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Effect of Corporate Governance Structures, Political Connections, and Transfer Pricing on Tax Aggressiveness

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Abstract: This study examines and analyzes the effect of corporate governance structures, political connections, and transfer pricing on tax aggressiveness (CETR and BTD). The theory used in this study is agency theory. The sample of this study is manufacturing companies listed on the Indonesia Stock Exchange for 2014-2019. The sampling method used in this study was purposive sampling and used multiple linear regression as the data analysis method. The results of the study using the cash effective tax rates (CETR) proxy shows that the independent board has a positive effect on tax aggressiveness, the audit committee has a negative effect on tax aggressiveness, political connections do not affect tax aggressiveness, and transfer pricing does not affect tax aggressiveness. The result of the study with a book-tax difference (BTD) proxy shows that independent commissioners do not influence tax aggressiveness, audit committees positively affect tax aggressiveness, political connections do not affect tax aggressiveness, and transfer pricing does not affect tax aggressiveness. The implication of this study reveals that the companies should follow tax regulations made by the government to do tax planning under applicable laws.

Keywords: Independent board of commissioners; audit committees; political connections; transfer pricing; tax aggressiveness

Introduction

Taxes have always been th[1]e government's focus because they are the most significant focus in the state revenue and expenditure budget. State revenue from the tax sector needs

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to be maximally increased so that the country's growth and implementation of government development can run well. Thus, it is expected that taxpayer compliance in paying taxes can be under applicable tax regulations (Dewi & Jati, 2014). However, tax collection does not always get a good response from the company. The company is a corporate taxpayer who pays the lowest possible tax to reduce its profit. At the same time, the government wants the highest potential tax to finance government activities in improving people's welfare (Darmawan & Sukartha, 2014). The tax burden that is too high will encourage many companies to plan to pay the low taxes (Santoso & Muid, 2014). One way or company strategy in reducing its tax burden is to do tax aggressiveness.

The phenomenon of tax aggressiveness in Indonesia can be seen from the tax ratio, which shows that the higher the tax ratio, the better the tax collection performance of a country. Differences in interests between taxpayers and the government and the tax ratio that has not reached the target allow tax avoidance actions. As a result, state tax revenues have not been maximized (Darmawan & Sukartha, 2014). From 2014 to 2019, there was a decrease in Indonesia's tax ratio from 91.55 % in 2014 to 84.43 % in 2019. When viewed from the state budget, corporate tax contributes the most to total tax revenue. Overall, six corporate taxpayer sectors contributed 75.21% of total tax revenue in 2019, including manufacturing, trade, financial services and insurance, construction and real estate, mining, and transportation and warehousing. According to the Bureau of Budget Analysis and State Budget Implementation of the House of Representatives of the Republic of Indonesia, several modes of tax avoidance in the mining sector include transfer pricing, loan interest payments, non-deductible costs, and depreciation (Laila et al., 2021).

The phenomenon of tax aggressiveness can also happen in the country outside Indonesia. One of the multinational company examples that did tax aggressiveness was IKEA, a giant company located in Sweden and involved in tax evasion. IKEA is said to have carried out tax evasion efforts with a value of more than $1 billion. This large-scale tax avoidance effort took place between 2009 and 2014. A report released by the European Parliament states that IKEA is involved in profit shifting or moving its euro profits from high-tax countries such as the UK, France, and Germany to subsidiaries or other countries. Low-tax countries like Lichtenstein or Luxembourg. The report also mentions how IKEA charges royalty fees from one company to another within the exact scope of ownership to minimize overall taxes. In 2014, IKEA allegedly evaded $39 million in taxes in Germany, $26 million in France, and $13 million in the UK.

Based on agency theory, agents and principals have different interests and desires. Still, agents do not always act under the principal's wishes, so the principals design the right contract to align the interests of the principal and agent in the event of a conflict of interest (Jensen & Meckling, 1976; Scott, 2015). The principal certainly wants the company to have sustainability, so the principal needs to ensure that the management is carried out in full compliance with applicable regulations and provisions by not doing the tax aggressiveness (Sutedi, 2011). The agents want bonuses and incentives for their performance, so agents tend to avoid tax (Zulma, 2016). There are ways to control the agent's actions in tax management by evaluating the results of the company's financial statements using financial ratios compared to the level of tax aggressiveness that the agent might be carried out (Nugraha & Meiranto, 2015).

The company with unclear tax avoidance regulations tend to commit higher tax aggressiveness (Armstrong et al., 2015). The company need to improve the understanding between management and shareholders through the existence of corporate governance (Lee et al., 2015). The corporate governance oversight mechanism can be associated through independent board of commissioners and audit committee to improve company's performance (Mappadang, 2021). An independent board of commissioners can be characterized as a board that plays a part in supervising the board of directors' performance. The presence of an independent board of commissioners is powerful in forestalling aggressiveness. The audit committee is an extra council that expects to administer the most common setup of the company's financial statements to keep away from misrepresentation by the management (Diantari & Ulupui, 2016). Hence, organizations with good corporate governance tend not to do tax aggressiveness. Meanwhile, companies with poor corporate governance will manage to do tax aggressiveness.

In Indonesia, political connections have become common as the level of intimacy of company relations with the government (Pranoto & Widagdo, 2016). Generally, it is done by placing close ties to the government into its organizational structure, both commissioners and directors. If at least one of the primary shareholders (persons who have at least 10% of options based on total stocks owned) or one of the directors (CEO, president director, vice president-director, branch head, or secretary) is a member of parliament, minister, or has a close relation with figures or political parties, this can be concluded that the companies are said to have political connections (Faccio et al., 2006). The companies with political connections will make companies more aggressive in implementing tax planning (Butje & Tjondro, 2014).

Another factor that is also intensively carried out by shifting prices of profits between companies within a group to avoid taxes is the practice of transfer pricing (Kurniawan, 2015). Multinational companies mostly use transfer pricing practices mainly carried out by multinational companies to minimize tax payments to the State (Indriaswari & Nita, 2017). The companies can use transfer pricing to reduce the amount of tax paid through price engineering that is transferred between divisions by moving company profits or revenues to countries with low tax rates (Richardson et al., 2013). In addition, companies also take advantage of the weaknesses of tax regulations in Indonesia to avoid tax (Dewi and Jati, 2014). Although tax avoidance has considerable risk, companies do not care about it because tax avoidance provides significant benefits to minimize its tax burden (Zulma, 2016).

There were studies has shown that independent commissioners negatively affect tax avoidance (Maharani & Suardana, 2014; Santoso & Muid, 2014; Diantari & Ulupui, 2016; Lutfia & Pratomo, 2018; Gunawan et al., 2021). Meanwhile, the opposite study has shown that independent commissioners do not affect tax avoidance (Dewi & Jati, 2014; Puspita & Harto, 2014; Pradipta & Supriyadi, 2015; Mappadang, 2021; Lismiyati & Herliansyah, 2021; Apriyanti & Arifin, 2021; Sahrir et al., 2021). There were the studies that resulted in the audit committee having a positive effect on tax avoidance (Dewi & Jati, 2014; Idzniah & Bernawati, 2020; Sunarto et al., 2021), while the other studies have shown that the audit committee has a negative effect on tax avoidance (Maharani & Suardana, 2014, Diantari & Ulupui, 2016, and Apriyanti & Arifin, 2021). The different results have shown that the audit committee did not affect tax avoidance (Puspita & Harto, 2014; Ardillah & Prasetyo, 2021; Gunawan et al., 2021). Several studies have stated that political connections have a positive effect on tax aggressiveness (Adhikari, 2006; Richter et al., 2009; Brown et al., 2015; Kim & Zhang, 2015; Ying et al., 2017; Anggraini & Widarjo, 2020; Sugeng et al., 2020; Sahrir et al., 2021), while there is the study that shown there was no influence of political connections on tax aggressiveness (Giroud, 2013). Study on transfer pricing and tax aggressiveness has also been conducted several times that resulted in transfer pricing having a significant effect on tax avoidance (Annisa & Pratomo, 2016; Ellyani & Hudayati, 2019), while there was a study to prove the effect of transfer pricing on tax avoidance and the result has shown that transfer pricing is having no significant impact on tax avoidance (Panjalusman et al., 2018; Ghasani et al., 2021; Robin et al., 2021; Laila et al., 2021).

This study was modified from Diantari & Ulupui (2016) and Lutfia & Pratomo (2018) with an additional independent variable, namely political connection. In addition, this study was also conducted for six years and used a sample of manufacturing companies listed on the Indonesia Stock Exchange. The author uses manufacturing companies as company samples because the tax ratio contribution from manufacturing companies is relatively more significant than other industrial sectors. The purpose of this study is to prove inconsistency that resulted from previous studies on whether there is an influence of independent commissioners, audit committees, political connections, and transfer pricing on tax aggressiveness by using two proxies for measuring tax aggressiveness such as cash effective tax rates and book-tax difference (BTD).

Literature Review

Agency theory is the design of the right contractor to align the interests of the principal and agent in the event of a conflict of interest (Scott, 2015). An agency relationship is a contract in which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent. Agency costs will be borne by both the principal and the agent to overcome or reduce agency problems (Jensen and Meckling, 1976). The ways to control the agent's actions in tax management can be done by evaluating the results of the company's financial statements using financial ratios that are compared to the level of tax aggressiveness that the agent may carry out (Nugraha & Meiranto, 2015).

Tax aggressiveness is one of the critical issues in taxation and needs to be concerned to reduce taxes legally followed by full disclosure of information to tax authorities (Sugeng et al., 2020). The practice of aggressive action usually takes advantage of the weaknesses of the tax law and does not violate the tax law (Chen, 2010). Tax aggressiveness has been a problem since the beginning of tax legislation, and this is common in every society where taxes are collected (Andreoni et al., 1998). For companies and shareholders, taxes are a significant cost component, so there is a desire to reduce the tax burden paid (Hanlon & Slemrod, 2009). Although the tax actions did not violate existing regulations, the more companies took tax avoidance steps by taking advantage of the loopholes in the current rules, the more aggressive these actions would be (Frank et al., 2009). In addition, the payment of income tax for the company is a transfer of wealth from the company to the government, so the tax burden paid is a substantial cost for the company (Hanlon & Heitzman, 2010). This action or effort to minimize tax payments can result in aggressive tax reporting (Hanlon et al., 2007).

Corporate governance is one of the mechanisms used to control and supervise the level of corporate compliance (Robin et al., 2021). The company's strategic decisions are strongly influenced by corporate governance as an effort to avoid the company's tax burden (Ardillah & Halim, 2022). Corporate governance structures that used in this study were independent commissioner and audit committee. Based on the POJK 033/04/2014, an independent commissioner is a member of the board of commissioners from outside the company and must meet the requirements as an independent commissioner (Otoritas Jasa Keuangan, 2014). Independent commissioners have an essential role as supervisors and direct the company to operate according to applicable regulations (Ardyansah & Zulaikha, 2014). The audit committee is an additional committee that aims to supervise the process of preparing the company's financial statements to avoid fraud by the management and provide views on issues related to the company's financial, accounting, and internal control policies (Diantari & Ulupui, 2016).

Companies with political connections are top executives or significant shareholders directly involved in politics or own friendship with head state, minister or member of parliament, relationships with officials who have been serving as head of state or prime minister in the previous period (Faccio, 2006). Political connections will be more visible in countries with high levels of corruption. Even though bribery negatively affects the economy and class of growth, the same does not apply to political connections that many companies consider valuable (Faccio, 2010). Transfer pricing is the company's policy for establishing the transaction price between related parties (Robin et al., 2021). In practice, transfer pricing is often used as one of many strategies to reduce taxes liabilities by shifting prices or profits between companies within a group, in this case being the abuse of companies to pursue high profits from sales (Kurniawan, 2015; Indriaswari & Nita, 2018). In addition, transfer pricing is used to increase the complexity of transactions conducted through tax havens to maximize international tax avoidance potential (Taylor & Richardson, 2012).

Independent commissioners are commissioners who come from outside the company, who play an essential role as supervisors and directors for company operations to comply with the applicable regulations because they are not affiliated with the controlling shareholders, other members of the board of directors, and commissioners (Diantari & Ulupui, 2016; Apriyanti & Arifin, 2021). Agency theory states that the larger the number of independent commissioners, the better they monitor and control executive directors' actions concerning their opportunistic behavior (Jensen & Meckling, 1976). The independent board of commissioners will oversee the performance of the board of commissioners and directors in supervising the management in managing the company's operational activities. Tighter supervision can encourage management to comply with applicable tax regulations in preparing quality financial reports and making financial reports more objective and can be implemented to prevent tax aggressiveness. The formulation of this hypothesis refers to study conducted by Maharani and Suardana (2014), Santoso & Muid (2014), Diantari & Ulupui (2016), Lutfia & Pratomo (2018), Mappadang (2021), and Gunawan et al., (2021) which shows that independent commissioners have a negative effect on tax avoidance.

Ha$_1$: Independent commissioners have a negative effect on tax aggressiveness with cash effective tax rates proxy.
Ha$_2$: Independent commissioners have a negative effect on tax aggressiveness with the book-tax difference proxy.

The audit committee assists organs from the board of commissioners in supervising and directing management. Therefore, the audit committee can control the company to properly perform its authority in preventing the deviant actions contained in the financial reports through accurate reporting, not tax evasion (Apriyanti & Arifin, 2021). Based on agency theory, the higher audit committee member in the company can play a monitoring role to supervise the company's management activities and agency conflicts that occur due to management's desire to reduce tax aggressiveness (Lawati & Hussainey, 2021). Because the audit committee will always supervise all activities within the company, companies that have audit committees will be more responsible for presenting financial statements. In this case, tax aggressiveness can be avoided (Dewi & Jati, 2014). The formulation of this hypothesis refers to the study of Maharani & Suardana (2014), Diantari & Ulupui (2016), Sunarto et al. (2021), and Apriyanti & Arifin (2021), which found that the audit committee had a negative effect on tax avoidance.

Ha$_3$: The audit committee has a negative effect on tax aggressiveness with cash effective tax rates proxy.
Ha$_4$: The audit committee has a negative effect on tax aggressiveness with the book-tax difference proxy.

The existence of shareholders who have direct ties with the authorities or have political relations with the rules can provide certain advantages for the performance of a company (Putra & Harymawan, 2021). The companies with political connections can afford to carry out tax planning more aggressively because there is protection from the government that impacted decreasing transparency of the quality of financial reports (Kim & Tjang, 2013; Butje & Tjondro, 2014). The government can use their power as rulers to benefit their companies by making specific regulations to meet their interests, significantly lowering tax payments. People in government and political positions who simultaneously own companies face overlapping roles that can obscure their roles as government and entrepreneurs. It can cause companies with government officials as independent commissioners to commit tax violations (Anggraini & Widarjo, 2020). The formulation of this hypothesis refers to the study conducted by Butje & Tjondro (2014), Ying et al. (2017), Sugeng et al. (2020), and Sahrir et al., (2021), which in the results of this study indicate that political connection has a significant effect on tax aggressiveness.

Ha$_5$: Political connection positively affects tax aggressiveness with cash effective tax rates proxy.
Ha$_6$: The political connection positively affects tax aggressiveness with the book-tax difference proxy.

Transfer pricing is the determination of prices in transactions between related parties mainly carried out by multinational enterprises of goods and services in a business group at an unreasonable price by shifting earnings between country with lower tax rates (Yuniasih et al., 2012; Kurniawan, 2015). Multinational companies are companies operating in more than one country under the control of one particular party, so the companies can perform transfer pricing or have receivables to related parties in large amounts to carry out tax aggressiveness. The company will transfer its tax obligations to companies in other countries with lower tax rates by reducing the selling price (Indriaswari & Nita, 2018). The government will require a company to pay taxes following the profits earned by the company, so this makes the company feel pressured because it has to routinely pay taxes to the state, which can make the company's profits decline (Laila et al., 2021). The formulation of this hypothesis refers to Annisa & Pratomo (2016) and Ellyani & Hudayati (2019), showing that transfer pricing significantly affects tax aggressiveness.

Ha$_7$: Transfer pricing positively affects tax aggressiveness with cash effective tax rates proxy.
Ha$_8$: Transfer pricing positively affects tax aggressiveness with the book-tax difference proxy.

Methods

The population in this study were all manufacturing companies listed on the Indonesia Stock Exchange. In contrast, the sampling method used in this study can be determined by purposive sampling based on criteria adjusted to the study objectives (Sugiyono, 2017). The sample selection technique in this study was purposive sampling method with specific criteria. The selection of samples has been presented in Table 1 with the 120 data used in this study.

Table 1. **Results of The Selection Stages for the Selection of Samples**

No	**Criteria**	**Criteria Violation**	**Accumulati on Amount**
1	Manufacturing companies are listed on the Indonesia Stock Exchange from 2014 to 2019.		176
2	Companies published financial statements not using the rupiah currency.	(58)	118
3	Companies issued financial statements containing trade receivables with special parties (related parties).	(79)	39
4	Companies that had experienced losses during the period 2014 to 2019.	(14)	25
5	Companies that have tax refunds for the period 2014 to 2019.	(5)	20
Number of company samples per year		**20**	
Total observation data during six years period		**120**	

The source of data used in this study can be taken with the documentation in secondary data from archived documents, previous journals, external publications, and the company's website. This study used two measurements of tax aggressiveness Cash Effective Tax Rates and Book Tax Difference. The author also used corporate governance structures as independent variables with two indicators: independent commissioners and audit committees with scale ratios. The other two independent variables, political connection, were measured by dummy variables with nominal scale, and transfer pricing was measured by scale ratio.

Tax aggressiveness is an action to reduce taxable profit by minimizing tax expense legally and illegally (Frank, 2009; Lanis & Richardson, 2011). Tax aggressiveness is carried out to fulfill tax obligations that comply with tax provisions (lawful). Tax aggressiveness in this study will be measured or proxied by Book Tax Differences (BTD) and Cash Effective Tax Rates (CETR). Cash Effective Tax Rates (CETR) in equation 1 was referred to the measurement of study by Tang & Firth (2011). The smaller the value of Cash Effective Tax Rates (CETR), the greater the tax aggressiveness that can be happened in the company.

(1) Cash Effective Tax Rates (CETR)=Total Tax Expense:Pretax Income

Book Tax Differences (BTD) can be obtained by calculating the difference between fiscal profit and commercial profit by comparing the company's profit before tax with taxable income then dividing by the company's total assets each year. Book Tax Differences (BTD) can find out how big the company is in tax avoidance which can be seen from the difference between commercial profit and the company's taxable profit. The second and third equation refer to the measurement of Book Tax Differences (BTD) that were taken from Noor & Matsuki (2010). The smaller the Book Tax Differences (BTD) value, the greater the tax aggressiveness action, and the greater the Cash Effective Tax Rates (CETR) value, the smaller the tax aggressiveness action.

(2) Book Tax Differences (BTD)=(Accounting Profit–Taxable Profit):Total Asset

(3) Taxable Profit=Current Tax Expense:Tax Rate

The independent commissioner is an internal mechanism functioning as a supervisor in the company's activities (Aprianti & Arifin, 2021). The higher the percentage of independent commissioners, the supervision of the directors' performance will be more stringent. In this study, independent commissioners were measured using the same formula as the study conducted by Diantari & Ulupui (2016) by comparing the number of members of independent commissioners with the total member of boards of commissioners.
Independent board of commissioners=Number of independent commissioners / Total members of commissioners

The audit committee can provide views on issues related to the company's financial, accounting, and internal control policies (Diantari & Ulupui, 2016). The measurement of the audit committee in this study was replicated by Dewi & Jati (2014) using the number of audit committees. The more the number of audit committee members in a company, the more the audit committee can be faster in finding and resolving potential problems in the financial reporting process to reduce tax aggressiveness.

Audit Committee=number of audit committee members in the company

The political connection in this study is replicated by using a proxy for government ownership, which is calculated through the proportion of government shares owned by companies and political relationships owned by independent commissioners. The independent commissioners are said to have political connections if they meet the following criteria such as (1) concurrent positions as politicians affiliated with political parties; (2) concurrent positions as government officials; (3) concurrent positions as military officials; and (4) former government officials or former military officials (Fan, 2007). Political relations owned by independent commissioners are measured using a dummy variable, provided that if a company meets the criteria as a company with political connections, it will be given a score of 1, and 0 if a company does not meet the requirements as a company with political connections.

Transfer pricing is defined as the value or special selling price used in inter-divisional exchanges to record the income of the selling division and the costs of the buying division (Lingga, 2012). In this study, transfer pricing is measured by the same formula as the study conducted by Panjalusman et al. (2018), using the proportion of total trade receivables to related parties to total receivables.

Transfer Pricing=(Total trade receivables to related parties: Total receivables) x 100%

Statistic descriptive used in this study can be classified into average (mean), minimum value, maximum value, and standard deviation. The analysis model used in this study is multiple regression with the two following regression equations with cash effective tax rates and book-tax difference proxy. Before performing the regression analysis, a regression diagnostics test was conducted to assure the regression model was free from classical assumption problems. The classical assumption test used in this study is the normality test, heteroscedasticity test, and autocorrelation test (Ghozali, 2018).

$$CETR = \alpha + \beta_1 IBC + \beta_2 AC + \beta_3 PC + \beta_4 TP \quad (1)$$

$$BTD = \alpha + \beta_1 IBC + \beta_2 AC + \beta_3 PC + \beta_4 TP \quad (2)$$

Where:
α: Constant
β_1, β_2, β_3, β_4: Regression Coefficient
CETR: Tax Aggressiveness (Cash Effective Tax Rates)
BTD: Tax Aggressiveness (Book Tax Differences)
IBC: Independent Board of Commissioners
AC: Audit Committee
PC: Political Connection
TP: Transfer Pricing

Findings

Descriptive Statistics

The average (mean), minimum value, maximum value, and standard deviation of testing independent and dependent variables using descriptive statistics with the 120 data used in this study can be seen in Table 2.

Table 2. **Descriptive Statistics Test Results**

Variables		**Min**	**Max**	**Mean**	**Std. Dev.**
Tax Agressiveness	Cash Effective Tax Rates (CETR)	0.10	0.36	0.2507	0.0672
	Book Tax Differences (BTD)	-0.07	0.12	-0.0139	0.02819
Corporate Governance Structures	Independent Board of Commissioners (IBC)	0.29	0.60	0.3540	0.0756
	Audit Committee (AC)	3.00	5.00	3.3333	0.67885
Political Connection (PC)		0	1	0.5	0.50422
		No political connection = 66 data samples (52.3%)		Had political connection = 60 data samples (47.7%)	
Transfer Pricing (TP)		0.01	0.94	0.2922	0.22581

Tax aggressiveness with cash effective tax rates (CETR) proxy has a minimum value of 0.10, which is found at PT Malindo Feedmill Tbk. in 2017, which means that tax aggressiveness actions with cash effective tax rates (CETR) proxy are the highest from study data of 0.10, this figure shows that the efforts of PT Malindo Feedmill Tbk. in avoiding taxes in 2017 can be said to be increased when compared to tax avoidance efforts carried out by other companies included in this study because the smaller value shows the tax aggressiveness is getting higher. Big. The maximum tax aggressiveness with cash effective tax rates (CETR) proxy is 0.36, found at PT Japfa Comfeed Indonesia Tbk. in 2017, which means tax aggressiveness with the lowest cash effective tax rates (CETR) proxy from study data is 0.36. This figure shows that the efforts of PT Japfa Comfeed Indonesia Tbk. in avoiding taxes in 2017 can be said to be low when compared to tax avoidance efforts carried out by other companies included in this study due to the high value of cash effective tax rates (CETR). Therefore, it shows less tax aggressiveness. The mean value of tax aggressiveness with the proxy of cash effective tax rates (CETR) is 0.2507, which means that the average tax aggressiveness that detected by cash effective tax rates from the companies included in this study is 0.2507. Tax aggressiveness with cash effective tax rates (CETR) proxy has a standard deviation value of 0.0672. It shows that the standard deviation of cash effective tax rates (CETR is smaller than the mean (0.0672 < 0. 2507), which means that the data on the tax aggressiveness is good and there is no data deviation.

Tax aggressiveness with book-tax differences (BTD) proxy has a minimum value of -0.07, which is found at PT Indofood CBP Tbk. in 2018, which means tax aggressiveness with book-tax differences (BTD) proxy is the highest from study data of -0.07 This figure shows that PT Indofood CBP Tbk.'s efforts to avoid taxes in 2018 can be said to be increased when compared to the tax aggressiveness actions taken by other companies included in this study because the smaller the value of tax aggressiveness with book-tax differences (BTD) indicates increasing taxes rules that done by a company. The maximum value of tax aggressiveness with book-tax differences (BTD) proxy is 0.12, which is found at PT Malindo Feedmill Tbk. in 2014, which means tax aggressiveness with book-tax differences (BTD) proxy is the lowest from study data of 0.12, this figure shows that the efforts of PT Malindo Feedmill Tbk. in avoiding taxes in 2014 can be said to be low, when compared to the tax aggressiveness actions taken by other companies included in this study, because the greater the value of cash effective tax rates (CETR), the more tax aggressiveness shows. The mean value of the tax aggressiveness with the book-tax differences (BTD) proxy is -

0.0139, which means the that detected by book-tax differences (BTD) from the companies is -0.0150. Tax aggressiveness with book-tax differences (BTD) proxy has a standard deviation value of 0.02819. It indicates that the standard deviation of book-tax differences (BTD) is greater than the mean (0.02819 > 0.0150), which means the data on the tax aggressiveness variable with book-tax differences (BTD) proxy is not good.

The independent board of commissioners (IBC) has a minimum value of 0.29, found at PT Semen Indonesia Tbk., which means the lowest proportion of independent commissioners from the study data is 0.29. The maximum value of the independent board of commissioners (IBC) is 0.60, found at PT Malindo Feedmill Tbk.. The mean value of the independent board of commissioners (IBC) is 0.3540, which means that the average proportion of the number of independent commissioners has met the Financial Service Authority's requirements of thirty percent of the total number of commissioners members. In addition, the independent board of commissioners (IBC) has a standard deviation value of 0.0756. This shows that the standard deviation of the independent board of commissioners (IBC) is smaller than the mean (0.0756 < 0.3627), which means that the data on the independent board of commissioners (IBC) is good, and there is no data deviation of the independent board of commissioners (IBC). The independent board of commissioners with political connections (PC) as much as 60 data samples (47.7%) shows that the independent board of commissioners who meet one or more criteria to have political connections in this study. The independent board of commissioners who did not have political connections (PC) also as much as 66 data samples (52.3%) indicating the board of commissioners does not meet any of the criteria for political connections in this study.

The audit committee (AC) has a minimum score of 3.00, namely PT Astra Otoparts Tbk., PT Wilmar Cahaya Indonesia Tbk., PT Duta Pertiwi Nusantara Tbk., PT Indofood CBP Tbk., PT Indofood Tbk., PT Japfa Comfeed Indonesia Tbk., PT Kalbe Farma Tbk., PT Nippon Indosari Corpindo Tbk., and PT Supreme Cable Manufacturing E-Commerce Tbk., which means the number of audit committees in these companies have met the minimum number of audit committees that must exist in a company, which is three people. The maximum value of the audit committee (AC) is 5.00, which is found at PT Malindo Feedmill Tbk., which means the highest number of audit committees from the study data is 5.00. This number shows that the number of audit committees in the company has passed the minimum there members of audit committees in a public company. The mean value of the audit committee (AC) is 3.3333, which means the average number of audit committees has accordance minimum three people as required by Financial Services Authority. The audit committee (AC) has a standard deviation value of 0.67885. It shows that the standard deviation of audit committee (AC) is smaller than the mean (0.67885 < 3.3333), which means that the data on the audit committee (AC) is good and there is no data deviation.

Transfer pricing (TP) has a minimum value of 0.01, which is found at PT Kalbe Farma Tbk. in 2015, which means the lowest transfer pricing from the study data is 0.01. This figure shows that the transfer pricing action at PT Kalbe Farma Tbk. is the lowest compared to transfer pricing. Pricing by other companies is included in this study. The maximum value of transfer pricing (TP) is 0.94, which is found in PT Wilmar Cahaya Indonesia Tbk. in 2014, which means the highest transfer pricing (TP) from the study data is 0.94. This figure shows that the transfer pricing action at PT Wilmar Cahaya Indonesia Tbk. is higher than other companies included in this study. The average value of the transfer pricing (TP) is 0.2922, which means the average of the transfer pricing (TP) done by the company is 0.2835. Transfer pricing (TP) has a standard deviation of 0.22581. This indicates that the standard deviation of transfer pricing (TP) is smaller than the mean (0.22581 < 0.2835), which means that the data on the transfer pricing is good and there is no data deviation.

Regression Diagnostics Tests

Before the author does regression analysis, the author has checked the regression diagnostics of 120 data used in this study such as normality test, heteroscedasticity test, and autocorrelation test with the results provided in Table 3.

Table 3. **Regression Diagnostics Tests**

Regression Diagnostics Tests		**CETR**	**BTD**
Normality Test	Kolmogorov Smirnov (Sig.)	0.200	0.200
Heteroscedasticity Test	Breusch-Pagan (Sig.)	0.093	0.115
Autocorrelation Test	Durbin Watson	1.692	1.655

Based on the normality test results with the One-Sample Kolmogorov-Smirnov's test, the residual data is normally distributed because it has a value sig. of 0.200 that have a value greater than 0.05, and the regression model is feasible to use in the study. Based on the results of the heteroscedasticity test with a non-graphical approach using the breusch-pagan test for cash effective tax rate and book-tax difference models, the residual data are free from heteroskedasticity because the residual data from the first model and second model have shown sig. value greater than 0.05. This shows that this study is free from heteroscedasticity, so the regression model is feasible for study. The result of the Durbin-Watson test of cash effective tax rate model is 1.692, while for the book-tax difference, the result of the Durbin-Watson test is 1.692. These autocorrelation tests are between -2 and +2, so the regression model is free from the autocorrelation problem.

Coefficient of Determination Test

The value of the coefficient of determination (adjusted R-Square) of 0.162, which means that tax aggressiveness with the proxy of cash effective tax rates (CETR) can be explained by 16.2% by variations of independent commissioners, audit committees, political connections, and transfer pricing. The value of the coefficient of determination (adjusted R-Square) of 0.107 means that tax aggressiveness with the book-tax difference (BTD) proxy can be explained by 10.7% by the variation of the independent variable board commissioners, audit committee, political connections, and transfer pricing variables.

Hypothesis Test

The results are shown in Table 4 by taking into the effects of multiple linear regression to prove the impact of the board of commissioners (IBD), audit committee (AC), political connections (PC), and transfer pricing (TP) on tax aggressiveness (CETR and BTD).

Table 4. **Hypothesis Test Results**

Variables	**Tax Aggressiveness (CETR)**		**Tax Aggressiveness (BTD)**	
	Coef.	**Sig.**	**Coef.**	**Sig.**
(Constant)	0.282	0.000	0.122	0.018
Independent Board of Commissioners (IBD)	0.505	0.047	-0.157	0.129
Audit Committee (AC)	-0.002	0.031	0.048	0.007
Political Connection (PC)	0.058	0.274	0.011	0.649
Transfer Pricing (TP)	0.026	0.887	0.054	0.225

It can be seen that the equations of factors that affect tax aggressiveness with cash effective tax rates measurement are as follows.

(1) CETR = 0.282 + 0.505 IBC – 0.002 AC + 0.058 PC + 0.026 TP

The independent board of commissioners has a significance level of 0.047 smaller than the significance level of 0.05. This indicates that the independent board of commissioners partially affects tax aggressiveness with cash effective tax rates (CETR) proxy. The unstandardized coefficients of 0.505 indicate a positive directional relationship between independent commissioners and tax aggressiveness with cash effective tax rates (CETR) proxy. So the hypothesis proposed in the Ha_1 is accepted. It can also be concluded that the independent board of commissioners has a significant positive effect on tax aggressiveness with the cash effective tax rates (CETR) proxy. The audit committee has a significance level of 0.031 smaller than the significance level of 0.05. This indicates that the audit committee partially affects tax aggressiveness by proxying cash-effective tax rates (CETR). On the other hand, the unstandardized coefficients of -0.002 indicate a negative directional relationship between the audit committee and tax aggressiveness with the cash effective tax rates (CETR) proxy. So the hypothesis proposed in the Ha_3 is accepted. Therefore, it can also be concluded that the audit committee has a significant negative effect on tax aggressiveness with the Cash Effective Tax Rates (CETR) proxy.

The political connections have a significance level of 0.274, more remarkable than 0.05, indicating that political connections partially have no significant effect on tax aggressiveness with cash effective tax rates (CETR) proxy. Unstandardized coefficients of 0.058 indicate a positive directional relationship between political connections and tax aggressiveness with cash-effective tax rates (CETR) proxy. So, the hypothesis proposed in the Ha_5 study is rejected, and it can also be concluded that political connections have no significant effect on tax aggressiveness with cash-effective tax rates (CETR) proxy. The transfer pricing has a significance level of 0.887, more significant than the significance value 0.05, indicating that transfer pricing partia has no significant effect on tax aggressiveness with cash effective tax rates (CETR) proxy. Unstandardized coefficients of 0.026 show a non-positive directional relationship between transfer pricing and tax aggressiveness with cash effective tax rates (CETR) proxy. So the hypothesis proposed in the Ha_7 study is rejected, and it can also be concluded that transfer pricing has no significant effect on tax aggressiveness with cash effective tax rates (CETR) proxy.

Based on the results shown in Table 4, it can be seen that the equations of factors that affect tax aggressiveness with book-tax difference measurement are as follows.

(2) BTD = 0.122 - 0.157 IBC + 0.048 AC + 0.011 PC + 0.054 TP

The independent board of commissioners has a significance level of 0.129, more significant than the value of 0.05, indicating that the independent board of commissioners partially has no significant effect on tax aggressiveness with book-tax difference (BTD) proxy. Unstandardized coefficients of -0.157 indicate a negative relationship between independent commissioners and tax aggressiveness with the book-tax difference (BTD) proxy. So the hypothesis proposed in the Ha_2 study is rejected. It can also be concluded that the independent board of commissioners has no significant effect on tax aggressiveness with the book-tax difference (BTD) proxy. The audit committee has a significance level of 0.007 smaller than the value of 0.05, indicating that the audit committee partially has a significant effect on tax aggressiveness with the book-tax difference (BTD) proxy. Unstandardized coefficients of 0.048 indicate a positive relationship between the audit committee and tax aggressiveness with the book-tax difference (BTD) proxy. So the hypothesis proposed in the Ha_4 study is rejected. It can also be concluded that the audit committee has a significant positive effect on tax aggressiveness with the book-tax difference (BTD) proxy.

The political connection has a significance level of 0.649, more significant than the value of 0.05, indicating that political connections have no significant effect on tax aggressiveness with the book-tax difference (BTD) proxy. Unstandardized coefficients of 0.011 indicate a positive relationship between political connections and tax aggressiveness with the book-tax difference (BTD) proxy. So the hypothesis proposed in the Ha_6 study is rejected. It can also be concluded that political connections have no significant effect on tax aggressiveness with the book-tax difference (BTD) proxy. The transfer pricing has a significance level of 0.225 greater than the value of 0.05, indicating that transfer pricing partially has no significant effect on tax aggressiveness with the book-tax difference (BTD) proxy. Unstandardized coefficients of 0.054 indicate a unidirectional relationship between transfer pricing and tax aggressiveness with the book-tax difference (BTD) proxy. So the hypothesis proposed in the Ha_8 study is rejected. It can also be concluded that transfer pricing has no significant effect on tax aggressiveness with the book-tax difference (BTD) proxy.

Effect of The Independent Board of Commissioners on Tax Aggressiveness

Based on the results of hypothesis testing with the cash effective tax rates (CETR) proxy, it can be concluded that Ha_1 accepted, which states that the independent board of commissioners has a negative effect on tax aggressiveness with the cash effective tax rates (CETR) proxy is rejected. Because in this study, it is proven that the independent board of commissioners has a positive effect on tax aggressiveness by proxying cash-effective tax rates (CETR). This study aligns with Maharani & Suardana (2014), Santoso & Muid (2014), Diantari & Ulupui (2016), Lutfia & Pratomo (2018), Mappadang (2021), and Gunawan et al., (2021), while this study is inconsistent with Dewi & Jati (2014), Puspita & Harto (2014), Pradipta & Supriyadi (2015), Lismiyati & Herliansyah (2021), Apriyanti & Arifin (2021), and Sahrir et al. (2021).

Due to the existence of an independent board of commissioners who should make management careful in making decisions regarding company policies and oversee the performance of the board of commissioners and directors in supervising management in managing the company's operational activities in this study, affect the tax aggressiveness actions taken. Supposedly the more independent commissioners in a company, the more it will prevent tax aggressiveness. However, it is proven that the more the number of independent commissioners in a company, the higher the tax aggressiveness of the company. It demonstrates that the number of independent commissioners does not guarantee tighter management supervision to comply with applicable tax regulations in preparing quality financial reports and making financial statements more objective. It is in line with agency theory, where agents and principals have different interests and desires, but agents do not always act under the principal's wishes (Jensen & Meckling, 1976). The principal certainly wants the company to have going concern, so it will not do tax evasion to put the company in an insecure position. Meanwhile, agents wish to get bonuses and incentives for their performance, so agents tend to avoid tax (Zulma, 2016).

Based on the results of hypothesis testing with the cash effective tax rates (CETR) proxy, it can be concluded that Ha_2 accepted, which states that the independent board of commissioners has a negative effect on tax aggressiveness with the book-tax difference (BTD) proxy is rejected. Because in this study, it is proven that the independent board of commissioners has no effect on tax aggressiveness with the book-tax difference (BTD) proxy. The existence of an independent board of commissioners who should make management careful in making decisions regarding company policies can't oversee the performance of the board of commissioners and directors in supervising management in managing the company's operational activities. The higher the number of independent commissioners in a company, the more it will prevent tax aggressiveness. It proves that the greater the number of independent commissioners, the more stringent supervision the management can exercise to comply with applicable tax regulations in preparing quality financial reports and making financial reports more objective.

Effect of Audit Committee on Tax Aggressiveness

Based on the results of hypothesis testing with the cash effective tax rates (CETR) proxy, it can be concluded that Ha_3, which states that the audit committee has a negative effect on tax aggressiveness with the cash effective tax rates (CETR) proxy, is accepted. From these results, also can be concluded that Ha_4 states that the audit committee has a negative effect on tax aggressiveness with the book-tax difference (BTD) proxy being rejected. Because in this study, it was proven that the audit committee had a significant positive effect on tax aggressiveness with the book-tax difference (BTD) proxy. This study aligns with Dewi and Jati (2014), Maharani & Suardana (2014), Diantari and Ulupui (2016), Idzniah & Bernawati (2020), Sunarto et al. (2021), and Apriyanti & Arifin (2021), while this study is inconsistent with Puspita and Harto (2014) and Gunawan et al., (2021). An audit committee was formed to supervise preparing its financial statements to avoid management fraud and do more tax aggressiveness in the company. The credibility of financial reporting will be worked properly if there is support from all elements of the corporate governance, including audit committee to control financial and tax policy. The audit committee can provide the suggestion of the financial and tax issues expecially in monitoring the management's effort to do tax aggressiveness practices (Mais & Patminingih, 2017).

Effect of Political Connections on Tax Aggressiveness

Based on the results of hypothesis testing with cash effective tax rates (CETR) proxies, it is concluded that Ha_5 states that political connections have a positive effect on tax aggressiveness with cash effective tax rates (CETR) representatives are rejected. Because in this study, it is proven that political connections do not affect tax aggressiveness by proxying cash-effective tax rates (CETR). Based on the test results with the book-tax difference (BTD) proxy, it can be concluded that Ha_6, which states that political connections have a positive effect on tax aggressiveness with the book-tax difference (BTD) proxy, is rejected. Based on the result in this study, it is proven that political connections have no effect on tax aggressiveness with the book-tax difference (BTD) proxy. This study aligns with Giroud (2013), while this study is inconsistent with Adhikari (2006), Richter et al. (2009), Brown et al. (2015), Kim & Zhang (2015), Ying et al. (2017), Anggraini & Widarjo (2020), Sugeng et al. (2020), and Sahrir et al. (2021).

The political connection can be seen whether the independent board of commissioners has concurrent positions as a politician affiliated with a political party, or the independent board of commissioners has multiple positions as government officials, or the independent board of commissioners has concurrent positions as a military official, former government officials, or former military officers does not affect the level of tax aggressiveness carried out by a company. Because politically connected companies tend to pay lower taxes and even lower tax audits than politically unconnected companies during the observation period. Therefore, the common tax audit is advantageous for companies with political connections when the company already has the government's trust. Consequently, it will be considered tax aggressive because it is assumed that the company is at low risk of tax aggressiveness.

Effect of Transfer Pricing on Tax Aggressiveness

Based on the results of hypothesis testing with the cash effective tax rates (CETR) proxy, it can be concluded that Ha_7 states that transfer pricing has a positive effect on tax aggressiveness with the cash effective tax rates (CETR) proxy is rejected. Because in this study, it is proven that transfer pricing has no effect on tax aggressiveness with the cash effective tax rates (CETR) proxy. Based on the test results with the book-tax difference (BTD) proxy, it can be concluded that Ha_8, which states that transfer pricing has a positive effect on tax aggressiveness with the book-tax difference (BTD) proxy, is rejected. Because in this study, it is proven that transfer pricing has no effect on tax aggressiveness with the book-tax difference (BTD) proxy. This result of the study aligns with Annisa & Pratomo (2016) and Ellyani & Hudayati (2019), while inconsistent with Panjalusman et al. (2018), Ghasani et al. (2021), Robin et al. (2021), and Laila et al. (2021).

The existence of transfer pricing in transactions between parties in a company does not affect tax aggressiveness. This is because the OECD institution has issued the OECD Transfer Pricing Guidelines to guide tax authorities and multinational companies in resolving transfer pricing issues (Damayanti & Prastiwi, 2017). This guide is made so that companies carry out transfer pricing according to these rules so that there is no gap to carry out tax aggressiveness. In addition, the process of changing government policies is considered to be one of the factors that can cause transfer pricing to have no significant effect on tax avoidance. Therefore, the transfer pricing transaction will not affect tax aggressiveness when the company does it according to the rules. Thus, the sampled companies in this study have carried out transfer pricing according to the rules.

Conclusion

Based on the result of testing that has been done, this study has made these conclusions. First, independent commissioners significantly positively affect tax aggressiveness by proxying cash-effective tax rates (CETR). In contrast, independent commissioners have no effect on tax aggressiveness with the book-tax difference (BTD) proxy. Second, the audit committee significantly negatively impacts tax aggressiveness by proxying cash-effective tax rates (CETR). In contrast, the audit committee significantly affects tax aggressiveness with the book-tax difference (BTD) proxy. Third, a political connection does not affect tax aggressiveness by proxying cash effective tax rates (CETR) and book-tax difference (BTD) proxy. Finally, transfer pricing does not affect tax aggressiveness by proxying cash effective tax rates (CETR) and book-tax difference (BTD) proxy.

This study is expected to have the following implications. First, companies should follow tax regulations made by the government to do tax planning under applicable laws. Secondly, the government should make clear tax regulations regarding permissible tax avoidance and non-allowed tax avoidance so that companies can carry out tax planning under the rules. This study was limited to the manufacturing companies sector as research samples. For further study, the author suggests using other sector companies such as mining, banking, and others so that the study results can be more generalized. In this study, political connections and transfer pricing are not proven to affect tax aggressiveness. Future studies are expected to add other variables outside of this study that is thought to affect the tax aggressiveness of the company, such as management compensation. It is based on the assumption that the reward given to extensive management will influence management actions, especially in tax aggressiveness. Last, the author also made suggestions in the following study to use linear regression and nonlinear equation or moderation equation model to cover the inconsistency of study findings and use additional control variables to get the significant effect of independent to dependent variable according to the relevant theory.

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