The Effect of Firm Characteristics, Political Connections, and Ownership Structure on Tax Avoidance: Evidence from Non-Cyclical Consumer Sector in Indonesia

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Abstract

This study examines the effect of firm characteristics—profitability, leverage, and firm size—along with political connections and ownership structure (institutional and managerial ownership) on tax avoidance among non-cyclical consumer companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. Using a panel data approach with 45 firm-year observations and regression analysis via E-Views 12, the results reveal that profitability and leverage negatively influence tax avoidance. However, firm size, political connections, institutional ownership, and managerial ownership show no significant individual effect. Collectively, these factors have a statistically significant impact. The study contributes to the literature by highlighting the multidimensional nature of tax avoidance behavior and its link to both internal and external corporate governance factors.

Keywords: *Profitability, Leverage, Firm Size, Political Connection, Institutional Ownership, Managerial Ownership, Tax Avoidance.*

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Introduction

Tax revenues represent a vital component of a country's fiscal capacity, particularly in developing nations like Indonesia, where taxes contribute the largest share of state income. According to the 2023 State Budget (APBN), total government revenue reached IDR 2,463 trillion, of which IDR 2,021 trillion was sourced from taxation alone. The government expects full compliance from taxpayers to meet national development goals. However, in practice, many corporate taxpayers perceive taxes as a financial burden, leading them to engage in various tax avoidance strategies. Tax avoidance, though legally permissible, can erode the government's ability to fund public services and infrastructure effectively.

A prominent example involves PT Bentoel Internasional Investama, a tobacco company allegedly engaging in tax avoidance by leveraging cross-border debt structures with related entities in the Netherlands. This practice reduced the company's taxable income in Indonesia and led to estimated annual tax losses of USD 14 million (Susanto & Hanah, 2024). Such cases highlight the urgency of understanding the determinants of tax avoidance in Indonesia, particularly among companies in the non-cyclical consumer sector, which plays a significant role in national consumption and taxation.

Numerous studies have attempted to identify the key drivers of corporate tax avoidance. Prior research has investigated factors such as profitability (Wardani & Khoiriyah, 2018; Hidayat, 2018; Stawati, 2020), leverage (Kohang et al., 2023; Oktavia et al., 2021), firm size (Ramadhan & Suripto, 2022), political connections (Ng & Phie, 2020; Sawitri et al., 2022), and ownership structure—including institutional and managerial ownership (Charisma & Dwimulyani, 2019; Septanta, 2023). However, these studies have yielded inconsistent and sometimes contradictory findings.

For instance, some studies suggest that higher profitability leads to greater tax avoidance due to firms' desire to preserve earnings (Wardani & Khoiriyah, 2018), while others report the opposite (Hidayat, 2018), or find no effect at all (Stawati, 2020). Similarly, the influence of political connections on tax avoidance varies across studies depending on political environments and corporate governance structures. These inconsistencies suggest that the relationship between firm-specific characteristics and tax avoidance may be contingent on sectoral or institutional contexts.

This study aims to address these gaps by examining the combined and individual effects of firm characteristics (profitability, leverage, and firm size), political connections, and ownership structure (institutional and managerial ownership) on tax avoidance among non-cyclical consumer sector firms listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. By focusing on this specific sector, the study provides a more nuanced understanding of how internal corporate governance and external political affiliations interact in shaping firms' tax behavior.

This research adopts a quantitative approach using secondary financial data and applies panel regression models to account for firm-level and temporal variations. The findings are expected to contribute to the literature by clarifying the mixed empirical results found in previous studies and offering policy insights for regulators aiming to curb aggressive tax planning practices.

Literature Review

Theoretical Perspectives

Agency Theory

Agency theory (Jensen & Meckling, 1976) is the foundational lens through which tax avoidance behavior is often analyzed. It assumes a conflict of interest between shareholders (principals) and managers (agents), whereby agents may act in their own interests—such as minimizing corporate tax liabilities to increase reported profits or managerial bonuses—rather than maximizing shareholder or public value. In this framework, tax avoidance is a symptom of weak monitoring and incentive misalignment, especially when ownership and control are separated.

Stakeholder Theory

In contrast, Stakeholder Theory (Freeman, 1984) expands the corporate accountability framework by emphasizing that firms are responsible not only to shareholders but also to a wider network of stakeholders, including government, regulators, employees, and society. This theory suggests that firms sensitive to stakeholder expectations may refrain from aggressive tax strategies to preserve legitimacy, maintain reputation, and secure long-term sustainability (Lanis & Richardson, 2012). Political connections and firm visibility heighten scrutiny, influencing how firms balance financial incentives against stakeholder trust.

Resource Dependence Theory (RDT)

Resource Dependence Theory (Pfeffer & Salancik, 1978) posits that organizations seek to manage dependencies on external actors who control critical resources. Political ties, in this context, can be viewed as strategic resources that reduce regulatory uncertainty and facilitate access to preferential treatment, including tax leniency (Desai & Dharmapala, 2006). Similarly, ownership structures may reflect embeddedness within institutional networks that either constrain or enable tax planning, depending on how these relationships are leveraged.

Stewardship Theory

Stewardship Theory (Donaldson & Davis, 1991) assumes that managers can act as responsible stewards of corporate assets, especially when they share ownership in the firm. Unlike Agency Theory, it views managers as intrinsically motivated to serve organizational and societal goals. Under this framework, managerial ownership fosters long-term orientation and ethical conduct, thus reducing the likelihood of engaging in aggressive tax avoidance. However, this effect may vary depending on cultural and institutional contexts, such as in emerging markets with weak corporate governance.

Empirical Literature and Variable Relationships

Profitability

Profitability (often measured by Return on Assets) reflects a firm's ability to generate income efficiently. Under Agency Theory, higher profitability may encourage tax avoidance to preserve post-tax earnings. However, under Stakeholder Theory, profitable firms face higher visibility and are expected to behave responsibly. Empirical evidence remains mixed:

Previous studies on the relationship between profitability and tax avoidance have produced inconsistent results. Wardani and Khoiriyah (2018) found a positive relationship, suggesting that more profitable firms have greater resources and incentives to engage in tax planning strategies that reduce their tax burdens. Asadanie and Venusita (2020) also found that profitability and firm size significantly influenced tax avoidance in Indonesian listed firms. In contrast, Hidayat (2018) reported a negative effect, indicating that profitable firms may be more cautious in avoiding taxes due to higher public visibility and stakeholder scrutiny. Meanwhile, Stawati (2020) found no significant relationship between profitability and tax avoidance, implying that profitability alone may not be a determining factor and that other variables such as governance or industry characteristics may moderate the relationship.

H1: Profitability has a significant effect on tax avoidance.

Leverage

Firms with higher leverage may reduce taxable income through deductible interest payments. While Agency Theory suggests debt can act as a disciplining mechanism, RDT views debt as a strategic tool to reduce tax obligations. However, highly leveraged firms might also avoid aggressive tax behavior due to credit rating concerns.

The impact of leverage on tax avoidance has also yielded mixed empirical results. Kohang et al. (2023) found a negative relationship, indicating that firms with higher levels of debt tend to exhibit lower levels of tax avoidance. This may be attributed to the fact that interest expenses are tax-deductible, which naturally reduces taxable income and limits the need for additional tax planning strategies. Conversely, Oktavia et al. (2021) reported no significant effect, suggesting that leverage alone may not directly influence tax avoidance behavior and that its impact could be conditional on other factors such as firm size, profitability, or industry characteristics.

H2: Leverage has a significant effect on tax avoidance.

Firm Size

Larger firms are presumed to have more complex tax planning capabilities (Agency/RDT), yet they are also more scrutinized by stakeholders (Stakeholder Theory). Therefore, firm size may either facilitate or discourage tax avoidance.

The relationship between firm size and tax avoidance has produced varied empirical findings. **Ramadhan and Suripto (2022)** identified a **positive effect**, indicating that larger firms are more likely to engage in tax avoidance, possibly due to their greater access to resources, sophisticated tax planning capabilities, and complex organizational structures that facilitate tax minimization strategies. However, **Stawati (2020)** found **no significant relationship** between firm size and tax avoidance, suggesting that size alone may not be a determining factor and that other elements—such as governance quality, industry norms, or regulatory scrutiny—may play a more decisive role in shaping a firm's tax behavior.

H3: Firm size has a significant effect on tax avoidance.

Political Connections

Political connections represent a strategic resource (RDT) that may enable firms to avoid taxes due to regulatory capture. However, Stakeholder Theory suggests that politically connected firms are subject to public scrutiny and media attention, which can deter unethical tax behavior.

The empirical evidence regarding the impact of political connections on tax avoidance remains inconclusive. **Ng and Phie (2020)** found a **positive effect**, suggesting that firms with political ties are more likely to engage in tax avoidance, possibly due to the perceived protection from regulatory scrutiny or preferential treatment that such connections can provide. These firms may exploit their political affiliations to minimize tax liabilities while avoiding the consequences typically faced by non-connected firms. Nia Ningsih et al. (2020) argued that political proximity may influence regulatory outcomes, including tax enforcement. In contrast, **Sawitri et al. (2022)** reported **no significant effect**, indicating that political connections do not necessarily translate into tax advantages. This finding implies that institutional reforms, increased transparency, or public accountability may have diminished the influence of political affiliations on corporate tax behavior.

H4: Political connections have a significant effect on tax avoidance.

Institutional Ownership

Institutional investors are expected to monitor management (Agency Theory), but they may also pressure firms to maximize short-term earnings through tax avoidance (RDT). The dual role of institutions makes their impact context-dependent.

Research on the influence of institutional ownership on tax avoidance has yielded divergent results. **Prasetyo and Pramuka (2018)** found a **negative effect**, suggesting that greater institutional ownership can reduce tax avoidance, as institutional investors are presumed to play an active monitoring role that discourages opportunistic behavior by management. Their involvement may enhance transparency and accountability, thereby limiting the firm's engagement in aggressive tax planning. Recent findings by Asalam and Ishak (2023) emphasized that the monitoring role of institutional investors may vary depending on country-specific governance frameworks. However, **Septanta (2023)** reported **no significant relationship** between institutional ownership and tax avoidance, indicating that the presence of institutional investors does not automatically lead to improved tax compliance. This suggests that the effectiveness of institutional oversight may vary depending on the type of institution, ownership concentration, or the broader governance environment in which the firm operates.

H5: Institutional ownership has a significant effect on tax avoidance.

Managerial Ownership

Managerial ownership aligns managers' interests with firm outcomes (Agency Theory), potentially reducing tax avoidance. Stewardship Theory deepens this view, suggesting that managerial equity promotes ethical and sustainable decisions. However, in markets where managerial ownership is low, this effect may be marginal.

Studies examining the relationship between managerial ownership and tax avoidance have shown inconsistent results. Charisma and Dwimulyani (2019) reported a negative effect, indicating that higher levels of managerial ownership are associated with reduced tax avoidance. This finding supports the view that when managers hold equity in the firm, their interests align more closely with those of shareholders, encouraging more transparent and responsible financial practices, including tax compliance. In contrast, Rozan et al. (2023) found no significant relationship, suggesting that managerial ownership alone may not be sufficient to influence tax behavior. This may reflect the relatively low levels of managerial ownership in many firms, particularly in the Indonesian context, where such ownership stakes are often too small to exert meaningful control or oversight over corporate tax strategies.

H6: Managerial ownership has a significant effect on tax avoidance.

Research Methods

This study employs a quantitative and explanatory research design aimed at examining the influence of firm characteristics, political connections, and ownership structure on corporate tax avoidance behavior. The research is grounded in theoretical frameworks drawn from agency theory, stakeholder theory, resource dependence theory, and stewardship theory. It seeks to test the formulated hypotheses using empirical data collected from publicly listed firms. Given the structure of the data, the study adopts a panel data regression approach, which allows for the analysis of variations across both time (2019–2023) and firm-specific attributes.

The population of this study comprises all companies listed in the Consumer Non-Cyclicals sector on the Indonesia Stock Exchange (IDX) over the five-year period. This sector is deliberately chosen due to its relatively stable income patterns and its strategic role in national consumption, making it a relevant context for studying tax-related decisions. To obtain the sample, a purposive sampling method is applied with specific inclusion criteria: (1) firms must be consistently listed in the designated sector between 2019 and 2023; (2) they must publish complete and audited annual financial reports for each year of observation; (3) they must report positive net income throughout the period; and (4) they must provide publicly accessible data on political connections, institutional ownership, and managerial ownership. Based on these conditions, a total of 9 companies are included in the final sample, resulting in 45 firm-year observations (9 companies × 5 years).

This research relies entirely on secondary data collected from reputable public sources. Primary data sources include the official website of the Indonesia Stock Exchange (www.idx.co.id) and the annual financial statements of each firm. To capture information related to political affiliations, the study also consults qualitative documentation such as board member biographies and corporate disclosures. All data points were compiled manually and meticulously cross-verified to ensure their accuracy, consistency, and reliability for the purposes of statistical analysis.

Table 1 Variables and Operational Definitions

Variables	Proxies	Measurements	Sources
Tax Avoidance (Dependent)	Cash Effective Tax Rate (CETR)	CETR = Cash Taxes Expense / Pre-Tax Income	Hidayat (2018)
Profitability	Return on Assets (ROA)	ROA = Net Income / Total Assets	Wardani & Khoiriyah (2018)
Leverage	Debt Ratio	Leverage = Total Debt / Total Assets	Kohang et al. (2023)
Firm Size	Natural Log of Total Assets	Firm Size = Ln(Total Assets)	Ramadhan & Suripto (2022)
Political Connections	Dummy Variable	1 = Political affiliation exists; 0 = None	Ng & Phie (2020)
Institutional Ownership	Proportion of Shares Held	Institutional Shares / Total Outstanding Shares	Prasetyo & Pramuka (2018)

Variables	Proxies	Measurements	Sources
Managerial Ownership	Proportion of Shares Held	Managerial Shares / Total Outstanding Shares	Charisma & Dwimulyani (2019)

The data analysis in this study is conducted using panel data regression methods, supported by EViews 12 software. A structured sequence of analytical steps is employed to ensure both the reliability of the model and the validity of the findings. The analysis begins with descriptive statistics, which provide an overview of each variable through measures such as the mean, standard deviation, minimum, and maximum values. This step helps to identify potential outliers and understand the general distribution of the data.

Following the descriptive analysis, a series of classical assumption tests are performed to validate the regression model. These include the Jarque-Bera test to assess normality, a correlation matrix and Variance Inflation Factor (VIF) to detect multicollinearity, the Harvey or White test to check for heteroscedasticity, and the Breusch-Godfrey test to examine autocorrelation in the residuals. Ensuring that these assumptions are met is essential for the accuracy and credibility of the regression results.

To select the most appropriate regression model, the study conducts model specification tests. The Chow test is first used to determine whether the Pooled Least Squares (PLS) model or the Fixed Effects Model (FEM) better fits the data. Then, the Hausman test is applied to choose between FEM and the Random Effects Model (REM), ensuring that the chosen model accounts for both firm-specific and temporal variations.

Once the best-fitting model is identified, regression analysis is conducted to estimate the effects of the independent variables on the dependent variable, tax avoidance. Finally, statistical significance tests are applied, including the F-test to assess the joint significance of all explanatory variables and the t-test to examine the individual significance of each coefficient. These analytical procedures together form a robust framework for testing the proposed hypotheses.

The regression model used in this study is specified as follows:

$$\boldsymbol{ETRit = \beta 0 + \beta 1 ROAit + \beta 2 LEVit + \beta 3 SIZEit + \beta 4 POLit + \beta 5 INSTit + \beta 6 MANit + \varepsilon it}$$

Where:

ETRit: Tax avoidance proxy for firm *i* in year *t*

ROAit: Profitability

LEVit: Leverage

SIZEit: Firm size

POLit: Political connection dummy

INSTit: Institutional ownership

MANit: Managerial ownership

εit: Error term

β0…β6: Regression coefficients

Results and Discussions

Descriptive Statistical Analysis

Concurring to (Basuki & Prawoto, 2022) graphic insights are tests that portray or give an outline of information seen from the cruel esteem, standard deviation, change, most extreme, least, whole, run, kurtosis, and skewness (dispersion skewness). Graphic measurable examination in this ponder incorporates the normal esteem (cruel), least esteem, most extreme esteem and standard deviation of each variable, to be specific benefit, use, company estimate, political associations, organization proprietorship and administrative possession. Underneath is the comes about of the clear factual test.

Descriptive statistical analysis provides an overview of the distribution of each variable. The following table summarizes the mean, standard deviation, minimum, and maximum values for the 45 firm-year observations in the sample:

Tabel 2 Descriptive Statistical Test Results

Variable	Mean	Std. Dev	Min	Max
Tax Avoidance (CETR)	0.2129	0.0541	0.1151	0.3318
Profitability (ROA)	0.0937	0.0488	0.0236	0.1913
Leverage	0.4308	0.2197	0.1056	0.7639
Firm Size (Log Total Assets)	30.0958	1.0282	28.6893	30.8036
Political Connection (Dummy)	0.3111	0.4468	0	1
Institutional Ownership	0.5216	0.2133	0.1944	0.8943
Managerial Ownership	0.0965	0.1478	0.0002	0.4898

Variable	Mean	Std. Dev	Min	Max

Source: Self-processed Data, E-views 12 (2024)

The descriptive statistical analysis reveals key characteristics of the data from 45 firm-year observations. The average cash effective tax rate (CETR), serving as a proxy for tax avoidance, is 21.29%, with a moderate variation across firms (SD = 0.0541). Profitability (ROA) averages 9.37%, ranging from 2.36% to 19.13%, indicating varying operational efficiency levels. Leverage shows a mean of 43.08%, suggesting that firms generally use a moderate level of debt financing, with a wide dispersion (SD = 0.2197).

The average firm size, proxied by the natural logarithm of total assets, is 30.10, indicating relatively large firms in the sample. About 31.11% of firms have political connections, based on a binary classification (0 or 1). Institutional ownership is relatively high, with a mean of 52.16%, while managerial ownership remains low on average (9.65%), though it ranges up to nearly 49%.

These results highlight a sample characterized by diverse ownership structures, moderate profitability, and variation in political affiliation, providing a suitable foundation for further regression analysis.

Classical Assumption Testing

Normality Test

The Jarque-Bera test produced a p-value of 0.4997 (> 0.05), indicating that the residuals are normally distributed.

Multicollinearity Test

Correlation coefficients among independent variables were all below 0.90, indicating no multicollinearity.

Heteroscedasticity Test

The Harvey test showed a p-value of 0.0949 (> 0.05), indicating the absence of heteroscedasticity.

Autocorrelation Test

The Breusch-Godfrey test yielded a p-value of 0.1515 (> 0.05), suggesting that the data does not suffer from autocorrelation.

Model Selection Tests

The Chow Test indicated that the Fixed Effects Model (FEM) was superior to Pooled OLS. The Hausman Test supported the use of FEM over the Random Effects Model. Thus, the Fixed Effects Model was selected for hypothesis testing.

Table 3 Regression Results

Variable	Coefficient	t-Statistic	p-Value	Significance
Constant	0.2641	—	—	—
Profitability (ROA)	-0.4761	-4.6631	0.0000	***
Leverage	-0.3887	-4.7048	0.0000	***
Firm Size	-0.0187	-0.9615	0.3423	ns
Political Connection	0.0271	0.8720	0.3887	ns
Institutional Ownership	-0.0214	-0.4558	0.6512	ns
Managerial Ownership	0.0638	1.4443	0.1569	ns
Adjusted R²	**0.3851**			
F-statistic (Sig.)	**5.5918 (p = 0.0003)**			

Significance levels: *** p < 0.01; ns = not significant

The regression analysis examines the effect of firm-specific variables on tax avoidance, proxied by the cash effective tax rate (CETR). The results indicate that profitability (ROA) and leverage have a statistically significant negative effect on tax avoidance at the 1% significance level. Specifically, firms with higher profitability tend to exhibit higher ETRs, suggesting lower levels of tax avoidance. This supports the argument that more profitable firms may be under greater scrutiny from stakeholders and are thus more likely to comply with tax obligations. Similarly, higher leverage is associated with increased ETR, indicating that more leveraged firms engage in less tax avoidance—potentially due to greater monitoring by creditors or the tax deductibility of interest reducing incentives for further tax manipulation.

On the other hand, firm size, political connections, institutional ownership, and managerial ownership do not show statistically significant effects on tax avoidance. Although political connections and managerial ownership have positive coefficients, their p-values exceed the conventional significance thresholds, suggesting no reliable relationship with ETR in this sample. The lack of significance for firm size and ownership structure variables may reflect the complexity of tax planning behavior and the possibility of moderating institutional or sectoral factors.

The model demonstrates moderate explanatory power, with an adjusted R^2 of 0.3851, indicating that approximately 38.5% of the variation in tax avoidance can be explained by the independent variables. Furthermore, the F-statistic of 5.5918 ($p = 0.0003$) confirms that the model is statistically significant as a whole. Overall, the findings highlight the importance of firm profitability and capital structure in explaining tax behavior, while suggesting that political affiliation and ownership characteristics may not play a dominant role in this context.

Discussions

Profitability

The results indicate a significant negative relationship between profitability and tax avoidance. This implies that more profitable firms tend to pay a higher proportion of taxes. This finding supports Stakeholder Theory, where firms with higher earnings are more visible and therefore act more cautiously to avoid reputational risk (Lanis & Richardson, 2012). It also aligns with Hidayat (2018), who found similar behavior in Indonesian manufacturing firms.

Leverage

Leverage also shows a significant negative effect on tax avoidance. Highly leveraged firms tend to have lower effective tax rates, likely due to interest expenses being deductible for tax purposes. This finding supports Resource Dependence Theory, which views debt as a strategic resource to manage tax liabilities (Desai & Dharmapala, 2006). It also confirms findings by Kohang et al. (2023). Pramesti et al. (2022) also highlight that firm size and leverage jointly shape tax strategies in consumer goods companies

Firm Size

Firm size has no significant effect on tax avoidance, suggesting that company scale alone does not influence corporate tax planning in this sample. While larger firms may have the capacity to engage in tax planning, they also face increased public scrutiny, which may neutralize such behavior. This supports findings by Stawati (2020) and suggests that size may be a moderator rather than a direct driver of tax behavior.

Political Connections

Political connection was not found to significantly influence tax avoidance, contradicting Resource Dependence Theory expectations. This suggests that in the context of Indonesia's consumer non-cyclical sector, political ties may not consistently translate into regulatory leniency. It aligns with Sawitri et al. (2022), who argue that institutional reforms and rising public oversight may be mitigating the advantage of political affiliation.

Institutional Ownership

Institutional ownership does not significantly impact tax avoidance, indicating that institutional investors may not exercise effective monitoring or may prioritize short-term financial performance over tax ethics. This supports the view of Rozan et al. (2023) and challenges the assumption in Agency Theory that institutional shareholders always play a disciplining role. This aligns with Fadrianto and Mulyani (2020), who noted that ownership concentration alone may not effectively constrain tax-avoidant behavior without strong governance mechanisms.

Managerial Ownership

Managerial ownership also does not significantly affect tax avoidance. This may be due to the generally low proportion of ownership by managers in Indonesian firms, which limits their influence over corporate financial policy. Although Stewardship Theory suggests a positive ethical alignment, it may not materialize when ownership stakes are minimal (Pringgabayui et al., 2022).

Conclusions

OThis study examined the effect of firm characteristics (profitability, leverage, and firm size), political connections, and ownership structure (institutional and managerial ownership) on tax avoidance among non-cyclical consumer sector companies listed on the Indonesia Stock Exchange from 2019 to 2023.

Using panel data regression and a fixed effects model, the study produced the following key findings: Profitability and leverage each have a significant negative effect on tax avoidance. Higher profits correlate with greater tax compliance, possibly due to stakeholder pressure and reputational concerns. Similarly, highly leveraged firms tend to report lower taxable income due to deductible interest expenses. Firm size, political connections, institutional ownership, and managerial ownership did not show significant individual effects on tax avoidance. This suggests that these variables, in isolation, may not directly shape firms' tax strategies in the observed context.

Collectively, however, all independent variables jointly exert a statistically significant influence on tax avoidance behavior, with an adjusted R^2 of 38.5%. This indicates that while individual effects may be weak, the combined impact of internal governance and external affiliations contributes meaningfully to corporate tax policy.

These findings reinforce the notion that tax avoidance is a **multidimensional phenomenon**. It is not only influenced by firm-level financial metrics, but also shaped by broader structural, regulatory, and relational factors.

Theoretical Implications

This research contributes to the growing body of literature on corporate tax behavior by employing a multi-theoretical framework that integrates four complementary perspectives. Agency Theory provides insight into how ownership structures influence tax avoidance through incentive alignment and monitoring mechanisms, particularly in relation to institutional and managerial shareholding. Stakeholder Theory introduces the role of reputational and legitimacy concerns, emphasizing that highly profitable and visible firms may be constrained from engaging in aggressive tax strategies due to external accountability pressures. Resource Dependence Theory offers a strategic viewpoint, illustrating how political connections and debt financing may function as tools for firms to manage tax obligations and reduce uncertainty in regulatory environments. Lastly, Stewardship Theory introduces a behavioral lens, suggesting that managerial ownership can foster a sense of responsibility and long-term orientation that discourages excessive tax planning. By integrating these diverse yet interrelated theoretical perspectives, this study presents a more comprehensive and context-sensitive understanding of corporate tax avoidance, particularly within the institutional dynamics of emerging markets.

Practical Implications

For regulators and policymakers, the significant influence of profitability and leverage on tax avoidance highlights the importance of strengthening regulatory oversight, particularly for highly profitable and highly leveraged firms operating in sectors with stable income patterns. These firms may possess both the incentive and the capacity to engage in aggressive tax planning, warranting closer scrutiny. Although political connections did not yield a statistically significant effect in this study, ongoing efforts in **institutional reform and transparency** remain essential to mitigate the risk of undue influence or regulatory capture in tax administration.

For corporate governance advocates, the absence of a significant relationship between ownership structure and tax avoidance behavior suggests that existing internal governance mechanisms, such as institutional and managerial ownership, may be insufficient in ensuring tax compliance in the Indonesian context. Instead, **enhancing the role of independent board members, audit committees, and external oversight bodies** may prove more effective in promoting ethical tax practices and curbing opportunistic behavior among executives.

Limitations and Suggestions for Future Research

This study is subject to several limitations that should be acknowledged. First, the analysis is confined to a relatively small sample of nine companies within a single sector, which limits the generalizability of the findings to broader corporate populations or other industries. Second, political connections are measured using a binary (dummy) variable, which may fail to capture the nuanced degrees and forms of political influence present within firms. Third, the study relies solely on Effective Tax Rate (ETR) as a proxy for tax avoidance, which may not adequately reflect more aggressive or complex tax planning strategies.
To address these limitations, future research is encouraged to broaden the sample by including companies from multiple sectors or conducting cross-country comparative studies. Researchers should also consider employing alternative or composite measures of tax avoidance, such as Book–Tax Differences (BTD) or comparisons between GAAP ETR and Cash ETR, to capture a wider spectrum of tax behaviors. Additionally, exploring interaction effects between ownership structure and contextual factors—such as governance quality or institutional strength—could offer deeper insights. Finally, integrating qualitative data from interviews with tax authorities, auditors, or corporate insiders may enrich the analysis of political dynamics and managerial motivations behind tax-related decisions.

Final Remarks

In the era of heightened scrutiny over corporate ethics and fiscal responsibility, understanding the determinants of tax avoidance is essential. This study provides empirical evidence that financial metrics such as profitability and leverage play a more prominent role in shaping tax strategies than structural affiliations in the Indonesian consumer non-cyclical sector. Moving forward, greater emphasis should be placed on integrated governance frameworks that align corporate behavior with regulatory and societal expectations.

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