Innovation Business Management and Accounting Journal
Vol. 3, No. 1, January - March (2024)
P-ISSN: 2828-8599
E-ISSN: 2829-2111

The Influence of Corporate Social Responsibility and Profitability on Tax Avoidance

Nirsetyo Wahdi[1*], Widji Astuti[2], Prihat Asih[3]

[1,2,3] Doctoral Program in Economics, Universitas Merdeka Malang, Indonesia

Abstract

The urgency of the research is that there is new research on the factors influencing tax avoidance. Based on the literature or journal reference collection, this research has novelty compared to previous research, namely adding independent variables, changing the company object, and updating the research year. The type of research used is quantitative research. The population in the study were all manufacturing companies on the Indonesian Stock Exchange in 2017-2021. Data collection is a step-by-step process for compiling data according to the character and needs of the research. The data collection technique in this research is the documentation method. Documentation is done by reading and taking notes from books, research journals and internet downloads. This research will test the moderating effect of audit quality on the relationship between corporate social responsibility, profitability and tax avoidance variables. This method is completed using Moderated Regression Analysis (MRA). This research shows that the first regression model shows no significant influence between corporate social responsibility and partial tax avoidance. The first regression model shows a significant negative influence between profitability and partial tax avoidance.

Article Info

Keywords:
Corporate Social Responsibility,
Profitability,
Tax Avoidance

JEL Classification:
G30, H20, H26

Corresponding Author:
Nirsetyo Wahdi
(nswahdi.feusm@gmail.com)

Received: 10-12-2023
Revised: 27-12-2023
Accepted: 12-01-2024
Published: 30-01-2024

1. Introduction

Taxes significantly contribute to the country's development, but for companies or company owners, taxes are seen as a burden that reduces company profits (Muller & Kolk, 2015). Many companies are trying to find ways to reduce or minimize the tax burden they have to pay. This encourages companies to implement tax avoidance strategies or aggressiveness (Dewi & Astutie, 2023). On the other hand, tax avoidance refers to the efforts of individuals or companies to reduce or avoid the tax obligations they would otherwise pay (Oats & Tuck, 2019; Col & Patel, 2019). Tax evasion can be carried out legally using existing tax regulations or illegally violating tax laws. Tax evasion is generally a legal way for taxpayers to avoid paying taxes. They can do this by exploiting the credits, deductions, exemptions, and tax loopholes that are part of the tax code to their advantage. Tax evasion, conversely, is a deliberate failure to comply with tax laws. By doing this, taxpayers avoid tax assessments and tax payments (Palil, 2016).

Tax avoidance can generally be distinguished from tax evasion (Khlif & Achek, 2016). Tax evasion is often related to using unlawful methods to reduce or eliminate the tax burden. In contrast, tax evasion is carried out "legally" by exploiting loopholes in existing tax regulations to avoid paying taxes or carrying out transactions that do not have purposes other than to avoid taxes (Wijaya & Rahayu, 2021). According to Gunawan and Sulistiawan (2017), tax avoidance is a way to reduce a company's tax burden by exploiting weaknesses in the applicable tax law, so this method cannot be considered illegal. Corporate Social Responsibility and Profitability can influence several factors that influence tax avoidance from previous research (Faradisty et al., 2019; Aryatama & Raharja, 2021). Besides that, audit quality can be used as a moderator regarding the influence of Corporate Social Responsibility, Profitability, asset intensity, and leverage on tax avoidance. Company profitability also influences tax avoidance (Monika &

Noviari, 2021). Profitability is a company's ability to generate profits (profits) within a certain period. The higher the company's profits, the better impact it will have on the company's performance. Profitability describes the company's ability to obtain a profit that can improve the quality of the company, so profitability is an indicator of management performance in managing company assets (Prasatya et al., 2020). Profitability and tax avoidance are interrelated with agency theory. Managers may be incentivized to engage in unlawful tax avoidance if doing so can increase their profits. Tax avoidance can increase a company's profits by reducing the tax it has to pay, but it can reduce the actual profits for owners.

The urgency of the research is that there is new research on the factors influencing tax avoidance. Based on the literature or journal reference collection, this research has novelty compared to previous research, namely adding independent variables, changing the company object, and updating the research year. From this novelty, this is an exciting thing to research regarding the influence of corporate social responsibility and profitability on tax avoidance. This research aims to analyze whether corporate social responsibility influences tax avoidance in manufacturing companies on the Indonesian stock exchange and whether profitability influences tax avoidance in manufacturing companies on the Indonesian stock exchange. The benefits of this research are for the development of knowledge and a positive contribution or reference for further researchers regarding the discussion of the influence of corporate social responsibility and profitability.

2. Methods

The type of research used is quantitative, namely by developing and using mathematical models, theories and hypotheses related to phenomena. Meanwhile, the type of data in the research uses secondary data in the form of documentation data from the Indonesian Stock Exchange. The population is the entire collection of elements from which conclusions will be made, while the sample is a portion of the population (Sekaran & Bogie, 2016). The population in the study were all manufacturing companies on the Indonesian Stock Exchange in 2017-2021. The sample consists of several individuals whose numbers are less than the population (Sugiyono & Lestari, 2021). The criteria set in this research for taking samples include manufacturing companies listed on the Indonesia Stock Exchange in 2017-2021, manufacturing companies on the Indonesia Stock Exchange whose financial reports are in rupiah for the 2017-2021 period, and manufacturing companies on the Indonesia Stock Exchange in good condition. Profit for the 2017-2021 period.

The scope of this research is that it was conducted to examine tax avoidance in manufacturing companies on the Indonesia Stock Exchange for the 2017-2021 period. This research analyzed the relationship between corporate social responsibility, profitability, capital intensity and leverage on tax avoidance with audit quality as a moderating variable. Data collection is a step-by-step process for compiling data according to the character and needs of the research. The data collection technique in this research is the documentation method. Documentation is done by reading and taking notes from books, research journals and internet downloads. The data analysis used in the research, namely quantitative analysis, is data analysis that uses data in the form of numbers obtained as a result of measurements or additions (Nurgiyantoro et al., 2012). This research will test the moderating effect of audit quality on the relationship between CSR variables, profitability and tax avoidance. This method is completed using moderated regression analysis (MRA), namely multiplying each independent variable (CSR, profitability, capital intensity, and leverage) by the moderating variable (audit quality).

3. Results and Discussion

3.1. Results

General Overview of Manufacturing Companies on the Indonesian Stock Exchange

The Indonesian Stock Exchange, abbreviated as BEI, is a stock exchange in Indonesia that facilitates Sharia-based trading in shares, fixed income, derivative instruments, mutual funds, shares, and bonds. IDX also provides real-time trading data in a data-feed format for data vendors or companies. BEI provides more complete information about stock exchange developments to the public. BEI disseminates stock price movement data through print and electronic media. Until now, Indonesia has the Indonesian Stock Exchange, a merger of the Surabaya Stock Exchange (BES) into the Jakarta Stock Exchange (BEJ) in 2007.

A manufacturing company is a company that manages raw and semi-finished materials into finished goods that can be consumed. In their operations, manufacturing companies have references or standard operations that aim to serve as guidelines and reduce damage to production results. There are various characteristics that manufacturing companies have, as for characteristics these include:

a. Material Processing and Production Results
   In contrast to trading companies, which only sell goods from suppliers, manufacturing companies focus on processing raw materials to create finished products. The eye can see the results of the production process and raw materials of manufacturing companies, or the products have a form. This also differentiates it from service companies where the products are not objects or tangible.
b. Large Machines and Scale
   In production management, manufacturing companies usually use machines and human power with the division of labour in large-scale production.
c. There are production costs.
   Production costs are costs obtained from production activities. The production costs incurred usually consist of 3 cost elements: raw material costs, labour costs, and factory overhead costs (BOP).

In this research, qualitative analysis will be carried out to describe descriptive statistical data from research variables. Data explanation is accompanied by minimum, maximum, mean, variance and standard deviation values. The following are descriptive statistics of research data consisting of variables. Based on the research results, the average value for Corporate Social Responsibility (CSR), proxied by CSR disclosure based on GRI, is 0.3031. This shows that the average value of the CSR index for manufacturing companies on the IDX for 2017-2021 is 0.3031; the lowest value is 0, and the highest value is 0.84.

The average value of profitability, as measured by the ratio of net profit to total assets, is 0.0834. This shows that the average value percentage profit against manufacturing companies on the IDX in 2017-202 was 0.0834; the lowest value is 0.0,0, and the highest value is 0.72. The average value of Tax Avoidance as measured by the effective tax rate is 0.3938. This shows that the average value of the comparison between payment of tax burden and profit before tax in manufacturing companies on the IDX in 2017-2021 is 0.3938; the lowest value is 0, and the highest value is 7.35.

First Model: Influence of Corporate Social Responsibility, Profitability, Asset Intensity, Leverage on Tax Avoidance with KAP Quality as Moderating Variable

1) Data Normality Testing
   Based on testing using the Kolmogorov-Smirnov test, the following output was obtained:

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual (Model Pertama)
N		251
Normal Parameters^{a,b}	Mean	-,0071
	Std. Deviation	,12950
Most Extreme Differences	Absolute	,083
	Positive	,083
	Negative	-,036
Kolmogorov-Smirnov Z		1,312
Asymp. Sig. (2-tailed)		,064

a. Test distribution is Normal.

b. Calculated from data.

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual (Model Pertama)
N		300
Normal Parameters^{a,b}	Mean	,0000
	Std. Deviation	,65680
Most Extreme Differences	Absolute	,267
	Positive	,267
	Negative	-,185
Kolmogorov-Smirnov Z		4,629
Asymp. Sig. (2-tailed)		,000

a. Test distribution is Normal.

b. Calculated from data.

Figure 1. Kolmogorov Smirnov Test First Model
Source: Data Processed (2022)

Based on figure 1 above, the distribution of research data on the unstandardized residual value on the influence of corporate social responsibility, profitability, asset intensity, leverage on tax avoidance with KAP quality as a moderating variable has a calculated Z number (Kolmogorov Smirnov) of 4.629 and a probability value of 0.000 < significance level 5% or 0.05; so it includes data that is not normally distributed and is not suitable for parametric testing (linear regression).

One way to change abnormal data to normal is by eliminating outlier data or confounding data with characteristics of a Z score of more than 3. Based on Table 5.3 above, the distribution of research data on unstandardized residual values after removing outlier data has a calculated Z number of 1.312. Moreover, the probability value is 0.064 > significance level 5% or 0.05, so it usually includes distributed data worthy of being tested in parametric testing (linear regression).

Apart from using numbers from the Kolmogorov-Smirnov test, it can also be analyzed using an average p-plot graph, as shown below:

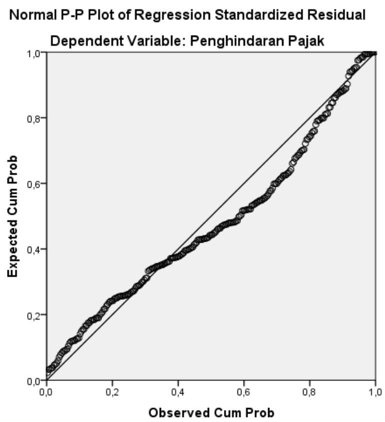

Figure 2. Normal P-Plot First Model
Source: Data Processed (2022)

The image above shows that the points are spread around the diagonal line and follow the direction of the diagonal line, so it can be concluded that the data is usually distributed.

2) Classical Assumption Testing

The model used to analyze the data in this research is multiple linear regression and hypothesis testing using the t-test and F-test. Before discussing data analysis, the classical assumption test is first carried out, which is used to identify disturbances or problems in the regression. Multiple linear.

a. Multicollinearity Test

The multicollinearity test aims to test whether it is found in the regression model correlation between independent variables. Multicollinearity can be seen from the tolerance value and Variance Inflation Factor (VIF). Regression is free from multicollinearity interference if the VIF value is less than 10 (Ghozali, 2016).

The results obtained in this VIF number are < 10 namely for the VIF for the CSR variable, it is 1.643; the VIF for the profitability variable is 1.543. Looking at the VIF results for all research variables, namely <10, the research data is classified as having no multicollinearity interference in the regression model.

b. Autocorrelation Test

The autocorrelation test aims to test whether there is a correlation between sample members ordered by time in a linear regression model. Decision making whether there is or not autocorrelation that is: if the DW is located between the upper limit or upper bound (du) and (4-du), then the coefficient is equal to zero, meaning no autocorrelation (Ghozali, 2016). In the research, the DW Test (Durbin Watson Test) results were 1.965 (du = 1.675; 4-du = 2.325). This means that the regression model above has no problems with autocorrelation because the DW test number is between (two tables) and (4-du table); therefore, this regression model is declared suitable for use.

c. Heteroscedasticity Test

The heteroscedasticity test aims to test whether, in the regression model, there is an inequality of variance from the residuals of one observation to another. Based on the test results show that the probability value for all research variables on tax avoidance with KAP quality as a moderating variable is greater than the significance level of 5% or 0.05, so it can be concluded that there is no heteroscedasticity interference in the first regression model.

3) Regression Equations

In this research, we analyze the influence of corporate social responsibility and profitability, which can be explained by the regression equation, namely Y = 0.344 - 0.103 CSR - 0.610 Profitability, which can be explained as follows:

a. b1 = CSR regression coefficient is negative, meaning that if CSR experiences an increase, the possibility of (trend) causes tax avoidance to be lower.
b. b2 = profitability regression coefficient is negative, meaning that tax avoidance will be lower if profitability increases.

4) Hypothesis testing

Hypothesis testing is carried out to determine whether there is a significant influence (either positive or negative) between corporate social responsibility, profitability, and tax avoidance.

a. The Influence of Corporate Social Responsibility on Tax Avoidance

The results of calculations using the SPSS program show that the calculated t value is -1.541 and the probability value is 0.125 > 5% or 0.05 significance level, meaning that there is no significant influence between Corporate Social Responsibility and partial Tax Avoidance. The absence of a significant effect indicates that the level of Corporate Social Responsibility cannot explain and predict the possibility of tax avoidance by companies.

b. The Effect of Profitability on Tax Avoidance

The results of calculations using the SPSS program show that the calculated t value is -2.997 and the probability value is 0.003 <5% or 0.05 significance level, meaning that there is a significant and negative influence between profitability and partial Tax Avoidance. The existence of a significant and negative influence indicates that the higher a company's profitability level, the lower the company's tendency to avoid taxes. Several factors can cause this. For example, highly profitable companies may not need to rely on tax avoidance strategies to reduce their tax burden because they can pay taxes quickly without sacrificing a large portion of their profits. Conversely, less profitable companies may be more likely to look for ways to reduce their tax liabilities because taxes can significantly impact their profits.

3.2. Discussion

The Influence of Corporate Social Responsibility on Tax Avoidance

The first regression model shows no significant influence between Corporate Social Responsibility and partial Tax Avoidance. The absence of a significant effect indicates that the level of Corporate Social Responsibility cannot explain and predict the possibility of tax avoidance by companies. Meanwhile, the results of the second model show no significant influence between Corporate Social Responsibility and partial Tax Avoidance. The absence of a significant effect indicates that the level of Corporate Social Responsibility cannot explain and predict the possibility of tax avoidance by companies.

Meanwhile, the results of the third model show no significant relationship between corporate social responsibility and partial tax avoidance. The absence of a significant effect indicates that the level of Corporate Social Responsibility cannot explain and predict the possibility of tax avoidance by companies. The statement that Corporate Social Responsibility (CSR) does not affect Tax Avoidance implies that CSR practices carried out by companies do not directly or significantly impact their decisions to avoid taxes. Corporate social responsibility practices and tax strategies are two separate things and have different motivations.

The Effect of Profitability on Tax Avoidance

The first regression model partially shows a significant and negative influence between Profitability and Tax Avoidance. The existence of a significant and negative influence indicates that the higher a company's profitability level, the lower the company's tendency to avoid taxes. Meanwhile, the results of the second model show a significant and negative influence between profitability and partial Tax Avoidance. The existence of a significant and negative influence indicates that the higher a company's profitability level, the lower the company's tendency to avoid taxes. Other factors can cause this.

The results of the third model show a significant and negative influence between profitability and partial Tax Avoidance. The existence of a significant and negative influence indicates that the higher a company's profitability level, the lower the company's tendency to avoid taxes. Other factors can cause this. Profitability has a negative effect on tax avoidance, indicating that the higher a company's profitability level, the lower the company's tendency to avoid taxes. Several factors can cause this. For example, highly profitable companies may not need to rely on tax avoidance strategies to reduce their tax burden because they can pay taxes quickly without sacrificing a large portion of their profits. Conversely, less profitable companies may be more likely to look for ways to reduce their tax liabilities because taxes can significantly impact their profits.

4. Conclusion

Based on the results of the analysis that has been carried out on the hypothesis that has been formulated, the following conclusions can be drawn: a) The average value for Corporate Social Responsibility (CSR) proxied by CSR disclosure based on GRI is 0.3031. This shows that the average value of the CSR index for manufacturing companies on the IDX for 2017-2021 is 0.3031; the lowest value is 0, and the highest value is 0.84. b) The average value of profitability, as measured by the ratio of net profit to total assets, is 0.0834. This shows that the average value percentage profit against manufacturing companies on the IDX in 2017-2021 was 0.0834; the lowest value is 0.00, and the highest value is 0.72.

The suggestions that can be found after analyzing this research are: a) For Manufacturing Companies on the IDX the research results serve as input and information for Manufacturing Companies on the IDX in developing management strategies and tactics as well as development to find out what factors influence companies to avoid tax. From the research results, it was found that profitability and intensity assets are positively influential towards the avoidance of taxes, while leverage has a negative effect on avoiding a tax. Based on the research results, manufacturing companies can use these results to implement appropriate management strategies. b) For investors, it is a form of information for investors that shows information regarding the factors that influence tax avoidance by manufacturing companies on the IDX in determining the next policy steps for the company. Investors can choose companies that do not evade taxes so that they do not face legal problems or sanctions from the government in the future.

References

Aryatama, M. I., & Raharja, S. (2021). The Effect of Capital Intensity, Corporate Social Responsibility, and Profitability on Tax Avoidance (In Manufacturing Companies Industry of Food & Beverage Sub Sectors Listed on Indonesia Stock Exchange 2015-2020). *Diponegoro Journal of Accounting*, *10*(4). Retrieved from https://ejournal3.undip.ac.id/index.php/accounting/article/view/33038

Col, B., & Patel, S. (2019). Going to haven? Corporate social responsibility and tax avoidance. *Journal of Business Ethics*, *154*, 1033-1050. https://doi.org/10.1007/s10551-016-3393-2

Dewi, F. Y., & Astutie, Y. P. (2023). Pengaruh Komisaris Independen Koneksi Politik dan Profitabilitas Terhadap Penghindaran Pajak. *JABKO:Jurnal Akuntansi Dan Bisnis Kontemporer*, *3*(2), 48-71. https://doi.org/10.24905/jabko.v13i2.41

Faradisty, A., Hariyani, E., & Wiguna, M. (2019). The effect of corporate social responsibility, profitability, independent commissioners, sales growth and capital intensity on tax avoidance. *Journal of Contemporary Accounting*, *1*(3), 153-160. https://doi.org/10.20885/jca.vol1.iss3.art3

Gunawan A. S., & Sulistiawan, D. (2017). Pengaruh Sikap Machiavellianism Dan Social Responsibility Terhadap Perilaku Tax Avoidance Yang Dilakukan Oleh Wajib Pajak Di Indonesia (Jawa Tengah Dan Jawa Timur. *Jurnal Ilmiah Mahasiswa Universitas Surabaya*, *6*(2), 1-12.

Khlif, H., & Achek, I. (2015). The determinants of tax evasion: a literature review. International *Journal of Law and Management*, *57*(5), 486-497. https://doi.org/10.1108/IJLMA-03-2014-0027

Monika, C. M., & Noviari, N. (2021). The effects of financial distress, capital intensity, and audit quality on tax avoidance. *American Journal of Humanities and Social Sciences Research*, *6*, 282-287.

Muller, A., & Kolk, A. (2015). Responsible tax as corporate social responsibility: The case of multinational enterprises and effective tax in India. *Business & Society*, *54*(4), 435-463. https://doi.org/10.1177/000765031244998

Oats, L., & Tuck, P. (2019). Corporate tax avoidance: is tax transparency the solution?. *Accounting and Business Research*, *49*(5), 565-583. https://doi.org/10.1080/00014788.2019.1611726

Palil, M. R. (2016). Issues, challenges and problems with tax evasion: The institutional factors approach. *Gadjah Mada International Journal of Business*, *18*(2), 187-206. https://doi.org/10.3316/informit.363341383760497

Sekaran, U., & Bougie, R. (2016). *Research methods for business: A skill building approach*. John Wiley & Sons.

Sugiyono, & Lestari, P. (2021). *Metode Penelitian Komunikasi*. Alfabeta.

Wijaya, S., & Rahayu, F. D. (2021). Pengaruh Agresivitas Transfer Pricing, Penggunaan Negara Lindung Pajak, Dan Kepemilikan Institusional Terhadap Penghindaran Pajak. *Jurnal Informasi, Perpajakan, Akuntansi, Dan Keuangan Publik*, *16*(2), 245-264. https://doi.org/10.25105/jipak.v16i2.9257