



## The Political Connection and Tax Aggressiveness Impact to Firm Values of Indonesian Mining Sector 2016-2018

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### Abstract

This study is conducted to understand the impact of political connection and tax aggressiveness to the firm value, since the previous studies findings are inconclusive. The data used in this study are annual reports from 22 mining sector companies in Indonesia for 2016-2018 period. The data collection method uses secondary data from the Indonesia Stock Exchange website ([www.idx.com](http://www.idx.com)). After analyze by multiple linear regression technique, the results show that tax aggressiveness has an effect on firm value. However, political connections have no effect on company value. Therefore, it is clear that political connection is less crucial in determining firm value, especially for mining industries in Indonesia because they are already well-established and less competitive. However, tax aggressiveness can be considered as a factor in influencing firm value in mining industries

## Dampak Koneksi Politik dan Agresivitas Pajak Terhadap Nilai Perusahaan Sektor Pertambangan di Indonesia periode 2016-2018

### Abstrak

*Penelitian ini dilakukan untuk memahami dampak hubungan politik dan agresivitas pajak terhadap nilai perusahaan, karena temuan penelitian sebelumnya tidak meyakinkan. Data yang digunakan dalam penelitian ini adalah laporan tahunan dari 22 perusahaan sektor pertambangan di Indonesia periode 2016-2018. Metode pengumpulan data menggunakan data sekunder dari web-site Bursa Efek Indonesia ([www.idx.com](http://www.idx.com)). Setelah dianalisis dengan teknik regresi linier berganda, diperoleh hasil bahwa agresivitas pajak berpengaruh terhadap nilai perusahaan. Namun, koneksi politik tidak berpengaruh pada nilai perusahaan. Oleh karena itu, jelas bahwa koneksi politik kurang penting dalam menentukan nilai perusahaan, terutama bagi industri pertambangan di Indonesia karena mereka sudah mapan dan kurang kompetitif. Namun, agresivitas pajak dapat dianggap sebagai faktor yang mempengaruhi nilai perusahaan di industri pertambangan.*

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Generally, the main purpose of investors is to obtain maximum capital gain. Therefore, investors must consider and analyze many things before investing. One of the considerable aspects is the corporate performance that is observable from the firm values (Hariati & Yeney, 2010).

Any *go-public* corporations have their firm values determined by the supply and demand in the stock exchange via the stock price. Higher firm value leads to the higher stock price of the corporation. Therefore, it can improve the investors' trust toward the corporate performance and the corporate prospect in the future (Rahayu & Sari, 2018).

Knowledge about the stock price that reflects the firm value is inseparable from external factors. Genjar & Oktavia (2015) argue a stock price that reflects the firm value is influenced by many factors, such as the government's policy, tax, and political atmosphere.

Politics has various influences on a corporation. For example, a political event that influences the supply and demand in the stock exchange. The correlation between politics and corporations creates a relationship between corporations and politics, known as a political connection. The political connection provides benefits for both parties. Politics establishes public policy, starting from the policy for the people until the business word activities. On the other hand, corporations, the business world, can support the political activities of a state by funding them (Wulandari, 2013).

A corporation with political connections is useful to facilitate any government's business via the board of commissaries and the board of directors

(Faccio, 2006). For example, PT Lapindo Brantas, Inc, a corporation owned by a general chairman of the Golongan Karya (Golkar) political party. It could easily obtain access to the government loan funds to provide compensation for Porong citizens, Sidoarjo, East Java, with the total amount of Rp 781 billion with a 4-year payback period (Kusumawati, 2015). Song, Nahm & Jung (2016), a corporation with political connection with the government could be the informal protective mechanism in the incomplete market competition. It usually applies to private corporations that typically have unreliable law and economic protections. The political connection can be the corporate added value that has a connection with the board of commissary and the board of directors.

There are many studies about political connections. One of them is Do, Teik & Dang's (2012) study. They found the close relationship between a corporation and the government could increase the firm value by 1.36%. Other studies in Indonesia found that political connection with the government or politicians in the era of Joko Widodo had significant influences on non-financial sector companies, listed in IDX (Pratama & Setiawan, 2019). Wulandari (2018) found the significant influence of political connection toward the performance of Indonesian mining sector companies in 2010-2014.

The signal theory could explain the influence of political connection and firm value. The political connection of the board of commissary or the board of directors could provide various benefits. Thus, it is useful to improve the firm value (Purwanto, 2011). Faccio (2006) Argues that a corporation with political connections has

ease of access to loans, tenders, and lower tax rates from the government. Therefore, the political connection of a corporation provides positive signs for the external party.

Patriarini (2020) found investors in Indonesia perceived corporations with political connections as something valuable. Any board of commissary or board of directors that also becomes government politicians has a greater role to determine the *stakeholder* protection through the applied policy and regulation by the government (Ang, Ding & Thong, 2017). The managers use the corporate assets to provide financial support for the politician's nomination. It has the purpose to provide protection for the corporate interest once the politician is elected.

Goldman, Rochol & So, (2009; 2013) Investigated the gap between political connection and the firm value that had a political connection with the winning party during the United States' election. Wang, Zhang, & Su, (2018) found corporations that had political connections with dismissed officials experienced lower equity values. Both previous studies have differences. However, the political connection tends to influence the firm value. Therefore, the first hypothesis formulation is:

**H1: The political connection positively influences the firm value**

Tax aggressiveness refers to a tax managerial activity to minimize the corporate tax. This activity becomes the public spotlight because it is not relevant to the *stakeholders'* interests. Thus, the tax aggressiveness can influence the firm values for the investors (Devi & Supadmi, 2018).

The tax aggressiveness does not only occur because of tax noncompliance of corporations but also the aggressive tax managerial activities by capitalizing the loopholes of tax regulation or any applied regulation, known as *tax sheltering* (Ridha & Martani, 2017). Besides that, the manager may take this action to cover the manager's opportunistic action (Midiastuty, Suranta & Kristiba, 2017).

The theory of agency could explain the influence or connection between tax aggressiveness toward firm value. The difference of interest between the principal and agent parties raises a gap. Ferdiawan & Firmansyah (2017) explain that a manager who manipulates the corporate profit to reduce the corporate tax has the purpose to obtain corporate compensation. Thus, the corporation could achieve its target. However, the principal party disagrees with it because it may rise to legal issues and lower the firm values because of low corporate profits.

Chen, Hu, Wang & Tang (2014) found that tax aggressiveness influenced information discrepancy in which a corporation presented. It had mismatch information between the information and the actual situation of the corporation. Thus, it could influence the investors' decisions to judge the corporations' future. If the public realizes the tax aggressiveness action, it will influence the stock price movement of the corporation and its firm value (Devi & Supadmi, 2018).

Hanlon & Slemrod, (2009) studied the gaps of tax aggressiveness found in firm values. They revealed that tax aggressiveness influenced the stock price negatively. They found it on corporations that were considered more aggressive while

evading the tax. Lestari (2014) found better corporate tax planning led to higher corporate profit. This matter improved the firm value. From the explanation, the second hypothesis is:

**H2: Tax aggressiveness negatively influenced firm value**

## METHOD

This research is descriptive quantitative research. It used data samples from the research population to be analyzed statistically. The descriptive elements of the research were the descriptions and notes about the political connection and tax aggressiveness as the independent variable (X) toward the firm value as the dependent variable (Y).

This study took the mining sector listed in the IDX from 2016 until 2018. The reason for choosing the sector was mining sector required a large amount of capital and

it had a strong connection with the government regulation to obtain the mining permit. The study used the recent-three-year data of mining corporations from 2016 until 2018. It was because the years were the political years of Indonesia due to the national election. The researchers used the *purposive sampling* method to take the samples of the corporation based on certain criteria as stated in Table 1.

Based on the samples criteria, the researchers found 66 corporations that met the criteria and could be used as the research sample.

## The Dependent Variable

The firm value in this research was the dependent variable. The firm value refers to the corporate-selling price when the corporation will be sold (Sugeng, 2012). Tobin's Q formula in this research was for calculating the firm value. The researcher

**Table 1. The Research Sampling Criteria**

Number	Criteria	Total
1	Any mining sector corporations consecutively listed in IDX from 2016 until 2018	42
2	The corporations published the annual reports consecutively during the period of 2016-2018.	33
3	Any mining corporations that gained profits from 2016 until 2018.	22
	The sample of the corporations	22
	The total of the research sample	66 data

Sources: Data processed, 2020

The researcher took the formula of firm value measurement from Devi & Supadmi, (2018) as shown below:

$$\text{Tobins'Q} = \frac{\text{EMV} + \text{D}}{\text{EBV} + \text{D}}$$

Remarks:

Tobins'Q = The Firm value

EMV = Equity Market Value (Closing price times the outstanding share)

EBV = Equity Book Value

D = Debt

## Independent Variable

### The Political Connection

Any corporations with political connections were observable from the arrangement of the board of commissary and the board directors or the shareholders. This research measured the political connection with a dummy variable. The researchers labeled corporations with political connection with 1 while those without political connection with 0.

The political connection criteria were based on Wulandari (2013). The criteria are:

1. The board of commissary and/or the board of directors have double positions as politicians and are affiliated with political parties.
2. The board of commissary and/or the board of directors has double positions as the government officials.
3. The board of commissary and/or the board of directors has double positions as military officials.
4. The board of commissary and/or the board of directors has double positions

as the retirements of government officials or the retirement of military officials.

### Tax Aggressiveness

It refers to tax evasion aggressively to reduce or remove the tax debt that should be paid by corporations. The ETR, *Effective Tax Rate*, is the most applied formula to calculate the tax aggressiveness level. The ratio of ETR is the appropriate ratio to calculate because it takes the current tax burden and the deferred tax. The researchers used Devi & Supadmi's (2018) study as the reference to measure tax aggressiveness as follow:

$$\text{ETR} = \frac{\text{Total Tax Expenses}}{\text{Pre Tax Income}}$$

Remarks:

ETR: The tax aggressiveness level

*Total Tax Expenses*: Total tax expenses

*Pre Tax Income* : Profit before tax

### Data Collection

The data type of this research is secondary data from the annual financial reports of the mining corporations listed in IDX from 2016 until 2018. The researchers obtained the data from the IDX site [www.idx.co.id](http://www.idx.co.id).

### The Data Analysis Technique

This research used a multiple linear regression model to analyze the data and to examine the influence of political connection and the tax aggressiveness level toward the firm value. Here is the model equation.

$$Y = \alpha + \beta_1 X_1 - \beta_2 X_2 + \epsilon$$

Remarks:

Y = The firm value

$\alpha$  = Constant

$\beta_1$ -  $\beta_2$  = The regression coefficient

X1 = The political connection

X2 = Tax aggressiveness

$\epsilon$  = Error

## RESULTS

Table 2 shows the results of the descriptive statistics assisted by statistics software, SPSS 20. The results obtain the minimum value of the firm value (TOBIN'S Q) for PT Ratu Prabu Energi Tbk in 2017 with 0.454 and maximum value for PT Bayan Resource Tbk in 2018 with 0.4386. The average firm value for all samples is 1.30608. It shows the overvalued average of the firm values in Indonesia. The obtained standard of devia-

tion is 0.732460. It means the firm values of the sample are homogeneous.

The political connection is the first independent variable. The researchers used the *dummy* variable as the measuring tool. If the corporations had the board of commissary or the board of directors that were connected with politics, the researchers labeled them with 1. Then, if the corporations that had the board of commissary or the board of directors without political connections, the researchers labeled them with 0. Table 2 shows that a percentage of 57.58% or 38 corporations as the sample have the board of commissary and the board of directors with political connection. A percentage of 42.42% or 28 corporations have the board of commissary and the board of directors without political connections. The findings showed some corporations had political connections in certain years. However, in the following year, these corporations did

**Table 2. The Results of Descriptive Statistics**

Remarks	Tobin's	ETR	Valid N
N	66	66	66
Min	0,084	0,454	
Max	1,134	4,386	
Mean	1,30608	0,35118	
Std. Deviation	0,171866	0,732460	
Variable Dummy			
Variable	%Score1	%Score0	Total%
KPOL	38/57,58%	28/42,42%	66/100%

Source: The processed data, 2020

not showing have any further connection and vice versa.

The tax aggressiveness (ETR) is the second independent variable. Table 2 shows the minimum score of ETR is 0.084 for PT. Ratu Prabu Energi, Tbk in 2016. The maximum score of ETR is 1.134 for PT Surya Esa Perkasa, Tbk in 2018. The ETR average score of the sample is 0.35118. the descriptive data shows the mining corporations in Indonesia evade the tax. The evidence can be seen from value of ETR. Lower ETR value or near-to-zero value has a higher tax aggressiveness level (Luke & Zulaikha, 2016). Then, the standard of deviation shows 0.171866. It means the firm value data of the sample are homogeneous.

### The Multiple Linear Regression Analysis

Table 3 is an analysis summary of the multiple linear regression analysis to find out the influence of political connection and tax aggressiveness toward the firm value in mining sector corporations listed in IDX from 2016 until 2018.

Table 3 shows total determination value of model (the adjusted R<sup>2</sup> value) is 0.055. It means the political connection and the tax aggressiveness only explain the dependent variable (firm value) with a percentage of 5.5%. The remaining percentage, 94.5%, is influenced by other factors outside of the research model.

The results of the political connection influence toward the firm value show a significant score of 0.781 which is higher than the standard used (0.05). It meant political connection did no influence the firm value. The presence of political connection of a corporation via the board of commissary or the board of directors did not influence the investors' decision to invest. On the other hand, the influence of tax aggressiveness toward the firm value is 0.024. It meant tax aggressiveness negatively and significantly influenced the firm value. It proved again that the corporations which committed to tax aggressiveness made the investors not interested to invest. Thus, the firm value of the corporations that committed tax aggressiveness decreased.

**Table 3. The Multiple Linear Regression Analysis**

Model	B	t	Sig.
(Constanta)	-0,129	-0,818	0,416
KPOL	-0,032	-0,279	0,781
ETR	-0,274	-2,319	0,024
Adjusted R <sup>2</sup>	0,055		

Source: The processed data, 2020

## DISCUSSION

### The Influence of Political Connection on the Firm value

The results showed that political connections could not predict the firm value. Thus, the presence of political connection of a corporation via the board of commissary and the board of directors did not influence the firm value. It proved that investors did not pay attention to the close relationship of the corporations with government officials. Thus, investors did not consider the political connection of a corporation. Tarihoran (2016) found that investors commonly tended to invest in corporations with high or stable profits. They did not take into account any political connection of the corporation.

The political connection via the board of commissary and the board of directors was not important for the mining sector investors to consider. It was because the mining-sector corporations had been *well-established* in Indonesia. Thus, it would not influence the firm value. Besides that, the mining sector corporations do not have tight competition (Wulandari, 2018).

The regional election year, also called the political year of 2018, in 171 regions, became the opening of the national election vibe in 2019. It was considered able to influence the stock movement of mining issuers, such as Adaro Energy's stock. It lowered to a level of 1,930 per share (CNN Indonesia, June 25, 2018). The phenomenon made the investors assumed corporations with political connections had lower performance in the year. Thus, the investors did not invest in those corporations (Krisdayanti, 2020).

Besides that, political connections put the firm value at disadvantage. The government, on the other hand, did not provide any benefit to the corporations (Berkman & Galpoththage, 2016).

This research result was not relevant to the *signaling* theory. The theory says political connection established by a corporation becomes a positive sign for investors (Su, Fu, Huang & Shen, 2014). The privilege and the accessibility to obtain loans could raise the corporate debt. These corporations would not take the risk to pay the loans with the corporate profits that should be paid for the investors' dividends (Dewanti, 2019). This research result was in line with Dewanti (2019). The researcher found political connection did not have a positive sign for the investors.

### The Influence of Tax Aggressiveness on the Firm value

Based on the data analysis result, in Table 3, the tax aggressiveness significantly and negatively influenced the firm values. It indicated that tax aggressiveness committed by the managerial parties, such as tax planning or tax evasion could lower the firm values. The investors assumed that this action had a higher risk than corporations without tax aggressiveness.

Chen, Chen, Chen, & Shevlin (2010) found tax aggressiveness could lead to some disadvantages the action was indicated. The disadvantages of the action were such as sanction and penalty of tax authorities, both administrative sanction or fine. According to Law of the Republic of Indonesia, Number 9 the Year 2017, Article 7 Clause (3), that regulates the leaders and/or the entity employees that create a false statement, and hide or reduce the financial

account information that must be reported, will be sentenced to confinement at least one year or fined with the highest charge of Rp. 1.000.000.000 (one billion rupiahs).

The current research result confirms the previous results that found tax aggressive action violated the tax rules. This matter would decrease the *shareholders'* trust so the stock price lowered (Jiang, Lee, & Yue, 2010). Besides that, the tax aggressiveness could lower the firm values (Wahab, Shaipah, & Holland, 2012). Therefore, the investors tended to invest in corporations that did not commit tax aggressiveness. The tax aggressiveness committed by the managers, with profit management, made investors not interested in the corporations. Investors considered corporations that committed tax aggressiveness would not be able to share the dividend.

This result is relevant to the agency theory. It says that agency matter occurs between the managers and the stakeholders due to asymmetric information (Devi & Supadmi, 2018). In this case, managers manipulated the corporate profit to reduce the deferred tax. However, the principal parties did not want this matter because it had legal issue potentials (Ferdiawan & Firmansyah, 2017). Thus, the reported profit before tax by the corporation would be lower so it reduced the deferred tax.

## CONCLUSION AND SUGGESTION

This research focuses on the influence of political connection and tax aggressiveness toward the firm values in mining sector corporations of Indonesia, from 2016 until 2018. Based on the results, the researchers

concluded that political connections could not predict the firm values. It was because the investors did not pay attention to the close relationship between the corporations and the government officials or politicians. Some investors assumed corporations with the political connection would have higher corporate loans because of the privileges they obtained, such as access to obtain loans. It made the corporate profit lowered because the corporation had to pay the loans instead of sharing the dividends for the investors.

Secondly, tax aggressiveness negatively and significantly influenced the firm values because investors assumed the corporations committed higher tax aggressiveness. This action could also put the corporations at disadvantage due to sanctions or confinement of the tax authorities. Thus, it could decrease the shareholders' trust. Eventually, it would lower the stock price that indicated the firm values.

The limitations of the research were the observed aspect of political connection. It was only from the biography of the board of directors and commissary stated in the annual financial report. Thus, any corporations with indirect political connections, such as family or friendship relationships, could not be observed. Further studies should find the political connection via indirect relationships. The next researchers could also change the variable with the data of the share ownership from the government so the data results will be more accurate.

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