CHAPTER I

INTRODUCTION

1.1 Background

Tax aggressiveness is one of the main issues in Indonesia's taxation system. Although in recent years, tax revenues have generally met their targets, this does not always reflect how compliant companies are in paying taxes. Many companies view taxes as a burden that can reduce their profits, prompting them to implement various tax planning strategies to minimize their tax liabilities. These actions, whether within legal limits (tax avoidance) or in violation of the law (tax evasion), are generally referred to as tax aggressiveness (Harnovinsah et al., 2025).

As a reflection of a country's total economic output and economic scale, Gross Domestic Product (GDP) serves as a crucial basis for measuring the effectiveness of tax collection. Gross Domestic Product (GDP) is the total value of all finished goods and services made inside a country during a certain time period, serving as a key indicator of the scale of the national economy. Based on nominal GDP data released by the Central Statistics Agency (2025) and tax revenue realization published by the Ministry of Finance (2025), Indonesia's tax ratio in 2025 was calculated at 9.31%, a decrease from 10.08% of GDP in 2024. This figure has not reached the ideal standard set by the World Bank, which is 15% of Gross Domestic Product (GDP) (Siswantoro, 2024). This condition shows that the contribution of taxes to the national economy is still not optimal even though tax revenue realization has been achieved and tends to increase.

One of the factors causing Indonesia's low tax ratio is the government's limited ability to collect taxes and the low level of taxpayer compliance in the self assessment system (Putra, 2024). The difference in interests between the government and taxpayers also triggers tax non compliance. For the government, taxes are a source of state revenue, while for companies, taxes are seen as a burden that reduces profits. This difference in interests Encourages companies to use different tax planning methods to minimize their tax burden (Yahya et al., 2022). The consequences of Tax Aggresiveness include a large and possibly permanent loss to society (Kristiadi et al., 2020).

In addition, the impact of tax avoidance practices is reflected in the significant loss of potential tax revenue. According to *The State of Tax Justice 2020* report published by Tax Justice Network, Indonesia is estimated to lose around IDR 68.7 trillion annually due to tax avoidance practices, with the majority of losses originating from corporate entities, while the remainder comes from individual taxpayers (Fatimah, 2020). This indicates that tax avoidance is not only a conceptual issue but also has a substantial impact on state revenue and fiscal capacity in Indonesia.

This phenomenon is not only conceptual, but is also reflected in various real cases. One phenomenon related to tax aggressiveness that has attracted public attention is the accusation of tax evasion related to gold imports by PT Aneka Tambang Tbk (ANTM) which emerged in 2023. The company was accused of tax evasion amounting to IDR 47.1 trillion through gold import transactions that were actually subject to a 5% import duty, but were actually subject to a 0% tariff due to manipulation of document status or import codes (Tempo, 2024). Furthermore, there are also allegations of aggressive tax evasion practices that have attracted public attention at PT Adaro Energy Indonesia Tbk (ADRO). The company is suspected of committing tax evasion through a transfer pricing scheme with its subsidiary in Singapore, Coaltrade Services International Pte. Ltd. A report from Global Witness indicated that Adaro shifted some of its profits to a network of offshore companies to reduce its tax burden in Indonesia, given that the tax rate in Singapore is lower than in Indonesia (Wahyuningtias et al., 2025 ; Global Witness, 2019). Although this case once surfaced and attracted widespread attention, this issue is no longer a primary focus, but remains relevant in illustrating the existence of aggressive tax practices in large companies.

These cases show that aggressive tax practices still occur and are a relevant issue for further study. Therefore, the issue of tax aggressiveness is important to study because it affects the level of tax compliance, which has an impact on state revenue and fiscal accountability, as well as assessing corporate compliance and responsibility in taxation. In the development of accounting and finance literature, factors influencing tax aggressiveness are generally studied more from a financial perspective. Many previous studies have shown that a company's tax decisions are heavily influenced by internal financial characteristics, such as profitability, which indicates its ability to generate profits, leverage, capital intensity, and company size (Khasanah et al., 2022; Mariana et al., 2021). These financial aspects are often the primary reason for these decisions because they are directly related to efforts to optimize cash flow and reduce short term financial burdens.

However, today's corporate strategic actions demonstrate that tax decision making can no longer be viewed solely from the perspective of accounting figures, non financial aspects and the strategic conditions surrounding the company also play a crucial role. Based on this, this study specifically examines corporate social responsibility (CSR) performance, environmental performance, and political connections. These three elements were chosen because they are expected to be closely related to reducing or minimizing corporate tax aggressiveness.

CSR and environmental performance were chosen because companies with high social and ecological standards are expected by the public to demonstrate institutional consistency by paying fair taxes to maintain their reputation. Meanwhile, political connections are included because companies with government ties operate under high public scrutiny. To avoid political scandals that could damage the reputation of their affiliates, these companies are motivated to reduce their tax aggressiveness. Essentially, this integration of social, environmental, and political aspects offers a more comprehensive guide to recognizing how non financial elements collectively function as barriers to corporate tax avoidance.

According to Elkington (1997), corporate social responsibility (CSR) is a company’s obligation to achieve sustainability by taking into account three key aspects, namely economic, social, and environmental that known as the triple bottom line. In Indonesia, the implementation of CSR practices is regulated by Law No. 40 of 2007, which stipulates that companies engaged in business activities, are required to fulfill their social and environmental responsibilities and must report on the implementation of these responsibilities in their annual reports. Companies that have implemented CSR policies are also expected to have good tax governance, as taxes are considered a form of corporate contribution to society and a manifestation of corporate transparency toward stakeholders (Issah & Rodrigues, 2021). Therefore, CSR performance is one of the relevant non financial factors to be analyzed in relation to corporate tax aggressiveness.

Furthermore, According to ISO 14001:2015, environmental performance is performance related to the management of environmental aspects (NQA, 2016). In Indonesia, environmental performance is regulated in Law Number 32 of 2009 concerning Environmental Protection and Management, which encourages and requires companies to be aware of and minimize the impact of their operational activities as much as possible. Companies with good environmental responsibility performance tend to engage in fewer tax aggressive actions to maintain a positive image in the eyes of the public and the government (Firmansyah & Estutik, 2020). Therefore, in addition to CSR performance, environmental performance is a relevant non financial factor to be analyzed in depth for its relationship with corporate tax aggressiveness.

However, this relationship is not always consistent in practice. Although research shows that CSR performance and environmental performance influence companies to be more cautious and responsible, in reality, there is still a potential gap between corporate claims and actual practices, particularly in fulfilling their tax obligations. This gap raises the question of whether CSR performance and environmental performance truly reflect corporate responsibility or are merely a strategy to gain a positive image from the public. In this context, CSR performance and environmental performance demonstrated by companies do not always reflect fiscal contributions to the state. In some cases, to divert attention from aggressive tax management, CSR and environmental performance has the potential to be used as a trade off to divert attention from aggressive tax management (Widianti & Prasetyo, 2023).

In addition to CSR performance and environmental performance, political connections also influence a company's tax aggressiveness. Political connections mean strong relationships between businesses and people in politics or government positions. (Tulung & Ramdani, 2024). These relationships can be formed through personal ties, shared backgrounds, or involvement in political activities. However, in this study, political connections are more objectively proxied through the formal positions held by company executives or commissioners within government institutions (executive, legislative, or state owned enterprises). Management with political experience tends to steer the company in line with government policy, so that the company is more cautious and less inclined to engage in tax aggressiveness (Putra & Suhardianto, 2020). However, on the other hand, political connections have the potential to encourage more aggressive tax planning and less transparent financial reporting, because political connections can provide a sense of security and protection for companies in managing their taxes (Al Falah et al., 2025). The differences in the research results show that the influence of political connections on tax aggressiveness is still inconsistent and needs to be studied further.

Previous research examining the relationship between CSR performance, environmental performance, and political connections and tax aggressiveness has yielded mixed results. This inconsistency indicates a research gap that requires further study, particularly in the context of Indonesian companies in the recent period. Therefore, this study aims to analyze the influence of CSR performance, environmental performance, and political connections on tax aggressiveness in companies listed on the Indonesia Stock Exchange for the period 2022–2024, as an effort to fill this remaining research gap. The research period of 2022 to 2024 was chosen because it reflects the economic recovery phase following the COVID-19 pandemic, during which business activities began to return to normal but still faced challenges from global economic conditions. Additionally, a three year observation period was selected to ensure data consistency, as complete and reliable financial information has only become consistently available within these recent three years. Furthermore, this period is also marked by increased attention to tax avoidance practices, both domestically and internationally, confirming that the issue of tax aggressiveness remains relevant and a primary focus.

Furthermore, this study subjects all companies listed on the Indonesia Stock Exchange (IDX). The selection of all companies listed on the Indonesia Stock Exchange (IDX) was made for several reasons. First, by using all companies, the study results can be more comprehensive and representative of the state of tax aggressiveness in Indonesia. Second, companies listed on the IDX are required to publicly disclose financial statements and annual reports, ensuring the reliability and consistency of the available data. Third, by covering various industrial sectors, the analysis can be conducted more broadly, considering that differences in characteristics within each sector can influence corporate behavior related to corporate social responsibility, environmental performance, political relations, and tax aggressiveness. Thus, the research results are expected to have greater generalizability.

1.2 Problem Statement

Based on the background outlined above, there is an interesting phenomenon where companies often face a dilemma between fulfilling social and environmental responsibilities, leveraging political connections, and the obligation to contribute to state revenue through taxes. Differing views on whether these practices encourage compliance or trigger aggressive tax avoidance create a gap that requires further investigation. Therefore, the research questions in this study are formulated as follows:

1. Does the performance of corporate social responsibility affect a company's tax aggressiveness?
2. Does environmental performance affect a company's tax aggressiveness?
3. Does political connection affect corporate tax aggressiveness?

1.3 Research Objectives

Based on the issues discussed previously, the phenomenon of aggressive tax management practices remains a significant issue, influenced by various factors both internal and external to the company. The relationship between social responsibility, environmental management, and political dynamics is believed to play a significant role in determining the direction of corporate tax policy. Using an in depth quantitative approach, this study aims to empirically test and confirm this relationship. Therefore, the specific objectives of this study are:

1. To analyze the effect of corporate social responsibility performance on corporate tax aggressiveness.
2. To analyze the effect of environmental performance on corporate tax aggressiveness.
3. To analyze the effect of political connections on corporate tax aggressiveness.

1.4 Research Benefits

The expected benefits of this research are as follows:

1. Theoretical Benefits

This study contributes to the development of accounting literature, specifically in the fields of corporate taxation and sustainability reporting. By evaluating companies listed on the Indonesia Stock Exchange from 2022 to 2024, this research provides empirical evidence on how Corporate Social Responsibility (CSR) performance, environmental performance, and political connections collectively shape corporate tax aggressiveness. Furthermore, these findings enrich the existing academic discourse regarding whether non financial performance metrics and external political ties can function as effective internal governance mechanisms in restraining opportunistic tax behavior in a developing market context.

2. Practical Benefits

In practical terms, this study offers valuable insights for corporate management to understand that sustainability performance and political ties are closely scrutinized by the public. It demonstrates how integrating high quality CSR and environmental strategies with ethical tax planning can protect the company from severe reputational risks and long term stakeholder delegitimation. Additionally, the findings of this study serve as a practical guide for investors and creditors in evaluating a firm's true commitment to corporate citizenship. It helps them look beyond nominal sustainability claims, allowing investors to assess whether a company's environmental achievements align with ethical and transparent tax behaviors before making strategic investment decisions.

1.5 Structure of the Thesis

This study is structured using a systematic writing framework consisting of five chapters. The first chapter, "Introduction," presents the research background, objectives, benefits, and overall structure of the study. The second chapter, "Literature Review," discusses the theoretical framework and previous studies that form the basis for developing the hypotheses, and includes the conceptual framework supporting the research. The third chapter, "Research Methodology," explains the research design, population and sample, sampling techniques, data sources, data collection methods, variable identification, and analysis techniques. The fourth chapter, "Research Findings and Discussion," presents and analyzes the findings related to the research questions. Finally, the fifth chapter, "Conclusion," summarizes the results, outlines the study's limitations, and provides recommendations.