

Determinants of Tax Avoidance in Basic and Chemical Industry Companies: Political Connections in Share Ownership as a Control Variable

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This study examines the effects of financial structure, profitability, firm size, and corporate social responsibility (CSR) on tax avoidance, with political connections in share ownership serving as a control variable. The study focuses on companies in the Basic and Chemical Industry listed on the Main Board of the Indonesia Stock Exchange (IDX) during the 2019–2023 period. A quantitative research approach was employed using secondary data obtained from annual reports and audited financial statements. The study applied a saturated sampling technique, resulting in 35 firm-year observations from seven companies. Panel data regression analysis was performed using EViews 13, with the Fixed Effect Model (FEM) selected based on the Chow and Hausman tests. The findings indicate that financial structure and corporate social responsibility have a significant positive effect on tax avoidance, suggesting that debt financing and CSR expenditures contribute to corporate tax planning through legally permitted tax deductions. In contrast, profitability and firm size do not significantly affect tax avoidance. The regression model explains 55.27% of the variation in tax avoidance, indicating satisfactory explanatory power. These findings contribute to the literature on corporate taxation by providing empirical evidence from politically connected firms operating in Indonesia's basic and chemical industry and offer practical implications for policymakers in strengthening corporate tax governance.

Keywords: Tax Avoidance; Financial Structure; Profitability; Firm Size; Corporate Social Responsibility; Political Connections.

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1. Introduction

The basic and chemical industry is one of the strategic sectors supporting Indonesia's economic development. Besides contributing to industrial independence, this sector supplies raw materials for various manufacturing industries and produces essential products for domestic and international markets. The government's Industrial Development Roadmap 2025–2045 identifies the basic and chemical industry as a priority sector capable of increasing economic growth, export competitiveness, and national tax revenue. During the first semester of 2025, the chemical, pharmaceutical, and textile industries recorded a gross domestic product (GDP) growth of 6.70%, contributing 3.82% to Indonesia's national GDP, with exports reaching USD 25.89 billion and investment totaling IDR 93.93 trillion. Consequently, the sector has become one of the major contributors to Indonesia's tax revenue.

The manufacturing sector, particularly the basic and chemical industry, consistently contributes more than one-quarter of national tax revenue. However, despite its significant economic contribution, companies within this sector often implement various tax planning strategies to reduce their tax burden. One of the most common strategies is tax avoidance, which refers to the legal minimization of tax liabilities by exploiting loopholes within existing tax regulations without violating statutory provisions. Although tax

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avoidance is legally permissible, excessive tax avoidance may reduce government revenue and contradict the fundamental objective of taxation in financing public expenditure.

Previous studies indicate that tax avoidance is influenced by several corporate characteristics, including financial structure, profitability, firm size, and corporate social responsibility (CSR). Companies with higher leverage tend to benefit from interest expenses that are deductible for tax purposes, thereby reducing taxable income. Profitability may also affect tax planning because firms generating higher profits generally face greater tax obligations. Likewise, larger firms possess greater financial resources and more sophisticated tax planning strategies, while CSR activities may influence corporate tax behavior because certain CSR expenditures are recognized as deductible expenses under Indonesian tax regulations.

From a theoretical perspective, tax avoidance can be explained by Agency Theory and Political Power Theory. Agency Theory suggests that managers attempt to maximize shareholder wealth by implementing efficient tax planning strategies while balancing compliance with taxation regulations. Meanwhile, Political Power Theory argues that firms possessing political influence may have greater opportunities to reduce tax burdens through stronger bargaining power and privileged access to policymakers. Furthermore, the Upper Echelons Theory proposed by Hambrick (1984) explains that strategic corporate decisions are largely influenced by the characteristics of top executives and board members. Companies whose commissioners or directors possess political connections may adopt more aggressive financial policies, including tax planning decisions.

Political connections have become an important characteristic of Indonesian state-owned and government-affiliated companies. Government ownership exceeding 25% generally represents majority ownership, enabling the government to appoint commissioners and influence strategic corporate decisions. Among the seventeen basic and chemical companies listed on the Main Board of the Indonesia Stock Exchange (IDX), seven companies—including PT Aneka Tambang, PT Timah, PT Semen Indonesia, PT Semen Baturaja, PT Wijaya Karya Beton, PT Vale Indonesia, and PT Merdeka Copper Gold—have substantial government ownership or political connections through their board members during the 2019–2023 period. These political connections may affect corporate tax policies because government-affiliated firms face different incentives and public accountability compared with privately owned companies.

Empirical findings regarding the determinants of tax avoidance remain inconsistent. Previous studies reported that financial structure significantly affects tax avoidance, whereas other studies found no significant relationship. Similar inconsistencies are observed for profitability, firm size, and CSR. These contradictory findings indicate the existence of a research gap, particularly regarding companies with political connections. Most previous studies examined manufacturing firms in general, while limited attention has been given to politically connected firms in Indonesia's basic and chemical industry.

Therefore, this study investigates the effects of financial structure, profitability, firm size, and corporate social responsibility on tax avoidance, while considering political connections in share ownership as a control variable. By focusing on government-related companies in the Indonesian basic and chemical industry, this study contributes to the literature by providing empirical evidence regarding the determinants of tax avoidance in politically connected firms and offers insights into corporate tax policy within an emerging economy.

2. Literature Review and Problem Statement

Agency Theory

Agency Theory explains the contractual relationship between shareholders (principals) and managers (agents), in which managers are entrusted with the authority to operate the company while maximizing shareholders' wealth. Jensen and Meckling (1976) argue that differences in interests between principals and agents create agency conflicts, encouraging managers to make strategic decisions that maximize corporate value, including tax planning activities. Tax avoidance is therefore considered one of the managerial strategies to improve after-tax profits while remaining within the legal framework of taxation. According to Suranta et al. (2021), tax avoidance represents a legal effort to minimize tax liabilities by utilizing loopholes in tax regulations without violating statutory provisions.

Political Power Theory

Political Power Theory suggests that firms with political connections possess greater bargaining power and access to government resources, enabling them to obtain regulatory advantages, including taxation policies. Faccio (2015) explains that politically connected firms generally have stronger influence over public policy than firms without such relationships. In Indonesia, political connections are commonly reflected through substantial government ownership or the appointment of commissioners and directors affiliated with government institutions. Such connections may influence corporate tax decisions because politically connected firms are subject to different incentives and public scrutiny.

Upper Echelons Theory

Upper Echelons Theory proposed by Hambrick and Mason (1984) argues that organizational outcomes are largely determined by the characteristics, experiences, and values of top executives. Strategic decisions, including taxation policies, are influenced by executives' backgrounds and social networks. Hambrick (2007) further emphasized that executives interpret organizational environments through their personal experiences, which subsequently affect strategic choices and corporate performance. Accordingly, companies whose boards possess political connections may adopt different tax planning strategies compared with firms lacking such characteristics.

Financial Structure and Tax Avoidance

Financial structure reflects the proportion of debt and equity used to finance corporate activities. Interest expenses arising from debt financing are recognized as deductible expenses under Indonesian tax regulations, reducing taxable income and potentially encouraging tax avoidance. Annisa et al. (2017), Taufik (2017), Wahyuni (2019), and Mahdiana (2020) found that financial structure significantly influences tax avoidance. Conversely, Handayani (2020), Wiratmoko (2018), and Rahmawati (2021) reported that financial structure does not significantly affect tax avoidance. These inconsistent findings indicate that the relationship between leverage and tax avoidance remains inconclusive.

Profitability and Tax Avoidance

Profitability measures a firm's ability to generate earnings from its assets and is commonly proxied by Return on Assets (ROA). Higher profitability generally increases taxable income, thereby encouraging firms to adopt tax planning strategies. Fitiasari (2020), Mahdiana (2020), Andikaningprang et al. (2017), and Darmawan and Sukartha (2014) demonstrated that profitability significantly affects tax avoidance. In contrast, Yuliani (2017), Taufik (2017), Suryani (2020), Maharani (2014), and Rahmawati (2021) concluded that profitability has no significant influence on tax avoidance.

Firm Size and Tax Avoidance

Firm size represents the scale of corporate operations and is generally measured using the natural logarithm of total assets. Larger firms possess greater financial resources and more sophisticated tax planning capabilities but also receive greater attention from regulators and investors. Suryani (2020) and Oktamawati (2017) found that firm size negatively affects tax avoidance, whereas Okrayanti et al. (2017) and Handayani (2018) reported a positive relationship. Meanwhile, Faizah and Adhivinna (2017), Khairunisa et al. (2017), and Cahyono et al. (2016) found no significant effect of firm size on tax avoidance.

Corporate Social Responsibility and Tax Avoidance

Corporate Social Responsibility (CSR) reflects a company's commitment to social and environmental sustainability. In Indonesia, several CSR expenditures qualify as deductible expenses under tax regulations, potentially influencing corporate tax planning. Hidayat (2023), Mardianti (2020), and Rahmadani (2020) found that CSR positively affects tax avoidance. However, Surtpto (2021) reported different findings, suggesting that CSR does not consistently explain tax avoidance behavior. These contradictory results indicate that the relationship between CSR and tax avoidance requires further empirical investigation.

Problem Statement

Although tax avoidance has been widely investigated, empirical evidence regarding its determinants remains inconsistent. Previous studies have produced conflicting results concerning the effects of financial structure, profitability, firm size, and corporate social responsibility on tax avoidance. Furthermore, most prior studies examined manufacturing firms in general without specifically considering companies with political connections.

This study addresses these inconsistencies by investigating the influence of financial structure, profitability, firm size, and corporate social responsibility on tax avoidance, while incorporating political connections in share ownership as a control variable. Focusing on politically connected companies in Indonesia's basic and chemical industry during the 2019–2023 period is expected to provide new empirical evidence regarding corporate tax behavior and enrich the literature on taxation, corporate governance, and political connections in emerging markets.

3. Method

This study employed a quantitative research approach using secondary data obtained from the annual reports and audited financial statements of companies in the Basic and Chemical Industry Sector listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. Secondary data were collected from the official IDX website (www.idx.co.id) and each company's official website. The research adopted an explanatory design to examine the influence of financial structure, profitability, firm size, and corporate social responsibility (CSR) on tax avoidance while controlling for political connections.

The research population consisted of 17 companies classified in the Main Board of the Basic and Chemical Industry sector. Samples were selected using purposive sampling based on the following criteria: (1) companies continuously listed on the IDX during 2019–2023; (2) companies publishing complete annual reports and financial statements throughout the observation period; and (3) companies having political connections, indicated by government share ownership or the presence of commissioners affiliated with the government. Based on these criteria, seven companies met the sampling requirements, resulting in 35 firm-year observations. The selected companies included PT Aneka Tambang Tbk, PT Timah Tbk, PT Semen Indonesia Tbk, PT Semen Baturaja Tbk, PT Wijaya Karya Beton Tbk, PT Vale Indonesia Tbk, and PT Merdeka Copper Gold Tbk.

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The dependent variable in this study is tax avoidance, while the independent variables consist of financial structure, profitability, firm size, and corporate social responsibility. Political connection is incorporated as a control variable through government share ownership.

The operational definitions of the variables are presented as follows.

Tax Avoidance

Tax avoidance is measured using the Effective Tax Rate (ETR), which reflects the proportion of income tax expense relative to pre-tax income (Hanlon & Heitzman, 2010).

$$\text{ETR} = \frac{\text{Income Tax Expense}}{\text{Profit Before Tax}}$$

Lower ETR values indicate higher levels of tax avoidance.

Financial Structure

Financial structure is proxied by the Debt-to-Equity Ratio (DER), representing the proportion of debt financing relative to shareholders' equity.

$$\text{DER} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Profitability

Profitability is measured using Return on Assets (ROA), which indicates the company's ability to generate earnings from its total assets.

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Firm Size

Firm size is measured using the natural logarithm of total assets.

$$\text{SIZE} = \ln(\text{Total Assets})$$

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is measured using the Corporate Social Responsibility Disclosure Index (CSRDI) based on the Global Reporting Initiative (GRI) indicators.

$$\text{CSRDI} = \frac{\sum X_i}{n}$$

where:

X_i = 1 if a CSR item is disclosed and 0 otherwise;

n = total CSR disclosure items.

Political Connection

Political connection is treated as a control variable. A company is classified as politically connected when the government owns at least 25% of its outstanding shares or when members of the board of commissioners or directors have affiliations with government institutions.

To examine the relationship between the variables, this study employed multiple linear regression analysis using IBM SPSS Statistics. Prior to hypothesis testing, classical assumption tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests, were conducted to ensure the validity of the regression model.

The empirical model is specified as follows:

$$TA = \alpha + \beta_1 FS + \beta_2 PROF + \beta_3 SIZE + \beta_4 CSR + \beta_5 PC + \varepsilon$$

where:

TA	= Tax Avoidance
FS	= Financial Structure
PROF	= Profitability
SIZE	= Firm Size
CSR	= Corporate Social Responsibility
PC	= Political Connection (control variable)
α	= Constant
β_1 – β_5	= Regression coefficients
ε	= Error term

Hypothesis testing was conducted using the t-test to evaluate the partial effect of each independent variable and the F-test to assess the simultaneous effect of all explanatory variables. The coefficient of determination (R^2) was used to measure the explanatory power of the regression model.

4. Results and Discussion

Descriptive Statistics

The population of this study consisted of seven companies in the Basic and Chemical Industry listed on the Main Board of the Indonesia Stock Exchange (IDX) during the 2019–2023 period. Since the population was relatively small, this study employed a saturated sampling technique (census sampling), whereby all companies meeting the research criteria were included as the sample. Consequently, the study analyzed 35 firm-year observations over the five-year observation period.

Table 1. Descriptive Statistics

	Y	X1	X2	X3	X4
Mean	0.325211	2013.700	0.035823	27.68943	0.099857
Median	0.259532	0.700000	0.026500	29.77000	0.047100
Maximum	0.928519	19466.00	0.128700	32.05000	0.731100
Minimum	0.006658	0.128800	-0.035000	20.65000	0.001000
Std. Dev.	0.218067	5036.232	0.041631	4.378458	0.161002
Skewness	1.013088	2.535146	0.708566	-0.701553	2.677716
Kurtosis	3.682240	7.911719	2.912463	1.673294	9.489096
Jarque-Bera	6.665809	72.67289	2.939896	5.437917	103.2340
Probability	0.035689	0.000000	0.229937	0.065943	0.000000
Sum	11.38240	70479.51	1.253800	969.1300	3.495000
Sum Sq. Dev.	1.616807	8.62E+08	0.058928	651.8104	0.881334
Observations	35	35	35	35	35

Table 1 presents the descriptive statistics of the research variables. The independent variables consist of Financial Structure (FS), Profitability (PROF), Firm Size (SIZE), and Corporate Social Responsibility (CSR),

while Tax Avoidance (TA) serves as the dependent variable. The descriptive statistics provide information regarding the minimum value, maximum value, mean, and standard deviation of each variable, thereby illustrating the distribution and variability of the data used in this study. These statistics also offer an initial overview of the financial characteristics and tax behavior of politically connected companies operating in Indonesia's basic and chemical industry.

Classical Assumption Test

a. Normality Test

The normality test was conducted to determine whether the residuals of the regression model were normally distributed. In this study, residual normality was examined using the Jarque–Bera (JB) test based on the histogram of standardized residuals. A regression model is considered to satisfy the normality assumption when the probability value of the Jarque–Bera statistic exceeds the significance level of 0.05.

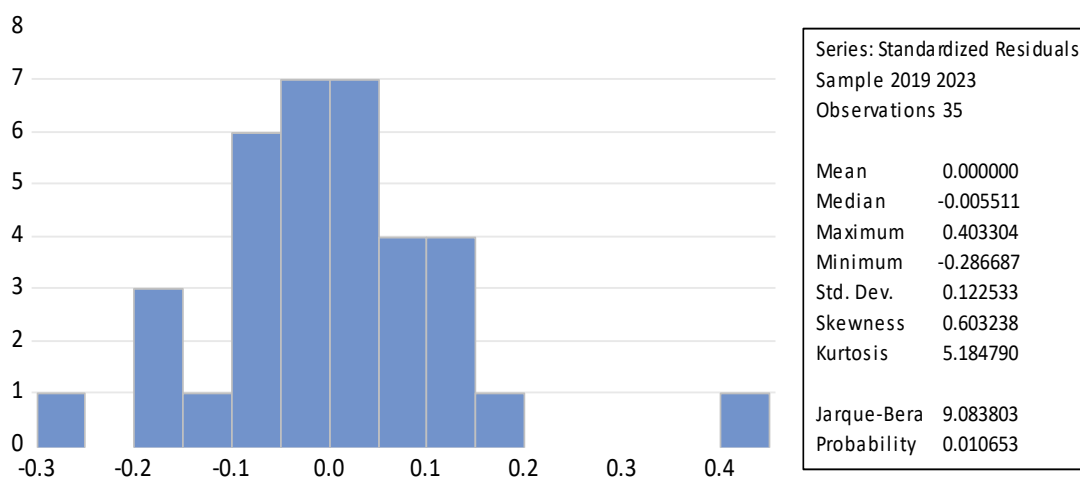


Figure 1. Normality Test

As presented in Figure 1, the Jarque–Bera statistic is 9.083803 with a probability value of 0.010653. Since the probability value is less than 0.05, the null hypothesis of normally distributed residuals is rejected. These results indicate that the residuals are not normally distributed, suggesting that the regression model does not satisfy the normality assumption. Therefore, further data treatment, such as transformation or outlier adjustment, should be considered before conducting hypothesis testing to improve the normality of the residual distribution.

b. Multicollinearity Test

The multicollinearity test was conducted to determine whether a high correlation existed among the independent variables included in the regression model. A correlation coefficient exceeding 0.80 generally indicates the presence of multicollinearity, whereas values below this threshold suggest that the independent variables are not highly correlated.

Table 2. Multicollinearity Test

	X1	X2	X3	X4
X1	1.000000	-0.166613	-0.026968	-0.185219
X2	-0.166613	1.000000	-0.309312	-0.281823
X3	-0.026968	-0.309312	1.000000	0.019184
X4	-0.185219	-0.281823	0.019184	1.000000

As presented in Table 2, the correlation coefficients among the independent variables are relatively low. The correlation between Financial Structure (X1) and Profitability (X2) is -0.166613 , between Financial Structure (X1) and Firm Size (X3) is -0.026968 , and between Financial Structure (X1) and Corporate Social Responsibility (X4) is -0.185219 . Furthermore, the correlation coefficients between Profitability (X2) and Firm Size (X3), Profitability (X2) and Corporate Social Responsibility (X4), as well as Firm Size (X3) and Corporate Social Responsibility (X4) are -0.309312 , -0.281823 , and 0.019184 , respectively. Since all pairwise correlation coefficients are well below the critical value of 0.80, the regression model does not exhibit multicollinearity problems. Therefore, each independent variable provides distinct information and can be included simultaneously in the multiple regression analysis without causing significant estimation bias.

c. Heteroscedasticity Test

Table 2. Heteroscedasticity Test

Dependent Variable: ABS(RESID)
Method: Panel Least Squares
Date: 07/20/26 Time: 12:40
Sample: 2019 2023
Periods included: 5
Cross-sections included: 7
Total panel (balanced) observations: 35

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.159007	0.344820	-0.461131	0.6489
X1	-2.34E-06	6.81E-06	-0.343924	0.7339
X2	-0.709540	0.460872	-1.539558	0.1368
X3	0.009983	0.012011	0.831145	0.4141
X4	-0.011042	0.104430	-0.105739	0.9167

Effects Specification

Cross-section fixed (dummy variables)			
R-squared	0.396872	Mean dependent var	0.086181
Adjusted R-squared	0.145569	S.D. dependent var	0.085841
S.E. of regression	0.079348	Akaike info criterion	-1.978676
Sum squared resid	0.151106	Schwarz criterion	-1.489853
Log likelihood	45.62684	Hannan-Quinn criter.	-1.809935
F-statistic	1.579258	Durbin-Watson stat	3.149267
Prob(F-statistic)	0.172994		

Based on the Glejser test results, the probability value of the Chi-square statistic for Obs*R-squared is greater than the significance level ($0.172994 > 0.05$). This indicates that the regression model does not suffer from heteroscedasticity. Therefore, the data satisfy the homoscedasticity assumption and are appropriate for further regression analysis.

d. Autocorrelation Test

Table 3. Autocorrelation Test

Effects Specification			
Cross-section fixed (dummy variables)			
R-squared	0.684263	Mean dependent var	0.325211
Adjusted R-squared	0.552705	S.D. dependent var	0.218067
S.E. of regression	0.145843	Akaike info criterion	-0.761291
Sum squared resid	0.510486	Schwarz criterion	-0.272468
Log likelihood	24.32260	Hannan-Quinn criter.	-0.592549
F-statistic	5.201255	Durbin-Watson stat	1.996738
Prob(F-statistic)	0.000453		

Based on the test results, the Durbin–Watson statistic is 1.996, which is very close to the benchmark value of 2.000. This result indicates that the residuals are independent and that no autocorrelation problem exists in the regression model. Therefore, the regression model satisfies the autocorrelation assumption and is appropriate for further hypothesis testing.

Data Analysis Method

Panel data regression analysis was employed because the dataset combines cross-sectional and time-series observations. This method was used to examine the effects of financial structure, profitability, firm size, and corporate social responsibility on tax avoidance. To determine the most appropriate panel data model, the Chow test, Hausman test, and Lagrange Multiplier (LM) test were performed using EViews 13.

a. Panel Data Model Selection

Table 4. Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.381653	(6,24)	0.0147
Cross-section Chi-square	21.444612	6	0.0015

The Chow test results indicate a Cross-section F probability of 0.0015 and a Cross-section Chi-square probability of 0.0147, both of which are below the 0.05 significance level. Therefore, the Fixed Effect Model (FEM) was selected as the most appropriate panel data regression model for this study.

Table 5. Haussman Test

Correlated Random Effects - Hausman Test
Equation: UJICHOW
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	13.646896	4	0.0085

The Hausman test results show a probability value of 0.0085, which is lower than the 5% significance level ($0.0085 < 0.05$). Therefore, the null hypothesis is rejected, indicating that the Fixed Effect Model (FEM) is more appropriate than the Random Effect Model (REM). Accordingly, the Fixed Effect Model (FEM) was selected as the final panel data regression model for estimating the relationship between financial structure, profitability, firm size, corporate social responsibility, and tax avoidance.

b. Panel Data Regression

Table 6. Panel Data Regression

Dependent Variable: Y
Method: Panel Least Squares
Date: 07/20/26 Time: 12:35
Sample: 2019 2023
Periods included: 5
Cross-sections included: 7
Total panel (balanced) observations: 35

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.431196	0.633789	2.258160	0.0333
X1	-6.05E-05	1.25E-05	-4.830092	0.0001
X2	0.103499	0.847096	0.122181	0.9038
X3	-0.038132	0.022077	-1.727234	0.0970
X4	0.680234	0.191945	3.543892	0.0017

The panel data regression analysis using the Fixed Effect Model (FEM) produced the following regression equation:

$$TA = 1.43 + 6.05FS - 0.103PROF - 0.038SIZE + 0.68CSR + \varepsilon$$

The regression results indicate that Financial Structure has a positive coefficient of 6.05, suggesting that an increase in financial structure is associated with a higher level of tax avoidance. Similarly, Corporate Social Responsibility (CSR) has a positive coefficient of 0.68, indicating that greater CSR disclosure tends to increase tax avoidance. In contrast, Profitability and Firm Size have negative coefficients of -0.103 and -0.038, respectively, implying that increases in these variables are associated with lower levels of tax avoidance. The constant value of 1.43 indicates the expected level of tax avoidance when all independent variables are assumed to be constant.

The t-test was conducted to examine the partial effect of each independent variable on tax avoidance. The results show that Financial Structure has a significant positive effect on tax avoidance, indicating that firms with higher leverage are more likely to engage in tax avoidance practices. Corporate Social Responsibility also has a significant positive effect on tax avoidance, suggesting that CSR activities are associated with corporate tax planning strategies. Meanwhile, Profitability and Firm Size do not have a statistically significant effect on tax avoidance. These findings indicate that financing decisions and CSR practices are more influential determinants of tax avoidance than profitability and firm size among politically connected companies in Indonesia's basic and chemical industry.

The model feasibility was evaluated using the F-test to determine whether the independent variables jointly explain the variation in tax avoidance. The test results show a significance value of 0.000, which is lower than the 5% significance level (0.05). Therefore, the regression model is statistically significant and appropriate for explaining the relationship between Financial Structure, Profitability, Firm Size, Corporate Social Responsibility, and Tax Avoidance.

Table 7. F Test

Effects Specification			
Cross-section fixed (dummy variables)			
R-squared	0.684263	Mean dependent var	0.325211
Adjusted R-squared	0.552705	S.D. dependent var	0.218067
S.E. of regression	0.145843	Akaike info criterion	-0.761291
Sum squared resid	0.510486	Schwarz criterion	-0.272468
Log likelihood	24.32260	Hannan-Quinn criter.	-0.592549
F-statistic	5.201255	Durbin-Watson stat	1.996738
Prob(F-statistic)	0.000453		

The coefficient of determination shows an Adjusted R-squared value of 0.5527, indicating that 55.27% of the variation in Tax Avoidance can be explained by Financial Structure, Profitability, Firm Size, and Corporate Social Responsibility. The remaining 44.73% is explained by other factors not included in the regression model. These results suggest that the proposed model has a relatively good explanatory power in explaining tax avoidance practices among the sampled companies.

Discussion

The findings of this study indicate that Financial Structure has a significant positive effect on Tax Avoidance. This result is consistent with the studies of Annisa (2017), Taufik (2017), Wahyuni (2019), and Mahdiana (2020), which reported that leverage influences corporate tax avoidance. Companies with higher debt levels benefit from interest expenses that are recognized as deductible expenses under Indonesian Income Tax Law, thereby reducing taxable income and lowering corporate tax liabilities. From the Determinants of Tax Avoidance in Basic and Chemical Industry Companies: Political Connections in Share Ownership as a Control Variable. Kurnia Heriansyah et.al

perspective of Agency Theory (Jensen & Meckling, 1976), managers seek to maximize shareholder wealth by selecting financing strategies that minimize tax payments while remaining within legal boundaries. Therefore, debt financing becomes an effective tax planning mechanism for politically connected firms in the basic and chemical industry.

In contrast, Profitability does not significantly affect Tax Avoidance. This finding supports the results reported by Yuliani (2017), Taufik (2017), Suryani (2020), Maharani (2014), and Rahmawati (2021). Although more profitable firms generally face higher corporate income tax obligations, the results suggest that profitability is not the primary determinant of tax avoidance among politically connected companies. These firms tend to maintain stable financial reporting and corporate credibility, particularly because government ownership increases public accountability and regulatory oversight. Consequently, higher profitability does not necessarily encourage more aggressive tax planning practices.

The study also finds that Firm Size has no significant effect on Tax Avoidance, consistent with the findings of Faizah and Adhivinna (2017), Khairunisa et al. (2017), and Cahyono et al. (2016). Although the sampled companies possess substantial total assets, large firm size alone does not automatically lead to greater tax avoidance. High-value assets also generate higher depreciation and operating expenses, which naturally reduce taxable income without requiring aggressive tax planning. Furthermore, politically connected firms generally receive greater attention from regulators and stakeholders, encouraging more prudent tax management practices regardless of their size.

Finally, Corporate Social Responsibility (CSR) has a significant positive effect on Tax Avoidance. This finding is in line with the studies of Hidayat (2023), Mardianti (2020), and Rahmadani (2020). CSR activities involve expenditures on social and environmental programs, some of which are recognized as deductible expenses under Indonesian tax regulations. Consequently, higher CSR expenditures may contribute to reducing taxable income while simultaneously enhancing the company's reputation and stakeholder relationships. For politically connected firms, CSR not only fulfills social responsibilities but also serves as a legitimate component of corporate tax planning. These findings suggest that both financing decisions and CSR expenditures play important roles in explaining tax avoidance practices among basic and chemical industry companies with political connections in Indonesia.

5. Conclusion

This study was conducted on companies in the Basic and Chemical Industry listed on the Main Board of the Indonesia Stock Exchange (IDX) that have substantial government share ownership, indicating the presence of political connections. Tax avoidance is generally implemented as a legal tax planning strategy to improve corporate financial liquidity while maintaining profitability. As one of Indonesia's strategic industrial sectors, the basic and chemical industry plays a significant role in supporting national economic growth and contributes substantially to government tax revenue.

The empirical findings indicate that Financial Structure and Corporate Social Responsibility significantly influence Tax Avoidance, whereas Profitability and Firm Size do not have a significant effect. These results suggest that financing decisions and CSR expenditures are more relevant determinants of tax avoidance than profitability and company size among politically connected firms. Future research is encouraged to incorporate additional explanatory variables, extend the observation period, or examine other industrial sectors to provide a broader understanding of the determinants of corporate tax avoidance.

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