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RESEARCH ARTICLE

THE INFLUENCE OF POLITICAL CONNECTIONS AND EXECUTIVE RISK PREFERENCES ON TAX AVOIDANCE: THE MODERATING ROLE OF AUDIT COMMITTEE MEETINGS

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Abstract

Corporate tax compliance is a crucial element in maintaining national fiscal stability, yet tax avoidance in Indonesia remains relatively high. This study aims to analyze the effect of Political Connections and Executive Risk Preferences on Tax Avoidance, while examining the moderating role of Audit Committee Meeting Frequency. Drawing from Agency Theory and Upper Echelon Theory, this research focuses on energy sector companies listed on the Indonesia Stock Exchange (IDX). Hypothesis testing was conducted using Panel Data Regression. The main regression results reveal that neither Political Connections nor Executive Risk Preferences have a direct significant impact on Tax Avoidance. Furthermore, Audit Committee Meeting Frequency does not moderate the relationship between Political Connections and Tax Avoidance.However,Audit Committee Meeting Frequency significantly moderates the effect of Executive Risk Preferences on Tax Avoidance, indicating that more intensive supervisory oversight dampens executive risk-taking behaviors regarding tax avoidance strategies. Quantile regression results further highlight heterogeneous effects, showing that political connections are more pronounced among low tax avoidance firms, whereas the moderating role of audit committees on executive risk preferences is more prominent in high tax avoidance firms.

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Introduction:-

Compliance, particularly from the corporate sector, which remains the mainstay of tax revenue, is crucial for maintaining fiscal stability. One challenge to increasing the tax revenue ratio is the high level of tax avoidance. The World Bank, in its latest report, stated that one in four Indonesian companies engages in tax avoidance. This indicates low tax revenue in Indonesia is due to weak compliance, particularly related to tax avoidance, which is common among formal companies (www.bisnis.com).Tax avoidance is defined as a legal strategy to reduce tax obligations by exploiting loopholes in existing tax regulations. Although within legal limits, this practice has a significant negative impact on state revenues. Indonesia's tax revenue has declined significantly in recent years. In 2024, the ratio of tax revenue to Indonesia's Gross Domestic Product (GDP) was only 10.07%. This figure is lower than the 2023 tax ratio of 10.31% of GDP (www.kontan.co.id). Ina complex business environment, tax avoidance

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practices are influenced by a combination of interacting external and internal factors. One of the most dominant external factors in developing countries is political connections. Political connections among company management are one of the many factors that can influence tax avoidance. Companies with political connections or officials or individuals holding important government positions are indicated to receive special treatment from the government (Faccio, 2006). Political connections are defined as the relationship between a company and politicians or the government, which can be identified through board members, executives, or shareholders who have political affiliations or positions.

Political connections are considered a crucial resource that can provide companies with additional advantages. These advantages include easier access to loans, government contracts, or preferential regulatory treatment. In the context of taxation, political connections are believed to encourage tax avoidance. By leveraging political connections, companies can reduce the likelihood of being audited or receive less stringent sanctions. Politically connected companies can implement more aggressive tax planning due to government protection.On the other hand, political connections are also believed to inhibit tax avoidance and encourage compliance. Some literature argues that political connections can inhibit tax avoidance. Politically connected companies, especially those owned by the government, are subject to strict oversight and must maintain their image to avoid public criticism and political costs, so they tend to be more tax compliant. In addition, government involvement in the company can lead to stricter scrutiny from regulators and the press. Management experience in politics can influence corporate strategy. Political experience can be related to tax avoidance because management can apply values and decisions relevant to their political experience, which will influence the company's loyalty to the government. Management loyalty to the government will influence the company's strategy to be less aggressive in minimizing their tax burden (Putra, et al, 2020).

Duality of the influence of political connections leads to contradictory empirical findings, some studies find that political connections encourage tax avoidance (Dewi, et al, 2024), (Thalita et al, 2022), (Alsmady A., 2023), while other studies find that political connections have no effect or even hinder tax avoidance (Putra et al, 2020), (Alfiyah et al, 2022), (Azzahra, et al, 2025).In addition to external factors, there is also an internal factor, namely Executive Risk Preference. Empirical research consistently shows that executive characteristics motivate companies to be more daring in engaging in tax avoidance. Risk-taking executives will further increase tax avoidance (Alfiyah et al., 2022). This is supported by the finding that executives with a high-risk tolerance have a significant negative effect on tax rates, which means a positive effect on tax avoidance. Therefore, a high Executive Risk Preference indicates a greater tendency for companies to engage in tax avoidance.

To mitigate agency conflicts arising from managerial incentives and political connections, a Good Corporate Governance mechanism is required. The Audit Committee, as a key pillar, functions as internal oversight. The Audit Committee is formed by the board of commissioners and is responsible for overseeing financial reporting, auditor independence, and managing accounting risks, which indirectly include tax risk. The Audit Committee is expected to moderate Executive Risk and tax avoidance by weakening them. An effective and competent Audit Committee acts as a "balance" that controls risk-taking executives. The presence of a strong Audit Committee can reduce the potential for executives to take high-risk tax actions. Several studies explicitly found that the Audit Committee is able to moderate the relationship between executive risk and tax avoidance. Another study found that the Audit Committee was unable to moderate the relationship between Political Connections and Tax Avoidance (Firmansyah et al., 2025), indicating that political influence may be stronger than formal internal oversight. This study aims to examine the role of the Audit Committee as a moderator of Political Connections and Executive Risk simultaneously.

This research focuses on energy sector companies listed on the Indonesia Stock Exchange for the period 2020 to 2024. The energy sector, which includes the oil and gas and mining sub-sectors, has high relevance due to its significant contribution to the national economy and its vital role in government policy, making it a vulnerable arena for political intervention. Furthermore, the energy sector has a high level of regulation, meaning this highly regulated industry often engages in lobbying, but at the same time must submit to strict oversight.The purpose of this study is to analyze the interaction of Political Connections, Executive Risk, and Audit Committees in this high-risk, capital-intensive, and politically sensitive business environment. This will provide unique and relevant empirical evidence regarding the effectiveness of corporate governance in emerging markets. Based on this literature review, this study will examine whether Political Connections and Executive Risk managerial factors encourage tax avoidance, and to what extent internal oversight, namely audit committees, can mitigate these risks, especially in the post-pandemic period (2020-2024).

Literature Review:-

Agency Theory

Conflict driving this practice is explained by Agency Theory. Agency Theory, proposed by Jensen and Meckling (1976), assumes a conflict of interest between owners (principals) and managers (agents), exacerbated by information asymmetry. Shareholders expect managers to engage in optimal tax avoidance to increase corporate wealth. However, managers also have incentives to engage in aggressive tax avoidance to maximize performance compensation or personal gain. This conflict and information asymmetry encourage agents to take opportunistic and risky actions, including tax avoidance practices.

Companies as taxpayers have an obligation to pay a certain amount of tax on taxable income obtained from their business or operational activities. Each tax payment is a burden that must be borne by the company which can reduce the net profit obtained, thus there is a difference of interest between companies that seek to maximize profits and the government that maximizes revenue from tax sources. This is in line with the principle of agency theory where this difference of interest causes a company to make certain efforts to be able to carry out aggressive tax planning actions (Dinar et al., 2020).Tax avoidance is a risky activity undertaken by companies, not dictated by executive policy. Risk-taking executives are more likely to make high-risk decisions to maximize company value, thus being more likely to advocate tax avoidance (Alfiyah et al., 2022).

Upper-Ecelon Theory:-

Upper-Echelon Theory (Hambrick and Mason, 1984) states that leaders' values and cognitive abilities reflect their chosen strategies and bring ideas and experiences from their previous careers. Empirically, upper-echelon theory hypothesizes that upper-echelon characteristics are determinants of organizational decisions and performance.Managements' experience can influence corporate strategy. Political experience can be related to tax avoidance because management can apply values and decisions relevant to their political experience, which will influence the company's loyalty to the government. Management's loyalty to the government will influence the company's strategy to be less aggressive in minimizing its tax burden (Putra et al., 2020).

Strategic decisions and operational actions are heavily influenced by the characteristics of top management, in accordance with Upper Echelon Theory (Hambrick & Mason, 1984). One key characteristic is Executive Risk Preference. Executives, as agents, are faced with risky decisions, and tax avoidance practices fall into this category. Executives with a high-risk tolerance (risk-takers) are more likely to choose aggressive tax avoidance strategies, as the potential tax savings are perceived as outweighing the risk of detection. This incentive is reinforced by personal incentives and the promise of performance-based bonuses.

Tax Avoidance:-

Tax avoidance refers to a company's attempt to reduce its tax liabilities by exploiting loopholes or ambiguities in tax regulations. Although a legal practice, tax avoidance has been criticized for harming state revenues, reducing tax fairness, and increasing agency costs. Conflicts of interest between shareholders and managers (Agency Theory) encourage managers to adopt tax avoidance strategies to maximize after-tax profits, which ultimately increases firm value (Alfiyah et al., 2022).Tax avoidance is seen as a form of non-compliance with fiscal regulations aimed at minimizing the tax burden (Dewi & Pramanaswari, 2024). The significant reduction in state tax revenues due to tax avoidance demonstrates the importance of identifying the factors driving this behavior. In Indonesia, the phenomenon of tax avoidance occurs not only in private companies but also in State-Owned Enterprises (SOEs), with significant fluctuations indicating deep-seated governance issues (Az-zahra & Trisnawati, 2025). Tax avoidance is often inversely proxied through the Effective Tax Rate (ETR), where a lower Effective Tax Rate indicates a higher level of tax avoidance.

Political Connections:-

Political connections are defined as affiliations between companies (through the board, management, or shareholders) and government officials or politicians. Companies use these connections as a non-market resource to gain advantages unavailable to their competitors (Dewi & Pramanaswari, 2024). Political connections can reduce bureaucratic barriers, provide preferential treatment in regulatory matters, and generate political favoritism (Hardiningsih et al., 2024).Research on the influence of political connections on tax avoidance shows an ambiguous relationship, requiring further testing. The driver of tax avoidance (Opportunistic Impact) means that political connections can facilitate tax avoidance by providing early access to information regarding changes in tax regulations and protecting companies from the risk of audits or strict sanctions. Political connections can strengthen the influence of earnings management on tax avoidance, where political connections are used to conceal this

opportunistic behavior (Thalita et al., 2022; Firmanyah et al., 2025). Companies with political connections have the potential to engage in more aggressive tax avoidance because they feel protected.

Conversely, political connections are also considered a barrier to tax avoidance that can encourage compliance. Politically connected companies, especially those in sensitive sectors or state-owned enterprises, often face greater public scrutiny, incurring political costs. To maintain legitimacy and reputation, these companies are forced to comply with tax regulations (Az-Zahra & Trisnawati, 2025). Several studies in Indonesia have also found that political connections have no significant effect on tax avoidance (Az-Zahra & Trisnawati, 2025; Ardhan, 2025).

Given these differences, this study hypothesizes that Political Connections have a significant influence, the direction of which needs to be validated in energy sector companies.
H1: Political Connections have a significant influence on Tax Avoidance.

Executive Risk Preferences:-
Executive Risk Preference is based on Upper Echelon Theory (UET), which states that a company's strategic decisions reflect the values and cognitive characteristics of its top managers (Alfiyah et al., 2022). Executive Risk Preference measures managers' propensity to make risky and uncertain decisions for the potential of high returns.The Influence of Executive Risk Preference on Tax Avoidance means that tax avoidance is a risky strategy because it can trigger lawsuits, fines, and reputational damage. Executives with a high-risk preference (risk-takers) tend to be more willing to take aggressive tax risks. They view tax avoidance as a profitable investment, where the tax savings are commensurate with the risks borne (Firmanyah et al., 2025). The higher the Executive Risk Preference, the greater the incentive to engage in aggressive tax avoidance to maximize after-tax profits, which is often linked to managerial compensation and incentive schemes.

By measuring tax avoidance inversely using the Earning Tax Ratio (ETR), this hypothesis suggests that high Executive Risk Preference will result in lower ETR.
H2: Executive Risk Preference has a negative influence on Tax Avoidance

Frequency of Audit Committee Meetings:-
The Audit Committee is the primary internal oversight mechanism within the Good Corporate Governance (GCG) framework. The Audit Committee acts as a counterbalance to agency conflicts and opportunistic behavior. It is responsible for overseeing the quality of financial reporting, auditor independence, and the effectiveness of internal controls, including tax risk control (Giannopoulos et al., 2025). Research by Seprini et al. (2016) shows that the frequency of audit committee meetings positively influences tax aggressiveness. Audit committees that actively meet can perform their oversight function more effectively. More active oversight by the audit committee can reduce the opportunity for management to engage in tax aggressiveness.

The moderating role of Audit Committee Meeting Frequency is expected to mitigate the impact of the drivers of Tax Avoidance (Political Connections and Executive Risk) by strengthening oversight. Audit Committee Meeting Frequency is expected to weaken the relationship between Political Connections and Tax Avoidance. The existence of an independent Audit Committee will increase the demand for transparency, thereby reducing the opportunity for managers to use Political Connections for aggressive Tax Avoidance purposes (Firmanyah et al., 2025; Alsmady, 2023). If managers know there is strong internal oversight, they are likely to reduce Tax Avoidance practices that have the potential to create audit risk.
H3: The frequency of Audit Committee meetings weakens the relationship between Political Connections and Tax Avoidance.

The frequency of Audit Committee Meetings is expected to weaken the relationship between Executive Risk and Tax Avoidance, which means increasing tax compliance. The Audit Committee serves as a safeguard that controls risk-taking executives. With its expertise and independence, the Audit Committee is able to detect and prevent excessively high-risk tax strategies that could harm shareholder interests in the future (Giannopoulos et al., 2025). The audit committee as a company's internal controller plays a crucial role in ensuring the accuracy and reliability of ESG (Environmental, Social, and Governance) reporting data. Therefore, the frequency of audit committee meetings not only directly impacts company value but also the company's image, strengthens stakeholder trust, and ultimately has a positive impact on company value (Anggraini et al., 2025). The higher the frequency of Audit Committee Meetings, the more risk-taking managers will be forced to adopt more conservative and regulatory-compliant tax practices.The higher frequency of Audit Committee Meetings can restrain managers from engaging in risky actions

that conflict with the interests of owners, thereby reducing aggressive Tax Avoidance triggered by risk preferences (Firmanyah et al., 2025).

H4: Frequency of Audit Committee Meetings weakens the relationship between Executive Risk Preference and Tax Avoidance.

Conceptual Framework:-

This conceptual framework visualizes the relationship between two independent variables (Political Connections and Executive Risk Preference), one dependent variable (Tax Avoidance), and the role of Audit Committee Meeting Frequency as a moderating variable that influences the strength of both relationships.In this model, Audit Committee Meeting Frequency is not only hypothesized to have a direct influence on Tax Avoidance, but also interacts with Political Connections and Executive Risk Preference to determine the final level of a firm's Tax Avoidance.

Conceptual Framework:-

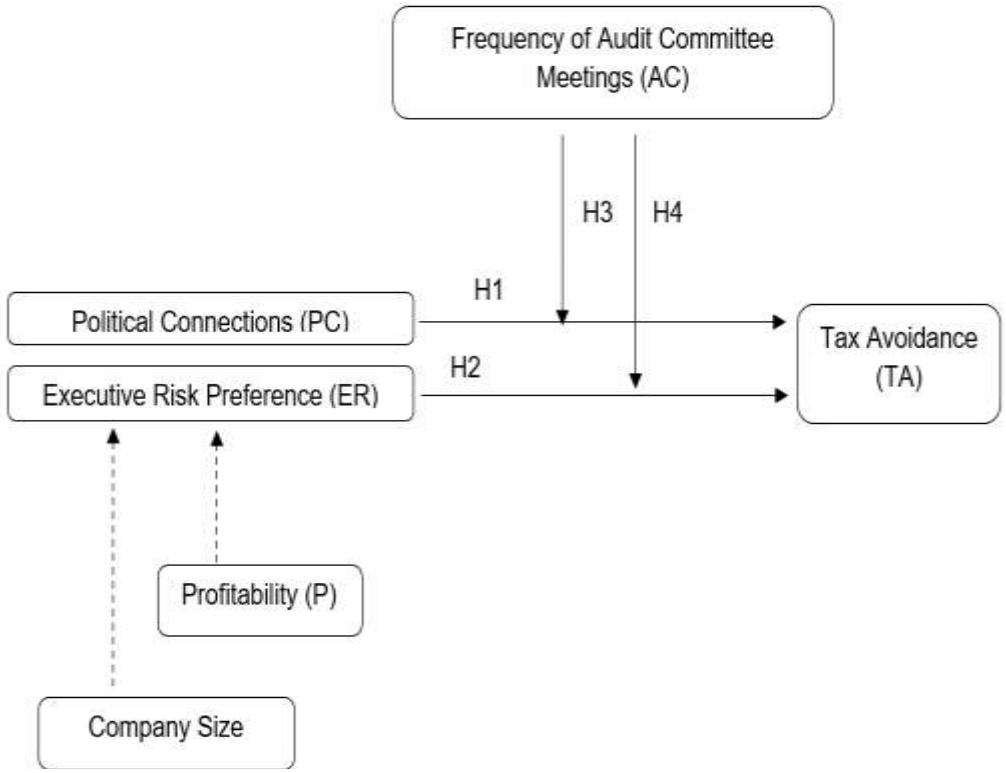


Table 1: Conceptual Framework Diagram

Variables	Type	Measurement Proxy
Tax Avoidance (TA)	Dependent (Y)	Effective Tax Rate (ETR)
Political Connections (PC)	Independent (X1)	Dummy Variable (1=connected, 0=not)
Executive Risk Preference (ER)	Independent (X2)	Operating Profit Volatility (Standard Deviation of EBITDA/Total Assets)
Frequency of Audit Committee Meetings (AC)	Moderation (Z)	Frequency of Audit Committee Meetings

Moderated Regression Equation:-

The proposed model to test the moderation hypothesis is Moderated Regression Analysis (MRA) within the Panel Data Regression framework:

$$TA_{it} = \beta_0 + \beta_1 PC_{it} + \beta_2 ER_{it} + \beta_3 AC_{it} + \beta_4 (PCxAC)_{it} + \beta_5 (ERxCA)_{it} + \sum Controls + E_{it}$$

Table 2: Description of Regression Equation

Symbol	Variable Description	Operational Definition
TA_{it}	Tax Avoidance	The dependent variable, measured using the Effective Tax Rate (ETR), for firm i in year t. A lower ETR value indicates a higher level of tax avoidance.
β_0	Constant (Intercept)	The estimated value of ETR if all independent and moderating variables are zero.
PC_{it}	Political Connections	The independent variable, measured using a Dummy Variable (1 if the firm has political connections, 0 otherwise) for firm i in year t.
ER_{it}	Executive Risk Preferences	The independent variable, measured by the volatility of operating profit Standard Deviation (EBITDA/Total Assets) for company i in year t.
AC_{it}	Frequency of Audit Committee Meetings	The independent variable which also functions as a moderating variable, is measured based on the Frequency of Audit Committee Meetings for company i in year t.
$(PCxAC)_{it}$	Political Connection Interaction X Audit Committee	The interaction variable that tests the moderation hypothesis H3, namely the influence of Audit Committee Meeting Frequency on the relationship between Political Connections and Tax Avoidance.
$(ERxAC)_{it}$	Executive Risk Preference X Audit Committee Meeting Frequency Interaction	The interaction variable that tests the moderation hypothesis H4, namely the influence of Audit Committee Meeting Frequency on the relationship between Executive Risk Preference and Tax Avoidance.
$\beta 1$-$\beta 5$	Regression Coefficient	The coefficient shows the direction and magnitude of the influence of each independent variable and interaction on Tax Avoidance.
$\sum$Controls	Control Variables	A set of control variables are included in the model, such as Firm Size (in Total Assets) and Profitability (ROA), to avoid bias.
E it	Error Term	The error or residual that is not explained by the variables in the model for company i in year t.
i	Company Index	cross-section observations (companies).
t	Year Index	time series observations (time period).

Research Methods:-

Research Design:-

This study employed an associative quantitative research design. This approach aims to examine and analyze the relationships, influences, and moderating roles between independent and dependent variables. The analytical framework is based on hypothesis testing derived from a synthesis of Agency Theory and Upper Echelon Theory (Hardiningsih et al., 2025).

The primary statistical method used is Panel Data Regression. Panel data regression was chosen because it has the ability to combine cross-sectional (between companies) and time series (between time periods) data, which allows researchers to handle unobserved heterogeneity between companies, resulting in more efficient and reliable estimates. The choice of panel data estimation model (i.e., Common Effect Model, Fixed Effect Model, or Random Effect Model) will be determined through a series of diagnostic tests, including the Chow test and the Hausman test.

To test the moderation hypotheses (H3 and H4), this study uses the Moderated Regression Analysis (MRA) technique through a multiplicative interaction approach. This technique allows for evaluation of whether the moderating variable (Frequency of Audit Committee Meetings) significantly changes the direction or strength of the

relationship between the independent variables (Political Connections and Executive Risk Preference) and the dependent variable (Tax Avoidance). Prior to the regression analysis, all data will be tested to meet classical assumptions, including normality, multicollinearity, and heteroscedasticity tests.This study adopts a model structure that has been tested in previous studies that investigate the impact of managerial characteristics and political connections on corporate fiscal policy.

Operational Definition and Measurement of Variables:-
The variables used in this study are classified into one dependent variable, two independent variables, and one moderating variable. All variables are measured using quantitative data sourced from the company's financial statements and annual reports.

The dependent variable (Y) is Tax Avoidance (TA).
Tax Avoidance as an operational definition as a legal strategy used by companies to minimize tax burdens. Tax Avoidance (TA) is measured using the Effective Tax Rate (ETR) proxy, where ETR is the ratio of income tax expense to pre-tax profit. A lower ETR value indicates a higher level of tax avoidance. Since TA is the dependent variable being tested, the finding of a low ETR (which means a high TA) has a negative direction towards the TA variable.

$$TA_{it} = ETR = \frac{\text{Income Tax Expense}}{\text{Profit before tax}}$$

Independent Variable 1 (X1): Political Connections (PC):-
Political Connection operationally defined as a company's connection, through its board, executives, or shareholders, to political officials or figures. Political Connections (PC) is measured using a dummy variable. A company is assigned a value of 1 if it has political connections, and 0 otherwise. Political connections are identified if a member of the board of directors, board of commissioners, or major shareholder currently serves or has served as a public official, legislative member, state-owned enterprise official, or has ties to a particular political party.

Independent Variable 2 (X2): Executive Risk Preference (ER):-
Has an operational definition as the tendency of top managers to make high-risk decisions (risk-takers) aimed at maximizing company value, in line with the Upper Echelon Theory. Executive Risk Preference (ER) is measured using the volatility of the company's operating profit, which reflects the risk taken by executives. This proxy is calculated as the standard deviation of earnings before interest, taxes, depreciation, and amortization (EBITDA) divided by total assets during the observation period.
ER = Standard Deviation (EBITDA/Total Assets)

Moderating Variable (Z): Frequency of Audit Committee Meetings (AC):-
Has an operational definition as an internal governance mechanism responsible for overseeing the financial reporting process and controlling risks, including tax risks. Audit Committee Meeting Frequency (AC) is measured based on the number of meetings held by the audit committee within a year as recorded in the company's annual report. This measurement is based on the premise that more frequent audit committee meetings have a broader oversight capacity.

Control Variables:-
Control variables are included in the model to reduce the risk of bias from factors known to empirically influence Tax Avoidance (TA).
1. **Firm Size:** Measured using the natural logarithm of the company's total assets (Total Assets).
2. **Profitability:** Measured using the Return on Assets (ROA) ratio.

Unit of Analysis:-
The unit of analysis in this study is firm - year observations. Each observation represents a combination of financial and non-financial data of individual companies (cross-section) over a specific time period (time series). This data combination is crucial in panel data regression models. The population in this study is all energy sector companies listed on the Indonesia Stock Exchange (IDX) during the observation period of 2020 to 2024.

Data Type:-
The type of data used is quantitative secondary data. This secondary data is obtained from sources already published by third parties, without involving direct data collection in the field. Data sources were obtained from the

Company's Annual Report available through the official website of the Indonesia Stock Exchange (IDX) www.idx.co.id and the respective company websites , as well as using other sites to confirm existing political connections within the company, such as: Members of the Indonesian House of Representatives can be accessed on their official website, Cabinet Ministers accessed through the official government website, Political party websites and other related official websites

Sampling Method:-
The sampling method used was purposive sampling. This method is a non-probability sampling technique based on specific considerations or criteria established by the researcher to ensure that the selected sample is relevant and representative of the population being studied.

The sample selection criteria applied are as follows:-

1. The companies are listed in the energy sector of the Indonesia Stock Exchange and publish Annual Financial Reports consecutively during the observation period of 2020 to 2024. 91 companies were obtained that were included in the energy sector throughout 2020 to 2024 and 66 Companies that fulfilled the Annual Financial Reporting for 2020-2024.
2. The company must have positive earnings before tax (EBT) during the observation period. This criterion is necessary to avoid bias in the ETR calculation.
3. The company has complete data regarding the composition of the board of commissioners, the Audit Committee, and executive profiles for identifying Political Connections and measuring moderating and independent variables.

The application of these criteria aims to obtain valid and consistent firm-year samples, so that the results of the panel data regression analysis can be empirically accounted for.

Table 3: Sample Selection Procedure

Criteria	Total
The company is listed in the energy sector of the Indonesia Stock Exchange	91
The Company did not publish Annual Financial Reports consecutively from 2020 to 2024.	-25
The company did not have a positive profit before tax (EBT) consecutively from 2020 to 2024.	-43
Companies that are research samples	23
Total Sample	115

Results and Discussion:-

Descriptive Statistics:-Descriptive statistical analysis aims to provide a general overview of the characteristics of the research data, including the minimum, maximum, average (mean), and standard deviation values of 115 observations (23 energy sector companies during the 2020–2024 period).

Table 4: Descriptive Statistics

Variables	N	Min	Max	Mean	Std. Dev
Tax Avoidance (TA)	115	0.003	4,030	0.334	0.428
Political Connections (PC)	115	0,000	1,000	0.600	0.492
Executive Risk Preference (ER)	115	0.008	1,789	0.259	0.239
Frequency of Audit Committee (AC) Meetings	115	1,000	34,000	7,635	6,648
Profitability (P)	115	0.0000003	4,828	0.238	0.491
Company Size	115	17,447	24,223	20,326	1,615

Source: Eviews Output (2026), processed.

Tax Avoidance (TA). The high level of tax avoidance in some energy sector companies is related to the operational complexity and capital-intensive nature of the business, thus opening up space to exploit depreciation, amortization, loan interest, production sharing contract schemes, cost recovery, and intra-group financing (thin capitalization) to reduce taxable profit. The average value of 0.334 is well below the maximum value, indicating that the general level of tax avoidance of sample companies is low to moderate. The standard deviation value of 0.428 is greater than the average value (coefficient of variation > 1), which indicates that the distribution of TA data is heterogeneous - there is a significant gap between companies that are highly tax compliant and companies that aggressively engage in tax avoidance.

Political Connections (PC). The PC variable is measured dichotomously (0 and 1), with a minimum value of 0 for 46 companies and a maximum value of 1 for 69 companies. Companies with ownership structures or boards of directors/commissioners linked to the government or a particular political party are considered to have political connections, which can potentially provide benefits in the form of easier access to financing, opportunities to obtain government contracts, and protection from competitive pressures. The average value of 0.600 indicates that the majority of sample companies (60%) have political connections. The standard deviation value of 0.492 is smaller than the average value, indicating a relatively homogeneous and proportional distribution of data between groups of companies with and without political connections.

Executive Risk Preference (ER). The ER variable has a minimum value of 0.008 and a maximum value of 1.789, with an average value of 0.259. This range of values illustrates the variation in executive leadership characteristics in making business and financial decisions, ranging from executives who tend to be risk-averse (conservative) to those who are risk-takers (aggressive). The standard deviation value of 0.239, which is smaller than the average value, indicates that executive risk preferences in the sample companies are relatively homogeneous, although there is still a small portion of executives with risk preferences that are much higher than the average.

Audit Committee Meeting Frequency (AC). The AC variable has a minimum value of 1 meeting and a maximum value of 34 meetings per year, with an average of 7,635 meetings. This wide variation reflects differences in the intensity of governance oversight across companies; the higher the frequency of audit committee meetings, the more intensive the oversight function of the company's financial and tax policies. The standard deviation value of 6.648, which is close to but still smaller than the average value, indicates a relatively homogeneous distribution of the data, although there are several companies with audit committee meeting intensity that far exceeds the sample average.

Profitability (P). The P variable (proxied by Return on Assets/ROA) has a minimum value close to zero (0.0000003) and a maximum value of 4.828, with an average of 0.238. This very wide range indicates a sharp gap in financial performance between energy sector companies, from companies that barely generate profits to companies with very high profitability. The standard deviation value of 0.491, which is greater than the average value (coefficient of variation > 1), confirms that the profitability data is heterogeneous and potentially influenced by extreme values (outliers) in some observations.

Company Size. The Size variable, proxied by the natural logarithm of total assets, has a minimum value of 17.447 and a maximum value of 24.223, with an average of 20.326. The standard deviation value of 1.615, which is much smaller than the average value, indicates that the company size in the research sample is relatively homogeneous, as is common for variables that have been transformed into logarithmic form.

Frequency Distribution of Political Connection Variable (PC):-

Table 5: Frequency Distribution of Political Connection Variable

Information	Frequency
No Political Connections (0)	46
Political Connections (1)	69
Total	115

Source: Secondary Data (2026), processed.

The frequency distribution table shows that of the 115 observations, 69 (60%) came from companies with political connections, while 46 (40%) came from companies without political connections. The dominance of politically connected companies in the energy sector indicates that close ties with the government or political parties remain a common characteristic of this industry, which aligns with the nature of the energy sector as a strategic industry that is heavily influenced by government regulations and policies.

Panel Data Regression Model Selection Test

The selection of the appropriate panel data regression model (Common Effect Model/CEM, Fixed Effect Model/FEM, or Random Effect Model/REM) is carried out through three stages of testing, namely the Chow Test, the Hausman Test, and the Lagrange Multiplier Test.

Chow Test:-

Effect Test	Statistics	df	Prob.
Cross-section Chi-square	34,745	22	0.0412

The Chow test was used to determine the more appropriate model between the Common Effect Model (Ho) and the Fixed Effect Model (Ha). The test results showed a cross-section Chi-square probability value of 0.0412, which is smaller than the 0.05 significance level. Thus, Ho is rejected and Ha is accepted, so the more appropriate model to use at this stage is the Fixed Effect Model (FEM). Since the FEM was selected, the test was continued with the Hausman Test to compare the FEM with the Random Effect Model.

To review the hypotheses that have been made, a Chow test is carried out. The hypotheses formed in the Chow test are as follows:-
Ho = Common Effect Model (CEM)
Ha = Fixed Effect Model (FEM)

Hausman test:-

Test Summary	Chi-Sq. Statistic	df	Prob.
Random cross-section	3,183	7	0.8676

Based on the table above, it can be seen that the Haussman test result for the probability value of the cross-section random effect with $\alpha = 0.05$ is 0.8676 or greater than > 0.05. If the probability value of the cross-section random effect is greater than > 0.05, then Ho is accepted. Conversely, if the probability value is less than < 0.05, then Ho is rejected. With the following hypothesis:
Ho = Random Effect Model
Ha = Fixed Effect Model

The Hausman test is used to determine the more appropriate model between the Random Effect Model (Ho) and the Fixed Effect Model (Ha). The test results show a random cross-section probability value of 0.8676, much greater than the significance level of 0.05. Thus, Ho is accepted and Ha is rejected, which means the more appropriate model to use at this stage is the Random Effect Model (REM). Because the results of the Chow Test lead to FEM while the Hausman Test leads to REM, then to ensure the choice between CEM and REM, the test is continued with the Lagrange Multiplier Test.

Lagrange Multiplier Test (LM Test):-

Hypothesis Test	Cross-section	Time	Both
Breusch-Pagan	0.653805 (0.4188)	2.124057 (0.1450)	2.777862 (0.0956)

Based on the table above, it can be seen that the Lagrange test result for the probability value of both Breusch Pagan with $\alpha = 0.05$ is 0.0956 or less than <0.05. If the probability value of both Breusch Pagan is less than <0.05, then Ho is rejected. Conversely, if the probability value is greater than >0.05, then Ho is accepted. With the followinghypothesis:
Ho = Common Effect Model
Ha = Random Effect Model

The Lagrange Multiplier test was used to determine the more appropriate model between the Common Effect Model (Ho) and the Random Effect Model (Ha). The Breusch-Pagan probability value in the both column was 0.0956, greater than the 0.05 significance level. Thus, Ho was accepted and Ha was rejected, and the more appropriate model was the Common Effect Model (CEM).

Model Selection Conclusion:-
The series of three tests above can be summarized as follows: The Chow Test chooses FEM over CEM; the Hausman Test chooses REM over FEM; and the Lagrange Multiplier Test chooses CEM over REM. Because the final stage (LM Test) is the final determinant when the Chow and Hausman results do not converge on the same

model, the model used for the moderated regression analysis in this study is the Common Effect Model (CEM). This conclusion is also consistent with the Hypothesis Test Results Table, whose coefficients and probability values are identical to the estimates in the COMMON column in the Model Comparison Summary Table.
Results of Regression Analysis and Hypothesis Testing (Common Effect Model)

Based on the results of the model selection, the Common Effect Model regression equation obtained is as follows:-
TA = -1.438 + 0.065(PC) - 0.424(ER) - 0.018(PC*AC) + 0.078(ER*AC) + 0.036(P) + 0.087(Size) + ε

Variables	Hypothesis Direction	Coefficient	t-Stat	Sig. 2 tailed	Sig. 1 tailed	Results
Constant	-	-1,438	-2,361	0.020	0.010	-
Political Connections (PC)	Positive/Negative	0.065	0.318	0.750	0.375	H1 Rejected
Executive Risk Preference (ER)	Negative	-0.424	-1,308	0.193	0.096	H2 Rejected
PC*AC	Weaken	-0.018	-0.612	0.541	0.270	H3 Rejected
ER*AC	Weaken	0.078	1,948	0.054	0.027	H4 Accepted
Frequency of Audit Committee (AC) Meetings	-	0.0008	0.026	0.979	0.489	-
Profitability (P)	-	0.036	0.411	0.681	0.340	-
Company Size	-	0.087	2,731	0.007	0.003	-

Dependent Variable: Tax Avoidance (TA).
*Sig 5%; **Sig 10%.
Source: Eviews Output (2026), processed.

Political Connections (PC) on Tax Avoidance (TA). The PC variable has a positive coefficient of 0.065 with a t-statistic of 0.318 and a probability of 0.750 (two-tailed) or 0.375 (one-tailed), both well above the 0.05 significance level. Therefore, political connections do not significantly influence tax avoidance, thus rejecting Hypothesis 1 (H1). This means that the existence of political connections in the energy sector companies in this study sample has not been statistically proven to encourage or suppress tax avoidance behavior.Executive Risk Preference (ER) on Tax Avoidance (TA). The ER variable has a negative coefficient of -0.424 with a t-statistic value of -1.308 and a probability of 0.193 (two-tailed) or 0.096 (one-tailed). At the 5% significance level, this result is not yet significant, so Hypothesis 2 (H2) is rejected. Although the direction of the coefficient is in line with the predicted direction of the hypothesis (negative), executive risk preference has not been proven to have a significant effect on tax avoidance.

PC*AC Interaction on Tax Avoidance (TA). The PC*AC interaction variable has a negative coefficient of -0.018 with a t-statistic of -0.612 and a probability of 0.541 (two-tailed) or 0.270 (one-tailed), making it insignificant. Hypothesis 3 (H3) which states that the frequency of audit committee meetings can weaken the influence of political connections on tax avoidance is not proven statistically significant even though the direction of the coefficient is consistent with the hypothesis (weakening).

ER*AC Interaction on Tax Avoidance (TA). The ER*AC interaction variable has a positive coefficient of 0.078 with a t-statistic of 1.948 and a probability of 0.054 (two-tailed) or 0.027 (one-tailed). In a one-way test, this probability value is significant at the 5% level (0.027 < 0.05), so Hypothesis 4 (H4) is accepted. The frequency of audit committee meetings is proven to moderate the effect of executive risk preferences on tax avoidance — however, it is important to note that the interaction coefficient is positive, while the main coefficient of ER is negative. This means that the more frequent the audit committee meets, the weaker the negative effect of executive risk preferences on tax avoidance, or in other words, more intensive audit committee oversight dampens the tendency of more risk-averse executives to overly suppress the level of tax avoidance.

Company Size serves as a control variable. The Size variable has a positive coefficient of 0.087 with a t-statistic of 2.731 and a probability of 0.007 (two-tailed) or 0.003 (one-tailed), significant at the 5% level. This indicates that the larger the company, the higher the level of tax avoidance, consistent with the view that larger companies have more

adequate resources and transaction complexity for tax planning.Profitability (P) serves as a control variable. The P variable has a positive coefficient of 0.036 with a t-statistic of 0.411 and a probability of 0.681 (two-tailed) or 0.340 (one-tailed). This is not significant at the 5% or 10% levels. This means that the level of company profitability in this study sample was not proven to have a significant effect on the level of tax avoidance. The Adjusted R-Square value of 0.115 indicates that the variables Political Connections (PC), Executive Risk Preference (ER), their interaction with Audit Committee Meeting Frequency (AC), Profitability (P), and Company Size (Size) are jointly able to explain 11.5% of the variation in Tax Avoidance (TA), while the remaining 88.5% is explained by other factors outside this research model.

Details of Hypothesis Direction Results:-

Hypothesis	Hypothesis Direction	Coefficient	Information
H1: Political Connections have a significant effect on Tax Avoidance	Positive/Negative	0.065	Direction is appropriate (positive), not significant
H2: Executive Risk Preference has a negative effect on Tax Avoidance	Negative	-0.424	Direction is correct, not significant
H3: The frequency of audit committee meetings weakens the influence of political connections on tax avoidance.	Weaken	-0.018	Direction is correct, not significant
H4: The frequency of audit committee meetings weakens the influence of executive risk preferences on tax avoidance.	Weaken	0.078	Appropriate direction (weakening the negative influence of ER), significant

The table above compares the direction of the theoretically formulated hypotheses with the direction of the actual coefficients estimated from the Common Effect Model. Hypothesis 1 (H1) predicts that political connections influence tax avoidance; the estimation results show a positive coefficient (0.065) which is consistent with one of the hypothesized directions, but is not statistically significant (H1 is rejected). Hypothesis 2 (H2) predicts that executive risk preferences have a negative effect on tax avoidance; the coefficient obtained is indeed negative (-0.424) and in the right direction, but is not yet significant (H2 is rejected). Hypothesis 3 (H3) predicts that the frequency of audit committee meetings weakens the effect of political connections on tax avoidance; the PC*AC interaction coefficient is negative (-0.018) in the hypothesized direction, but is not significant (H3 is rejected). Hypothesis 4 (H4) predicts that the frequency of audit committee meetings weakens the effect of executive risk preferences on tax avoidance; The ER*AC interaction coefficient is 0.078 and is significant in a one-way test (H4 is accepted), meaning that more intensive audit committee oversight is statistically proven to dampen the influence of executive risk preferences on tax avoidance. Overall, of the four hypotheses proposed, only H4 is statistically supported at the 5% significance level (one-way test), while H1, H2, and H3 are not yet supported by the data, although the direction of the coefficients is largely in line with theoretical predictions.

Summary of Comparison of Panel Data Regression Models (CEM, FEM, REM)

Variables	Common (Beta)	Common (Prob)	Fixed (Beta)	Fixed (Prob)	Random (Beta)	Random (Prob)
Constant	-1,438	0.020	-0.798	0.735	-1,404	0.053
Political Connections (PC)	0.065	0.750	0.172	0.630	0.088	0.697
Executive Risk Preference (ER)	-0.424	0.193	-0.367	0.386	-0.380	0.259
PC*AC	-0.018	0.541	-0.021	0.639	-0.021	0.519
ER*AC	0.078	0.054	0.082	0.108	0.076	0.068
Frequency of Audit Committee (AC) Meetings	0.0008	0.979	0.016	0.691	0.004	0.885
Profitability (P)	0.087	0.007	0.047	0.675	0.084	0.026
Company Size	0.036	0.681	-0.036	0.714	0.012	0.893
Adj. R-squared	0.115	-	0.176	-	0.073	-
Prob. F-statistic	0.004	-	0.016	-	0.032	-

Model Selection Test	Statistics	Prob.	Decision
Chow Test (Cross-section Chi-square)	34,745	0.041	FEM Model
Hausman Test (Cross-section random)	3,183	0.867	REM Model
LM Test (Breusch-Pagan, Both)	2,778	0.0956	CEM Model

This summary table compares the estimation results of the three panel data model approaches (Common, Fixed, and Random Effect) side by side. In terms of goodness of fit, the Fixed Effect Model has the highest Adjusted R-squared (0.176), followed by the Common Effect Model (0.115), and the Random Effect Model (0.073); all three also have Prob. F-statistic values below 0.05, indicating that the models are simultaneously significant. However, the final model selection was not solely based on the Adjusted R-squared, but rather on the results of a series of model specification tests (Chow, Hausman, and Lagrange Multiplier) as summarized in the second table. Based on this test flow, the Common Effect Model (CEM) was the final model used in this study, although the Fixed Effect Model produced a slightly higher Adjusted R-squared. Comparison of the coefficients across the three models also shows a relatively consistent pattern of signs (direction of influence), particularly for the variables ER, ER*AC, and PC*AC, confirming that the CEM estimation results do not deviate significantly from the FEM or REM estimates.

Robustness Test (Huber M-Estimation)

To test the stability of the main regression results against the possible influence of outliers, a robustness test was conducted using the Huber M-estimation approach (robust regression).

The resulting regression equation is as follows:-

$TA = -0.460 + 0.106(PC) + 0.079(ER) - 0.0141(PC*AC) - 0.0143(ER*AC) + 0.090(P) + 0.028(Size) + \varepsilon$

Variables	Hypothesis Direction	Coefficient	t-Stat	Sig. 2 tailed	Sig. 1 tailed	Results
Constant	-	-0.460	-2,377	0.017	0.008	-
Political Connections (PC)	Positive/Negative	0.106	1,627	0.103	0.051	H1 Rejected
Executive Risk Preference (ER)	Negative	0.079	0.773	0.439	0.219	H2 Rejected
PC*AC	Weaken	-0.0141	-1,445	0.148	0.074	H3 Rejected
ER*AC	Weaken	-0.0143	-1,120	0.262	0.131	H4 Rejected
Frequency of Audit Committee (AC) Meetings	-	0.017	1,741	0.081	0.040	-
Profitability (P)	-	0.090	3,269	0.001	0,000	-
Company Size	-	0.028	2,786	0.005	0.002	-

Adjusted R-squared = 0.402; Prob. F-statistic = 0.000. *Sig 5%; **Sign 10%.:-

The robustness test results using the Huber M-estimation approach generally confirm the conclusions of the main model for the Political Connections (PC) and Executive Risk Preference (ER) variables: both remain insignificant on Tax Avoidance (TA) at the 5% level, although the PC coefficient is marginally significant in the one-way test at the 10% level (prob. 0.051). The interaction variable PC*AC remains insignificant, consistent with the results of the main model (H3 is still rejected). However, the interaction variable ER*AC in the robustness test changes sign to negative (-0.0143) and is insignificant (prob. 0.262), in contrast to the results of the main model which shows a positive and significant coefficient (H4 is accepted in the main model). This difference indicates that support for Hypothesis 4 in the main model is quite sensitive to the presence of outlier data, so the results of H4 need to be interpreted with caution and supported by additional explanations. On the other hand, the control variables Profitability (P) and Firm Size (Size) consistently have a positive and significant effect on tax avoidance in this robustness test, even with a stronger significance level than the main model. The Adjusted R-squared value in the robustness test increased significantly to 0.402, indicating that some of the TA variability in the previous main model was indeed influenced by extreme observations that were given a smaller weight by Huber M-estimation.

Quantile Regression Test

Quantile regression tests were conducted to determine whether the influence of independent variables on tax avoidance differs across different positions/points in the TA distribution, namely at the lower quantile Q=0.25,

median Q=0.50, upper quantile Q=0.75, and highest decile Q=0.90. This approach complements the mean regression model, which only captures the average influence and potentially conceals heterogeneity in influence across groups of companies with varying levels of tax avoidance.

Variables	Q=0.25 Beta	Q=0.25 Prob	Q=0.50 Beta	Q=0.50 Prob	Q=0.75 Beta	Q=0.75 Prob	Q=0.90 Beta	Q=0.90 Prob
Constant	-0.525	0.060	-0.938	0.011*	-0.746	0.115	-3,224	0.014*
Political Connections (PC)	0.239	0.002*	0.086	0.475	-0.179	0.438	-0.376	0.393
Executive Risk Preference (ER)	0.028	0.878	0.110	0.440	0.176	0.117	-0.921	0.919
PC*AC	-0.031	0.002*	-0.018	0.224	0.017	0.504	0.015	0.826
ER*AC	-0.010	0.658	-0.015	0.306	-0.031	0.022*	0.234	0.917
Audit Committee (AC) Meeting Frequency	0.035	0.001*	0.020	0.177	-0.014	0.582	-0.055	0.875
Company Size	0.021	0.134	0.052	0.008*	0.061	0.029*	0.214	0.129
Profitability (P)	0.121	0,000*	0.080	0.003*	0.054	0.078**	-0.137	0.027*

***Sig 5%; **Sig 10%.**

At the quantile Q=0.25 (the group of companies with the lowest level of tax avoidance), the Political Connections (PC) variable has a significant positive effect on TA (coefficient 0.239; prob. 0.002), the Frequency of Audit Committee Meetings (AC) also has a significant positive effect (coefficient 0.035; prob. 0.001), while the PC*AC interaction has a significant negative effect (coefficient -0.031; prob. 0.002). This pattern indicates that in companies with low tax avoidance, political connections are associated with a slight increase in tax avoidance, but this effect is significantly weakened by the intensity of audit committee meetings. Profitability (P) also has a significant positive effect at this quantile (coefficient 0.121; prob. 0.000).

At the quantile Q=0.50 (median), the only significant variables are Firm Size (coefficient 0.052; prob. 0.008) and Profitability (P) (coefficient 0.080; prob. 0.003), both of which have a positive effect. The variables PC, ER, and their interactions with AC are not significant at the midpoint of the distribution, indicating that in firms with moderate levels of tax avoidance, firm size and profitability are more dominant in explaining variations in tax avoidance than political connections or executive risk preferences.

At quantile Q=0.75 (group of companies with relatively high tax avoidance), the ER*AC interaction has a significant negative effect (coefficient -0.031; prob. 0.022), indicating that in this group the frequency of audit committee meetings effectively weakens the influence of executive risk preferences on tax avoidance. Company Size remains a significant positive effect (coefficient 0.061; prob. 0.029), and Profitability has a significant positive effect at the 10% level (coefficient 0.054; prob. 0.078).

At the quantile Q=0.90 (the group of companies with the highest tax avoidance), only the constant and Profitability are significant; interestingly, Profitability actually has a significant negative effect in this group (coefficient -0.137; prob. 0.027), in contrast to the consistent positive pattern found in the previous quantiles. The variables PC, ER, both their interactions with AC, AC itself, and Size is not significant in this group of companies with the most extreme tax avoidance.

Overall, the quantile regression results indicate that the influence of Political Connections, the PC*AC interaction, and Audit Committee Meeting Frequency are significantly concentrated in the group of companies with low tax avoidance (Q=0.25), while the moderating effect of Audit Committee Meeting Frequency on Executive Risk Preference (ER*AC) appears significant in the group of companies with high tax avoidance (Q=0.75). Meanwhile, Company Size and Profitability are relatively consistent in having a significant effect throughout the distribution except at the highest extreme point. This finding confirms that the influence of the research variables on tax avoidance is heterogeneous depending on the company's position in the TA distribution, something that is not captured by the mean regression model in the Common Effect Model.

Overall, the results of hypothesis testing using the Common Effect Model indicate that of the four hypotheses proposed, only Hypothesis 4 (the moderating role of Audit Committee Meeting Frequency on the influence of Executive Risk Preference) is statistically supported in a one-way test, while Hypotheses 1, 2, and 3 are not statistically supported even though most of their coefficient directions are consistent with theoretical predictions. Robustness testing using Huber M-estimation reaffirms the insignificance of the direct effect of Political Connections and Executive Risk Preference, but also indicates that support for Hypothesis 4 is quite sensitive to the presence of outliers and therefore needs to be interpreted with caution. Quantile regression testing further enhances these findings by showing that the influence of Political Connections and the moderating effect of Audit Committee Meeting Frequency are not uniform across the distribution of tax avoidance levels, but rather concentrated in certain groups of companies—political connections and their interaction with the audit committee are more relevant in companies with low tax avoidance, while the moderating effect on executive risk preference is more relevant in companies with high tax avoidance. The control variables of Company Size and Profitability generally have a significant positive effect on tax avoidance, consistent in the main model, robustness test, and most quantile points, except in the group of companies with the most extreme tax avoidance.

Conclusion:-

Based on this research, it is concluded that in energy sector companies, political connections do not have a significant effect on tax avoidance, this is in accordance with the results of research conducted by Alfiyah et al. (2022), Yadnye & Mayangsari (2023), and Sholihah & Rahmiati (2024) support that political connections have no impact on tax avoidance. These results are inconsistent with those conducted by Pratomo et al. (2021) and Manihuruk & Novita (2022), which show that political connections impact tax avoidance. Executive risk preferences also show no significant effect on tax avoidance, a finding consistent with research by Ade Firmansyah et al. (2025), but inconsistent with research by Hanafi & Harto (2014). The role of audit committee meeting frequency only moderates the relationship between executive risk preferences and political connections, but does not moderate the relationship between political connections and tax avoidance. Audit committees are considered to play a crucial role in corporate governance, particularly in overseeing management actions that could potentially deviate from tax compliance. Executives with high- risk preferences tend to be more aggressive in tax avoidance, but this influence can be mitigated if the company has an effective audit committee.

This study has limitations, including a limited sample size, which only examined public companies in the energy sector in Indonesia. Therefore, it cannot directly describe conditions in unlisted companies, companies in other sectors, or in other countries with different legal and taxation systems. Future research could use a sample of all companies listed on the Indonesia Stock Exchange to provide a more comprehensive picture of tax avoidance conditions in Indonesia. Comparing the findings with other countries in Southeast Asia with similar political and legal conditions, and expanding the observation period may also be necessary to capture the impact of changes in tax regulations or economic conditions.

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