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The Influence of Capital Intensity, Executive Compensation, Political Connections, Profitability, and Leverage on Tax Aggressiveness (Empirical Study on the Mining Sector Listed on the Indonesia Stock Exchange in 2020-2023)

Radhika Santriafi [1]; Erna Setiany [2]

[1] *radhikasantriafi@gmail.com, Universitas Mercu Buana, Indonesia*
[2] *erna.setiany@mercubuana.ac.id, Universitas Mercu Buana, Indonesia*

ABSTRACT

Tax planning actions using methods that are classified as legal (tax avoidance) or illegal (tax evasion) with the aim of reducing the tax burden are called tax aggressiveness. The aim of this research is to analyze the influence of capital intensity, executive compensation, political connections, profitability, and leverage on tax aggressiveness (empirical study of the mining sector listed on the Indonesian Stock Exchange in 2020-2023). The sample obtained was 34 companies using a purposive sampling method over a period of 4 years so that the total data studied was 136. The data analysis technique in this research was multiple linear regression analysis. The results of the analysis show that capital intensity has a negative effect on tax aggressiveness, executive compensation has little effect on tax aggressiveness, political connections have no effect on tax aggressiveness, profitability has no effect on tax aggressiveness, and leverage has a positive effect on tax aggressiveness.

Keywords**: **Capital Intensity , Executive Compensation, Leverage, Political Connections, Profitability, Tax Aggressiveness

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INTRODUCTION

The Republic of Indonesia is classified as a developing country and continues to implement national development initiatives as part of its official efforts to improve people's welfare. To realize the improvement of people's welfare through national development, development financing is needed from funding obtained through the tax sector. Tax is the main source of state income; therefore, tax has a big role in the wheels of life to finance all expenditures on infrastructure development and various other public facilities to improve the economy and people's welfare (Yuliani & Prastiwi 2021).

According to Ayyasy & Muid (2021), the amount of tax imposed can reduce the company's income, which ultimately conflicts with the company's main goal of increasing profits while trying to minimize the tax costs incurred. Aggressive tax activities are one method used by companies to do this. Tax aggressiveness can be defined as a company's action to avoid paying its taxes through tax planning by exploiting legal loopholes both legally and illegally in order to achieve tax savings (Suryowati, 2022).

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There are quite a lot of factors that are thought to have a significant influence on tax aggressiveness, including capital intensity, executive compensation, political connections, profitability, and leverage. Capital intensity is a business's investment activity in the form of inventory and fixed assets. By investing in fixed assets, the business will experience further shrinkage, which reduces profit before tax (Muliawati & Karyada 2020). This is reinforced by research conducted by Muliawati & Karyada (2020), which shows that capital intensity has an effect on tax aggressiveness, while research conducted by Oktris et al. (2021) shows that capital intensity has no effect on tax aggressiveness.

The second factor is executive compensation. Executive compensation is a way for a business or organization to express gratitude to its management (executives) for the services they have provided to help the business achieve its goals. To encourage executives to operate in a way that maximizes the value of the company's shareholders, it has been proven that CEOs individually decide the level of corporate tax avoidance decision-making (Nugraha & Mulyani 2019). This conclusion is reinforced by research conducted by Riswandari & Bagaskara (2020) showing that executive compensation has an effect on tax aggressiveness, while research conducted by Cahyati & Yuyetta (2024) showed that executive compensation has no effect on tax aggressiveness.

The third factor is political connections; the relationship between one party and another party where they have political interests and are used for mutual benefit for both parties is called a political connection (Yudawirawan et al., 2022). This is reinforced by research conducted by Riswandari & Bagaskara (2020), which shows that political connections have an effect on tax aggressiveness, while research conducted by Handayani & Utomo (2023) showed that political connections have no effect on tax aggressiveness.

The fourth factor is profitability. Profitability is the main consideration. The capacity of a business to generate profits using its assets and capabilities, such as number of branches, profits, capital, cash, sales activities, etc., is known as profitability. The amount of profit earned by a company when running its operations is called profitability (Erawati & Sularso 2022). This is reinforced by research conducted by Simamora & Rahayu (2020), which shows that profitability affects tax aggressiveness, while research conducted by Rahayu & Kartika (2021) shows that profitability affects tax aggressiveness.

The last factor is leverage. A company's leverage is a measure of how much of its assets are funded by debt. Leverage can be used to measure the amount of assets that are funded by debt and is the amount of debt a business has for financing. Hidayat & Muliasari (2020). This is reinforced by research conducted by Riswandari & Bagaskara (2020), which shows that leverage has an effect on tax aggressiveness, while research conducted by Zulkifli & Fuad (2024) shows that leverage has an effect on tax aggressiveness.

LITERATURE REVIEW/THEORETICAL FRAMEWORK

Agency Theory was first popularized by Jensen & Meckling (1976), which explains the agency relationship as a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent. Agency theory views tax aggressiveness as an opportunistic action taxpayers take to maximize their benefits. Taxpayers aim to minimize their tax burden in order to maximize their profit.

According to Firmansyah & Estutik (2021:16), managing taxable income where it decreases through tax planning actions is a broad definition of tax aggressiveness. Tax planning actions that are carried out legally or in the grey area, namely, the grey tax area that can be interpreted differently by different people, are thus included in the definition of tax aggressiveness. Tax aggressiveness and tax planning are interrelated because the former is considered an effort to implement tax efficiency and planning.

According to Rahayu (2020:209), capital intensity can be used to characterize investments made in a business as fixed assets. Choosing to invest in fixed assets can reduce profits from depreciation costs; businesses with a high percentage of fixed assets will pay less tax because depreciation costs will reduce the company's gross profit.

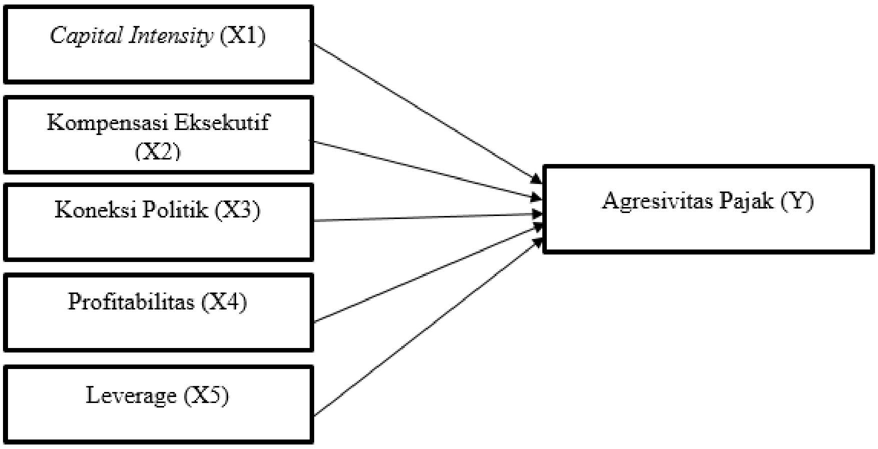
According to Dessler (1997), everything that is offered by the organization in return for work that is done in the best interests of the company, especially for executives, is called compensation. In this case, executive compensation is a type of payment that is made by the company to executives and staff members in the form of cash or merchandise as a form of appreciation for their work.

According to Gomez & Jomo (2009), companies or conglomerates that have strong relations with the government are known as companies with political connections. Companies that have strong relations with the government, such as those in the form of BUMN or BUMD, can be considered government-owned. Well-known political leaders, whether conglomerates or business owners, maintain strong connections with the government.

According to Hayat et al. (2021:96), the ability of a business to generate profits within a certain period of time is known as profitability and can then be used as a standard to evaluate how well management is performing. Furthermore, the business uses profitability as a foundation to determine its tax obligations. Because their tax liabilities rise in tandem with their profits, businesses frequently employ aggressive tax strategies.

According to Kasmir (2019:112), the ratio called leverage is used to measure how much of a company's assets are funded by debt. This ratio illustrates the proportion of a company's debt to its assets. As is known, companies have several funding sources to help finance their operations. Loans and equity are two possible forms of funding.

Based on the description, the proposed framework of thought is:



METHOD

This study uses a causal research technique (Causal Research), which is a quantitative paradigm to assess the relationship between two or more variables. The data source for this study is secondary data in the form of annual reports of mining companies listed on the Indonesia Stock Exchange in 2020–2023. The data analysis tool used is the SPSS 25 application.

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The following table contains operational definitions and measurements of variables in this study:

Table 1. Operational Definitions dnd Measurements of Variables

Variables	Indicator	Scale
Capital Intensity (X1)	$Capital\ Intensity = \frac{\text{Total Fixed Assets}}{\text{Total Assets}}$ (Jusman & Nosita 2020)	Ratio
Executive Ownership (X2)	$\text{Executive Compensation} = \text{LN(Executive Compensation)}$ (Nugraha & Mulyani 2019) .	Ratio
Political Connections (X3)	A value of 1 is given if the company has indications of being politically connected, while a value of 0 is given if there is no indication of political connections. (Handayani & Utomo 2023)	Dummy
Profitability (X4)	$Return\ On\ Asset = \frac{\text{Net Profit}}{\text{Total Aktiva}}$ (Dinar et al., 2020)	Ratio
Leverage (X5)	$Debt\ To\ Asset\ Ratio = \frac{\text{Total Debt}}{\text{Total Assets}}$ (Erawati & Sularso 2022)	Ratio
Tax Aggressivene ss (Y)	$\text{ETR} = \frac{\text{Income Tax Burden}}{\text{Profit Before Tax}}$ (Ktris et al., (2021)	Ratio

same size and attributes. Samples taken from a population can be used if the population is too large to be studied in detail by researchers (Sugiyono, 2017:81).

Table 2. Sample from a Population

No	Information	Total
1	Mining Companies listed on the Indonesia Stock Exchange 2020–2023.	87
2	Mining Companies that did not generate profits during the observation years 2020–2023.	(42)
3	Mining Companies whose financial reports could not be fully accessed during the 2020-2023 observation year.	(11)
	Number of Samples	**34**
	Research Year 2020–2023	**4**
	Observation Data for Research	**136**

RESULTS AND DISCUSSION

The data has been through the classical assumption test. The results of the regression analysis are as follows:

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Table 3. Regression Analysis Results

Variables	Coefficient	Sig.
Constant	0.0200	0.245
CI	-0.132	0.026
KEKS	0.000	0.964
Police	0.011	0.706
ROA	-0.016	0.307
DAR	0.242	0.001
R	0.154	
Adj. R^2	0.119	
F Statistics	4.419	0.0001

Note: Capital Intensity, Institutional Ownership, Political Connections, Profitability, Leverage, Tax Aggressiveness

1. Capital Intensity has a significance value of 0.026. This value shows 0.026 < 0.05 with a coefficient value of -0.132. So it can be concluded that Capital Intensity has a negative impact on Tax Aggressiveness or in other words H1 is accepted.
2. Executive Compensation has a significance value of 0.964. The value shows 0.964 > 0.05 with a coefficient value of 0.000. So it can be concluded that Executive Compensation has no impact on Tax Aggressiveness or in other words H2 is rejected.
3. Political Connection has a significance value of 0.706. This value shows 0.706> 0.05 with a coefficient value of 0.011. So it can be concluded that Political Connection does not have an effect on Tax Aggressiveness or in other words H3 is rejected.
4. Profitability has a significance value of 0.370. The value shows 0.370 > 0.05 with a coefficient value of -0.116. So it can be concluded that Profitability has no impact on Tax Aggressiveness or in other words H4 is rejected.
5. Leverage has a significance value of 0.001. This value shows 0.001 < 0.05 with a coefficient value of 0.242. So it can be concluded that Leverage has a positive impact on Tax Aggressiveness or in other words H5 is accepted.

The Effect of Capital Intensity on Tax Aggressiveness

From the results of the individual parameter significance test (t-test), it was found that Capital Intensity has a negative effect on Tax Aggressiveness. These results show that companies with high Capital Intensity can reduce the level of tax aggressiveness. Capital Intensity also illustrates that company policies that incur costs can also be used to reduce the amount of company profits. When company profits decrease, it can reduce Tax Aggressiveness.

These results are supported by research conducted by Zulkifli & Fuad (2024) conclude that Capital Intensity has a negative impact on Tax Aggressiveness. This shows how increasing capital intensity increases depreciation expense. Businesses use the increase in depreciation expense to lower profits, which are the basis for calculating taxes.

The Effect of Executive Compensation on Tax Aggressiveness

Executive compensation has little effect on tax aggressiveness, based on the findings of the individual parameter significance test (t-test). This finding shows that executives are unable to pay corporate taxes efficiently due to the large compensation provided by

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shareholders. Tax aggressiveness poses a danger to management's reputation and is not equivalent to the potential risks associated with Tax Aggressive behavior.

This result is supported by research conducted by Senjaya & Mu'arif (2023) which shows that Executive Compensation has no impact on Tax Aggressiveness. This proves that CEO compensation is not intended to be used for tax avoidance, but only to improve performance and cost effectiveness.

The Influence of Political Connections on Tax Aggressiveness

Political connections do not affect tax aggressiveness, based on the findings of the individual parameter significance test (t-test). These findings show how close the relationship between the business world and the government causes the business world to be more careful in determining decisions and implementing policy behavior because of intensive supervision.

This result is supported by research conducted by Phang & Hendi (2023) which shows that Political Connections have no impact on Tax Aggressiveness. This proves that the business world acts more carefully due to strict supervision, thus eliminating business opportunities to exploit tax avoidance. This can provide incentives for businesses to continue to comply with government laws.

The Effect of Profitability on Tax Aggressiveness

From the results of the individual parameter significance test (t-test), it was found that Profitability had no impact on Tax Aggressiveness. The results show that the large or low profits obtained have no impact on ETR, so the taxes paid must be in accordance with the specified rates. In addition, the business world does not want to be involved in aggressive tax activities because they are more concerned with maintaining their brand than bearing losses due to aggressive tax activities.

This result is supported by research conducted by Rambe & Utami (2021) which proves that Profitability has no impact on Tax Aggressiveness. This shows that the company's capacity to generate profits does not directly affect the company's effective level of tax payments. The size of the profit has no effect on ETR, as a result the tax that must be paid must also be in accordance with the specified rate.

The Effect of Leverage on Tax Aggressiveness

From the results of the individual parameter significance test (t-test), it was obtained that Leverage has a good impact on Tax Aggressiveness. The results show that the higher the leverage value in a company, the higher the responsibility that must be fulfilled, which can result in the company's tax aggressiveness value increasing. So that the company will try to implement Tax Aggressiveness because the total taxable income can decrease due to the interest expense.

These results are supported by research conducted by Lestari & Aliyah (2022) states that Leverage has a positive impact on Tax Aggressiveness. This shows that the level of tax aggressiveness of a company increases along with the value of leverage it has, because the amount of leverage can affect the high taxes that the company must pay.

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CONCLUSION

Conclusion

Capital Intensity has a significant effect with a negative relationship direction on Tax Aggressiveness. These results prove that companies with large Capital Intensity can reduce the level of Tax Aggressiveness because the increase in depreciation expense is used by the company to reduce profits.

Executive Compensation has no effect on Tax Aggressiveness. This finding shows that executives are unable to pay corporate taxes efficiently due to the large compensation given by shareholders.

Political Connections have no effect on Tax Aggressiveness. These findings show how close the relationship between the business world and the government causes the business world to be more careful in determining decisions and implementing policy behavior because of strict monitoring.

Profitability has no effect on Tax Aggressiveness. The results show that the size of the profit obtained has no impact on Tax Aggressiveness, so the tax paid must be exactly at the specified rate.

Leverage has a significant effect with a positive relationship direction towards. Based on these findings, the value of corporate tax aggressiveness increases when the value of its leverage increases due to the increasing responsibilities that must be met.

Suggestion

This research only uses mining sector companies during the period 2020–2023. Therefore, future researchers are advised to broaden the research object by including other industrial sectors, such as manufacturing, infrastructure, or finance, in order to obtain wider generalizations about the factors influencing tax aggressiveness. Additionally, the research can be expanded by extending the observation period to examine long-term dynamics.

Acknowledgement

For companies, it is expected that companies will be able to show their financial conditions transparently and take into account Tax Aggressiveness actions more, for the government, it is expected to be able to develop and implement neutral and fair tax policies, and for researchers, it is expected to be able to carry out similar research by increasing other variables that have an impact on Tax Aggressiveness.

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