THE EFFECT OF POLITICAL CONNECTIONS AND LEVERAGE TO TAX AVOIDANCE WITH AUDIT QUALITY AS A VARIABLE MODERATING

PENGARUH KONEKSI POLITIK DAN LEVERAGE TERHADAP PENGHINDARAN PAJAK DENGAN KUALITAS AUDIT SEBAGAI VARIABEL PEMODERASI

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Abstract: The Effect of Polotical Connections and Leverage to Tax Avoidance with Audit Quality as A Moderating Variable. The purpose of the research is to know (1) Effect of connections politics against avoidance, (2) Effect of leverage against the avoidance of taxes, (3) Effect of the audit quality of the relationship between the connection political and avoidance of taxes, and (4) Effect of the audit quality of the relationship between leverage and avoidance. This Research is research explanatory using the secondary data. Population of this research is 143 manufacturing company in Indonesia Stock Exchange (IDX). Sample of this research is 53 companies with 3 years data so the sample is 159. Data analysis was performed by logistic regression analysis. Results of the study show that : (1) connected Political influence positively and significantly on the tax avoidance with the level of significance of 0,010, (2) Leverage effect negatively and significantly on the Avoidance of Taxation are carried by the company with the level of significance of 0,000, (3)Audit Quality is not able to moderate the influence of Political Connections on Tax Avoidance . This is indicated by the test results that show the significance of 0,353, (4) Audit Quality is not able to moderate the effect of Leverage on Tax Avoidance. This is indicated by the test results that show the significance of 0,900.

Keywords: Political Connection, Tax Avoidance, Leverage and Audit Quality

Abstrak: Pengaruh Koneksi Polotis dan Leverage terhadap Penghindaran Pajak dengan Kualitas Audit sebagai Variabel Pemoderasi*. Tujuan dari penelitian ini adalah untuk mengetahui (1) Pengaruh koneksi politik terhadap penghindaran, (2) Pengaruh* leverage *terhadap penghindaran pajak, (3) Pengaruh kualitas audit atas pengaruh koneksi politik terhadap penghindaran pajak, dan (4) Pengaruh kualitas audit ataspengaruh leverage penghindaran. Penelitian ini adalah penelitian* explanatory *dengan menggunakan data sekunder. Populasi penelitian ini adalah 143 perusahaan manufaktur di Bursa Efek Indonesia (BEI). Sampel penelitian ini adalah 53 perusahaan dengan data 3 tahun sehingga sampel penelitian 159. Analisis data dilakukan dengan analisis regresi logistik. Hasil penelitian menunjukkan bahwa: (1) Koneksi politik berpengaruh positif dan signifikan terhadap penghindaran pajak dengan tingkat signifikansi 0,010, (2)* Leverage *secara negatif dan signifikan terhadap Penghindaran Pajak yang dilakukan oleh perusahaan dengan tingkat signifikansi 0,000, (3) Kualitas Audit tidak mampu memoderasi pengaruh Koneksi Politik pada Penghindaran Pajak. Hal ini ditunjukkan oleh hasil pengujian yang menunjukkan signifikansi 0,353, (4) Kualitas Audit tidak mampu memoderasi pengaruh Leverage terhadap Penghindaran Pajak. Hal ini ditunjukkan oleh hasil pengujian yang menunjukkan signifikansi 0,900.*

Kata kunci: *Koneksi Politik, Penghindaran Pajak, Leverage dan Kualitas Audit*

INTRODUCTION

National development is main agenda of Indonesia's current government. National development need cost a lot. Therefor the government seeks to increase state revenues by increasing income from the tax sector.

Some regulation makes to increase income from the tax sector. One example is Government Regulation number 46 aims to collecting taxes from micro, small and medium enterprises. In the other side the government give tax amnesty to tax payers using Law Number 11 the Year 2016.

Sector taxation contributed 80% of revenues in the Indonesian Budget in 2017. This shows that taxes are an important source of income for the country of Indonesia. Based on performance reports from Tax Office in 2016 the percentage of tax revenue from 2013 to 2016 respectively was 92.57%, 91.56%, 81.96%, and 81.60%. Based on these data in 2016 it was the decrease in the last four years.

Less optimal tax revenue is not entirely government error in collecting taxes but also by the taxpayer, because even though taxes are the government's main income, but for taxpayers, especially companies, the tax is a burden because it reduces the company's profit. Therefore, the company is happier if it does not have to pay money because the profits obtained will be higher. However, companies that stand in Indonesia must implement regulations that apply in Indonesia, one of which is paying taxes. This makes the company try to reduce the tax burden that must pay. How that can be used separately to reduce the tax burden is by tax avoidance.

Tax avoidance is a legal action to reduce the company's tax burden. This is because tax avoidance is still by the law by streamlining the amount of tax payable (Suandy, 2016). Therefore, many companies carry out tax avoidance, according to the research of Astuti and Aryani (2016) which shows that many manufacturing companies listed on the Indonesia Stock Exchange (IDX) do tax avoidance after the enactment of PSAK 46 concerning income tax. Even the trend of manufacturing company tax avoidance increased from 2001 to 2014.

This situation has a negative impact on the country because taxes are the country's main income. This condition worsens the increasing trend of tax avoidance coming from manufacturing companies. This is due to data from the Central Statistics Agency (2017) manufacturing companies contributed the largest gross domestic product (GDP) in the past five years. Therefore, if the trend of manufacturing company tax avoidance increases, of course, government tax revenue falls significantly.

One of the factors that influence the tax avoidance is political connection. Like the results of the study, Kim and Lian (2016) state that the company's political relations have a relationship with a higher level of tax avoidance. The political connections held by the company can make the company have the power to intervene in policies taken by the government, for example, PMK number 207 / PMK.010 / 2016. The value-added tax on products produced by only 9,1% of this percentage has increased from the previous amount of only 8,7 %. Even though according to Law no. 42 of 2009 value-added tax is 10%. This policy may be the result of a political lobby carried out by the company towards the government.

Apart from political connection factors, other factors that influence tax avoidance are leverage. Leverage is an analysis used to measure a company's ability to guarantee its long-term debt (Subramanyam and Wild, 2014). High leverage shows the company's ability to meet its long-term debt is not good. This can cause the company to go bankrupt because the company's debt is greater than the assets of the company.

Even though high corporate leverage will have a negative effect on the company, high leverage can indicate that the company is trying to avoid taxes. This is because if the company's advantage is high then the company's debt is high, as a result, the interest burden borne by the company is high too. When the company's responsibility is high as a result, taxable profits decrease.

Political connections and leverage are indeed beneficial for the company because they can reduce the tax burden borne by the company. However, both of these consequences clicking the state income taxation sector will decline. This is, of course, detrimental to Indonesia, which needs large funds to succeed in national development. Therefore a tool is needed to reduce the influence of political connections and leverage on tax avoidance.

One tool to reduce the influence of political connections on tax avoidance is a quality audit. Audit holds an essential role in financial reporting, including tax avoidance practices. This refers to the purpose of the audit, which provides a fairness assessment of the company's financial statements (Boynton, et al 2007) so that the audit can be used to limit earnings management conducted by the company including tax avoidance which is influenced by political connections and leverage.

Although the audit does not directly make corporate tax avoidance a finding that affects opinion directly, if there are indications of tax avoidance, the auditor will provide a separate note on management letter. Therefore companies will be more careful in avoiding taxes. This can make the company reduce tax avoidance.

LITERATURE REVIEW

Tax

According to Ratnawati dan Retno (2017) Tax is the obligation of citizens to finance various state requirements regulated in the Act as a form of service to the state. Whereas according to Law Number 28 year 2007 concerning the third amendment to Law Number 6 Year 1983 concerning General Provisions and Procedures for Taxation, the tax is Compulsory contribution to the state-owned by an individual or entity that is compelling based on the Law by not getting direct compensation and used for state needs for the greatest prosperity of the people.

Tax Avoidance

According to Simon James and Christopher in Suandy (2016) tax avoidance is "engineering a fixed tax affair in the taxation frame". Therefor it can be concluded that tax avoidance is an act to reduce the amount of tax paid in a way that does not violate the law.

Tax avoidance has several characteristics, according to the Fiscal Affairs Committee of the Organization for Economic Cooperation and Development in Suandy (2016) mentioning there are three characteristics of tax avoidance, namely:

a. There is an artificial element in which various arrangements appear to be contained in them, even though they are not and this is done because of the absence of tax factors.
b. Often use loopholes from the law or applicable legal provisions for various purposes.
c. Secrecy is important in tax avoidance, usually, consultants show tools or ways to carry out tax avoidance on the condition that taxpayers keep as confidential as possible.

Agency Theory

The beginning of the emergence of agency theory in the business world is when business owners who have businesses grow rapidly and need outsiders to be authorized to run a business (Sulistyanto, 2014). In agency theory, the principal is only responsible for supervising and asking for accountability to the activities carried out by the agent (Sulistyanto, 2014).

Tax avoidance due to information asymmetry from manager information with the government. Besides being due to information ethics, the avoidance of taxation is also carried out because there is a conflict of interest between the two. For the government taxes are the main source of income so the government wants high tax revenues to meet the country's needs. For companies, the tax is a burden that reduces profits, so the manager's motives for obtaining high profits are hampered by the tax that the company must pay to the government.

Factors that Affecting Tax Avoidance

According to Kadek and Ni (2017) profitability and political connections affect tax avoidance. Profitability has a negative effect on tax avoidance, while political connections have a positive effect on tax avoidance. While Fadli (2016) states that liquidity, leverage, independent commissioners and earnings management have a significant effect on tax aggressiveness. Khairunisa et al (2017) factors that influence tax avoidance are audit quality and corporate social responsibility. Furthermor Khairunisa et al (2017) audit quality can limit management to avoid tax.

Political Connection

Facio (2006) states that companies that have a political connection are if the company leadership (CEO, president or vice president) is part of the parliament, minister or person who has close relations with politicians. Kim and Lian (2016) shows that the company's political relationship has a relationship with a higher level of tax avoidance.

H_1: Political connections have a positive effect on tax avoidance manufacturing companies listed on the IDX.

Leverage

According to Subramanyam and Wild (2014), l leverage is an analysis used to measure a company's ability to guarantee its long-term debt. Leverage can be measured using the debt to equity method (Subramanyam and Wild, 2014). Although high leverage is dangerous for companies, high leverage can be a step for companies to avoid taxes. Companies that have high tax obligations will have high debt to reduce the tax burden. This step can be done because if the company's debt is high, the company's interest expense will also be high.

H_2: Leverage has a positive effect on tax avoidance manufacturing companies listed on the IDX.

Audit

According to Gramling, et al (2012) financial report auditing is an objective and systematic process for obtaining and evaluating the evidence regarding economic action to ensure the level of correspondence of the assertion and the criteria established to be communicated to users of financial statements.

Audit Quality

Audit quality is defined as the probability of the auditor's condition finding and reporting fraud (DeAngelo, 1981). According to Efendy (2010) indicators are used for measuring audit quality include process quality, quality of results and quality of follow-up audit results. According to De Anggelo in Junaidi and Nurdiono (2016), audit quality consists of two components, namely auditor competence and auditor independence.

The influence of political connections on tax avoidance must be reduced. The way to reduce tax avoidance by companies is by auditing processes. An audit which is a process to assess the suitability of financial statements with applicable standards is expected to be able to find company earnings management including tax avoidance. However, not all audits can find tax avoidance by companies, because not all audits are conducted by qualified auditors. To detect company earnings management including earnings management, a good quality audit is required. Therefore audit quality is able to reduce the influence of political connections on tax avoidance.

H_3: Audit quality is able to moderate the influence of political connections on tax avoidance manufacturing companies listed on the IDX.

H_4: Audit quality is able to moderate the influence of leverage on tax avoidance manufacturing companies listed on the IDX.

RESEARCH METHODS

Types and Design of Research

Type of research used in this research is explanatory research. The type of data in this study uses secondary data in the form of annual financial statements of manufacturing companies listed on the Stock Exchange in the 2014-2016 period.

Place and Time of Research

This research will be conducted from October to December 2017 using data obtained from the Indonesia Stock Exchange.

Research Population and Samples

The population in this study is a manufacturing company that has gone public on the Indonesia Stock Exchange (IDX). The total population in this study was 143 manufacturing companies from 2014 to 2016. Sample of this research is using purposive sampling.

Purposive sampling is a way of determining samples that are limited by certain criteria from the population in order to obtain information according to the wishes of researchers Sekaran & Bougie (2017). In this study will use companies that have the following criteria:

a. Manufacturing companies listed on the IDX for the 2014-2016 period.
b. The company publishes audited annual reports and ends on December 31, 2014-2016.
c. The company lists the information needed for research, while the information is as follows:
    1) The company lists, total income tax expense, and pre-tax profit on financial statements.
    2) Company list the profiles (positions who are or have ever owned) head of the company at the annual report.
    3) The company uses rupiah currency in the financial report.
    4) The company made a profit during the 2014-2016 period.

Operational Definition of Variables

Tax Avoidance

Tax avoidance in this study is measured by measuring the effective tax rate, which is the actual taxpayer tax rate. In this study effective tax rates are calculated using GAAP ETR Proxy. GAAP ETR is defined as the total income tax expense divided by pre-tax profit. The following formula for calculating

$$\text{GAAP ETR} = \frac{\text{Worldwide Total Income Tax Expense}}{\text{Worldwide Total Pre}-\text{tax Accounting Income}}$$

Political Connection

Companies that have political connections are companies whose company heads, in this case the board of directors or the board of commissioners, have held positions in government, such as in parliament, ministries, regional heads, and military leaders. Based on this understanding the researchers used a proxy for political connections owned by company leaders and were converted using dummy variables.

Leverage

Leverage measurement uses debt to assets ratio (DAR). Debt to assets is the total debt of a company divided by the equity of the company. So that when written in a formula, the debt to assets is measured by the following formula:

$$\text{DAR} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Audit Quality

Audit quality is the auditor's ability to find and report fraud. Referring to this understanding, audit quality in this study will be measured using the auditor's ability to find earnings management by the company. To measure the auditor's ability to find earnings management, the benchmark surprise earnings proxy was used.

Earning surprise benchmark measured using return on assets (ROA). ROA is measured by the with the following formula:

$$\boxed{ROA = \frac{\text{Total Income Before Tax}}{\text{Total Assets}}}$$

To determine audit quality using the surprise benchmark method, it is stated that it uses a dummy variable where if the audit quality is good, it is given a value of 1 and 0 for audit quality that is not good.

Techniques for Collecting Research Data and Instruments

Description of Research Data

Based on the purposive sampling criteria mentioned in the previous section, researchers obtained a sample of 53 manufacturing companies from 143 manufacturing companies listed on the IDX. From the results of the purposive sampling which showed that 53 companies met the criteria for the study, the researchers took the annual report of the company for the last three years as the study sample. Therefore the number of research samples is 159 samples. Based on 159 research samples, three samples that have extreme values (outliers), so the number of samples used for research is 156 samples that processed using the data processing application.

Descriptive Statistics

Descriptive statistics in this study are used to see the data from the variables to be tested in the study. The variables in this study are tax avoidance, political connection, leverage, and audit quality. The research variables are then interpreted in the minimum, maximum, average and standard deviation values, to obtain the following results:

	Tax Avoidance	Political Connection	Leverage	Audit Quality
Minimum	0,04	0,00	0,86	0,002
Maximum	0,94	1,00	0,08	0,58
Average	0,28	0,05	0,39	0,13
Standard Deviation	0,14	0,08	0,18	0,12

Prerequisite Analysis Results

Feasibility Test Results of the Regression Model

The feasibility test of the regression model is used to test that the empirical data model is suitable or suitable so that the model is declared fit. The feasibility test of the regression model was carried out using the Hosmer and Lemeshow Test. After testing using data processing application, the results of the feasibility test of the regression model are presented in the following table:

No.	Equation	Sig.
1	Equation 1	0,341
2	Equation 2	0,053
3	Equation 3	0,435
4	Equation 4	0,066

Based on the results of the feasibility test of the regression model shows that all hypotheses have a model that is suitable or fit, because of the sig value > 0,05.

Model Fit Test Results (Overall Fit Test Model)

The fit model test (overall fittest model) aims to see if the independent variables included in the model will improve the fit model or not. Testing of overall model fit uses a function like, which is transformed into -2LogL model. Taking this test decision by looking at the value of -2LogL before and after the independent variable is entered into the model. The following table presents the results of the Overall Fit Test model using data processing application:

No.	Equation	$^{-2}Log_L$ Before	$^{-2}Log_L$ After
1	Equation 1	215.338	206,840
2	Equation 2	215,338	199,981
3	Equation 3	215,338	204,889
4	Equation 4	215,338	196,028

Based on the results of the Overall Fit Test Model shows that all hypothesis models, after being added with independent variables, are more fit. This is indicated by a decrease in the value of -2LogL after the independent variable is entered into the model.

Determination Coefficient Test Results

The coefficient of determination test is a test that aims to see how far the ability of independent variables to explain the dependent variable. Following are the test results of the coefficient of determination using data processing application:

No.	Equation	Nagelkerke R Square
1	Equation 1	0,071
2	Equation 2	0,125
3	Equation 3	0,087
4	Equation 4	0,156

Hypothesis Test Results

Effects of Political Connections against Tax Avoidance

Based on the results of the regression analysis, it received a significance value of 0,008 with a positive value, so it shows that the political connection variable has a significant positive effect on the tax avoidance variable made by the company. Therefore, if the political connections of the company higher, tax avoidance do by companies will be higher as well. This is following the equation Y = -0,423 + 6,033KP. The coefficient of determination from the influence of political connections on tax avoidance is 0,071. It shows that political connection variables influence on tax avoidance of 7,1%.

Based on the results of the research and discussion described earlier, the company's political connections have a positive effect on corporate tax avoidance. This is because of the interests of the company to get high profits but still carry out its obligations to pay taxes. Research is consistent with research conducted by Chan Sog (F Rancis) Kim and Dong Lian Zhan G (2016).

Effects of Leverage against Tax Avoidance

Based on the results of the regression analysis, it obtained a significance value of 0,000 in a negative direction. Therefore, if the leverage is higher, then the tax avoidance do by companies would be lower. This can be made the equation Y = 13,737 – 3,902L. The coefficient of determination from the influence of leverage on tax avoidance is 0,125. It shows that the leverage variable influences tax avoidance of 12,5 %. The 12,5% value also shows that changes in tax avoidance variables are caused by the leverage of 12,5%, other factors beyond leverage influence the rest.

Based on the description of the results of previous studies showing that the higher leverage results in lower corporate tax avoidance. This shows that this research is not consistent with the research of Annisa (2017) and Sofia (2014). However, this study is consistent with the research of Rizal and Bella (2017) and Ngadiman and Cristiany (2014) which show the results of leverage negatively affect Tax Avoidance because companies with high leverage will increase the risk of holders of debt. Therefore the company seeks to obtain high profits to increase profits per share as a result of the increased risk borne by shareholders. Thus companies that have high leverage will try to increase company profits so the company pays higher taxes.

Effect of Political Connections against Tax Avoidance with Audit Quality as Moderating Variabel

Based on the results of the regression analysis, obtained a significance value of 0,089 with a positive value, so it can show that the audit quality variable is not able to moderate the influence of political connections on tax avoidance by the company. This shows the third hypothesis which states that audit quality can moderate the impact of political connections on tax avoidance is not supported.

Auditors in conducting the audit process must consider the materiality level of financial statement misstatements. The materiality level is determined based on the auditor's judgment depending on the risk of the company being audited. If the error rate of financial statements is still below the materiality level, the auditor cannot correct the error. Therefore, even if the audit is carried out with quality, but the level of error in the financial statements does not meet the materiality, the auditor does not deal with the misstatement, so that audit quality cannot moderate the influence of political connections on tax avoidance. Therefore the results of this study are not consistent with the research Gusti and Alit (2014) and Sandy and Niki (2015) who mentioned Audit Quality negatively affected tax avoidance. However, it is consistent with Fadhilah (2014) and Damayanti and Tridahus (2015) studies which state that Audit Quality does not affect Tax Avoidance carried out by company management.

Effect of Leverage against Tax Avoidance with Audit Quality as Moderating Variable

Based on the results of the regression analysis, obtained a significance value of 0,623 with a positive value, so it shows the audit quality variable is not able to moderate the influence of leverage on tax avoidance by the company. This shows the fourth hypothesis, which states that audit quality can moderate the influence of leverage on tax avoidance is not supported.

Auditors in conducting the audit process must consider the materiality level of financial statement misstatements. The materiality level is determined based on the auditor's judgment depending on the risk of the company. If the error rate of financial statements is still below the materiality level, the auditor cannot correct the error. Therefore, even though the audit is carried out with quality, but the level of error in financial statements does not meet the materiality, the auditor does not blame the misstatement, so that audit quality cannot moderate the influence of leverage on tax avoidance. Therefore, the results of this study are not consistent with the research of Gusti and Alit (2014) and Sandy and Niki (2015), which state Audit Quality has a negative effect on tax avoidance. However, it is consistent with Fadhilah (2014) and Damayanti and Tridahus (2015) studies which state that Audit Quality does not affect Tax Avoidance carried out by company management.

CONCLUSIONS AND SUGGESTIONS

Conclusion

Based on the results of research on the Effect of Political Connections and Leverage on Tax Avoidance with Audit Quality as Moderating Variables, has the following conclusions:

1. Political Connections have a positive and significant effect on Tax Avoidance. This can be seen from the probability of the test results of 0.008 with a coefficient of determination of 0.071. This shows that political connections have a positive effect of 7.1% on tax avoidance.
2. Leverage has a negative and significant effect on Tax Avoidance made by companies. This can be seen from the test probability value of -0,000 with a coefficient of determination of 0.125. This shows that leverage has a negative effect of 12.5% on tax avoidance.
3. Audit quality is not able to moderate the influence of Political Connections on Tax Avoidance. This is indicated by the test results that show a probability value of 0.766 that exceeds the significance value of 0.05.
4. Audit quality is not able to moderate the effect of leverage on tax avoidance. This is indicated by the test results that show a probability value of -0.623 which exceeds a significance value of 0.05.

Suggestion

Based on the research that has been done by researchers, suggestions can be given to the research that will be carried out later, as follows:

1. In further research, it should also take into account the strong and weak factors of political connections held by the company, so that the results of the research obtained will be more in-depth.
2. In further research, it is expected to take into account the political connections held by shareholders, so that the measured political connections will be comprehensive.
3. In further research, it is better to use additional proxies to measure political connections, either in the form of campaign funds contributed by the company or from the lobbying capabilities of the company's politics.

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