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The Effect of Financial Constraints and Political Connections on Tax Aggressiveness with ESG Disclosure as a Moderating Variable

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Abstract

This study investigated the effect of financial constraints and political connections on tax aggressiveness. Additionally, ESG disclosure was used as a moderating variable to examine the impact of financial constraints and political connections on tax aggressiveness. Quantitative research uses secondary data. Data was collected from company reports, annual reports, and sustainability reports. The data was analyzed using hypothesis tests. The results of this study demonstrated that financial constraints and political connections positively influenced tax aggressiveness. Furthermore, this study revealed that ESG disclosure could weaken the positive influence of financial constraints on tax aggressiveness. In addition, ESG disclosure did not moderate the influence of political connections on tax aggressiveness. The tax authority can improve PMK No. 22/PMK.03/2020, about procedures for implementing transfer price agreements in unique company relationships by considering ESG disclosure to prevent an increase in tax aggressiveness. This study adds ESG disclosure to classify the inconsistency of previous research (Adela et al., 2023; Solikin & Slamet, 2022; Octaviani & Sofie, 2018), which are thought to have a combined influence on the financial constraints and political connections on tax aggressiveness.

Keywords: ESG Disclosure; Financial Constraints; Political Connections; Tax Aggressiveness

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1. Introduction

Tax aggressiveness refers to the strategic measures implemented by a company to reduce its taxable income through tax planning, encompassing both legal tax avoidance and illegal tax evasion (Fitriana & Rachmawati, 2021). Despite the legality of tax aggressiveness, it can create a dilemma as taxes are vital to the country and failure to pay them will lead to substantial financial losses due to decreased state revenue (Siska et al., 2022). In contrast, for companies, tax is an economic expense that significantly influences their profitability. Thus, the tax burden imposed on the company causes it to engage in tax aggressiveness (Firmansyah et al., 2022).

The low tax ratio in Indonesia can be attributed to tax aggressiveness (Flamini et al., 2021). According to the Revenue Statistics in Asian and Pacific Economies report, Indonesia's tax ratio decreased by 0.7% from 12.2% to 11.5% from 2007 to 2017. This tax ratio is significantly lower than the average ratio observed in OECD member countries (34.2%), the Americas and Caribbean countries

(22.8%), and the African region countries (18.2%) (OECD, 2020). Moreover, the Tax Justice Network report indicates that tax avoidance in Indonesia causes annual losses of US$ 4.86 billion, or IDR 68.7 trillion. Because Indonesia has incurred losses due to tax avoidance despite its low tax ratio, tax avoidance in Indonesia remains an issue that requires further investigation (Firmansyah et al., 2022).

Tax aggressiveness can be carried out due to financial constraints (Fitriana & Rachmawati, 2021) and political connections (Solikin & Slamet, 2022). The high cost of debt and equity capital presents difficulties for companies facing financial constraints in acquiring funding sources. Furthermore, companies experiencing financial constraints will be triggered to engage in tax aggressiveness to maximize new internal funding sources by reducing tax burdens that have no long-term influence on the company's performance (Fitriana & Rachmawati, 2021). Moreover, through political connections, taxpayers receive preferential treatment, such as low-risk tax audits and easy loan acquisition. In addition, companies with political connections are believed to be granted preferential treatment regarding investment and taxation, thereby triggering them to engage in tax aggressiveness (Solikin & Slamet, 2022).

According to research by Adela et al. (2023), A'alia and Rachmawati (2022), and Fitriana and Rachmawati (2021), companies experiencing financial constraints tend to engage in tax aggressiveness because their cash holdings are lower than the tax burden that must be borne so that they will take advantage of this condition for tax reporting purposes. In contrast, according to research by Octaviani and Sofie (2018), companies experiencing financial constraints tend not to engage in tax aggressiveness. She added that the degree of financial constraints companies encounter, whether high or low, will not trigger them to carry out tax aggressiveness.

According to research by Adela et al. (2023), Diafitri and Helmy (2023), and Fadillah and Lingga (2021), companies with political connections tend to engage in tax aggressiveness. Political connections will trigger companies to carry out tax aggressiveness since they have a greater possibility of undertaking measures to minimize the tax burden due to the low risk of tax audits and easy loan acquisition. In contrast, based on research by Solikin and Slamet (2022), political connections prevent companies from carrying out tax aggressiveness. The reason is that the government is more likely to supervise companies with extensive political connections. As a result of this extensive supervision, companies that aim to maintain their image would rather avoid risky activities, such as tax aggressiveness.

The aforementioned previous research results demonstrated inconsistent results regarding the research conducted on the factors influencing tax aggressiveness (Adela et al., 2023; A'alia & Rachmawati, 2022; Fitriana & Rachmawati, 2021; Octaviani & Sofie, 2018; Diafitri & Helmy, 2023; Fadillah & Lingga, 2021; Solikin & Slamet, 2022). These inconsistent research results are differences in measurements, years of observation, research objects, and relationships between selected variables. An additional cause that may account for the inconsistent previous research results is the inclusion of other variables, one of which is the moderating variable (Namazi & Namazi, 2016).

This study aimed to contribute to the literature on financial constraints, political connections, and tax aggressiveness by addressing inconsistencies in previous research results. This study hypothesized a combined influence of environment, social, and governance disclosure in the relationship between financial constraints and political connections on tax aggressiveness. In addition, this study added updates in the form of research models, measurements, populations, periods, and locations to measure the consistency of previous research results—namely, whether the research results obtained using different research models, measurements, populations, periods, and places were consistent with prior research.

Based on type III agency theory, agency conflict occurs between companies and the government. Companies try to pay the lowest possible taxes to maximize profits, while the government wants the highest possible tax revenues to finance government activities for the welfare of society (Jensen &

Meckling, 1976). This theory is in line with research by Adela et al. (2023), A'alia and Rachmawati (2022), and Fitriana and Rachmawati (2021); companies that experience financial constraints have difficulty in obtaining funding sources due to high debt costs and equity capital costs. Companies experiencing financial constraints will maximize new internal funding sources by reducing costs. Cutting the tax burden does not affect company performance in the long term, encouraging companies to implement tax aggressiveness. Apart from that, companies that experience financial constraints tend to exercise tax aggressiveness because the level of cash held by the company is lower than the tax burden that must be borne. Therefore, companies that experience financial constraints will take advantage of these conditions to carry out tax aggressiveness. Based on the description mentioned above, the hypothesis proposed is as follows:

H_1: Financial constraints had a positive influence on tax aggressiveness.

Based on resource dependence theory, there is a political relationship between companies and the government (Pfeffer & Salancik, 1978). Companies try to obtain legal protection and tax incentives from the government to support company operational activities (Li et al., 2012), while the government needs company support to help the government achieve socio-economic goals (Li et al., 2008). This theory is in line with research by Adela et al. (2023), Diafitri and Helmy (2023), and Fadillah and Lingga (2021); companies that have political connections will receive protection from the government have easy access to obtain capital loans and have a low risk of tax audits, thus encouraging companies to carry out tax aggressiveness. In addition, companies with political connections tend to carry out tax aggressiveness because the risk of tax audits is low, have more information about changes in tax regulations, and reduce political costs associated with tax aggressiveness. Therefore, companies with political connections will use these conditions to carry out tax aggressiveness. Based on the description mentioned above, the hypothesis proposed is as follows:

H_2: Political connections had a positive influence on tax aggressiveness.

Based on legitimacy theory, a good company is a company that is oriented towards legitimacy or alignment with society, government, and community groups (Gray et al., 1996). ESG disclosure is a company's responsibility to investors, culture, and the government to reflect the company's operation well and increase trust and relationships with investors, society, and government (Tan & Zhu, 2022). Research by Agustini et al. (2023) and Nurlaely and Dewi (2023) show that companies with good environmental, social, and governance scores tend not to carry out tax aggressiveness because it is considered unethical behavior, resulting in losses for society as a whole.

ESG disclosure can improve company performance (Angela & Sari, 2023), create transparency, and minimize tax avoidance by companies (Jankensgård, 2018), resulting in companies with good environmental, social, and governance performance both tend not to manipulate taxable profits (Agustini et al., 2023). In addition, ESG disclosure can increase investor confidence in investing capital in companies, thereby reducing companies' financial constraints (Tan & Zhu, 2022). Therefore, ESG can increase investor confidence in investing capital in companies and reduce financial constraints companies face to minimize tax aggressiveness. Based on the description mentioned above, the hypothesis proposed is as follows:

H_3: ESG disclosure could weaken the positive influence of financial constraints on tax aggressiveness.

Based on legitimacy theory, a good company is a company that is oriented towards legitimacy or alignment with society, government, and community groups (Gray et al., 1996). ESG disclosure is a company's responsibility to investors, culture, and government. It reflects the company's operation well and increases trust and relationships with investors, society, and government (Firmansyah et al., 2022). Research by Agustini et al. (2023) and Nurlaely and Dewi (2023) show that companies with good environmental, social, and governance scores tend not to carry out tax aggressiveness because it is considered unethical behavior, resulting in losses for society as a whole.

ESG disclosure can enable companies to fulfill their moral obligations while fulfilling environmental, social, and corporate governance interests so that companies contribute to the government by carrying out tax obligations adequately to achieve tax revenue targets (Firmansyah et al., 2022). In addition, ESG disclosure can increase investor confidence (Tan & Zhu, 2022), thereby reducing companies that take advantage of political connections (Firmansyah et al., 2022). Therefore, ESG disclosure can increase investor confidence and reduce companies that use political connections to minimize tax aggressiveness. Based on the description mentioned above, the hypothesis proposed is as follows:

H_4: ESG disclosure could weaken the positive influence of political connections on tax aggressiveness.

2. Research Design and Method

This study is classified as quantitative explanatory research. Explanatory research is defined as research that explains cause-and-effect relationships (Sekaran & Bougie, 2019). Furthermore, the population of this study consisted of manufacturing companies officially registered on the IDX for the 2018-2022 period. This study employed the purposive sampling technique to select manufacturing companies that met two specific criteria: being listed on the IDX for the 2018-2022 period and having published sustainability reports during the same period. Moreover, the data used in this study is classified as secondary data and was obtained using unbalanced panel data due to the limitations on companies disclosing sustainability reports. In addition, a sample of 250 companies was obtained over a 5-year observation period by collecting data from annual and sustainability reports.

Quantitative Methods

Quantitative research uses secondary data. Data was collected from company reports, annual reports, and sustainability reports. The data was analyzed using hypothesis tests.

Table 1. Measurement of Variable

Variable	Indicator / Item	Major References
Financial Constraints (X1)	$CFIS = \sum_{t=1}^{n} \left(\frac{I_{it} \ x \ CF_{it}}{\sum_{t=1}^{n} CF_{it}} \right) - \frac{1}{n} \sum_{t=1}^{n} I_{it}$	(Hovakimian & Hovakimian, 2009; Biddle & Hilary, 2006)
Political Connections (X2)	• If the company's board of commissioners and directors also have a role as politicians. • If the company's board of commissioners and directors are government officials or staff, such as members of The House of Representatives of the Republic of Indonesia, government agency officials, members of the executive cabinet, or members of political parties. • If the company's board of commissioners and directors have served in one of the government institutions, including the	(Iswari et al., 2019)

Variable	Indicator / Item	Major References
	military, members of The House of Representatives of the Republic of Indonesia, and former members of the executive cabinet. • Suppose the company's board of commissioners and directors have roles as military officials. Once these criteria were met, political connections were measured using a dummy variable; specifically, one value was assigned to companies with a political connection, while zero value was assigned to companies that did not have a political connection.	
ESG Disclosure (Y)	• ENV1 - GHG Emissions • ENV2 – GHG Intensity • ENV3 – Energy Usage • ENV4 – Energy Intensity • ENV5 – Energy Mix • ENV6 – Water Usage • ENV7 – Environmental Operations • ENV8 – Climate Oversight/Board • ENV9 – Climate Oversight/Management • ENV10 – Climate Risk Mitigation • ENV11 – Forestry CSR • SOC1 – CEO Pay Ratio • SOC2 – Gender Pay Ratio • SOC3 – Employee Turnover • SOC4 – Gender Diversity • SOC5 – Temporary Worker Ratio • SOC6 – Non-Discrimination • SOC 7 – Injury Rate • SOC8 – Global Health and Safety • SOC9 – Child and Forced Labor • SOC10 – Human Rights • SOC11 – Social CSR • GOV1 – Board Diversity • GOV2 – Board Independence • GOV3 – Incentivized Pay • GOV4 – Collective Bargaining • GOV5 – Supplier Code of Conduct • GOV6 – Ethics & Anti-Corruption Compliance • GOV7 – Data Privacy • GOV8 – ESG Reporting • GOV9 – Disclosure Practices • GOV10 – External Assurance • GOV 11 – Tax Transparency	(Jeanice & Kim, 2023)
Tax Aggressiveness (Y)	$ETR = \frac{\text{Tax Expense}}{\text{Net Profit Before Tax}}$	(Krisyadi & Anita, 2022; Solikin & Slamet, 2022; Stiglingh et al., 2022; Putri & Damayanti, 2021; Satiti et al., 2021)

Research Sample

The research sample is 250 manufacturing companies listed on the IDX for the 2018–2022. The details of the purposive sampling technique are as follows:

Tabel 2. Sample Selection Procedure

Criteria	Total
Manufacturing companies that were listed on the Indonesia Stock Exchange for the 2018–2022	825
Manufacturing companies that did not publish sustainability reports for the 2018–2022	(535)
Manufacturing companies whose annual reports and sustainability reports for the 2018–2022 cannot be accessed	(8)
Manufacturing companies that experienced losses for the 2018–2022	(32)
Number of companies used as research samples	250

Source: Data processed (2024)

3. Results and Discussion

This study provides a comprehensive examination of research data using descriptive statistical analysis.

Statistical Result

Descriptive statistics aims to see the distribution of data from manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2022 period based on research variables, namely financial constraints, political connections, environmental, social and governance disclosures and tax aggressiveness. The descriptive statistical results of the research variables presented in table 3 are as follows:

Table 3. Descriptive Statistics

Variable	N	Minimum	Maximum	Average	Std. Dev.
FC	250	-541,971	109,955	-1,797	37,272
PC	250	0,000	1,000	0,420	0,495
ESG	250	0,333	1,061	0,733	0,099
ETR	250	0,004	5,283	0,269	0,380

Source: Data processed by Eviews 12

From the presentation of table 3 above, it is found that the financial constraint variable (X1) has a minimum value of -541,971, the maximum value is 109,955, while the average value (mean) is -1,797 for the financial constraint variable and the standard deviation value. (Std. Deviation) 37,272, if seen above, the standard deviation number is greater than the mean (average) value, this shows that the data variation is quite high. The political connections variable (X2) was found to have a minimum value of 0,000, a maximum value of 1,000, and a mean value of 0,420 with a standard deviation value of 0,495. The standard deviation number is greater than the mean (average) value, this shows that the data variation is quite high. The effective tax rate variable (Y) has a minimum value of 0,004, while the maximum value is 5,283 and the average value is 0,269 with a standard deviation value of 0,380. Shows that the data variation is quite high because the mean value is smaller than the standard deviation value. The ESG disclosure variable (Z) has a minimum value of 0,333, the maximum value is 1,061, while the average value (mean) is 0,733 with a standard deviation of 0,099. In this ESG disclosure variable, the data variation is relatively small because the standard deviation value is smaller than the mean value.

A normality test was required to be carried out on the regression to ensure that the residual values in the regression model were usually distributed. Furthermore, this study employed the skewness-kurtosis test as a normality test. Based on the normality test results, a probability value of more than 0.05 indicates that the data used was average. The research sample of more than 100 companies shows that the data used is normally distributed (Gujarati & Porter, 2009).

Table 4. Results of the Normality Test

	Prob. Normality
Direct Testing	0,000000
Testing with Moderation	0,000000

Source: Data processed by Eviews 12

The correlation between independent variables in the panel data regression model was estimated using multicollinearity estimation. This study used the average of the independent variables to carry out a multicollinearity analysis. If the covariance is less than 0.80, then multicollinearity is considered not to occur. On the other hand, if the covariance is more significant than 0.80, multicollinearity occurs between the independent variables.

Table 5. Results of the Multicollinearity Test

	FC	PC	ESG
FC	1,000	0,089	-0,227
PC	0,089	1,000	-0,044
ESG	-0,227	-0,044	1,000

Source: Data processed by Eviews 12

A heteroscedasticity test was required to be carried out to determine whether there was an inequality of variance in the residuals of the panel data regression model. In addition, the probability value of the Breusch-Pagan Lagrange multiplier test was used to determine whether or not heteroscedasticity occurred in the regression model.

Table 6. Results of the Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FC	-6,860005	0,000775	-0,088564	0,9296
PC	-0,035659	0,036308	-0,982131	0,3277
ESG*FC	0,000213	0,000734	0,290711	0,7717
ESG*PC	0,067337	0,047766	1,409714	0,1608
C	0,034320	0,002887	11,88649	0,0000

Source: Data processed by Eviews 12

Based on the results of the heteroscedasticity test conducted using the Glejser test, the FC, PC, and ESG variables did not exhibit heteroscedasticity, as evidenced by the prob value. Moreover, since the coefficient values of FC, PC, and ESG were greater than 0.05, the H_0 was accepted. This indicates that the panel data regression model did not exhibit heteroscedasticity.

Table 7 shows the coefficient of determination R^2 test with direct testing of 0,932074 and moderated testing of 0,944010. Thus, financial constraints and political connections could be explained by the tax aggressiveness of 93,2%, while the remaining 6,8% could be explained by other variables not examined in this study. In addition, ESG disclosure as a moderating variable could be explained by the relationship between financial constraints, political connections, and tax aggressiveness, amounting to 94,4%. The remaining 5,6% could be explained by other variables not examined in this study.

Table 7. Coefficient of Determination (R^2) Test Results

	Adjusted R^2 Square
Direct Testing	0,932074
Testing with Moderation	0,944010

Source: Data processed by Eviews 12

Table 8. Results Summary

Hypothesis	Coefficient	t-statistic	Prob.	Explanation
H_1	0,006481	2,7	0,0074	**H_1 Accepted**
H_2	0,048764	3,4	0,0332	**H_2 Accepted**
H_3	-0,004886	-2,1	0,0321	**H_3 Accepted**
H_4	0,055688	0,3	0,7054	**H_4 Rejected**
F-statistic	40,23581			
Prob (F-statistic)	0.000000			

Source: Data processed by Eviews 12

Based on the table above, H_1, H_2, and H_3 had a statistical probability value of <0.05, indicating that financial constraints and political connections positively influenced tax aggressiveness. Additionally, it was discovered that ESG disclosure could weaken the positive influence of financial constraints on tax aggressiveness.

Discussion

The Influence of Financial Constraints on Tax Aggressiveness

Based on the results of this research, financial constraints had a positive influence on tax aggressiveness. It was also explained that companies experiencing financial constraints will be encouraged to carry out tax aggressiveness. The results of this research are in line with type III agency theory. According to type III agency theory, agency conflict occurs between companies and the government. Companies try to pay the lowest possible taxes to maximize profits, while the government wants the highest possible tax revenues to finance government activities for the welfare of society (Jensen & Meckling, 1976).

Companies that experience financial constraints prefer to implement tax aggressiveness (Koh & Lee, 2015). According to Edwards et al. (2016), tax planning can be used as an alternative source of financing because financing sources, such as debt and equity, become more challenging to obtain when companies experience financial constraints. Companies tend not to carry out tax aggressiveness if they have relatively high free cash flow because the company can pay taxes. In contrast, companies with limited cash flow generally experience financial constraints, thus encouraging them to carry out tax aggressiveness, which results in a loss of financial transparency (Fitriana & Rachmawati, 2021). This condition causes companies experiencing financial constraints to implement tax aggressiveness to maintain competitiveness and reduce the problem of lack of investment (Chen & Lin, 2017).

The results of this research are in line with research by Adela et al. (2023), A'alia and Rachmawati (2022), and Fitriana and Rachmawati (2021), which show that companies experiencing financial constraints will maximize new internal funding sources by reducing the tax burden which does not affect the company's performance in the long term so that companies will be motivated to implement tax aggressiveness. Therefore, financial constraints had a positive influence on tax aggressiveness.

The Influence of Political Connection on Tax Aggressiveness

Based on the results of this research, political connections had a positive influence on tax aggressiveness. Apart from that, it was explained that companies that have political connections will encourage companies to carry out tax aggressiveness. The results of this study are in line with resource dependence theory. According to resource dependence theory, there is a political relationship between companies and the government (Pfeffer & Salancik, 1978). Companies try to obtain legal protection and tax incentives from the government to support company operational activities (Li et al., 2012), while the government needs company support to help the government achieve socio-economic goals (Li et al., 2008).

Companies with political connections are bolder in tax aggressiveness (Kim & Zhang, 2016). According to Solikin and Slamet (2022), political connections provide benefits in the form of preferential treatment, such as the low risk of tax audits, easy access to capital in the form of loans or credit, and lower pressure from the capital market for transparency. Companies with political connections will receive protection from the government and have a low risk of tax audits, thus encouraging companies to carry out tax aggressiveness, resulting in a loss of financial transparency (Lestari et al., 2019). This condition causes companies with political connections to carry out tax aggressiveness to reduce the risk of tax audits, provide more information regarding changes in tax regulations, and reduce political costs associated with tax aggressiveness (Satiti et al., 2021).

The results of this research are in line with research by Adela et al. (2023), Diafitri and Helmy (2023), Fadillah and Lingga (2021), which shows that companies that have political connections will have better opportunities in terms of information, funding, and applicable regulations so that both directors and commissioners can determine what decisions the company will take in the future so that companies will be motivated to carry out tax aggressiveness. Therefore, political connections had a positive influence on tax aggressiveness.

The Influence of ESG Disclosure on the Influence of Financial Constraints on Tax Aggressiveness

Based on the results of this research, ESG disclosure could weaken the positive influence of financial constraints on tax aggressiveness. The results of this research are in line with the legitimacy theory. According to legitimacy theory, a good company is a company that is oriented towards legitimacy or alignment with society, government, and community groups (Gray et al., 1996). ESG disclosure requires a higher level of social responsibility and more transparency in corporate social responsibility practices. Companies with high social responsibility have strong incentives to avoid tax manipulation (Yoon et al., 2021), so the higher the activity in the corporate social responsibility dimension, the lower the company's level of tax aggressiveness (Chouaibi et al., 2022).

The results of this research are in line with type III agency theory. According to type III agency theory, agency conflict occurs between companies and the government. This conflict can be reduced by ESG disclosure, which can improve company performance (Angela & Sari, 2023), create transparency for a company, and minimize tax avoidance by companies (Jankensgård, 2018) so that companies with environmental performance, social, and good governance tend not to manipulate taxable profits (Agustini et al., 2023). In addition, ESG disclosure can increase investor confidence in investing capital in companies, thereby reducing companies' financial constraints (Tan & Zhu, 2022).

The results of this research are in line with research by Agustini et al. (2023) and Nurlaely and Dewi (2023), showing that companies with good environmental, social, and governance scores tend not to carry out tax aggressiveness because it is considered unethical behavior, giving rise to lose to society as a whole. Thus, disclosure of environmental, social, and governance information can reduce agency conflicts between companies and the government in type III agency theory. Therefore, ESG disclosure could weaken the positive influence of financial constraints on tax aggressiveness.

The Influence of ESG Disclosure on the Influence of Political Connection on Tax Aggressiveness

Based on the results of this research, ESG disclosure did not moderate the influence of political connections on tax aggressiveness. ESG disclosures are unable to influence this relationship. This is because companies with political connections are bolder in tax aggressiveness. Companies with political connections will receive protection from the government and have a low risk of tax audits, thus encouraging companies to carry out tax aggressiveness, resulting in a loss of financial transparency (Lestari et al., 2019). This condition causes companies with political connections to tend to carry out tax aggressiveness to reduce the risk of tax audits, have more information about changes in tax regulations, and mitigate political costs associated with tax aggressiveness (Kim & Zhang, 2016).

Therefore, ESG disclosure did not moderate the influence of political connections on tax aggressiveness.

4. Conclusions

The research results show that tax aggressiveness is most likely to occur in companies that experience financial constraints and companies that have political connections. ESG disclosure by companies can weaken the relationship between financial constraints and tax aggressiveness. ESG disclosure increases investor confidence to invest capital in companies that experience financial constraints, thereby reducing the financial constraints faced by companies. Apart from that, ESG disclosures made by companies do not moderate the relationship between political connections and tax aggressiveness. Companies that have political connections will receive protection from the government and have a low risk of tax inspection, thus encouraging companies to carry out tax aggressiveness which results in a loss of financial transparency. This causes companies that have political connections to tend to carry out tax aggressiveness to reduce the risk of tax audits, have more information about changes in tax regulations, and reduce political costs associated with tax aggressiveness.

This research provides theoretical implications from type III agency theory which specifically shows that financial constraints influence tax aggressiveness and resource dependency theory which specifically shows that political connections influence tax aggressiveness. Therefore, it is important to consider financial constraints and political connections as predictors of tax aggressiveness. Apart from that, this research provides practical implications for OJK in order to reduce tax aggressiveness, namely that OJK must strengthen ESG disclosures made by companies through PMK regulation No.51/POJK.03/2017.

A limitation of the research is that the number of samples used is influenced by the large number of manufacturing companies used as research samples that have not disclosed their sustainability reports for the 2018-2022 period. Apart from that, a suggestion for future researchers is that they can use other measurements to measure environmental, social and governance disclosures, so that research data is not limited.

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