

The Influence of Political Connection, Capital Intensity, and CSR on Tax Avoidance in Indonesian Energy Firms

M. Trimitra¹, A. Hardiyanto², E. Rusmanah^{3*}

¹Accounting Department, Universitas Pakuan

Email: trimitramutiara@gmail.com

²Accounting Department, Universitas Pakuan

Email: arief.tri.hardiyanto@unpak.ac.id

³Accounting Department, Universitas Pakuan

Email: enok.rusmanah@unpak.ac.id

*Corresponding Author

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ABSTRACT

This study examines the effects of political connection, capital intensity, and corporate social responsibility (CSR) on tax avoidance in energy-sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Tax avoidance remains an important issue because it may reduce state revenue and reflect managerial strategies to minimize tax burdens. Understanding the determinants of tax avoidance is particularly important in the energy sector, as this industry plays a strategic role in the national economy and is subject to substantial regulatory and public scrutiny regarding corporate taxation. This study employs a quantitative approach using panel data regression analysis. The sample was selected through purposive sampling, resulting in 35 firm-year observations. The results indicate that capital intensity and CSR have significantly reduced the effective tax rate, suggesting higher levels of tax avoidance, while political connection has no significant effect. However, the joint significance test shows that political connection, capital intensity, and CSR do not simultaneously explain tax avoidance. These findings suggest that operational structure and CSR disclosure are more influential than political ties in explaining tax avoidance practices. The study contributes to the existing literature by providing empirical evidence on the factors influencing tax avoidance in Indonesia's energy sector and offers insights for policymakers and corporate managers in designing more effective tax governance and regulatory strategies.

Keywords: Political Connection, Capital Intensity, CSR, Tax Avoidance

ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh *political connection*, *capital intensity*, dan *corporate social responsibility* (CSR) terhadap *tax avoidance* pada perusahaan sektor energi yang terdaftar di Bursa Efek Indonesia selama periode 2020-2024. *Tax avoidance* menjadi isu penting karena berpotensi mengurangi penerimaan negara serta mencerminkan strategi manajerial dalam meminimalkan beban pajak. Pemahaman mengenai faktor-faktor yang memengaruhi *tax avoidance* menjadi semakin penting, khususnya pada sektor energi, mengingat sektor ini memiliki peran strategis dalam perekonomian nasional serta berada di bawah pengawasan regulasi dan perhatian publik yang tinggi terkait kepatuhan perpajakan perusahaan. Penelitian ini menggunakan pendekatan kuantitatif dengan metode regresi data panel. Sampel ditentukan melalui teknik *purposive sampling*, sehingga

diperoleh total 35 pengamatan. Hasil penelitian menunjukkan bahwa *capital intensity* dan CSR secara signifikan menurunkan *effective tax rate* yang mengindikasikan tingkat *tax avoidance* yang lebih tinggi, sedangkan *political connection* tidak berpengaruh signifikan. Namun, hasil uji simultan menunjukkan bahwa *political connection*, *capital intensity*, dan CSR secara bersama-sama belum mampu menjelaskan *tax avoidance* secara signifikan. Temuan ini mengindikasikan bahwa struktur operasional perusahaan dan tingkat pengungkapan CSR lebih berperan dibandingkan kedekatan politik dalam menjelaskan praktik *tax avoidance*. Penelitian ini juga memberikan kontribusi terhadap literatur dengan menyajikan bukti empiris mengenai faktor-faktor yang memengaruhi *tax avoidance* pada perusahaan sektor energi di Indonesia, serta memberikan implikasi bagi pembuat kebijakan dan manajemen perusahaan dalam merancang tata kelola perpajakan dan strategi regulasi yang lebih efektif.

Kata Kunci: *Political Connection, Capital Intensity, CSR, Tax Avoidance*

Introduction

Tax revenue is one of the main sources of state income in Indonesia and plays an essential role in financing public expenditure and national development. According to Law Number 6 of 1983 concerning General Provisions and Tax Procedures, as amended by Law Number 7 of 2021, tax is defined as a compulsory contribution imposed on individuals or entities under the law without direct compensation and used for the greatest prosperity of the people. In Indonesia, tax revenue contributes the largest portion of the State Budget (APBN), reflecting its strategic importance to economic sustainability. However, tax revenue realization in recent years has fluctuated, indicating that the country's tax potential has not yet been fully optimized. This condition reflects ongoing challenges in the taxation system, particularly those related to taxpayer compliance.

Table 1. Target and Realization of Tax Revenue in the Last Five Years

Year	Tax Revenue Target (in trillion Rupiah)	Tax Revenue Realization (in trillion Rupiah)	Percentage (of tax target) (%)
2020	1.198,8	1.070,0	83,9
2021	1.229,6	1.231,8	100,2
2022	1.485,1	1.716,8	115,6
2023	1.818,3	1.869,2	102,8
2024	1.988,9	1.932,4	97,2

Source: Goodstats.id, 2025.

One factor that may contribute to the gap between tax potential and realized tax revenue is corporate tax avoidance. Tax avoidance refers to legal tax planning strategies undertaken by firms to minimize tax liabilities by exploiting loopholes in tax regulations (1). Although such practices do not directly violate the law, they may reduce state revenue and weaken tax compliance (2). This issue is particularly relevant in Indonesia, where the tax ratio remained between 8.33% and 10.38% during the 2020–2024 period, still below the ASEAN average of more than 12% (3). This condition indicates a continuing gap between potential and realized tax revenue.

The phenomenon of tax avoidance is reflected in several cases in Indonesia. According to a Global Witness report (2019), PT Adaro Energy Tbk. was allegedly involved in transfer pricing practices during the 2017–2019 period by selling coal below market prices to its subsidiary in Singapore, thereby reducing its tax obligations in Indonesia by approximately USD 125 million. In addition, Indonesia Corruption Watch (ICW) reported allegations of tax payment manipulation by PT Bumi Resources Tbk. during the 2003–2008 period, which potentially caused state losses of USD 620.49 million (4).

These cases suggest that tax avoidance practices may have a substantial impact on state revenue.

In response to this issue, the Government of Indonesia has implemented tax reforms through the Harmonization of Tax Regulations Law (Undang-Undang Harmonisasi Peraturan Perpajakan/UU HPP), including adjustments to corporate income tax rates and value-added tax (5). However, tax avoidance practices continue to occur, indicating that regulatory policies alone may not be sufficient. Internal corporate factors may also influence tax avoidance behavior. From the perspective of agency theory, tax avoidance arises due to conflicts of interest between the government as the principal and companies as agents. Firms seek to maximize profits by minimizing tax expenses, while the government aims to optimize tax revenue. Such conflicts may encourage companies to engage in tax planning strategies, including tax avoidance (6).

Several factors are presumed to influence tax avoidance, including political connection, capital intensity, and CSR. Political connections may provide firms with privileged access and regulatory protection, which can potentially encourage tax avoidance behavior (7). Previous studies found that political connections significantly affect tax avoidance, as shown by (8), (9), and (10). However, other studies reported no significant relationship between political connection and tax avoidance (7) and (11). Capital intensity enables firms to utilize depreciation expenses on fixed assets as a deduction from taxable income, thereby potentially increasing tax avoidance (12). Several studies found that capital intensity significantly affects tax avoidance, such as (6,12–14). In contrast, studies by (15) and (11) state that capital intensity does not affect tax avoidance. In addition, CSR may also reduce taxable income through deductible expenditures while simultaneously enhancing corporate reputation. Prior studies by (16), (17), and (8), found that CSR affects tax avoidance. Conversely, studies conducted by (13) and (2), indicate that CSR does not affect tax avoidance. These inconsistent findings indicate a research gap that requires further investigation.

The energy sector was selected as the focus of this study because it is characterized by high capital intensity, substantial operational risks, and large-scale international business activities that may increase the likelihood of tax avoidance practices (18). Based on the observed phenomenon and existing research gap, this study aims to examine the effect of political connection, capital intensity, and CSR on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. This study is expected to contribute to the development of tax accounting literature, particularly regarding the determinants of tax avoidance, as well as provide insight for policymakers in improving tax compliance in Indonesia.

This study contributes to the tax avoidance literature in several ways. First, it focuses specifically on Indonesian energy-sector firms, which operate in a highly capital-intensive and politically sensitive environment. Second, the study examines tax avoidance behavior during the post-Harmonization of Tax regulations Law (UU HPP) period, providing evidence regarding corporate tax behavior under a more recent regulatory framework. Third, the energy sector presents a unique setting where political exposure, capital investment, and CSR disclosure simultaneously play important roles, allowing a more context-specific examination of the determinants of tax avoidance.

Literature Review and Hypotheses Development

Agency Theory

Agency theory was first introduced by Jensen and Meckling (1976) through their seminal work *Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure*. This theory explains the contractual relationship between principals and agents, in which the principal delegates authority to the agent to manage resources and make decisions on its behalf. However, such a relationship may create conflicts of interest because each party tends to maximize its own welfare. In addition, agents usually possess more complete information than principals, resulting in information asymmetry.

In the corporate context, managers, as agents, may make decisions that are not fully aligned with the interests of shareholders or the regulator. Meanwhile, in taxation, agency conflict can also arise between the government, as the principal, and companies, as agents. The government seeks to maximize tax revenue, whereas firms attempt to minimize tax burdens in order to increase profitability. This divergence of interest may encourage managers to engage in tax planning strategies, including tax avoidance (6). Therefore, agency theory provides an appropriate theoretical basis for explaining the determinants of corporate tax avoidance.

Tax Avoidance

Tax avoidance is generally defined as a legal strategy used by companies to minimize tax liabilities through tax planning activities that exploit loopholes or weaknesses in tax regulations. Although tax avoidance does not directly violate the law, it is often viewed as an aggressive tax strategy because it reduces the amount of tax paid relative to the company's economic capacity. Consequently, tax avoidance may reduce government revenue and weaken the effectiveness of tax collection systems.

Companies commonly engage in tax avoidance to preserve after-tax profits and improve financial performance. Several measures have been used in prior studies to assess tax avoidance, including Effective Tax Rate (ETR), Cash Effective Tax Rate (CETR), and Book-Tax Differences (BTD). This study employs ETR as a proxy because it reflects the proportion of tax expense relative to pre-tax income and is widely used in previous tax research (6). Lower ETR values generally indicate higher levels of tax avoidance.

Political Connection and Tax Avoidance

A company is considered politically connected when one of its controlling shareholders, executives, or board members has current or prior affiliations with politicians, political parties, parliament, ministers, government officials, or military officers (19). Following prior studies, political connection refers to direct or indirect relationships between firms and political actors through ownership structures, board memberships, executive positions, or affiliations with governmental institutions and political parties. Politically connected firms may obtain certain privileges, such as

easier access to policymakers, lower regulatory pressure, and stronger protection from government intervention.

From the perspective of agency theory, politically connected firms may possess greater opportunities to engage in aggressive tax planning because political ties can reduce regulatory pressure and increase access to policymakers. Firms with political connections may perceive lower risks of tax audits and sanctions, thereby encouraging managers to minimize corporate tax burdens through tax avoidance strategies. This condition is particularly relevant in emerging economies where institutional monitoring and regulatory enforcement may vary across industries.

However, the relationship between political connection and tax avoidance remains inconclusive. While studies by (8), (9), and (10) found that political connection increases tax avoidance practices, other studies, such as (7) and (11), reported insignificant results. These inconsistent findings may arise because politically connected firms also face greater public scrutiny and reputational pressure, particularly in strategic sectors such as the energy industry. Consequently, politically connected firms may become cautious in undertaking aggressive tax behavior despite having privileged access to political actors. Therefore, further investigation is necessary to examine whether political connections influence tax avoidance in Indonesian energy firms. The first hypothesis is formulated as follows:

H1: Political connection affects tax avoidance

Capital Intensity and Tax Avoidance

Capital intensity reflects the proportion of fixed assets relative to total assets and indicates the extent to which a company invests in long-term productive assets (20). Firms with high capital intensity, such as the energy sector, usually incur substantial depreciation expenses due to substantial investments in infrastructure, machinery, and production facilities. Under tax regulations, depreciation may be recognized as a deductible expense that reduces taxable income and ultimately lowers corporate tax obligations.

Based on agency theory, managers may utilize investment in fixed assets not only for operational efficiency but also as a tax planning strategy. Through large depreciation changes, managers can legally reduce tax burdens and improve reported after-tax profits. Consequently, companies with higher capital intensity may have a greater incentive to engage in tax avoidance. Prior studies by (6,12–14), found that capital intensity significantly affects tax avoidance. However, studies by (11) and (15) reported insignificant results, indicating that the relationship may depend on industrial characteristics and taxation environments. Accordingly, further investigation is needed in the context of Indonesian energy firms. Based on these arguments, the second hypothesis is proposed as follows:

H2: Capital intensity affects tax avoidance

Corporate Social Responsibility and Tax Avoidance

Corporate social responsibility reflects a company's commitment to addressing social and environmental concerns while maintaining accountability to stakeholders. In this study, CSR is measured using the Corporate Social Responsibility Disclosure Index

(CSRDI), which captures the extent of CSR information disclosed by firms rather than the amount of CSR expenditure incurred.

From the perspective of legitimacy theory, firms use CSR disclosure as a mechanism to maintain legitimacy and strengthen relationships with stakeholders. Companies with more extensive CSR disclosure are generally expected to demonstrate greater transparency, accountability, and ethical conduct. Consequently, firms with stronger CSR disclosure may adopt different tax strategies to maintain consistency between their public image and corporate behavior.

Although Indonesian tax regulations allow certain CSR expenditures to be treated as deductible expenses (21), the present study focuses on CSR disclosure rather than CSR expenditure. Therefore, the theoretical argument is primarily related to legitimacy, stakeholder accountability, and corporate reputation rather than the direct tax benefits arising from CSR spending.

Previous studies by (8,16,17) found that CSR significantly affects tax avoidance, whereas studies by (2,13) report insignificant effects. These inconsistent findings indicate that the relationship between CSR and tax avoidance remains inconclusive and may depend on industry characteristics, institutional environments, and managerial incentives. Therefore, the third hypothesis is formulated as follows:

H3: CSR affects tax avoidance.

Effect of Political Connection, Capital Intensity, and CSR On Tax Avoidance

Political connection, capital intensity, and CSR represent important external and internal factors that may jointly influence corporate tax behavior. Political connection may provide strategic advantages and reduce regulatory pressure, capital intensity may generate tax benefits through depreciation expense, and CSR may affect legitimacy concerns as well as deductible expenditures. Collectively, these variables may explain variations in tax avoidance practice among firms.

Prior studies (6) also indicates that tax avoidance cannot be explained by a single determinant, but rather by the interaction of government, operational, and social factors. Therefore, examining these variables simultaneously is necessary to obtain a more comprehensive understanding of corporate tax behavior, particularly in the energy sector, which is characterized by high capital intensity and significant public scrutiny. Accordingly, the fourth hypothesis is formulated as follows:

H4: Political connection, capital intensity, and CSR affect tax avoidance

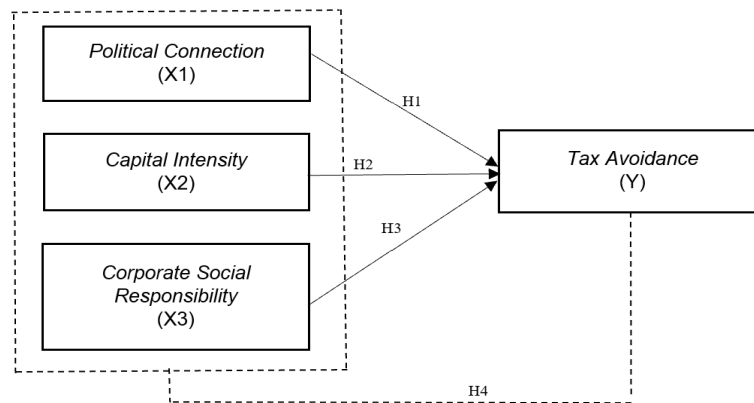


Figure 1. Conceptual Framework

Research Methodology

Research Design

This study employs a quantitative research approach using panel data regression analysis to examine the effect of political connection, capital intensity, and CSR on tax avoidance. A quantitative method is considered appropriate because it enables objective measurement of relationships among variables and hypothesis testing through statistical procedures (22). The analysis was conducted using E-Views and Microsoft Excel.

Data Source and Sample

This study uses secondary data obtained from annual reports and sustainability reports of energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020-2024 period. The reports were collected from the official IDX website (www.idx.co.id) and the official websites of the respective companies.

Table 2. Purposive Sampling

No	Criteria	Total
1	Energy companies listed on the Indonesia Stock Exchange (IDX) during 2020–2024	91
2	Less: Companies that did not publish complete annual reports during 2020–2024	(0)
3	Less: Companies that did not publish sustainability reports during 2020–2024	(16)
4	Less: Companies whose financial statements were presented in currencies other than Rupiah (IDR)	(65)
5	Less: Companies with negative profits during 2020–2024	(3)
Total sample companies		7
Research period (2020–2024)		5
Total firm-year observations		35

Source: Processed by the author, 2026.

The sample was selected using purposive sampling based on predetermined criteria. Firms reporting financial statements primarily in foreign currencies were excluded to maintain a more homogeneous sample and reduce heterogeneity associated with multinational operations, export-oriented business models, and different reporting environments. Although the main variables are ratio-based measures, firms using foreign currencies often possess substantially different operational characteristics compared to firms reporting in Indonesian Rupiah, potentially affecting the comparability of tax-related behavior. Nevertheless, this exclusion significantly

reduced the sample size and may limit the generalizability of the findings. Future studies are encouraged to include firms reporting in different currencies to provide broader evidence regarding tax avoidance practices in the Indonesian energy sector.

Meanwhile, the sample also focuses on profitable firms. Therefore, firms with negative pre-tax income were excluded because the ETR may become negative or economically meaningless when companies experience losses. This condition may reduce the reliability of ETR as a proxy for tax avoidance and potentially bias the regression results. Overall, after the screening process, seven companies met the sample criteria, resulting in 35 firm-year observations.

Variable Measurement

The dependent variable in this study is tax avoidance, proxied by the Effective Tax Rate (ETR), measured as tax expense divided by income before tax. The independent variables consist of political connection (PC), capital intensity (CI), and CSR Disclosure Index (CSRDI). Political connection is measured using a dummy variable. A company is classified as politically connected (coded 1) if at least one member of the board of commissioners, board of directors, controlling shareholder, or ultimate owner currently holds or previously held a political or governmental position, including parliament members, ministers, senior government officials, military officers, police officers, or political party affiliates. Otherwise, the company is coded 0. Information regarding political connections was collected from annual reports, corporate governance reports, the company website, and publicly available biographical information. Capital intensity is measured as fixed assets divided by total assets. CSR is measured using the CSRDI, which is based on 117 disclosure indicators.

Table 3. Variable Operationalization

Variables	Measurement		Scale
<i>Tax Avoidance</i>	ETR	= $\frac{\text{Tax Expense}}{\text{Income Before Tax}}$	Ratio
<i>Political Connection</i>	If a company has political connections, it is coded as 1, and 0 if otherwise.		<i>Dummy</i>
<i>Capital Intensity</i>	<i>Capital Intensity</i>	= $\frac{\text{Fixed Asset}}{\text{Total Assets}}$	Ratio
<i>Corporate Social Responsibility (CSR)</i>	CSRDI	= $\frac{\sum Xi}{N}$	Ratio

Notes:
 $\sum Xi$: number of CSR indicators disclosed by the company
 N: total number of CSR disclosure indicators (117)

Source: Processed by the author, 2026.

Result And Discussion

Descriptive Statistical Analysis

Tabel 4. Descriptive Statistical Results

	PC	CI	CSRDI	ETR
Mean	0.742857	0.297461	0.52289	0.235758
Maximum	1.000000	0.774256	0.965812	0.552461
Minimum	0.000000	0.005799	0.239316	0.020273

	PC	CI	CSRDI	ETR
Std. Dev	0.443440	0.207946	0.237940	0.130442

Source: Processed by the author using EViews, 2026.

Table 4 presents the descriptive statistics of the research variable, namely political connection, capital intensity, Corporate Social Responsibility Disclosure Index (CSRDI), and Effective Tax Rate (ETR). The mean value of political connection during the observation period is 0.742857, indicating that approximately 74.29% of the sampled firms are politically connected. The relatively high proportion suggests that political connections are common among energy sector companies. The standard deviation of 0.443440 indicates moderate variation in political connection status among that specific firm. The minimum and maximum values of 0 and 1 reflect the dummy measurement used for this variable. Capital intensity has an average value of 0.297461, indicating that fixed assets account for approximately 29.75% of total assets on average. This finding suggests that the energy sector is relatively asset-intensive, as companies require substantial investment in fixed assets to support operational activities. The standard deviation of 0.207946 indicates moderate dispersion across differences in asset structures among the sampled companies.

Furthermore, CSRDI records a mean value of 0.522589, implying that firms disclose approximately 52.26% of the total CSR indicators. This finding indicates that the level of CSR disclosure among energy companies is moderate. The maximum value of 0.965812 suggests that some firms disclose CSR information extensively, whereas the minimum value of 0.239316 indicates relatively limited disclosure in several firms. Meanwhile, the average ETR is 0.235758, indicating that the average effective tax rate burden of sampled firms is approximately 23.58%. Since lower ETR values generally indicate higher tax avoidance, the descriptive results suggest variation in tax avoidance practices among the observed companies.

Panel Data Regression Model Selection

Table 5. Chow Test Results

Effects Test	Statistic	d.f	Prob.
Cross-section F	11.570236	(6.25)	0.0000
Cross-section Chi-square	46.511222	6	0.0000

Source: Processed by the author using EViews, 2026.

The Chow test in Table 5 reports a cross-section chi-square probability value of 0.0000, which is lower than the 5% significance level. This result indicates that the Fixed Effect Model (FEM) is preferable to the Common Effect Model (CEM).

Table 6. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.948027	3	0.5833

Source: Processed by the author using EViews, 2026.

However, the Hausman test in Table 6 shows a probability value of 0.5833, which is greater than 0.05, suggesting that the Random Effect Model (REM) is preferable to the Fixed Effect Model (FEM).

Table 7. Lagrange Multiplier Test Results

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	32.60572 (0.0000)	1.304774 (0.2533)	24.91049 (0.0000)

Source: Processed by the author using EViews, 2026.

To confirm the final model selection, the Lagrange multiplier (LM) test was conducted. As presented in Table 7, the Breusch-Pagan probability values are 0.0000, which is lower than 0.05. Therefore, the random effect model is selected as the most appropriate estimation model in this study.

Classical Assumption Test

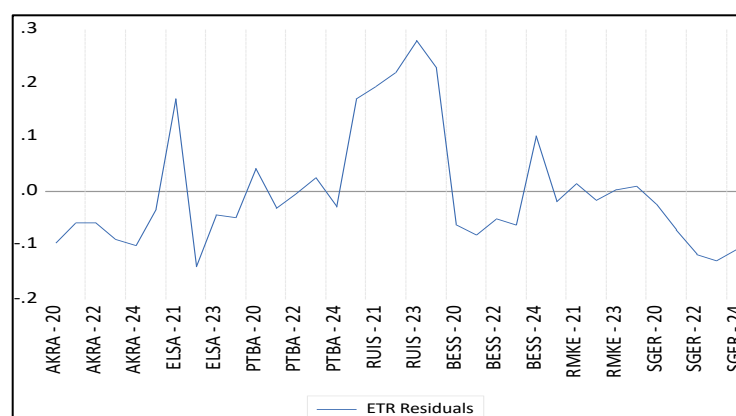
The normality assumption is considered satisfied based on the central limit theorem, which states that samples larger than 30 observations may approximate a normal distribution (23). Since this study uses 35 observations, the data are considered sufficiently normal for regression analysis.

Table 8. Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.009350	4.737589	NA
PC	0.003517	2.028924	1.045699
CI	0.031061	2.812263	1.419742
CSRDI	0.006688	2.339534	1.414057

Source: Processed by the author using EViews, 2026.

The multicollinearity test results in Table 8 show that all centered VIF values are below 10, namely 1.045699 for PC, 1.419742 for CI, and 1.414057 for CSRDI. These results indicate that multicollinearity is not present in the regression model.



Source: Processed by the author using EViews, 2026.

Figure 2. Heteroskedasticity Test Results

Based on the heteroskedasticity residual graph in Figure 2, the residuals are randomly distributed and do not show systematic patterns. Therefore, the model is considered free from heteroskedasticity problems (24).

Table 9. Autocorrelation Test Results

R-squared	0.160740	Mean dependent var	0.055082
Adjusted R-squared	0.079521	S.D dependent var	0.062908
S.E. of regression	0.060355	Sum squared resid	0.112924
F-statistic	1.979097	Durbin-Watson stat	2.166816
Prob (F-statistic)	0.137599		

Source: Processed by the author using EViews, 2026.

The Durbin-Watson statistic in Table 9 is 2.166816. Since the value lies between the lower and upper critical bounds, the regression model is considered free from autocorrelation problems.

Panel Data Regression Analysis

Tabel 10. Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.389809	0.096697	4.031238	0.0003
PC	0.056113	0.059300	0.946249	0.3513
CI	-0.360494	0.176241	-2.045464	0.0494
CSRDI	-0.169354	0.081782	-2.070798	0.0468

Source: Processed by the author using EViews, 2026.

Table 10 presents the panel data regression result using the random effect model. Meanwhile, the regression equation is as follows:

$$ETR_{it} = \alpha + \beta_1 PC_{it} + \beta_2 CI_{it} + \beta_3 CSRDI_{it} + \varepsilon_{it} \quad (1)$$

The constant value of 0.389809 indicates the expected ETR when all independent variables are equal to zero. Political connection has a positive coefficient of 0.056113, indicating that politically connected firms tend to report higher ETR values, although the relationship is statistically insignificant. Capital intensity has a negative coefficient of -0.360494, implying that firms with higher fixed asset intensity tend to report lower ETR values, which indicates higher tax avoidance. CSRDI also has a negative coefficient of -0.169354, suggesting that firms with higher CSR disclosure tend to have lower ETR values.

Hypothesis Testing

Table 11. Coefficient of Determination Results

R-squared	0.160740	Mean dependent var	0.055082
Adjusted R-squared	0.079521	S.D dependent var	0.062908
S.E. of regression	0.060355	Sum squared resid	0.112924
F-statistic	1.979097	Durbin-Watson stat	2.166816
Prob (F-statistic)	0.137599		

Source: Processed by the author using EViews, 2026.

The adjusted R-squared value in Table 11 is 0.079521, indicating that political connection, capital intensity, and CSR jointly explain 7.95% of the variation in tax avoidance proxied by ETR. The remaining 92.05% is explained by other variables outside the model. The Prob (F-statistic) value of 0.137599 exceeds 0.05, indicating that political connection, capital intensity, and CSR do not simultaneously affect tax avoidance. Therefore, H4 is rejected

Table 122. t-Statistic Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.389809	0.096697	4.031238	0.0003
PC	0.056113	0.059300	0.946249	0.3513
CI	-0.360494	0.176241	-2.045464	0.0494
CSRDI	-0.169354	0.081782	-2.070798	0.0468

Source: Processed by the author using EViews, 2026.

Based on the t-test results in Table 12, political connection has a probability value of 0.3513, indicating no significant effect on tax avoidance. Thus, H1 is rejected. Capital intensity has a probability value of 0.0494, indicating a significant effect on tax avoidance. Therefore, H2 is accepted. CSR has a probability value of 0.0468, indicating a significant effect on tax avoidance. Therefore, H3 is accepted.

Discussion

The Effect of Political Connection on Tax Avoidance

The results indicate that political connection does not significantly affect tax avoidance. Although politically connected firms may have better access to policymakers and regulatory protection, such advantages do not necessarily translate into aggressive tax strategies. This may be because politically connected firms tend to face increased scrutiny from tax authorities under Law Number 7 of 2021 concerning the Harmonization of Tax Regulations, which grants tax authorities greater oversight of firms with special relationships. They also face greater reputational pressure under Law Number 40 of 2007 concerning Limited Liability Companies, which emphasizes that directors and commissioners must carry out their duties in good faith, responsibly, and with a focus on the company's interests. From the perspective of agency theory, managers may avoid opportunistic behavior when political visibility is high. This finding is consistent with (7,11), but contradicts (8–10).

The insignificant effect of political connection may also reflect the characteristics of the Indonesian energy sector, which is highly regulated and closely associated with public interest due to its role in natural resource management and national energy supply. Energy companies in Indonesia often receive considerable attention from regulators, investors, environmental organizations, and the public, particularly regarding governance, environmental responsibility, and transparency practices. Consequently, politically connected firms may become more cautious in engaging in aggressive tax practices because such actions could increase reputational risk and public criticism.

The Effect of Capital Intensity on Tax Avoidance

Capital intensity has a significant positive effect on tax avoidance, reflected by its negative relationship with ETR. This finding indicates that firms with higher fixed

assets proportions tend to utilize depreciation expenses as deductible costs to reduce taxable income. In asset-intensive industries such as energy, investment in fixed assets may create substantial tax benefits because firms require extensive infrastructure, machinery, transportation facilities, and production equipment to support operations. Consequently, large depreciation expenses may become an important mechanism for reducing taxable income.

From an agency theory perspective, managers may exploit available tax regulations to maximize after-tax profits. This result supports (6,12-14), although it differs from (11,15). The finding also implies that regulators need to strengthen supervision regarding depreciation policies and fixed asset reporting in highly capital-intensive sectors to reduce opportunities for aggressive tax planning practices.

The Effect of CSR on Tax Avoidance

CSR has a significant positive effect on tax avoidance, indicated by its negative relationship with ETR. This result suggests that firms with higher CSR disclosure may also engage in strategic tax management. The findings suggest that firms with more extensive CSR disclosure may simultaneously engage in strategic tax management. Higher CSR disclosure may reflect stronger stakeholder engagement, transparency, and legitimacy-building efforts. Consequently, CSR disclosure and tax avoidance may coexist as part of broader corporate strategies to maintain both legitimacy and financial efficiency.. In addition, some firms may use CSR activities to strengthen legitimacy while simultaneously optimizing tax burdens. From agency theory, managers may use CSR not only for stakeholder interest but also for financial objectives. This finding is consistent with (8,16,17), but differs from (2,13).

The finding may also reflect the characteristics of Indonesian energy firms, which generally face strong environmental and social pressure due to the nature of their business activities. As a result, companies tend to allocate substantial resources to CSR programs to maintain legitimacy and public trust. However, these expenditures may simultaneously provide tax benefits when recognized as deductible expenses. Therefore, CSR implementation in the energy sector may not only represent social responsibility but also form part of broader corporate financial and tax planning strategies.

Effect of Political Connection, Capital Intensity, and CSR on Tax Avoidance

The test indicates that political connection, capital intensity, and CSR do not jointly affect tax avoidance. Although capital intensity and CSR are individually significant, their combined explanatory power remains weak. This suggests that tax avoidance decisions are also influenced by other factors, such as profitability, leverage, firm size, governance quality, and tax regulation complexity. From an agency theory perspective, managers may rely on broader strategic considerations rather than only these three variables. This finding is not consistent with (6), who found a simultaneous effect of

these variables on tax avoidance. The results imply that tax avoidance behavior in Indonesian energy firms is relatively complex and cannot be explained solely by political, operational, or CSR-related factors. For regulators, these findings indicate the importance of strengthening monitoring mechanisms not only on politically connected firms but also on depreciation-related deductions and CSR expenditure classifications. Meanwhile, for companies, the findings highlight the importance of maintaining transparency and accountability in tax-related reporting practices to reduce reputational risks and improve stakeholder trust.

Conclusion and Suggestions

The results of this study indicate that political connection does not have a significant effect on tax avoidance. This finding suggests that the presence or absence of political ties within a company does not necessarily influence corporate tax avoidance practices. Although politically connected firms may obtain certain advantages, such firms may not utilize these privileges to undertake aggressive tax strategies that could create legal, reputational, or long-term business risks. Therefore, political connection cannot be considered a key determinant of tax avoidance in the sampled energy sector companies.

Meanwhile, capital intensity has a positive and significant effect on tax avoidance. This result implies that firms with higher investment in fixed assets tend to utilize depreciation expense as a deductible cost to reduce taxable income, thereby lowering their effective tax burden. Similarly, CSR also has a positive and significant effect on tax avoidance. Higher CSR disclosure is associated with lower ETR, indicating greater tax avoidance. This finding suggests that firms with more extensive CSR reporting may simultaneously engage in strategic tax planning while maintaining legitimacy and stakeholder trust. However, the simultaneous test shows that political connection, capital intensity, and CSR do not jointly affect tax avoidance. This indicates that these three variables, when considered together, are not sufficient to comprehensively explain tax avoidance behavior in energy sector companies. The findings also imply that regulators should strengthen supervision over depreciation-related tax deductions and CSR-related deductible expenses, particularly in capital-intensive industries such as the energy sector. Since capital intensity and CSR were found to significantly influence tax avoidance behavior, more detailed monitoring of fixed asset reporting and CSR expenditure classifications may help reduce aggressive tax planning practices. In addition, firms are expected to improve transparency in reporting tax-related activities to maintain public trust and corporate legitimacy.

This study has several limitations. First, the sample size is relatively limited, consisting of only seven energy sector companies with 35 firm-year observations, which may restrict the generalizability of the findings. Second, this study only focuses on three independent variables, whereas tax avoidance may also be influenced by other factors such as profitability, leverage, firm size, institutional ownership, corporate governance, and audit quality. Third, tax avoidance is measured only by the Effective Tax Rate (ETR), which may not fully capture all dimensions of corporate tax planning behavior.

Based on these limitations, future studies are recommended to expand the research sample by including more sectors and longer observation periods to obtain broader empirical evidence. Future research may also incorporate additional explanatory variables, such as profitability, leverage, firm size, governance mechanisms, or executive characteristics. Moreover, the use of alternative tax avoidance proxies, such as Cash Effective Tax Rate (CETR), Book-Tax Differences (BDT), or GAAP ETR, is recommended to provide more comprehensive results. These improvements are expected to strengthen future studies on the determinants of tax avoidance in Indonesia.

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