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Impact of Corporate Social Responsibility and Financial Performance on Tax Avoidance

Kusmayadi[1], Dewi Sri Marsanti[2], Didiek Susilo Tamtomo[3]

Associate Professor, Department of Accounting, Semarang State Polytechnic

Abstract

The purpose of this study is to examine the impact of corporate social responsibility and financial performance on tax avoidance. The dependent variable in this study is tax avoidance as measured by the cash effective tax rate (CETR), using corporate social responsibility (CSR), debt ratio, return on investment, and size as independent variables. The study population is 5 tobacco/tobacco companies listed on the Indonesian Stock Exchange (IDX) from 2017 to 2021. The analytical technique used is multiple regression analysis. The results of this study show that among Indonesian tobacco/tobacco companies, the variables ROA and size affect tax avoidance, while the variables CSR and DR do not.

Keywords: Corporate Social Responsibility, Debt Ratio, Return on Assets, Size, Tax Avoidance

INTRODUCTION

Pursuant to Article 4 of Law No. 9/2020 on State Budget 2021, the tax revenue target is 1,229.45 trillion, which includes: (1) Income tax revenue of IDR 683.64 trillion, (2) VAT of IDR 518.55 trillion and VAT on luxury income, (3) Property tax revenue of IDR 14.83 trillion, and (4) Other tax revenue of IDR 12.43 trillion. The government has announced that tax revenue will reach IDR 1,277.5 trillion in 2021. This amount corresponds to 103.9% of the 2021 National Budget (APBN) tax revenue target.

Compared to the 2021 tax revenue budget of 1,444.54 trillion rupiah, the realization of tax revenue of 1,277.5 trillion rupiah shows that for 2021 = 88.44% of APBN funds come from tax revenues. This is proof that tax revenues have become a reliable backbone for state revenues. Tax avoidance by companies is definitely based on the emergence of the corporate income tax burden that must be paid. The government, as a tax collector,

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always hopes that the amount of tax received can be achieved optimally according to the budget, bearing in mind that tax revenue will be used by the government as a source of state financing. However, companies as taxpayers, always want small taxes to be paid, because companies think paying taxes will increase the company's burden which will reduce net profit, so companies always want minimal tax payments. The phenomenon of tax avoidance in Indonesia and in various parts of the world has increased from time to time. The Indonesian government's efforts to optimize tax revenue is not easy, because taxpayers tend to avoid paying their taxes. In order to avoid taxes, many companies make reductions in tax costs that must be paid while still complying with applicable tax regulations. However, there are also companies that deduct the tax fee that must be paid by violating the applicable tax regulations.

According to the Tax Justice Network report, Indonesia is expected to lose billions of dollars each year due to tax avoidance. In an editorial entitled "The State of Tax Justice 2020: Tax Justice in the Time of COVID-19," which was reported by Tax Justice News, a total of Rp. 68.7 trillion was lost due to corporate taxpayers committing tax avoidance in Indonesia. The amount of losses caused reached US$ 4.78 billion or the equivalent of Rp. 67.6 trillion. Meanwhile, the rest came from individual taxpayers with a total of US$ 78.83 million or the equivalent of Rp. 1.1 trillion. In the case of individual taxpayers who fall into the category of upper-class society, they often hide their assets and income abroad in order to avoid the reach of the law in Indonesia. Actions of tax avoidance are certainly not justifiable. After all, taxes are used as a source of state revenue which is managed for the benefit of the community, especially in fighting the impact of the COVID-19 pandemic.

According to the report The State of Tax Justice 2020: Tax Justice in the time of COVID-19, Indonesia ranks fourth in Asia after China, India and Japan when it comes to corporate and individual tax avoidance.

LITERATUR REVIEW

Agency Theory

Agency theory is fundamental to understanding the concept of corporate governance. This agency relationship occurs when one or more people (principals) hire other people (agents) to provide services and delegate decision-making authority (Jensen and Meckling, 1976). A principal is an investor or shareholder and an agent is a senior manager.

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Agency theory basically assumes that all humans are egoistic. This assumption also applies to companies. Shareholders always satisfy their egos by focusing on increasing the value of their shares, whereas managers focus on meeting their personal interests by maximizing their financial and psychological needs. The existence of different interests between these two individuals eventually led to the agency theory. In this study, different stakes arise between tax collectors (tax collectors) and taxpayers (company directors) in the treatment of corporate profits.

Tax authorities are always looking for maximum tax revenue, while business owners are always looking for big profits with a low tax burden. These two different interests inevitably lead to conflicts between the tax collectors, the tax authorities, and the taxpayers, business owners. Therefore, companies tend to try to reduce their tax burden through tax avoidance measures.

Legitimacy Theory

Legitimacy theory is a theory that focuses on the interactions between companies and their stakeholders. All businesses require legitimacy or approval from stakeholders (investors, creditors, consumers, governments, and society) to ensure their survival. Community legitimacy can be gained when a company engages in activities related to social responsibility. A company's survival depends heavily on its relationship with society and the environment. Businesses have an obligation to act in accordance with the values of justice and the norms enforced in society. The relationship between legitimacy theory and this research is gaining legitimacy or recognition from stakeholders so that companies can be socially responsible. By being socially responsible, stakeholders know that the company has an interest in being responsible not only towards the company itself, but also towards society. Corporate social responsibility comes at a significant cost and can be a loophole for businesses to avoid taxes. The costs associated with CSR activities are costs that reduce corporate profits and ultimately lead to a reduction in tax payments.

The Effect of Corporate Social Responsibility (CSR) on Tax Avoidance

CSR is a commitment by companies to minimize the negative impacts and maximize the positive impacts of their operations on all economic, social and environmental stakeholders in order to achieve the Sustainable Development Goals. It's a serious effort (Rachman et al, 2011:15). Corporate Social Responsibility (CSR) is a form of corporate commitment to act ethically, contribute to economic development, and improve the quality of life of workers and society. When conducting CSR activities, there

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is a cost that reduces the company's profits. If the company's profits decrease, the tax burden paid during this period will decrease. To preserve or optimize corporate profits while minimizing the tax burden, companies seek tax avoidance practices. A study by Roman & Richardson (2015) shows that corporate social responsibility activities influence tax avoidance.
Hypothesis 1: CSR impacts tax avoidance.

The Effect of Debt Ratio on Tax Avoidance

A debt ratio is a ratio used to measure the amount of debt a company has compared to its total assets. A high ratio describes a company's heavy reliance on debt to finance its operations. The debt owned by the company has consequences for the interest costs of the loan. The higher the company's debt, the higher the company's interest costs. High interest costs lower the profit level of the company, therefore the tax burden paid by the company also decreases. For companies with the right capital structure, the company benefits from reduced interest expense, thus reducing corporate tax evasion. The results of the study by Siregar and Widyawat (2016) show that the debt ratio has an impact on tax evasion.
Hypothesis 2: DR has an effect on tax avoidance.

The Effect of Return on Assets (ROA) on Tax Avoidance

Return on Assets (ROA) is a measure of a company's ability to use its assets efficiently to generate profits. Companies hesitate to pay high taxes because the higher the profit of a company, the greater the tax burden. As a result, many businesses are trying to avoid taxes. A study by Lionita and Kusbandiyah (2017) shows that ROA influences tax avoidance.
Hypothesis 3: ROA influences tax avoidance

The Effect of Company Size on Tax Avoidance

Company size is a size or value that allows companies to be categorized into large and small categories. If you look at the total assets of the company, you can see how much assets it has. Higher total assets indicate a larger company and more transactions. The complexity of the transactions companies make will open up opportunities for companies to avoid taxes.
Hypothesis 4: Company Size Affects Tax Avoidance

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The theoretical framework underlying this research can be summarized in Figure 1 below:

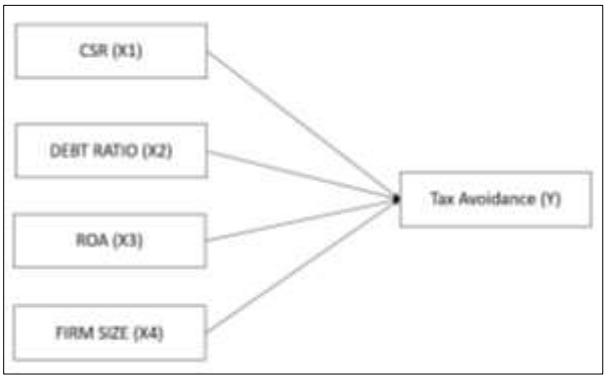


Figure 1. Research Theoretical Framework

RESEARCH METHODS

Research Object

The survey covered all tobacco/tobacco companies (up to 5 companies) listed on the Indonesian Stock Exchange (IDX) for the period 2017-2021. The criteria for study subjects are: (1) Tobacco/tobacco companies listed on the Indonesian Stock Exchange (IDX) for the period 2017-2021; (2) To publish annual financial reports for five consecutive years from 2017-2021; . (3) Use of the Rupiah as a unit of currency. anda(4) contains complete information depending on the variables used.

Research data

This study uses secondary data taken from existing sources, namely 5 cigarette/tobacco company financial reports for the 2017-2021 period. Data retrieved through the Indonesian Stock Exchange website http://www.idx.com.

Research variable

The variables used in this study are dependent variables and independent variables. The dependent variable of this study is tax evasion, while the independent variables used in this study are Corporate Social Responsibility (CSR), Debt Ratio (DR), Return on Assets (ROA) and Company Size (Size).

Variable Operational Definitions

Dependent variable tax avoidance in this research is proxied by the Cash Effective Tax Rate (CETR). CETR can be calculated in the following ways:

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$$CETR = \frac{Cash\ \ Tax\ \ Paid}{Pre\ -\ Tax\ \ Income}$$

Corporate Social Responsibility (CSR)

According to Elkington in Rachman et al. (2011: 11) CSR activities are related to the three key elements of sustainable development: economic development, social development and environmental protection, commonly referred to as the "triple bottom line". CSR variables are measured using a 91-item checklist based on the Global Reporting Initiative (GRI). This evaluation is done by comparing the items on the checklist with those disclosed in the company's annual report. In the checklist, the value is 1 if item I is disclosed and 0 if item I is not disclosed. The formula for calculating CSRI is:

$$CSRij = \frac{\sum Xij}{Nj}$$

Note:
CSRIj : Corporate Social Responsibility Disclosure Index of company j.
ΣXij : Value 1 if item i is disclosed; value 0 if item i is not disclosed.
Nj : Number of items for company j, nj = 91.

Debt Ratio (DR)

Debt ratio is a ratio used to measure the extent to which a company's assets are funded by a debt company or to measure how much a company's debt affects the company's asset management (Kasmir, 2017, 112). The result of this key figure shows the percentage of the company's assets that are covered by the company's liabilities. The formula for calculating the debt ratio is as follows.

$$Debt\ \ Ratio = \frac{Total\ \ Debt}{Total\ \ Asset}$$

Return on Assets (ROA)

Return on Assets (ROA) is a profitability ratio that describes management's ability to gain profit (Kasmir, 2017: 201). The higher the ROA, the higher profit obtained by managing the company's wealth. ROA is calculated by the following formula:

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$$ROA = \frac{Net\ Profit}{Total\ Asset}$$

Company Size

Company size is a scale or value used to classify companies into large, medium or small groups. The grouping of companies is based on the total assets owned by the company. The greater the total assets, the larger the company size, which shows the more transactions are made. Company size is calculated as follows:

$$Size = Total\ Assets$$

Analysis Tools

The data analysis technique used in this research was multiple linear regression analysis using the SPSS program

Normalitas Test

A regression model is said to be normally distributed if the plotted data (points) representing the actual data lie along the diagonal (Imam Gozali, 2011: 161).
The results of the normal distribution plot are shown in Figure 2 below.

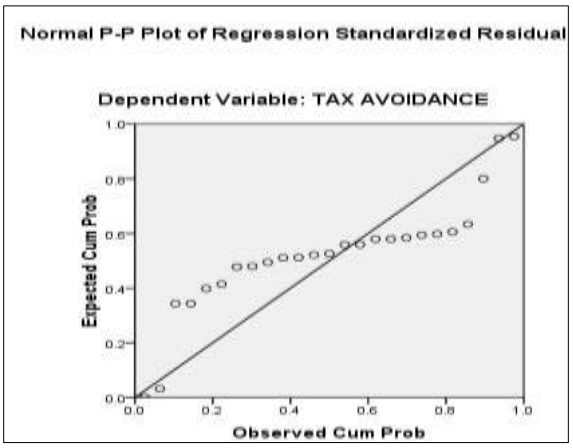


Figure 2. Normality Probability Scatter Plot

From the results of the normality of the probability plot, it can be concluded that the regression model is normally distributed.

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Multicollinearity Test

The regression model has no symptoms of multicollinearity when the tolerance value is > 0.100 and the VIF value is andlt; 10.00 data graph (points) representing the actual data after the diagonal line (Imam Gozali, 2011: 107). Results The results of the multicollinearity test are shown in Table 1 below:

Table 1. Multicollinearity Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.035	1.146		-.031	.976		
	CSR	.344	1.433	.075	.240	.813	.490	2.041
	DR	-.056	.636	-.020	.087	.931	.910	1.099
	ROA	-.589	.863	-.180	-3.083	.003	.679	1.472
	SIZE	1.666E-6	.000	.127	-3.039	.007	.453	2.208

a. Dependent Variable: TAX AVOIDANCE

Based on the results of the analysis, it shows that each variable has a VIF value below 10 and a tolerance value above 0.10 which means that there is no multicollinearity between the independent variables in the analysis.

Heteroscedasticity Test

A regression model is said to have no symptoms of heteroskedasticity if the scatter has no clear pattern (rippled, widened and narrowed) and the points are scattered above and below 0 on the Y-axis (Imam Gozali, 2011: 139).). The scatter results of the heteroskedasticity test are shown in Figure 3 below:

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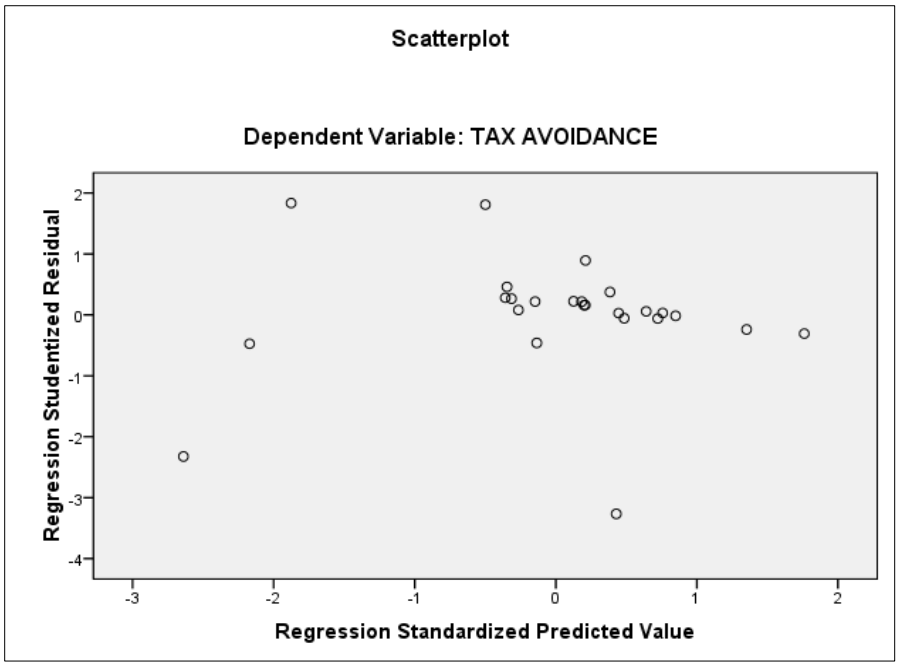


Figure 3. Heteroscedasticity Test Results

From the picture it appears that there are no symptoms of heteroscedasticity

Autocorrelation Test

The regression model is said to have no autocorrelation symptoms if the Durbin Watson value lies between 2 to 4-du (Imam Gozali, 2011: 111). The results of the autocorrelation test are shown in table 2 below:

Table 2. Autocorrelation Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.231[a]	.053	-.136	.43165	2.027

a. Predictors: (Constant), SIZE , DR, ROA, CSR

b. Dependent Variable: TAX AVOIDANCE

From the results of these calculations it appears that the DW value is in the position du<DW<4-du namely: 1.767 < 2.027 < 2.233. Thus it can be concluded that there are no symptoms of autocorrelation.

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RESULTS AND DISCUSSION

Partial Test

The partial test shows the effect of each independent variable on the dependent variable. According to Imam Gozali (2011: 101), if the Sig. < 0.05, the independent variable (X) partially affects the dependent variable Y. The partial test results are shown in table 3 below:

Table 3. Partial Test Results
Effect of CSR, DR, ROA and Size on Tax Avoidance

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.035	1.146		-.031	.976		
	CSR	.344	1.433	.075	.240	.813	.490	2.041
	DR	-.056	.636	-.020	.087	.931	.910	1.099
	ROA	-.589	.863	-.180	-3.083	.003	.679	1.472
	SIZE	1.666E-6	.000	.127	-3.039	.007	.453	2.208

a. Dependent Variable: TAX AVOIDANCE

The Effect of Corporate Social Responsibility on Tax Avoidance

The first hypothesis was tested on the impact of CSR on tax evasion. The results of the analysis show a t-value of 0.20 and a significance value of 0.813. A significant value above 0.05 means that CSR has no effect on tax evasion, so H1 is rejected. The results of this study show that CSR reporting does not affect tax evasion.

Social responsibility reporting increased year on year between 2017 and 2021. The increase in CSR disclosure is due to companies being aware of their social responsibility rather than avoiding taxes even though they practice CSR. the company spends a lot of money. The results of this study support the study of Lionita and Kusbandiyah (2017), which states that the level of CSR in annual reports does not affect tax avoidance practices

The Effect of Debt Ratio (DR) on Tax Avoidance

The second hypothesis tests the effect of the debt ratio on tax evasion. Based on the results of the analysis, the t-value was 0.087 and the significance value was 0.931. A significant value above 0.05 means that the debt ratio has no effect on tax evasion, so H2 is rejected.

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These results show that a high or low value of a company's debt ratio does not affect the tax avoidance initiatives that a company takes. The results of this study support the study of Lionita and Kusbandiyah (2017) that debt ratio has no effect on corporate tax evasion.

The Effect of Return on Assets (ROA) on Tax Avoidance

The third hypothesis is tested on the effect of ROA on tax evasion. The results of the analysis show that t is -3.083 with a significance value of 0.003. The significance value is less than 0.05, which suggests that ROA has a negative effect on tax evasion. These results show that the higher the ROA, the lower the company's CETR, which means that the company's ability to pay taxes in cash is very low, suggesting that the company is tax evasion. The results of this study support the study of Lionita and Kusbandiyah (2017) that ROA affects tax evasion.

The effect of size on tax avoidance

The fourth hypothesis is tested on the effect of size on tax evasion. The results of the analysis show that t is -3.039 with a significance value of 0.007. The significance value is less than 0.05, which suggests that size has a negative effect on tax evasion. These results show that the larger the size of the company, the lower the value of CETR, which means that the ability of the company to pay taxes in cash is very low, indicating that the company is trying to avoid taxes. The results of this study support the study of Lionita and Kusbandiyah (2017) that size affects tax evasion.

Simultaneous Test

A simultaneous test shows the effect of independent variables on the dependent variable at the same time. According to V. Wiratna Sujarwen (2014: 154), if F-number value > F-table value, it indicates that the independent variable (X) simultaneously affects the dependent variable (Y). Table F-values appear in the table with the formula (k; n-k) ie. (4; 21) and shows a value of 2.8, From the analysis results, the calculated value of F shows a value of 2281 as shown in Table below:

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Table 4. Simultaneous Test Results

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.210	4	.052	2.281	.887[a]
	Residual	3.726	20	.186		
	Total	3.936	24			

a. Predictors: (Constant), SIZE , DR, ROA, CSR

b. Dependent Variable: TAX AVOIDANCE

From the results of a comparison between F-count and F-table, it shows that F-count < F-table, so it can be concluded that the variables CSR (X1), Debt Ratio (X2), Return on Assets (X3 and Size (X4) r simultaneously no effect on tax avoidance.

CONCLUSION

From the results of the partial test, it concluded that: ROA and Size variables affect tax evasion, while CSR and Debt ratio variables do not affect tax evasion. From the results of the simultaneous test, it concluded that the variables CSR, Debt ratio, ROA and Size do not simultaneously affect tax evasion.

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