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Analysis of Corporate Social Responsibility and Corporate Governance Against Tax Avoidance

Indah Sulistyawati[1], Dewita Puspawati[2]
[1]*Faculty of Economics and Business, University of Muhammadiyah Surakarta, Indonesia*
[1]*Faculty of Economics and Business, University of Muhammadiyah Surakarta, Indonesia*

Abstract: The aim of this research is to investigate the impact of corporate social responsibility and company governance on tax evasion as measured by organizational ownership, management ownership, and overseas ownership. This is a quantitative study that uses the regression approach of data collected in panels with the help of Eviews version 12 and purposive sampling procedures. This study's sample consists of industrial enterprises itemized on the Indonesia Stock Exchange (IDX) from 2019 to 2021. There are 75 samples that match the criteria for research data that can be used. This study discovered that ownership by an institution and foreign ownership have a bearing on tax avoidance, but corporate social responsibility and managerial ownership have no impact.

Keywords: Corporate Social Responsibility, Institutional Ownership, Managerial Ownership, Foreign Ownership, Tax Avoidance

1. Introduction

Tax is a type of compulsory contribution that taxpayers must make to the government. Taxes are one of the sources of state cash revenues that function in the economic expansion of the government, beginning with infrastructure development, asset provision, and community public facilities (Noviari &; Dharma, 2017). The corporation becomes a taxpayer with a tax responsibility based on its profit gains. Due to the coercive character of taxes and the formation of regulations governing them, taxpayers are required to deposit their dependents through tax organizations.As tax rates rise, taxpayers seek tax evasion as a means of reducing their burden (Kiryanto, 2022). Tax avoidance is an attempt to save taxes by lowering the amount of tax owing legally by exploiting loopholes in the law by looking for flaws in it (Suandy, 2011).

Businesses that have gone public are expected to consider the social and environmental implications of their operations. Corporate social responsibility (CSR) is a program implemented by a company as part of its social and environmental responsibilities. Tax evasion by corporations is not illegal, but it is regarded reckless behavior against social circles (Hidayat et al, 2018). An entity with good social responsibility is inextricably linked to a firm with solid corporate governance. There are internal and external systems for monitoring good corporate governance (GCG). Whereas for external processes such as corporate forms of control, ownership structures, and market control (Puji & Junawatiningsih, 2014). According to study (Pratomo & Alma, 2020), a company's ownership structure can be used as a proxy in gauging effective corporate governance since it functions as a type of oversight to guarantee the company's operational operations follow regulations and do not stray from the corporate image.

Institutional ownership, managerial ownership, and foreign ownership compose the ownership structure, which based on the different goals and interests of the three ownership structures results in the occurrence or absence of a tax avoidance practice. The implementation of Excellent governance in business and corporate social responsibility are both examples of the company's awareness of the importance of thinking about the interests of stakeholders. Making honest tax payments is a kind of business responsibility facilitated by the government, while different forms of supervision from the ownership structure are able to realize a good control system to prevent deviant activities such as tax avoidance in a company.With a similar purpose in mind, corporate social responsibility and excellent corporate governance are expected to be two factors influencing the absence of tax evasion methods. CSR has a favorable influence on tax avoidance, according to research undertaken by Setiawati and Adi (2020); Sofianty and Herlina (2020). Meanwhile, research conducted by Setyawan (2021); Avilla, (2020) discovered that CSR had a negative effect on tax fraud. Setyawan's research, (2021), discovered that strong corporate governance has a consequence on dodged taxes, however, Sofianty and Herlina's research (2020), and Mardatungga's research (2022), revealed that good corporate governance has no impact on tax evasion.the influence of CSR and GCG on tax avoidance again due to the conflicting outcomes of earlier studies. This study is a replication of Annuar et al.,(2014) study, Corporate Ownership, Tax Evasion and Governance: Interaction Effects. The title of this paper is Analysis of Corporate Social Responsibility and Corporate Governance Against Tax Avoidance, based on the description above.

2. Literatures Review and Hypothesis

2.1. Agency Theory

The conflict between management as agents and owners as principals is explained by agency theory (Jensen and Meckling, 1976). These two sides have different interests since they have different goals. Both sides are thought to be attempting to maximize their own welfare, resulting in conflicts of interest. Agency conflicts arise not only between management and principles but also between majority and minority shareholders (Nuritomo &; Nurmawan, 2022). Management may enhance corporate performance in a variety of ways, one of which is through evading taxes. Tax avoidance tactics can also pose risks to the principal; therefore, this can be one of the resources used by the principal to evaluate agency concerns encountered by the company.

2.2. Tax Avoidance

Tax avoidance activities are taxpayers' attempts to reduce the burden of taxes by not breaking the law, which is legal and safe for taxpayers because they do not clash with tax regulations. Tax evasion can occur since the tactics and techniques used tend to employ the advantage of flaws in the tax legislation itself in order to lower the amount of tax owed (Pohan, 2016). Although tax evasion is not technically illegal, it is frequently criticized by stakeholders.

2.3. Corporate Social Responsibility

Social responsibility in business is described as a notion or action undertaken by a company to demonstrate a sense of responsibility for the environment and society in which it operates. Each firm has different techniques and forms of accountability, but they all share one goal: to be able to preserve a harmonic balance between the organization and the environment around it.Companies that participate in tax avoidance tactics are defined as socially negligent (Lanis & Richardson, 2012), hence a company's decision to lower its tax rate or engage in tax avoidance is determined by its CSR attitude. Several scholars have already examined the association between responsibility for society and tax evasion. The study's findings (Setyawan, 2021) revealed that CSR had an impact on tax evasion. As a result, the hypothesis formulation in this investigation is:
H1: Corporate social responsibility has an impact on the avoidance of taxes

2.4. Institutional Ownership

The fraction of share ownership controlled by the government, international investors, insurance firms, and banks that have a higher role in supervising corporate management is referred to as institutional ownership (Dewi & Jati, 2014). Company management must pay attention not just to the interests of the company, but also to the interests of stakeholders. This is consistent with stakeholder theory, which asserts that stakeholders determine the company's existence.Because of its moral commitment, the corporation will give preference to the interests of stakeholders. This moral commitment assists the firm in developing strategies that impact company success (Hasyir, 2016). According to the study's findings (Nuritomo &; Nurmawan, 2022), influence of institutional control on tax evasion. As the outcome, the following hypothesis was developed in this study:
H2: Tax evasion is influenced by institutional ownership

2.5. Managerial Ownership

Managerial ownership refers to corporate management sharing ownership and actively participating in decision-making (Pasaribu, 2016: 156). There is a strategy that can be used to reduce managerial behavior in distorting financial statements caused by conflicts of interest between managers and owners. Company management, as a stakeholder and decision maker, requires a manager to follow applicable regulations in order to prevent the risks and consequences that may be imposed on him if he is found to have committed errors such as tax evasion. As stated in the study's findings (Nuritomo &; Nurmawan, 2022), management ownership influences tax avoidance methods. As a result, the following hypothesis was developed in the current research:
H3: Management's ownership has an impact on tax avoidance

2.6. Foreign Ownership

According to Article 1 paragraph 6 of Law No.25 of 2007, foreign ownership includes persons, commercial entities, and governments from other nations who capitalize on Indonesia. High levels of foreign ownership can help a corporation disclose more reliable financial statements to stakeholders (Pratomo & Alma, 2020). The agency problem refers to the discrepancy in desire between the principal and the agent. The bigger the proportion of a firm's shares owned by foreign parties, the greater the ability of investors to influence company policies. According to the study's findings (Nuritomo &; Nurmawan, 2022), foreign ownership has an influence on tax evasion tactics. As the outcome, the following hypothesis was developed in this study:
H4: Tax evasion is influenced by foreign ownership

3. Methodology and Procedures

3.1 Population and Sample

The population of this research is made up of industrial enterprises registered on the Indonesia Stock Exchange (IDX). Secondary data derived from annual monetary statements published on the IDX and each company's website is collected as part of the data collection procedure. During the study period, the research sample was 99 data, with 24 data in outliers, for a total sample size of 75.

Table 1. Research Sample Selection Process

No	Criteria	Total
1	Industrial businesses for the fiscal year 2019-2021, it will be listed on the Indonesia Stock Exchange	56
2	Industrial firms that issue consecutive annual accounts payable from 2019 through 2021	(19)
3	Industrial companies whose financial statements are not presented in rupiah (Rp)	(3)
4	Companies that did not supply adequate variables during the study period	(1)
Data Outlier		(8)
The number of companies that were sampled		25
Year of Research		3
Total research sample		75

Source: Main data giving out, 2023

Table 2. Measurement of variable

Variable	Indicators	Source
Tax Avoidance	ETR = $\frac{\text{Income tax burden}}{\text{Earnings before taxes}}$	Mariani (2020)
Corporate Social Responsibility	CSRI = $\frac{\text{Number of items revealed}}{\text{GRI standard disclosure items}}$	Sofianty & Herlina (2020)
Institutional Ownership	KI = $\frac{\text{Number of institutional shareholdings}}{\text{Number of outstanding shares}}$	Hendi & Novianti (2021)
Managerial Ownership	KM = $\frac{\text{the percentage of management shareholding}}{\text{Number of outstanding shares}}$	Nuritomo & Nurmawan (2022)
Foreign Ownership	KA = $\frac{\text{Foreign Share Ownership Percentage}}{\text{The total number of outstanding shares}}$	Nuritomo & Nurmawan (2022).

Source : Primary data interpreting, 2023

3.2 Data Analysis Methods

To process and test data, this study employs quantitative methodologies supported by the Eviews version 12 program. Panel data regression analysis is a a research tool for data analysis. Analysis of regression using information from panels is used to test integrated data from intersect-data and period series. In this study, regression analysis of panel data yielded the following equation:

$$ETR = \alpha + \beta_1 CSR + \beta_2 KI + \beta_3 KM + \beta_4 KA + e$$

Information:

ETR = Tax Avoidance
α = Constant
β = Coefficient
CSR = Corporate Social Responsibility
KI = Institutional Ownership
KM = Managerial Ownership
KA = Foreign Ownership
e = *Residual* / errors

4. Results and Discussion

4.1 Panel Data Regression Model Determination

Table 3. Test Chow

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

Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.107582	(24,46)	0.0005
Cross-section Chi-square	72.276628	24	0.0000

Source : Primary information processing, 2023

H0 is rejected if the Chow tests shown in table 3 indicate that the probability value of the cross-section is 0.0000 or 0.05. As an illustration, the selected model has a fixed effect. The researchers will next use random effect models to extrapolate to determine which model is superior.

Table 4. Hausman Test

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

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	17.846576	4	0.0013

Source : Primary data processing, 2023

The probability value of the cross-section is 0.0013, which is less than 0.05 depending on the Hausman test results. As an aftermath, H0 is eliminated, and the selected model has a fixed effect.

4.2 Hypothesis Test Results

Table 5. Fixed Effect Method Regression Results

Dependent Variable: ETR
Method: Panel Least Squares
Date: 03/26/23 Time: 20:44
Sample: 2019 2021
Periods included: 3
Cross-sections included: 25
Total panel (balanced) observations: 75

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.327723	0.147214	-2.226165	0.0309
CSR	-0.454284	0.309980	-1.465530	0.1496
KI	1.029365	0.221065	4.656396	0.0000
KM	-1.146655	0.997855	-1.149120	0.2564
KA	0.968098	0.301306	3.213007	0.0024

Source : Main data being processed, 2023

Based on the findings of the linear regression analysis, panel data was evaluated using the following regression equation:

$$ETR = -0{,}327723-0{,}454284CSR+1{,}029365KI-1{,}146655KM+0{,}968098KA$$

1. The constant coefficient of -0.327723 indicates that if the variables of Corporate social liability (CSR), organizational ownership (IP), leadership involvement (KM), and ownership from abroad (KA) remain constant, the average tax avoidance (ETR) of industrial enterprises on the IDX in 2019-2021 is -0.327723

2. The negative CSR regression coefficient of -0.454284 indicates that for every 1% rise in CSR, tax evasion practices will reduce by 0.454284%. Tax evasion techniques will go up by 0.454284% with every 1% fall in CSR.
3. The regression coefficient for institutional ownership (IP) of 1.029365 indicates that every 1% rise in IP increases tax evasion techniques by 1.029365%. In contrast, every 1% decrease in IP results in a 1.029365% fall in illicit financial practices.
4. The coefficient of regression for managerial ownership (KM) of -1.146655 implies that every 1% increase in KM reduces tax evasion practices by 1.146655%. Conversely, for every 1% fall in KM, tax evasion practices rise by 1.146655%.
5. The regression coefficient for positive foreign ownership (KA) of 0.968098 demonstrates that every 1% increase in KA increases tax evasion practices by 0.968098%. Instead, for every 1% decline in train traffic, tax evasion tactics will reduce by 0.968098%.

Table 6. F test results

Cross-section fixed (dummy variables)			
R-squared	0.642095	Mean dependent var	0.177853
Adjusted R-squared	0.424239	S.D. dependent var	0.236348
S.E. of regression	0.179339	Akaike info criterion	-0.314596
Sum squared resid	1.479467	Schwarz criterion	0.581500
Log likelihood	40.79734	Hannan-Quinn criter.	0.043205
F-statistic	2.947344	Durbin-Watson stat	3.096563
Prob(F-statistic)	0.000559		

Source : Initial information processing, 2023

The value of the probability (F-statistical) is 0.000559, which is less than the significance level of 5% (0.000.05), according to the F test results shown in the table above. It is possible to deduce that the concurrent F test rejects H0 while accepting Ha. This implies that the elements of social responsibility in business, institutional loyalty, leadership involvement, and foreign ownership are all have an impact on avoiding taxes at the same time.

Table 7. The result of the coefficient of determination

Cross-section fixed (dummy variables)			
R-squared	0.642095	Mean dependent var	0.177853
Adjusted R-squared	0.424239	S.D. dependent var	0.236348
S.E. of regression	0.179339	Akaike info criterion	-0.314596
Sum squared resid	1.479467	Schwarz criterion	0.581500
Log likelihood	40.79734	Hannan-Quinn criter.	0.043205
F-statistic	2.947344	Durbin-Watson stat	3.096563
Prob(F-statistic)	0.000559		

Source : Processing of primary data, 2023

The Adjusted R-squared value is 0.424239, as indicated in Table 7. This means that the independent variable has a 42.42% influence on the dependent variable, or that the model's independent variable can clarify 42.42% of the dependent variable. The remaining 57.58% was influenced by factors outside of the regression model.

Table 8. T test results

Dependent Variable: ETR
Method: Panel Least Squares
Date: 03/26/23 Time: 20:44
Sample: 2019 2021
Periods included: 3
Cross-sections included: 25
Total panel (balanced) observations: 75

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.327723	0.147214	-2.226165	0.0309
CSR	-0.454284	0.309980	-1.465530	0.1496
KI	1.029365	0.221065	4.656396	0.0000
KM	-1.146655	0.997855	-1.149120	0.2564
KA	0.968098	0.301306	3.213007	0.0024

Source : The initial information handling, 2023

Based on the data in table 8, it is inferred that:

1. Social obligation in filing taxes

The corporate social responsibility (CSR) variable has a probability of 0.1496 more than the 5% significance level of 0.1496>0.05 and a computed value of -1.465530 less than the t_{table} value of 1.70814, according to the findings of the t test in the table above. This demonstrates that CSR factors do have not much impact on tax evasion variables on their own. As a result, the first hypothesis (H1) can be ruled out.

2. Tax Avoidance through Financial Ownership

In accordance with the t-test results in the table above, the institutional ownership variable has a probability of 0.0000 less than the 5% significance level of 0.00000.05 and a computed value of 4.656896 greater than the t_{table} value of 1.70814. This implies that the KI variable has an impact on tax evasion and a positive relationship with it. As a result, we can conclude that the second hypothesis (H2) is true.

3. Managerial ownership against tax avoidance

According to the t test findings in the table above, the managerial ownership variable has a probability of 0.2564 more than the 5% significance threshold of 0.2564>0.05 and a computed value of -1.149120 less than the t_{table} value of 1.70814. This illustrates that individual KM variables have minimal impact on tax evasion. Therefore, the third hypothesis (H3) is rejected.

4. Foreign ownership against tax avoidance

According to the t-test results in the table above, the foreign ownership variable has a probability of 0.0024, which is less than the 5% significance threshold of 0.00240.05, and a computed value of 3.213007, which is more than the t_{table} value of 1.70814. This points out that the KA variable has an effect on avoiding taxes and has an advantageous association with it. As a result, we can conclude that the fourth hypothesis (H4) is correct.

4.3 Discussion

According to the findings of the investigation, the CSR variable had a higher significance value than the research significance level of 0.14 > 0.05 and a computed value of -1.465530 which was less than the table value of 1.70814. This proves that corporate social responsibility has a negligible impact on tax evasion. This is because, in terms of taxation, there is Law No. 36 of 2008, which governs personal income tax (PPh). In tax rules and regulations, a corporation classified as a corporate form is liable to Corporate Income Tax. According to Law No.40 of 2007 on limited liability corporations, a company must participate in social responsibility activities.Aside from the concerns of legitimacy and corporate image, there are taxes aspects that have governed a company's use of CSR. However, because the term CSR is not explicitly defined and is not directly monitored by the law (Ridho, 2017), there are only a few types of CSR costs that are in line with GRI G4 CSR disclosure standards, such as work or service costs, insurance premiums, waste treatment costs, training costs, and reclamation costs. If taxpayers do not delve deeper into the law, it will generate prejudice for regulators. In accordance with interviews done with KPP Madya Semarang account representatives (Bandiyono & Dewangga, 2020), taxpayers do not employ donation fees, which are one of the CSR expenditures, to carry out tax evasion. Laws that are still skewed create doubt about whether all CSR costs can be employed in tax avoidance strategies. In this instance, it might be stated that CSR indicators are inaccurate in detecting tax evasion or cannot demonstrate their impact on tax evasion behaviors.

Based on the findings of this study, the probability value of the institutional ownership variable is less than the significance level of 0.0000 0.05, and the calculated value of 4.6563 is greater than the table value of 1.70814, indicating that institutional ownership has an impact on tax avoidance and has a positive relationship with tax avoidance. Because the institution's ownership can oversee every action made by firm management, it plays a vital role in monitoring optimal management performance.One of the goals of institutional investors for the investments they supply is optimal returns. The more a company's institutional ownership, the greater its capacity to encourage managers to take actions to maximize returns. In order to achieve long-term profits, institutional investors typically encourage management to reduce the company's tax burden by engaging in tax evasion tactics that yield high returns. It can be stated that the greater a company's institutional ownership, the greater the control structure it has, making tax avoidance methods more likely.

According to this study's results, the management ownership variable has a higher probability value than the significance level of 0.2564 > 0.05, and the estimated value of -1.14912 is less than the t_{table} value of 1.70814. This implies that management ownership characteristics have little effect on tax evasion. Management in a corporation might have a dual position, which means that in addition to being a shareholder, the manager also manages the company. Nevertheless, in comparison to majority shareholders and owners, managerial parties do not have significant rights, opportunities, or authority in the company's decision-making process. In this scenario, it requires a manager to follow applicable regulations in order to minimize risks and accept consequences that may be imposed on him if he is found to have committed errors such as evasion of taxes.

The findings of this study demonstrate that the probability value of the foreign ownership variable is less than the level of significance, which is 0.0024 0.05, and the estimated value of 3.21300 is more than the ttable of 1.70814. This demonstrates that changeable foreign ownership has an impact on tax evasion and has a favorable link with tax evasion methods. According to agency theory, because shareholders have various goals and interests, they would try to maximize their own welfare as much as possible, which leads to conflicts of interest. The amount of foreign shareholding in a firm affects whether they have voting rights and influence the company's operational policy. The bigger the number of a firm's shares controlled by foreign parties, the stronger their voting rights in setting company policies, including policy determination to reduce the burden of tax evasion.

5. Conclusion

5.1 Conclusion

Based on the findings of the analysis and discussion, the following can be found:

1. If the probability value of corporate sausage responsibility is greater than the significance level of 0.05, then corporate social responsibility has no influence on tax avoidance.
2. If institutional ownership with a probability value of 0.000 is less than the significance level of 0.05, then the variable institutional ownership influences tax evasion.
3. Managerial ownership has no impact on tax avoidance if the probability value of 0.2564 is greater than the statistically significant level of 0.05.
4. Because foreign ownership has a probability value of 0.0024 and a significance level of 0.05, it affects dodged taxes.

5.2 Limitations

Since the research data used in this study is confined to industrial sector businesses listed on the Indonesia Stock Exchange from 2019 to 2021, the research findings cannot be applied to other types of firms.

5.3 Suggestion

1. Further research is likely to contribute to and broaden the industry under consideration.
2. Other characteristics that may influence tax evasion activities can be used in future studies.