PROCEEDING OF INTERNATIONAL CONFERENCE ON ACCOUNTING AND FINANCE

Volume 3, 2025, PP: 203-208

The role of Corporate Social Responsibility (CSR) disclosure in suppressing tax avoidance

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Abstract

This study examines how CSR disclosure can reduce tax avoidance that may be carried out by companies. It is understandable that the purpose of establishing a company is to gain profit and recognition in the realm of stakeholders and society. On the other hand, in the company's production and operational activities, it certainly has an impact on the surrounding environment and in general. Because of this, companies are required to carry out CSR activities. Viewed from the theory of legitimacy, companies in disclosing CSR activities have the hope of getting recognition from the community that the company has actually fulfilled its obligations. In addition to obligations to the surrounding environment, companies are also required to be responsible for tax obligations seen from the company's compliance in taxation and the company's low efforts to avoid taxes. This study tested 201 samples of companies in the food and beverage sector, using multiple linear regression tests, and obtained results that CSR disclosure had a significant effect on the low tax avoidance carried out by companies.

Keywords: Corporate Social Responsibility, Tax Avoidance, Legitimacy

INTRODUCTION

The Company was established of course with a specific purpose and objective. The main purpose of the company is to achieve profit or gain. However, in addition to these objectives, the company was also established as a form of providing benefits to the community, environment and national economy. However, currently the demands on the company are not only about how to get maximum profit, but the company must also pay attention and be involved in providing community welfare and actively contribute to maintaining environmental sustainability.

Based on the above, the company, in addition to carrying out its obligations in accordance with the Limited Liability Company (PT) Law, except for corporate social responsibility (CSR). Companies that are ethical and care about social responsibility will have high CSR disclosure and tend to report financial performance more transparently and show low profit management, this indicates a reliable company performance report. Company performance here includes how the company carries out its tax obligations.

When a company is large in size, it is imagined that greater disclosure is needed, especially in companies with a fairly complex environmental impact on the company's production activities. According to Watt Zimmerman (1986), in his hypothesis, it states that if the company's profit is large, the greater the tax that must be paid and the higher the company demands its responsibility for the environment, automatically the costs are greater. What companies can do is to legally avoid taxes. Although this is detrimental to the state, due to the suboptimal state revenue, this tax avoidance practice is regulated by law and is legal. When viewed from the type of industry, the level of tax avoidance between one industry and another can be compared. The level of tax avoidance in companies is influenced by the average tax avoidance of companies in the same industry (Liang, Li, Lu, & Shan, 2021).

Col and Patel (2019) stated that companies tend to create protection or anticipation against the negative consequences of tax avoidance by practicing increasing CSR activities. In order to cover up tax avoidance activities that are socially less accountable, companies try to increase their CSR activities. Thus, it is hoped that stakeholders will balance the company's performance, between disclosing social responsibility and its tax obligations.

Hidayat and Novita (2023) revealed in their research that Corporate Social Responsibility as measured by the Corporate Social Responsibility index shows a positive influence on tax avoidance. This means that companies with higher social awareness tend to show higher tax avoidance efforts. Conversely, if the level of corporate social responsibility is low, the level of corporate tax avoidance will also be lower. A different thing was expressed by Mohanadas, Abdullah Salim, and Pheng (2020) who stated that there was no influence of CSR on tax avoidance. This study was conducted in Malaysia. In this country, CSR disclosure is recommended to be disclosed in annual reports that are made with thematic themes, namely community, environment, market, and workplace. This study focuses on food and beverage companies, where this sector is closely related to the environmental impact of its production activities. It should be noted that food and beverage sector companies have an obligation to manage production resources and waste generated from their production activities. In addition, demands for product safety are also a major issue for consumers. There is still little literature obtained on testing how food and beverage sector companies disclose CSR and whether this sector is engaging in tax avoidance. Based on the explanation above, further study is needed regarding the relationship between corporate social responsibility and tax avoidance, especially food and beverage sector companies in Indonesia. The difference between this study and previous studies is that it provides test results in the food and beverage sector which has not been widely studied. This study is also feasible to be conducted because food and beverage sector company regulations have special challenges regarding product consumption safety and handling of environmental impacts on company production activities.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Literature Review and Hypothesis Development

Corporate Social Responsibility (CSR)

Corporate social responsibility (CSR) as a company's responsibility to stakeholders to act ethically, minimize negative impacts and maximize positive impacts that include social and environmental economic aspects (triple bottom line) in order to achieve sustainable development goals (Haerani, 2017). Rahmat (2017) defines CSR as a form of business commitment in contributing to sustainable economic development through collaboration with employees, their families, local communities and the wider community to improve their lives through methods that are good for business and development. From the several definitions above, it can be concluded that Corporate Social Responsibility is a form of corporate social responsibility to its stakeholders in order to achieve sustainable development goals.

Tax Avoidance

Tax avoidance can be defined as an effort to minimize tax liabilities through legitimate strategies, such as corporate structure arrangements, business location selection, and use of tax incentives offered by the government. Examples include shifting income to countries with lower tax rates or exploiting loopholes in tax regulations. Tax avoidance is a legal manipulation of income that is still in accordance with the provisions of tax laws and regulations to make the payment of taxes owed more efficient (Dwiyanti & Jati, 2019).

Tax avoidance is a practice carried out by individuals or companies to reduce their tax burden in ways that are legal and in accordance with applicable tax regulations. Although often considered unethical, tax avoidance does not violate the law, unlike tax evasion which is illegal tax evasion.

Legitimacy Theory

Legitimacy theory is one of the important theoretical frameworks in examining the influence of Corporate Social Responsibility (CSR) on tax avoidance practices. This theory focuses on how companies strive to obtain and maintain legitimacy in the eyes of the public and stakeholders through actions that are considered in accordance with applicable social norms and values. The following is a detailed explanation of how legitimacy theory can be used as a basis for testing the influence of CSR on tax avoidance.

Legitimacy theory states that organizations, including companies, must operate within the boundaries of existing social norms, values, and expectations in order to gain support from the public. When companies take actions that are considered inconsistent with social expectations, such as aggressive tax avoidance, they risk losing legitimacy and support from stakeholders, including consumers, investors, and the government. Therefore, companies need to demonstrate that they are socially responsible through CSR activities to maintain their legitimacy (Susanto and Veronica, 2021).

Hypothesis Development

The inconsistency of previous research results is the basis for why this research is still being conducted. K. Z. Lin, Mills, Zhang, and Li (2018) and López-González, Martínez-Ferrero, and García- Meca (2019) stated that corporate social responsibility has a negative effect on tax avoidance. This means that the higher the CSR disclosure made by the company, the less likely the company is to avoid taxes. Opposite results were expressed by Zeng (2019) that CSR has a positive effect on tax avoidance. This means that the higher the CSR disclosure made by the company, the more likely the company is to avoid taxes. It can be seen from another side that companies disclose CSR with the aim of reducing company profits through costs incurred to disclose CSR.

Judging from the legitimacy theory, companies that disclose CSR hope that the community and stakeholders will recognize that what the company does is in accordance with community expectations. In Indonesia, there are several studies proving a negative relationship between CSR and tax avoidance. This means that companies that have high social responsibility tend to minimize tax avoidance (Susanto, 2022). This is done by companies with long-term goals, namely that companies have a commitment not only to be responsible for the environment, but also to consciously comply with government regulations, one of which is to fulfill its tax obligations.

H1: CSR disclosure has a significant negative effect on Tax Avoidance

METHODS

The target sample in this study was all food and beverage sector companies listed on the Indonesia Stock Exchange for the period 2021 - 2023. The criteria are as follows: Food and beverage sector companies listed on the Indonesia Stock Exchange in 2021-2023 and have a sustainability report, have complete data and information related to the variables, and are not experiencing losses or have compensation for losses in the previous year. This is because if the company experiences losses, the ETR value will be negative. In accordance with research from Hidayat and Novita (2023) and Januari and Suardikha (2019), the measurement of corporate social responsibility refers to the sustainability report. There are two standards in corporate CSR disclosure, namely the Global Reporting Initiative G4 Index (GRI G4) and the Global Reporting Initiative Standard (GRI Standard). This study uses a proportion / ratio approach by adding up the items disclosed in the company's sustainability report. The number of indicators in the Global Reporting Initiative (GRI) guidelines varies depending on the version of the GRI used. The GRI G4 Index has 91 disclosure indicators while the GRI Standard has 77 disclosure indicators.

The dependent variable of the study, namely tax avoidance, is a tax strategy that aims to reduce the tax burden, on the other hand this practice also poses risks in the form of fines and a decline in the company's reputation in the eyes of the public (Annisa, Taufik, & Hanif, 2017). In this study, the Cash Effective Tax Rate or CETR was used because this technique is often used in several similar studies and is in accordance with tax regulations in Indonesia. There is a lag in tax payments that causes the assessment of the cash effective tax rate to differ. The Cash ETR assessment is obtained from the company's financial statements for the following year. The cash effective tax rate is the total tax paid by the company divided by the total profit before tax. If the CETR is negative, then the tax avoidance is positive, and vice versa. If the Cash ETR is low, then the tax avoidance is high (Saraswatie et al., 2020). The use of Cash ETR can accommodate the amount of tax cash currently paid by the company (Astuti and Aryani, 2017).

RESULT AND DISCUSSION

This study uses multiple linear regression analysis testing. This test aims to predict the effect of CSR on tax avoidance. The control variables of the study are company size, leverage, and return on assets. The sample selection criteria are shown in the following table:

Table 1. Sample Selection Criteria

Criteria	Total Observations
1. Food and Beverage sector companies listed on the Indonesia Stock Exchange in 2021-2023 and have a sustainability report	294
2. Companies that do not have all the complete data and information related to the variables required in this study	19
3. Companies that experienced losses or had compensation for losses in the previous year.	51
4. Companies that have extreme or outlier data values	23
Total Observations	201

Source: Processed data, 2024

Table 2. Description Test Result

	N	Minimum	Maximum	Mean	Std. Deviation
CSR	201	,35	,98	,7036	,16294
CETR	201	,01	,96	,2472	,11549
Valid N (listwise)	201				

In table 2, it can be concluded that the results of descriptive testing show that the maximum value of CSR disclosure is at a ratio of 98%, and the lowest value is at a ratio of 35%. For the minimum CETR value, it is at a value of 0.1% and the highest CETR value is at a value of 96%.

Table 3. Regression Test Result

Model Summary[b]

					Change Statistics					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	,247[a]	,061	,056	,112361446982923	,061	12,953	1	199	,000	1,809

a. Predictors: (Constant), CSR Disc
b. Dependent Variable: CETR

The test results in table 3 show that the adjusted R value is 0.056, meaning that 5% of the variation in Tax Avoidance can be explained by the CSR disclosure variable. The standard error value of 0.1123 means that the smaller this value, the more accurate the regression model is in predicting the dependent variable.

Table 4. Hypothesis Test Result

Coefficients[a]

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	,124	,035		3,521	,001
	CSR_Disc	,175	,049	,247	3,599	,000

a. Dependent Variable: CETR

Table 4 shows that the significance value is 0.000 with a t value of 3.599. This means that the tax avoidance variable is significantly influenced by the CSR disclosure variable. Based on the proposed hypothesis, this test accepts the proposed hypothesis. Where CSR disclosure has a significant negative effect on tax avoidance. The results of this study support previous studies, K. Z.

Lin, Mills, Zhang, and Li (2018) and López-González, Martínez-Ferrero, and García-Meca (2019) stated that corporate social responsibility has a negative effect on tax avoidance. Companies in disclosing CSR have high motivation with the hope that stakeholders will respond well to the company's assessment. On the one hand, the company has a high commitment to accountability including tax responsibility. The higher the disclosure of CSR by the company, this suppresses corporate tax avoidance. This is in line with the legitimacy theory adopted by companies, where companies seek to gain legitimacy or recognition from the community and stakeholders for their company's performance.

CONCLUSION

The study shows that the significance value of 0.000 and the t value of 3.599 indicate that there is a significant influence between CSR disclosure and tax avoidance. This means that the CSR variable has a real impact on corporate tax avoidance practices. This study accepts the proposed hypothesis, which states that CSR disclosure has a significant negative effect on tax avoidance. This means that the higher the level of CSR disclosure by a company, the lower the likelihood of the company engaging in tax avoidance practices.

The results of this study are consistent with the findings of K. Z. Lin, Mills, Zhang, and Li (2018) and López-González, Martínez-Ferrero, and García-Meca (2019), which also show that CSR has a negative effect on tax avoidance. This confirms that a company's commitment to social responsibility can reduce the tendency to avoid taxes. Companies that are active in disclosing CSR tend to have high motivation to get a positive response from stakeholders. This shows that companies strive to build a good reputation and legitimacy in the eyes of the public through their social responsibility. This finding is in line with the legitimacy theory, where companies strive to gain recognition from the public and stakeholders for their performance. By increasing CSR disclosure, companies can strengthen their legitimacy and reduce the reputational risks that may arise from tax avoidance practices.

The results of this study suggest that companies should increase transparency in their CSR reports as part of a strategy to minimize tax avoidance practices. This not only contributes to social responsibility but can also improve relationships with stakeholders. Overall, this study provides empirical evidence that CSR disclosure has a significant impact on reducing tax avoidance practices, and supports the importance of social responsibility in the context of corporate taxation.

This study may have limitations in the number of samples used. For example, if it only involves a small number of companies or only focuses on a certain sector, the results may not be generalizable to the entire population of companies. This study may not consider other variables that may affect the relationship between CSR and tax avoidance, such as company size, industry, or macroeconomic conditions. The absence of these variables may affect the validity of the study results. CSR disclosure measurements are often subjective and may vary across companies. If the CSR data used is inconsistent or does not reflect the actual quality, the results of the study may be inaccurate. If the study uses a cross-sectional design, it cannot capture the dynamics of changes in CSR practices and tax avoidance over time. A longitudinal design may provide better insights.

Further research is recommended to involve more companies from various industry sectors and sizes to increase the generalizability of the results. It is recommended to include additional relevant control variables, such as profitability, company size, and corporate governance, for a more comprehensive analysis. Using more objective and standardized indicators to measure the quality of CSR disclosure so that the research results are more valid and reliable. Conducting research with a longitudinal design to analyze changes in CSR practices and tax avoidance over time, so that it can provide insight into possible trends and patterns.

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