

## CORPORATE SOCIAL RESPONSIBILITY AND TAX AGGRESSIVENESS: EVIDENCE FROM INDONESIA

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### ABSTRACT

The purpose of this research is to examine the impact of tax aggressiveness on corporate social responsibility (CSR) and its reversal. It also finds out which one of those relationships with more considerable influence. The population of this research is manufacture companies listed on the Indonesian Stock Exchange over the period 2008-2019. This research used a purposive sampling method and found 67 companies. We test the multiple regressions using the generalized method of moments (GMM) to analyze the hypotheses. The results depict that CSR does not affect tax aggressiveness. However, tax aggressiveness has a significant effect to enhance CSR. Therefore, the relationship between CSR and tax aggressiveness is only one direction.

**Keywords:** corporate social responsibility, tax aggressiveness, Indonesia

**JEL Classifications:** H20, H21, M14

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### INTRODUCTION

The taxes are compulsory contributions paid by individual or corporate taxpayers to the nations that are coercive, without receiving direct replies or benefits based on the Laws Number 28/2007. In Indonesia, the tax is one of the largest sources of state income. It can be seen from the details of the national budget in 2016 made by the Ministry of Finance Republic of Indonesia. It contributes to the most significant state revenue (84.72%) from the taxation sector. It shows the importance of taxes for the Indonesian state to run the government. Tax aggressiveness and CSR are related, as taxes have a central role in the management of a company, but they also have effects on the welfare of society (Vacca et al., 2020). However, up to the present, the state tax revenue is still meager, which can be seen from the tax ratio in Indonesia. According to the Ministry of Finance data, up to now, Indonesia's tax ratio is only 11% below the standards of the Association of Southeast Asian Nations (ASEAN) and the organization on Economic Cooperation and Development (OECD) countries. Tax aggressiveness of multinational corporations has become a much-discussed and controversial topic, particularly since the global financial crisis with governments around the world facing revenue shortfalls and intensified social problems. It culminates in the

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OECD's Base Erosion and Profit Shifting Action Plan, which began at the behest of the G20 in 2012/13 (Whait et al., 2018). Many things cause the low tax ratio in Indonesia, for instance, one of which is caused by the practice of tax avoidance by companies (tax aggressiveness). In addition, governments rely on tax revenues to operate. When firms avoid taxes, the burden of those tax revenues shifts to other taxpayers who likely have fewer resources than firms. Consequently, aggressive tax avoidance can promote social inequality (Baudot et al., 2019).

Tax aggressiveness is an action taken by the company to reduce taxes that must be paid by the company. Frank and Rego, (2009) stated that tax aggressiveness is a reverse action designed taxable income through better tax planning measures in a manner that pertained legal (tax avoidance) and illegal (tax evasion). Tax aggressiveness made by the company is very detrimental to the country because the tax is the most significant revenue source for the country to fulfilling 84.72% State Budget in 2016. Lanis and Richardson (2013) stated that tax aggressiveness is an issue of public concern, a corporate policy outcome that is directly linked to the general welfare of society.

The company's action to carry out tax aggressiveness occurs because of the conflicting objectives between the government and the company as taxpayers. The government aims to maximize tax revenue, but companies tend to try to reduce the tax burden to obtain large profits for the shareholders' wealth. According to Lanis and Richardson (2013), this shortfall in corporate income tax revenue produces a significant and potentially irreversible loss to society. Tax aggressiveness can be considered socially irresponsible. Based on this statement, tax aggressiveness is a socially irresponsible act. The lower tax revenue is since tax aggressiveness will cause significant public harm. Companies that carry out tax aggressiveness are socially irresponsible, so that, of course, will result in a worse image for the company's stakeholders.

The company also has the burden of other responsibilities, namely to the environment and communities as corporate social responsibility (CSR). In Indonesia, the adoption of 2007 Indonesian Corporate Law No. 40 as well as the 2007 Indonesian Investment Law No. 25, which give CSR a mandatory nature. Under Article 15 of the 2007 Investment Law No. 25, every corporation is obliged to implement corporate social and environmental responsibility. Unfortunately, the implementation of CSR in Indonesia is deficient. One of the significant controversial features of this Law is the inclusion of CSR under Article 74. Companies doing business in the field of and or with natural resources must put into practice Environmental and Social Responsibility. Even now, there is a bill on the CSR that requires companies to

provide funding of 2 percent, 2.5, or 3% of profits for CSR activities (Waagstein, 2011). It shows that there will be more and more burdens that must be borne by the company.

Companies that have done CSR well will undoubtedly get many positive benefits such as reputation or a good image in the eyes of the public and many other benefits. According to Zeng (2016), companies in high-profile, environmentally sensitive sectors such as oil, gas, and mining would have more incentives to build up a positive image and give prominence to CSR. It provides an interesting scenario in which to examine the effect of CSR on firms' activities, such as tax reporting. The adoption of a CSR program may improve a firm's image, with potential attendant business upsides. Besides, tax aggressiveness can also harm firms' reputations and branding images. It can happen because, according to Lanis and Richardson (2013), the aggressiveness of the tax by the company is an action that cannot be held socially responsible. In these conditions, the company will lose its excellent reputation and, of course, adversely affect the company's performance, so the company will take actions that can divert people's views to improve their status by increasing CSR.

Many previous studies have examined the effect of CSR on tax aggressiveness. For example, research by Lanis and Richardson (2013), Elbaz et al., (2015), who found negative influences significantly between CSR and tax aggressiveness. Conversely, What et al., (2018) and Zeng (2016) conducted the same research but inverse context by examining the effect of tax aggressiveness on CSR. They find a significant positive impact between tax aggressiveness on the company's CSR. It can be concluded that up to now there is unclear whether CSR influences tax aggressiveness or tax aggressiveness affects CSR. Which effect is more significant between the two, so this topic is still interesting to study. The purpose of this study is to provide an understanding of companies and governments about the factors that influence CSR and tax aggressiveness. This study uses leverage as a control variable since it could change the dependent variable.

The results of this study are theoretically expected to contribute knowledge about the relationship between CSR and tax aggressiveness. This research could be information for stakeholders, such as investors and creditors in terms of evaluating the implementation of CSR. It is disclosed in the annual financial statements and tax aggressiveness actions conducted by companies for investment decisions and credit decisions. Then, for the community, it could be the source of information to assess whether the company has carried out its social responsibilities optimally. Then, for the policymakers (government), this research is expected to provide information on factors that influence CSR and corporate tax aggressiveness. So, it is useful to identify the symptoms of tax aggressiveness so that it can be used as input in anticipating tax avoidance behavior. Also, by understanding the factors that

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influence CSR, the government can create better regulations, so that it can improve corporate CSR. The rest of this paper is organized as follows. The further sections are literature review and hypotheses development. It is followed by research methods, results and discussions, and conclusions.

## **LITERATURE REVIEW**

### **Legitimacy Theory**

According to Lanis and Richardson, (2013), legitimacy theory indicates that when there is a discrepancy between corporate actions and societal expectations, management employs such disclosure media as annual reports to help to alleviate community concerns. What they perceive to be community concerns. Legitimacy theory as an explanation for increased levels of environmental CSR disclosures. The accounting literature on the topic of CSR and legitimacy theory using tax aggressiveness as an issue of public concern, a corporate policy outcome that is directly linked to the general welfare of society. Their research provides a novel test of legitimacy theory and provides a plausible explanation as to why some corporations disclose more CSR information than others. Based on this statement, the company gets legitimacy from the community if the existing value system in the company is in harmony with the social system in the community. Still, conversely, if the systems are not in harmony, then the company loses the legitimacy from the community.

Legitimacy from the community is vital for the company. Legitimacy theory is based on the notion of a social contract that comes out very strongly in this literature (Jenkins and Newell, 2013). Organizations that deviate from what society expects of them will face a loss of legitimacy, which can lead to a loss of license to operate (Lanis and Richardson, 2011). Tax aggressiveness and or avoidance are generally frowned upon by the community, which can threaten the organization's position. They can then use CSR to 'distract' or draw attention away from undesirable tax planning activities. Thus, although some businesses may not be legitimate, the appearance of legitimacy has been preserved.

CSR activities undertaken by companies are one way to gain legitimacy from the community because CSR is an activity that shows the company's concern for the environment and society. According to (Elbaz et al., 2015), legitimacy theory appears to be less tied to the assumption of discrete and identifiable stakeholder actions. Legitimacy is a state in which an organization's activities are observed to be desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions. Thus, firms will try to build and maintain relationships within their social and political environment, seeking the legitimacy they need to survive regardless of how well they perform financially. Legitimacy theory assumes that an organization is defined in part by its ability to engage in and control

the processes of legitimization to demonstrate its congruence with societal values. According to Lanis and Richardson (2012), by taking a passive stance toward taxation, a corporation can gain legitimacy within society. Based on this statement, it can be said that taking a passive attitude towards taxes could help the company to obtain legitimacy from the public.

### **Stakeholder Theory**

Stakeholder theory indicates that firms usually seek to legitimize and sustain relationships in the broader social and political environment in which they operate. Without such legitimacy, they will not survive irrespective of how well they may perform financially (Lanis and Richardson, 2013). There is also limited discussion on stakeholder theory and how this relates to CSR and tax aggressiveness by firms. Some have argued, if a managerial perspective is taken, the stakeholders to whom a firm is most accountable include employees, customers, and investors. All of them may benefit in some way from the minimization of corporate taxation (Whait et al., 2018).

Hardeck and Kirn (2016) find support for the managerial branch of stakeholder theory, observing that companies will often disclose tax information, not as a progressive form of CSR, but for impression management when pressured by stakeholders deemed to be necessary. The company does this, so the company gets support from stakeholders. Besides, Whait et al., (2018) stakeholder theory is often spoken about, but not discussed in the context of new empirical evidence and represents an area for future study.

One way for a company to get support from its stakeholders is by implementing CSR. According to Vacca et al., (2020), CSR is a concept whereby companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders voluntarily. Ortas and Alvarez (2020) noted that the implementation of aggressive tax strategies could have potentially harmful implications for shareholders, creditors, managers, and governments.

### **Corporate Social Responsibility (CSR)**

According to (Fallan, 2016), CSR is a diffuse and heterogeneous concept. Corporate reporting practices concerning community involvement, the natural environment, energy, work environment/ human resources, customers, products, social issues, corruption, etc. vary significantly. Also, the European Commission states that CSR is the responsibility of enterprises for their impact on society and goes on to assert that firms "can become socially responsible by following the Law (Baudot et al., 2019). CSR is an action that appears to further some social good beyond the interests of the firm and that which is required by Law (Landry et al.,

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2013). More formally, the World Business Council for Sustainable Development (2000) defines CSR as "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. Based on some of these statements, it can be said that the company in running the business now not only focus on achieving profit, but also must pay attention to people and surroundings. Hence, companies gain legitimacy from the community for the sake of business continuity.

In addition to focusing on the environment and society, the implementation of CSR by companies has several other focuses. The company's focus is pretty much as stated in the Global Reporting Initiative (GRI), the center of CSR involves several things: economic, environmental, social, labor practices and decent work, human rights, society, and product responsibility. It proves that a company must pay attention to all its stakeholders without exception, even employees, laborers, the public, and consumers are by the stakeholder theory (Lanis and Richardson, 2016).

The implementation of CSR in Indonesia, which is regulated in the Law Number 40/2007 and the President Rules (PP) No. 47/2012, certainly brings benefits to companies. Waagstein (2011) notes that there are some benefits from the companies if they attempt to implement CSR, i.e., mandatory CSR can be a compliment, not a replacement, to other remedial mechanisms. For example, if victims of corporations lost a case or were given no financial compensation for damage to their living environment, they may still benefit from the "CSR mandatory fund," which should be allocated by corporations through various services. In this case, such CSR may have the effect of strengthening and empowering these victims. From a cost-benefit perspective, a corporation that invests in human rights or environmental protection, regardless of the form this takes, can view it as a long-term investment that has the potential to recover any competitive advantage that was temporarily lost eventually.

## **Tax**

Turning to the specific domain of taxation, the corporation can gain legitimacy within society and maintain its good standing with the tax authority by complying with tax laws and acting following their underlying spirit. In Australia, schemes or arrangements put in place by the corporation with the sole or dominant purpose of avoiding tax are not considered to be in the spirit of the Law, so the Australian Taxation Office (ATO) has the statutory power to cancel any tax benefit obtained from any such scheme or arrangement, to require that additional tax be paid, and to impose tax penalties on the corporation (Lanis and Richardson, 2011).

The adoption of the 2007 Indonesian Law No. 40 has created a significant debate over the nature of Corporate Social Responsibility (CSR), namely, whether it is voluntary or mandatory. On the one hand, the adoption of such a law represents a legal recognition of the existence of CSR. It clarifies the legal nature of a concept is necessary for understanding the obligation and responsibility. On the other hand, it has created much confusion surrounding its substance and procedures. Indonesia, like any other developing country, often offers preferential treatments to corporations, such as reduced taxes or less strict environmental standards. Such behavior undeniably impacts societal norms and behavior (Waagstein, 2011).

### **Tax Aggressiveness**

According to Fallan (2016), a high degree of tax aggressiveness is 'considered by the public to constitute socially irresponsible or illegitimate activity. That is, the companies are not paying a fair share of taxes. The authors argue that CSR disclosures are used strategically to repair corporate legitimacy. Besides, according to Elbaz et al., (2015), tax aggressiveness is defined as encompassing all tax planning activities, whether legal, illegal, or falling into the gray area. Tax aggressiveness, therefore, does not imply improper action. Moreover, it should be noted that the terms tax aggressiveness, tax avoidance, and tax management can be used interchangeably. Based on the statement, it can be concluded that the tax aggressiveness is an action by the company to minimize taxes to be paid by the company. The company carries out tax aggressiveness because the company always considers tax as a burden that must be avoided. After all, it can reduce the profits derived by the company. According to Landry et al., (2013), companies generally consider corporate taxes as a business expense, so management usually tries to minimize tax expenditures, which significantly influences the company's operating results.

Corporations should attempt to satisfy all their stakeholders, even though their primary mandate is to maximize value for shareholders. These scholars were the first to identify the strategic importance of groups and individuals beyond the firm's stockholders. They pointed to such widely disparate groups as local community organizations, environmentalists, consumer advocates, governments, special interest groups, and even competitors and the media as legitimate stakeholders (Elbaz et al., 2015). Tax aggressiveness concerns how many companies reduce current tax payments. It may be done through legal corporate tax planning, ethically questionable tax avoidance and or illegal tax evasion (Fallan, 2016). In this study, tax aggressiveness is measured using the same proxy as research conducted by (Fallan, 2016; Lanis and Richardson, 2012), namely the effective tax rate (ETR). By the formula of income tax expense divided by profit before tax. The lower the company's ETR (close to 0), the company is indicated to be more aggressive towards taxes.

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### **The Effect of Corporate Social Responsibility on Tax Aggressiveness**

Stakeholder and legitimacy theories provide the foundation for examining the relationship (Whait et al., 2018). The company is running its business must obtain legitimacy and support from every stakeholder of the company so that the company's survival is not threatened. One way for companies to gain legitimacy from the community and support from every stakeholder is to carry out CSR activities. CSR is an activity that shows that the company's objectives are by the values and norms prevailing in society and shows the company's concern for the interests of each of its stakeholders.

The implementation of CSR by companies will indeed cost a considerable amount, but of course, the implementation will bring benefits to the company. These benefits, such as gaining legitimacy and support from company stakeholders, will have an impact on the company's image because it is considered as a socially responsible company. According to Landry et al., (2013), socially responsible firms have incentives to preserve their good image and reputation. Because a positive reputation provides an insurance-like value to shareholders, firms have incentives to be socially responsible for maintaining their good image. Paying one's fair share of taxes is a critical component of CSR that helps preserve the firm's right image and reputation. Based on this statement, it can be said that to gain stakeholder legitimacy and support so that it has an impact on a good corporate image, the company must do CSR as well. Still, to do CSR, the company must incur high costs. So, companies that have done CSR well tend not to take actions that can damage the company's right image, because it has incurred substantial expenses. Ortas and Alvarez (2020) added that the results provide support for those companies achieving high corporate social performance (CSP), organizational environmental performance (CEP), and corporate governance performance (CGP) being less likely to engage in aggressive tax practices. It implies that the higher CSR leads to lower tax aggressiveness.

Lanis and Richardson (2012) examined the association between corporate social responsibility (CSR) and corporate tax aggressiveness. Based on a sample of 408 publicly listed Australian corporations for the 2008/2009 financial year, their results show that the higher the level of CSR disclosure of a corporation, the lower is the level of corporate tax aggressiveness. The social investment commitment and corporate and CSR strategy (including the ethics and business conduct) of a corporation are essential elements of CSR activities that hurt tax aggressiveness. Also, thee empirical study from Zeng (2016) indicates that the higher the CSR ranking of a firm, the less likely a firm is to engage in tax aggressiveness. Based on the above formula, the first hypothesis in this study is:

**H<sub>1</sub>: Corporate social responsibility has a negative effect on tax aggressiveness.**



### **The Effect of Tax Aggressiveness on Corporate Social Responsibility**

Lanis and Richardson (2013) tested the legitimacy theory concerning the entailment between tax aggressiveness and public concern on CSR disclosure. On the other hand, Lanis and Richardson (2012) were interested in examining the impact of a firm's tax policy on its CSR performance, which is related to the nature of a firm within society. Concerning the research design in Lanis and Richardson (2013), the dependent variable is CSR disclosure, and the independent variable is tax aggressiveness. The negative impact is that the company will lose the support of its stakeholders, namely the government, and lose the legitimacy of the community. These conditions will cause damage to the company's reputation. Landry et al., (2013) stated that tax aggressive behavior might adversely impact a firm's reputation, which means that the aggressive behavior of the tax would be bad for the reputation of the company.

The company lost the support of one of the stakeholders it is the government, due to the aggressiveness of the tax measures will lead to declining state tax revenue that would hurt the government as the tax funds collector. Besides, tax aggressiveness also causes companies to lose legitimacy from the community due to tax aggressiveness, the tax revenue collected by the government will be reduced and will undoubtedly have a negative impact on society because the tax is used by the government to run the government for the welfare of society. According to Lanis and Richardson (2012), a corporation's tax aggressive policies may have a negative effect on society. From a social perspective, the payment of corporate income tax ensures the financing of public goods, which can be interpreted that the aggressiveness of the tax. It will have a negative impact on society because, in terms of social tax payments are used to guarantee the financing of public goods.

Based on these statements, if the companies are more aggressive against the tax, the company will lose the support of stakeholders-government and lost its legitimacy from the people. So, the impact of the reputation or image damage to the company and will threaten the sustainability of the company's life. In these conditions, it makes the company take action to regain support from stakeholders and legitimacy from the community so that the company's image gets better, for example, by carrying out socially responsible activities such as CSR. Lanis and Richardson (2016) stated that tax aggressiveness is part of the CSR package. It would advise management that improving CSR activities (other than those related to tax) of the firm also requires an additional reduction in tax aggressiveness to enhance the CSR of the firm as a whole. Based on the above explanations, the second hypothesis in this study is:

**H<sub>2</sub>: Tax aggressiveness has a negative effect on corporate social responsibility.**

## RESEARCH METHODS

### Research Model

Based on that above hypothesis, we draw the research model as follows:

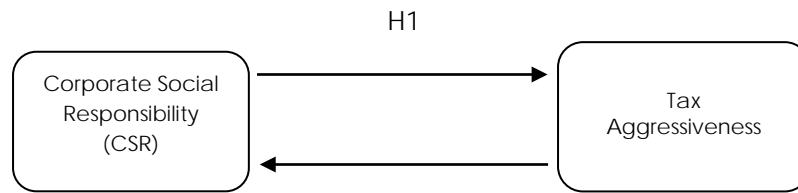


Figure 1.

Hypotheses Models

### Population and Research Sample

The population in this study are manufacture companies listed on the Indonesia Stock Exchange (IDX) in 2008-2019 (12 years). The reason for choosing a manufacturing sector because it among the three industries that exist on the IDX, which are raw material producing industries or natural resource management industries, manufacturing industries, and service industries (non-financial services). We obtained 67 manufacturing companies based on those criteria, and we excluded the financial companies due to different conditions and regulations. So, it is expected that the manufacturing industry could represent other industrial sectors. Also, manufacturing company activities are closely related to the environment. Then, there are several sub-sectors of manufacturing companies that are prone to tax avoidance (Waagstein, 2011).

The sampling technique used in this study was purposive (Cooper and Schindler, 2014) with the following criteria: First, companies that report following annual financial statements from 2008-2019 on IDX. Second, companies that disclose CSR activities in the 2008-2019 annual financial statements. Third, companies that do not experience losses during the research year, because it will cause ETR to be negative, generating bias. Fourth, companies that use the Rupiah value unit in the financial statements. Fifth, companies that have ETR close to 0 indicates the company is more aggressive towards taxes. Sixth, the companies that did not use fiscal loss compensation due to leading bias on the ETR calculation because it is difficult to see any tax savings (aggressiveness).

### Types and Data Collection Methods

In this study, we used quantitative secondary data from the annual financial statements of the listed manufacturing companies from 2008 to 2019. We obtained the data from the Thomson Reuters Eikon Darabase. It reports data that is based on the financial reports of all

Indonesia companies on the Indonesia Stock Exchange's website. This study also utilized CSR and tax aggressiveness data over the period 2009 to 2019 from that source. We used leverage as a control variable. It is chosen because it could affect both CSR and tax aggressiveness. The higher leverage of a company, then the company will tend to have tight supervision from the creditors due to a higher probability of contract violation related to the company's debt. Some prior studies used leverage as the control variable since it could affect both CSR and tax aggressiveness (Ortas and Alvarez, 2020; Vacca et al., 2020). Companies exhibit high leverage often employ tax-deductible interest payments to develop aggressive tax initiatives (Ortas and Alvarez, 2020). Vacca et al., (2020) show a positive relationship between CSR reporting and leverage.

### Operational Definitions of Research Variables

We summarize the operational definition of research variables that we used in this study. It depicts the name of variables, description, notes, and scale of each variable. The details are presented as follows:

**Table 1.**  
Operational Definition of Research Variables

Variables	Definitions	Notes	Scale
Corporate Social Responsibility (CSR)	We follow the prior study (Mcguinness et al., 2016), who defines CSR as a firm's Corporate Social Responsibility reporting rating score. We download the data of the CSR Score from the Thomson Reuters Eikon database.	The value is based on economic, environmental, and social responsibilities. The CSR data covers 67 manufacturing companies from 2008 to 2019 (12 years). So, the total observations are up to 804 observations.	Percentage (%)
Tax aggressiveness	A tax planning strategy or tax aggressiveness is a managerial strategy adopted by a company to reduce its tax burdens and, as a consequence, to minimize its tax liability in compliance with the country framework (Vacca et al., 2020). The lower the company's ETR (close to 0) indicates more tax aggressiveness.	We follow prior studies (Fallan, 2016; Lanis & Richardson, 2013; Ortas & Alvarez, 2020). A high degree of tax aggressiveness is 'considered by the public to constitute socially irresponsible or illegitimate activity. That is, the companies are not paying a fair share of taxes. They used effective tax rates (ETR) as the proxy of tax aggressiveness. $ETR_{i,t} = \frac{\text{Total Income Tax Burden}_{i,t}}{\text{Earnings before Tax}_{i,t}}$ The total income tax burden is the sum of current and deferred tax. The deferred tax is also used because it is the effect of a temporary taxation difference. It is an impact from the previous period and will have an effect on the future period.	Ratio

Leverage	It is a tool to measure how much the company relies on creditors to finance the company's assets. In other words, the higher leverage, the higher company depends on debt (Ortas & Alvarez, 2020; Vacca et al., 2020).	$Leverage_{i,t} = \frac{Total\ Debt_{i,t}}{Total\ Asset_{i,t}}$	Ratio
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Source: Authors' calculation based on the data from the annual financial statements

### Analysis Method

The collected data in this study were processed and then analyzed with various statistical tests as follows. a). Descriptive statistics: it is used to provide an overview or description of the variables contained in this study (Kim, 2012). It includes mean, standard deviation, maximum and minimum. b). We perform pairwise correlation test to check the collinearity among variables following prior study (Naufa et al., 2019). It analyzes the correlation matrix of independent variables. If between independent variables there is a high correlation (>0.80), then it is an indication of multicollinearity (Ortas and Alvarez, 2020; Vacca et al., 2020).

### Hypothesis Testing

In this study, we used multiple linear regression (Kim, 2012), if the independent variables are more than one, to analyze the relationship between independent and dependent variables. The estimator for that multiple regression is the generalized method of moments (GMM). It measures possible endogeneity issues, such as serial correlation. The instrument variable (IV) is the lagged-value of the dependent variable in the previous year (t-1). This model is also a robust and efficient model that meets all classical assumptions with robust standard errors (Hansen, 1982).

There are two models to test our hypotheses since this study wants to determine which is the more significant influence: 1). CSR on tax aggressiveness or 2). tax aggressiveness on CSR with the following equations:

$$TA_{i,t} = \alpha_0 + \beta_1 CSR_{i,t} + \beta_2 LEV_{i,t} + \varepsilon \dots \dots \dots (Eq. 1)$$

$$CSR_{i,t} = \alpha_0 + \beta_1 TA_{i,t} + \beta_2 LEV_{i,t} + \varepsilon \dots \dots \dots (Eq. 2)$$

Where  $TA_{i,t}$  denotes the tax aggressiveness of company  $i$  at the time  $t$ ;  $\alpha_0$  is the constant;  $\beta_1$  and  $\beta_2$  are the regression coefficients;  $LEV_{i,t}$  symbols the leverage of the company  $i$  at the time  $t$ ; while  $\varepsilon$  is the errors or residuals.

The following step is testing the hypotheses. It tests the coefficient determinants (R-square) that measures how far the model's ability to explain variations in the dependent variable. The coefficient of (Hansen, 1982) determination of R-square is between 0 and 1. A lower score of

R<sup>2</sup> means that the ability of the independent variables to explain the dependent variable is minimal. Further, the significance of that coefficient is based on the p-values. \*\*\* denotes the significant coefficient at 1% level (p<0.01), \*\* is 5% level (p<0.05), and \* for 10% level (p<0.1) based on the p-values.

## RESULTS AND DISCUSSION

We present the descriptive statistics, including mean, maximum, minimum, and standard deviation of each variable in this study that is shown in Table 3. It depicts that a minimum value dependent variable, tax aggressiveness, is -6.65, and the maximum amount is 20.18, with an average of 0.25. The independent variable, CSR, has a minimum value of 0.00 and the maximum value of 21.88, and an average value of 0.36. Further, the lowest value of leverage as the control variable is 0.00 with 4.75 and 0.36 as the maximum and average values. The details are presented as follows:

**Table 2.**  
Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
Tax Aggressiveness	651	0.25	1.48	-6.65	20.18
CSR	804	0.36	2.50	0.00	21.88
Leverage	653	0.36	0.42	0.00	4.75

Descriptive statistics for each of the variables. It consists of the number of observations (Obs.), mean, standard deviation (Std. Dev), minimum (Min), and maximum (Max) values.

Based on Table 3, the pairwise correlation test results that our data overall are low collinearity among variables. Tax aggressiveness has a correlation with CSR and leverage -0.02 each. Based on these results, it can be said that no collinearity among variables.

**Table 3.**  
Pairwise Correlations

Variables	(1)	(2)	(3)
(1) Tax Aggressiveness	1.00		
(2) CSR	-0.02	1.00	
(3) Leverage	-0.02	-0.07	1.00

The correlations among variables by conducting a pairwise correlations test. This step aims to avoid collinearity between two variables if the coefficient is high (>0.6), so it indicates other variables highly reflect the particular variable.

Based on Table 4 Panel A, the coefficient value CSR on tax aggressiveness is negative but insignificant -4.55. It can be interpreted that CSR does not influence tax aggressiveness. So, hypothesis 1 is rejected. Based on these results, it can be interpreted that the CSR variable does not significantly influence the tax aggressiveness. Our finding is consistent with some prior studies such as Landry et al., (2013), where tax behaviors are not necessarily aligned with corporate social responsibility. Also, Vacca et al., (2020) noted that there is no direct

relationship between tax aggressiveness and CSR reporting. The insignificant results are supported by the reasons from Landry et al., (2013), who claimed that CSR can hide a great deal of inconsistency in a company's approach to CSR. They find that firms' corporate talk, in other words, socially responsible behaviors, are not aligned with their actions in terms of paying their fair share of taxes. Therefore, CSR is not the driving force behind the tax behavior.

**Table 4.**  
 Hypothesis Test using The Generalized Method of Moments (GMM)

Variables	Tax Aggressiveness		CSR
	Panel A. Hypothesis 1		Panel B. Hypothesis 2
CSR	-4.55 (3.65)		
Tax Aggressiveness			-77.97*** (25.19)
Leverage	-2.42 (1.91)		-4.62 (9.62)
Constant	3.40 (2.41)		23.19*** (2.10)
Observations	583		610

The hypothesis test using the generalized method of moments since this model measures possible endogeneity issues such as serial correlation. The instrument variable (IV) is the lagged-value of the dependent variable in the previous year (t-1). This model is also a robust and efficient model that meets all classical assumptions. Panel A is for hypothesis 1 when the independent variable is CSR. In contrast, Panel B is hypothesis 2, when the independent variable is tax aggressiveness. The control variable is leverage. Robust standard errors in parentheses. \*\*\* denotes the significant coefficient at 1% level ( $p < 0.01$ ), \*\* is 5% level ( $p < 0.05$ ), and \* for 10% level ( $p < 0.1$ ) based on the p-values.

In Table 4, Panel B, the coefficient value of tax aggressiveness on CSR is -77.97. This coefficient is significant at 1% level ( $p < 0.01$ ). We can see that tax aggressiveness affects negatively on CSR. Further, hypothesis 2 is accepted. Since the lower score of tax aggressiveness indicating the firms avoid or reduce the tax payment, so we can interpret that the firms have incentives to mitigate payable tax by enlarging the CSR. Our results support prior study such as Lanis and Richardson (2012), who find a negative association between tax aggressiveness and CSR, thus less tax aggressive in nature the more socially responsible corporations are likely to be. They define tax aggressiveness as the downward management of taxable income through tax planning activities. It thus encompasses tax planning activities that are legal, or that may fall into the gray area, as well as events that are illegal. CSR can be categorized as a form of defensive strategy that is in opposition to change the negative perception that developed previously by replacing it with a new assumption that is positive. Some companies use CSR activities as a cover for a violation of business ethics. For instance, Kim (2012) noted that the Enron company did the biggest scandal in the United States in 2000 by manipulating its corporate profits, turned out to carry out intensive CSR activities.

We also depict that leverage has a negative coefficient, but it is insignificant for both panels. It means that the more substantial leverage, debt to asset, the lower tax aggressiveness, and CSR. Unfortunately, the results are statistically insignificant, indicating that the negative influence of leverage on those variables is negligible in terms of the statistic value. Nevertheless, the non-significant results of this variable did not provide huge impacts since it is only the controlling variable. So, the control variable is not always must be significant in statistics.

## CONCLUSION

We draw some conclusions in this study as follows. First, CSR has a negative but insignificant effect on corporate tax aggressiveness. In other words, the increase of CSR does not necessarily make lower corporate tax aggressiveness. Second, tax aggressiveness has a significant negative effect on corporate CSR. It means that to obtain higher tax reduction, the companies carried out the higher CSR. Third, tax aggressiveness has more influence on CSR, compared to CSR on tax aggressiveness. So, the relationships between these two are only one direction.

There are several applied implications from this study, such as, first, the government should be more aware to detect the presence of tax aggressiveness since some companies could use CSR activities to divert the attention of stakeholder from the tax. Second, investors and creditors are also expected to be more observant in evaluating CSR by companies to make credit and investment decisions because CSR could be used to cover the tax aggressiveness of companies.

In this study, we aware that our research has several limitations. First, the CSR activities are only measured based on the CSR disclosures in the annual report, not direct activities. Second, there is an element of researcher subjectivity in identifying CSR disclosure items in the company's annual report. Therefore, future research is expected to use other CSR reporting media besides yearly reports, so that CSR measurements are more accurate, such as using a sustainability report separately from the annual report. We also recommend using other indicators of tax aggressiveness to provide robust results such as cash effective tax rate (CETR) and book-tax differences (BTD).

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