
| RESEARCH ARTICLE

Corporate Social Responsibility and Tax Aggressiveness

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| ABSTRACT

This study aims to analyze the effect of corporate social responsibility on tax aggressiveness. Agency theory is used to explain the relationship between corporate social responsibility variables and tax aggressiveness. The relationship between principal and agent has different interests. The agent has more information than the principal, so opportunistic actions may occur by agents through tax aggressiveness; furthermore, agents use corporate social responsibility to hide these opportunistic actions. The research sample used is the annual financial statements of mining companies listed on the Indonesia Stock Exchange in 2013-2020. The results of the analysis of 96 samples show that corporate social responsibility has a negative and significant effect on tax aggressiveness. This means that the higher the company carries out corporate social responsibility activities, the smaller the company is willing to take tax aggressiveness actions. This shows that companies tend to avoid tax aggressiveness and comply more with applicable tax regulations to improve the company's image as obedient taxpayers. Although corporate social responsibility is bound by regulations, companies do not take advantage of it in terms of aggressive tax practices. Furthermore, the company shows a tendency to enforce the government's plan in terms of tax revenue along with the company's long-term goals. This study expands the focus of the literature on developed economies by examining the relationship between corporate social responsibility and corporate tax aggressiveness in an emerging Asian economic setting, namely Indonesia. It is also an empirical study that focuses on mining companies in Indonesia.

| KEYWORDS

Tax Aggressiveness, Corporate Social Responsibility

| ARTICLE DOI: [10.32996/jefas.2022.4.2.3](https://doi.org/10.32996/jefas.2022.4.2.3)

1. Introduction

Tax is a mandatory contribution for a country in the world that is owned by an individual or entity (Sudaryono *et al.*, 2019). Not only in the world, the tax sector is seen as a mandatory contribution, but for Indonesia itself, taxes are the largest source of revenue, so the government has special treatment for the tax sector (Putriani, 2020). IN Indonesia, the obligation to pay taxes is regulated in Article 32A of the 1945 Constitution and the Law - the General Provisions of Taxation No. 28 of 2007. Tax is defined as a mandatory contribution to the state that is coercive based on the law, with no direct contra-achievement and is used by the state for the greatest prosperity of the people.

Companies as taxpayers are required to pay a certain amount of tax which is calculated based on the net profit from the company's activities. The greater the company's profit, the higher the tax paid, the more state revenue and vice versa. The company has the opposite perspective, where the tax paid will cause an excessive burden, so that the net profit distributed to owners is getting smaller.

The government has special treatment for taxes, so it has more expectations in the state revenue, which will result in maximum results. This is in contrast to the company, where the company's goal is to make the tax burden more efficient so that it has greater potential for the welfare of the owners and the survival of the company (Maraya and Reni, 2016). Companies are required to maximize profits by minimizing costs, but other things the company has a responsibility in tax regulatory obligations that are

carried out properly and correctly (Avi-Yonah, 2008; Landolf and Symons, 2008). To fulfill these two conflicting interests, the steps taken are to carry out aggressive tax avoidance practices (Hanlon and Slemrod, 2009).

Tax aggressiveness is a specific activity that includes many transactions. The main motivation is to reduce the company's tax liability (Balakrishnan *et al.*, 2011). Furthermore, according to Frank *et al.* (2009), tax aggressiveness is an action that is planned intentionally and more carefully by company management to reduce taxable income, whether permitted or not permitted in tax regulations. However, the practice of tax aggressiveness leads to excessive management discretion and even tends to lead to actions that violate applicable tax regulations (Desai and Dharmapala, 2006; Wilson, 2009; Chen *et al.*, 2010; Hoi *et al.*, 2013).

The practice of tax aggressiveness by the company has an impact on fluctuations in the state revenue target. Data from the Ministry of Finance states that there have been fluctuations in tax revenue over the last ten years; for example, in 2019, there was a difference between the tax revenue target and the realization of 200 trillion or only 86.5% of the target tax revenue, the peak occurred in 2015 where the target can be achieved only 83% (kemenkeu.go.id, 2019). Furthermore, there are cases of tax aggressiveness practices that are popular in the world, such as the 2016 Panama Paper, where the existence of a tax haven country offers an extreme minimum tax and confidentiality of shareholders or company ownership in the tax haven country (Sudiarta, 2016).

The practice of tax aggressiveness is also shown in various countries as well as by previous researchers, for example. Research conducted by Davis *et al.* (2016) in the United States showed a negative relationship, Lanis and Richardson (2012) in Australia showed negative results, further research conducted by Putriani (2020) in Indonesia showed negative and significant results. The literature shows that the factors that influence tax aggressiveness are: profitability, company size (Adisamaerta and Noviri, 2015; Leksono *et al.*, 2019; Dinar *et al.*, 2020), leverage, capital intensity (Adisamaerta and Noviri, 2015), corporate social responsibility (CSR) (Watson, 2015; Lanis and Richardson, 2012). According to Lanis and Richardson (2012), tax aggressiveness practices by companies can lead to suspicions of being a socially irresponsible activity (Lanis and Richardson, 2012; Christensen and Murphy, 2004; Erle, 2008; Schön, 2008). Wilson (2009) revealed that companies that have low ratings in CSR activities have a bad image for the company and are not socially responsible. According to Baker (2003), CSR is a company's business activities that manage business processes and generate positive impacts for the entire community. Disclosure of corporate CSR can be done in several ways.

Several previous studies have discussed the relationship between CSR and tax aggressiveness. Lanis and Richardson (2012) empirically prove that in Australia, the higher the level of CSR disclosure, the lower the level of tax aggressiveness. Putriani (2020) provides the same evidence as research by Lanis and Richardson (2012), where CSR has a negative and significant effect on tax aggressiveness in Indonesia. Furthermore, different results are shown by Maraya and Reni (2016), where CSR has a positive effect on tax aggressiveness. Watson (2015) proves that in the United States, a low CSR will be more aggressive in tax activities such as higher book-tax differences.

The inconsistency of the research results may be caused by several things. First, the location and object of research, differences in tax regulations between countries may affect the results of the study in addition to the industrial characteristics of the sample companies that may also affect the results of these studies (Davis *et al.*, 2016; Watson, 2015; Lanis and Richardson, 2012; Putriani, 2020). The two differences in the measurement of research variables various measurements of tax aggressiveness variables (ETR, CETR, BTD, ABTD) may affect previous studies. Therefore, this study seeks to re-examine the effect of CSR on tax aggressiveness in Indonesia, especially in the mining sector. Mining companies are considered to be closely related to CSR activities because these companies exploit natural resources and are prone to social conflicts. This study also modifies the measurement of the CSR disclosure variable by combining two measurements, namely CSR disclosure in financial statements and CSR disclosure on the company's website. The next section of this paper describes the literature review and research hypotheses. The research method and the results of data analysis are presented in the next section. Conclusions, limitations and suggestions for further research are presented at the end of the paper. This study also modifies the measurement of the CSR disclosure variable by combining two measurements, namely CSR disclosure in financial statements and CSR disclosure on the company's website. The next section of this paper describes the literature review and research hypotheses. The research method and the results of data analysis are presented in the next section. Conclusions, limitations and suggestions for further research are presented at the end of the paper. This study also modifies the measurement of the CSR disclosure variable by combining two measurements, namely CSR disclosure in financial statements and CSR disclosure on the company's website. The next section of this paper describes the literature review and research hypotheses. The research method and the results of data analysis are presented in the next section. Conclusions, limitations and suggestions for further research are presented at the end of the paper.

2. Literature Review

Jensen and Meckling (1976) state that agency theory describes the difference in interests between principals and agents. The difference in interests is reinforced by the existence of information asymmetry, where the agent has more information than the

principal. This condition is very likely to lead to opportunistic actions of agents through the practice of tax aggressiveness (Lim, 2011; Dyreng *et al.*, 2008). The literature shows that CSR activities may be used by company management to cover up opportunistic behavior that can benefit them (Zeng, 2018; Sikka, 2010, & 2013). The practice of tax aggressiveness, on the one hand, can benefit company owners but, on the other hand, can be detrimental because if the company is exposed to tax cases, it will create a bad image for the company (Col, 2017; Sefiana, 2009; Avi-Yonah, 2008).

Tax aggressiveness is a tax planning activity that aims to reduce taxable profit. Tax aggressiveness is also referred to as the overall tax planning activity to reduce the company's effective tax rate (Frank *et al.*, 2009). Companies that practice aggressive taxation can potentially create a bad image in the community, so companies try to cover it up by increasing their CSR activities. This CSR activity can be seen by the community as a form of the company commitment to continue to carry out more ethical business activities, carry out company operations according to regulations and contribute to the economy, improve the quality of life of employees, and improve the quality of local communities and society at large (Wibisono, 2007). In other words, the company improves the company's good image through CSR activities so that the practice of tax aggressiveness is not known. However, research by Lanis and Richardson (2012) shows that companies are more concerned with their reputation and tend to avoid aggressive tax practices. The results of this research prove that CSR activities have a negative effect on tax aggressiveness. Furthermore, Putriani's research (2020) shows research results that CSR activities have a negative effect on tax aggressiveness. Based on the theoretical study and the results of previous research, the following hypothesis is formulated.

H1: "CSR disclosure has a negative effect on tax aggressiveness".

3. Methodology

3.1 Population and Sample

The population of this study is mining companies listed on the Indonesia Stock Exchange (IDX) in 2013-2020. Mining companies are used as research objects with the following considerations: 1) Mining companies are closely related to CSR activities because these companies exploit natural resources and range with social conflicts, 2) Indonesia is a country that has many and various types of natural resources. 3) the majority of mining companies are multinational, so it is possible for companies to avoid cross-border tax evasion. The samples used are mining companies that meet the following criteria: 1) companies listed on the IDX in 2013-2020 consecutively, 2) issue annual financial reports from 2013-2020.

3.2 Operational Definition and Measurement of Variables

Tax aggressiveness is measured by Abnormal Book tax Differences (ABTD) according to research by Tang and Firth (2012). ABTD is the Book tax Difference (BTD) value that comes from the policies taken by the company's management in order to reduce the tax burden paid, so it is considered more accurate in measuring tax aggressiveness. The information contained in the residual BTD can explain the difference in book value between the accounting profit and the company's fiscal profit. The greater the residual value of BTD, the greater the difference between accounting profit and fiscal profit (Tang and Firth, 2012; Desai and Dharmapala, 2006; Chen *et al.*, 2010) So that the company's management who wants to increase the book value of accounting profit will affect the company's fiscal profit.

Table I. Operational Definitions and Measurement of Variables

No	Research variable	Acronym	Measurement	Source
Dependent Variable (Tax Aggressiveness)				
1	ABTD value is the residual BTD which explains the difference in book value between accounting profit and company fiscal profit.	ABTD	$ABTD_{it} = \beta_0 + \beta_1 \Delta INV_{it} + \beta_2 \Delta REV_{it} + \beta_3 BTD_{it-1} + \epsilon_{it}$	(Tang and Firth, 2012; Desai and Dharmapala, 2006; and Chen <i>et al.</i> , 2010)
Independent Variable (Corporate Social Responsibility)				
2	The ratio that measures CSR disclosure from the company's annual financial statements according to GRI G4 divided by the total GRI G4 index.	CSR_LK	$CSR_{it} = \frac{\sum GRI \text{ Indeks disclosed in annual report}}{\text{Total indeks}}$	(Lanis and Richardson, 2012; and Ardianto and Fadjar, 2017)
	The ratio that measures CSR disclosure from each company's website	CSR_WEB	$CSR_{it} = \frac{\text{Number of CSR news via company website}}{\text{Total news in company website}}$	(Lanis and Richardson, 2012;

	according to GRI G4 divided by the total news on the company's website.			and Ardianto and Fadjar, 2017)
Control Variable				
3	The ratio that measures the company's ability to earn profits divided by total assets	ROA	$ROA = \frac{EAT}{Total\ Assets}$	(Lanis and Richardson, 2012)
4	Financial ratio that shows the relative proportion between assets and debt used to finance the company's assets.	DAR	$DAR = \frac{Total\ Liability}{Total\ Assets}$	(Lanis and Richardson, 2012)
5	Calculated using the Natural Logarithm of the total assets of each company.	SIZE	SIZE = Ln (Total Assets)	(Lanis and Richardson, 2012)
6	The ratio between the company's inventory and the company's total assets	INVINT	$INVINT = \frac{Total\ Inventory}{Total\ Assets}$	(Lanis and Richardson, 2012)
7	The ratio between the value of property, plant, and equipment with the total assets owned by the company	PPE	$PPE = \frac{Total\ Property, Plant, and\ equipment}{Total\ Assets}$	(Chen <i>et al.</i> , 2010)

3.3 Data Analysis and Hypothesis Testing

Data analysis and hypothesis testing in this study used panel data regression—test panel data regression analysis to test the hypothesis. The model specification test was carried out before performing the regression analysis to select the best regression model. The model specification test used is the Chow test, Hausman test, and the Legrange Multiplier test. Furthermore, the classical assumption test is carried out to ensure that the regression model is free from the classical assumption problem. The following is the regression equation in this study:

$$ABTD_{it} = a_0 + a_1CSR_{it} + a_2ROA_{it} + a_3DAR_{it} + a_4SIZE_{it} + a_5PPE_{it} + a_6INVINT_{it}$$

Information :

- ABTD : Tax aggressiveness
- CSR : Disclosure of Corporate Social Responsibility
- ROA : Return on assets
- DAR : Debt to total assets ratio
- SIZE : company size
- PPE : Properties, plants, and equipment
- INVINT : inventory intensity

4. Results and Discussion

4.1 Descriptive Statistics

Based on Table II, ABTD has an average value of -1.892, the highest value -0.441, the lowest value -3.959. The average value of -1.892 indicates that the sample companies carry out tax aggressive practices. The CSR_PCA disclosure variable has an average value of 0.114. The highest value is 0.513. The lowest value is -0.583. These results indicate that the level of CSR disclosure made by the company is relatively low. The value of CSR disclosure is relatively low when compared to the average value of CSR in previous research by Lanis and Richardson (2012). The CSR_LK disclosure variable has an average value of 0.34489, the highest value is 0.72527, and the lowest value is 0.14286. These results indicate that the level of CSR disclosure made by the company is relatively high. The value of CSR_LK disclosure is relatively high when compared to the average value of CSR in Lanis and

Richardson's (2012) research. The CSR_WEB disclosure variable has an average value of 0.18410. The highest value is 1,000. The lowest value is 0.000. These results indicate that the level of CSR_WEB disclosure made by the company is relatively low, the value of CSR_WEB disclosure is relatively low when compared to the average value of CSR in the research of Pangesti and Harjanti (2017). ROA has an average value of 0.055. The highest value is 0.456. The lowest value is -0.201. DAR has an average value of 0.486. The highest value is 1.291. The lowest value is 0.088. SIZE has an average score of 9,978. The highest score is 13,482. The lowest score is 8,418. PPE has an average value of 0.431, the highest score of 0.851, the lowest value of 0.072. INVINT has an average value of 0.051.

Table II. Descriptive statistics

	ABTD	CSR	CSR_LK	CSR_WEB	ROA	DAR	SIZE	PPE	INVINT
mean	-1.891862	0.113702	0.34489	0.18410	0.054966	0.486583	9.977672	0.431346	0.051135
median	-1.834115	0.119984	0.30222	0.14285	0.044256	0.429144	9.235035	0.389272	0.048816
Maximum	-0.441008	0.512847	0.72527	100000	0.455579	1.291966	13.48226	0.851528	0.163944
Minimum	-3.958607	-0.582780	0.14286	0.00000	-0.201688	0.088040	8.417618	0.072597	0.004488
Std. Dev.	0.708977	0.192227	0.16664	0.19084	0.093266	0.252554	1.665223	0.211805	0.031472
Observations	96	96	96	96	96	96	96	96	96

4.2 Regression Analysis

Based on the results of the Chow test, Hausman test, and Lagrange Multiplier test, it can be concluded that the most suitable regression model is the common effect model. The results of the normality test, heteroscedasticity test, multicollinearity test, and autocorrelation test also show that the regression model is free from classical assumption problems (Table of test results attached). The results of the panel data regression analysis are presented in Table III below.

Table III Regression Analysis

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	-0.853751	0.554188	-1.540543	0.1270
CSR	-0.829965	0.412467	-2.012197	0.0472
ROA	0.076207	0.903193	0.084375	0.9329
DAR	-0.432942	0.359284	-1.205014	0.2314
SIZE	-0.073917	0.042815	-1.726426	0.0877
PPE	-0.508278	0.365132	-1.392041	0.1674
INVINT	4.292446	2.383477	1.800918	0.0751
R-squared	0.156987	Mean dependent var		-1.891862
Adjusted R-squared	0.100155	SD dependent var		0.708977
SE of regression	0.672536	Akaike info criterion		2.114601
Sum squared resid	40.25517	Schwarz criterion		2.301584
Likelihood logs	-94.50083	Hannan-Quinn Criter.		2.190182
F-statistics	2.762285	Durbin-Watson stat		1.811884
Prob(F-statistic)	0.016493			

Based on Table III, the probability value (F-statistic) is 0.0164. Because the probability value (F-statistic) < 0.05, it can be concluded that the regression model meets the criteria of the goodness of fit model. The adjusted value of 0.100155 indicates that the variability of the dependent variable that can be explained by the independent variable in this research model is 10%, while the rest is explained by other factors outside this model. R^2

The results of the regression test analysis in table III also show that the CSR disclosure variable has a negative and significant effect on tax aggressiveness. This is based on the regression coefficient value of the CSR disclosure variable of -0.8299 with a p-value of 0.0472. Based on the test results, the research hypothesis is accepted. This means that the higher the CSR disclosure made by the company, the lower the level of tax aggressiveness. These results are consistent with the research conducted by Lanis and Richardson (2012), who showed that companies that carry out a lot of CSR activities tend not to practice aggressive taxation. Thus, the higher the CSR disclosed, the lower the level of corporate tax aggressiveness; this means that mining companies that report CSR activities will be more careful in carrying out tax aggressiveness practices. The ROA variable has no significant effect on ABTD, with a p-value of 0.932. DAR has no significant effect on ABTD, with a p-value of 0.231. SIZE has no significant effect on ABTD, with

a p-value of 0.088. PPE has no significant effect on ABTD, with a p-value of 0.167. INVINT has no significant effect on ABTD, with a p-value of 0.075.

4.3 Additional Analysis

Table IV below compares the results of the panel data regression analysis of large company size and small company size.

Table IV Regression Analysis: Firm Size

Variable	Big			Small		
	Coefficient	t-Statistics	Prob.	Coefficient	t-Statistics	Prob.
C	-0.085067	-1.352613	0.1834	0.015317	0.410435	0.6836
CSR	-0.010668	-0.254227	0.8006	0.202923	2.627960	0.0119
ROA	0.089387	0.607095	0.5471	-0.005806	-0.059563	0.9528
DAR	0.143108	1.891335	0.0655	-0.174131	-3.457307	0.0013
PPE	0.084330	1.436402	0.1583	0.236207	3.317946	0.0019
INVINT	0.1201212	0.553792	0.5827	0.475736	1.549791	0.1287

Additional analysis in this study was carried out by analyzing the effect of CSR disclosure variables on tax aggressiveness in large and small companies. The results of the analysis in Table IV show that CSR disclosure has a positive and significant effect on tax aggressiveness. These results indicate that small companies tend to use CSR activities to reduce the tax burden that must be paid. Small companies are relatively not a public concern, so company management is more daring to carry out aggressive tax practices than large companies.

5. Conclusion

This study aims to provide empirical evidence of the effect of CSR disclosure on tax aggressiveness. The results showed that CSR has a negative and significant relationship to tax aggressiveness. This shows that the higher the CSR carried out, the lower the level of tax aggressiveness carried out by the company. Companies are more concerned with their reputation and tend to avoid aggressive tax practices. However, additional analysis results in this study indicate that small companies tend to use CSR activities in order to minimize the tax burden.

This research has some limitations and suggestions for further research. First, the company sample focuses on the mining industry, so the research results cannot be generalized to all industrial sectors. Therefore, further research is expected to expand the research sample by adding other industrial sectors. Second, this study only uses financial reports and media company websites in analyzing CSR. Further research can add other disclosure media such as social media owned by the company (Facebook, Twitter, and Instagram). Third, this study only measures tax aggressiveness by using ABTD even though there are other measurements. Effective Tax Rate (ETR), Cash Effective Tax Rate (CETR) and Book Tax Differences (BTD).

Funding: This research received no external funding.

Conflicts of Interest: The authors declare no conflict of interest.

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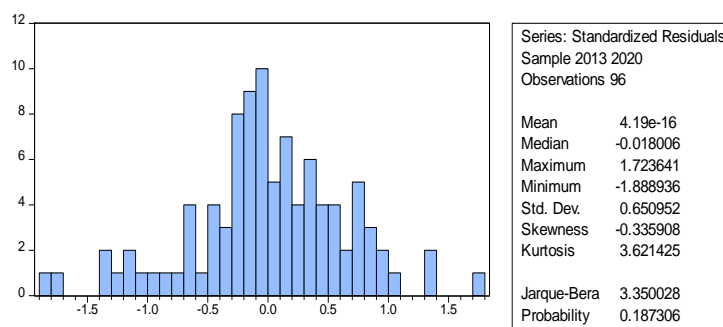
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Attachment

Normality Test



Heteroscedasticity Test

Heteroskedasticity Test: Harvey

F-statistics	0.611585 Prob. F(6.89)	0.7204
Obs*R-squared	3.801389 Prob. Chi-Square(6)	0.7035
Scaled explained SS	4.592778 Prob. Chi-Square(6)	0.5970

Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.307120	65.18546	NA
CSR	1.70E-09	1.787189	1.320342
ROA	0.815748	2.013492	1.490388
DAR	0.129080	8.215857	1.729276
SIZE	0.001833	39.80127	1.067645
PPE	0.133321	6.521131	1.255215
INVINT	5.680933	4.334600	1.181820

Autocorrelation Test

Dependent Variable: BTD
 Method: Least Squares Panel
 Date: 01/01/22 Time: 18:49
 Samples: 2013 2020
 Periods included: 8
 Cross-sections included: 12
 Total panel (balanced) observations: 96

F-statistics	2.762285 Durbin-Watson stat	1.811884
Prob(F-statistic)	0.016493	

Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.920524	(11,78)	0.0491
Cross-section Chi-square	23.009337	11	0.0176

Hausman Test

Correlated Random Effects - Hausman
Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.889999	6	0.2463

Lagrange Multiplier Test

Lagrange multiplier (LM) test for panel data
Date: 01/01/22 Time: 18:01
Sample: 2013 2020
Total panel observations: 96
Probability in ()

Null (no rand. effect) Alternative	Cross-section One-sided	Period One-sided	Both
Honda	0.446135 (0.3277)	-0.797642 (0.7875)	-0.248553 (0.5981)
King-Wu	0.446135 (0.3277)	-0.797642 (0.7875)	-0.345331 (0.6351)
SLM	1.806285 (0.0354)	-0.627558 (0.7349)	-- --
GHM	-- --	-- --	0.199037 (0.5541)