Journal of Applied Taxation and Policy
E-ISSN: 3090-7314
Journal Homepage: https://journal.lontaradigitech.com/index.php/JATAP

The Effect of Earnings Management and Internal Control on Tax Avoidance, with Political Connections as a Moderator (Case Study of Primary Consumer Goods Manufacturing Companies Listed on the IDX 2020-2023)

Rahayu[1], Lince Bulutoding[2], Suhartono[3*]

[1,2,3] *Universitas Islam Negeri Alauddin Makassar, Indonesia*

E-mail: ayuharduning@gmail.com , lincebulutoding20@gmail.com , suhatono@uin-alauddin.ac.id

ARTICLE INFO

Keyword:
Tax avoidance;
Earnings management;
Internal control;
Political connection;

ABSTRACT

This study aims to examine the effect of earnings management and internal control on tax avoidance, with political connections as a moderating variable. The research method used is purposive sampling with a total sample of 44 obtained from 11 selected companies. Data analysis was performed using multiple linear regression analysis and MRA testing. The results of this study indicate that earnings management does not have a positive effect on tax avoidance, while effective internal control has a negative effect on tax avoidance. The moderating variable of political connections does not moderate the effect of earnings management on tax avoidance but can weaken the effect of internal control on tax avoidance. Internal control not only prevents fraud in financial statements but also helps avoid tax avoidance practices. The implication of this study is that information related to the effectiveness of internal control can be one of the factors in determining a company's compliance, including in financial statement management, and companies that have political connections should maintain their relationships by avoiding practices that could damage the company's reputation and image.

1. INTRODUCTION

The survival and well-being of citizens is determined by state revenue. State revenue is a crucial aspect for a country, as it serves as income used to finance various state activities and interests in development efforts. State revenue, or state financial receipts, in this case are taxes (Haque & Puspitasari, 2022). For the government, taxes function as the main income to support state operational activities. Meanwhile, for companies, taxes are seen as a cost burden that can reduce the amount of profit earned. Companies often minimize their tax payments because paying taxes means the company minimizes its economic capacity (Nursida et al., 2022). One of the responsibilities of society to the state is to pay taxes. Law Number 16 of 2009 concerning General Provisions and Tax Procedures, Article 1 paragraph 1 defines tax as a mandatory payment to the state owed by individuals or entities that is mandatory based on law, without receiving direct compensation and used for state purposes for the greatest prosperity of the people (Susanti et al., 2020). Taxes required to the state are used for the growth and progress of the state. Tax revenue in 2020 contributed 83.54% of state revenue, as shown in the 2020 State Budget (*APBN 2020*, n.d.).

Corporate taxpayers are viewed as a burden on the company and can reduce corporate profits (Suteja et al., 2022). In principle, company management strives to achieve a low tax burden by paying taxes responsibly, thus maximizing profits. A high tax burden will degrade a company's financial performance, encouraging management to reduce tax payments, both legally and illegally. Tax avoidance continues to develop, exploiting loopholes in legislation to exploit certain schemes typically only accessible to corporations as corporate taxpayers (Patel, 2023). One way company management attempts to achieve a low tax burden is through tax avoidance (Pratama & Larasati, 2021). Tax avoidance occurs by altering taxes within the limits of tax law. This tax avoidance is carried out because companies, as corporate taxpayers, perceive opportunities and opportunities due to weak tax regulations and laws (Henny, 2019). Therefore, tax evasion refers to the condition of tax non-compliance or violation because it describes a series of practices that are detrimental to the national tax system (Li et al., 2022; Tang et al., 2022).

However, tax avoidance through tax avoidance does not violate applicable laws and is therefore considered legal (Asriani et al., 2023). Taxpayers use various methods to reduce their tax burden or even eliminate it. One approach taken by managers in managing profits for tax avoidance purposes is through profit management accounting practices. As reported by Sukmana, (2020) on *Kompas.com*, tax avoidance cases in Indonesia in 2020 resulted in state losses of IDR 68.7 trillion per year, with approximately IDR 1.1 trillion from individual taxpayers. Meanwhile, in agency theory, company management seeks to save on tax payments through tax avoidance to increase company value and attract investors. However, in practice, managers seek to profit from tax avoidance by increasing compensation rather than harming shareholders. Therefore, companies must implement good internal control to ensure that the interests of shareholders and management are aligned (Rachmawati & Rohman, 2022).

The relationship between earnings management and internal control arises from the interconnectedness of stakeholders. As previously stated, research (Carolina & Purwantini, 2020) states that agencies with stakeholders often exploit their relationships to achieve specific goals that benefit all parties. On the other hand, management plays a crucial role. According to Swingly & Sukartha (2015), conditions in which companies have relationships with politically motivated stakeholders are often exploited to achieve specific goals that benefit both parties. This study differs from previous studies because it involves a moderating variable, namely political connections, to moderate the influence of earnings management and internal control on tax avoidance in primary consumer goods manufacturing companies. Based on the explanation above, the researcher will re-examine the influence of earnings management and internal control on tax avoidance by adding political connections as a moderator. The research questions are as follows:

1. Does earnings management affect tax avoidance?

2. Does internal control affect tax avoidance?

3. Can political connections moderate the effect of earnings management on tax avoidance?

4. Can political connections moderate the effect of internal control on tax avoidance?

2. LITERATURE REVIEW

a. Agency Theory

Agency theory underpins the relationship between principal and agent, assuming that individuals are motivated by their own self-interest, resulting in conflict between the principal and agent. Agency theory emphasizes the importance of managing the relationship between the principal and agent. To mitigate the risk of conflicts of interest and misconduct, effective incentive systems, oversight, and transparency are required (Gama et al., 2024).

b. Tax Avoidance

In this study, tax avoidance is used as the dependent variable. According to Dyreng et al. (2016) in (Rachmawati & Rohman, 2022), tax avoidance is any effort made by management to avoid taxes by lowering the effective tax rate on pre-tax surplus. This study uses the cash effective tax rate (CETR). CETR can identify involvement in tax avoidance because a lower effective tax rate tends to indicate greater involvement in tax avoidance by an agency. The CETR calculation to estimate tax avoidance uses the following formula:

$$\textbf{CETR} = \frac{\boldsymbol{Tax\ Payments}}{\boldsymbol{Profit\ Before\ Tax}}$$

c. Earnings Management

Earnings management is a managerial effort to influence and intervene in financial reporting. According to Silvia (2017) in (Permatasari, 2020), earnings management is a deliberate action taken by management to influence the earnings reporting process, generally for specific interests. Earnings management is measured using discretionary accrual (DAC) from the Jones (1991) Model, also known as the Modified Jones Model. This model was chosen in this study because it is considered the most appropriate method for identifying earnings management practices. The formula used to measure earnings management is as follows:

a) Total accrual value

$$\boldsymbol{TAC_{it} = Nl_{it} - CFO_{it}}$$

b) Accrual value estimated using *Ordinary Least Square (OLS):*

$$\boldsymbol{\frac{TAC_t}{TA_{t-1}} = \beta_1 \left(\frac{1}{TA_{t-1}}\right) + \beta_2 \left(\frac{\Delta REV_t}{TA_{t-1}}\right) + \beta_3 \left(\frac{PPE_t}{TA_{t-1}}\right) + \varepsilon}$$

c) *Non Discretionary Accruals* value using regression coeffiecient:

$$\boldsymbol{NDA = \beta_1 \left(\frac{1}{TA_{t-1}}\right) + \beta_2 \left(\frac{\Delta REV_t - \Delta REC_t}{TA_{t-1}}\right) + \beta_3 \left(\frac{PPE_t}{TA_{t-1}}\right)}$$

d) *Discretionary Accrual* as a measure of earnings management:

$$DAC_t = \frac{TAC_t}{TA_{t-1}} - NDA_t$$

d. Internal Control

Internal control plays a role in ensuring that management activities comply with applicable laws and regulations. This study draws on research (Bimo et al., 2019; Rachmawati & Rohman, 2022), where internal control effectiveness was measured using a scoring-based assessment method. The scoring method used is a method developed by Deumes and Knechel (2008) to present the implementation of internal control procedures in annual reports. The requirements used in determining disclosure items in annual reports are as follows:

Table 1. Scoring for Determining Internal Contorl Effectiveness

No.	Requirements/Criteria for Disclosinng Internal Control Effectiveness	Description	Score (Meets =1/Does not meet = 0)
1.	Commisioners discuss the intenal control system.	Meets/Does not meets requirements	1/0
2.	Internal control objectives are clearly stated.	Meets/Does not meets requirements	1/0
3.	Management is responsible for implementing internal control.	Meets/Does not meets requirements	1/0
4.	Declaration that internal control is effective.	Meets/Does not meets requirements	1/0
5.	The company has an internal control department/internal auditor.	Meets/Does not meets requirements	1/0
6.	The company implements risk management/practices risk management.	Meets/Does not meets requirements	1/0

Source: (Bimo et al., 2019)

Each requirement/criteria will be given a score of 1 and 0. If the company does not disclose it, it will be given a score of 0, and if it does disclose it, it will be given a score of 1. Then the score result is determined by adding up the total score obtained by each issuer divided by the total questions. Internal control is said to be effective if the total score is 0.5 - 1.

$$Internal\ Control\ Effectiveness = \frac{Total\ Score}{6\ Kriteria}$$

***e.* Political Connection**

The moderating variable used in this study is political connection. Agencies that have political relations or seek to establish close ties with the government are referred to as politically connected agencies (Dharma & Ardiana, 2016). Companies that are close to the government can also have rights such as getting easier loans, low-risk tax audits, and other factors that cause agencies to tend to easily carry out tax avoidance practices (Nurrahmi & Rahayu, 2020).

The political connection variable in this study was calculated using a dummy analysis method, which involves counting and then distinguishing between institutions with political connections.

Table 2. Scoring for Determining Companies with Political Connection

Criteria for Determining Companie with Political Connection	Description	Sccre (Meets =1/Does not meet = 0)
If one of the president directors or board members is a member of a political party, such as a member of the Houses of Representatives/DPR, a member of the executive cabinet, an official in a government institution, or a member of the militiary or a political party, the company is considered politically connected.	Meets/Does not meet	1/0

Source: (Fitria et al., 2024)

Each criterion is scored between 1 and 0. If the company does not disclose, it is scored 0, and if it does disclose, it its scored 1.

3. RESEARCH METHODS

This type of research falls under the quantitative category because it focuses more on the existence of various variables as research objects, which can be described in terms of their respective operationalization. According to Sugiyono (2015), quantitative methods are based on the philosophy of positivism applied to the study of populations or samples. Sampling techniques are generally random, data collection utilizes research instruments, and quantitative data analysis is used to assess predetermined hypotheses (Agustianti et al., 2022). This research focuses on a primary consumer goods manufacturing company integrated on the Indonesia Stock Exchange (IDX).

The approach used in this study is an associative approach, namely research that aims to determine how two or more variables interact with each other. This associative approach is divided into two categories: correlational and causal. This study uses causal-comparative research, a type of research characterized by the problem of a cause-and-effect relationship between two or more variables. This comparative causal research is an expect facto type of research, namely a type of research that is aimed at data collected in accordance with the truth or events that occur in the field (Radjab & Jam'an, 2017)

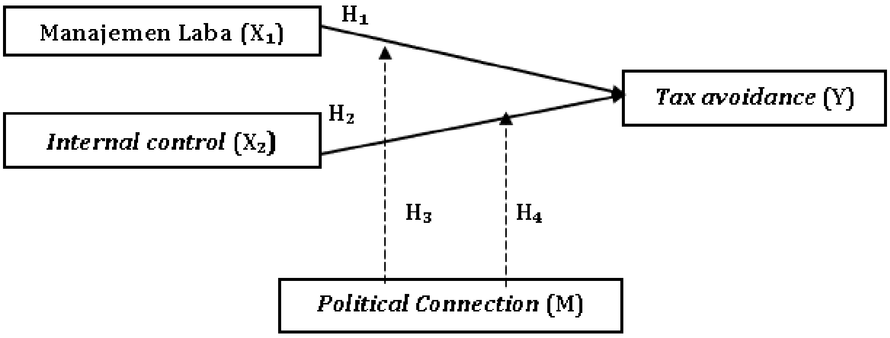

Figure 1. Conceptual Framework

4. RESULTS AND DISCUSSION

a. Results

1) Descriptive Analysis

Table 3. Descriptive Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Standard Deviation
Earnings Management	44	-2.13E+15	2.29E+14	-9.7608E+13	4.09719E+14
Internal Control	44	30	1.00	.6841	.21775
Tax Avoidance	44	.106944	.646778	.24954044	.103855618
Political Connection	44	00	1.00	.4545	.50368
Valid N (listwise)	44				

Source: Output SPSS 29, 2024

Table 1.3 above shows the findings of the descriptive analysis. The lowest test result for the earnings management variable data was -2.13 and the highest was 2.29. Meanwhile, the *mean value* indicates the average value of the company's earnings management at -9.76. The standard deviation value of 4.097 is higher than the *mean value. Internal control* variables produces a minimum score of 0.30, a maximum score of 1, *a mean* of 0.68 and a standard deviation of 0.21. The *tax avoidance variable* shows a minimum score of 0.106, a maximum score of 0.646, *a mean* of 0.249, and a standard deviation of 0.103. The *political connection variable* shows a minimum score of 0, a maximum score of 1, *a mean* of 0.45, and a standard deviation of 0.50.

2) Classical Assumption Test

a) Normality Test

Table 4. Results of Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		44
Normal Parameters[ab]	Mean	.0000000
	Std. Deviation	.09392360
Most Extreme Differences	Absolute	.101
	Positive	.100
	Negative	-.101
Test Statistics		.101

Asymp. Sig. (2-tailed)[c]			.200[d]
Monte Carlo Sig. (2-tailed)[d]	Sig.		.304
	99% Confidence Interval	Lower Bound	.292
		Upper Bound	.316

a. Test distribution is Normal
b. Calculated from data.
c. Liliefors Significance Correction.
d. Lilliefor's method based on 10000 Monte Carlo samples with starting seed 334431365
Sumber: Output SPSS 29, 2024

From the results of *the one-sample Kolmogorov-Smirnov test* in Table 1.4 above, it can be concluded that the data presented is normally distributed. This is supported by the results of the statistical test, which shows a *Monte Carlo significance value.* The significance level shown is 0.304 or 30%, indicating a significance level above the 5% confidence level (>0.05). These data are classified as normally distributed.

b) Multicollinearity Test

Table 5. Multicollinearity Test Results

Coefficients [a]							
Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig	Collinearity Statistics Tolerance	VIF
(Constant)	.183	.050		3.691	<.001		
Manajemen Laba	8.794E-19	.000	.003	.023	.982	.891	1.123
Internal Control	.045	.078	.095	.578	.566	.764	1.308
Political Connection	.078	.034	.377	2.268	.029	.740	1,351

a. Dependent Variable: *Tax avoidance*
Source: SPSS Output 29, 2024

From the results of the multicollinearity test in table 1.5 above, it can be concluded that all the variables tested have a tolerance value. which is not <0.1 and produces a VIF value that is not >10. This indicates that the regression model used for all independent variables and moderating variables in this study does not have multicollinearity problems.

c) Heteroscedasticity Test

Table 6. Results of Heteroscedasticity Test - *Breusch Pagan Godfrey Test*

Coefficients					
Model	Unstandardized Coefficients B	Std.Error	Standardized Coefficients Beta	t	Sig
(Constant)	-.001	.009		-1.177	.246
Manajemen Laba	4.659E-18	.000	.101	.642	.525

Internal Control	.030	.015	.340	2.002	.052
Political Connection	.000	.006	-.004	-022	.983

a. Dependent Variable: RESIDUAL_2

Source: SPSS Output 29, 2024

Based on the results of the heteroscedasticity test in Table 1.6 above, it indicates that overall the variables tested have a significance value of >0.05. This shows that the variables examined in this study are free from heteroscedasticity problems.

d) Autocorrelation Test

Table 7. Autocorrelation Test Results

Model Summary [b]					
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Durbin-Watson
1	.307 [a]	.094	.024	.09074	1,926

a. Predictors: (Constant), LAG_M, LAG_X1_LAG_X2
b. Dependent Variable: LAG_Y

Source: SPSS Output 29, 2024

From the results of the autocorrelation test in table 1.7 above, the Durbin Watson value is 1.926. In the Durbin Watson table according to this study, it is known that K = 4 with N: 44 which refers to the dl value: 1.3263 and the du value: 1.7200. So the conclusion is that the value of 1.7200 < 1.926 < 2.28 indicates that the null hypothesis is accepted, meaning there are no symptoms of autocorrelation in this study.

3) Hypothesis Testing

a) Multiple Regression Test Results Research Hypotheses H1 and H2

The multiple regression analysis technique is carried out by regressing the independent variables (earnings management & internal control) against the dependent variable (tax avoidance). The test results are as follows:

1) Test of coefficient of determination (R2)

Table 8. Results of the Determination Coefficient Test

Model Summary				
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.411 [a]	.169	.128	.04684

a. Predictors: (Constant), *Internal control* , Earnings Management

Source: SPSS Output 29, 2024

The coefficient of determination (R2) test in Table 1.8 above yields an R- *square score* of 0.169 or 16.9%. This indicates that the earnings management and *internal control factors* can influence *tax avoidance* At 16.9%, this is influenced by the value of the earnings management variable, which produces a predominantly negative value, resulting in a very small effect on *tax avoidance.* The remaining 83.1% (100%-16.9%) is influenced by other variables not examined in this study.

2) Simultaneous Regression Test (F Test)

Table 9. Simultaneous Regression Test Results (F Test)

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.044	2	.022	6.674	.003[b]

	Residual	.135	41	.003
	Total	.179	43	

a. Dependent Variable: *Tax avoidance*
b. Predictors: (Constant), *Internal control*, Manajemen Laba
Source: Output SPSS 29, 2024

Based on the results of the simultaneous regression test (f test) in table 1.9 above, it indicates the influence of earnings management and *internal control.* against *tax avoidance* has a calculated F value of 6.674 with a significance level of 0.003 <0.05, and a df value of 3.21. This results in the finding that the calculated F test value of 6.674 is greater than the F table value of 3.21, so the earnings management and *internal control variables* simultaneously influence the *tax avoidance variable* significantly.

3) Partial Test (t-Test)

Table 10. Partial Test Results (t-Test)

Coefficients [a]					
Model	Unstandardized Coefficients B	Std.Error	Standardized Coefficients Beta	t	Sig
(Constant)	.292	.015		20,103	<.001
Earnings Management	1.455E-17	.000	.092	.680	.501
Internal Control	-.060	.017	-.482	-3,547	<.001

a. Dependent Variable: *Tax Avoidance*
Source: SPSS Output 29, 2024

The interpretation obtained regarding the hypothesis is in the form of (H1 and H2) which has been formulated as follows:

a) Earnings management has a positive effect on *tax avoidance .*

Referring to the table above, which shows that the earnings management variable produces a t-value of 0.680 < t-table of 2.021, with a significance level of 0.501 > 0.05, with an *unstandardized beta coefficient* of 1.455E-17. This means that H1 is rejected. This shows that the proposed hypothesis, namely that earnings management has a positive effect on *tax avoidance.* No proven or **H1 is rejected** *.*

b) *Internal control* effective has a negative effect on *tax avoidance .*

Referring to the table above which shows *the internal control* variables has a t-count of -3.547 < t-table of 2.021, with a significance level of <0.001 < 0.05 and an *unstandardized beta coefficient* of -0.060, meaning H2 is accepted. This finding indicates that the proposed hypothesis, namely *internal control* which effectively has a negative impact on *tax avoidance* proven or **H2 is accepted.**

b) Results of the MRA test or Interaction Test on Research Hypotheses H3 and H4

The technique for testing the H3 and H4 hypotheses in this study uses the MRA test or interaction test between earnings management and *internal control.* which is interacted with *political connections.* The test results are included as follows:

1) Results of the Determination Coefficient Test - *Political Connection* as a moderator

Table 11. Results of the Moderation Determination Coefficient Test

Model Summary				
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.805[a]	.649	.603	.03162

a. Predictors: (Constant), X2M, X1M, Manajemen Laba*, Internal Control, Political Connection*
Source: Output SPSS 29, 2024

Referring to table 1.11 above, which produces the R *Square value* of the regression moderation used to determine how much the moderating variable is able to explain the independent variable (earnings management & *internal* control) and the dependent variable (*tax avoidance*), or how much influence the independent variable has on the dependent variable assisted by the moderating variable (*political connection) . The test results show an R Square* value of 0.649. This proves that earnings management and *internal control* which is moderated by *political connections* in an agency will have an impact on *tax avoidance* (tax avoidance) amounting to 64.9%. The remaining 35.1% (100% - 64.9%) is influenced by other variables not examined in this study.

2) F-Test Results - *Political Connection* as a moderator

Table 12. Simultaneous Test Results (F Test) of Moderation

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.087	5	.017	319,974	<.001[b]
	Residual	.007	38	.000		
	Total	.089	43			

a. Dependent Variable: *Tax Avoidance*
b. Predictors: (Constant), *Internal Control* with *Political Connection,* Earnings Management, Earnings Management with *Political Connection, Internal Control, Political Connection.*
Source: SPSS Output 29, 2024

Referring to table 1.12 above, the results of the F-calculated moderation regression test were found to be 319,974 with a significance level of <0.001 which is smaller than 0.05 and a df value of 2.43. This shows that the F-calculated test value of 319,974 is greater than the F-table value of 2.43, thus indicating that the moderating variable (*political connection)* and the independent variable (earnings management and *internal control)* jointly influence *tax avoidance .*

3) T-Test Results - *Political Connection* as a moderator

Table 13. Results of Partial Test (t-Test) of Moderation

Coefficients[a]		
	Unstandardized Coefficients	Standardized Coefficients

Model	B	Std.Error	Beta	t	Sig
(Constant)	.161	.005		31.358	<.001
Manajemen Laba	5.756E-18	.000	.052	1.916	.063
Internal Control	.084	.008	.403	9.973	<.001
Political Connection	.116	.006	1.280	18.735	<.001
X1M	-2.515E-15	.000	-.028	-1.006	.321
X2M	-.060	.009	-.574	-6,813	<.001

a. Dependent Variable: *Tax avoidance*
Source: SPSS Output 29, 2024

The interpretation obtained regarding the hypothesis is in the form of (H3 and H4) which has been formulated as follows:

a) Political Connection Strengthens the Influence of Earnings Management on Tax Avoidance
Referring to the results of table 4.12 above, it shows that the variable X1M has a t-count of -1.006 < t-table of 2.021, through a significance level of 0.321 > 0.05 with an unstandardized beta coefficient of -2.515E-15, which means that H3 is rejected. This can be concluded that political connections can strengthen the influence of earnings management on tax avoidance. not proven or **H3 is rejected.**

b) Political Connections Weaken the Influence of Internal Control on Tax Avoidance
Referring to the results of table 4.12 above, the calculation of the X2M variable has a calculated t of -6.813 < t table 2.021 , through a significance level of <0.001 < 0.05 with an unstandardized beta of -0.060 in the negative direction, which means that H4 is accepted. This can be concluded that political connections can weaken the influence of internal control. against tax avoidance is proven or **H4 is accepted.**

b. DISCUSSION

a. The Effect of Earnings Management on Tax Avoidance

The first hypothesis in this study states that earnings management has a positive effect on tax avoidance. Based on the results of the analysis presented, it reveals that when earnings management has a negative value, the company is suspected of experiencing income decreasing, whereas when earnings management has a positive value, the company is experiencing income increasing. In this study, the sample shows that most earnings management calculations are negative or occur in a pattern of income decreasing. Earnings management with an income decreasing strategy is carried out by increasing depreciation costs for fixed assets in the current year, which causes the economic life of the assets to be shorter. As a result, operating profit in a period decreases. However, at the end of the period, the company makes fiscal corrections to profits before calculating taxable income. Therefore, companies that implement earnings management through income decreasing have no connection or influence on tax avoidance practices because there are differences in the recognition of operational income and fiscal income (Permatasari, 2020) . Earnings management is an effort to adjust profits to the interests of certain parties, especially company management.

Based on agency theory , which explains the relationship between managers (agents) and shareholders principals), companies tend to focus more on increasing profits to attract investors and creditors, which impacts the profits received by the company (Heriyah, 2024) . The results of this study are in line with studies conducted by Permatasari (2020) , Anggraeni & Kurnia (2021) , and Alfarizi et al ., (2021) which revealed that earnings management has no effect on tax avoidance because management does not implement earnings management for the purpose of reducing the tax burden because such actions will worsen and damage the company's image.

b. Influence of Internal Control Against Tax Avoidance

The second hypothesis in this study states that effective internal control negatively impacts tax avoidance . Based on the analysis presented, the results reveal that effective internal control in a company will address the occurrence of tax avoidance practices . Good control and supervision implemented by a company can minimize the occurrence of fraud in financial statements and assist management in making appropriate decisions to avoid tax avoidance practices .

The results of this study are in line with the study conducted by Rachmawati & Rohman (2022) , Febriani & Khairudin (2023) and Fitria et al., (2024) stated that the more effective the internal control implemented , the higher the company's compliance in paying its taxes. This can reduce the tendency to evade taxes. The high effectiveness of internal control implemented by many companies contributes to low levels of tax evasion (Rachmawati & Rohman, 2022) . According to the agency theory perspective, it is important for management (agents) to carefully design tax planning in accordance with applicable policies to avoid tax risks, including sanctions or fines due to violations (Mawaddah & Darsono, 2022) .

c. Political Connection Moderates the Effect of Earnings Management on Tax Avoidance

The third hypothesis in this study states that political connections are unable to moderate the effect of earnings management on tax avoidance . Based on the analysis presented, the results reveal that institutions with political connections do not necessarily utilize their connections to avoid taxes through earnings management practices. Institutions with political connections are actually subject to stricter public scrutiny, thus presenting a higher risk of using earnings management for tax avoidance.

The results of this study are in line with the study conducted by Auliana (2023) and Supatmi & Handayani (2022) stated that earnings management is not affected by political connections because management focuses more on maintaining relationships with owners (stakeholders), the government, or established political connections to obtain long-term benefits. Therefore, companies act more cautiously, including avoiding earnings management practices (Savitri, 2021) . These results do not support agency theory , which states that There is a potential conflict of interest because management (agents) tend to act in their own interests rather than the owner (principal).

d. Political Connection Moderates the Influence of Internal Control Against Tax Avoidance

The fourth hypothesis in this study states that political connections weaken the influence of internal control on tax avoidance . Referring to the analysis presented, the results reveal that politically connected agencies actually have more access to policies, regulations, and law enforcement, which can influence weak internal supervision and control within an agency. Easily accessible policies cause internal control or supervision of a company that initially can prevent fraud in the form of manipulation such as tax avoidance to become less effective because the company feels safer and freer due to avoiding strict supervision, so it is easy to engage in tax avoidance practices . Agency theory , when associated with this, management as an agent is believed to try to encourage board members or other management with political connections to use their influence for the benefit of the company (Carolina & Purwantini, 2020) , including in weakening the company's internal supervision and control.

The results of this study are in line with the study conducted by Fitria et al., (2024) which states that internal control has a negative influence on tax avoidance, which indicates that a company's internal control report does not necessarily reflect the actual conditions.

Companies with political connections can take advantage of their connections to engage in tax avoidance practices without worrying about oversight by the internal control unit . Meanwhile , political connections have a negative influence on tax avoidance because government-owned companies or those with political connections such as state-owned enterprises are considered unlikely to engage in tax avoidance due to gaining the trust of the state as low-risk taxpayers, in accordance with the Minister of Finance Regulation Number 71/PMK.04/2010. This is one of the reasons why companies with political connections tend to feel safer engaging in tax avoidance practices because they are considered unlikely to engage in such practices.

5. CONCLUSION AND SUGGESTIONS

Based on the results of the analysis and research that has been carried out, the following conclusions were obtained:

1. Earnings management does not have a positive influence on *tax avoidance* in primary consumer goods manufacturing companies.
2. *Internal control* has a negative influence on *tax avoidance* in manufacturing companies in the primary consumer goods industry.
3. *Political connections* have been proven to be unable to moderate the influence of earnings management on *tax avoidance,* but are able to moderate *internal control* on *tax avoidance.*

The practical implication for tax regulators such as the Directorate General of Taxes/DJP and the Financial Services Authority/OJK is that oversight of tax avoidance must be more holistic and contextual. The DJP and OJK should not rely solely on accounting manipulation indicators such as earnings management as risk signals, but should instead focus on evaluating the effectiveness of a company's internal control system as the primary line of defense. They should also pay special attention to companies with political connections, as these can weaken internal controls and make them feel protected from external scrutiny. Therefore, the DJP and OJK regulators need to strengthen independent audits, fiscal versus accounting cross-checks, and transparency or accountability mechanisms for potentially high-risk entities.

The researcher's suggestions based on the research process and results include several things, namely: (1) The variables in this study only measured two variables: Earnings Management and Internal Control, which had very little influence. Therefore, future research should add variables such as Transfer Pricing and Director Diversity. (2) For future researchers, it is hoped that they will add theories other than the theory used in this study, such as Information Asymmetry Theory, Upper Echelons Theory and Grabbing Hand Theory. (3) For future researchers, it is hoped that they will test other types of companies so that the sample coverage is wider.

REFERENCE

Agustianti, R., Pandriadi, Nussifera, L., Wahyudi, L., Angelianawati, Meliana, I., Sidik, E. A., Nurlaila, Q., Simarmata, N., Himawan, I. S., Pawan, E., Ikhram, F., Andriani, A. D., Ratnadewi, & Hardika, I. R. (2022). *Metode Penelitian Kuantitatif dan Kualitatif* (N. P. Gatriyani & N. Mayasari (eds.)). TOHAR MEDIA.

Alfarizi et al. (2021). Pengaruh Profitabilitas, Transfer Pricing, Dan Manajemen Laba Terhadap Tax Avoidance. *Jurnal Review Akuntansi*, *2*(1), 898–917.

Anggraeni, R. S., & Kurnia. (2021). Pengaruh Ukuran Dewan Komisaris, Leverage dan Manajemen Laba terhadap Tax Avoidance. *E-Proceeding of Management*, *8*(2), 1134–1142.

APBN 2020. (n.d.). Retrieved June 9, 2024, from https://www.kemenkeu.go.id/apbn2020

Asriani, S., Mediaty, M., & Indrijawati, A. (2023). Pengaruh Deffered Tax, Capital Intensity, Transfer Pricing, dan Leverage terhadap Tax Avoidance. *JIIP - Jurnal Ilmiah Ilmu Pendidikan*, *6*(9), 6744–6753. https://doi.org/10.54371/jiip.v6i9.2816

Auliana, R. A. (2023). Pengaruh Koneksi Politik terhadap Manajemen Laba dengan Moderasi Keahlian Komite Audit. *Jurnal Riset Akuntansi Dan Keuangan*, *II*(3), 539–548. https://doi.org/10.17509/jrak.v11i3.59488

Bimo, I. D., Prasetyo, C. Y., & Susilandari, C. A. (2019). The effect of internal control on tax avoidance: the case of Indonesia. *Journal of Economics and Development*, *21*(2), 131–143. https://doi.org/10.1108/JED-10-2019-0042

Carolina, V., & Purwantini, A. H. (2020). Pengaruh Pengendalian Internal, Struktur Kepemilikan,Sales Growth, Ketidakpastian Lingkungan, dan KoneksiPolitik terhadap Tax Avoidance (Studi Empiris PadaPerusahaan Manufaktur Yang Terdaftar di BEI Periode2015-2019). *Business and Economics Conference in Utilization of Modern Technology*, 154–173.

Dharma, M. S., & Ardiana, P. A. (2016). Pengaruh Leverage, Intensitas Aset Tetap, Ukuran Perusahaan, dan Koneksi Politik Terhadap Tax Avoidance. *Realible Accounting Journal*, *15*(1), 591–592. https://doi.org/10.36352/raj.v3i2.759

Febriani, & Khairudin. (2023). Pengaruh Diversifikasi Usaha Dan Pengendalian Internal Terhadap Penghindaran Pajak (Studi Empiris Pada Perusahaan Tambang Yang Terdaftar Di Bursa Efek Indonesia Tahun 2019-2021. *JEMSI (Jurnal Ekonomi, Manajemen, Dan Akuntansi)*, *9*(3), 671–676. https://doi.org/10.35870/jemsi.v9i3.1089

Fitria, Azizah, D. W., Setiawan, A., Bormasa, M. F., & Widyatmoko. (2024). Pengaruh Pengendalian Internal dan Koneksi Politik Terhadap Penghindaran Pajak (Studi pada Perusahaan BEI Sektor Property And Real Estate Periode 2020 -2021). *Edunomika*, *08*(2), 1–13.

Gama, A. W. S., Mitariani, N. W. E., & Widnyani, N. M. (2024). *Kumpulan Teori Bisnis: Perspektif Keuangan, Bisnis, dan Strategik*. Nilacakra.

Haque, N., & Puspitasari, D. (2022). Analisis Sumber Pendapatan Negara dan Alokasi Belanjanya Dalam Konteks Keuangan Publik Islam Era Kekinian di Malaysia. *Jurnal Ekonomi Dan Bisnis*, *Vol. 9*(No. 2), 357–370.

Henny, H. (2019). Pengaruh Manajamen Laba dan Karakteristik Perusahaan Terhadap Tax Avoidance. *Jurnal Muara Ilmu Ekonomi Dan Bisnis*, *3*(1), 36. https://doi.org/10.24912/jmieb.v3i1.4021

Heriyah, N. (2024). Manajemen Laba dan Leverage Terhadap Tax Avoidance pada Perusahaan Sektor Pertambangan yang Terdaftar di BEI Tahun 2017-2021. *Jurnal Ilmiah Raflesia Akuntansi*, *10*(1), 304–308.

Li, Y., Al-Sulaiti, K., Dongling, W., Abbas, J., & Al-Sulaiti, I. (2022). Tax Avoidance Culture and Employees' Behavior Affect Sustainable Business Performance: The Moderating Role of Corporate Social Responsibility. *Frontiers in Environmental Science*, *10*. https://doi.org/10.3389/fenvs.2022.964410

Mawaddah, S. Z., & Darsono. (2022). Pengaruh Pengendalian Internal, Kepemilikan Keluarga, Dan Ketidakpastian Lingkungan Terhadap Penghindaran Pajak. *Diponegoro Journal of Accounting*, *11*(2), 1–11.

Nurrahmi, A. D., & Rahayu, S. (2020). Pengaruh Strategi Bisnis, Transfer Pricing, dan Koneksi Politik Terhadap Tax Avoidance. *Jurnal Akuntansi Dan Ekonomi*, *5*(2). https://doi.org/https://doi.org/10.29407/jae.v5i2.14162

Nursida, N., Pratami, Y., & Fitasari M, R. A. (2022). Pengaruh Ceo Tenure, Multinasional Company, Intensitas Aset Tetap Dan Ukuran Perusahaan Terhadap Tax Avoidance. *Jurnal Ilmiah Manajemen, Ekonomi, & Akuntansi (MEA)*, *6*(3), 1921–1940. https://doi.org/10.31955/mea.v6i3.2683

Patel, H. (2023). Criminal Law Against Tax Avoidance Crimes are contained in; Law Number 28 of. *Journal Transnational Universal Studies*, *1*(1), 15–22. https://ejlpjournal.nl/index.php/gp/index

Permatasari, N. I. (2020). Pengaruh Manajemen Laba, Umur Perusahaan dan Leverage Terhadap Tax Avoidance. *Akuisisi: Jurnal Akuntansi*, *15*(2), 18–25. https://doi.org/10.24127/akuisisi.v15i2.405

Pratama, A. D., & Larasati, A. Y. (2021). Pengaruh Transfer Pricing Dan Capital Intensity Terhadap Tax Avoidance. *Jurnal Riset Akuntansi Dan Perbankan*, *15*(2), 497–516. http://ojs.ekuitas.ac.id/index.php/jrap/article/view/421

Rachmawati, A. D. N., & Rohman, A. (2022). Pengaruh Pengendalian Internal Terhadap Tax Avoidance Dengan Kepemilikan Keluarga Sebagai Variabel Moderating. *Diponegoro Journal of Accounting*, *11*(2), 1–9. http://ejournal-s1.undip.ac.id/index.php/accounting

Radjab, E., & Jam'an, A. (2017). *Metodologi Penelitian Bisnis*. Lembaga Perpustakaan dan Penerbitan.

Savitri, E. (2021). POLITICAL CONNECTION, FAMILY OWNERSHIP, AND EARNINGS MANAGEMENT IN MANUFACTURING COMPANIES IN INDONESIA. *Jurnal Aplikasi Manajemen*, *19*(3), 585–593. https://doi.org/10.21776/ub.jam.2021.019.03.11

Sukmana, Y. (2020). *RI Diperkirakan Rugi Rp 68,7 Triliun Akibat Penghindaran Pajak*. Kompas.Com. https://money.kompas.com/read/2020/11/23/183000126/ri-diperkirakan-rugi-rp-68-7-triliun-akibat-penghindaran-pajak

Supatmi, S., & Handayani, L. (2022). Koneksi Politik Dan Praktik Manajemen Laba Riil: Studi Pada Industri Keuangan Di Indonesia. *Jurnal Akademi Akuntansi*, *5*(1), 121–134. https://doi.org/10.22219/jaa.v5i1.19507

Susanti, Susilowibowo, J., & Hardini, H. T. (2020). Apakah Pengetahuan Pajak dan Tingkat Pendidikan Meningkatkan Kepatuhan Membayar Pajak? *Jurnal Akuntansi Multiparadigma*, *11*(2). https://doi.org/https://doi.org/10.21776/ub.jamal.2020.11.2.25

Suteja, S. M., Firmansyah, A., Sofyan, V. V., & Trisnawati, E. (2022). Ukuran Perusahaan, Pertumbuhan Penjualan, Penghindaran Pajak: Bagaimana Peran Tanggung Jawab Sosial Perusahaan? *JURNAL PAJAK INDONESIA (Indonesian Tax Review)*, *6*(2), 436–445. https://doi.org/10.31092/jpi.v6i2.1833

Tang, T., Xu, L., Yan, X., & Yang, H. (2022). Simultaneous debt–equity holdings and corporate tax avoidance. *Journal of Corporate Finance*, *72*, 102154. https://doi.org/10.1016/j.jcorpfin.2021.102154