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The Influence of Corporate Social Responsibility on Tax Avoidance

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Abstract:
The purpose of this research is to investigate how corporate social responsibility affects tax avoidance empirically. This is causal research with quantitative approach where it aims to test the hypothesis. The population in this research is all consumer goods manufacturing companies which are listed in Indonesia Stock Exchange (IDX) period 2019 and 2020 with a purposive sampling technique to obtain the samples. The information of data variable is from annual reports and financial statements. The data analysis uses multiple linear regression with the help of SPSS version 22 software. The result of this research shows that corporate social responsibility has a positive and significant effect on tax avoidance. The originality of this research is the usage of GRI Index in determining the corporate social responsibility disclosures by the companies before and at the time of Covid-19 pandemic. Moreover, the result of this research can be a consideration for the government in strengthening the supervisions to the taxpayers so that state tax revenue can be more optimal.

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Introduction

Tax is one of the public's contributions as a citizen to the country where the state revenue from tax sector can be used as a financing to conduct the program of government, such as infrastructure development, increasing the prosperity of public, and more. The tax collection system in Indonesia is a self-assessment system, meaning that taxpayers are trusted to calculate, pay, and report their own taxes to the tax authority (Nurlis et al., 2021). By having this tax collection system, it is expected that the public's awareness to pay taxes can be running optimally and obediently.

Even though the government has given the trust to the taxpayers about calculating their own taxes, there are still taxpayers who still do tax avoidance in order to pay the minimum amount of taxes since taxes can deduct their revenues. Tax avoidance is an action conducted by taxpayers; corporates or individuals in order to press the tax expense in a minimum amount (Pohan, 2018). This action is safe because it does not violate the tax regulations. However, it is different from tax evasion where it is an action to avoid taxes in illegal ways, for instance reporting taxation data incorrectly to the tax authority. Even though tax avoidance is a safe action, tax authority still disagrees about this practice because tax authority wants to receive the maximum amount of tax payments from the taxpayers to develop the government's programs.

The phenomenon about tax avoidance happening in Indonesia can be seen from the loss of IDR 67.8 trillion because of the tax avoidance done by the multinational companies. They diverted the revenues and profits to the other countries which were assumed as tax haven (nasional.kontan.co.id, 2020). Because of that, Indonesia had certainly suffer the enormous losses by IDR 68.7 which was IDR 67.6 trillion from corporate taxpayers while the remaining of IDR 1.1 trillion was from individual taxpayers. Moreover, a tobacco company owned by British American Tobacco was also suspected in doing tax avoidance by diverting some of the profits abroad, making Indonesia suffered the loss by US$ 14 million annually (nasional.kontan.co.id, 2019).

There are a lot of reasons and factors why tax avoidance in Indonesia is still high. The factor that might probably affect tax avoidance is corporate social responsibility. Corporate social responsibility is one of the company's responsibilities to the public (Salsabilla et al., 2022). Not only do the companies focus on making profits, but also they need to give their attentions to the environment and social. The implementation of corporate social responsibility is a motivation from corporate governance so that the companies will receive the advantages, such as increasing the sales' volume, company's image becomes better, and attracting the investors (Subarkah, 2021).

Companies that disclose the information about corporate social responsibility widely in the annual reports tend to not do the tax avoidance, because their main focus is to keep the good company's image in the external users like investors, government, and public. When the companies carry out their responsibilities, they will obtain a positive legitimation. This is in line with the legitimacy theory stating that companies will try their best to obtain the valid and good recognition from the public.

Several studies investigating the effect of corporate social responsibility on tax avoidance have actually been done by previous researchers. On the other hand, those researches have found mixed or inconsistent results. Among them, previous research conducted by (Ananggadipa & Sari, 2021; Fitri & Munandar, 2018; Wirawan & Yuniarwati, 2022) concluded that corporate social responsibility negatively affects tax avoidance. However, research by (Dewi & Gunawan, 2019; Mao, 2019; Rohyati & Suripto, 2021; Tahar & Rachmawati, 2020; Zeng, 2018) found that corporate social responsibility positively affects tax avoidance, and research by (Nurlis et al., 2021; Sormin, 2020) showed a result that there was no an effect between corporate social responsibility and tax avoidance.

Because of the research gaps and the various inconsistent results from previous researches, therefore, this research is interesting and unique to be conducted to investigate how corporate social responsibility affects tax avoidance in consumer goods companies in Indonesia Stock Exchange. Deeper analysis related to tax avoidance should be researched in this study because tax avoidance is not a good action that can hamper the government's activities. If this practice keeps going on, then the purpose of the government to make the citizens live prosperous will not be optimal. The results of this research are also expected to be contributions in evolving the theoretical knowledge through this empirical analysis and close the research gap, as well as to be a consideration for the government to strengthen the supervisions for taxpayers so that they will pay taxes in a maximum amount and state tax revenue can reach the target.

Agency Theory

Agency theory focuses on the explanations about the relationship between an agent and a principal. Research by (Jensen & Meckling, 1976) stated that the cost problems which were caused by agency theory were monitoring, bonding and residual loss cost. In running the business, agents and principals have different interests, so that this can create a conflict between them. Managers are ought to be pressured by the agency theory in order to enhance the quality and total of disclosures related to the corporate social responsibility in the annual reports. This can deduct the agency cost and asymmetry of information (Gallego-Álvarez & Pucheta-Martínez, 2022).

Legitimacy Theory

Legitimacy theory focuses on the interaction between companies and society, where the disclosure of corporate social responsibility is a way for companies to derive the legitimation and make sure about their sustainability. This theory also explains that in order to get the legitimation and recognition from society, companies must follow all the norms. When companies disclose their corporate social responsibility widely, this means that they really care and are responsible for the environment or social activities, so that they can obtain a positive recognition from society or other external parties.

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One of the company's responsibilities to the external parties is corporate social responsibility. External parties can be shareholders, government, and society. When the companies do not follow the norms or not carry out their social responsibilities properly, it can be said that the companies will not be able to obtain the positive recognition from the external users and can impact to the image of the companies. Therefore, the higher corporate social responsibility disclosure, the lower tax avoidance practice because companies will try optimally to obtain a legitimation from the external parties. With the higher corporate social responsibility in the annual reports, this can be a strategy for a company to reduce the external party's concerns especially about the business activities (Ananggadipa & Sari, 2021). Furthermore, (Fitri & Munandar, 2018) in her research found that the tendency of the company to not do the tax avoidance is to establish the harmonious relationship with the stakeholders.

Previous research conducted by (Ananggadipa & Sari, 2021; Fitri & Munandar, 2018; Wirawan & Yuniarwati, 2022) concluded that corporate social responsibility negatively affects tax avoidance. Therefore, the hypothesis proposed in this research is stated as:

H_1: Corporate social responsibility has a negative effect on tax avoidance.

Research Method

This is causal research with a quantitative approach which aims to test the hypothesis of the direct effect of board of commissioner and company size on corporate social responsibility, and the direct effect of corporate social responsibility on tax avoidance. The population used in this research is all consumer goods companies registered in Indonesia Stock Exchange (IDX) period 2019-2020 with a purposive sampling technique to obtain the samples. All of the information for the samples was taken from the annual reports and financial statements downloaded from the official websites. To test the hypothesis, the researcher uses multiple linear regression with the help of SPSS 22. The variables used in this research are measured using the formulations in Table 1.

Table 1. Variable Operationalization

Variable	Symbol	Indicator	Scale
Tax Avoidance	ETR	It uses the ratio of effective tax rate that divides the income tax expense to the profit before income tax	Ratio
Corporate Social Responsibility	CSR	It uses the dummy scoring to each item of GRI Index by giving code 1 for the items disclosed by the company while code 0 if the company does not disclose. Then, dividing the total of disclosures by 91 items	Ratio

Source : Previous Researches

In order to help the readers about the relationship among the concepts that are developed in this research especially related to the effect of corporate social responsibility on tax avoidance, the conceptual framework is depicted as follows:

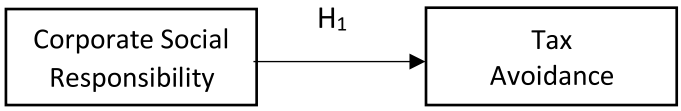

Figure 1. Conceptual Framework

Result and Discussion

Table 2. Descriptive Statistics

Variable	Sample	Mean	Median	Std. Dev	Minimum	Maximum
ETR	49	0.243	0.239	0.041	0.159	0.378
CSR	49	0.440	0.451	0.205	0.088	0.824

Description:
ETR : Tax avoidance, measured by tax expense divided by profit before tax
CSR : Corporate social responsibility, measured by total disclosures divided by 91 items

Source : Processed by SPSS, 2023

Table 2 shows the information about the descriptive statistics. The purpose of this test is to see the common information related to the total observations of the research, minimum, maximum, mean, median, and standard deviation. From the result of descriptive statistics, it can be summed up that the average amount of 0.243 means that the variable of tax avoidance which is proxied by effective tax rate has paid the amount of tax greater than 22% according to the new tax regulation in Indonesia. Tax avoidance has a minimum score of 0.159 meaning that the company tends to avoid high taxes. Corporate social responsibility is measured by GRI Index with 91 items. The level of corporate social responsibility has an average value of 0.440 meaning that the disclosure of corporate social responsibility belongs to be low because the maximum value of 0.824 means that company has wide information about its corporate social responsibilities. Overall, the average of each variable used in this research is bigger than standard deviation, meaning that the variables are not heterogeny.

Table 3. Regression Results

Model	Unstandardized coefficients		Standardized coefficients	T	Sig.
	B	Std. error	Beta		
Constant	0.214	0.013		16.197	0.000
CSR	0.067	0.027	0.339	2.473	0.017
R square				0.115	
Adjusted R square				0.096	
F test				6.117	0.017
Observations				49	

Dependent variable: ETR

Description:
ETR : Tax avoidance, measured by tax expense divided by profit before tax
CSR : Corporate social responsibility, measured by total disclosures divided by 91 items

Source : Processed by SPSS, 2023

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Table 3 gives the information about the regression result of the model related to the testing of the goodness of fit, determination coefficient test, and hypothesis in this research. It can be seen that the model of this research is fit because the significant value of F-test is 0.017, lower than 5%. This means that the model can be used to predict the tax avoidance. Moreover, the adjusted R square value of 0.096 means that the variant of corporate social responsibility as an independent variable is able to explain tax avoidance by 9.6% while the remaining of 90.4% is explained by other factors which are not used in this research model.

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From the table 3, it can be concluded that corporate social responsibility has a positive and significant effect on tax avoidance because the significant value is 0.017 lower than 5%, and the positive coefficient direction of 0.067. As it shows a positive direction, the hypothesis in this research is rejected. The result of this research means that the higher corporate social responsibility, the higher tax avoidance practice. The disclosure of corporate social responsibility in the annual reports can be used as an alternative for the companies to avoid taxes aggressively because the higher corporate social responsibility disclosure, the higher cost to be incurred, so it will impact to the low profits, and so does the tax expense, considering that corporate social responsibility expense can be deducted fiscally. Research by (Dewi & Gunawan, 2019) discussed that companies solely disclose corporate social responsibility to fulfil the responsibilities in order to obtain the positive recognition or legitimation from the external parties, not based on any ethical attitudes. Prior research by (Dewi & Gunawan, 2019; Mao, 2019; Rohyati & Suripto, 2021; Tahar & Rachmawati, 2020; Zeng, 2018) supported the result of this research that corporate social responsibility positively affects tax avoidance. Nevertheless, the result is not in line with the findings by (Ananggadipa & Sari, 2021; Fitri & Munandar, 2018; Wirawan & Yuniarwati, 2022) that stated the negative effect of corporate social responsibility on tax avoidance.

Conclusion

From the data analysis and hypothesis testing, it can be concluded that corporate social responsibility has a positive and significant effect on tax avoidance, meaning that corporate social responsibility is used as an alternative to avoid taxes. The implication of this research is that the result can be used to evolve the theoretical knowledge in the future. Since, this research only used consumer goods companies which are registered in Indonesia Stock Exchange period 2019 and 2020, therefore, further researchers are suggested to extend the sample's years, use different samples to be observed, and use other independent variables that affect tax avoidance. Last, the government and tax authority should improve the supervision and strengthen the tax regulations in order to reduce the tax avoidance.

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