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# DETERMINATION OF THE EFFECTIVE TAX RATE (ETR)

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***ABSTRACT***

*The objective of this paper is to empirically investigate the effect of growth rate, tangible assets, audit quality, chief financial officer (CFO) expertise, political connections, and company foreign operations on the effective tax rate (ETR) of manufacturing companies in Indonesia. With 171 manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 2018-2021, the authors use the multiple linear regression method to identify the critical drivers of ETR. Using the purposive sampling method, 81 samples of companies with 258 units of analysis. The results confirm that ETR is significantly explained by the growth rate, tangible assets, audit quality, chief financial officer (CFO) expertise, political connections, and company foreign operations. In the case of manufacturing companies, growth rate, audit quality, and political connections are significantly driving ETR negatively, while chief financial officer (CFO) expertise and company foreign operations are significantly driving ETR positively. However, tangible assets are not significant drivers of ETR. The implications of this study show that political connections and company growth can achieve low ETR levels.*

## Introduction

For decades, there has been an international trend toward reducing mandatory tax rates to attract new investment (Fernández-Rodríguez et al., 2021). The results of research conducted by the Organization for Economic Co-operation and Development in 2021, the average nominal tax rate of countries around the world experienced a downward trend from 28.3% in 2000 to 20.0% in 2021, decreasing by 8.3 percentage points (OECD, 2021). With the widespread trend of reducing tax rates in various countries, including ASEAN countries, the Indonesian government is expected to review the current corporate income tax (PPh) rates.

The Indonesian state is currently re-implementing the corporate income tax (PPh) rate of 22%. This ranks Indonesia 6th with ASEAN's highest corporate income tax (PPh) rate. Singapore is the record holder with the lowest corporate income tax rate of 17%. With the current tax rate, multinational companies may move their operations and invest overseas, such as Singapore, to reduce their corporate tax burden. Tax planning by international and domestic companies lowers the taxes they pay.

Research conducted by the Organization for Economic Co-operation and Development in 2021 found that the world's average effective tax rate (ETR) is 1.5% below the statutory tax rate (STR). In Indonesia, the effective tax rate (ETR) is lower than the statutory tax rate (STR), which is 22% (OECD, 2021). According to the United States Government Accountability Office, the highest auditing agency of the federal government, the United States Congress explains that the mandatory tax rate (STR) does not provide a complete measure of the tax system's burden on business income (GAO, 2008). Many other aspects that have yet to be factored into the mandatory tax rate (STR), such as exemptions, deferrals, tax credits, and other incentives, also determine the amount of tax a company ultimately pays on its income (GAO, 2008). Therefore, analyzing the effective tax rate (ETR) borne by the company's business is appropriate because STR is not a good indicator of tax burden.

A company's low effective tax rate (ETR) reflects management's success in maximizing tax planning. On the other hand, the decline in the effective tax rate (ETR) away from the statutory tax rate (STR) will cause a problem. Based on data provided by the (OECD, 2021), Indonesia's effective tax rate (ETR) is below the statutory tax rate (STR), which is 22%. Suppose the ETR value is less than the STR value. In that case, the company's taxable income is smaller so that the amount of tax paid by the company to the state is smaller than the amount of tax that should be paid to the state, which will then have an impact on reducing the amount of state revenue from the tax sector. The non-achievement of the realization of annual state tax revenues certainly impacts the realization of the State Budget, which is different from the plan and its realization.

Based on data from the Directorate General of Taxes (DGT), state tax revenue during 2018-2020 consecutively did not reach the target expected by the government. DGT's Performance Report in 2018 realized tax revenue of Rp1,315.51 trillion, only 92.23% of the target in the State Budget (Rp1,424 trillion). Similar conditions also occurred in 2019, when tax revenue was only realized at Rp1,332 trillion (84.4%) of the target. In 2020, tax revenue still needed to meet the target, which was discovered at IDR 1,069.98 trillion (89.25%) of the target. The realization of tax revenues that still need to be by the target set by the government is the result of corporate tax planning strategy actions (Sangadah, 2021).

In this paper, the authors look from different perspectives on top management characteristics in companies by presenting an upper-echelon theory that represents chief financial officer (CFO) expertise and political connections. From the agency theory point of view, the authors examine growth rate, tangible assets, audit quality, and foreign company operations.

Effective tax rate (ETR) is a percentage of the tax rate borne by the company. Effective tax rate (ETR) can be assessed or calculated based on financial information generated by the company, so the effective tax rate is a form of calculation of the corporate tax rate. Price Waterhouse Coopers (PWC, 2011) formulated that the effective tax rate can be calculated by dividing the total income tax payable against pretax income.

There is previous research that can explain the factors that can affect the effective tax rate (ETR). (Fernández-Rodríguez et al., 2021) found that size and asset composition positively affect ETR, while profitability, business growth, earnings management, and deferred tax liabilities negatively affect ETR. (Vintilă et al., 2018) found that profitability, firm size, inventory intensity, capital intensity, and indebtedness positively affect ETR, while auditing fees negatively affect ETR. (Dyreng et al., 2017) found that foreign operations and firm size positively affect ETR, while R&D expense, capital intensity, leverage, and capital expenditures negatively affect ETR. Pu et al. (2015) found that CFO expert power and CFO political power negatively affect ETR.

Previous research on the effective tax rate (ETR) found inconsistent results and a tendency for researchers to focus only on the general characteristics of the company. This study tries to look at it from a different perspective to test whether individual attributes in the company's top management will have an impact on tax planning decisions, so this study presents upper echelon theory to see personal characteristics with variables of chief financial officer (CFO) expertise and political connections in tax-related decision making. In addition, it reexamines agency theory by examining variables such as growth rate, tangible assets, audit quality, and foreign operations of

companies that, over the past ten years, have yet to be studied about ETR.

Agency theory explains that agency relations are a contract between agent and principal, where the principal is the owner or shareholder in a company. In contrast, the agent is the management that manages the company (Jensen & Meckling, 1976). Agency theory in this study explains differences in interests and information asymmetries between management as agents and shareholders as principals. Management as agents want to increase compensation, while shareholders as principals want to maintain the level of profit, one of which is by minimizing tax payments. The difference in interests between the principal and agent can affect tax policy in a company.

Upper echelon theory is a theory of the basic assumptions of the influence of the Top Management Team (TMT) on a company (Hambrick & Mason, 1984). This theory states that the results of the choice of organizational strategy from the authorities are considered necessary, and the level of performance can be predicted through the characteristics and background of the managerial party. The upper echelon theory in this study explains that leaders are influenced by their knowledge, abilities, beliefs, and characteristics. With the ability and knowledge possessed by top management, this situation can be used to find various loopholes to reduce taxable income as low as possible so that the tax burden borne by the company becomes lower.

Kasmir (2009) explained that growth rate is a ratio that describes the company's ability to maintain its economic position amid economic growth and the business sector. According to Kusumawati & Setiawan (2019) , the company's growth moves in line with the company's profit, so the higher the company's growth, the higher the company's profit. Along with the company's increasing growth, the company will exert various efforts to maintain the profit level with optimal tax planning to decrease the company's effective tax rate (ETR). To maintain profit, managers will reduce the tax burden to get a low effective tax rate (ETR). Agency theory assumes optimal tax planning by managers that is expected to lead to an effective tax rate (ETR) and achieve revenue targets agreed upon by the principal so that manager compensation will be achieved (Phillips, 2003). Research by Fernández-Rodríguez et al. (2021)and (Vintila et al., 2017) shows that growth rate has a negative effect on the effective tax rate (ETR). Panda & Nanda (2021) and Păunescu & Vintilă (2018) found that growth rate has a positive effect on the effective tax rate (ETR).

**H1: Growth Rate Negatively Affects Effective Tax Rate (ETR)**

Tangible assets are long-term or relatively permanent assets that can be used in the long term, such as equipment, machinery, buildings, and land (Warren et al., 2016). In taxation, tangible fixed assets can reduce the tax burden due to depreciation costs. With the depreciation of tangible assets exempt from tax, companies with high tangible fixed assets will enjoy a lower tax burden (Panda & Nanda, 2021) so the company's effective tax rate (ETR) will be low. Agency theory assumes that to reduce the amount of corporate tax, managers (agents) can invest a certain amount of company funds in the form of tangible assets. In the presence of high tangible assets, company managers will use depreciation expense as a deduction from taxable income because depreciation of tangible assets is exempt from tax (Panda & Nanda, 2021). Research by Panda & Nanda (2021) and Lahav & Salganik-Shoshan (2016) shows that tangible assets have a negative effect on the effective tax rate (ETR). Stamatopoulos et al. (2019) found that tangible assets positively affect the effective tax rate (ETR). Fernández-Rodríguez et al. (2021) found tangible assets have no effect on the effective tax rate (ETR).

**H2: Tangible Assets Negatively Affect Effective Tax Rate (ETR)**

Audit quality is all possibilities when auditors audit client financial statements, find violations or errors that occur, and report them in the audited financial statements (Coram et al., 2008). (DeAngelo, 1981) explained that the quality of audits can be seen from the size of the KAP that conducts audits, where large KAPs (Big Four Accounting Firms) are believed to be able to conduct more quality audits. (Cai & Liu, 2009) stated that if the audit is of higher quality, the company is less likely to manipulate profits for tax purposes. Companies do not have various options to minimize

their tax burden if the auditor has audit quality, so the company's effective tax rate (ETR) will remain high. Agency theory explains the role of auditors as third parties to minimize conflicts of interest and overcome the problem of information asymmetry between company owners (principals) and company managers (agents). Research by Vintilă et al. (2018) and Pu et al. (2015) found that audit quality has a positive effect on the effective tax rate (ETR). (Cook et al., 2008) found a negative relationship between audit quality and effective tax rate (ETR). Păunescu & Vintilă (2018) found that audit quality does not affect the effective tax rate (ETR).

**H3: Audit Quality Positively Affects Effective Tax Rate (ETR)**

CFO expertise can be significant in alignment and direct tax reporting responsibilities (Pu et al., 2015). CFOs with more excellent expertise can better understand accounting standards and tax regulations and are better able to apply complex standards so that corporate tax burdens can be reduced to obtain a low effective tax rate (ETR) value (Pu et al., 2015). The theory of the upper echelon suggests that top managers' individual characteristics influence the company's decision-making. When CFOs are professionals in accounting or finance, they will have expertise, namely CFO financial experience, in improving the ability to assess the effectiveness of tax planning strategies and consider alternative strategies so that the company's effective tax rate (ETR) will be lower (Pu et al., 2015). Research by Chen et al. (2020)and Pu et al. (2015) shows that CFO expertise negatively affects the effective tax rate (ETR). Ardiyanto & Marfiana (2021) found that financial expertise does not affect the effective tax rate (ETR). Armstrong et al. (2015) found that the financial expertise of directors has a positive effect on the effective tax rate (ETR).

**H4: CFO Expertise Negatively Affects Effective Tax Rate (ETR)**

Political connection is a condition in which a relationship is established between specific parties and parties who have interests in politics, which is used to achieve a specific thing that can benefit both parties (Purwanti & Sugiyarti, 2017). According to Faccio (2016)political connections can present several benefits, such as access preferences for credit, protection of rules, corporate bailouts, lack of market pressure for public transparency and access to legislation, ease of obtaining import licenses, and preferences for reducing sanctions and tax audits. With this privilege, companies with political connections will be more courageous in making efforts to minimize their taxes because the risk of being examined will be lower and will not even experience inspection by the tax audit agency (Chaney et al., 2011)so that the company's effective tax rate (ETR) will be low. Upper echelon theory states that the outcome of an organization's choice of strategy and most performance levels is predicted by the characteristics of the managerial background. With a management background and political connections, companies will be more aggressive in implementing tax planning strategies (C. Kim & Zhang, 2016), so the company's effective tax rate (ETR) will decrease. Research by (Wang & You, 2022) and (Pu et al., 2015) shows that political connections negatively affect the effective tax rate (ETR). (Alfiyah et al., 2022) found that political connections do not affect the effective tax rate (ETR). Satiti et al. (2021)found that political connections positively affect the effective tax rate (ETR).

**H5: Political Connections Negatively Affect Effective Tax Rate (ETR)**

A company's foreign operation is expanding a company outside the domestic market to foreign countries (Hennart, 2011). (Kraft, 2014) mentions that multinational companies have more opportunities to make tax savings compared to companies that only operate in the domestic market. When compared to companies that only operate domestically, multinational companies have more opportunities to make tax savings caused by differences in tax rates between countries, so that companies can make income shifts from countries with high tax rates to countries with low tax rates so that it can affect the company's effective tax rate (ETR) (Kraft, 2014). According to agency theory, to get maximum compensation from the principal, management (agent) will maintain a profit position by carrying out a tax planning strategy by considering the company's foreign operations. Management will use the company's foreign operation strategy through differences in tax rates and tax regulations between countries to minimize the tax burden so that

it will affect the decrease in the effective tax rate (ETR). Research by and (Lahav & Salganik-Shoshan, 2016) found that a firm's foreign operations had a negative effect on the effective tax rate (ETR). (Dyreng et al., 2017) found that multinationality positively affects the effective tax rate (ETR).

**H6: The Company's Foreign Operations Negatively Affect the Effective Tax Rate (ETR)**

## Research Methodology (Method)

This study used a deductive-quantitative approach with a hypothesis testing study research design. The data used in this study is panel data consisting of time series and cross-section data, while the data source uses secondary data. The population used in this study is all manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2018-2021 as many as 171 companies. The sampling method in this study is purposive sampling using non-random sampling techniques. The sampling results in this study are presented in Table 1 as follows:

Table 1. Sampling Process

| No. | Criterion | Non-Compliant | Fulfill |
|---|---|---|---|
| 1. | All manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2018-2021 | | 171 |
| 2. | Manufacturing companies that publish and present consecutive annual company reports during the period 2018-2021 | (16) | 155 |
| 3. | Manufacturing companies that experienced profits during the 2018-2021 period | (74) | 81 |
| Number of sample companies (a) | | | 81 |
| Years of observation (b) | | | 4 |
| Number of units of analysis (a*b) | | | 324 |
| Outlier | | | (66) |
| **Number of units of analysis after outliers** | | | **258** |

To facilitate the understanding of the operational variables used in this study, the following explanation is presented in Table 2.

Table 2 Measurement of Research Variables and Operational Definitions

| No. | Variabel | Definisi | Indikator |
|---|---|---|---|
| 1. | Effective Tax Rate (ETR) | Effective tax rate (ETR) is the percentage of tax rate borne by the company (Dyreng et al., 2017). | This study uses the ETR formula according to previous literature (Barbera et al., 2020; Greeff, 2019; Hanlon & Heitzman, 2010; Panda & Nanda, 2021; Stamatopoulos et al., 2019; Vintilă et al., 2018):<br>$ETR = \frac{Tax\ Expense}{Pretax\ Income}$ |
| 2. | Growth Rate | Growth rate is a ratio that describes the company's ability to maintain its economic position amid economic growth and the business sector (Kasmir, 2009) | This study uses the growth rate formula according to previous literature<br>(Fernández-Rodríguez et al., 2021; Handoyo et al., 2022; J. H. Kim & Im, 2017; Panda & Nanda, 2021; Pu et al., 2015) |

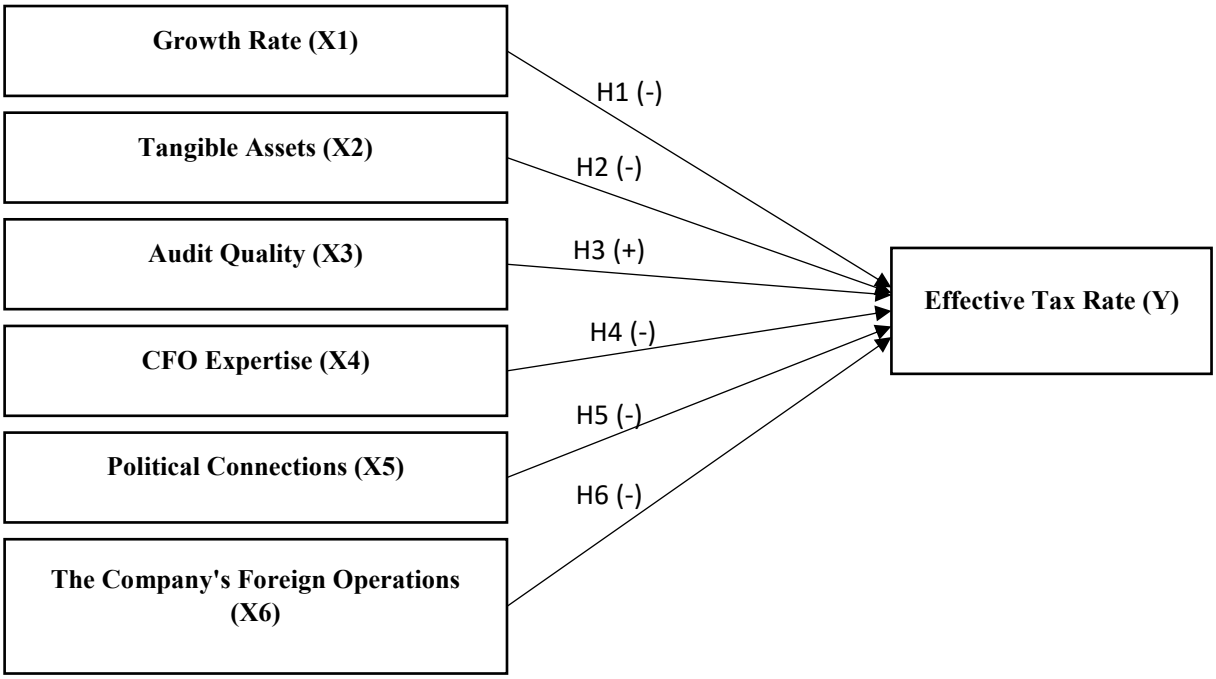
| No. | Variabel | Definisi | Indikator |
|---|---|---|---|
| | | | $Growth\ Rate = \frac{Sales_t - Sales_{t-1}}{Sales_{t-1}}$ |
| 3. | Tangible Asset | Tangible assets are assets that are long-term or relatively permanent and can be used in the long term such as equipment, machinery, buildings, and land (Warren et al., 2016) | This study uses the tangible asset formula according to previous literature (Fernández-Rodríguez et al., 2021; Lahav & Salganik-Shoshan, 2016; Panda & Nanda, 2021; Simone, 2019; Stamatopoulos et al., 2019): $Tangible\ Asset = \frac{Net\ Fixed\ Tangible\ Assets}{Total\ Assets}$ |
| 4. | Audit Quality | Audit quality is any possibility that can occur when an auditor audits a client's financial statements and finds violations or errors that occur and reports them in the audited financial statements of (Coram et al., 2008). | This study uses audit quality criteria and measurements in accordance with previous literature (Fernández-Rodríguez et al., 2019a; Păunescu & Vintilă, 2018a; Salaudeen & Akano, 2018; Vintilă et al., 2018a): Value 1 (one) if the company is audited by KAP Big Four and value 0 (zero) if the company is audited by KAP Non-Big Four. |
| 5. | Chief Financial Officer (CFO) Expertise | CFO expertise is someone who has strong abilities and knowledge in accounting or finance (Pu et al., 2015) | This study uses criteria and measurements of CFO expertise in accordance with previous literature (Chen et al., 2020; Pu et al., 2015) $\text{CFO Expertise} = \frac{\text{Number of CFO Expertise Criteria}}{\text{Total CFO Expertise Criteria}}$ |
| 6. | Political Connections | Political connection is a situation in which certain parties and parties interested in politics establish a relationship that is used to achieve certain goals that can benefit both parties (Purwanti & Sugiyarti, 2017) | This study uses criteria and measurements of political connections in accordance with previous literature (Chaney et al., 2011; Faccio, 2016b; C. Kim & Zhang, 2016; Pu et al., 2015), namely: Value 1 (one) if the company has political connections and value 0 (zero) if the company does not have political connections. |
| 7. | Foreign Operations Company | A company's foreign operation is the expansion of a company outside the domestic market to foreign countries (Hennart, 2011). | This study uses criteria and measurements of the company's foreign operations in accordance with previous literature (Dyreng et al., 2017; Fernández-Rodríguez et al., 2019): Value 1 (one) if the company has subsidiaries abroad and value 0 (zero) if the company does not have subsidiaries abroad. |

Source: Processed from various sources, 2023

Quantitative data processing in this study used multiple linear regression analysis utilizing IBM SPSS statistical software version 25. The analysis techniques used are descriptive analysis techniques and inferential statistical analysis. The equation of the multiple linear regression model in this study can be formulated in equation 1 as follows:

$ETR = \alpha + \beta 1GR + \beta 2TAN + \beta 3AUD + \beta 4CFO + \beta 5POL + \beta 6INT + \varepsilon$……(1)

The research model can be seen in Figure 1 below:




Source: Processed from various sources, 2023

**Results and Discussion (Result and Discussion)**

*Descriptive statistical analysis* is a statistical analysis used to describe individual research variable profiles (Wahyudin, 2015). In this study, descriptive statistical analysis was used using a descriptive statistical table containing minimum values, maximum values, average (mean), and standard deviation (standard deviation). The results of the descriptive statistical test can be seen in Table 3 as follows:

Table 3 Summary of Descriptive Statistical Test Results

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| ETR | | 0.159 | 0.327 | 0.251 | 0.029 |
| GR | | - 0.560 | 3.478 | 0.114 | 0.293 |
| TAN | | 0.024 | 0.775 | 0.379 | 0.178 |
| AUD | 258 | 0 | 1 | 0.41 | - |
| CFO | | 0.4 | 0.9 | 0.686 | 0.123 |
| POL | | 0 | 1 | 0.32 | - |
| INT | | 0 | 1 | 0.34 | - |

The classic assumption tests used in this study are normality tests, multicollinearity tests, heteroscedasticity tests, and autocorrelation tests. The results of the normality test with the Kolmogorov-Smirnov test showed a significance value of 0.200, which was more significant than the error tolerance value (α) of 0.05 (0.200 > 0.05), so it can be concluded that the residual data are normally distributed. The results of the multicollinearity test show a tolerance value of less than 0.10 and a VIF value of less than 10, so there is no multicollinearity problem between

variables. The results of the heteroscedasticity test with the Breusch-Pagan test showed a significance value of 0.074, which was more significant than the error tolerance value (α) of 0.05 (0.074 > 0.05), so it can be concluded that the regression model does not experience heteroscedasticity. The results of the autocorrelation test with the Run test show a significance value of 0.170, which is greater than the error tolerance value (α) of 0.05 (0.170 > 0.05), so it can be concluded that the model has residual data randomly and no autocorrelation occurs. The results of hypothesis testing are described in Table 4 as follows:

Table 4 Summary of Hypothesis Test Results

| Hypothesis | Information | B | Sig. | Result |
|---|---|---|---|---|
| $H_1$ | Growth rate negatively affects the effective tax rate (ETR) | -0.014 | 0.023** | Accepted |
| $H_2$ | Tangible assets negatively affect the effective tax rate (ETR) | 0.002 | 0.856 | Rejected |
| $H_3$ | Audit quality has a positive effect on the effective tax rate (ETR) | -0.006 | 0.094* | Rejected |
| $H_4$ | CFO expertise negatively affects the effective tax rate (ETR) | 0.052 | 0.000*** | Rejected |
| $H_5$ | Political connections negatively affect the effective tax rate (ETR | -0.009 | 0.016** | Accepted |
| $H_6$ | The company's foreign operations negatively affect the effective tax rate (ETR) | 0.015 | 0.000*** | Rejected |

Source: Processed secondary data, 2023
Information:
* : Significance 10%
** : Significance 5%
***: Significance 1%
- : No Effect

**The Effect of Growth Rate on Effective Tax Rate (ETR)**

The results show a negative influence of the growth rate on the company's effective tax rate (ETR). This proves that the higher the company's growth, the lower the company's effective tax rate (ETR) value. An increase in corporate profits has an impact on increasing the company's tax burden. This encourages optimal tax planning to reduce taxes borne by the company, namely by lowering the company's effective tax rate (ETR). Optimal tax planning by managers will lead to a lower effective tax rate (ETR) because it motivates increased cooperation of managers with tax professionals to help identify, develop, and implement tax planning strategies so that manager compensation will be achieved (Phillips, 2003). The results of this study are in line with (Fernández-Rodríguez et al., 2021) and (Vintila et al., 2017), which prove that growth rate has a negative effect on effective tax rate (ETR). The results of this study differ from (Panda & Nanda, 2021), who found that growth rate has a positive effect on the effective tax rate (ETR). Pu et al. (2015) found that the growth rate does not affect the effective tax rate (ETR).

**The Effect of Tangible Assets on the Effective Tax Rate (ETR)**

The results stating that the existence of tangible assets does not affect the effective tax rate (ETR) prove that tangible assets that are proxied with the proportion of tangible fixed assets to total assets are not able to affect the company's effective tax rate (ETR), so that the high or low value of the company's tangible assets, the effective tax rate (ETR) value will remain the same. The existence of tangible assets that are too high in the company can also cause additional costs incurred by the company, such as asset maintenance costs, which result in reduced company revenue. The company strives to maintain tangible assets at a certain level so as not to impose

excessive burdens on the company. This can be proven by the average sample company having a tangible asset value of 0.379072, which is in the medium category with a distribution of values in the very low to medium category. These results cannot be used by the company as one of the tax planning options, as evidenced by the effective tax rate (ETR) value is also in the medium category, so tangible assets cannot affect the company's high or low effective tax rate (ETR). Tangible assets during the COVID-19 pandemic became an option and were more used as a restructuring tool to save the company's survival. Asset restructuring is done by replacing or selling assets to increase cash flow and operations and optimally maximize the use of unexploited (Altman et al., 2019). Therefore, the company's tangible assets are not used as a tax planning strategy, so it does not affect its effective tax rate (ETR). The test results do not support agency theory, which assumes that to reduce the company's tax burden, managers (agents) can invest a certain amount of company funds in the form of tangible assets. This study's results align with (Fernández-Rodríguez et al., 2019a), which proves that tangible assets have no effect on the effective tax rate (ETR). The results of this study are not by (Stamatopoulos et al., 2019), which prove that tangible assets positively affect the effective tax rate (ETR). (Panda & Nanda, 2021) provide evidence that tangible assets have a negative effect on the effective tax rate (ETR).

**The Effect of Audit Quality on Effective Tax Rate (ETR)**

The results of this study, which states that audit quality negatively affects the company's effective tax rate (ETR), provide evidence that companies audited by Big Four Public Accounting Firms (KAP) have a lower effective tax rate (ETR). Big Four public accountants have more experience, knowledge, and resources than non-Big Four accountants. As one of the strategic partners for the company, Big Four Public Accountants, with their experience and knowledge, can help companies to be able to control the resources owned by the company in line with company goals so that resource expenditure can be spent as efficiently as possible. Thus, examining financial statements provided by the Big Four Public Accountants can help the company carry out careful tax planning to reduce the company's effective tax rate (ETR). The results of this study do not support the existence of agency theory, which states that auditors are third parties in minimizing and understanding conflicts of interest and solving information asymmetry problems between principals and agents. The results of this study are in line with (Salaudeen & Akano, 2018) and (Yinka & Uchenna, 2018), which prove that audit quality has a negative effect on the effective tax rate (ETR). The results of this study are not in line with (Fernández-Rodríguez et al., 2019) and (Vintilă et al., 2018), which state that audit quality has a positive effect on the effective tax rate (ETR). (Păunescu & Vintilă, 2018) stated that audit quality does not affect the effective tax rate (ETR).

**The Effect of CFO Expertise on Effective Tax Rate (ETR)**

The results of this study, which state that the expertise of the chief financial officer (CFO) has a positive effect on the company's effective tax rate (ETR), prove that the expertise and skills possessed by the chief financial officer (CFO) have an impact on the company's higher effective tax rate (ETR). Based on the data, CFOs of sample companies have an average skill score of 0.686 entry at a moderate level. According to (Demerjian et al., 2013), company managers with better expertise and skills can report high-quality company income. In this case, the chief financial officer (CFO), who has more excellent expertise and knowledge about the state of his company, shows they can estimate income and taxes more accurately. As a result, CFOs tend to refrain from opportunistic tax planning, and the value of the company's effective tax rate (ETR) cannot be maximally suppressed. The presence of a chief financial officer (CFO) who has expertise is more concerned with his reputation in the market to reduce aggressive tax planning practices that prevent the effective tax rate (ETR) from being suppressed. The characteristics of top management in upper echelon theory tend to lead to the perspective of the incentive-reduction effect, which states that the background of top management will encourage management to behave positively

(Qi et al., 2018). This study's results align with Armstrong et al. (2015), which proves that the financial expertise of directors has a positive effect on the effective tax rate (ETR). Different research results were found by (Chen et al., 2020), with accounting expertise negatively related to the effective tax rate (ETR). Ardiyanto & Marfiana (2021) prove that financial expertise does not affect the effective tax rate (ETR).

**The Effect of Political Connections on the Effective Tax Rate (ETR)**

The results stating that there is a negative influence of political connections on the company's effective tax rate (ETR) prove that the existence of someone in the company structure, both commissioners and directors who have political connections with the government, can make efforts to minimize the tax burden so that the company's effective tax rate (ETR) is low. Political connections are valuable because they can provide several benefits, such as preference for access to credit, protection of rules, corporate bailouts, lack of market pressure for public transparency and access to legislation, ease of obtaining import licenses, and preferences for sanctions reduction and tax audits. With this privilege, companies with political connections will be more courageous in minimizing their taxes so that the company's effective tax rate (ETR) will be low. From the point of view of upper echelon theory, to achieve corporate strategy, in Indonesia, political connections are generally carried out by placing people who have close ties to the government into the company's organizational structure, both commissioners and directors, to improve bargaining power and the position of entities in the government. The results of this study are also in line with (Wang & You, 2022) and (Pu et al., 2015), which prove that political connections have a negative effect on the effective tax rate (ETR). The results of this study are not in line with (Alfiyah et al., 2022), who provide evidence that political connections do not affect the effective tax rate (ETR). (Satiti et al., 2021) stated that political connections positively affect the effective tax rate (ETR).

**The Effect of the Company's Foreign Operations on the Effective Tax Rate (ETR)**

The research results showing that the company's foreign operations have a positive effect on the effective tax rate (ETR) prove that companies with foreign operations abroad have a high effective tax rate (ETR) value. The existence of this transfer pricing practice has harmed the state because state tax revenue will decrease; for this reason, the government, through Law Number 7 of 2021 concerning Harmonization of Tax Regulations, in Article 18 confirms that the government is authorized to prevent tax avoidance practices carried out by taxpayers, in this case, it also includes parties who have a special relationship to carry out transfer pricing. Moreover, it has also been regulated in the Regulation of the Director General of Taxes Number PER-32 / PJ / 2011. Companies that have foreign operations abroad are required to comply with and carry out regulations related to the arm's length principle, so this regulation will make it difficult for companies to carry out aggressive tax planning practices through transfer pricing strategies that result in the company's effective tax rate (ETR) that cannot be suppressed. The results of this study do not support the existence of agency theory that to get maximum compensation from the principal, management (agent) will still maintain a profit position by carrying out a tax planning strategy by maximizing the ownership of the company's foreign operations by conducting a transfer pricing strategy in subsidiaries abroad. This study's results align with (Dyreng et al., 2017), which proves that the company's foreign operations positively affect the effective tax rate (ETR). The results of this study do not match (Fernández-Rodríguez et al., 2019) which proves that the company's foreign operations negatively affect the effective tax rate (ETR).

**Conclusion**

This research found that the growth rate and political connections of companies can reduce the effective tax rate (ETR) value. Meanwhile, the quality of audits, the chief financial officers' (CFOs') expertise, and the company's foreign operations cause the effective tax rate (ETR) to be

higher. The company's tangible assets cannot cause a high or low effective tax rate (ETR) value. It is expected for company management to maximize tax planning strategies by applicable regulations so that the company's effective tax rate (ETR) value can be further suppressed to get the maximum possible profit.

The implications of this study prove that political connections within the company can minimize the existence of ETR. This is in line with the underlying theory, the upper echelon theory, which states that managerial background characteristics predict the results of organizational strategy choices and some performance levels. With a management background and political connections, companies will be more aggressive in implementing tax planning strategies (C. Kim & Zhang, 2016), so the company's effective tax rate (ETR) will decrease. In addition, this study also proves that the growth rate can minimize the company's ETR level. The company's increasing growth can drive efforts to maintain profit by conducting optimal tax planning, so management seeks to reduce tax burdens to achieve a low ETR level. This is certainly in line with agency theory because the company's previously agreed needs still conduct the efforts made by managers.

Future research is expected to use other effective tax rate (ETR) measurements, such as long-run cash ETR, to see the company's effective tax rate for ten years to illustrate the actual activities of corporate tax planning. Due to limited data on the Indonesia Stock Exchange (IDX) official website, the author could not find data for ten years. Therefore, it is hoped that future research can access deeper data to use these measurements.

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