.

**Table 2.** Regression results for Model 2

Variable	Prediction	Coefficient	Probability
FA	+	0.10776	0.0000***
CSR	+	0.17400	0.0048**
PC	+	0.05772	0.0043**
CG	–	0.00209	0.0000***
FA-CG	–	–0.00145	0.0000***
CSR-CG	–	–0.00182	0.0056***
PC-CG	–	–0.00079	0.0044***
DER	+	0.00746	0.0000***
ASET	–	–0.00506	0.0000***
ROA	–	0.00052	0.0000***
R-squared		0.18049	
Adj R-squared		0.10531	
F-statistic		2.40072	
Prob (F-statistic)		0.01286	

Note: FA – foreign activity; CSR – Corporate Social Responsibility; PC – political connection; CG – corporate governance; FA-CG, CSR-CG, and PC-CG – moderating variable corporate governance; DER – debt to equity ratio; ASET – total assets; ROA – return on assets. Significance at the level: \* – 10%, \*\* – 5%, \*\*\* – 1%.

The findings of this study provide empirical evidence for one of the tax avoidance strategies employed by companies, notably foreign activity, corporate social responsibility, and political connection. This is the first study to examine the role of financial constraints in moderating the effects of tax avoidance measures. The findings of this study demonstrate that companies that implement good corporate governance will be able to avoid the occurrence of corporate tax avoidance actions that can harm the company's image and result in a decrease in company value. The findings of this study summarize regulators who should be more concerned with corporate governance implementation within a company, as well as foreign activities, corporate social responsibility initiatives, and political connections owned by companies.

This study shows that when agency problems exist between managers and shareholders, the effect of tax avoidance on corporate financial constraints is dependent on the quality of cor-

porate governance mechanisms. This is demonstrated by research findings that corporate governance can mitigate the influence of factors that increase the risk of tax avoidance actions. This study concludes that improving corporate governance will cause companies to engage in less tax avoidance.

The findings of this study contribute to agency theory by demonstrating that monitoring costs, specifically those incurred by the principal to monitor the activities and behavior of agents in conjunction with the implementation of corporate governance in managing a company, can help avoid unlawful acts. The findings of this study corroborate the legitimacy and positive accounting theories. Companies engage in corporate social responsibility efforts to earn community support for their long-term viability; on the other hand, companies regularly choose and use accounting practices that might reduce or increase reported profits. In the political cost hypothesis of positive accounting, it is claimed that corporate managers may violate government regulations, such as tax laws, if certain benefits and advantages can be acquired for their party.

The paper presents empirical evidence on the effect of foreign activity, corporate social responsibility, and political connections on tax avoidance. Financial constraints and corporate governance serve as moderators, as well as the influence of political connections on corporate social responsibility. The results obtained are valuable information for investors to consider when making investment decisions. Investors can choose companies with good corporate governance ratings when making investment decisions since corporate governance has been shown to mitigate the influence of foreign activities, corporate social responsibility, and political connections to tax avoidance.

By expanding the accounting literature on corporate social responsibility and the notion of legitimacy using tax avoidance as a public concern, the findings of this study directly relate to the general welfare of society. In addition, this study represents a contrary position to legitimacy theory by concretely explaining why certain

companies reveal more about their corporate social responsibility information than others.

The findings of this study provide information to regulators that may be used to evaluate current and future tax policies to optimize state revenue potential from the tax sector. This study demonstrates empirically that 76% of companies in Indonesia have a political con-

nection (see Appendix A), which influences the occurrence of tax avoidance activities. On the other hand, this study provides empirical evidence that companies in Indonesia frequently face financial constraints, as seen by the percentage of results nearing 90% and the number of companies paying 126 dividends ranging from 0 to 2,000,000,000,000 – or the Lowest (see Appendix B and Appendix C)

---

## CONCLUSION

The research model demonstrates that corporate governance and financial constraints can moderate the impact of tax avoidance-related factors. No other research model exists that investigates the effect of foreign activity, corporate social responsibility, and political connections on tax avoidance using financial constraints and corporate governance as moderating variables; thus, this is the first study conducting such research.

The Indonesian Directorate General of Taxes is anticipated to develop appropriate policies considering the findings of this study to maximize state revenue from corporate income taxes in the future, helping the directorate general of taxes accomplish its goals. Regulators responsible for state tax revenues are expected to monitor corporate governance implementation in companies since improved corporate governance can help prevent or mitigate tax avoidance activities. The Directorate General of Taxes should educate companies about the importance of tax transparency to maximize state revenue from the tax sector. Further research can be conducted to determine why, in specific business contexts, companies with certain corporate social responsibility features engage in higher or lower tax avoidance. Further study can analyze more particular corporate social responsibility activities, such as which activities are more closely related to corporate tax policies and why. Additionally, it can explore how managers use political contributions to address concerns of corporate legitimacy, as well as do additional research on the role of ethics in supporting corporate social responsibility and tax policies.

## AUTHOR CONTRIBUTIONS

Conceptualization: Achmad Hizazi.

Data curation: Dica Lady Silvera.

Formal analysis: M. Syurya Hidayat, Sri Rahayu.

Funding acquisition: Dica Lady Silvera.

Investigation: Dica Lady Silvera.

Methodology: Achmad Hizazi, M. Syurya Hidayat.

Project administration: Dica Lady Silvera.

Resources: Achmad Hizazi, M. Syurya Hidayat, Sri Rahayu.

Software: Dica Lady Silvera.

Supervision: Achmad Hizazi, Sri Rahayu.

Validation: Achmad Hizazi, M. Syurya Hidayat.

Visualization: Dica Lady Silvera.

Writing – original draft: Dica Lady Silvera.

Writing – review & editing: Sri Rahayu.

## REFERENCES

1. Adhikari, A., Derashid, C., & Zhang, H. (2006). Public policy, political connections, and effective tax rates: Longitudinal evidence from Malaysia. *Journal of Accounting and Public Policy*, 25, 574-595. <https://doi.org/10.1016/j.jaccpubpol.2006.07.001>
2. Almeida, C. A., Pereira, G. M., & Leandro, E. (2004). The influence of family support, parental coping and school support on adherence to type 1 diabetes' self-care in adolescents. In A. P. Escher, & A. Li (Eds.), *Type 1 Diabetes*. IntechOpen. <http://dx.doi.org/10.5772/53062>
3. Anthony, R. N., & Vijay, G. (2009). *Management Control System*. Jakarta: Salemba Empat.
4. Ariffin, Z. Z. (2013). Tax planning of a company operating foreign activity in Malaysia. *International Journal of Trade, Economics and Finance*, 4(4), 209-212. <https://doi.org/10.7763/IJTEF.2013.V4.287>
5. Arifin, Z. (2009). *Evaluasi Pembelajaran* (1<sup>st</sup> ed.). Jakarta. (In Indonesian). Retrieved from <https://docplayer.info/303008-Evaluasi-pembelajaran-drs-zainal-arifin-m-pd.html>
6. Atwood, T. J., Drake, M. S., Myers, J. N., & Myers, L. A. (2012). Home country tax system characteristics and corporate tax avoidance: International evidence. *The Accounting Review*, 87, 1831-1860.
7. Badan Pemeriksa Keuangan Republik Indonesia (BPK RI). (2019). *Ikhtisar Hasil Pemeriksaan (Semester I 2019)*. (In Indonesian). Retrieved from <https://www.bpk.go.id/ihaps/2019/I>
8. Barton, J., & Collins, A. (1997). *Portfolio assessment: A handbook for educators*. Menlo Park, CA: Innovative Learning Publications.
9. Bayar, O., Huseynov, F., & Sardarli, S. (2018). Corporate Governance, Tax Avoidance, and Financial Constraints. *Financial Management*, 47(3), 651-677. <https://doi.org/10.1111/fima.12208>
10. Berthelot, S., & Robert, A. M. (2011). Climate change disclosures: An examination of Canadian oil and gas firms. *Issues in Social and Environmental Accounting*, 5(1/2), 106-123.
11. Blaylock, B., Shevlin, T., & Wilson, R. J. (2012). Tax Avoidance, Large Positive Temporary Book-Tax Differences, and Earnings Persistence. *Accounting Review*, 87(1), 91-120. <http://dx.doi.org/10.2139/ssrn.1524298>
12. Branco, M. C., & Rodrigues, L. L. (2006). Corporate Social Responsibility and Resource-Based Perspectives. *Journal of Business Ethics*, 69, 111-132. <https://doi.org/10.1007/s10551-006-9071-z>
13. Brealey, R. A., Myers, S. C., & Allen, F. (2016). *Principles of Corporate Finance* (12<sup>th</sup> ed.). New York: McGraw-Hill Education.
14. Brian, I., & Martani, D. (2014). Analisis Pengaruh penghindaran Pajak dan Kepemilikan Keluarga terhadap Waktu pengumuman Laporan Keuangan Tahunan Perusahaan. *Finance and Banking Journal*, 16(2).
15. Brown, K. B. (2012). *A Comparative Look at Regulation of Corporate Tax Avoidance*. New York: Springer.
16. Chang, L. L., Hsiao, F. D., & Tsai, Y. C. (2013). Earnings, institutional investors, tax avoidance, and firm value: Evidence from Taiwan. *Journal of International Accounting, Auditing and Taxation*, 22(2), 98-108. <https://doi.org/10.1016/j.intaccudtax.2013.07.001>
17. Chariri, A., & Imam, G. (2007). *Teori Akuntansi*. Semarang: Badan Penerbit Diponegoro. (In Indonesian).
18. Chen, S., Chen, X., Cheng, Q., & Shevlin, T. J. (2010). Are Family Firms More Tax Aggressive Than Non-Family Firms? *Journal of Financial Economics*, 95(1), 41-61. <https://doi.org/10.1016/j.jfineco.2009.02.003>
19. Chen, X., Hu, N., Wang, X., & Tang, X. (2010). Tax avoidance and firm value: evidence from China. *Nankai Business Review International*, 5(1), 25-42. <https://doi.org/10.1108/NBRI-10-2013-0037>
20. Chernev, A., & Blair, S. (2015). Doing Well by Doing Good: The Benevolent Halo of Corporate Social Responsibility. *Journal of Consumer Research*, 41(6), 1412-1425. <https://doi.org/10.1086/680089>
21. Chow, C. W., & Wong-Boren, A. (1987). Voluntary Financial Disclosure by Mexican Corporations. *The Accounting Review*, 62(3), 533-541. Retrieved from <https://www.jstor.org/stable/247575>
22. Cowen, S. S., Ferreri, L. B., & Parker, L. D. (1987). The Impact of Corporate Characteristics on Social Responsibility Disclosure: A Typology and Frequency-Based Analysis. *Accounting, Organizations and Society*, 12(2), 111-122. [https://doi.org/10.1016/0361-3682\(87\)90001-8](https://doi.org/10.1016/0361-3682(87)90001-8)
23. Deak, D. (2009). Legal Considerations of Tax Evasion and Tax Avoidance. *Society and Economy*, 26(1), 41-85. <http://dx.doi.org/10.1556/SoEc.26.2004.1.2>
24. Dechow, P. M., Ge, W., Larson, C. R., & Sloan, R. G. (2007). *Predicting Material Accounting Manipulation*. Retrieved from [https://www.business.unsw.edu.au/About-Site/Schools-Site/Accounting-Site/Documents/Patricia%20Dechow\\_paper.pdf](https://www.business.unsw.edu.au/About-Site/Schools-Site/Accounting-Site/Documents/Patricia%20Dechow_paper.pdf)
25. Deegan, C. (2002). Introduction: The legitimising effect of social and environmental disclosures – a theoretical foundation. *Accounting, Auditing & Accountability Journal*, 15(3), 282-311. <https://doi.org/10.1108/09513570210435852>
26. Desai, M. A., & Dharmapala, D. (2009). Corporate Tax Avoidance and Firm Value. *The Review of Economics and Statistics*, 91(3), 537-546. <https://doi.org/10.1162/rest.91.3.537>

27. Dewi, N., & Jati, I. (2014). Pengaruh Karakter Eksekutif, Karakteristik Perusahaan, Dan Dimensi Tata Kelola Perusahaan Yang Baik Pada Tax Avoidance Di Bursa Efek Indonesia. *E-Jurnal Akuntansi Universitas Udayana*, 6(2), 249-260. (In Indonesian). Retrieved from <https://ojs.unud.ac.id/index.php/Akuntansi/article/view/7929>
28. Dewi, R. R., & Sitinjak, M. (2009). Analisis pengaruh karakteristik perusahaan terhadap. *Jurnal Informasi, Perpajakan, Akuntansi Dan Keuangan Publik*, 4(2), 149-170. (In Indonesian).
29. Dharma, & Noviyari. (2017). Pengaruh Corporate Social Responsibility Dan Capital Intensity Terhadap Tax Avoidance. *E-Jurnal Akuntansi Universitas Udayana*, 18(1), 529-556. (In Indonesian).
30. Diantari, P. R., & Ulupui, I. A. (2016). Pengaruh Komite audit, Proporsi Komisaris Independen, dan Proporsi kepemilikan Instiusional terhadap Tax Avoidance. *E-Jurnal Akuntansi Universitas Udayana*, 16(1), 702-732. (In Indonesian). Retrieved from <https://ojs.unud.ac.id/index.php/Akuntansi/article/view/20664>
31. Direktorat Jenderal Pajak. (2015). *Annual Report DJP*. (In Indonesian). Retrieved March 29, 2017, from <https://pajak.go.id/id/laporan-keuangan-tahun-2015>
32. Dowling, J., & Pfeffer, J. (1975). Organizational Legitimacy: Social Values and Organizational Behavior between the Organizations seek to establish congruence. *The Pacific Sociological Review*, 18(1), 122-136. Retrieved from <https://journals.sagepub.com/doi/pdf/10.2307/1388226>
33. Dyreng, S. D., Hanlon, M., & Maydew, E. L. (2010). The effects of executives on corporate tax avoidance. *Accounting Review*, 85(4), 1163-1189. <https://doi.org/10.2308/accr.2010.85.4.1163>
34. Faccio, M. (2007). *The characteristics of politically connected firms* (Purdue CIBER Working Paper No. 51). Retrieved from <http://docs.lib.purdue.edu/ciberwp/51>
35. Faccio, M., Masulis, R. W., & McConnell, J. J. (2006). Political Connections and Corporate Bailouts. *The Journal of Finance*, 61(6), 2597-2635. <https://doi.org/10.1111/j.1540-6261.2006.01000.x>
36. Fazzari, S. M., Hubbard, R. G., Petersen, B. C., Blinder, A. S., & Poterba, J. M. (1988). Financing constraints and corporate investment. *Brookings Papers on Economic Activity*, 1, 141-206. <https://doi.org/10.2307/2534426>
37. Ferdiawan, Y., & Firmansyah, A. (2017). Pengaruh Political Connection, Foreign Activity, dan, Real Earnings Management Terhadap Tax Avoidance. *Jurnal Riset Akuntansi dan Keuangan*, 5(3), 1601-1624. (In Indonesian). Retrieved from <https://ejournal.upi.edu/index.php/JRAK/article/view/9223>
38. Ferreira, M., & Vilela, A. (2004). Why Do Firms Hold Cash? Evidence from EMU Countries. *European Financial Management*, 10(2), 295-319.
39. Fisman, R. (2001). Estimating The Value Of Political Connection. *The American Economic Review*, 91(4), 1095-1102.
40. Fontanella, A., & Martani, D. (2014). Pengaruh Karakteristik Perusahaan terhadap Book Tax Differences (BTD) pada Perusahaan Listed di Indonesia. *Makalah dipresentasikan pada Simposium Nasional Akuntansi (SNA) 17*. (In Indonesian).
41. Global Witness. (n.d.). *Official site*. Retrieved from <https://www.globalwitness.org/en/>
42. Graham, J. R., & Tucker, A. L. (2006). Tax shelters and corporate debt policy. *Journal of Financial Economics*, 81(3), 563-594. <https://doi.org/10.1016/j.jfineco.2005.09.002>
43. Hadjoh, R. A., & Sukartha, I. M. (2013). Pengaruh Ukuran Perusahaan, Kinerja Keuangan dan Eksposur Media pada Pengungkapan Informasi Lingkungan. *E-Jurnal Akuntansi*, 4(1), 1-17.
44. Hanlon, M., & Heitzman, S. (2010). A review of tax research. *Journal of Accounting and Economics*, 50(2-3), 127-178. <https://doi.org/10.1016/j.jacc-eco.2010.09.002>
45. Hanlon, M., Maydew, E., & Shevlin, T. (2005). *Book-Tax Conformity and the Information Content of Earnings*. Retrieved from [https://www.business.unsw.edu.au/About-Site/Schools-Site/Accounting-Site/Documents/Terry%20Shevlin\\_paper.pdf](https://www.business.unsw.edu.au/About-Site/Schools-Site/Accounting-Site/Documents/Terry%20Shevlin_paper.pdf)
46. Hennessy, C. A., & Whited, T. M. (2005). Debt Dynamics. *Journal of Finance*, 60(3), 1129-1165. <https://doi.org/10.1111/j.1540-6261.2005.00758.x>
47. Hidayah, N. (2015). Pengaruh Perusahaan Keluarga, Multinasional Company, dan Kepemilikan Instiusional terhadap Tax Avoidance. *Jom FEKON*, 2(2). (In Indonesian).
48. Hidayat, F. A. (2020). *Pengaruh Corporate Social Responsibility Terhadap Tax Avoidance*. Universitas Airlangga. (In Indonesian).
49. Hidayati, N., & Fidiana. (2017). Pengaruh Corporate Social Responsibility dan Corporate Governance Terhadap Penghindaran Pajak. *Jurnal Ilmu dan Riset Akuntansi*, 6(3). (In Indonesian).
50. Hines, J. R. (1999). Lessons from Behavioral Responses to International Taxation. *National Tax Journal*, 52(2). <https://doi.org/10.1086/NTJ41789395>
51. Hoi, C. K., Wu, Q., & Zhang, H. (2013). Is Corporate Social Responsibility (CSR) Associated with Tax Avoidance? Evidence from Irresponsible CSR Activities. *The Accounting Review*, 88(6), 2025-2959. Retrieved from <https://www.jstor.org/stable/23525962>
52. Indonesia Stock Exchange (IDX). (n.d.). *Official site*. (In Indonesian). Retrieved from [www.idx.co.id](http://www.idx.co.id)
53. Jacob, J. (1996). Taxes and Transfer Pricing: Income Shifting and the Volume of Intrafirm Transfers. *Journal of Accounting Research*, 34(2), 301-312.

54. Jensen, M. C. (1986). Agency cost of free cash flow, corporate Finance, and takeovers. *American Economic Review*, 76(2), 323-329. Retrieved from <https://www.jstor.org/stable/1818789>
55. Jensen, M. C., & Meckling, W. H. (1976). Theory of The Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3(4), 305-360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
56. Kaplan, S., & Zingales, L. (1997). Do Investment-Cash Flow Sensitivities Provide Useful Measures of Financing Constraints? *The Quarterly Journal of Economics*, 112(1), 169-215. Retrieved from <https://www.jstor.org/stable/2951280>
57. Kementerian Keuangan Direktorat Jenderal Pajak (DJP). (n.d.). *Realisasi Pendapatan*. (In Indonesian). Retrieved from <https://www.pajak.go.id/id/realisasi-pendapatan>
58. Kementerian Keuangan Republik Indonesia. (2019). *APBN Kita: Kinerja dan Fakta*. (In Indonesian). Retrieved from <https://www.kemenkeu.go.id/media/13995/apbn-kita-desember-2019.pdf>
59. Kim, C., & Zhang, L. (2016). Corporate Political Connections and Tax Aggressiveness. *Contemporary Accounting Research*, 33(1), 78-114. <https://doi.org/10.1111/1911-3846.12150>
60. Kim, J., Li, Y., & Zhang, L. (2011). Corporate tax avoidance and stock price crash risk: Firm-level analysis. *Journal of Financial Economics*, 100(3), 639-662. <https://doi.org/10.1016/j.jfineco.2010.07.007>
61. Kotler, P., & Lee, N. (2005). *Corporate Social Responsibility: doing the most good for your company and your cause*. New Jersey: John Wiley & Sons, Inc.
62. Krueger, A.O. (1974). The Political Economy of the Rent-seeking Society. *The American Economic Review*, 64(3), 291303.
63. Laguir, I., Stagliano, R., & Elbaz, J. (2015). Does corporate social responsibility affect corporate tax aggressiveness? *Journal of Cleaner Production*, 107, 662-675. <https://doi.org/10.1016/j.jclepro.2015.05.059>
64. Lanis, R., & Richardson, G. (2012). Corporate Social Responsibility and tax aggressiveness: An empirical analysis. *Journal of Accounting and Public Policy*, 31(1), 86-108. <https://doi.org/10.1016/j.jaccpubpol.2011.10.006>
65. Lanis, R., & Richardson, G. (2015). Is Corporate Social Responsibility Performance Associated with Tax Avoidance? *Journal of Business Ethics*, 127(2), 439-457. <https://doi.org/10.1007/s10551-014-2052-8>
66. Law, K. K. F., & Mills, L. F. (2015). Taxes and Financial Constraints: Evidence from Linguistic Cues. *Journal of Accounting Research*, 53(4), 777-819. <https://doi.org/10.1111/1475-679X.12081>
67. Leblang, S. (1998). International Double Nontaxation. *Tax Notes International*, 134(10), 181-183.
68. Leuz, C., & Oberholzer-Gee, F. (2006). Political Relationships, Global Financing, And Corporate Transparency: Evidence From Indonesia. *Journal of Financial Economics*, 81, 411-439. <https://doi.org/10.1016/j.jfineco.2005.06.006>
69. Lim, Y. (2011). Tax Avoidance, Cost of Debt and Shareholder Activism: Evidence from Korea. *Journal of Banking and Finance*, 35, 456-470.
70. Lin, K. Z., Cheng, S., & Zhang, F. (2017). Corporate Social Responsibility, Institutional Environments, and Tax Avoidance Evidence from a Subnational Comparison in China. *The International Journal of Accounting*, 52(4), 303-318. <https://doi.org/10.1016/j.intacc.2017.11.002>
71. Masri, I., & Martani, D. (2012). Pengaruh Tax Avoidance Terhadap Cost Of Debt. *Symposium Nasional Akuntansi XV. Banjarmasin*. (In Indonesian).
72. Mataram Lestari, P., Harimurti, F., & Suharno. (2018). Pengaruh Karakteristik Perusahaan dan Sales Growth Terhadap Tax Avoidance (Studi Kasus Pada Perusahaan Manufaktur Sektor Makanan dan Minuman Yang Terdaftar di BEI Tahun 2013-2016). *Jurnal Akuntansi dan Sistem Teknologi Informasi*, 14(4), 551-559. (In Indonesian).
73. Mobarak, A. M., & Purbasari, D. P. (2006). *Corrupt protection for sale to firms: Evidence from Indonesia* (Working paper). University of Colorado at Boulder.
74. Muzakki, M. R. (2015). *Pengaruh Corporate Social Responsibility dan Capital Intensity Terhadap Penghindaran Pajak*. Universitas Diponegoro, Semarang. (In Indonesian).
75. Nuritomo, & Martani, D. (2014). Insentif pajak, kepemilikan, dan penghindaran pajak perusahaan (Studi penerapan peraturan pemerintah No. 81 tahun 2007). *Symposium Nasional Akuntansi XVII*. (In Indonesian).
76. Oktavia, & Martani, D. (2013). Tingkat pengungkapan dan penggunaan derivatif keuangan dalam aktivitas penghindaran pajak. *Jurnal Akuntansi dan Keuangan Indonesia*, 10(2), 129-146. (In Indonesian).
77. Pradipta, & Supriyadi. (2015). Pengaruh Corporate Social Responsibility (CSR), Profitabilitas, Leverage, dan Komisaris Independen Terhadap Praktik Penghindaran Pajak. *Jurnal Universitas Gadjah Mada*. (In Indonesian).
78. Prakoso, K. B. (2014). *Pengaruh Profitabilitas, Kepemilikan Keluarga dan Corporate Governance Terhadap Penghindaran Pajak di Indonesia*. Universitas Mataram. (In Indonesian).
79. Pramesthi, D. F., Suprpti, E., & Kurniawati, E. T. (2019). Income Shifting dan Pemanfaatan Negara Tax Haven. *Jurnal Reviu Akuntansi dan Keuangan*, 9(3), 375-386. (In Indonesian). <https://doi.org/10.22219/jrak.v9i3.8866>
80. Rego, S., & Wilson, R. (2012). Equity Risk Incentives and Corporate Tax Aggressiveness. *Journal of Accounting Research*, 50, 775-810.

81. Rusydi, K., & Martani, D. (2014). Pengaruh Struktur Kepemilikan Terhadap Aggresive Tax Avoidance. *Simposium Nasional Akuntansi XVII*. (In Indonesian).
82. Scott, W. R. (2003). *Financial Accounting Theory* (3<sup>rd</sup> ed.). Toronto, Ontario: Pearson Education Canada Inc.
83. Shapiro, A. C. (1991). *Modern Corporate Finance*. New York: Macmillan Publishing Company.
84. Shen, C.-H. S., & Lin, C.-Y. (2015). Political connections, financial constraints, and corporate investment. *Review of Quantitative Finance and Accounting*, 47(2), 343-368. <https://doi.org/10.1007/s11156-015-0503-7>
85. Sirait, N. S., & Martani, D. (2014). *Pengaruh Perusahaan Keluarga Terhadap Penghindaran Pajak Pada Perusahaan Manufaktur Di Indonesia Dan Malaysia* (Paper Akuntansi FEUI). (In Indonesian).
86. Suprianto, E., & Dewi, A. K. (2014). Relevansi prinsip konservatisme wajib pajak melakukan tax avoidance sebelum dan sesudah pelaksanaan IFRS. *Simposium Nasional Akuntansi XVII*. (In Indonesian).
87. Watts, R. L., & Zimmerman, J. L. (1990). Positive Accounting Theory: A Ten Year Perspective. *The Accounting Review*, 65(1), 131-156.
88. Way, M., Psychotherapies, C., History, M. L., & Learnings, S. (1992). Multinational corporations. *Scandinavian International Business Review*, 1(2), 70-71. [https://doi.org/10.1016/09629262\(92\)90023-Y](https://doi.org/10.1016/09629262(92)90023-Y)
89. Wijantini. (2007). A Test of The Relationship Between Political Connection And Indirect Costs of Financial Distress In Indonesia. *Journal of Accounting and Finance*, 3(2), 61-81.
90. Wilson, R. (2009). An examination of corporate tax shelter participations. *The Accounting Review*, 84(3), 969-999.

## APPENDIX A

**Table A1.** Companies with political connections

Information	Number of Companies	Percentage (%)
Companies with political connections	107	75.9
Companies without political connection	34	24.1
Total	141	100

## APPENDIX B

**Table B1.** Financial constraint score

Company score	Dividend amount (in millions of rupiah)	Number of companies	Percentage (%)
1	0-2.000.000	126	89.36
2	2.000.001-4.000.000	9	6.38
3	4.000.000-6.000.000	1	0.71
4	6.000.001-8.000.000	2	1.42
5	8.000.001-10.000.000	3	2.13
Total		141	100

## APPENDIX C

**Table C1.** Descriptive statistics

Variable	Minimum	Maximum	Average	Standard Deviation
TAX	-0.043	0.083	0.014	0.023
FA	0.000	0.400	0.173	0.060
CSR	0.043	0.670	0.292	0.143
PC	0.000	1.000	0.766	0.424
FC	1.000	5.000	1.150	0.544
CG	62.702	103.94	79.801	8.331
DER	0.040	3.840	1.290	0.948
ASET	6.803	11.731	9.705	1.219
ROA	-8.650	52.670	6.986	9.684

Note: TAX – tax avoidance; FA – foreign activity; CSR – Corporate Social Responsibility; PC – political connection; FC – financial constraint; CG – corporate governance; DER – debt to equity ratio; ASET – natural log of total asset; ROA – return on asset.