

ABSTRACT

This study views that tax avoidance practices can be triggered by cash deficit conditions and the ability to mitigate legal risks on politically connected companies. The analysis was developed by placing abnormal cash out-flow as an intervening variable to detect tax avoidance activities motivations. By using the purposive sampling method, 89 selected companies were obtained with a total of 445 observations, panel data analysis was carried out for hypothesis testing. The results of the analysis show that the stronger the political connection, the greater the abnormal cash out-flow. Likewise, the greater the abnormal cash out-flow, the stronger the action for tax evasion. On the other hand, the advantages of politically connected companies with a preference for legal risk mitigation and the ability to influence the legal process are not strong enough to become a basis for tax avoidance practices. Finally, abnormal cash outflow cannot mediate the indirect effect of political connections on tax evasion. This research has implications for the importance of involving other theoretical concepts (such as the resource-based view), it also encourages for the development of a more specific methodology to explain the pattern of relationships that occur between political connections and tax avoidance practices in Indonesia.

Keywords: Political connection, abnormal cash out-flow, tax avoidance, resource-based view.