The effect of company size and inventory intensity on tax aggressiveness with political connections as a moderating variable in agricultural sector companies listed on the BEI for the period 2019-2023

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Abstract: *This study aims to analyze the effect of company size and inventory intensity on tax aggressiveness with political connections as a moderating variable in agricultural sector companies listed on the Indonesia Stock Exchange (IDX) during the 2019-2023 period. The research method used is quantitative analysis with multiple linear regression analysis methods involving 40 companies selected through purposive sampling techniques. The analysis shows that company size and inventory intensity significantly influence tax aggressiveness. In addition, political connections have been proven to moderate the relationship between company size, inventory intensity, and tax aggressiveness. This finding suggests that companies with political connections tend to aggressively take advantage of their position to reduce the tax burden. This study contributes to the accounting literature by highlighting the important role of political connections in corporate tax management strategies. The practical implication of this research is the need for stricter regulations to minimize opportunities for abuse of tax policies by politically connected companies.*

Keywords: company size, inventory intensity, political connection, tax aggressiveness.

Introduction

Taxes are crucial to both national and state interests, particularly in facilitating development projects. As the primary source of government income, taxes fund various expenditures, including those related to development. As defined by the Republic of Indonesia's Law Number 28 of 2007, a tax is a mandatory contribution paid by individuals or entities to the state, which is enforceable by law and does not result in any direct compensation. This tax serves state needs, ultimately securing the maximum welfare for the population (Maharani & Baroroh, 2019).

Table 1. Tax Target and Realization 2019-2023 (in Trillion Rupiah)

Year	Target	Realization	Percentage
2019	1577,6	1546,1	98%
2020	1198,8	1285,1	107%
2021	1444,5	1546,5	107%
2022	1783,9	2034,5	114%
2023	2118,3	2155,4	102%

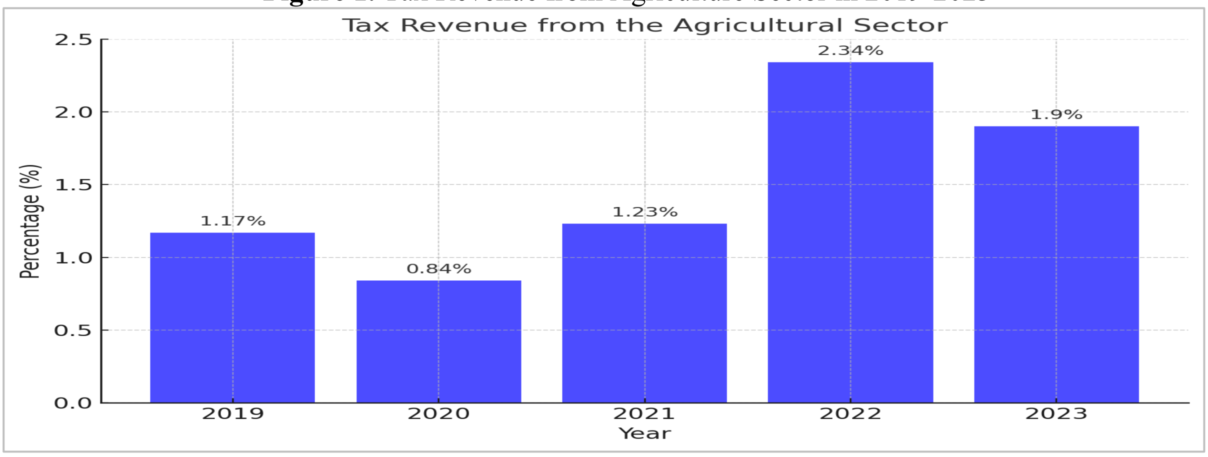
Source: www.kemenkeu.co.id

According to data from the Ministry of Finance (Table 1), 102 percent of Indonesia's total revenue came from taxes in 2023, which means that almost 100 percent of Indonesia's largest source of income is tax. The more tax revenue collected, the more public facilities and infrastructure can be built, and the better the quality of services the state can provide to the community (Iswari *et al*., 2019). Therefore, the public must understand the role of taxes in the country's development and consciously fulfill their tax obligations.

Indonesia is an agricultural country, and agriculture is, of course, one of the largest sources of income in the country. According to information from the Central Statistics Agency (BPS, 2023), the agricultural sector is the third largest contributor to the country's Gross Domestic Product after the Manufacturing Industry, wholesale and Retail Procurement, and car and Motorcycle Repair sectors. The country has high agricultural potential, so unsurprisingly, agriculture is also the key to the economy (Pajakku, 2022).

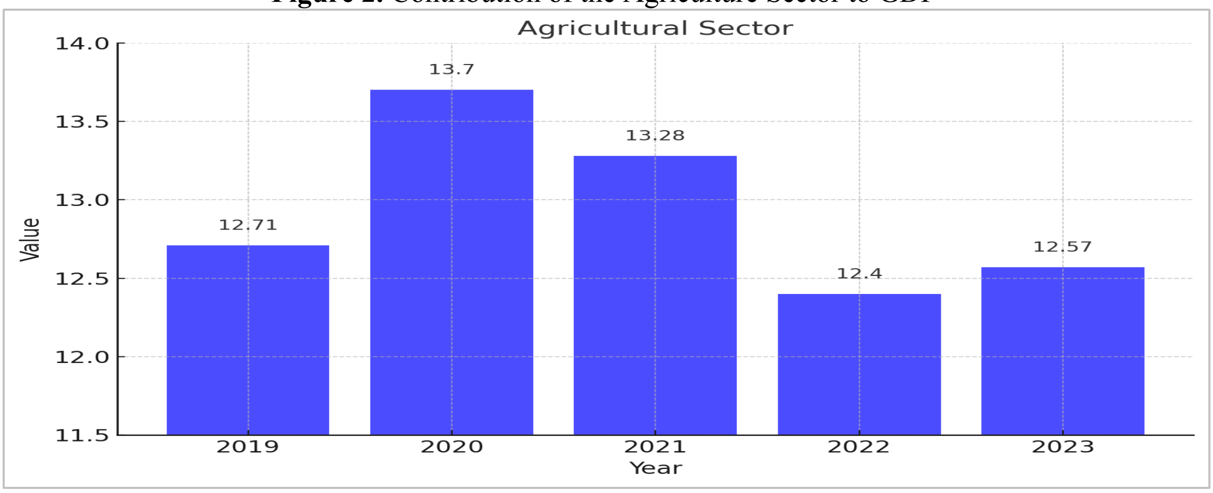
As a form of the government's partiality to the agricultural sector, Minister of Finance Regulation Number 89/PMK.010/2020 concerning the Basis for Imposition of Tax on Delivery of Certain Agricultural Products was issued (Indonesia Ministry of Finance, 2020). This means the agriculture, forestry, and fisheries sectors greatly influence Indonesia's national growth rate. The government provides this facility for workers in the agricultural sector, considering that until now, this sector is still dominated by people's businesses and has not fully transitioned to an industrial scale (alinea.id, 2023).

Figure 1. Tax Revenue from Agriculture Sector in 2019-2023



Source: *Consolidated Report* DJP, 2023

Figure 2. Contribution of the Agriculture Sector to GDP



Source: Central Bureau of Statistics, 2023.

Based on the information shown in Figure 1 and Figure 2, the agriculture sector plays a very high role in Indonesia's national growth rate. In 2023, the agriculture sector contributed 12.57 percent to the Gross Domestic Product (GDP). The sector's contribution to GDP is significant, with its tax contribution reaching 1.90 percent of total tax revenue. In 2022, the agriculture sector contributed 12.40 percent to GDP by contributing 2.3 percent to tax revenue. In 2021, the sector's contribution to GDP was 13.28 percent, with a tax contribution of only 1.23 percent.

Gross Domestic Product (GDP) is an economic performance indicator that measures the total value of goods and services produced by a country in a given period (Fiskalpedia, 2021). A high GDP indicates that much economic activity is taking place, which expands the tax revenue base. When GDP increases, corporate and individual incomes tend to rise, which means tax revenues from corporations (corporate income tax) and individuals (personal income tax) will also increase (Ananda et al., 2019).

However, the agricultural sector has unique characteristics that are often affected by seasonal factors and weather conditions (Guido *et al*., 2020), causing significant fluctuations in income (Sari, 2023). In addition, inventory management in this sector is very complex due to the presence of perishable products and the diverse types of products produced (Syah *et al*., 2023). These complexities and fluctuations allow companies to manipulate financial statements and inventories to reduce tax liabilities.

The agricultural sector has recently come under scrutiny from the finance ministry. The Directorate General of Taxes is now targeting tax targets in the agricultural sector in Indonesia. This is done because this sector is prone to high tax evasion. This was revealed by the Special Staff of the Minister of Finance for Strategic Communication, Yustinus Prastowo while attending a law enforcement meeting between the Directorate General of Taxes, the Attorney General's Office, and Bareskrim in Makassar, South Sulawesi. He explained that high economic growth is also prone to tax evasion, especially in the agricultural sector (Kompas.tv, 2022).

The Coordinating Minister for Maritime Affairs and Investment, Luhut Panjaitan, said that companies in the agricultural sector were manipulating assets. These companies should have reported an agricultural land area of 16.38 million hectares. However, only 7.5 million hectares paid taxes after inspection, leading to a lack of state revenue (Tirto.id, 2023).

Palm oil industry sector companies that hide inventory results by not paying tax deposits in accordance with the actual inventory produced. Pahala Nainggolan, KPK's Deputy for Prevention, revealed that there were 70,918 taxpayers, both corporate and individual taxpayers, registered in the tax administration system, but only about 9.6 percent reported tax returns. This can lead to a lack of state revenue (cnnindonesia.com, 2017).

PT Tiga Pilar Sejahtera Food (AISA), a company in the agribusiness sector, was involved in a case of financial statement manipulation and tax evasion. Findings from KAP Ernest and Young there are allegations of overstatement of Rp 4 trillion in accounts receivable, inventory, and fixed assets of the TPSF Group and Rp 662 billion in Sales and Rp 329 billion in the company's EBITDA (Ernst & Young Indonesia, 2019).

PT Gunung Madu Plantations is engaged in the plantation business and a sugar factory, allegedly with political ties to government officials. Angin Prayitno, the former Director of Inspection and Collection of the DGT in 2021, was found to be involved in the corruption of receiving gifts or promises related to tax audits by receiving bribes and gratuities totaling IDR 50 billion from three companies, including PT Gunung Madu Plantations (CNBC Indonesia, 2023).

This phenomenon shows how revenue instability and the complexity of inventory management can be exploited as loopholes for tax aggressiveness. Companies seek to minimize their tax burden through various strategies that do not always follow fair and correct tax principles. The many tax evasion cases indicate that agricultural sector companies have not fully implemented tax payment regulations.

Tax aggressiveness is a corporate management practice that seeks to reduce tax payments by lowering taxable profits. This activity is carried out through careful tax preparation, both legally and illegally. Tax aggressive behavior includes violations of tax regulations and exploits weaknesses in applicable laws. This action tends to reduce the company's tax liability to optimize profits. This is consistent with the company's main priority of increasing profits to benefit owners and shareholders (Azmi & Ramadhani, 2019).

Companies always try to increase their assets because this increases profits. Taxes reduce company profits, so companies are more inclined to look for ways to reduce tax burdens to increase profits and, ultimately, increase company assets. Assets reflect the company's performance in generating profits by managing total assets. Every company's main goal is to increase its assets from year to year. Increasing total assets may indicate that company size positively impacts tax aggressiveness (Ann & Manurung, 2019).

This research is based on two theories: agency theory and positive accounting theory. One of the concepts in positive accounting theory is the theory of corporate political costs proposed by Watts and Zimmerman in 1990. These political costs include regulation changes, tax rates, and other policies that affect the company (Firmansyah & Bayuaji, 2019). Companies choose accounting policies that minimize income tax payments because taxes are a political cost that can reduce company profits (Fasita *et al*., 2022). Therefore, managers may take opportunistic actions by choosing accounting policies that reduce income subject to tax to ensure low corporate political costs (Firmansyah & Bayuaji, 2019). Such thinking relates to the agency theory perspective, which investigates the conflict of interest between management and owners (principals). (Jensen & Meckling, 1976). In this case, it can be said that tax aggressiveness is an activity that is used as a basis for consideration for management in making decisions so that it becomes a strategy where the company can earn profits to maintain good relations with the principal as the owner.

The practice of tax aggressiveness is influenced by company size. According to Ann and Manurung (2019), company size is a description of the company's activities and income, which is determined based on the company's size by considering total assets. Agency Theory states that the larger the company, the higher the tax aggressiveness. This occurs due to differences in interests between principals and agents. The difference in risk aversion is that management focuses on short-term profit prospects and increased compensation. At the same time, the principal avoids audit risk or sanctions from the tax authorities and focuses on the company's reputation. In other words, managers try to protect assets from paying high tax burdens, so the decision to take tax-aggressive actions arises. As said by Mulyati et al. (2019), Sari et al. (2021), and Paramita *et al* (2023) in their research, company size has a positive influence on tax aggressiveness. While not in line with the research results of Handayani & Mildawati (2018), Ariska et al. (2020) and Rahayu & Suryarini (2021) explain that company size does not affect tax aggressiveness.

The practice of tax aggressiveness is also influenced by inventory intensity. According to Rahayu & Suryarini (2021), Inventory intensity is a ratio that describes the amount of company investment in inventory. The higher the inventory intensity, the higher the tax aggressiveness. This is based on Positive accounting theory, which says that managers are given the option of choosing accounting rules for inventory procedures that are favorable to the company. Because companies that have a lot of inventory will incur maintenance and storage expenses from the difference in these expenses, they can reduce taxes so that it is utilized by companies to carry out tax aggressiveness.

Research conducted by Arizoni *et al* (2020) and Subadriyah *et al* (2022) found that inventory intensity influences tax aggressiveness positively and significantly. This differs from previous research findings by Nasution and Mulyani (2020) Christina and Wahyudi (2022) and Wijayanti *et al*., (2023) , which say that inventory intensity negatively and significantly affects tax aggressiveness. Meanwhile, it is inversely proportional to the research results Azmi and Ramadhani (2019), Suryarini *et al*., (2021) Urrahmah and Mukti, (2021) which say the inventory intensity variable does not affect tax aggressiveness.

Previous research on tax aggressiveness has remained inconsistent, giving rise to a research gap. The inconsistency in the effect of company size and inventory intensity on tax aggressiveness suggests that other variables affect corporate tax aggressiveness. This condition encourages researchers to include political connection variables as moderating variables in this study. Lala Latifatul *et al* (2023) state that political connections are relationships between parties with political interests used to achieve goals that benefit both parties. The company's political connections provide benefits such as easy access to capital and minimal risk of tax audits, thus encouraging companies to carry out tax aggressiveness (Sihono & Munandar, 2023).

Research conducted by Abdullah *et al*., (2022), Sahrir *et al*., (2021) and Ulfa *et al*., (2024) found that political connections positively and significantly affect tax aggressiveness. However, research by Tiberias *et al*. (2021), Rudyanto *et al*. (2023) and Lala Latifatul *et al*. (2023) found that political connections have a negative and significant effect on tax aggressiveness. Meanwhile Iswari *et al*. (2019) and Satiti *et al*. (2021) found no influence between political connections and tax aggressiveness was found. The choice of political connection variables aligns with the political cost hypothesis in Positive Accounting Theory (Watts & Zimmerman, 1990). Positive accounting theory asserts that political connections lead to political costs, which reduce profit to avoid taxes. Therefore, a high level of corporate political connection will be offset by the practice of tax aggressiveness (Maharani & Baroroh, 2019).

This research addresses the existing gap. Many earlier studies have employed different measurement methods to evaluate tax aggressiveness. These methods include the effective tax rate on value-added, the book-tax difference (Martinez & Bis, 2020), and the cash-effective tax rate (Sri Utaminingsih et al., 2022). Thus, researchers aim to bridge the gap by using the effective tax rate (ETR) as a proxy. As Schwab et al. (2018) state, the effective tax rate can reveal potential tax aggressiveness for the current year compared to other indicators.

Previous research has examined related topics using a variety of methods and variables. For instance, studies by Handayani and Mildawati (2018), Ann and Manurung (2019), and Windaryani and Jati (2020) discuss company size's impact on tax aggressiveness, alongside the work of Mulyati et al. (2019), Sari et al. (2021), and Paramita et al. (2023). Additionally, Saputra et al. (2023) focus on the influence of inventory intensity on tax aggressiveness. Nonetheless, research specifically examining the impact of political factors appears limited. Connections influence the relationship between company size, inventory intensity, and tax aggressiveness.

Current research developments encourage researchers to analyze, measure, test, and evaluate reporting on tax aggressiveness in the agricultural sector through a quantitative approach motivated by Stamatopoulos et al. (2019). Quantitative research investigates social problems by testing a theory and determining whether or not the predictive theory is true. This aligns with the study's purpose, which is to test a theory to gather empirical evidence on how the independent variable affects the dependent variable.

The agricultural sector was chosen because it is the people's source of life (Tamba & Sudjiman, 2022). Considering Indonesia's extensive territory, tax avoidance and evasion remain significant issues, particularly in the agricultural sector. These challenges stem from industry traits often affected by seasonal variations, weather conditions, the intricacies of inventory management, and fluctuating income. Consequently, researchers are keen to focus on the agricultural sector for this study.

In light of supportive theories, observed phenomena, and pertinent prior studies, researchers seek to explore how inventory intensity and company size influence tax aggressiveness, considering political connections as a moderating factor. Thus, the title of this study is formulated: “The effect of company size and inventory intensity on tax aggressiveness with political connections as a moderating variable in agricultural sector companies listed on the BEI for the 2019-2023 period”.

Literatur review

Agency theory

This research is fundamentally grounded in agency theory and positive accounting theory, both pivotal frameworks that have evolved significantly since their inception in the 1960s and 1970s. These theories are especially relevant in elucidating the intricate dynamics of relationships between two contracting parties. An agency relationship can be defined as “an agreement wherein one or more individuals, referred to as principals, delegate authority to other individuals, known as agents, to perform specific services on their behalf. This delegation inherently involves granting agents some level of discretion in decision-making, which can influence the overall effectiveness and outcomes of the relationship."

Positive accounting theory

Positive accounting theory (PAT) was first introduced by Watts and Zimmerman (1986). The term “positive” refers to a theory that seeks to explain and accurately predict certain phenomena. This theory is significant due to its strong emphasis on selecting financial accounting techniques. In 1979, the publication of Jensen and Meckling's article on agency theory had a substantial influence on PAT. In agency theory, the firm is viewed as a nexus of contracts, and this concept is embraced by positive accounting research. These contracts are established to ensure that all parties, acting in their interests, are simultaneously motivated to maximize firm value.

Tax aggressiveness

Tax aggressiveness refers to various tax planning strategies used to minimize tax liabilities. These can be done legally (Tax Avoidance) or illegally (Tax Evasion) (Abdullah *et al*., 2022). The goal is to save tax expenditures because tax aggressiveness increases profitable cash flow, which is one opportunity to maximize profits (Kovermann & Velte, 2019) while following the interests of owners, shareholders, and employees. Still, tax aggressiveness is high risk because it can result in the company being sanctioned with fines and damaging its reputation (Saputra *et al*., 2023).

Company size

The size of the company also affects its assets. If a company has significant assets, its productivity is expected to increase. This increase in productivity can result in higher profits, which will affect the amount of tax the company must pay (Paramita *et al*., 2023). Siegfried (1972) implies that large-scale companies can influence the political process under their wishes, including tax planning, to achieve optimal tax reduction.

Inventory intensity

According to Statement of Financial Accounting Standards (PSAK) Number 14 of 2016, inventory is an asset that is (a) ready for sale in the course of routine business activities, (b) in the production process for sale, (c) or is in the form of materials or equipment used in in the production process or provision of services. Inventory intensity is related to how much the company invests in inventory (Suryarini *et al*., 2021). The effectiveness of management in managing inventory can be reflected in the level of inventory intensity. The higher the inventory intensity, the more efficient the company's management is, and vice versa. Slow inventory turnover can lead to continuous accumulation of inventory in the warehouse. This can increase operational costs, such as inventory maintenance and storage costs. Investment in inventory can also magnify maintenance and storage costs, increasing the burden on the company and potentially reducing profits.

Political connection

Political economy literature suggests that political connections between the principal and agent are valuable for firms in developing countries (Iswari *et al*., 2019). The benefits for companies that have political connections can be preferential treatment from the government, tax breaks, relaxation of supervision, preferential treatment in government contract competitions, and/or other forms (Satiti *et al*., 2021). This statement indicates that political relationships play a significant role in an emerging market economy. In an environment where the legal system is not fully developed, government interference is more significant, investor protection tends to be weak, and political relations can be very influential in economic activity (Chen *et al*., 2017).

The effect of company size on tax aggressiveness

Company size is a way to assess how large or small a company is, which usually reflects how active and how much revenue the company generates. The size or size of the assets owned by the company is also a determining factor in company size (Sopiyana, 2022). If a company has significant assets, its productivity is expected to increase. The company can generate more significant total assets with increased productivity, significantly impacting agent performance.

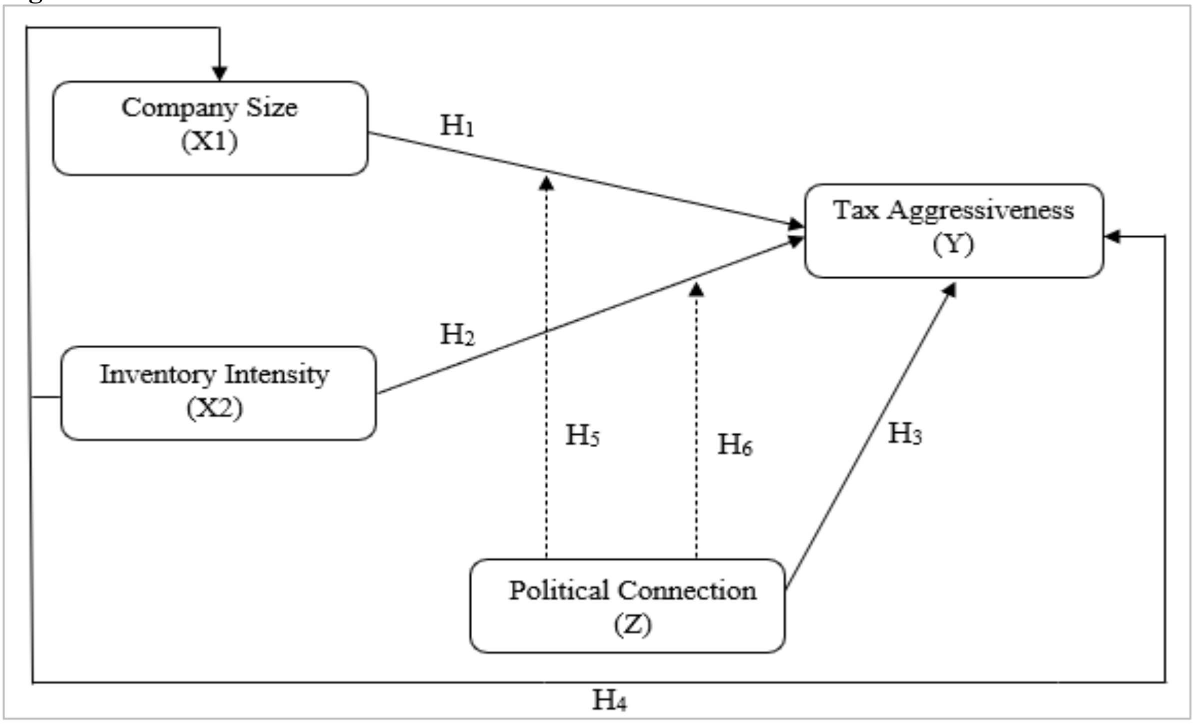
Agency theory states that the larger the company, the higher the tax aggressiveness.

This happens because of a conflict of interest. The difference in risk aversion is that management focuses on short-term profit prospects and increased compensation. At the same time, the principal avoids audit risk or sanctions from the tax authorities and focuses on the company's reputation. In other words, managers try to protect assets from paying high tax burdens, so the decision to take tax-aggressive actions arises.

Empirical evidence shows a positive influence between company size and tax aggressiveness (Yahya *et al*., 2022), which is in line with the results of research conducted by Mulyadi *et al*. (2021) Alkausar *et al*. (2020) Goh *et al*. (2019). Therefore, the appropriate hypothesis is as follows:

H1: Company size has a positive effect on tax aggressiveness.

Figure 3. Theoretical framework



The effect of inventory intensity on tax aggressiveness

The quality of management in managing inventory is reflected in its intensity. Slow inventory turnover can lead to excessive inventory accumulation in the warehouse, which increases operational costs, such as inventory maintenance and storage costs (Rahayu & Suryarini, 2021). However, managers will see this as an opportunity and a loophole, alternative use of funds that might reduce the tax (Delgado *et al*., 2018)

Positive accounting theory posits that when a company has a higher inventory intensity, meaning a greater proportion of its resources are tied up in inventory, it tends to face a more aggressive tax environment. In response, managers will take proactive measures to curb any additional inventory costs, as these could decrease the company's overall profits. At the same time, they will strategically inflate these additional costs to minimize the company's tax burden. Positive accounting theory offers a framework through which managers can systematically select accounting practices that favorably align with efficient inventory management strategies.

Empirical evidence (Subadriyah *et al*., 2022) shows a positive effect of inventory intensity on tax aggressiveness, in line with the research results by Arizoni *et al* (2020) and (Lemmuel & Sukadana, 2022) , which state that inventory intensity positively affects tax aggressiveness. Therefore, the appropriate hypothesis is as follows:

H2: Inventory intensity has a positive effect on tax aggressiveness.

The effect of political connections on tax aggressiveness

Political connections owned by companies provide benefits, including easy access to funding and low potential for inspection by the tax office. This triggers companies to be tax-aggressive, which results in lower financial reporting transparency. Moreover, the level of tax aggressiveness will be higher if the company has political connections compared to companies that do not have political connections (Sihono & Munandar, 2023).

This political connection is based on the political cost hypothesis in Positive Accounting Theory. Positive Accounting Theory states that the higher the political connection, the higher the tax aggressiveness. This is triggered because it raises political costs instead of reducing the amount of profit to avoid taxes. Therefore, a high level of corporate political connection will be offset by the practice of tax aggressiveness.

Empirical evidence shows a positive influence between political connections and tax aggressiveness (Abdullah *et al*., 2022), which aligns with research conducted by Sahrir *et al*. (2021) and Pratomo *et al*. (2021) found that political connections positively influence tax aggressiveness. Therefore, the appropriate hypothesis is as follows:

H3: Political connections have a positive effect on tax aggressiveness.

The effect of company size, inventory intensity, and political connection on tax aggressiveness

Company size is a scale that indicates a company's size, which can be measured in different ways, such as total assets, market value, and the number of employees (Paramita *et al*., 2023). The higher the total assets, the more the performance of the company's agents is maximized in managing assets to create strong company conditions. Companies can use these conditions to protect assets instead of profits from paying high tax burdens, so the decision arises to take tax-aggressive actions.

Inventory intensity shows the extent to which a company allocates investment in its inventory. The company's decision to invest funds in inventory will result in additional costs for inventory maintenance and storage, potentially increasing the company's operating expenses and decreasing profits (Suryarini *et al*., 2021). The inventory intensity ratio describes the relationship between the amount of inventory and the total assets owned and used. Therefore, if the company's assets decrease with high inventory intensity, the company will be more aggressive in conducting tax aggressiveness.

Political connection is a description of companies whose boards of directors and boards of commissioners have relationships or who serve or have served as executives, legislators, and judges (Lihdya Sari *et al*., 2022). The company utilizes this political connection to reduce tax costs from additional political costs. Therefore, the higher the political connection is in line with the increase in tax aggressiveness.

The information about the variables of company size, inventory intensity, and political connections is essential because, through these variables, it can be seen how tax aggressiveness can be influenced by these three variables, which is the information needed by principals and agents that can be used as a consideration in tax strategies and decisions outside the financial performance aspect. Therefore, the appropriate hypothesis is as follows:

H4: Company size, inventory intensity, and company size affect tax aggressiveness.

Political connection moderates the effect of company size on tax aggressiveness.

A large company's size is indicative of its productivity level. The more extensive the total assets, the higher the company's productivity, which enhances its capacity to utilize available resources efficiently for tax-related decisions due to increased profits (Paramita et al., 2023). Hence, larger companies often have more opportunities for tax aggressiveness. The study by Paramita et al. (2023) found a positive correlation between company size and tax aggressiveness, which aligns with findings from previous research by Yahya et al. (2022), Mulyadi et al. (2021), Alkausar et al. (2020), and Goh et al. (2019).

The research results on company size and tax aggressiveness are still inconsistent, so other factors may affect the relationship. Lestari and Solikhah (2019) say large companies have significant assets that influence the political process, including tax planning, to achieve optimal tax savings. Positive accounting theory is thought to explain the relationship between political connections and tax aggressiveness. The larger the company, the greater the political connections that strengthen the relationship between company size and tax aggressiveness.

In positive accounting theory, it is anticipated that political connections are crucial in managing company operations. These connections facilitate the implementation of tax planning strategies that leverage professional expertise to minimize tax liabilities owed to the government by exploiting available loopholes (Kim & Im, 2017). This perspective aligns with research by Yahya et al. (2022), Mulyadi et al. (2021), Alkausar et al. (2020), and Goh et al. (2019), which indicates that the size of a company influences tax aggressiveness. Furthermore, studies by Rudyanto et al. (2023), Abdullah et al. (2022), and Iswari et al. (2019) have found that political connections also impact tax aggressiveness.

H5: Political connections can moderate company size on tax aggressiveness.

The political connection can moderate inventory intensity on tax aggressiveness.

Inventory intensity describes how much goods a company stores for its operational needs. Companies with a lot of inventory tend to manage their tax payments aggressively. They may reduce reported profits to avoid paying high taxes (Rahayu & Suryarini, 2021). Research conducted by Ann and Manurung (2019) proves a positive influence between inventory intensity and tax aggressiveness, which is in line with research conducted on Saputra *et al*. (2023), Yahya *et al*. (2022), Dianto *et al*. (2021), and Syamsuddin and Suryarini (2019).

The research results examining the relationship between inventory intensity and tax aggressiveness remain inconsistent, indicating that other variables might significantly influence their interaction. In contexts like this, having robust political connections can serve as a crucial safeguard, offering both protection and preferential access to advantageous tax policies for corporations. This perspective aligns with the principles of positive accounting theory, which suggests that companies can strategically leverage their political ties to shield themselves from unfavorable tax regulation changes or gain access to beneficial tax incentives. One effective strategy for achieving this is facilitating easier pathways toward tax aggressiveness, allowing firms to navigate taxation complexities with greater agility.

Positive accounting theory suggests high inventory intensity can enhance political connections, reinforcing the link between inventory intensity and tax aggressiveness. Consequently, companies with substantial inventory levels will likely continue engaging in tax-aggressive activities as their political connections support such actions. This finding aligns with studies by Arizoni et al. (2020), Subadriyah et al. (2022), and Saputra et al. (2023), which assert that inventory intensity influences tax aggressiveness. Further support comes from research by Rudyanto et al. (2023), Abdullah et al. (2022), and Iswari et al. (2019), which indicates that political connections have an impact on tax aggressiveness.

H6: Political connections can moderate inventory intensity on tax aggressiveness.

Research Methods

This study uses secondary data from financial and annual reports of agricultural sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. Data was collected using purposive sampling, which selects samples based on specific characteristics. The data were analyzed using IBM SPSS software version 25 and presented in tabular form. The analysis techniques used include multiple linear regression analysis and moderation regression analysis.

The population in this study refers to all agricultural sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023, with 40 companies. Information regarding this population was obtained from the official website of the Indonesia Stock Exchange, www.idx.co.id. In this study, the sample represents the population selected using purposive sampling.

This research uses quantitative data obtained from secondary sources. The primary data sources are annual reports and sustainability reports, which can be accessed through the official website of the Indonesia Stock Exchange (www.idx.co.id) and the official websites of related companies.

Table 2. Variabel and definitions

No	Variable	Operational Definitions	Indicator	Scale
1	Tax Agressiveness	An attempt by a company to reduce its taxable profits through tax planning, either through legal or illegal means. (Greeff, 2019)	ETR = Income Tax Expense / Profit Before Tax (Greeff, 2019)	Ratio
2	Company size	Company size is a scale used to classify the size of a company and can also be seen from the company's total assets. (Delgado *et al*., 2018)	Company size = (Ln Total Aset) (Delgado *et al*., 2018)	Ratio
3	Inventory Intensity	A ratio that explains the amount of inventory capacity to all assets owned by the company in the same year. (Vintilă *et al*., 2018)	Inventory Intensity = Inventory / Total Assets (Vintilă *et al*., 2018)	Ratio
4	Political Connection	Political closeness within the company that makes it difficult for the company to be open in providing information to outsiders, so it tends to have non-transparent finances (Wati *et al*., 2020)	The classification of political connections in this study is if: board member, or former board member, or current commissioner: (a) Member of parliament, (b) Minister or regional head, or (c) has a close relationship with a politician or party. Dummy variable: 1 = there is a political relationship 0 = no political relationship (Wati *et al*., 2020).	Interval

Results and Discussion

Descriptive Statistical Analysis

Table 3 presents a summary of the descriptive statistical analysis for the variables in this study. The tax aggressiveness variable has a minimum value of -2.257, recorded by PT Salim Ivomas Pratama Tbk in 2019, and a maximum of 2.909 at PT Sampoerna Agro Tbk in 2020. This variable is assessed using the Effective Tax Rate (ETR), which has an average of 0.282 and a standard deviation of 0.584. This average reflects that the tax aggressiveness of companies in the sample is 28%, showing considerable variation, which indicates significant deviation and potentially abnormal data. Regarding the company size variable, PT BISI International Tbk reports a minimum value of 6.465, while PT Andira Argo Tbk has a maximum of 11.708. The average company size is 8.087, with a standard deviation of 1.937. Most companies in the sample demonstrate relatively large sizes, exhibiting low variation, which suggests that the data is normal and unbiased.

Table 3. Result descriptive statistical analysis

Variable	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Tax Aggressiveness	6,465	11,708	8,087	1,937
Company size	0,014	0,384	0,108	0,110
Inventory Intensity	0,00	1,00	0,444	0,502
Political Connection	-2,257	2,909	0,282	0,584

The inventory intensity variable ranges from a minimum of 0.014 at PT Andira Argo Tbk to a maximum of 0.384 at PT BISI Internasional Tbk. Its average is 0.108, with a standard deviation of 0.110, suggesting significant variability that points to inconsistent analysis results. In contrast, the political connection variable, assessed using a dummy variable, has a minimum value of 0 and a maximum of 1. The average political connection across the sample is 0.444, accompanied by a standard deviation of 0.502. The high standard deviation highlights substantial variation in the political connection data, which could introduce bias in the analysis.

Normality test

After meticulously conducting the Monte Carlo test, as detailed in Table 4, we observed that the residual values analyzed in this study displayed a distinct normal distribution pattern. The calculated significance value of 0.070 not only exceeds the predetermined threshold of 0.05 but also reinforces the assertion that the distribution of residuals can be confidently classified as normal. This significant finding underscores the robustness and reliability of the statistical assumptions that form the backbone of the analysis carried out in this research, thereby enhancing the validity of the conclusions drawn from the data.

Table 4. Monte carlo normality test results

	Unstandardized Residual	**Conclusion**
Monte Carlo. Sig. (2-Tailed)	0,070	Data is normally distributed

Multicollinearity test

Upon examining Table 5, we find that the calculations of tolerance values reveal an important characteristic of our independent variables: none of them exhibit a tolerance value below 0.10. This suggests a healthy level of independence among the variables. Additionally, when we assess the Variance Inflation Factor (VIF), we observe that none of the independent variables surpasses a VIF threshold of 10. This finding is crucial, as it further solidifies the absence of multicollinearity issues within our regression model. Therefore, we can confidently conclude that the independent variables in our analysis operate independently, ensuring the robustness of our regression outcomes.

Table 5. Multicollinearity test results

	Tolerance	**VIF**	**Conclusion**
Company size	0,605	1,653	There is no multicollinearity
Inventory Intensity	0,979	1,022	There is no multicollinearity
Political Connection	0,615	1,627	There is no multicollinearity

Heteroscedasticity test

The results of the heteroscedasticity test, presented in Table 6, reveal insightful findings regarding specific variables impacting tax aggressiveness. Notably, the significance value for the company size variable (X1), inventory intensity (X2), and political connections (X3) is above the threshold of 0.05. This finding strongly suggests the absence of heteroscedasticity symptoms in the analyzed data. Consequently, we can confidently assert that these variables maintain a stable relationship with tax aggressiveness, reinforcing the reliability of the regression model utilized in this assessment.

Table 6. Heteroscedasticity test results

Variable	**Sig.**	**Conclusion**
Company size	0,221	Free of Heteroscedasticity
Inventory Intensity	0,066	Free of Heteroscedasticity
Political Connection	0,535	Free of Heteroscedasticity

Autocorrelation test

The findings from the autocorrelation test, as detailed in Table 7, show that the Durbin-Watson statistic is calculated to be 1.860. According to the established test criteria, which dictate that the relationship should follow the inequality DU < D < 4 - DU, we can observe that 1.6662 < 1.860 < 2.3338. This specific outcome provides compelling evidence that there is no indication of autocorrelation in the data; thus, it can be inferred that the residuals, or the differences between observed and predicted values, are independent of one another, reinforcing the reliability of the model used in this analysis.

Table 7. Autocorrelation test results (α = 5%)

Regression	**K**	**n**	**d_L**	**d_U**	**4-d_U**	**4-d_L**	**DW**	**Conclusion**
Model	3	45	1,3832	1,6662	2,3338	2,6168	1,860	No autocorrelation

Multiple Linear Regression Analysis

Based on information in Table 8, the constant (α) is 1.019, indicating that with no variables such as company size, inventory intensity, and political connections factored in, the ETR value stands at 1.019. The regression coefficient (β) for the company size variable is -0.061, signifying that for every unit increase in company size, tax aggressiveness decreases by 0.061, assuming other independent variables remain fixed. Similarly, the regression coefficient (β) for the inventory intensity variable is -2.250, highlighting that a unit increase in inventory intensity leads to a 2.250 decrease in tax aggressiveness, with other variables constant. Conversely, the regression coefficient (β) for the political connection variable is 0.266, implying that with every unit increase in political connections, tax aggressiveness increases by 0.266, assuming other variables are unchanged.

Table 8. Multiple linear regression analysis results

	β Regression Coefficient
Constant (α)	1,019
Company size	-0,061
Inventory Intensity	-2,250
Political Connection	0,266

Hypothesis test

According to the information presented in Table 9, the R Square value is determined to be 0.697. This indicates that the combined effect of the company size, inventory intensity, and political connections variables accounts for 69.7% of the variability in the tax aggressiveness variable. In other words, these factors significantly shape how tax aggressiveness manifests within the companies studied. The remaining 30.3% of the variability is attributed to other factors that are not included in this specific regression model, suggesting that there are additional influences at play that warrant further investigation.

Table 9. Test results of the coefficient of determination (R2)

	R^2
R Square	0,697

Based on the information presented in Table 10, the statistical analysis leads us to reject the null hypothesis (H0) in favor of the alternative hypothesis (Ha). This conclusion is supported by the calculated significance value of 0.000, which is notably less than the conventional threshold of 0.05. Consequently, we can assert that the multiple regression model employed in this study is robust and reliable. Furthermore, the independent variables examined, namely, company size, inventory intensity, and political connections, demonstrate a significant simultaneous effect on the dependent variable, which is tax aggressiveness. This indicates that these factors collectively influence tax behaviors within the context of the analysis.

Table 10. F-Test results

	Sig.	**Decision**
Regression	0,000	Accepted

Based on Table 11, the results indicate that company size, inventory intensity, and political connections all have a significant effect on tax aggressiveness. The company size has a significance value of 0.046, which is less than the threshold of 0.05, indicating a notable impact on tax aggressiveness. Similarly, inventory intensity, with a significance value of 0.000, strongly influences tax aggressiveness. Furthermore, political connections also affect tax aggressiveness, with a significance value of 0.022, demonstrating that political ties play a role in influencing tax strategies. Overall, these factors are critical in understanding the dynamics of tax aggressiveness.

Table 11. Test results t

	Sig.
Company size	0,046
Inventory Intensity	0,000
Political Connection	0,266

Moderated regression analysis

Based on Table 12 of the Moderated Regression Analysis (MRA) test results, the following equation is obtained: the significant value of the interaction variable between company size and political connections is 0.020, which is less than 0.05, indicating that H0 is rejected and Ha is accepted. This concludes that the political connection variable can moderate the effect of company size on tax aggressiveness. Additionally, the significant value of the interaction variable between inventory intensity and political connections is 0.000, also less than 0.05, leading to the same conclusion: H0 is rejected, and Ha is accepted, demonstrating that the political connection variable can moderate the effect of inventory intensity on tax aggressiveness.

Table 12. Moderated regression test results

	Sig.	Decision
Company size*Political Connection	0,020	Accepted
Inventory Intensity*Political Connection	0,000	Accepted

Discussion

The effect of company size on tax aggressiveness

The first hypothesis, asserting that company size influences tax aggressiveness, is accepted. This indicates that company size does indeed affect tax aggressiveness. When measured by total assets, it is evident that larger companies exhibit a higher level of tax aggressiveness while smaller companies demonstrate a lower level of tax aggressiveness Large companies prioritize wealth, as indicated by their substantial total assets. This enables them to employ aggressive tax strategies to safeguard these assets. According to Lala Latifatul et al. (2023), in large firms, agents' utilization of company resources can optimize asset performance. Consequently, this approach helps lower the company's tax obligations while enhancing overall performance

This happens because of the conflict of interest between the principal and the agent in Agency Theory. Differences in risk aversion where management focuses on short-term profit prospects and increased compensation while the principal avoids audit risk or sanctions from tax authorities and focuses on the company's reputation. In other words, managers try to protect assets from paying high tax burdens due to large total assets, so the decision to take tax aggressiveness actions arises. This finding is in line with the results of research (Belz *et al*., 2019), (Adams & Balogun, 2020), (Ahdiyah & Triyanto, 2021) and (Abduh *et al.*, 2022) which state that company size affects tax aggressiveness. These results indicate that large companies tend to choose to carry out tax aggressiveness for the sake of the company's business continuity.

The effect of inventory intensity on tax aggressiveness

Inventory intensity impacts tax aggressiveness: an increase in inventory intensity leads to greater tax aggressiveness, while a decrease results in lower aggressiveness. This ratio reflects a company's investment activities in inventory and is influenced by managerial decisions regarding inventory methods aimed at minimizing tax liabilities. Inventory intensity is measured by the ratio of total inventory to total assets. In this study, the sampled companies demonstrate relatively high inventory intensity, prompting firms in the agricultural sector to adopt more tax-aggressive strategies. As noted by Suryarini et al. (2021), companies strive for cost efficiency, anticipating a rise in profits in subsequent periods. However, the costs associated with storing and maintaining inventory can decrease taxable income.

Researchers assume that inventory with a high level of intensity is used for tax aggressiveness. This is in line with Positive Accounting Theory, which states that companies with high inventory intensity have the potential to carry out tax aggressiveness by utilizing additional expense reduction schemes related to inventory. Inventory intensity carried out by companies is part of investment activities to carry out tax aggressiveness. The findings of this study correspond with the research conducted by Saputra et al. (2023), Setiadi et al. (2022), Adams and Balogun (2020), and Ann and Manurung (2019), which indicate that inventory intensity influences tax aggressiveness.

The effect of political connection on tax aggressiveness

The third hypothesis, which posits that political connections influence tax aggressiveness, is accepted. Therefore, it can be inferred that political connections significantly impact tax aggressiveness, leading to the acceptance of hypothesis H3. Companies leverage political connections as assets that yield advantages, particularly preferential tax treatment. This implies that as the level of political connections increases within a company, so does its degree of tax aggressiveness. In this condition, the board of directors or board of commissioners who have close ties with government officials or politicians can use political connections to conduct aggressive tax planning.

In addition, from the perspective of the political cost hypothesis in positive accounting theory, companies can use political connections to obtain political costs because a high level of political connections will trigger political costs instead of reducing profit to avoid taxes. This study's findings are consistent with the research conducted by Wicaksono (2019), Sahrir et al. (2021), and Pratomo et al. (2021), which indicates that political connections positively influence tax aggressiveness.

The effect of company size, inventory intensity and political connections on tax aggressiveness

The size of the company, inventory intensity, and political affiliations all influence tax aggressiveness. Consequently, firms often select accounting practices that minimize income tax liabilities, viewing taxes as a political cost that can diminish profits, in line with the political cost hypothesis outlined in positive accounting theory (Fasita et al., 2022). As a result, managers may act opportunistically by opting for accounting methods that lower taxable income, thereby reducing corporate political expenses. This idea aligns with agency theory, which helps explain the conflicts of interest between management and the principal. Ultimately, tax avoidance serves as a key consideration for management's decision-making, functioning as a strategy for companies to increase profits while maintaining favorable relationships with their principals the owners.

Political connection moderates the effect of company size on tax aggressiveness

The results of this study demonstrate that large companies with substantial profits do not necessarily engage in tax aggressiveness. However, political connections can amplify the impact of company size on tax aggressiveness. Lestari & Solikhah (2019) explain that large companies with significant profits and consistent asset growth tend to attract more scrutiny from the government and tax authorities, leading to taxation in line with existing regulations. This is reinforced by the political cost hypothesis in positive accounting theory, suggesting that a company's extensive resources or political connections can increase its tax liability.

This research is corroborated by Yahya et al. (2022) and Mulyadi et al. (2021), who assert that company size influences tax aggressiveness. Additionally, Abdullah et al. (2022) and Iswari et al. (2019) confirm that political connections affect tax aggressiveness. This study aligns with findings by Puspita (2023) and Pratama & Kusuma (2022), which indicate that political connections can moderate the relationship between company size and tax aggressiveness. Large companies possess substantial assets that can be used to sway political processes in their favor, including in matters of tax aggressiveness.

Political connection moderates the effect of inventory intensity on tax aggressiveness

The sixth hypothesis posits that political connections can influence the relationship between inventory intensity and tax aggressiveness. In this study, the findings indicate that political connections indeed have a significant impact, as they can enhance the effect of company size on tax aggressiveness. Inventory intensity influences companies to engage in tax aggressiveness because, as inventory intensity increases, companies tend to utilize it in their operations to boost profits and, therefore, engage in tax avoidance strategies. Moreover, this study reveals that political connections amplify the relationship between inventory intensity and tax aggressiveness, suggesting that in scenarios of high inventory intensity, the presence of strong political connections exacerbates tax-aggressive behaviors.

This aligns with positive accounting theory, which suggests that strong political connections can demonstrate a company's capability to invest in inventory, thereby potentially encouraging tax aggressiveness. Companies might leverage these connections to secure protection against unfavorable changes in tax regulations or to gain advantageous tax incentives, such as facilitating tax-aggressive strategies. This study is consistent with the findings of Puspita (2023), which indicate that political connections can influence the link between inventory intensity and tax aggressiveness. The extent of this influence can vary depending on the strength of the political connections and the specific regulatory environment in which the company operates. As companies navigate through complex tax landscapes, those with robust political ties may find themselves in a better position to adapt and optimize their tax strategies, potentially leading to more aggressive tax planning. This interplay highlights the strategic importance of political alliances in shaping a company's financial and operational decisions, especially in the context of maximizing profitability and maintaining competitive advantage.

Conclusion

Through an analysis of data concerning the impact of company size and inventory intensity on tax aggressiveness, with political connections serving as a moderating factor, specifically within the agricultural sector companies listed on the IDX, several conclusions were drawn. It was found that both company size and inventory intensity significantly influence tax aggressiveness. Political connections also play a role in affecting tax aggressiveness. Furthermore, the combination of company size, inventory intensity, and political connections collectively impacts tax aggressiveness. Moderation regression analysis indicates that political connections can moderate the relationship between company size and tax aggressiveness.

This study has several limitations, particularly in its literature review of the moderating variable of political connections, which restricts the presentation of its findings. Furthermore, the study’s reliance on secondary data, primarily annual reports, and internet publications limits its information about political connections. Future research should consider employing the interview method to obtain more comprehensive and accurate data. Additionally, the study’s sample size is limited, suggesting that future studies should enhance sample diversity, explore a broader range of company sectors, and utilize the most recent data available.

Future studies are anticipated to utilize interviews for deeper and more precise insights into the political connections of each company. Furthermore, it is advisable to explore various methodological approaches, such as employing panel data enriched with advanced estimation techniques, to mitigate potential biases or endogeneity issues. Companies should also work towards enhancing transparency and adhering to tax regulations to prevent legal risks and protect their reputations.

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