

ABSTRACT

The tax ratio of Indonesia's mining sector during the period 2014–2023 has consistently been lower than the national tax ratio, despite the sector's increasing contribution to GDP. This trend suggests the potential presence of tax avoidance practices, which may be influenced by political connections. Political connections play a significant role in tax avoidance due to the mining sector's dependency on state intervention, such as licensing, subsidies, and public infrastructure. High transaction costs, compliance risks, rent-seeking behavior, and regulatory capture allow politically connected firms to systematically avoid taxes, thereby undermining the integrity of the tax system.

This study aims to analyze the effect of political connections on tax avoidance in Indonesia's mining sector during the 2014–2023 period. The research utilizes secondary data from mining companies listed on the Indonesia Stock Exchange and applies a logistic regression model for analysis. The dependent variable—tax avoidance—is measured using two proxies: Cash Effective Tax Rate (CETR) and Effective Tax Rate (ETR), both categorized as binary variables based on specific thresholds. CETR reflects the actual cash tax burden and long-term tax planning strategies, while ETR indicates the annual effective tax rate, which is more sensitive to short-term fiscal policies. However, the CETR-based tax avoidance measure did not meet the Likelihood Ratio (LR) Test criteria and therefore was excluded from further partial testing.

The results indicate that political connections, as the main independent variable, do not have a statistically significant effect on short-term tax avoidance, as measured by the ETR. This insignificance may be attributed to delayed effects or firms' prudence in maintaining their reputation and political relationships. In the mining sector, political ties may be more focused on securing long-term operational benefits rather than facilitating tax avoidance. Furthermore, the logit regression results reveal that firm size has a positive influence on tax avoidance, profitability has a negative influence, institutional ownership has no significant effect, and the tax rate reduction policy shows a positive and significant impact.

Keywords: *Political Connections, Tax Avoidance, Cash Effective Tax Rate (CETR), Effective Tax Rate (ETR), Mining Companies*