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Does Capital Intensity and Corporate Social Responsibility Influence of Tax Aggressiveness? The Role of Corporate Governance as Moderator

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ABSTRACT: This study examines the effect of capital intensity and corporate social responsibility (CSR) on tax aggressiveness, with a focus on the moderating role of the audit committee in the context of corporate governance. Using purposive sampling, data from 88 basic industry and chemical sub-sector firms listed on the Indonesian Stock Exchange for 2018-2021 were analysed through panel data regression. Findings reveal a significant negative association between capital intensity and tax aggressiveness, while CSR exhibits a positive and significant effect. Additionally, the audit committee was identified as a moderator, influencing the relationship between capital intensity, CSR, and tax aggressiveness. This contributes to tax aggressiveness literature, offering empirical insights into upper echelon theory, aiding shareholders in informed investment decisions. However, the study's limitation lies in exclusively employing GAAP ETR for tax aggressiveness measurement, impacting result generalizability.

KEYWORDS: Capital Intensity, Corporate Social Responsibility, Corporate Governance, Tax Aggressiveness

I. INTRODUCTION

The term tax aggressiveness has been used in several literatures to describe company activities aimed at explicitly reducing taxes [1], [2]. Tax aggressiveness is defined as a series of problems faced by all taxation systems, especially for countries that impose higher tax rates. This high tax rate could possibly lead the higher incentives for motivations to pay lesser taxes. Taxpayers and the government generally have differing interests, which can lead to the tax payment process not being able to run well. This is due to a misconception about tax collection, where companies, as taxpayers, consistently strive to minimize the tax burden they bear. It stated that high tax rates prompt taxpayers to take tax aggressiveness action. It aims to reduce the tax burden through tax aggressiveness or tax planning [3].

On the other hand, this tax authorities strive to increase the corporate tax revenue through high tax rates [4]. Tax aggressiveness action has two types, namely tax avoidance and tax evasion. In order to minimize taxes, companies can exploit loopholes in the tax laws [5] [6]. When the company pays higher taxes, it results in increased government revenue from the taxation sector. Conversely, for the company, taxes represent obligatory expenses that diminish the net profit it accrues.

In 2020, tax revenue experienced a decline of 16,9% compared to the previous year, which typically grew by 7.4% per year. However, from 2021 to 2022, tax performance improved and reached the target, albeit still below pre-pandemic levels [7]. The low level of tax revenue is caused by many companies seeking ways to pay less tax. This results in many companies attempting to reduce the tax costs they owe to the country. As a result, it is likely that companies will employ aggressive strategies in managing their taxes, including manipulate taxable income, both legally and illegally. This includes acts of aggressive tax evasion [8]; [9]. PT. Adaro Energy Tbk in 2019, was allegedly involved in tax avoidance practice. They are allegedly of doing this by reducing tax payment obligations related to buying and selling transactions. The method they used is transferring significant profits from Indonesia to a low-tax or tax-free countries. As a result, the company only paid taxes amounting to US$ 125 million, much less than what should have been paid [10].

The main benefit that companies obtain when conducting tax aggressiveness is an explicit reduction in taxes owed to the government and this will further increase the company's profitability [11]. This higher profit can be useful for funding

investments, which can increase the company's profits in the future [12]. The company attempts to reduce taxes by tax avoidance when profits increase. The lower tax rate in Singapore (17%) compared to Indonesia (25%) encourages companies in Indonesia to employ aggressive strategies to take advantage of loopholes in tax regulations in order to reduce or minimize the taxes they have to pay [13]; [14]. The company strives to control the tax liability to be paid in order to optimize net income after tax and increase the company profits in general [15].

This study is important to conduct in order to examine various factors that can influence the level of tax aggressiveness, including capital intensity and corporate social responsibility. Capital intensity refers to the level of investment in fixed assets by a company. Companies can lower their tax liability by depreciating their fixed assets [5]. This practice is often utilized by company management to proactively engage in tax management by investing in fixed assets. Similar to study conducted, they prove that capital intensity has an effect on tax aggressiveness [16]; [8]. These findings indicate that higher capital intensity leads to a significant increase in the level of tax aggressiveness [4].

Different from some findings of studied about capital intensity on tax aggressiveness [16]; [8]; [4], they are different result and findings that the capital intensity has no significant effect on tax aggressiveness [17] and [18]. This condition is caused by the company investing sufficient capital in fixed assets with the aim of increasing productivity and company operations compared to fixed assets used to increase depreciation and reduce taxable income. Furthermore, It can be explained that several companies have fixed assets and their useful life has expired according to the fiscal term, but depreciation is not stopped because the company has a special policy regarding the length of the useful life of fixed assets [17].

Based on the Upper Echelon Theory, businesses that adopt an aggressive approach on taxes are considered advantageous for business actors. This is due to their ability to reduce tax payments, which in turn enables an increase in profits to fund investments and achieve higher corporate profits [12]. The policies adopted by company leaders, limitations of financial statement, and tax expense often contribute to the phenomenon of negative connotation for tax aggressiveness in companies, resulting from efforts to reduce tax liability through strategies such as capital intensity and corporate social responsibility. Corporate social responsibility can be defined as a company strategy in running its business ethically, environmentally friendly, and beneficial to society in terms of development [19]. In order for companies to avoid getting a bad or negative reputation from the public due to aggressive tax actions, they can engage in social activities directed to the community [3]. The finding of study indicates that corporate social responsibility has an effect on tax aggressiveness [20]. This is in line with the studies state that corporate social responsibility has a positive effect on tax aggressiveness [21]; [22].

Corporate governance as measured through the audit committee, has the main objective of assisting the board of commissioners in conducting their oversight function. The focus of this oversight is on the company's performance in terms of financial reporting and the implementation of controls aimed at reducing the possibility of deviations in company management. Audit committee is responsible for effectively overseeing on conflicts of interest and fraudulent activities committed by the company's management [23]. Characteristics of the audit committee consist of the audit committee size, composition of the audit committee, frequency of meetings, and competence of the audit committee [4]. In accordance with the Decision of the Indonesia Stock Exchange through Decree of the Board of Directors No. Kep-315/BEJ/06/2000 and the Financial Services Authority based on Decision Number 55/POJK.04/2015, regulations are established regarding the formation and implementation of the audit committee, which include requirements for the independence and competence of the audit committee, as well as the minimum number of meetings that the audit committee must conduct.

It can be proved based on the finding of studied, audit committee has a negative and significant effect on tax avoidance [24]; [25]. The audit committee is also responsible for overseeing management, where this study also emphasizes in relation to corporate governance. Based on study conducted, it can be demonstrated that the audit committee has significant effect on tax avoidance. This study is a modification of a previous study [26]; [27]. The authors intend to examine the effect of capital intensity and corporate social responsibility on tax aggressiveness, with the audit committee as a moderating variable, in the basic and chemical industry sector listed on the Indonesia Stock Exchange for the 2018-2021 period.

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Upper Echelon Theory

The Upper Echelon Theory is developed, which states that the management within a company contributes to the process of making strategic decisions [28]. Business decisions always depend on the company's management. This will influence the direction or strategic choice made because corporate executives have overall responsibility for the company [29]; [30]. Companies that are aggressive in managing taxes considered to have various benefits for the company, one of them is reducing tax payments, which in turn will earn a higher profit. This higher profit can be useful for funding investments, which can increase

the company's profits in the future [12]. The policies adopted by company leaders, limitations of financial statement, and tax expense often contribute to the phenomenon of negative connotation for tax aggressiveness in companies, resulting from efforts to reduce tax liability through strategies such as capital intensity and corporate social responsibility.

The Upper Echelons theory explains that the behaviour of a company in decision-making is influenced by several factors. These factors include corporate governance, backgrounds of board members, a strong manager's cognitive foundation, and strategic management decisions of the company. The concept of top management in Upper Echelon Theory, defined as the main strategic decision maker in an organization. In order to achieve high profits and minimize tax burdens, a method employed is through aggressive tax strategies legally. Companies adopting this approach will be considered favourable if they can attain significant outcomes, as the strategic decisions they make will directly influence the organizational results [30]. Corporate Social Responsibility is defined as one of the various forms of social responsibility that companies need to undertake. This represents a significant action for companies to engage in, as it is not only an obligation but also a value-added proposition. By practicing this corporate social responsibility, companies will be able to attract public attention and improve their reputation.

Tax Aggressiveness

Tax aggressiveness is defined as a practice in the form of cost-savings efforts based on prevailing regulations and non-compliance by taxpayers with tax law [30]. Tax aggressiveness is interpreted as an effort to reduce taxable profit through tax planning, either through legal (tax evasion) or illegal (tax evasion) strategies [31]. Tax aggressiveness is a more specific activity, which can take the form of tax planning aimed at reducing corporate tax liability [4]. Tax aggressiveness is defined as a kind of strategy of tax avoidance by utilizing or exploiting the grey areas in tax laws and regulations. Taxpayers can conducted this strategy legally and safely, as it is not in contradiction with tax provision [32].

Capital Intensity

Capital intensity reflects the extent to which a company allocates its assets in the form of fixed assets. This investment in fixed assets are made so that the company can enhance or increase their production and profits [33]. Capital intensity demonstrates how much capital is required to generate revenue. This means that the capital intensity ratio indicates how well a company utilizes their fixed assets to generate sales. The more fixed assets owned by the company, the greater the decrease in asset value (depreciation), resulting in reduced taxable income and a lower effective tax rate [34]. Capital intensity indicates the extent to which a company's assets are invested in the form of fixed assets and inventory. It essentially measures the extent to which the company allocates the fixed assets that the company own. The greater the investment a company makes in the form of fixed assets such as buildings and machinery, the higher level of capital intensity that the company own. This is a way for companies to enhance their production capacity [35]. Companies that invest in fixed assets can utilize depreciation expenses in order to reduce or minimize the taxes they have to pay. This can assist companies in avoiding higher tax liability [36].

Corporate Social Responsibility

Corporate social responsibility is defined as a company's serious efforts to minimize negative effect to company operations and optimize their positive effect for economic, social and environmental stakeholders in order to achieve sustainability goals [37]. Corporate social responsibility is as a form of activity stemming from the ethical issues of a company and aiming to enhance the economy by improving the quality of life for employees and the surrounding community more broadly [38]. Corporate social responsibility is concrete evidence that a company is not only focused on shareholder profits but also strives to provide a positive effect to the company stakeholders and the environment [38]. Corporate social responsibility is a way for companies to be accountable to stakeholders, including economic, social, and environmental aspects. It involves corporate actions to support sustainable development [38].

Corporate Governance

The Board of Commissioners establishes an Audit Committee to assist in their duties and responsibilities. The Audit Committee has the authority to prevent abnormal behaviour related to the company's financial reports. The Audit Committee, in this company will be able to reduce or minimize tax avoidance practices [23]. The audit committee, in a company, is responsible for controlling fraud, evaluating reporting systems, and ensuring compliance with regulations [39]. The audit committee plays a professional role in examining company management. Audit committee plays a professional role in minimizing financial reporting fraud, optimizing corporate management, and enhancing good corporate governance [25]; [40]; [39]; [41]. Companies with an audit committee will be more responsible and transparent in presenting financial reports because the audit committee is responsible for monitoring all company operations.

Capital Intensity and Tax Aggressiveness

Company performance such as profitability, company growth, company survival, and company decisions are influenced by the characteristics, beliefs, and actions of top management [28]. Upper echelon theory explains that company management makes strategic decisions to achieve organizational goals. One of the goals of an organization is to achieve maximum profits. Maximum profits can be achieved through saving tax burden. Companies that adopt this approach will be considered profitable if they can achieve significant results, because the strategic decisions they make will directly influence organizational results [30].

Companies need to consider the extent of their investments in the form of fixed assets [42]. Fixed assets are the company's wealth, but their utilization will result in depreciation, which will incur additional costs for the company and can reduce their profits. It demonstrated that capital intensity has an effect on tax aggressiveness [8]; [42]. This aligns with the study conducted that indicates that capital intensity has a positive effect on tax aggressiveness [4]. Companies that invest more of their capital in fixed assets will have a lower effective tax rate. Based on the description provided above, the research hypothesis proposed is as follows:

H1: Capital intensity has a negative effect on tax Aggressiveness

Corporate Social Responsibility and Tax Aggressiveness

Corporate social responsibility (CSR) is one of the mechanisms that companies conduct to fulfil their social responsibilities voluntarily. This means that companies consciously strive to consider the environment and society in their business activities without any external coercion [43]. Corporate social responsibility is a company strategy in running its business ethically, environmentally friendly, and beneficial to society in terms of development [19].

Some finding of studies demonstrates that corporate social responsibility has an effect on tax aggressiveness [20]; [22]. The findings of this study align with previous study conducted, it demonstrates that corporate social responsibility has a positive effect on tax aggressiveness [21]. This demonstrates that companies that disclose high levels of corporate social responsibility are more likely to engage in tax aggressiveness and can gain support from the community and the environment. Companies that are actively involved in high-level corporate social responsibility will receive social support from the community. Based on the description provided above, the research hypothesis proposed is as follows:

H2: Corporate social responsibility has a positive effect on tax aggressiveness

Capital Intensity, Audit Committee, and Tax Aggressiveness

Upper Echelon Theory focuses on the results of organizational strategy choices influenced by the background characteristics of company management [28]. This condition shows that company management is implementing an organizational strategy to achieve organizational goals. Organizational strategies can be achieved when the profits generated by the company reach the target. To achieve this target, management has a strategy. One of management's strategies to achieve profit targets is by reducing tax obligations. This means that the lower the company's tax obligations, the more the company's target for achieving profits is achieved.

Capital intensity refers to how much a company allocates their fixed assets. Management must invest in fixed assets using unused funds. This decision should prioritize the interests of shareholders, not the interests of management. Therefore, the Audit Committee can monitor the ways in improving the information provided to the stakeholders and company management [44]. The audit committee provides important and high-quality input to the company and stakeholders regarding how the company invests unused funds in the form of fixed assets. This is a crucial part, because the ownership of fixed assets can affect on corporate tax liability [45]. The concept of top management states that the primary leaders in the organization are the strategic decision-makers, as these decisions are of utmost importance. Therefore, the organization requires an audit committee to monitor internal controls and external audits of fixed assets in financial reports, as a sign of good governance. Based on the description provided above, the research hypothesis proposed is as follows:

H3: The audit committee can moderate the effect of capital intensity on tax aggressiveness

Corporate Social Responsibility, Audit Committee, and Tax Aggressiveness

A company will survive and continue to thrive if the public perceives and is aware that the company is responsible in accordance with societal norms [45]. The company uses its annual reports to explain their efforts in social responsibility in order to be accepted by the public. Strategic decisions made by leaders have a direct effect on company outcomes. Because management holds responsibility throughout the organization, their characteristics, actions, and the way they work will affect the company specifically [30]. This hypothesis suggests that there is an interconnected corporate social responsibility between a company and the local community in their environment. Corporate social responsibility is significantly moderated by the audit

committee in affecting tax avoidance [46]. Audit committee is capable of enhancing the internal control and supervising of the company in assisting to minimize tax aggressiveness [47]. Based on the description provided above, the research hypothesis proposed is as follows:

H4: The audit committee can moderate the effect of corporate social responsibility on tax aggressiveness

III. RESEACH METHOD

This study utilizes data from annual reports and this annual reports obtained from the website www.idx.co.id. The study selected a sample of companies in the basic and chemical industry sector listed on the Indonesia Stock Exchange for the 2018-2021 period using purposive sampling techniques. The following is a table of results from the purposive sampling process.

Table 1. The Process of Selecting a Sample of Companies

Sample Criteria	Not Fulfilled	Fulfilled
Companies that are part of the basic and chemical industry sector listed on the Indonesia Stock Exchange (BEI) for the period 2018-2021.		65
Companies that are part of the basic and chemical industry sector and have consistently submitted their annual reports for the period 2018-2021.	(11)	54
Companies that are part of the basic and chemical industry sector and have recorded profits for the period 2018-2021.	(22)	32
Companies that are part of the basic and chemical industry sector and do not use foreign currency in their financial reports.	(10)	22
The number of eligible samples	22	
Observation year(s)	4	
The number of samples during the study period	88	

This study employs four variables, divided into two independent variables, one dependent variable, and one moderating variable. The independent variables consist of capital intensity and corporate social responsibility. The dependent variable is the level of tax aggressiveness. The moderating variable is corporate governance, measured using audit committee variable. Here are the measurements for each variable.

1 Capital Intensity

Capital intensity is defined as a company's investment activity which is linked to fixed asset investment [8]. This research measures capital intensity, with the following formula [8].

$$Capital\ Intensity = \frac{Total\ Fixed\ Assets}{Total\ Assets}$$

2 Corporate Social Responsibility

Corporate social responsibility is a company activity that aims to create good ties with society through activities with values and norms that suit society's needs [48]. This research measures corporate social responsibility adapting research with the following formula [48].

$$CSRDI = \frac{Total\ Disclosure}{91}$$

CSRDI shows the corporate social responsibility disclosure index which refers to the Global Reporting Initiative (GRI-G4) which has 91 disclosure items.

3 Tax Aggressiveness

Tax aggressiveness is defined as a company's effort to minimize the tax burden that must be paid by legal, illegal, or both [8]. This research measures tax aggressiveness adapting research with the following formula [8].

$$\text{Effective Tax Rate} = \frac{Tax\ Expense}{Earning\ before\ Taxes}$$

4 Audit Committee

Audit committee is a committee formed by the board of commissioners with the aim of assisting independent commissioners in conducting their supervisory duties and responsibilities [47]. This research measures audit committees adapting the following formula [47].

$$\text{Audit Committee} = \frac{\textit{Total Audit Committee}}{\textit{Total Board of Commissioners}}$$

IV. RESULTS AND DISCUSSIONS

This research aims to examine the effect of capital intensity and corporate social responsibility on tax aggressiveness which is moderated by good corporate governance. The panel data regression approach is used by researchers to test hypotheses. Before testing a hypothesis, panel data regression requires researchers to conduct paired tests to select the best model. The results of the paired test are as follows.

Table 2. Paired Test Results

Chow Test	
Cross-section F. (Sig.)	0,000
Conclusion	Fixed Effect Model
Hausman Test	
Cross-section random (Sig.)	0,000
Conclusion	Fixed Effect Model
Final Conclusion	Fixed Effect Model

Based on table 2 presented above, the chow test indicates that the value of cross-section F probability is 0,000. This value is smaller than the significance level, which is 0,05. This result indicates that the null hypothesis (H0) is rejected, and the alternative hypothesis (Ha) is accepted. In the context of this study, the model of fixed effect estimation is more suitable and appropriate than the common effect model because the low chi-square cross-section value suggests significant variation among individuals that needs to be considered. After selecting the fixed effect method, the next step is to perform a Hausman test.

Based on table 2 presented above, the results of the Hausman test indicates that the probability of random cross-section is 0,0007, which is smaller than the significance level of 0,05 (0,0007 < 0,05). This means that the null hypothesis (H0) is rejected, and the alternative hypothesis (Ha) is accepted. Therefore, in this study, the fixed effect estimation method is more suitable and appropriate calculation than the random effect method. Based on the results of the Chow test and the Hausman test, the most appropriate and suitable method to use in this study is the fixed effect method.

Independent Variables	**Dependent Variable: Tax Aggressiveness**		
	Fixed Effect Model		
	Coef.	**t-Stat.**	**Sig.**
Const.	0,2084	9,3408	0,0000
Capital Intensity	-0,2085	-8,0878	0,0000
Corporate Social Responsibility	2,3057	5,4645	0,0000
Capital Intensity' Audit Committee	0,2127	4,3309	0,0001
Corporate Social Responsibility' Audit Committee	-1,8048	-3,8500	0,0003
R-squared	0,8955		
Adjusted R-squared	0,8534		
S.E. of regression	0,0671		
F-statistic	21,2727		
Prob(F-statistic)	0,0000		
Durbin-Watson stat	2,6372		

Based on table 3 presented above, it can be obtained that the coefficient of determination for this study, it obtained 0,8955 or 89,5%, and the remaining 10,5 influenced by other independent variables, including capital intensity, corporate social responsibility, capital intensity' audit committee, and corporate social responsibility' audit committee.

The results of the first hypothesis test (H1) show that the effect of capital intensity on tax aggressiveness has a coefficient of -0,2085, a t-statistic of -8,0878, and a significance of 0,0000 < 0,05. This condition shows that capital intensity has a negative and significant effect on tax aggressiveness, so that H1 is supported. Decisions related to profitability are top management decisions. Company performance which can be known through profitability depends on the characteristics of top management, top management beliefs, and top management actions [28]. Company management carries out tax aggressiveness through capital intensity. Fixed assets experience depreciation every year which is a cost for the company. This will reduce the tax obligations that the company must pay. The higher the use of capital to obtain fixed assets, the higher the possibility of the company avoiding tax. The findings of this research are in line with some previous research conducted, they demonstrate that capital intensity influences tax aggressiveness [8]; [42]. These findings also support research conducted, they demonstrate that in order to maximize optimal profits, it is recommended to invest in fixed assets [49]; [50].

The results of the second hypothesis test (H2) show that the influence of corporate social responsibility on tax aggressiveness has a coefficient of 2,3057, t-statistic of 5,4645, and a significance of 0,0000 < 0,05. This condition shows that corporate social responsibility has a positive and significant effect on tax aggressiveness, so that H2 is supported. Companies that express high levels of corporate social responsibility are less likely to conduct tax aggressiveness and can gain support from society and the environment. Companies that are actively involved in high levels of corporate social responsibility will receive social support from society. The finding of this study is consistent with and support the findings of study conducted, they demonstrate that capital intensity has an effect on tax aggressiveness [22]; [51].

The results of the third hypothesis test (H3) show that the effect of audit committee*capital intensity on tax aggressiveness has a coefficient of 0,2127, t-statistic of 4,3309, and significance of 0,0001 < 0,05. This condition shows that audit committee' capital intensity has a positive and significant effect on tax aggressiveness, so that H3 is supported. This means that the audit committee as a moderator has an influence that strengthens the relationship or correlation between capital intensity and tax aggressiveness statistics. In other words, the presence of an audit committee has a significant impact in reducing the influence of capital intensity on tax aggressiveness.

The results of the fourth hypothesis test (H4) show that the influence of audit committee' corporate social responsibility on tax aggressiveness has a coefficient of -1,8048, t-statistic of -3,8500, and significance of 0,0003 < 0,05. This condition shows that audit committee' capital intensity has a negative and significant effect on tax aggressiveness, so that H4 is supported. The audit committee is considered to be able to increase the influence of corporate social responsibility on tax aggressiveness. The results of this analysis indicate that when companies implement corporate social responsibility and have an audit committee, it can significantly reduce tax aggressiveness practices. Tax aggressiveness refers to a company's efforts to wisely reduce tax burdens by exploiting regulatory loopholes without violating tax regulations.

V. CONCLUSION, IMPLICATION AND LIMITATION

This study is a modification of previous studies and it highlights important issues related to tax burden reduction practices in companies. This study focuses on two main factors, namely capital intensity and corporate social responsibility, which are trends in aggressive tax planning to reduce tax liability. These practices can result in a decrease in tax revenue for the government. The finding of this study demonstrate that capital intensity and corporate social responsibility have an effect on tax aggressiveness. Furthermore, the influence of capital intensity on tax aggressiveness is influenced by audit committee, and the same applies to the influence of corporate social responsibility on tax aggressiveness. This study was conducted on companies in the basic and chemical industries sector in Indonesia for the period 2018-2021. The conclusion is that tax aggressiveness is influenced by capital intensity and corporate social responsibility, with a stronger influence when there is an audit committee in a company.

The objective of this study is to advance scientific knowledge by utilizing empirical data on good corporate governance in reducing tax aggressiveness. The main objective of this study is to enhance government and corporate oversight to prevent fraudulent tax practices that could harm state revenues. It is essential for the government to consider mandating the corporate social responsibility disclosure in corporate annual reports to enhance transparency to external stakeholders. This research contributes to the tax aggressiveness literature and provides empirical evidence about upper echelon theory. This means that managers use their power to increase the company's profitability through investment in the company's fixed assets. The higher the investment in the company's fixed assets, the higher the depreciation costs and the lower the impact on taxable income.

However, weaknesses in the corporate social responsibility act in Indonesia need to be addressed. The same applies to policies regarding ownership of fixed assets.

This study has limitations, in the indicators used for interviewing the respondents in research and limitations in accessing Company Confidential Information related to tax aggressiveness. For future research, it is recommended to include other independent variables, such as earnings management, intellectual capital, and religiosity, to better understand management behaviour related to tax fraud. Additionally, it is necessary to consider using a sample of companies from the agricultural sector (agriculture, fisheries, and forestry) for more diverse research results and to contribute to additional literature.

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