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Corporate Social Responsibility and Tax Avoidance: Do Socially Responsible Firms in Indonesia Pay More Taxes

Ria Zulkha Ermayda[1], Fitri Purnamasari[2], DWI Narullia[3]

[1,2,3] Faculty of Economics and Business, Universitas Negeri Malang-Indonesia

ABSTRACT: The practice of tax avoidance in companies has increased since 2000, and has harmed the country's economic development. Tax avoidance is as vital as environmental issues, in this case it is interpreted as a form of Corporate Social Responsibility (CSR) report. This research tries to analyze environmental, social, and governance performance that influences tax avoidance activities in companies, with a sample of 86 companies listed on the Indonesia Stock Exchange in the past 10-year period, namely 2013-2022. The research method used is quantitative, using data obtained from financial reports, annual reports, and other quantitative data through the Refinitiv Eikon database. The data analysis technique used is panel regression using the Eviews 9.0 application. The research results show that the level of CSR reporting based on ESG performance has a negative effect on tax avoidance practices. A low level of CSR reporting actually indicates high tax avoidance, meaning that CSR disclosure or reporting is only a formality for compliance with policy, but the level of tax avoidance is actually quite high. This is a form of action from the company to maximize the gaps that exist in tax laws and regulations in Indonesia. This research also shows that CSR disclosure is reflected in ESG performance, so it is necessary to expand other variables over a certain time span. Further research can also be carried out using other methods, with the hope that the research results can make a positive contribution to both stakeholders and the company.

KEYWORDS: Performance of MSMEs, Business Strategy, Innovation, Accounting Information Systems (AIS)

I. INTRODUCTION

Based on data on state revenue realization, it is proven that tax revenue is the largest source of financial revenue among other sources of revenue; non-tax revenue and state grants. In 2022, it was recorded that IDR 1.0 trillion in state income came from grants, IDR 510.9 trillion came from non-tax revenues, and IDR 1,924.9 trillion came from tax revenues (BPS 2022, 2020). This shows that almost 80% of state revenue comes from tax revenues. The government is trying to continue to increase the amount of tax revenue, but companies tend to reduce tax expenditures. The difference in interests between the government in this case is the tax authorities, and taxpayers or company management which underlies tax avoidance practices (Tebiono et al., 2019).

China, a country with lower-quality institutional areas and companies in it that claim to be socially responsible or disclose CSR reports, apparently also has indications of tax avoidance. In other areas, CSR disclosure is more in line with aspects of social responsibility in the form of tax compliance. This shows that, without the right institutions, CSR disclosure will most likely just be window dressing (Lin et al., 2017). Another study in Mesir also shows that companies that practice tax avoidance tend to increase CSR disclosures. This tendency is carried out to create a positive perception regarding the company's reputation towards the public and media (Abdelfattah & Aboud, 2020). Tax avoidance is considered unethical behavior, even though it is not a violation. Disclosure of social responsibility is closely related to legitimacy theory which states that organizations will continuously try to ensure that what they do is in accordance with applicable regulations or norms. The practice of tax avoidance itself is a legal action and does not violate tax laws/regulations, however it can give rise to unfavorable assessments from the public (Amalia, 2019).

Governments worldwide began to carry out tax reforms after the Global Financial Crisis (GFC) in 2007-2009 to minimize tax avoidance (Athira & Ramesh, 2023). Corporate tax avoidance has increased since 2000 and has had a negative impact on economic development and society in general, so it can be said that tax avoidance practices are as important as environmental issues, in this case, interpreted as a form of corporate social responsibility reporting (Lin et al., 2017). Demand for non-financial information, namely corporate social responsibility or Environmental, Social, and Governance (ESG) has increased in the last 2 decades, this is in line with increasing interest in sustainable investment (Tsang et al., 2023). A study conducted in China by Gu & Wang (2023) analyzed the impact of Environmental Information Disclosure (EID) on corporate tax avoidance. The research findings indicate that EID can incentivize companies to engage in tax avoidance. Additionally, the study indicates that tax avoidance is affected by environmentally friendly innovation and capital investment. Furthermore, the research identified that EID's impact on tax avoidance is particularly pronounced in industries with high pollution, competitive sectors, and regions in China characterized by weak tax efforts and strong government competition.

In their research, Torres et al. (2023) have analyzed the inclusion of employment aspects and working conditions in CSR/ESG standards and frameworks. The authors have analyzed thematic data using international employment standards as benchmarks, with the help of 20 CSR/ESG instruments/dimensions. These instruments include corporate governance, business and human rights, diversity, equality and inclusion, industrial relations, health, safety and welfare, and human resource practices. Full commitment to ESG is required for corporate CSR, with the environmental and social dimensions being more important to a company's social reputation than the governance dimension (Uyar et al., 2022). This research tries to analyze CSR disclosure by whether environmental, social and corporate governance performance influences the tax avoidance activities of companies with samples listed on the Indonesia Stock Exchange over the past 10 years; in 2013-2022.

II. LITERATUR REVIEW

For polluting companies that are members of the European Union Emission Trading Scheme (EU ETS), it has been proven that companies that are heavy on pollution actually do more tax avoidance (Compagnie et al., 2023).This occurs because of differences in the determination of effective tax rates following the EU Council decision in February 2017. In Indonesia, the level of compliance with sustainability reporting for mining companies is still around 84.77%. The highest level of compliance was obtained by PT Antam at 85.93%, then PT Pertamina Persero at 84.73%, and finally PT KPC (PT Kalimantan Prima Coal with a compliance level of 83.64% (Harahap et al., 2020). In the region East Java, the implementation of social responsibility tends to be charitable (rather than directed) and structured in sustainable programs (Handayati et al., 2020). This further reinforces that CSR reporting is likely just window dressing (Lin et al., 2017).

Disclosure of the company's CSR activities will gain legitimacy from stakeholders, thereby gaining a good reputation. This good reputation will ultimately increase loyalty and support for company policies and products, as well as a good impression on stakeholders and the community (Amalia, 2019; Narullia et al., 2022). Companies that disclose less CSR reporting tend to carry out high tax avoidance activities, this is in line with legitimacy theory which wants a good impression on the public. Based on several studies, the hypothesis proposed is:

H0 : there is no negative and significant influence on ESG performance on the level of tax avoidance

H1 : There is a negative and significant influence on ESG performance on the level of tax avoidance

III. METHOD

This research uses a quantitative approach method using data obtained from financial reports, annual reports, and other quantitative data through the Refinitiv Eikon database. The total number of companies analyzed in this research was 86 companies with 10 years of data observation; in 2013-2022. This research aims to analyze how corporate responsibility reports, through environmental, social and corporate governance performance, can influence a company's tax avoidance activities. The object of this research is companies listed on the Indonesian stock exchange.

Operational Definition and Variable Measurement

In this research, there are two types of variables analyzed i.e. dependent variables and independent variables. The dependent variable in this research is tax avoidance activity which is measured using the Effective Tax Rate (ETR) proxy and the independent variable in this research is the company's ESG performance which is measured using 10 proxies, specifically Resource Use Score, Emission Score, Environmental Innovation Score, Workforce Score, Human Rights Score, Community Score, Product Responsibility Score, Management Score, Shareholder Score, and CSR Strategy Score. The definition of each variable measurement proxy is shown in Table 1.

Tabel 1. Operational Definition Variable

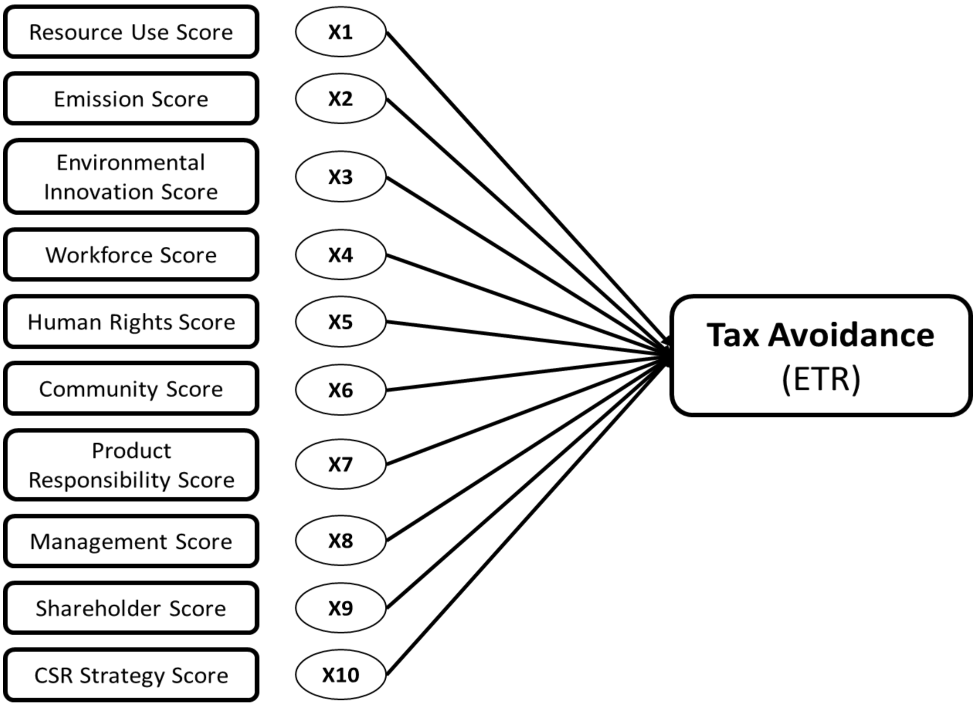
Variable		Definition
Dependent Variable		
Tax Avoidance (Y)	ETR	Activities to reduce the amount of tax paid explicitly to maximize business value without violating tax authorities such as choosing a small tax rate (Abdelfattah & Aboud, 2020)
Independent Variable– ESG Performance		
Resource Use Score	X1	The Resource Use Score reflects a company's performance and capacity to reduce the use of

		materials, energy or water, and to find more eco-efficient solutions by improving supply chain management
Emission Score	X2	The Emission Reduction Score measures a company's commitment and effectiveness towards reducing environmental emission in the production and operational processes.
Environmental Innovation Score	X3	The Innovation Score reflects a company's capacity to reduce the environmental costs and burdens for its customers, and thereby creating new market opportunities through new environmental technologies and processes or eco-designed products.
Workforce Score	X4	The Workforce Score measures a company's effectiveness towards job satisfaction, a healthy and safe workplace, maintaining diversity and equal opportunities, and development opportunities for its workforce.
Human Rights Score	X5	The Human rights category score measures a company's effectiveness towards respecting the fundamental human rights conventions.
Community Score	X6	The Community Score measures the company's commitment towards being a good citizen, protecting public health and respecting business ethics.
Product Responsibility Score	X7	The Product Responsibility Score reflects a company's capacity to produce quality goods and services integrating the customer's health and safety, integrity and data privacy
Management Score	X8	The Management Score measures a company's commitment and effectiveness towards following best practice corporate governance principles.
Shareholder Score	X9	The Shareholders Score measures a company's effectiveness towards equal treatment of shareholders and the use of anti-takeover devices
CSR Strategy Score	X10	The CSR Strategy Score reflects a company's practices to communicate that it integrates the economic (financial), social and environmental dimensions into its day-to-day decision-making processes.

The data analysis technique in this research uses the panel regression method using the Eviews 9.0 application. This research uses unbalanced panel analysis where cross-sectional units do not have the same number of time-series observations. The regression equation model in this research is as follows :

Regression Model :

$$ETR_{it} = \alpha + \beta_1 X1_{it} + \beta_2 X2_{it} + \beta_3 X3_{it} + \beta_4 X4_{it} + \beta_1 X5_{it} + \beta_2 X6_{it} + \beta_3 X7_{it} + \beta_4 X8_{it} + \beta_4 X9_{it} + \varepsilon_{it}$$



To estimate model coefficients with panel data, the EVIEWS program provides several techniques, namely the Common Effect Model, Fixed Effect Model, and Random Effect Model. From the three models that have been estimated, which model will be chosen most appropriate/suitable for the research objectives. There are test stages that can be used as a tool in selecting a panel data regression model (CE, FE or RE) based on the characteristics of the data held, namely: Chow Test and Hausman Test.

Table 2. Panel Data Regression Model Selection Test

	Hypotheses	**Testing Criteria**
Chow-Test	H0: Common Effect (CE) H1: Fixed Effect Model (FE)	H0: rejected if the p-value < α (with α 5%)
Hausman-Test (done after Chow-Test)	H0: Random Effect Model H1: Fixed Effect Model	H0: rejected if the p-value < α (with α 5%)

If the Chow test results show a p-value > 0.05, which means that the selected model is the Common-Effect Model, then the Hausman test does not need to be carried out.

IV. RESULT AND DISCUSSION

This research investigates the influence of environmental, social and corporate governance performance on tax avoidance by companies in Indonesia. Based on the table below, it can be seen that the model proposed in this research is able to explain 3.48% of the variables used.

In the table below we present the results of descriptive analysis on all research variables.

Table 2. Descriptive Analysis

	Minimum	Maximum	Mean	Std. Deviation
X1	0.00	0.96	0.4358	0.23475
X2	0.00	1.00	0.4739	0.25954
X3	0.00	0.94	0.1911	0.28291
X4	0.01	1.00	0.6502	0.23153
X5	0.00	0.96	0.3381	0.28526
X6	0.01	0.99	0.6323	0.27004
X7	0.00	1.00	0.5790	0.33160
X8	0.01	0.99	0.5359	0.28014
X9	0.01	0.99	0.5170	0.28906
X10	0.00	0.99	0.4909	0.30067
Y	-6.16	3.81	0.1443	0.43079

Based on the results of Chow and Hausman's tests, the appropriate regression model to use for this research data is the Common-Effect Model. The table below shows a summary of the results of regression testing of this research data.

How ESG subcategories drive company's tax avoidance

The analysis was carried out to see the effect of ESG performance on the level of corporate tax avoidance. The research results are shown in the table below.

Table 3. Panel Regression Result

		ETR Score Indonesia	Hypothesis Result
		CEM β (p-value)	
Constanta	C	0.277 (0.000)	
Resource Use Score	X1	0.040 (0.379)	Not Accepted
Emission Score	X2	0.058 (0.325)	Not Accepted
Environmental Innovation Score	X3	-0.038 (0.319)	Not Accepted
Workforce Score	X4	0.136 (0.157)	Not Accepted
Human Rights Score	X5	0.109 (0.134)	Not Accepted
Community Score	X6	**-0.211** (0.023)**	Accepted
Product Responsibility Score	X7	0.014 (0.436)	Not Accepted
Management Score	X8	-0.084 (0.172)	Not Accepted
Shareholder Score	X9	**-0.117* (0.069)**	Accepted
CSR Strategy Score	X10	**-0.132* (0.086)**	Accepted
Adj-R Square		**3.48%**	

*** Correlation is significant at the 0.01 level
** Correlation is significant at the 0.05 level
* Correlation is significant at the 0.10 level

Based on the results of the analysis, it shows that:

- The company's commitment to protecting communities has a negative effect on the ETR value. This indicates that when social performance is high, the value of tax avoidance is low, and vice versa.
- The company's commitment to providing equal treatment to shareholders has a negative effect on the ETR value. This indicates that if governance performance is high then the value of tax avoidance is low, and vice versa.
- The company's commitment to strategy and transparency in CSR performance has a negative effect on the ETR value. This indicates that. This indicates that if governance performance is high then the value of tax avoidance is low, and vice versa.

V. CONCLUSSION

This research shows that the level of CSR reporting, which is seen based on ESG performance, has a negative influence on tax avoidance practices. ESG performance itself consists of 10 measurement proxies, namely Resource Use Score, Emission Score, Environmental Innovation Score, Workforce Score, Human Rights Score, Community Score, Product Responsibility Score, Management Score, Shareholder Score, and CSR Strategy Score. The lower the level of CSR reporting, it is proven that the higher the tax avoidance activities carried out by companies in Indonesia. A low level of CSR reporting actually indicates high tax avoidance, meaning that CSR/ESG disclosure or reporting is only a formality for compliance with policies, but the level of tax avoidance is actually quite high. This is a form of action from the company in maximizing the gaps that exist in tax laws and regulations in Indonesia. This research shows that CSR disclosure is shown in ESG performance, so it is necessary to expand other variables over a certain time period. Further research can also be carried out using other methods, with the hope that the research results can make a positive contribution to both stakeholders and the company.

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