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The Coding Effect of Institutional Ownership on Political and Tax Avoidance Behavior

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Abstract
Purpose: This study investigates the influence of political connections on tax avoidance and examines the moderating role of institutional ownership in Indonesia's mining sector.
Methodology: Quantitative research with a causal approach was conducted using a sample of 18 mining companies listed on the Indonesian Stock Exchange over four years, totalling 72 observations. Data were analysed using SPSS 24.0, applying Moderated Regression Analysis (MRA).
Results: Political connections positively and significantly influenced tax avoidance. However, institutional ownership does not significantly affect tax avoidance and does not moderate the relationship between political connections and tax avoidance.
Conclusions: Political connections significantly increase tax avoidance, giving firms favourable treatment. Institutional ownership had no moderating effect. Although legal, tax avoidance harms state revenue, highlighting the need for stricter regulations and transparency.
Limitations: This study is limited to mining sector companies in Indonesia, which restricts the generalizability of the findings to other sectors or countries. Further research could compare results across countries with similar economic and cultural contexts, such as developing Asian countries, to enhance their representativeness.
Contributions: This study adds to the literature by highlighting the unique role of political connections in tax avoidance within Indonesia's mining sector and demonstrating that institutional ownership may not always serve as an effective moderating factor. It also emphasizes the need for improved regulatory oversight and governance to mitigate tax avoidance practices linked to political affiliations.

Keywords: *Institutional Ownership, Political Connections, Tax Avoidance.*

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1. Introduction

Taxation serves as the primary source of state revenue, necessitating the maximization of its potential to finance all state expenditures, including those aimed at societal welfare. In accordance with this principle, the mining sector stands as one of the most significant contributors to state revenue. Indonesia, a nation with substantial mining resources, is projected to derive its highest contribution to state revenue from this sector (Meiryani et al., 2023). Furthermore, Indonesia ranks among the top 10 countries globally in terms of mineral reserve potential.

Developing countries are very vulnerable to political connection situations because property rights protection is weak, including Indonesia (Ahmed et al., 2023). A special political connection trend in

Indonesia is placing people who are close to the government into the company's organizational structure, both commissioners and directors (Fahlevi et al., 2023). In line with this statement at the start of President Joko Widodo's administration, political connections were also clearly visible with the decision to appoint a BUMN commissioner (Eric Tohir) who came from a political party or volunteer to occupy the position of BUMN commissioner. This shows that political connections are common in the organizational structure of state-owned companies in Indonesia (Vitaloka, Andriyanto, Amelia, & Indra, 2023).

Faccio (2006) also found the same thing, where in his research he found that developing countries that have high levels of corruption tend to take advantage of political connections. Indonesia is a developing country and has a fairly high level of corruption. Indonesia's Corruption Perception Index (IPK) based on the Transparency International Organization in 2019 is 40 and Indonesia is in 85th place out of 198 countries in the world. In Indonesia, it is often found that people who hold important positions in a company also participate in the world of politics. For example, Hary Tanoesoedibjo, who is the General Chair of the Indonesian Unity Party (PERINDO) and the main commissioner of PT. MNC Investama Tb, Sandiaga Salahuddin Uno, who is one of the shareholders of PT Adaro Energy and also on the advisory board of the Gerindra party (Hermawan, Wulandari, Buana, & Sanjaya, 2021).

Kim and Zhang (2016) in their research explained that companies with political connections have privileges such as protection from the government. ease of accessing capital loans, low tax risk, making companies more aggressive in carrying out tax planning practices. One example is the case of tax avoidance carried out by PT Adaro Energy through transfer pricing activities to subsidiaries located abroad, namely Coaltrade Services International.

The inconsistency in research results has encouraged researchers to re-examine the political connection variable which is related to taxpayers' tax avoidance behavior, especially in mining sector companies. Research by Safii and Suyanto (2019) in their research found that political connections have a positive effect on tax avoidance, this is because companies that are politically connected tend to pay small amounts of tax (too low) with lower tax inspection facilities, so there is a relationship between mutualistic symbiosis (both companies and the government need each other), especially companies in the context of business permits. Az'ari and Lastiati (2022) also found that there is a positive relationship between political connections and tax avoidance, this is because the political connections that companies have can help in lobbying which can put pressure on the tax authorities so that the amount of tax paid can be reduced (or tends to be smaller), especially if it is identified that there are tax violations in it (Agustina, 2023).

Research by Imanuella and Damayanti (2022) which focused on state-owned companies found that in general, companies that have political connections can pay lower taxes than companies that do not. On the other hand, the results also show that political connections have an effect on tax avoidance behavior, in other words, state-owned companies as principals are considered companies that comply with paying taxes. State-owned companies show their compliance in paying taxes, as an exemplary attitude to agents to maintain the good name of the government and can be an example to the public as taxpayers who comply with their tax obligations (Fauziah, Faeni, & Fikri, 2024). This result is considered inconsistent from the rowbust test, the difference is due to the use of 2 different measurement scales, where if you use the score as a measurement then the result is that there is an influence of political connections on tax avoidance, conversely if you use a dummy measurement then political connections have no effect on tax avoidance behavior so In the future, retesting will need to be carried out to test the consistency of the research results. Other research is Sari and Somoprawiro (2020) with research results showing that political connections have no effect on tax avoidance, where political connections will indeed provide several benefits for the company, but that does not mean it will be used to carry out tax avoidance, this is because the company Think about the long-term effects for the company.

This research develops measures of political connections from previous research. Previous research used dummy variables, whereas in this research it pays attention to the level of connectivity, and it is

proven in the results of this research that the two measurement methods show different results. The limitation of the research in this study is that the sample used was only in one sector in one country (Agustina, 2023). Suggestions for further research are that political connections can be measured by approaching research results in countries whose culture and economic level are almost the same, for example developing countries on the Asian continent, so that the results obtained are more representative. So, starting from several problems stated above, researchers are interested in linking patterns of tax avoidance behavior with the existence of strong political relations and existing institutional ownership.

While prior research has established some links between political connections and tax avoidance, inconsistencies in findings, simplistic measurement methods, sector-specific focus, and limited geographic scope present significant gaps. Furthermore, the role of institutional ownership in moderating these dynamics remains underexplored. This research seeks to address these gaps by employing more nuanced measures of political connections, considering institutional ownership, and situating findings within the broader context of developing economies with similar governance and economic structures.

This study aims to examine the influence of political connections on tax avoidance practices within the mining sector in Indonesia. By employing advanced measurement methods for political connections and focusing on institutional ownership, the research seeks to provide nuanced insights into the mechanisms through which political ties affect corporate tax behaviors. Additionally, the study addresses inconsistencies in prior findings and proposes a robust framework to understand the intersection of political connections, corporate governance, and tax compliance in a developing country context.

2. Literature Review and Hypothesis Development

2.1 Political Connections

Habib et al. (2017) define a politically connected company as one where at least one major shareholder (an individual who directly or indirectly controls a minimum of 10% of the company's voting rights) or board member is a current or former member of parliament, minister, local government chairman, senior military officer, or an individual closely associated with politicians or political parties. The distinctive relationship between the company owner and the government is characterized by the company owner being a prominent political figure who serves as a member of the council either in the central or regional government or as a member of a political party (Langley & Leyshon, 2021). Companies with political connections often receive governmental protection and face a reduced risk of tax audits, enabling them to engage in more aggressive tax planning strategies, which consequently results in diminished financial transparency (Fahlevi et al., 2022).

2.2 Tax Avoidance

According to Dyreng et al. (2019) legally valid tax avoidance means that companies are not subject to direct sanctions, sanctions are given when the law clearly regulates the limits of tax avoidance. Chen et al. (2010) define aggressiveness tax as management of taxable income through tax planning activities. Tax aggressiveness includes activities that are legal, or that may fall into a gray area, as well as activities that are illegal. Armstrong et al. (2012) explains that tax planning is one of the functions of tax management which is used to estimate the amount of tax that will be paid and things that can be done to avoid tax. Political connections aim to accommodate company interests, including tax interests (Watto et al., 2023). Political connections often occur in developing countries where political connections are carried out by placing parties who are close to the government so that the government has connections to the company's organizational structure, whether they are commissioners or directors (Back & Bausch, 2019).

In accordance with this, the case described in the background (PT Adaro Energy case) demonstrates that most of these actions were motivated by the company's endeavors to evade taxes and reduce expenses in the tax sector, thereby minimizing costs incurred and maximizing company profits. This aligns with the fundamental principle of all companies, namely to maximize profits by avoiding taxes

through relationships with politicians to accommodate the company's interests, including in matters of taxation (Hidayati & Diyanty, 2018). Furthermore, consistent with this statement, the empirical study conducted by Safii and Suyanto (2019) in their research revealed that political connections have a positive effect on tax avoidance. This is attributed to politically connected companies tending to pay disproportionately low amounts of tax with reduced tax audit scrutiny, resulting in a symbiotic mutualistic relationship (where both companies and the government are interdependent), particularly for companies in the context of business permits. Az'ari and Lastiati (2022) also found that there is a positive relationship between political connections and tax avoidance, this is because the political connections that companies have can help in lobbying which can put pressure on the tax authorities so that the amount of tax paid can be reduced (or tends to be smaller), especially if it is identified that there are tax violations in it.

2.2 Hypothesis Development

2.2.1 The Relationship of Political Connections on Tax Avoidance

Purwoto (2011) said that companies that have political connections are companies that in certain ways have political ties and seek closeness to politicians or the government. It was further explained that preferential treatment for companies that have political connections, Purwoto (2011)said that companies that have political connections are companies that in certain ways have political ties and seek closeness to politicians or the government. It was further explained that preferential treatment for companies that have political connections, namely obtaining easy access to capital loans, low risk of tax audits, thus making companies more aggressive in determining tax planning, which results in reduced transparency of financial reports. Apart from that, the existence of preferences in supervision and weak enforcement of tax sanctions makes companies with political connections untouchable so that there is a positive link between political connections and tax avoidance. Safii and Suyanto (2019) research results (Az'ari & Lastiati, 2022; Imanuella & Damayanti, 2022) in their research found that political connections have a positive effect on tax avoidance. Research on political connections and tax avoidance yields mixed results. Some studies find that political connections negatively affect effective tax rates, indicating increased tax avoidance However, others report no significant effect or even a negative impact on tax avoidance (Widarjo et al., 2021). Corporate governance mechanisms play a role in this relationship, with managerial ownership strengthening the negative association between political connections and effective tax rates, while institutional ownership weakens it. Joint audits can mitigate the adverse effects of political connections on tax avoidance. The effectiveness of corporate governance positively moderates the relationship between political connections and tax avoidance, contrary to expectations (Widarjo et al., 2021). Audit committees and audit quality also influence tax avoidance practices, with Big Four auditors ensuring more accurate financial data (Yusuf et al., 2023). so a hypothesis can be formulated that:

H1: Political connections have a positive effect on Tax Avoidance Behavior

2.2.2. The Moderating Relationship of Institutional Ownership on Political Connections and Tax Avoidance

Political connections are one form of relationship between companies and the government. Companies that have political relations tend to have preferential treatment, especially when it comes to tax audits. Low tax revenues are an example of the preferential treatment that companies with political connections have. This causes companies to become aggressive in practicing tax planning which can result in decreased transparency of financial reports (Armstrong et al., 2012). Behavior obtaining easy access to capital loans, low risk of tax audits, thus making companies more aggressive in determining tax planning, which results in reduced transparency of financial reports (Maeenuddin et al., 2023). Apart from that, the existence of preferences in supervision and weak enforcement of tax sanctions makes companies with political connections untouchable so that there is a positive link between political connections and tax avoidance (Safii & Suyanto, 2019). (Az'ari & Lastiati, 2022; Imanuella & Damayanti, 2022) in their research found that political connections have a positive effect on tax avoidance. Research on political connections, institutional ownership, and tax avoidance yields mixed results. While some studies find that political connections negatively affect effective tax rates, indicating increased tax avoidance (Rustiarini & Sudiartana, 2021), others report no significant effect

(Widarjo et al., 2021). Institutional ownership's role is similarly inconsistent, with some research showing no effect on tax avoidance, while others find a significant impact. Rustiarini and Sudiartana (2021) report that institutional ownership weakens the negative relationship between political connections and effective tax rates. Corporate governance's moderating effect on the relationship between political connections and tax avoidance is positive, contrary to expectations (Widarjo et al., 2021). Other factors influencing tax avoidance include leverage, which has a significant negative effect, and managerial ownership, which strengthens the negative relationship between political connections and effective tax rates (Rustiarini & Sudiartana, 2021), so a hypothesis can be formulated that:
H2: Institutional Ownership moderates the influence of political connections on Tax Avoidance

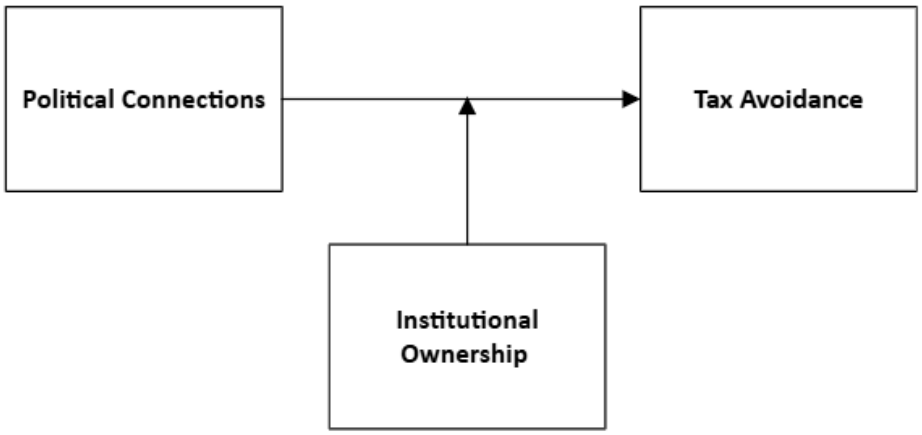

Figure 1. Research Model

The research model presented in Figure 1 shows the relationship between political connections, tax avoidance, and the moderating role of institutional ownership. This model identifies political connections as the independent variable. These connections refer to the relationships or affiliations between companies and political figures or entities. Political connections can provide companies with certain advantages, such as regulatory leniency, reduced scrutiny, or preferential treatment, which can potentially influence their tax avoidance behavior. Tax avoidance is the dependent variable in this model. It represents the deliberate actions taken by companies to minimize their tax liabilities through legal but often aggressive tax planning strategies. The model hypothesizes that political connections may affect the extent to which firms engage in tax avoidance practices. Institutional ownership is positioned as a moderating variable that influences the strength or direction of the relationship between political connections and tax avoidance. Institutional ownership refers to the proportion of a company's shares held by institutional investors, such as mutual funds, pension funds, or other large financial entities. The model suggests that institutional ownership could play a critical role in either amplifying or mitigating the impact of political connections on tax avoidance, depending on the governance practices and oversight provided by these institutional investors.

3. Research Methods

3.1 Types of research

This research is quantitative research with a causality approach (Husnah et al., 2023; Paulina & Barus, 2022). The type of data used in this research is secondary data. Secondary data is indirect data obtained from annual reports of mining sector companies listed on the IDX. The data source for this research was obtained from the official website of the Indonesian Stock Exchange, namely www.idx.co.id. or from the company website

3.2 Population and Sample

The population in this research is all mining sector companies whose shares are listed on the Indonesia Stock Exchange (BEI) consecutively during 2017-2020. There are 59 companies that are the population in this research. The sampling technique in this research uses a purposive sampling technique, namely

the sample is selected with certain considerations (Khan et al., 2024; Kuldasheva et al., 2023), Companies that do not comply with the specified criteria, such as being consistently listed on the BEI during the research period or having complete financial and governance data, may introduce biases or inconsistencies in the analysis. By excluding such companies, we enhance the reliability and validity of the results. The sample companies were selected based on the following criteria set by the researchers:

Table 1 . Sample Criteria

No	Criteria	Total
1	Mining company that listed on the Indonesian Stock Exchange (BEI)	59
2	Companies that do not publish or cannot access *annual report data* in a row participating in 2017-2020.	(16)
3	Companies that don't use it currency US Dollar (USD).	(19)
4	Companies that do not state the amount of compensation provided to the executive board (commissioner and directors) during 2017-2020.	(3)
5	Companies that don't have data complete information needed for research.	(3)
Number of company samples per year		18
Number of Research Samples (18 x4 year)		**72**

Operational Definition of Variables

This research raises one dependent variable and two independent variables. The dependent variable used is Tax Avoidance (Y).

Table 2 . Operational Definition and Measurement of variables

Variable	Definition	Measurement Scale
Tax avoidance	Action tax evasion by using loopholes in tax regulations (*gey area*), not violate regulations that There is. The greater the *CASH ETR value* indicates the lower the *tax rate avoidance* company	**Payment of taxes** ***CASH ETR*** **= Profit before tax** Dyreng *et al.* (2010)
Political Connections	Namely a company in which at least one large shareholder (a person who directly or indirectly controls at least 10% of the company's voting rights) or board member is an active or former member of parliament, a minister or head of regional government, a senior military officer, or a closely related person. with politicians or political parties.	Dummy Variable code 1 (one) if a company has political connections and 0 (zero) otherwise

Source: Processed by Researchers

The Table 2 provides clear definitions and measurement methods for the two primary variables examined in this research: tax avoidance and political connections. Tax avoidance refers to the actions taken by companies to minimize their tax obligations by exploiting legal loopholes within tax

regulations. These practices are considered legal, as they do not directly violate existing rules, but they often operate in the ambiguous "grey area" of the law. To measure tax avoidance, the study uses the Cash Effective Tax Rate (CASH ETR), calculated as the ratio of tax payments to profit before tax. A lower CASH ETR indicates higher tax avoidance, as it reflects a smaller proportion of profits paid as taxes. This measurement approach aligns with the framework introduced by (Dyreng et al., 2019), which is widely used in tax-related research.

Political connections, on the other hand, are defined as the presence of significant links between a company and influential political figures or entities. These connections are identified when a major shareholder (owning at least 10% of the company's voting rights) or a board member holds or has previously held key political positions, such as a member of parliament, a minister, a regional government head, or a senior military officer. Additionally, individuals closely affiliated with politicians or political parties are also considered under this definition. Political connections are measured using a dummy variable, where companies with such ties are coded as 1, and those without are coded as 0.

This detailed operationalization ensures a consistent and objective approach to assessing the variables, allowing for a robust analysis of how political connections influence tax avoidance behavior in mining sector companies. By clearly defining and measuring these variables, the study enhances its ability to draw meaningful conclusions about the interplay between political influence and corporate tax strategies.

3.4 Data analysis method

Data was processed using SPSS 24.0 For Windows where the analysis method used was Quantitative research with a Causal research approach. The data analysis model used in this research is the Multiple Linear Regression equation (Lind et al., 2018) which is as follows:

$$\mathbf{Y = a + \beta 1X + e} \quad \mathbf{(1)}$$
$$\mathbf{Y = a + \beta 2X + \beta 3Z + e} \quad \mathbf{(2)}$$

Where :
Y= Tax Avoidance
a = Constant
X_1 = Political Connection
Z = Institutional Ownership
$\mathbf{B_1 \beta_2 \beta_3}$ = Regression Coefficient
e= Standard Error
To test existing hypotheses, there are several stages of testing that will be carried out, including:

1. Hypothesis testing
   Hypothesis testing in this research uses Moderated Regression Analysis (MRA). Moderated Regression Analysis (MRA) or interaction test is a special application of linear multiple regression where the regression equation contains an element of interaction (multiplication of two or more independent variables). The multiplicative variable between X1X3 and X2X3 is also called a moderate variable because it describes the moderating influence of variable X3 on the relationship between This equation means that dY/dX1 is a function of X3 or the variable X3 moderates the relationship between X1 and Y, moderates the relationship between X2 and Y (Sekaran & Bougie, 2016).
2. Individual Parameter Significance Test
   From the independent variables (variable Xa) and moderate variables) included in the regression, if the variable Xa and the moderate variable (the interaction between is a moderating variable. If the variable is moderate, the t statistical test shows how far the influence of one independent (explanatory) variable individually is able to explain variations in the dependent (dependent) variable. The significance level used is 5% where the criteria for acceptance and rejection of Ho are:
   - Ho is rejected if t-count (+) > (+) t-table or t-count (-) < (-) t-table

- Ho is accepted if t-count (+) < (_) t-table or t-count (-) > (-) t-table

3. Determinant Coefficient (Adjusted R2)
   The coefficient of determination (Adjusted R2) aims to measure how far the model's ability can explain variations in the dependent variable. In testing the first hypothesis, the coefficient of determination is seen from the value (Adjusted R2). The value (Adjusted R2) has an interval between 0 and 1. If the value of Adjusted R2 is large (detects 1), it means that the independent variable can provide almost all the information needed to predict the dependent variable. . Meanwhile, if (Adjusted R2) is small, it means that the ability of the independent variable to explain the dependent variable is very limited. In general, the coefficient of determination for cross-section data is relatively low due to large variations between each observation, whereas time series data usually have a high coefficient of determination (Saunders et al., 2009).

4. Results and Discussion

4.1 Descriptive statistics

Table 3. Descriptive Statistical Test

Variables	N	Minimum	Maximum	Mean	Std. Deviation
X	270	.00	1.00	.8111	.39215
Y	270	-3.94	3.35	-.5099	1.06442
Z	270	.00	99.65	71.2859	22.06834

The descriptive analysis provides a statistical summary of the key variables in the study: Political Connection (X), Tax Avoidance (Y), and Institutional Ownership (Z), based on a sample size of 270 observations. Each variable is analyzed using its average (mean), variability (standard deviation), and range (minimum and maximum values). For Political Connection (X), the mean value of 0.8111 indicates that approximately 81.11% of the companies in the sample have political connections. The standard deviation of 0.39215 reflects the variability in the presence of political connections among the companies. With a minimum value of 0 and a maximum value of 1, this dummy variable confirms that companies are classified as either having no political connection (0) or having one (1).

Tax Avoidance (Y) has a mean value of -0.5099, suggesting that, on average, companies in the sample report negative values in their Cash Effective Tax Rate (CASH ETR), potentially reflecting aggressive tax planning strategies. The standard deviation of 1.066442 shows significant variation in tax avoidance practices among the companies. The minimum value of -3.94 suggests some companies have very high levels of tax avoidance (low or negative tax payments relative to their profits), while the maximum value of 3.35 indicates companies paying proportionally more in taxes. For Institutional Ownership (Z), the mean value of 71.2895 indicates that, on average, 71.29% of the company shares are owned by institutional investors. The standard deviation of 22.06834 suggests moderate variability in the level of institutional ownership across the sample. The minimum value of 0 implies that some companies have no institutional ownership, while the maximum value of 99.65 shows that nearly all shares of some companies are held by institutional investors.

These descriptive statistics highlight the distribution and variability of each variable in the sample, providing insights into the prevalence of political connections, the extent of tax avoidance practices, and the dominance of institutional ownership in the sampled companies. This foundational analysis sets the stage for deeper exploration of relationships among these variables.

4.1.1 Normality test

Table 4. *One-Sample Kolmogorov-Smirnov Test*

		Unstandardized Residuals
N		270
Normal Parameters	Mean	.0000000
	Std. Deviation	1.05167403
Most Extreme Differences	Absolute	,054
	Positive	,051
	Negative	-.054
Statistical Tests		,054
Asymp. Sig. (2-tailed)		,056 [c]

Based on the table above, it shows (sig 0.056), which means the value is greater than 0.05, it can be concluded that the variables Political Connection (X), Tax Avoidance (Y), and Institutional Ownership (Z) state that the information from each study has a normal distribution. statistically and suitable for use as research information.

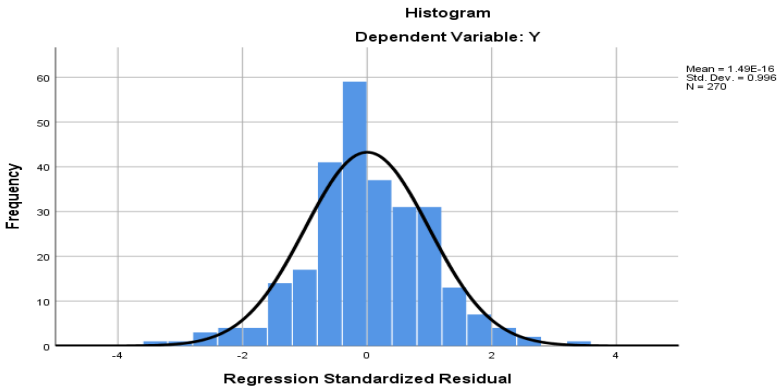

Figure 1. Normality Test Histogram

Based on the Histogram Graph test, it was found that the Residual Frequency mostly gathered at the value 0 or the data distribution value was in accordance with the normal curve, so it was said that the residuals were distributed in a normal distribution.

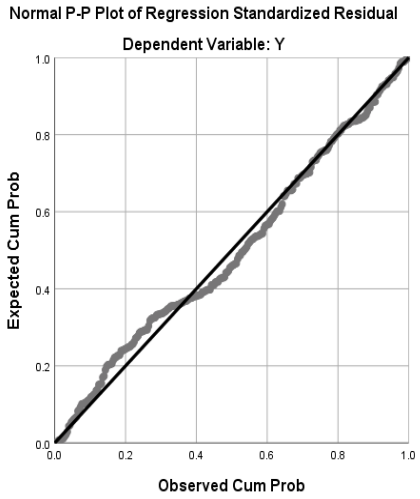

Figure 2. P-Plot Normality Test

Based on the PP Plot test, it was found that the data points had spread along a diagonal line, so it was said that the residuals had spread in a normal distribution. According to Abbott (2016) data that is not normally distributed can be transformed to make it normal. The form of transformation used in this research is Natural Logarithm (LN).

4.1.2 Multicollinearity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.510	,241		-2.121	,035		
	X	,380	,166	,140	2,289	.023	,977	1,024
	Z	-.004	,003	-.090	-1,464	.144	,977	1,024

From the table above, for all variables the tolerance value obtained is above 0.10 and the VIF value is below 10.0. It can be concluded that there is no multicollinearity

4.1.3 Heteroscedasticity Test

Table 6. Heteroscedasticity Test Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,696	.153		4,550	,000
	X	.016	.106	,009	,149	,882
	Z	,001	,002	,047	,754	,452

Based on the table 6 above, it can be concluded that the significance value of all variables is more than 0.05, so it can be concluded that there is no or the regression model is free from heteroscedasticity problems.

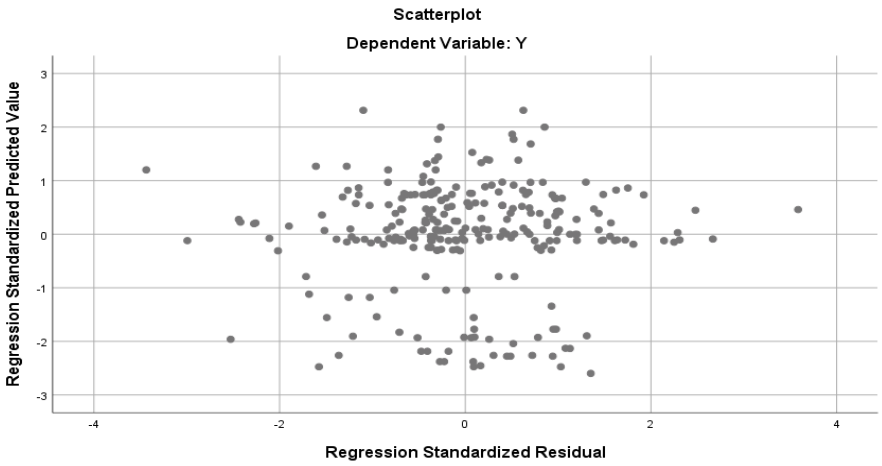

Figure 3. *Scatter plot*

From the *Scatterplot graph* in the Figure 3 above, it can be seen that the points are spread randomly, and are spread both above and below zero on the Y axis. This can be concluded that heteroscedasticity does not occur in the regression model (Burns & Burns, 2008).

4.1.4 Autocorrelation Test

Table 7. Durbin-Watson

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.154 [a]	.024	.016	1.05561	1,805

Based on the SPSS output results in the table 7 above, it is known that the Durbin Watson value is 1.805, this value is greater (>) than the DU value of 1.699 and the Durbin Watson value is smaller (<) than the 4-DU value, so it can be said that there are no symptoms of autocorrelation.

4.1.5 Model Testing

Table 8. Multiple Linear Regression (1)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.510	,241		-2.121	,035
	X	,380	,166	,140	2,289	.023
	Z	-.004	,003	-.090	-1,464	.144

Based on the results of multiple regression tests that have been carried out using SPSS 25 for Windows, the following equation can be created:

Model 1 Y = -0.510 + 0.380X + -0.004Z

1) The variable X (Political Connection) provides a parameter coefficient value (t-count) of 2.289 with a significance level of 0.023. This means that H1 is accepted so that Political Connection has a positive and significant influence on Tax Avoidance because the level of significance of the Political Connection variable is <0.05 (0.023<0.05) and t-count > t-table (2.289>2.014).
2) The variable Z (Institutional Ownership) provides a parameter coefficient value (t-count) of -1.464 with a significance level of 0.144 (> 0.05). It can be said that Institutional Ownership has no effect on Tax Avoidance because the level of significance of the Institutional Ownership variable is > 0.05 (0.144> 0.05) and t-count <t-table (-1.464> 2.014).

For the 2nd regression model based on the results of multiple regression tests using MRA to test moderating variables which have been carried out using SPSS 25 for Windows, the following equation can be created:

Model 2 Y: 0.411 + 0.235X + -0.006Z + 0.002XZ

1) Connection) gives a significant value of 0.504>0.05 which is not significant, while the interaction between Based on the explanation above, you can create an estimation table for model 2 as below:

Table 9. Multiple Linear Regression (2)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.411	,385		-1,068	,286
	X	,235	,467	,087	,504	,615
	Z	-.006	,006	-.122	-1,063	,289
	XZ	,002	,007	,069	,332	,740

F Test Model 1 & 2

Table 10. ANOVA

ANOVA (1)						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7,253	2	3,626	3,254	,040 [b]
	Residual	297,519	267	1,114		
	Total	304,772	269			
ANOVA (2)						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7,376	3	2,459	2,199	,089 [b]
	Residual	297,396	266	1,118		
	Total	304,772	269			

Based on the table above, it is known that the F-calculated value of model 1 is 3.254 > 3.238 from the F-table value and the significant value is 0.040 < 0.05, so it can be concluded that all independent variables, namely Political Connection and Institutional Ownership simultaneously have a significant effect on the Tax variable. Avoidance. Meanwhile, the F-calculated value of model 2 is 2.199 < 3.238 from the F-table value and the significant value is 0.089 > 0.05, so it can be concluded that the independent variables namely Political Connection, Company Size and the interaction of Political Connection with Institutional Ownership simultaneously do not have a significant effect on Tax Avoidance.

4.1.6 Coefficient of Determination Model 1 & 2

Table 11. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.154 [a]	.024	.016	1.05561
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.156 [a]	.024	.013	1.05737

Based on the table above, it shows that the Adjusted R Squere (R2) value for model 1 is 0.016 or 1.6%. The Adjusted R Squere (R2) value for model 1 is not too high. Therefore, it can be said that the dependent variable, namely Tax Avoidance, can only be explained by the independent variables Political Connection and Institutional Ownership of 1.6%, while the remaining 98.4% is explained by

other variables not included in this research, as for the Adjusted value R Squere (R2) model 2 is 0.013 or 1.3%. The Adjusted R Squere (R2) value for model 2 is not too high. Therefore, it can be said that the dependent variable, namely Tax Avoidance, can only be explained by the variables Political Connection, Institutional Ownership and the interaction variable Political Connection with Institutional Ownership of 1.3% while the remaining 98.7% is explained by other variables not included in the research This

4.2 Discussion

Based on the results of research testing the determination of Tax Avoidance as described above, there are several things that can be explained in this research, namely as follows:

1. Political Connections have a positive and significant effect on Tax Avoidance
   Based on the results of the T test model 1, the results obtained show that the t-count > t-table (2.289> 2.014) and the political connection significance value is 0.023 (< 0.05), meaning that the political connection variable (X) partially has a significant influence on Tax Avoidance variable (Y). Thus it can be concluded that the first hypothesis (H1) political connections have a significant effect on tax avoidance, so H1 is accepted. This research is in line with research conducted by (Az'ari & Lastiati, 2022; Kim & Zhang, 2016; Safii & Suyanto, 2019) who found that Political Connections have a significant effect on Tax Avoidance. The results of this research are not in line with research conducted by Widarjo et al. (2021) which states that political connections have no effect on tax avoidance, Widarjo et al. (2021) states that the political process regarding taxation is not implemented in the form of regulations or laws that provide direct tax relief so that companies that are indicated to have political ties to the government do not have a lower effective tax rate.

   Based on the research results, it can be seen that political connections have a significant positive effect on tax avoidance. Companies with political connections can take advantage of these connections as an effort to carry out tax avoidance activities, plus it is in accordance with agency theory where shareholders in their investments in the company certainly want to gain large profits. In this study, political connections play an important role in the cash taxes paid by firms. This shows that developing country economies tend to be relationship-based rather than market-based (Adhikari, Derashid, & Zhang, 2006).

   Their political connections make companies receive special treatment, such as ease in obtaining capital loans, low risk of tax audits which makes companies more aggressive in implementing tax planning which results in reduced transparency of financial reports. The loss of investors due to reduced transparency of financial reports can be replaced by the government's role as the main funder. In addition, companies that have political connections with the government in power are proven to have significantly higher levels of tax avoidance when compared to similar companies that do not have political connections. Business activities within a country must obtain permission from the government, so that a mutually binding connection can be established, either directly or indirectly, between the company and the government. Companies need the government to legitimize their activities in the market, and the government needs companies to increase the country's economic income. The government itself is developing efforts to improve the country's economy through companies under the auspices of State-Owned Enterprises. Indirectly, many conglomerates are involved or have been involved in the world of politics. As a result, there is a dualism of interests between the interests of the company and the interests of the people carried out by the government. As the implementer of government activities, the government is obliged to increase state revenues and on the other hand, as the owner of the company, it has an interest in the company's performance increasing and the investment in the company must make a return. One way is to practice tax avoidance.

   The research results show that political connections have a positive effect on tax avoidance, indicating that there are still companies that practice tax avoidance, especially from state-owned companies. Even though tax avoidance is legal according to law, it will cause state losses which impact state revenues from the tax sector. State-owned companies are suspected of not being able to carry out tax avoidance and are considered low risk taxpayers based on Minister of Finance

Regulation (PMK) No. 71/PMK.03/2010 is actually a party that practices tax avoidance. Behavior carried out by individuals because they have the intention or desire to carry out certain behavior and basic human nature that cannot be eliminated in order to benefit from regulatory weaknesses applies to anyone, including BUMN, even though it can be explained by the theory of reasoned action.

2. Institutional ownership does not strengthen the influence of political connections on tax avoidance
   Based on the results of the T model 2 test, the results obtained show that the t-count value < t-table (0.7400.05) which means that the institutional ownership variable is not able to significantly moderate the influence of political connections (X) on tax avoidance (Y). Here it can be seen that the presence of the moderating variable (institutional ownership) will actually weaken the influence of political connections on tax avoidance. Thus, it can be concluded that the second hypothesis (H2) institutional ownership cannot moderate the influence of political connections on tax avoidance, so H2 is rejected. Institutional ownership cannot moderate the influence of political connections on tax avoidance, this is because institutional ownership describes the size of shares owned by institutions. Institutions, like other shareholders, are tasked with supervising the implementation of company operations, the same as other shareholders. Institutional shareholders also want bonuses from the results of the company's performance. So, this makes it possible for institutional parties to tend not to pay attention to company tax planning policies but to focus more on bonuses from company profits, which causes their motives to tend to be profit management, not tax avoidance.

   The results of this research are supported by research by Rustiarini and Sudiartana (2021) which states that institutional ownership has no effect on tax avoidance. The moderating variable institutional ownership shows that it has no effect and is significant on the relationship between political connections and tax avoidance as proxied by the cash effective tax rate. Even though the results do not show that there is no influence of institutional ownership as a moderating variable on connection to tax avoidance, it is hoped that the size of shares owned by institutions will not only reflect the size of the bonus that will be obtained but also the quality of supervision provided as a shareholder to the company so that the company operates well. and have good value for investors or potential investors and other stakeholders.

5. Conclusion

This research proves that political connections influence tax avoidance significantly and positively. With political connections, companies have the ability to exploit their relationships to carry out tax avoidance. This study is consistent with previous research that found a significant relationship between political connections and tax avoidance. This research also shows that companies with political connections tend to receive special treatment, such as ease in obtaining capital loans and low risk of tax audits, which allows them to be more aggressive in carrying out tax planning. This fact shows the existence of a dualism of interests between the interests of companies and the interests of the people carried out by the government.

In the context of institutional ownership, this research finds that institutional ownership does not strengthen the influence of political connections on tax avoidance. This can be attributed to the tendency of institutional shareholders to focus more on increasing corporate profits rather than corporate tax planning policies. As an important note, even though tax avoidance is legal, this practice can cause losses to the state and have an impact on state revenues from the tax sector. Therefore, there needs to be further efforts to ensure transparency and accountability in the tax system and corporate political relations. The broader implication is that tax avoidance practices, while technically legal, have adverse effects on state revenue and public trust in the tax system. This underscores the importance of implementing stricter regulations to enhance transparency and accountability in corporate tax behavior, particularly for politically connected firms. Governments and regulators must also focus on mitigating the risks associated with corporate political relationships by strengthening anti-corruption measures and ensuring that political connections do not erode the integrity of tax systems.

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