

## Tax Aggressiveness: Political Connection and Chief Financial Officer with Audit Quality as Moderating

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### Abstract

*This study aims to examine the role of audit quality in moderating the effect of political connection and CFO characteristics on tax aggressiveness. The population in this study consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2018-2022. The sampling technique used is purposive sampling with a total 255 observational data from 51 sample companies. This research employs Moderated Regression Analysis (MRA) for hypothesis testing. The results indicate that political connections has no effect on tax aggressiveness. The CFO characteristics that has a negative effect on tax aggressiveness are gender and education level while accounting expertise has no effect. The result also show audit quality unable to strengthen the effect of political connection and CFO gender on tax aggressiveness but able to weaken the impact of the CFO's education level and accounting expertise on tax aggressiveness.*

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### 1. Introduction

Tax aggressiveness represents a form of conflict of interest arising from differing perceptions regarding the definition of taxes. For the government, taxes are necessary to fund public interests, including infrastructure development, thus the government will maximize potential revenue from the tax sector. This perception is contrary to the viewpoint of taxpayers who consider taxes as a burden on the company (Bagus et al., 2017; Istrate, 2021; Picas et al., 2021). This difference motivates management to adopt several methods to minimize payable taxes (Arham et al., 2020; Sebele-Mpofu et al., 2021; Kalra & Afzal, 2023). Continuous tax avoidance or tax evasion activities will be categorized as tax aggressiveness. The phenomenon of tax aggressiveness in Indonesia is reflected in the low tax ratio which is no more than 11% (cnbcindonesia.com). Furthermore, the high number of taxpayers participating in tax amnesty shows that many taxpayers do not report their assets. A Total of 956,790 and 247,918

Taxpayers participated in the first phase and the second phase (cnnindonesia.com). Permatasari et al. (2023) explains that companies engaging in aggressive tax practices are more likely to participate in tax amnesty programs.

One case of tax aggressiveness was revealed by Global Witness regarding PT Adaro Energy's practice of transfer pricing with its subsidiary, Coaltrade Services International, as a tax avoidance measure. Upon further investigation, PT Adaro Energy was found to have a political figure serving as one of its shareholders. Additionally, a case of tax aggressiveness involved Agus Susetyo, as the legal representative of PT Jhonlin Baratama, who bribed the inspection team to reduce the Tax Assessment Letter of PT Jhonlin Baratama for 2016 and 2017 from IDR 63 billion to IDR 10 billion. Upon further investigation, this case involved the desire of Fahruzzani, as the CFO of PT Jhonlin Baratama, to minimize payable taxes. All that phenomenon can significantly reduce government revenue. The government will lose potential income that could have been used to fund pu-

blic services. Tax aggressiveness can also create issues of tax equity. Compared to small companies with limited resources, larger corporations are more likely to have the resources to engage in complex tax avoidance strategies.

Tax aggressiveness represents an issue arising from the conflict of interest between companies and the government, explained in agency theory as a type III agency conflict (Whait et al., 2018; Payne & Raiborn, 2018; Baudot et al., 2020). Political connections, as a link between companies and the government, play a significant role in determining a company's strategic decisions (Huang & Zhao, 2016; Kaplanoglou *et al.*, 2016; Najaf & Najaf, 2021). Ajili & Khelif (2020) provide that companies with political connections are likely to be more aggressive in tax avoidance. Kim & Zhang (2016) show that political connection can shield the company from the risks of detection for aggressive tax avoidance activities. Tax planning becomes more aggressive because political connections reduce the risk of detection for aggressive tax activities. This leads companies to be bolder in taking on larger tax avoidance risks. Executive management is responsible for selecting company policy strategies. Firmansyah *et al.* (2022) also explain that directors, commissioners, and shareholders, as rational individuals, will maximize their utility, one way of which is by leveraging their political connections to reduce tax liabilities. The decision to be aggressive or not in tax avoidance is determined by the top management (Oktaviani *et al.*, 2022). The CFO has a role in this decision as the person in charge of finances. Taleatu *et al.* (2020) explains that the characteristics of the CFO have a significant influence on financial reporting choices according to the objectives to be achieved. Differences in the characteristics of top management can result in different financial reporting strategies (Gibson *et al.*, 2018; Lapointe-Antunes *et al.*, 2021). Upper Echelon Theory explains that the characteristics of top management influence the company's out-comes, such as gender, educational background, and accounting expertise.

However, the evidence regarding the effect of political connection and CFO characteristics, especially gender, level of educational background, and accounting expertise on tax aggressiveness, is mixed. Some studies found that political connections have a positive effect on tax aggressiveness (Firmansyah *et al.*, 2022; Kim & Zhang, 2016; Yudanto & Damayanti, 2022), but Iswari *et al.* (2019), Setyastrini *et al.* (2022) provide different results indicating that political connections can in-

crease oversight of company operations, leading companies to choose to maintain their corporate image by not engaging in tax avoidance practices. Lestari *et al.*, (2019) and Purwanti & Sugiyarti (2017) found that political connections have no impact on tax aggressiveness. Some studies found that women tend to be less risk-averse, hence tax avoidance is not conducted aggressively (Francis *et al.*, 2014; Lanis *et al.*, 2017; Liao *et al.*, 2019; Riguén *et al.*, 2020). However, Liu *et al.* (2022) provided different results, indicating that female CFOs are more aggressive in tax avoidance. Regarding education level, Aliani (2014), Law dan Mills (2017), and Oktaviani *et al.* (2022) found that education level negatively affects the effective tax rate, indicating an increase in tax aggressiveness. But some studies found that education level increases taxpayer compliance (Assfaw & Sebhat, 2019; Astutik & Venusita, 2020). Concerning accounting expertise, several studies have shown that CFOs with accounting expertise act more aggressively in tax avoidance (Chen *et al.*, 2020; Huang & Zhang, 2020; Karavitis *et al.*, 2023). However, Park *et al.* (2016), Francis *et al.*, (2022), and Jiang & Kim (2024) provided different results.

The author identified ongoing gaps in this topic due to inconsistent findings in previous empirical studies. These discrepancies may be attributed to varying samples or the influence of other variables on the relationship between political connection and CFO characteristics on tax aggressiveness. A variable that can address this issue is needed. This study builds on prior research by introducing audit quality as a moderating variable. Aggressive tax avoidance practices resulting from opportunistic behavior can be controlled by reliable financial statements (Alfraih, 2017). External auditors play a role in assessing the reliability of financial statements, making auditor quality crucial in this assessment. Richardson *et al.* (2013) explain that external auditors can reduce the level of tax aggressiveness. Audit quality can be seen from the size of the public accounting firm (KAP). Pratomo & Wibowo (2024) and Fu *et al.* (2024) prove that the size of the KAP negatively affects tax aggressiveness. Large KAPs (Big 4 KAPs) can prevent companies from reporting unreasonable tax reductions. This is because Big 4 KAPs strive to maintain a high level of independence and are more skeptical compared to non-Big 4 KAPs.

This study aims to examine the effect of political connection and CFO characteristics on tax aggressiveness and examine the role of audit quality in moderating the effect of tax aggressive-

ness on manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2018-2022.

## 2. Hypothesis Development

Political connections are relationships established between parties with political identities. These relationships are intended to achieve certain goals that can benefit both parties. Political connections serve as a link between companies and the government, thus playing a crucial role in determining strategic decisions, including tax-related decisions (Kaplanoglou *et al.*, 2016). Positive accounting theory assumes that companies have the freedom to determine their strategic policies and that company management will act rationally and seek to maximize their utility (Watts & Zimmerman, 1990; Chariri & Ghazali, 2014). The existence of political connections allows companies to behave opportunistically, using these connections as a means to reduce their tax liabilities. This can be explained by the fact that lower tax liabilities increase the company's profits. Companies with political connections receive protection from politicians against detection and litigation risks associated with tax avoidance. Moreover, political connections provide access to better information regarding tax regulations, making it easier for companies to plan tax aggressiveness strategies that can be tolerated. (Ahmad *et al.*, 2022; Ajili & Khelif, 2020). Firmansyah *et al.* (2022), Yudianto & Damayanti (2022), and Ajili & Khelif, (2020) provide consistent findings that companies with political connections are more likely to engage in more aggressive tax avoidance practices.

H<sub>1</sub>: Political connection positively effect tax aggressiveness

Gender differences can lead to variations in a company's strategic decisions. Women tend to be more risk-averse and more compliant, thus being less aggressive in minimizing tax burdens. Several studies have shown a negative influence of female CFOs on tax aggressiveness (Francis *et al.*, 2014; Martinez & Ramalho, 2014; Lanis *et al.*, 2017; Liao *et al.*, 2019; Nguyen *et al.*, 2020; Riguen *et al.*, 2020; Budiana & Kusuma, 2022). The study by Francis *et al.* (2014) indicates that female CFOs engage in less tax aggressiveness compared to their male counterparts. This is consistent with the findings of Liao *et al.* (2019), which demonstrate that women are more likely to comply with applicable regulations to avoid the risks associa-

ted with non-compliance. Tax aggressiveness not only results in sanctions against the company but can also cause substantial reputational loss for the CFO. Therefore, female CFOs are more likely to avoid activities leading to tax aggressiveness. Based on the above explanation, the researchers predict that female CFOs have a negative influence on the company's tax aggressiveness.

H<sub>2</sub>: Female CFOs negatively effect tax aggressiveness

Education enhances cognitive abilities, combining intelligence and knowledge (Amin *et al.*, 2022). Education level can be an indicator of cognitive values and preferences to a certain extent (Hambrick & Mason, 1984). Several studies have shown that education level positively affects tax aggressiveness (Ahmed & Kedir, 2015; Aliani, 2014; Law & Mills, 2017). Aliani (2014) demonstrated that education levels equivalent to a master's or doctoral degree can reduce a company's effective tax rate (ETR). Consistent with Law and Mills (2017), management with an MBA level education is more knowledgeable about tax planning strategies. Additionally, Ahmed and Kedir (2015) stated that the higher the taxpayer's knowledge, the lower the taxpayer's compliance. This is because the knowledge acquired is used to identify loopholes and find solutions to avoid tax obligations. Based on the above explanation, the researchers predict that the CFO's education level has a positive effect on the company's tax aggressiveness.

H<sub>3</sub>: CFO's education level positively effect tax aggressiveness

Accounting expertise is the work experience a person has, particularly in finance and accounting, resulting in individual financial sophistication. CFOs with accounting expertise may have a broader perception of legal and regulatory aspects, leading them to prefer strategic decisions that are risky if the expected returns are higher (Huang & Zhang, 2020). Several studies have shown that accounting expertise positively affects tax aggressiveness (Chen *et al.*, 2020; Huang & Zhang, 2020; Karavitis *et al.*, 2023). Huang and Zhang (2020) demonstrated that financial expertise could reduce the level of CETR. Consistent with (Chen *et al.*, 2020), which showed that CFOs with accounting expertise negatively affect the company's effective tax rate (ETR). This indicates that the CFO's accounting expertise can help them explore tax planning opportunities, enabling them

to act aggressively. Karavitis et al. (2023) also supported previous research by showing that CFOs with skills are more likely to engage in aggressive tax avoidance. Based on the above explanation, the researchers predict that CFOs with accounting expertise have a positive effect on the company's tax aggressiveness.

H<sub>4</sub>: CFO's accounting expertise positively effect tax aggressiveness

Tax aggressiveness practices caused by the opportunistic behavior of top management can be controlled with reliable financial statements. Financial statements can act as a medium controlling adverse selection between agents and principals (Scott, 2015). Reliable financial statements can reduce conflicts of interest between companies and the government Alfraih (2017). External auditors play a role in assessing the reliability of financial statements based on auditor justification, making auditor quality crucial in this assessment. Several studies state that audit quality can reduce a company's aggressive tax avoidance (Fu et al., 2024; Khairunisa et al., 2017; Pratomo & Wibowo, 2024; Richardson et al., 2013). Higher quality auditors will pay attention to risky tax avoidance activities due to considering reputational and litigation risks (Kanagaretnam et al., 2016). Audit quality can be assessed by the size of the public accounting firm (KAP). Pratomo and Wibowo (2024) and Fu et al. (2024) proved that KAP size negatively affects tax aggressiveness. Large KAPs (Big 4 KAPs) can prevent companies from reporting unreasonable tax reductions.

H<sub>5</sub>: Audit Quality weakens the positive effect of political connection on tax aggressiveness

H<sub>6</sub>: Audit Quality strengthen the negative effect of Female CFOs on tax aggressiveness

H<sub>7</sub>: Audit Quality weakens the positive effect of CFO's education level on tax aggressiveness

H<sub>8</sub>: Audit Quality weakens the positive effect of CFO's accounting expertise on tax aggressiveness

### 3. Data and Methods

This study uses a positive paradigm with a quantitative approach to test the hypothesis. The population in this research consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the periode 2018-2022. Manufacturing companies were selected as the research object due to their extensive business activities, ranging from the purchase of raw materials to the process of becoming finished goods ready for

sale, thereby broadening the scope of tax transaction aspects. The determination of the research period is based on the period after the implementation of the tax amnesty policy in Indonesia in 2016-2017. The implementation of the tax amnesty caused the tax burden paid by the company to reflect the current year's tax burden plus the previous year's tax burden, leading this study to decide on the research period of 2018-2022.

The sampling technique used is purposive sampling with sample criteria adjusted to the research objectives to ensure the sample is representative. The sample criteria include: first, manufacturing companies listed on the IDX from 2018 to 2022 consecutively with accessible and available financial reports for that period; second, having all the data needed to measure the research variables; third, using the rupiah currency to ensure consistency in financial analysis, so there are no significant differences due to exchange rate fluctuations; fourth, companies not having pre-tax profit and fiscal profit with negative values to avoid distortions in measuring tax avoidance due to the compensation of fiscal losses. The research sample comprises 51 companies, with a total of 255 firm-years.

Tax aggressiveness is measured using ETR, calculated by dividing current tax expense by pre-tax profit, referring to Setyastrini et al. (2022). ETR was chosen because it has a good ability to detect potential tax aggressiveness in the current year and can encompass all tax aggressiveness activities. Political connection is measured using a dummy variable based on Wong & Hooy (2018), valued at one for companies with political connections and zero for otherwise.

CFO characteristics are determined based on gender differences, education levels, and accounting expertise. Gender is measured using a dummy variable based on the gender of the CFO, valued at one if the CFO is female and zero otherwise (Liu et al., 2022). Education level is measured using a dummy variable based on the different levels of education attained by the CFO, valued at one for CFOs with a background in finance, accounting, or tax at the Master's level, and zero for others (Astutik & Venusita, 2020). Accounting expertise is measured using a dummy variable, valued at one if the CFO has accounting expertise & zero otherwise. Referring to Chen et al. (2020), we recognize a CFO as having accounting expertise if they meet any of the following criteria: (a) have been a partner at an accounting firm, (b) describe themselves as having accounting expertise in their

autobiography, or (c) have served as a CFO at another company. Audit quality is measured using a dummy variable referring to Pratomo and Wibowo (2024), valued at one if the company is audited by a Big 4 audit firm and zero if the company is audited by a non-Big 4 audit firm.

This study uses leverage, firm size, profitability, and sales growth as a control variable referring to Astutik dan Venusita (2020) and Huang and Zhang (2020). The use of control variables is expected to provide a more complete and better empirical model. Leverage is chosen as a control variable because companies with higher leverage levels will use tax shields from debt financing, thus not needing to engage in aggressive tax planning. Leverage is calculated by dividing total liabilities by total assets. Firm size is chosen as a control variable because it is a determinant in better corporate governance, resulting in better performance. Additionally, firm size plays a role in determining corporate tax management. Firm size is calculated by the natural logarithm of total assets. Profitability is chosen as a control variable to distinguish changes in corporate tax obligations that are the result of tax management influence or the natural impact of the company's profitability. Profitability is calculated using ROA, which is net income divided by total assets. Sales growth was chosen as a control variable to show that tax aggressiveness practices occur as a result of tax planning regardless of the influence of income growth. Sales growth is calculated using subtract the amount of sales in this period from the previous period, divide it by the sales in the previous period.

This study uses secondary data with documentation methods to collect research data. The research employs moderated regression analysis (MRA) techniques with SPSS as the research tool. The following is a model of research regression equation:

$$ETR_{i,t} = \alpha + \beta_1 PC + \beta_2 Gend + \beta_3 Educ + \beta_4 AE + \beta_5 Lev + \beta_6 ROA + \beta_7 Size + \beta_8 SG + \varepsilon \quad (1)$$

$$ETR_{i,t} = \alpha + \beta_1 PC + \beta_2 Gend + \beta_3 Educ + \beta_4 AE + \beta_5 Lev + \beta_6 ROA + \beta_7 Size + \beta_8 SG + \beta_9 AO + \beta_{10} PC * AO + \beta_{11} Gend * AO + \beta_{12} Educ * AO + \beta_{13} AE * AO + \varepsilon \quad (2)$$

Where: ETR= Effective tax rate, Gend= Gender, Educ= CFO's education, AE= Lev=Leverage; ROA= Return on Assets, Size= Firm size, AO= Audit Quality PC= Political connection, AE= Accounting expertise

#### 4. Result

Table 1 presents the descriptive statistics analysis to explain the data, as demonstrated by the maximum, minimum, average, variance, and standard deviation values. Based on table 1, the mean ETR is 0.242, which indicates that the ETR is in the low category. The maximum value is 0.53 and the minimum value is 0.19. The standard deviation of the ETR of 0.0321 is smaller than the average value, which means that ETR has a high probability of fluctuation.

Table 1. Descriptive Statistical Analysis Results

	Min	Max	Mean	Std. Dev
ETR	.19	.53	.242	.032
PC	.00	1.00	.242	.429
Gend	.00	1.00	.148	.356
Educ	.00	1.00	.442	.497
Expert	.00	1.00	.646	.478
AO	.00	1.00	.455	.499
Lev	.08	2.80	.394	.249
Size	3.26	3.49	3.368	.052
ROA	.00	.54	.113	.090
SG	-.47	1091.98	4.755	71.226

Political connection has a mean value of 0.242 which is included in the low category. The maximum value is 1 and the minimum value is 0. The standard deviation of political connection of 0.429 is greater than the average value, which means that the political connection has a lower possibility of value fluctuation. Gender has a mean value of 0.148 which is included in the low category. The maximum value is 1 and the minimum value is 0. The standard deviation of gender of 0.356 is greater than the average value, which means that the gender has a lower possibility of value fluctuation. Education level has a mean value of 0.442 which is included in the medium category. The maximum value is 1 and the minimum value is 0. The standard deviation of education level of 0.497 is greater than the average value, which means that the education level has a lower possibility of value fluctuation. Accounting expertise has a mean value of 0.646 which is included in the medium category. The maximum value is 1 and the minimum value is 0. The standard deviation of accounting expertise of 0.497 is smaller than the average value, which means that accounting expertise has a high probability of fluctuation. Audit quality has a mean value of 0.455 which is included in the medium category. The maximum value is 1 and the minimum value is 0. The standard deviation of audit quality of 0.499 is greater than the average value, which means that the

audit quality has a lower possibility of value fluctuation.

Table 2. Hypothesis Test Results

Hipotesis	$\beta$	T-Stat	Sig.	Concl.
Panel A				
PC → ETR	-.001	-.348	.728	Rejected
Gend → ETR	.008	2.440	.015	Accepted
Educ → ETR	-.019	-8.769	.000	Accepted
Expert → ETR	.002	.958	.339	Rejected
Lev → ETR	.100	23.615	.000	
ROA → ETR	-.085	-7.312	.000	
Size → ETR	-.095	-4.381	.000	
SG → ETR	-1.72	-1.150	.251	
R-Square	0.763			
Adj R <sup>2</sup>	0.754			
F-Statistik	90.811			
Prob. F	0.000			
Panel B				
PC → ETR	-.007	-2.587	.010	
Gend → ETR	.016	5.297	.000	
Educ → ETR	-.029	-17.028	.000	
Expert → ETR	-.007	-4.195	.000	
Lev → ETR	.102	40.176	.000	
ROA → ETR	-.116	-16.223	.000	
FS → ETR	-.252	-16.091	.000	
SG → ETR	-9.56	-1.063	.289	
AQ → ETR	.021	6.688	.000	
PC*AQ → ETR	.004	1.215	.226	Rejected
Gend*AQ → ETR	-.022	-5.673	.000	Rejected
Educ*AQ → ETR	.013	4.975	.000	Accepted
Expert*AQ → ETR	.009	3.200	.002	Accepted
R-Square	0.919			
Adj R <sup>2</sup>	0.914			
F-Statistik	191.743			
Prob. F	0,000			

Table 2 presents the hypothesis testing results of this study. Based on the results of Panel A, political connection has no effect on tax aggressiveness with a significance value  $0.728 > 0.05$ . Gender has a positive effect on tax aggressiveness with a significance value  $0.015 < 0.05$ . Education level has a positive effect on tax aggressiveness with a significance value  $0.000 < 0.05$ . Accounting expertise has no effect on tax aggressiveness with a significance value  $0.339 > 0.05$ . Based on the results of Panel B, audit quality unable to moderate the effect of political connection on tax aggressiveness with a significance value  $0.226 > 0.05$ . Audit quality unable to strengthen the negative effect of female on tax aggressiveness, as the results show a negative coefficient despite the significance value  $0.000 < 0.05$ . Audit quality able to weaken the positive effect of the level of education on tax

aggressiveness with a significance value  $0.000 < 0.05$ . Audit quality able to weaken the positive effect of the accounting expertise on tax aggressiveness with a significance value  $0.003 < 0.05$ .

## 5. Discussion

### Political Connection on Tax Aggressiveness

This study demonstrates that political connections do not have a positive effect on corporate tax aggressiveness. Political connections do not directly lead companies to engage in tax aggressiveness. The results do not support positive accounting theory, which explains that companies will use accounting choices to reduce profits when political costs and corporate taxes increase. However, this study aligns with the legitimacy theory, which posits that companies strive to build and maintain a positive public perception by considering all stakeholders, such as consumers, employees, investors, and the government. Companies with political connections tend to comply with tax regulations to enhance stakeholder trust. This explains why corporate political connections can reduce the level of tax aggressiveness.

This finding is inconsistent with previous research by Firmansyah *et al.* (2022) and Sudibyo & Jianfu (2016). Firmansyah *et al.* (2022) explained that, as rational individuals, directors, commissioners, and shareholders will maximize their utility by leveraging their political connections to enhance corporate profits. However, this finding is consistent with Setyastrini *et al.* (2022), who noted that political connections can mitigate aggressive tax avoidance behavior. Political connections can increase oversight of corporate operations, prompting companies to maintain their image by avoiding tax evasion practices (Setyastrini *et al.*, 2022). This study is also supported by Iswari *et al.* (2019), who found that the political ties of board members prevent companies from engaging in tax aggressiveness. Political connections between companies and the government synchronize the interests of both parties, with tax compliance enhancing the company's image as a compliant taxpayer.

The results of this study are consistent with real-world observations, as illustrated by a report from CNBC Indonesia (2018), where Finance Minister, Sri Mulyani Indrawati, awarded 31 of the most compliant taxpayers. The companies mentioned in the article, that are politically connected, are categorized as the most compliant taxpayers. This serves as evidence that companies politically

connected to the government tend to comply more with tax regulations. The presence of government roles within a company's organizational structure can classify the company as a low-risk taxpayer, supporting the Ministry of Finance Regulation No. 71/PMK.03/2010 regarding low-risk taxable entrepreneurs. This study provides empirical evidence that corporate political connections do not lead to aggressive tax avoidance behavior. Political connections can enhance the oversight of corporate operations, making it easier to detect and sanction tax aggressiveness. Additionally, political connections align corporate interests with those of the government, leading to higher tax compliance. Therefore, companies with political connections have the potential to reduce their tax aggressiveness.

### **Gender on Tax Aggressiveness**

This study demonstrates that female CFOs have a positive impact on the Effective Tax Rate (ETR). This result indicates that companies with female CFOs tend to have higher ETRs, suggesting they engage in less tax aggressiveness. Thus, companies led by female CFOs are less likely to participate in aggressive tax activities compared to those led by male CFOs. This study supports Upper Echelons Theory, which posits that gender is one of the characteristics that can influence top management decisions. Aggressive tax avoidance is a risky investment opportunity, so female CFOs are likely to engage in less tax aggressiveness. In psychological literature, women have lower adrenaline levels compared to men, leading them to engage in fewer risky actions. This results in more conservative decision-making by women regarding financial analysis, often within reasonable limits. Tax aggressiveness, as an implementation of non-compliance with tax regulations, is a risky investment opportunity. A CFO found engaging in tax aggressiveness would suffer substantial reputational damage, impacting their future career. This perception leads women to engage in less tax avoidance, reflected in the increased ETR of the company. This finding differs from Liu et al. (2022) but is consistent with the research by Liao et al. (2019), Budiana and Kusuma (2022), and Jarboui et al. (2020), which found that women can reduce corporate tax aggressiveness.

### **Education level on Tax Aggressiveness**

This study shows that the education level of CFOs negatively affects the Effective Tax Rate

(ETR). The results indicate that companies with more highly educated CFOs have lower ETRs, implying more aggressive tax strategies. Therefore, companies led by CFOs with higher education levels are more likely to engage in tax aggressiveness compared to those with less educated CFOs. Education level is seen as a way to develop potential to become competent individuals (Oktaviani et al., 2022). High education indicates intelligence and the ability to complete and sustain challenging intellectual activities. Someone with a higher educational background will have a better theoretical foundation in analyzing situations than those without. This theoretical foundation contributes to the CFO's ability to better identify grey area opportunities and make better and more accurate decisions about these opportunities. This explains how CFOs use their intelligence to exploit opportunities to maximize company profits through tax aggressiveness.

These findings support the Upper Echelons Theory, which suggests that differences in educational background provide distinct foundations for managerial decision-making within companies. Upper Echelons Theory states that the educational background of top managers influences managerial decisions because it contributes to the creation of value, knowledge, skills, and cognitive preferences. Differences in educational levels will result in different decision outcomes. This study differs from Assfaw & Sebhata (2019) and Astutik & Venusita (2020) but is consistent with Law and Mills (2017), Ahmed and Kadir (2015), Aliani (2014) who found that managers with MBA degrees are more knowledgeable about tax planning strategies.

### **Accounting Expertise on Tax Aggressiveness**

This study does not find a significant impact of accounting expertise on the Effective Tax Rate (ETR). The results indicate that accounting expertise does not significantly influence tax aggressiveness. This study is inconsistent with the findings of Chen et al. (2020) and Huang and Zhang (2020). Chen et al. (2020) explain that accounting expertise provides better ability to explore tax planning opportunities. It is further explained that companies led by CFOs with accounting expertise have an ETR as low as 19.4% compared to CFOs without accounting expertise. Huang and Zhang (2020) also explain that CFOs with accounting expertise are more adept at considering cost and benefit. When the benefits far

outweigh the costs, CFOs with accounting expertise will seize the opportunity. However, this study's results do not align with those findings. This research provides empirical evidence that accounting expertise does not affect tax aggressiveness. This result is supported by Park et al. (2016), who state that the expertise possessed by management does not lead to tax aggressiveness. Accounting expertise gives CFOs better capability in resource management.

This research provides empirical evidence that a CFO's professional experience, as an indicator of accounting expertise, does not lead the CFO to engage in aggressive tax avoidance behavior. Professional experience offers the CFO a better perspective on the company's potential, leading to a focus on more effective resource management rather than tax avoidance. This experience provides an understanding that aggressive tax avoidance activities do not always come with a guaranteed assurance against tax audits. On the contrary, companies that engage in aggressive tax avoidance and are audited by tax authorities could face significant losses, particularly in terms of administrative penalties, damage to the company's reputation, and a decline in stock value if the company is found guilty of tax avoidance by the tax authorities (Chen et al., 2010). This makes aggressive tax avoidance activities considered a high-risk investment. They prefer to use their skills to maximize limited resources effectively rather than engaging in high-risk tax aggressiveness to increase company profits.

### **The Role of Audit Quality in Moderating Political Connection and CFO Characteristics**

This study demonstrates that audit quality can effectively moderate the influence of accounting expertise and education level on tax aggressiveness. However, this research does not find evidence that audit quality moderates the impact of political connections and gender on tax aggressiveness. The results of this study support agency theory, which posits that tax aggressiveness stemming from conflicts of interest can be controlled through the reliability of financial reports validated by high-quality audits. These findings inline with Fu et al. (2024), which explain that companies audited by large auditors can reduce tax aggressiveness, thereby decreasing opportunistic corporate behavior. Opportunistic actions in tax aggressiveness driven by education level and accounting expertise can be controlled through audit quality. The variables of education level and ac-

counting expertise influence tax aggressiveness by better identifying grey area opportunities, planning more accurate tax avoidance strategies, and having a broader perspective on tax regulations. Audit quality can mitigate this influence by enhancing accountability and transparency, making it more difficult for companies to conceal aggressive tax practices. Increased detection risk can also weaken this influence, encouraging companies to comply with tax regulations. On the other hand, the variables of political connections and gender affect tax aggressiveness through a strong commitment to tax compliance and business ethics, and by avoiding detection risks due to oversight arising from political connections. This explains why audit quality does not have the same effect on political connections and gender.

This study provides additional empirical evidence supporting the upper echelon theory, indicating that differences in top management characteristics influence strategic corporate decisions regarding tax aggressiveness. The findings also offer empirical support for agency theory, suggesting that conflicts arising from differing interests can be minimized by involving high-quality auditors in the justification of reliable financial statements. This research can be beneficial for policymakers, specifically the Directorate General of Taxes (DJP), by emphasizing the maximization of the role and responsibility of public accountants in financial reporting to prevent tax avoidance practices. This study suggests that high-quality audits ensure that auditors' justifications align with the company's financial statements. Maximizing the role and responsibilities of high-quality public accountants in financial reporting can help prevent tax Aggressiveness.

### **6. Conclusion and Suggestion**

This study examines the influence of political connection and CFO characteristics on tax aggressiveness and investigates whether audit quality can moderate this influence. The research focuses on manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2022. The results indicate that gender and education level significantly impact tax aggressiveness, while political connection and accounting expertise does not. Additionally, the findings show that audit quality able moderate the influence of education level and accounting expertise on tax aggressiveness, though it unable to moderate the impact of gender and political connection on tax aggressi-

veness. This study has limitations related to the research sample and the measurement of research variables. The COVID-19 pandemic caused most companies to have fiscal and commercial losses, which led to their exclusion from the research sample. Additionally, the measurement of the accounting expertise variable involves subjective assessment. The study recommends that future researchers use triangulation methods to measure accounting expertise, which would provide more accurate results.

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